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1969 ANNUAL REPORT OF THE BOARD OF
TRUSTEES OF THE FEDERAL HOSPITAL
INSURANCE TRUST FUND

L E T T E R

FROM

BOARD OF TRUSTEES
FEDERAL HOSPITAL INSURANCE
TRUST FUND

TRANSMITTING

THE 1969 ANNUAL REPORT OF THE BOARD OF
TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE
TRUST FUND



JANUARY 16, 1969.—Referred to the Committee on Ways and Means, and
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LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL HOSPITAL INSURANCE TRUST FUND,
Washington, D.C., January 16, 1969.

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

SIR: We have the honor to transmit to you the 1969 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund (the fourth such report), in compliance with the provisions of section 201(c) of the Social Security Act, as amended.

Respectfully,

JOSEPH W. BARR,
Secretary of the Treasury,
and Managing Trustee of the Trust Funds.

WILLARD WIRTZ,
Secretary of Labor.

WILBUR J. COHEN,
Secretary of Health,
Education, and Welfare.

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

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1969 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

THE BOARD OF TRUSTEES

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

FISCAL YEAR HIGHLIGHTS

The fiscal year 1968 was the second full year of operation of the hospital insurance program insofar as benefit payments are concerned (since benefits were first available on July 1, 1966). Contributions had been collected during the latter half of the preceding fiscal year (i.e., on and after January 1, 1966).

Contributions in fiscal year 1968 amounted to \$3,514 million from persons directly covered by the hospital insurance program, plus an additional \$44 million with respect to railroad workers that was transferred from the railroad retirement account under the financial interchange provisions.

Total receipts of the trust fund amounted to \$3,902 million in fiscal year 1968. In addition to contributions, receipts consisted of \$60 million in interest on investments, and \$284 million reimbursed from the general fund of the Treasury (\$11 million for the long-range costs of benefits based on noncontributory credits for military service before 1957 and \$273 million for the past actual costs of benefits, and the related administrative expenses, for uninsured persons).

Total disbursements from the trust fund in fiscal year 1968 amounted to \$3,815 million. Of this amount, \$3,736 million was paid out for benefits (this amount is based on Treasury statements; some additional amounts have been identified by the fiscal intermediaries as benefit withdrawals in fiscal year 1968 that did not clear through the Treasury before July 1, 1968). The remaining \$79 million was for administrative expenses, but this figure was relatively low because it included the effect of a negative adjustment item of \$14 million for transactions in the previous year. Thus, the actual administrative expenses for fiscal year 1968 were about \$93 million, which thus represented 4 percent of benefit disbursements. The actual outgo for benefits in this second year of operation was 11 percent higher than the cost estimate made in the 1968 annual report.

The excess of total income over total outgo, amounting to \$87 million, increased the total assets of the trust fund from \$1,343 million on June 30, 1967, to \$1,431 million on June 30, 1968.

The maximum amount of earnings taxable and creditable toward benefits was raised to \$7,800, beginning January 1, 1968. The contribution rate for hospital insurance was increased from a combined employer-employee rate of 1 percent to 1.2 percent, beginning January 1, 1968.

Estimates for the 3 fiscal years 1969-71 show that both receipts and disbursements will increase steadily. However, the disbursements will rise more rapidly, and by 1971, the receipts will be approximately equal to disbursements. After 1971, the disbursements will exceed the receipts, and the trust fund would be exhausted by 1976, unless additional financing is provided. It should be kept in mind, however, that under the conditions of the assumptions underlying the actuarial cost estimates, a significant amount of additional financing is almost certain to occur in the future as a matter of course, without action being taken solely for the sake of the hospital insurance program. The assumptions are made in the cost estimates for the hospital insurance system that earnings levels (and hospital costs similarly) will rise steadily in the future, but that, nonetheless, the maximum taxable earnings base for both this program and for old-age, survivors, and disability insurance will remain unchanged at \$7,800 per year. It seems most likely that, if earnings do rise in the future (as they have in the past), then such earnings base will be increased (as it has in the past), and this will provide additional financing, without creating additional benefit liability.

Long-range cost estimates for the hospital insurance program indicate that the program has an actuarial balance of -0.29 percent of taxable payroll. The level-cost of benefit payments and administrative expenses combined, estimated over a future period of 25 years on an intermediate-cost basis, is 1.79 percent of taxable payroll. The level-equivalent of the graded schedule of contributions is estimated to be 1.50 percent of taxable payroll.

As will be discussed subsequently, several alternative methods of providing additional financing so as to restore the actuarial balance of the program are possible. This can be done either by increasing the maximum taxable earnings base or by speeding up the contribution schedule (or by a combination of these two methods), without increasing the ultimate contribution rate scheduled in present law. Again, it should be recognized that, with the rising future earnings levels assumed in the hospital insurance cost estimates, it is virtually inevitable (and even almost automatic in nature) that the taxable earnings base will rise, and thus a certain amount of additional financing will be available for the hospital insurance system. This would provide part—or perhaps even all—of the financing needed to restore the actuarial balance of the program. The earnings base would be raised under such circumstances, as it has in the past, because of the necessity of keeping the cash-benefits program up to date (which also would have its financial status improved by such action of increasing the earnings base).

LEGISLATION IN 1967-68

The 1967 amendments to the Social Security Act and related sections of the Internal Revenue Code (Public Law 90-248, approved Jan. 2, 1968) affect significantly both the immediate and long-range future levels of income and disbursement under the hospital insurance program. The schedule of contribution rates was revised upward to continue to reflect the intent that the program be self-supporting.

The more important changes, significant from an actuarial standpoint, are presented below:

1. The amount of annual earnings which are taxable has been increased from \$6,600 to \$7,800, effective January 1, 1968. Also, the tax schedule for employer, employee, and self-employed contribution rate now increases from 0.6 percent in 1968-72 by steps to 0.9 percent in 1987 and after. The corresponding rates under previous law were 0.5 percent and 0.8 percent, respectively.

2. Effective April 1, 1968, the outpatient hospital diagnostic services which were previously covered under hospital insurance will be covered for benefit purposes under the supplementary medical insurance program; since the beginning of the program, all other outpatient services had been covered under the latter program.

3. Effective January 1, 1968, a lifetime reserve of 60 additional days of hospital coverage are available after the exhaustion of the 90 days of coverage per spell of illness. The 60 added days involve cost-sharing, with the beneficiary paying a daily amount equal to half of the initial deductible (i.e., currently a payment of \$20 per day).

4. Under the 1965 law, uninsured persons attaining age 65 in 1968 had to have 6 quarters of social security coverage in order to be eligible for hospital insurance. Under the 1967 law, this requirement is reduced to 3 quarters of coverage for 1968. For those attaining age 65 in subsequent years, this requirement increases by 3 quarters each year until the number of quarters so required equals or exceeds that required for fully insured status, at which time the special requirement becomes ineffective (since the regular insured status requirements for monthly benefits are easier to fulfill).

A summary of the principal provisions of the hospital insurance program as it is constituted following the enactment of the 1967 amendments (and after the effective dates thereof have occurred) is given in appendix IV.

NATURE OF THE TRUST FUND

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

The major sources of receipts of this fund are (1) amounts appropriated to it under permanent appropriation on the basis of contributions paid by workers and their employers, and by individuals with self-employment income, in work covered by the hospital insurance pro-

gram and (2) amounts deposited in it representing contributions paid by workers employed by State and local governments and by such employers with respect to work covered by the program. The coverage of the hospital insurance program is identical with that of the old-age, survivors, and disability insurance program.

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

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

| Calendar years | Percent of taxable earnings | |
|---------------------|--|---------------|
| | Employees and employers, each ¹ | Self-employed |
| 1968-72..... | 0.60 | 0.60 |
| 1973-75..... | .65 | .65 |
| 1976-79..... | .70 | .70 |
| 1980-86..... | .80 | .80 |
| 1987 and after..... | .90 | .90 |

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

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

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

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

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

Sections 217(g) and 229(b) of the Social Security Act, as amended by the 1967 amendments, authorize annual reimbursements from the general fund of the Treasury to the hospital insurance trust fund for any costs arising from the granting of noncontributory credits for military service, according to periodic determinations made by the Secretary of Health, Education, and Welfare. A summary of the legislative history of the financing of noncontributory credits for military service performed before 1957 appears in appendix II.

Section 203 of the Social Security Amendments of 1965 provides hospital insurance benefits to certain uninsured persons aged 65 and over. Such payments are made initially from the hospital insurance trust fund, with later reimbursement from the general fund of the Treasury. A description of the legislative provisions governing the allocation of costs between the trust fund and the general fund of the Treasury appears in appendix II.

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

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

directly from them. Accordingly, such administrative expenses, and the offsetting receipts, do not have any effect on the financial statements of the trust fund.

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

Congress has authorized expenditures from the trust fund for construction of office buildings and related facilities for the Social Security Administration. The costs of such construction are included as part of the administrative expenses in the financial statements of operations of the trust fund as set forth in subsequent sections of this report. The net worth of the resulting facilities—just as the net worth of all other capital assets—is not carried as an asset in such statements.

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

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

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

Marketable public issues acquired by the fund may be sold at any time by the managing trustee at their market price. Special public-debt obligations issued for purchase by the trust fund may be redeemed at par plus accrued interest. Interest receipts and proceeds from the sale or redemption of obligations held in the trust fund are

available for investment in the same manner as other receipts of the fund. Interest earned by the invested assets of the trust fund will provide income to meet a portion of future benefit disbursements. The role of interest in meeting future benefit payments is indicated in tables 4 and 5.

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

SUMMARY OF THE OPERATIONS OF THE TRUST FUND, FISCAL YEAR 1968

A statement of the income and disbursements of the Federal hospital insurance trust fund during fiscal year 1968 and of the assets of the fund at the beginning and end of the fiscal year is presented in table 1.

TABLE 1.—STATEMENT OF OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEAR 1968

| | | |
|---|--------------------|-------------------------|
| Total assets of the trust fund, June 30, 1967..... | | \$1,343,220,688.21 |
| Receipts, fiscal year 1968: | | |
| Contributions: | | |
| Appropriations..... | \$3,256,739,393.85 | |
| Deposits arising from State agreements.... | 279,359,902.07 | |
| Gross contributions..... | 3,536,099,295.92 | |
| Less payment into the Treasury for contributions subject to refund..... | 22,050,000.00 | |
| Net contributions..... | | \$3,514,049,295.92 |
| Transfers from railroad retirement account..... | | 44,049,000.00 |
| Reimbursements from general fund of the Treasury for costs of— | | |
| Noncontributory credits for military service..... | | 11,000,000.00 |
| Benefits for uninsured persons: | | |
| Benefit payments..... | | 262,000,000.00 |
| Administrative expenses..... | | 10,631,000.00 |
| Interest: | | |
| Interest on investments..... | 59,963,967.14 | |
| Interest on net amount of reimbursements for administrative expenses and construction transferred from old-age and survivors insurance trust fund..... | 691,000.00 | |
| Total interest..... | | 60,654,967.14 |
| Total receipts..... | | <u>3,902,384,263.06</u> |
| Disbursements, fiscal year 1968: | | 3,736,321,864.53 |
| Benefit payments..... | | |
| Administrative expenses: | | |
| Department of Health, Education, and Welfare..... | 86,968,754.84 | |
| Treasury Department..... | 5,456,546.68 | |
| Reimbursement to old-age and survivors insurance trust fund for costs of construction for fiscal year 1967..... | 92,905.00 | |
| Gross administrative expenses..... | 92,518,206.52 | |
| Less receipts from sale of surplus supplies, materials, etc..... | 25,226.64 | |
| Less reimbursement from old-age and survivors insurance trust fund due to adjustment in allocation of administrative expenses for fiscal year 1967..... | 13,846,329.00 | |
| Net administrative expenses..... | | <u>78,646,650.88</u> |
| Total disbursements..... | | <u>3,814,968,515.41</u> |
| Net addition to the trust fund..... | | 87,415,747.65 |
| Total assets of the trust fund, June 30, 1968..... | | 1,430,636,435.86 |

The total assets of the trust fund amounted to \$1,343 million on June 30, 1967. By the end of fiscal year 1968 the assets amounted to \$1,431 million, an increase of \$87 million.

Net receipts of the trust fund amounted to \$3,902 million. Of this total, \$3,257 million represented tax collections appropriated to the trust fund and \$279 million represented amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the trust fund. As an offset, \$22 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 \$3,514 million, representing an increase of 31 percent over the amount for the preceding fiscal year. This large increase resulted from (1) the high level of employment and taxable earnings, (2) the increase in the maximum annual amount of earnings taxable from \$6,600 to \$7,800 that became effective on January 1, 1968, (3) the increase, from 1 to 1.2 percent, in the combined employer-employee contribution rate designated to finance benefits from the hospital insurance trust fund that also went into effect on January 1, 1968, and (4) the increase, from 0.7 to 1 percent, in the combined employer-employee contribution rate that went into effect on January 1, 1967. Although the last change became effective in 1967, fiscal year 1968 was the first full year during which it was operative.

Reference has been made in an earlier section to provisions of the Railroad Retirement Act which coordinate the railroad retirement program with hospital insurance. A description of the legislative provisions governing the financial interchanges arising from the allocation of costs between the two systems is contained in appendix II. In accordance with these provisions, the Railroad Retirement Board and the Secretary of Health, Education, and Welfare determined that a transfer of \$43,613,000 from the railroad retirement account to the hospital insurance trust fund would place this fund in the same position as of June 30, 1967, as it would have been if railroad employment had always been covered under the Social Security Act. This amount was transferred to the trust fund in September 1967, together with interest to the date of transfer amounting to \$436,000.

Reference has also been made earlier to provisions under which the hospital insurance trust fund is to be reimbursed annually from the general fund of the Treasury for costs of granting noncontributory credits for military service performed before 1957, according to a determination made by the Secretary of Health, Education, and Welfare in September 1966. The annual amount of this determination for this trust fund was \$14.2 million. The trust fund received \$11 million in July 1967 as reimbursement for the costs of granting these noncontributory credits.

Again, reference has been made earlier to provisions under which the hospital insurance trust fund is to be reimbursed annually from the general fund of the Treasury for costs (including administrative expenses) of paying benefits under this program to certain uninsured persons. 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. The reimbursement in fiscal year 1968 amounted to \$273 million, of which \$262 million was for benefit payments and \$11 million was for administrative expenses.

The remaining \$61 million of receipts consisted of interest on the investments of the trust fund and on the net amount of reimbursements for administrative expenses and construction that was transferred from the old-age and survivors insurance trust fund.

Disbursements of the trust fund amounted to \$3,815 million, representing \$3,736 million in benefit payments and \$79 million in net administrative expenses.

Table 2 compares the actual experience in fiscal year 1968 with the estimates presented in the 1968 annual report of the Board of Trustees. Reference was made in an earlier section to the appropriation of contributions to the trust funds on an estimated basis, with subsequent periodic adjustments to account for differences from the amounts of contributions actually payable on the basis of reported earnings. In interpreting the figures in table 3, it should be noted that the "actual" amount of contributions in fiscal year 1968 reflect the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions in fiscal year 1968 does not reflect adjustments to contributions for fiscal year 1968 that are to be made after June 30, 1968. Estimated contributions were about 3 percent higher than the actual experience, and estimated benefit payments were 10 percent lower than the actual experience. Estimated assets at the end of the fiscal year were 52 percent higher than the actual assets, largely because of the differences between estimated and actual contributions and benefit payments.

TABLE 2.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND,
FISCAL YEAR 1968

[Amounts in millions]

| | Actual amount | Estimated amount published in 1968 report | Estimate as percentage of actual |
|--------------------------|------------------|---|--|
| Net contributions..... | \$3, 514 | \$3, 613 | 103 |
| Benefit payments..... | 3, 736 | 3, 369 | 90 |
| Assets, end of year..... | 1, 431 | 2, 168 | 152 |

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

TABLE 3.—ASSETS OF THE HOSPITAL INSURANCE TRUST FUND, BY TYPE, AT END OF FISCAL YEARS 1967 AND 1968

| | June 30, 1967 | | June 30, 1968 | |
|--|---------------|-------------------------|---------------|------------------|
| | Par value | Book value ¹ | Par value | Book value |
| Investments in public-debt obligations sold only to this fund (special issues): | | | | |
| Certificates of indebtedness: | | | | |
| 4½-percent, 1968..... | \$15,718,000 | \$15,718,000.00 | | |
| Notes: | | | | |
| 4¼-percent, 1969..... | 46,131,000 | 46,131,000.00 | | |
| 4¼-percent, 1972..... | 46,131,000 | 46,131,000.00 | \$46,131,000 | \$46,131,000.00 |
| 4¼-percent, 1973..... | 46,131,000 | 46,131,000.00 | 46,131,000 | 46,131,000.00 |
| 4¼-percent, 1974..... | 415,179,000 | 415,179,000.00 | 415,179,000 | 415,179,000.00 |
| 4¼-percent, 1970..... | 46,131,000 | 46,131,000.00 | | |
| 4¼-percent, 1971..... | 576,226,000 | 576,226,000.00 | 255,794,000 | 255,794,000.00 |
| 5½-percent, 1975..... | | | 495,529,000 | 495,529,000.00 |
| Total public-debt obligations sold only to this fund (special issues)..... | 1,191,647,000 | 1,191,647,000.00 | 1,258,764,000 | 1,258,764,000.00 |
| Investments in federally-sponsored agency obligations: | | | | |
| Agency securities: | | | | |
| Federal Land Bank bonds: | | | | |
| 5½-percent, 1967..... | 15,000,000 | 15,000,000.00 | | |
| Federal National Mortgage Association debentures: | | | | |
| 6-percent, 1969..... | 41,500,000 | 41,520,894.07 | 41,500,000 | 41,512,248.19 |
| Participation certificates: | | | | |
| Federal assets liquidation trust— | | | | |
| Federal National Mortgage Association: | | | | |
| 5.20-percent, 1982..... | 50,000,000 | 50,000,000.00 | 50,000,000 | 50,000,000.00 |
| Federal assets financing trust— | | | | |
| Federal National Mortgage Association: | | | | |
| 6.30-percent, 1971..... | | | 20,000,000 | 20,000,000.00 |
| Total investments in federally-sponsored agency obligations..... | 106,500,000 | 106,520,894.07 | 111,500,000 | 111,512,248.19 |
| Total investments..... | 1,298,147,000 | 1,298,167,894.07 | 1,370,264,000 | 1,370,276,248.19 |
| Undisbursed balances..... | | 45,052,794.14 | | 60,360,187.67 |
| Total assets..... | | 1,343,220,688.21 | | 1,430,636,435.86 |

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

The assets of the trust fund at the end of fiscal year 1968 totaled \$1,431 million, consisting of \$1,259 million in the form of obligations of the U.S. Government, \$112 million in securities of federally-sponsored agencies, and \$60 million in undisbursed balances (table 3).

The net increase in the par value of the investments owned by the fund during the fiscal year 1968 amounted to \$72 million. New securities at a total par value of \$4,625 million (including \$20 million of federally-sponsored agency obligations) were acquired during the fiscal year through the investment of receipts and the reinvestment of funds made available from the maturity of securities. The par value of securities redeemed during the fiscal year was \$4,553 million. A summary of transactions for the fiscal year, by type of security, is presented in table 4.

The public-debt obligations issued for purchase by the hospital insurance trust fund are to have maturities fixed with due regard for the needs of the trust fund. In implementing the similar provision for the old-age and survivors insurance and disability insurance trust funds, the maturity dates for the holdings of special issues are spread as nearly as practicable in equal amounts over a 15-year period.

On June 30, 1968, special issues held by the hospital insurance trust fund were distributed in equal amounts of \$46,131,000 maturing in

each of the 2 years 1972 and 1973. In addition, \$255,794,000 was invested in 5-year notes bearing $4\frac{7}{8}$ percent interest and maturing on June 30, 1971; \$415,179,000 was invested in 7-year notes bearing $4\frac{3}{4}$ percent interest and maturing on June 30, 1974; and \$495,529,000 was invested in 7-year notes bearing $5\frac{5}{8}$ percent interest and maturing on June 30, 1975.

TABLE 4.—STATEMENT OF TRANSACTIONS IN PUBLIC-DEBT AND IN FEDERALLY-SPONSORED AGENCY OBLIGATIONS FOR THE HOSPITAL INSURANCE TRUST FUND DURING THE FISCAL YEAR 1968

| | Acquisitions | Dispositions |
|--|---------------|---------------|
| [All amounts represent par values] | | |
| Public-debt obligations sold only to this fund (special issues): | | |
| Certificates of indebtedness: | | |
| $4\frac{3}{4}$ percent, 1968 | 0 | \$15,718,000 |
| 5 percent, 1968 | \$315,170,000 | 315,170,000 |
| $5\frac{1}{2}$ percent, 1968 | 502,440,000 | 502,440,000 |
| $5\frac{1}{4}$ percent, 1968 | 247,772,000 | 247,772,000 |
| $5\frac{3}{4}$ percent, 1968 | 794,951,000 | 794,951,000 |
| 5 percent, 1968 | 2,249,549,000 | 2,249,549,000 |
| Notes: | | |
| $4\frac{3}{4}$ percent, 1969 | 0 | 46,131,000 |
| $4\frac{1}{2}$ percent, 1970 | 0 | 46,131,000 |
| $4\frac{3}{4}$ percent, 1971 | 0 | 320,432,000 |
| $5\frac{5}{8}$ percent, 1975 | 495,529,000 | 0 |
| Total obligations sold only to this fund (special issues)..... | 4,605,411,000 | 4,538,294,000 |
| Federally-sponsored agency obligations: | | |
| Agency securities: | | |
| Federal Land Bank bonds: $5\frac{7}{8}$ percent, 1967 | 0 | 15,000,000 |
| Participation certificates: | | |
| Federal Assets Financing Trust—Federal National Mortgage Association: 6.30 percent, 1971 | 20,000,000 | 0 |
| Total federally-sponsored agency obligations | 20,000,000 | 15,000,000 |
| Total transactions | 4,625,411,000 | 4,553,294,000 |

The 7-year notes maturing on June 30, 1975, were acquired on June 30, 1968, under circumstances similar to those under which the 5-year notes maturing on June 30, 1971, and the 7-year notes maturing on June 30, 1974, were acquired. A description of these investment operations is contained in the 1968 annual report.

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING THE PERIOD JULY 1, 1968 TO JUNE 30, 1971

In the following statement of the expected operations and status of the hospital insurance trust fund during the period July 1, 1968 to June 30, 1971, it is assumed that present statutory provisions affecting the hospital insurance program remain unchanged throughout the period. The income and disbursements of the program, however, are affected by general economic conditions, hospital utilization rates, and hospitalization costs, as well as by legislative provisions. Because it is difficult to forecast these factors, the assumptions and the resulting cost estimates presented here are subject to some uncertainty. This statement of the expected operations of the trust fund should therefore be read with full recognition of the difficulties involved in making the estimates.

Estimates are presented in table 4 to show the expected operations of the trust fund in fiscal years 1969–71. They are based on the assumption that economic activity will expand throughout the period, with employment and earnings increasing steadily through 1971.

Under this assumption, the estimated number of persons with taxable earnings under the hospital insurance program is expected to increase from 90.4 million during calendar year 1968 to 95.7 million during calendar year 1971; their taxable earnings are estimated to increase from \$375 billion in 1968 to \$419 billion in 1971. The increase in estimated income from contributions in fiscal years 1969-71 reflects the assumed upward trend in the levels of employment and earnings. Benefit disbursements increase from fiscal year 1969 to 1971 because of the long-range upward trend in the number of beneficiaries under the program and the assumed increase in hospitalization costs per unit of service.

TABLE 4.—ACTUAL AND ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND, FISCAL YEARS 1966-71

| Item | [In millions] | | | | | |
|--|-----------------|-----------------|-----------------|--------------|--------------|--------------|
| | Actual, 1966 | Actual, 1967 | Actual, 1968 | Estimated | | |
| | | | | 1969 | 1970 | 1971 |
| Income: | | | | | | |
| Contributions ¹ | \$909 | \$2,689 | \$3,514 | \$4,450 | \$4,651 | \$4,860 |
| Interest on investments ² | 6 | 46 | 61 | 112 | 134 | 137 |
| Transfers from railroad retirement account | | 16 | 44 | 54 | 62 | 62 |
| Reimbursement for uninsured persons ³ | | 327 | 273 | 730 | 609 | 500 |
| Reimbursement for military service wage credits | | 11 | 11 | 22 | 11 | 14 |
| Total income | 915 | 3,089 | 3,902 | 5,368 | 5,467 | 5,573 |
| Disbursements: | | | | | | |
| Benefit payments | | 2,508 | 3,736 | 4,367 | 4,940 | 5,451 |
| Administrative expenses ⁴ | 64 | 89 | 79 | 104 | 104 | 106 |
| Total disbursements | 64 | 2,597 | 3,815 | 4,471 | 5,044 | 5,557 |
| Net increase in fund | 851 | 492 | 88 | 897 | 423 | 16 |
| Fund at end of year | 851 | 1,343 | 1,431 | 2,328 | 2,751 | 2,767 |

¹ Adjusted to exclude refunds of employee taxes paid on wages in excess of maximum taxable earnings base.

² Includes net profits on marketable investments, adjustment for interest on administrative expenses reimbursed to the old-age and survivors insurance trust fund, and for interest on reimbursement for uninsured persons.

³ Reimbursement for benefit costs and additional administrative expenses for uninsured persons is made currently from general fund of the Treasury.

⁴ Receipts from sales of surplus materials, services, etc., are deducted from gross administrative expenses.

Note.—Estimates were prepared in December 1968.

Income of the trust fund is expected to exceed outgo in each of the fiscal years 1969-71. During this period, there is an estimated net increase in the trust fund of \$1.3 billion.

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

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

amortized by level annual appropriations to the trust fund over a 50-year period beginning in fiscal year 1966 according to a determination made by the Secretary of Health, Education, and Welfare in September 1965 (the amount so determined was \$14.2 million). Periodically, the estimated amount of annual payment will be refigured to reflect actual costs incurred and revision in the future estimates.

The reimbursement for fiscal year 1968, amounting to \$11 million, was received by the trust fund in July 1968 (i.e., in fiscal year 1969). A like amount has been appropriated for fiscal year 1969, and it is assumed that the reimbursement will be received by the trust fund in July 1970. Moreover, the budget of the United States for the fiscal year 1970 makes similar provision for another reimbursement to the trust fund. The estimates shown in table 4 reflect the effect of past reimbursements and assume that future reimbursements will be made in similar fashion.

ACTUARIAL STATUS OF THE TRUST FUND

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

The long-range actuarial cost estimates for the hospital insurance program are made over a future period of 25 years, whereas the long-range actuarial cost estimates for the old-age, survivors, and disability insurance program are made over a 75-year future period. It is believed that a 25-year projection period for the hospital insurance program is as far ahead as should be considered because of the uncertainties as to future hospital practices.

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

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

On the other hand, the actuarial cost estimate for the hospital insurance program assumes that hospitalization costs will have a rising trend. The major cause is that wages are increasing and about 60 percent of the hospital costs are due to wages. Since the trend of increasing wages is reflected in the benefit cost, then it is only realistic

to take into account the additional income from the increase in earnings in covered employment.

The cost estimate for the hospital insurance program assumes that the maximum taxable earnings base will remain at \$7,800 for the next 25 years, as provided under the existing law. This is a conservative assumption and, in fact, can hardly be borne out in actual practice. Congress has increased the earnings base from time to time in the past as the general earnings level rose. This was necessary so that the cash-benefits program would be reasonably closely kept up to date. It is likely that the Congress will continue to increase the earnings base in the future if earning levels rise (as is assumed in the cost estimates). Any such increases in the earnings base would, of course, generate additional contributions, which would assist in the financing of the program.

Table 5 shows the estimated progress of the hospital insurance trust fund according to the intermediate-cost estimate for various future calendar years up through 1993. This estimate was prepared in the latter part of 1968, using the latest actual experience from the hospital insurance program. The figures on fiscal year basis as shown in table 4 are prepared on the same basis as figures in table 5.

TABLE 5.—PROGRESS OF HOSPITAL INSURANCE TRUST FUND, INTERMEDIATE-COST ESTIMATE¹

(In millions)

| Calendar year | Contributions ² | Payments from general fund ¹ | Benefit payments | Administrative expenses | Interest on fund ¹ | Balance in fund at end of year |
|------------------------|----------------------------|---|------------------|-------------------------|-------------------------------|--------------------------------|
| Actual data: | | | | | | |
| 1966..... | \$1, 874 | \$37 | \$891 | \$107 | \$31 | \$944 |
| 1967..... | 3, 207 | 301 | 3, 353 | 77 | 51 | 1, 073 |
| Estimated data: | | | | | | |
| 1968..... | \$4, 157 | \$1, 003 | \$4, 181 | \$96 | \$70 | \$2, 026 |
| 1969..... | 4, 599 | 609 | 4, 577 | 101 | 107 | 2, 663 |
| 1970..... | 4, 823 | 499 | 5, 029 | 106 | 123 | 2, 973 |
| 1971..... | 5, 039 | 496 | 5, 584 | 110 | 130 | 2, 944 |
| 1972..... | 5, 249 | 487 | 6, 135 | 116 | 117 | 2, 546 |
| 1973..... | 5, 912 | 469 | 6, 664 | 120 | 99 | 2, 242 |
| 1974..... | 6, 139 | 444 | 7, 157 | 125 | 77 | 1, 620 |
| 1975..... | 6, 364 | 418 | 7, 605 | 131 | 42 | 708 |
| 1980..... | 9, 230 | 285 | 9, 909 | 160 | (³) | (⁴) |
| 1985..... | 10, 537 | 164 | 12, 925 | 199 | (³) | (⁴) |
| 1990..... | 13, 461 | 66 | 16, 830 | 245 | (³) | (⁴) |
| 1993..... | 14, 628 | 35 | 19, 494 | 274 | (³) | (⁴) |

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

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

³ Including administrative expenses incurred in 1965.

⁴ Fund exhausted in 1976.

The benefits with respect to the uninsured group, and the accompanying administrative expenses, are paid from the hospital insurance trust fund, with the intention being that there will be current reimbursement therefor from the general fund of the Treasury. These benefit payments will decrease slowly in the future because the effect of mortality on this closed group more than offsets the rising trend of hospitalization costs and the increasing hospital utilization per capita for this group, as the average age becomes higher. The estimated benefit payments and administrative expenses for this category for 1969 and the following 5 calendar years are as follows (in millions):

| <i>Calendar year:</i> | <i>Outgo</i> |
|-----------------------|--------------|
| 1969 ----- | \$500 |
| 1970 ----- | 500 |
| 1971 ----- | 498 |
| 1972 ----- | 483 |
| 1973 ----- | 480 |
| 1974 ----- | 458 |

The estimated level-cost of the benefits and administrative expenses under the hospital insurance program is 1.79 percent of taxable payroll. The level equivalent of the contribution schedule is estimated at 1.50 percent of taxable payroll. Therefore, the new actuarial cost estimate indicates that the program has an actuarial imbalance, -0.29 percent of taxable payroll on a level-cost basis. As shown in table 5, by 1971, the disbursements will exceed the income, and the trust fund would decrease thereafter and would be exhausted in 1977. It should be emphasized, however, that these estimates are based on the provisions of present law and do not reflect the more favorable financial results that would occur if the taxable earnings base is increased from the present \$7,800—as it almost inevitably would be under the condition of rising earnings that is contained in the assumptions underlying the estimates.

The long-range actuarial cost estimates which have been presented here were developed in late 1968, subsequent of course to the 1968 report of the Board of Trustees. These new estimates show a much more unfavorable actuarial balance than the previous ones—namely, a negative balance of 0.29 percent of taxable payroll as compared with the previous positive balance of 0.03 percent. The decrease in the actuarial balance according to the new cost estimates arises because of several revised assumptions, principally because of higher assumed utilization rates for hospital and extended-care-facility services, as indicated by tabulated actual experience for 1966-67.

A discussion of the assumptions under which these new cost estimates have been made appears in appendix I.

CONCLUSION

New long-range actuarial cost estimates for the hospital insurance system have recently been completed. These indicate that the system has an unfavorable actuarial balance—0.29 percent of taxable payroll according to the intermediate-cost estimate on a level-cost basis computed over the next 25 years, under the assumption that the maximum taxable earnings base in present law will remain unchanged at \$7,800 per year in all future years despite the assumption that the earnings level will increase significantly. If the assumption were made that the earnings base will be kept up to date in the future, by increasing it proportionately with increases in the general earnings level, the hospital insurance program would have a small positive actuarial balance (0.07 percent of taxable payroll). Accordingly, if the reasonable assumption that the earnings base will be kept up to date is made, the system can be said to have a favorable actuarial balance.

If, however, that reasonable assumption about the earnings base is not made, then new legislation would have to be sought to finance the system on an actuarially-sound basis. This situation could be achieved by speeding up the contribution schedule by increasing the rate on employers and workers to 0.75 percent each in 1973-75—instead of to 0.65 percent—and by moving up the ultimate rate of 0.9 percent each to 1976—instead of having it go into effect in 1987.

APPENDIXES

APPENDIX I. ASSUMPTIONS AND METHODOLOGY FOR LONG-RANGE COST ESTIMATES

The basic assumptions and methodology for the long-range cost estimates for the hospital insurance program are described in this appendix.

(1) Past increases in hospital costs and in earnings

Table A presents a summary comparison of the annual increases in daily hospital costs and the corresponding increases in wages that have occurred since 1956 and up through 1968.

The annual increases in earnings are based on those in covered employment under the old-age, survivors, and disability insurance system as indicated by first-quarter taxable wages, which by and large are not affected by the maximum taxable earnings base. The data on increases in hospital costs are based on a series of average daily expense per patient day (including not only room and board but also other inpatient charges and other expenditures of hospitals) prepared by the American Hospital Association.

The annual increases in earnings fluctuated somewhat over the 10-year period up through 1965, although there were some deviations from the average annual rate of 3.6 percent; no upward or downward trend over the period is discernible. The annual increases in hospital costs likewise fluctuated from year to year during this period, around the average annual rate of 6.8 percent.

TABLE A.—COMPARISON OF ANNUAL INCREASE IN HOSPITAL COSTS AND IN WAGES
[In percent]

| Year | Increase over previous year | | Year | Increase over previous year | |
|-----------|--|--|--------------------------|--|--|
| | Average wages in covered employment ¹ | Average daily hospitalization costs ² | | Average wages in covered employment ¹ | Average daily hospitalization costs ² |
| 1956..... | 5.7 | 4.5 | 1965..... | 1.6 | 7.0 |
| 1957..... | 5.5 | 7.7 | | | |
| 1958..... | 3.3 | 8.6 | Average for 1956-65..... | 3.6 | 6.8 |
| 1959..... | 3.3 | 6.8 | 1966..... | 4.4 | 8.3 |
| 1960..... | 4.3 | 6.8 | 1967..... | 6.3 | 12.3 |
| 1961..... | 3.1 | 8.5 | 1968..... | 7.0 | ³ 12.0 |
| 1962..... | 4.2 | 5.3 | | | |
| 1963..... | 2.4 | 5.6 | Average for 1959-68..... | 4.0 | 8.0 |
| 1964..... | 3.1 | 6.9 | | | |

¹ Data are for calendar years (based on experience in 1st quarter of year).

² Data are for fiscal years ending in September of year shown. Data are from American Hospital Association, and "hospitalization costs" represents total hospital expense per patient day.

³ Preliminary estimate made by Social Security Administration based on AHA data from a monthly sample.

Since 1957, hospital costs increased at a faster rate than earnings. The differential between these two rates of increase fluctuated widely, being as high as about 6 percent in some years and as low as a negative differential of about 1 percent in 1956 (with the next lowest differential being a positive one of about 1 percent in 1962). Over the latest 10-year period (1959-68), the differential of the average annual rate of increase in hospital costs over the average annual rate of increase in earnings was 4 percent. In the last 2 years, this differential was about 5½ percent.

(2) Effect on cost estimates of rising hospital costs

A major consideration in making cost estimates for hospital benefits, then, is how long and to what extent the tendency of hospital costs to rise more rapidly than the general earnings level will continue in the future, and whether or not it may, in the long run, be counterbalanced by a trend in the opposite direction. Some factors to consider are the relatively low wages of hospital employees (which have been rapidly "catching up" with the general level of wages, and obviously may be expected to "catch up" completely at some future date, rather than to increase indefinitely at a more rapid rate than wages generally) and the development of new medical techniques and procedures, which result in more highly skilled hospital personnel and a larger average number of personnel per patient.

There are, however, several possible counterbalancing factors. The higher costs involved for more refined and extensive treatments may be offset by the development of out-of-hospital facilities, shorter durations of hospitalization, and less expense for subsequent curative treatments as a result of preventive measures. Also, it is possible that at some time in the future, the productivity of hospital personnel will increase significantly as the result of changes in the organization of hospital services or for other reasons, so that, as in other fields of economic activity, the general wage level might increase more rapidly than hospitalization prices in the long run.

Perhaps the major consideration in making actuarial cost estimates for hospital benefits is that—unlike, the situation in regard to cost estimates for the monthly cash benefits, where the result is the opposite—an unfavorable cost result is shown when total earnings levels rise, unless the provisions of the system are kept up to date (insofar as the maximum taxable earnings base is concerned). The reason for this result is that it is assumed that hospital costs rise at least at the same rate over the long run as the total earnings level, whereas the contribution income rises less rapidly than the total earnings level, unless the earnings base is kept up to date.

The cost estimates are based on the assumption that both hospital costs and earnings will increase in the future for the entire 25-year period considered, while at the same time the earnings base will not change. The fact that the cost-sharing provisions (the initial hospital deductible and coinsurance features) are on a dynamic basis, which automatically varies after 1968 in accordance with changes in hospital costs, results in lower estimated costs than if these provisions were on a static, unchanging basis.

(3) Assumptions as to relative trends of hospital costs and earnings underlying cost estimates

As indicated previously, the financing basis of the hospital insurance program should be developed on a conservative basis. For the reasons brought out, the cost estimates should not be developed on a level-earnings basis, but rather they should assume dynamic conditions as to both earnings levels and hospitalization costs. Accordingly, it seems appropriate to make cost projections for only 25 years in the future and to develop the financing necessary for only this period (but with a resulting trust fund balance at the end of the period equal to about 1 year's disbursements).

Several estimates of the short-term future trend of average daily hospital costs have recently been made by persons with experience in this field. The American Hospital Association has estimated an annual rate of increase of as much as 15 percent for the next few years. The Blue Cross Association has made a corresponding estimate of 9 percent per year in the period up to 1970.

The intermediate-cost estimate uses the assumptions as shown in table B for the future increases of average daily hospital costs and general earnings levels. The annual rate of increase in hospital costs is assumed to be greater than the increase in general earnings during the next few years. It is merged gradually with the annual rate of increase in general earnings by 1975. Thereafter, both have the same annual increases.

(4) Assumptions as to hospital utilization rates underlying cost estimates

The hospital utilization assumptions for the cost estimates in this report are founded on the hypothesis that current practices in this field will not change relatively more in the future than past experience has indicated. In other words, no account is taken of the possibility that there will be a drastic change in philosophy as to the best medical practices, so as, for example, to utilize in-hospital care to a much greater extent than is now the case, or vice versa.

The hospital utilization rates used for the cost estimate are based on the 1966-67 actual experience from the hospital insurance program. The aggregate hospital utilization rate in 1967 for the insured population was 3.8 days per person per year. In preparing the actuarial cost estimate, utilization rates were derived for males and females separately. For each sex, utilization rates for each quinquennial age group are established up to age 85. The population aged 85 and over is considered one group. The actual experience for the first few months of 1968 showed that the aggregate utilization remained fairly constant at 3.8 days. For the intermediate-cost estimate, it was assumed that the utilization rate for each age group will remain at the 1967 level. However, since the average age will increase, the aggregate rate will also increase gradually over the long-range future. It is possible that the experience in the first 18 months of operation was atypically high because a relatively large utilization occurred for optional surgical procedures for persons who previously did not have insurance that were deferred until the program began. If this is so, the assumption of continuing utilization at the 1966-67 level is conservative, being on the high side.

TABLE B.—ASSUMPTIONS AS TO FUTURE RATES OF INCREASE IN HOSPITAL COSTS AND EARNINGS IN COVERED EMPLOYMENT
[In percent]

| Calendar year | Increase over previous year | |
|---------------------|-----------------------------|--|
| | Average daily hospital cost | Average earnings in covered employment |
| 1968..... | 13.0 | 5.9 |
| 1969..... | 12.0 | 5.0 |
| 1970..... | 9.0 | 4.5 |
| 1971..... | 7.5 | 4.1 |
| 1972..... | 6.5 | 3.8 |
| 1973..... | 5.5 | 3.7 |
| 1974..... | 4.5 | 3.6 |
| 1975 and after..... | 3.5 | 3.5 |

(5) *Assumptions as to hospital per diem rates underlying cost estimates*

The average daily cost of hospitalization in 1967 based on the interim payments was \$43.03. From the few final hospital cost reports submitted, the average final payment rates were 4 percent higher than the interim payment rates. The figure of \$43.03 was adjusted upward by 4 percent, \$44.76. The latter figure was used for 1967 and was projected into the future in the manner described in appendix I.

(6) *Effect of cost-sharing provisions in hospital charges*

The cost-sharing provisions (coinsurance and deductibles) provide financial participation and incentive to insured persons. Through this mechanism, the insured person, it is believed, would limit his utilization of medical services to his necessary needs, and the potential for overutilization would be minimized.

Based on the actual experience, insured persons, on the average, paid 6 percent of the charges in 1968. Thus, the cost to the hospital insurance program was reduced by 6 percent. The actuarial cost estimate has taken this factor into account.

(7) *Assumptions as to extended care facility benefits underlying cost estimates*

(a) *Utilization rates.*—The actual experience from the hospital insurance program (projected for future years) was used in the actuarial cost estimate. The experience showed an aggregate utilization rate of 1 day per person per year for 1967, the first year that extended care facility benefits were provided. Separate utilization rates were derived for males and females by quinquennial age group.

In 1967, there was a shortage of extended care facilities in many communities. The construction of these facilities was on the increase. The number of participating extended care facility beds certified under the program increased 13 percent from July 1967 to July 1968.

The actuarial cost estimate assumes that the utilization rate is directly proportional to the number of available extended care facility beds. The average number of extended care facility beds per capita was calculated for the seven

States which had the highest number of beds per capita in July 1968. The assumption was made that the average number of beds per capita for the entire United States will reach this level by 1976. Table C shows the projected rate of increase in utilization based on the above assumptions.

(b) *Per diem rates.*—The actual experience in 1967 for the insured population showed that the average daily cost of extended care facility services was \$18.16. Preliminary data for 1968 indicate that the average daily cost has increased 12 percent in 1968 over 1967. Some of the considerations stated previously for the tendency of hospital costs to rise more rapidly than the general earnings level also apply to extended care facilities. The major considerations are the relatively low wages of health personnel, which are catching up with the general level of wages; the development of new medical techniques and treatments resulting in increasing unit expense; and the rising construction costs of these facilities.

The assumption was made that the rate of increase in the average daily cost of extended care facility services will not be as steep as for hospital costs. Table D shows the projected rates of increase in average daily cost of extended care facility services as assumed in the actuarial cost estimate.

TABLE C.—ASSUMPTIONS AS TO FUTURE RATES OF INCREASES IN UTILIZATION RATES OF EXTENDED CARE FACILITIES

(In percent)

| Calendar year | Increase over previous year | Calendar year | Increase over previous year |
|---------------|-----------------------------|---------------------|-----------------------------|
| 1968..... | 13 | 1973..... | 8 |
| 1969..... | 14 | 1974..... | 6 |
| 1970..... | 13 | 1975..... | 5 |
| 1971..... | 12 | 1976..... | 3 |
| 1972..... | 10 | 1977 and after..... | 0 |

TABLE D.—ASSUMPTIONS AS TO FUTURE RATES OF INCREASES IN AVERAGE DAILY COST OF EXTENDED CARE FACILITIES

(In percent)

| Calendar year | Increase over previous year | Calendar year | Increase over previous year |
|---------------|-----------------------------|---------------------|-----------------------------|
| 1968..... | 12.0 | 1972..... | 6.5 |
| 1969..... | 10.0 | 1973..... | 5.5 |
| 1970..... | 8.7 | 1974..... | 4.5 |
| 1971..... | 7.5 | 1975 and after..... | 3.5 |

(c) *Effect of coinsurance.*—For the insured population, the actual experience in 1968 shows an average length of stay in extended care facilities of 60 days. Thus, through the coinsurance provision, the insured persons paid an average of 17.2 percent of the total covered charges. This factor was taken into account in the actuarial cost estimate.

(8) *Assumptions as to home health service benefits*

The cost of home health service benefits is measured in terms of dollars per year per capita. The actual experience in 1967 for the hospital insurance program showed a cost of \$1.30 per capita.

During 1967, the number of qualifying facilities was limited. These facilities have been expanding. It is anticipated that they will continue to expand in the future. Preliminary data for 1968 showed that the utilization per capita has increased 15 percent over 1967. The cost per home visit has increased 12 percent.

The assumptions were made that the rate of increase in the cost per home visit will be the same as the increase in the average daily cost of extended care facility services (shown in table D). Assumptions as to the future rates of increase in the utilization of home health services are shown in table D.

(9) *Administrative expenses*

Administrative expenses per capita in connection with the hospital insurance program, including those of the fiscal intermediaries that are reimbursable under the program, were calculated for 1968. The expense per capita amounted to \$4.90.

This cost per capita was projected first to increase in the future at the same rate of increase as general wages. However, it is also assumed that the cost per capita will decrease 1 percent per year in the future due to increases in productivity resulting from improvements in methods and efficiency.

(10) *Interest rate*

An interest rate of 4.50 percent is used in determining the level-costs of the benefit payments and administrative expenses and the level-equivalent of the contributions. However, in developing the progress of the trust fund, a higher rate is used in the first 10 years—namely, 5 percent initially, gradually declining to a level of 4.5 percent after 1975. As of December 31, 1968, the average yield of the total investments of the trust fund was 5.24 percent. The 4.50 percent rate used for the level-cost calculations thus is on the low side, so that this assumption somewhat overstates the cost of the program.

(11) *Timing of benefit payments*

The estimates of benefit payments on a year-by-year basis are made on the assumption that the suppliers of services will be reimbursed from the trust fund concurrently as the services are furnished to the insured individual (in long-duration cases, periodically)—and not by advance payments. In other words, the year-by-year cost estimates for the benefit payments are on an “accrual” basis. Any short advance or deferment of benefit payments would have some effect on the year-by-year estimates (especially for the first year of operation), but would have no significant effect on the long-range costs or financing basis.

(12) *Other changes in assumptions*

The new population projection that was used in the cost estimates made for the old-age, survivors, and disability insurance system in late 1968 (and used in the 1969 report of the Board of Trustees for this program), was also used in the cost estimate of this report.

APPENDIX II. LEGISLATIVE HISTORY AFFECTING THE TRUST FUND

Board of Trustees.—Beginning with July 30, 1965, when the Federal hospital insurance trust fund was established, the three members of the Board of Trustees, who serve in an ex officio capacity, have been the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. Since the establishment of the fund, the Secretary of the Treasury has been managing trustee. The Commissioner of Social Security has been secretary of the Board of Trustees. The Board of Trustees meets not less frequently than once each calendar year.

Contribution rates.—The Social Security Amendments of 1965, which established the hospital insurance program, fixed the contribution rates for employees and their employers and for self-employed persons at 0.35 percent for 1966 and 0.50 percent for 1967–72, with rates increasing thereafter to 0.80 percent beginning in 1987. The maximum amount of earnings to which these rates are applicable, first established at \$6,600 per year, was increased to \$7,800 by the 1967 amendments, which also increased the contribution rates, as shown previously in the main text.

Special refunds of employee contributions.—With respect to wages, refunds to employees who work for more than one employer during the course of a year and pay contributions on such wages in excess of the statutory maximum are paid from the Treasury account for refunding internal revenue collections. Beginning in 1968, railroad compensation may be included with wages in determining whether a refund is due, but only with respect to hospital insurance contributions. The managing trustee pays, from time to time, from the hospital insurance trust fund into the Treasury, as repayments to the account for refunding internal revenue collections, the amount of contributions which are subject to refund.

Credits for military service.—The Social Security Act Amendments of 1946 provided survivor-insurance protection to certain World War II veterans for a period of 3 years following their discharge from the Armed Forces. The 1950 amendments provided noncontributory \$160 monthly wage credits to persons who served in the Armed Forces during World War II, and amendments in 1952–56 provided similar noncontributory credits on account of active military or naval service from July 25, 1947, through December 31, 1956. The 1956 amendments

provided contributory coverage for military personnel beginning January 1, 1957. The 1967 amendments provide noncontributory credits of \$100 a month (generally) as an allowance for the value of living expenses provided.

The trust fund is to be reimbursed from general revenues for expenditures resulting from the provisions that granted noncontributory \$160 monthly wage credits to persons who served in the Armed Forces from September 16, 1940, through December 31, 1956, and from the provisions enacted in 1946 and 1967. The statutory provisions that provide for the financing of these noncontributory credits for military service are set forth in appendix III.

Coordination of hospital insurance and railroad retirement program.—Public Law 234, approved October 30, 1951, amended the Railroad Retirement Act to provide a basis of coordinating the railroad retirement program with the old-age and survivors insurance system, and this is also applicable to the hospital insurance system as a result of Public Law 89-97. The 1951 legislation provides that the railroad wage credits of workers who die or retire with less than 10 years of railroad employment shall be transferred to the old-age and survivors insurance system. These amendments did not affect workers who acquire 10 years or more of railroad service. That is, the survivors of over-10-year railroad workers will, as under the 1946 amendments to the Railroad Retirement Act, receive benefits under one program or the other based on combined wage records, while retirement benefits will be payable under both systems to individuals with 10 or more years of railroad service who also qualify under old-age and survivors insurance.

With respect to the financial relationships with the railroad retirement system, when it has a different maximum earnings base than the hospital insurance program, the latter program will cover railroad employees directly in the same manner as other covered workers, their contributions will go directly into the hospital insurance trust fund, and their benefit payments will be paid directly from this trust fund. When the two bases are the same, the hospital insurance taxes will be collected by the railroad retirement system, along with the railroad retirement taxes, and will be transferred to the hospital insurance trust fund through the financial interchange provisions. Under either case, the hospital and related benefits with respect to railroad workers will be paid from the hospital insurance trust fund, and the administrative expenses in connection with the hospital insurance program that are paid by the railroad retirement system but would otherwise have been paid by the hospital insurance trust fund are reimbursed to the railroad retirement account through the financial interchange provisions.

Investments.—Since the inception of the program, provision has been made for the investment of funds which are not required to meet current disbursements. As provided in the Social Security Act, the funds may be invested only in interest-bearing obligations of the U.S. Government or in obligations guaranteed as to both principal and interest by the United States; or the funds may be invested 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. In addition, the Social Security Act authorizes the issuance of public-debt obligations for purchase by the trust funds.

Special issues acquired after enactment bear interest at a rate equal to the average market yield (computed on the basis of market quotations as of the end of the calendar month next preceding their issue) on all marketable interest-bearing obligations of the United States forming a part of the public debt which are not due or callable for 4 or more years from the time the special obligations are issued, such average market yield being rounded to the nearest one-eighth of 1 percent.

APPENDIX III. STATUTORY PROVISIONS, AS OF DECEMBER 31, 1968,
CREATING THE TRUST FUND, DEFINING THE DUTIES OF THE BOARD OF
TRUSTEES, FINANCING THE COST OF NONCONTRIBUTORY CREDITS FOR
MILITARY SERVICE, FINANCING THE COST OF BENEFITS FOR PRESENTLY
UNINSURED INDIVIDUALS, AND PROVIDING FOR ADVISORY COUNCILS ON
SOCIAL SECURITY

(Sec. 217(g), sec. 218 (e) (1), (h), and (j), sec. 229 (b), sec. 706, and sec. 1817 of the Social Security Act, as amended, and sec. 103(c) of the Social Security Amendments of 1965)

FEDERAL HOSPITAL INSURANCE TRUST FUND

SEC. 1817. (a) There is hereby created on the books of the Treasury of the United States a trust fund to be known as the "Federal Hospital Insurance Trust Fund" (hereinafter in this section referred to as the "Trust Fund") : The Trust Fund shall consist of such amounts as may be deposited in, or appropriated to, such fund as provided in this part. There are hereby appropriated to the Trust Fund for the fiscal year ending June 30, 1966, and for each fiscal year thereafter, out of any moneys in the Treasury not otherwise appropriated, amounts equivalent to 100 per centum of—

(1) the taxes imposed by sections 3101(b) and 3111(b) of the Internal Revenue Code of 1954 with respect to wages reported to the Secretary of the Treasury or his delegate pursuant to subtitle F of such Code after December 31, 1965, as determined by the Secretary of the Treasury by applying the applicable rates of tax under such sections to such wages, which wages shall be certified by the Secretary of Health, Education, and Welfare on the basis of records of wages established and maintained by the Secretary of Health, Education, and Welfare in accordance with such reports; and

(2) the taxes imposed by section 1401(b) of the Internal Revenue Code of 1954 with respect to self-employment income reported to the Secretary of the Treasury or his delegate on tax returns under subtitle F of such Code, as determined by the Secretary of the Treasury by applying the applicable rate of tax under such section to such self-employment income, which self-employment income shall be certified by the Secretary of Health, Education, and Welfare on the basis of records of self-employment established and maintained by the Secretary of Health, Education, and Welfare in accordance with such returns.

The amounts appropriated by the preceding sentence shall be transferred from time to time from the general fund in the Treasury to the Trust Fund, such amounts to be determined on the basis of estimates by the Secretary of the Treasury of the taxes, specified in the preceding sentence, paid to or deposited into the Treasury; and proper adjustments shall be made in amounts subsequently transferred to the extent prior estimates were in excess of or were less than the taxes specified in such sentence.

(b) With respect to the Trust Fund, there is hereby created a body to be known as the Board of Trustees of the Trust Fund (hereinafter in this section referred to as the "Board of Trustees") composed of the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare, all ex officio. The Secretary of the Treasury shall be the Managing Trustee of the Board of Trustees (hereinafter in this section referred to as the "Managing Trustee"). The Commissioner of Social Security shall serve as the Secretary of the Board of Trustees. The Board of Trustees shall meet not less frequently than once each calendar year. It shall be the duty of the Board of Trustees to—

(1) Hold the Trust Fund;

(2) Report to the Congress not later than the first day of April of each year on the operation and status of the Trust Fund during the preceding fiscal year and on its expected operation and status during the current fiscal year and the next 2 fiscal years;

(3) Report immediately to the Congress whenever the Board is of the opinion that the amount of the Trust Fund is unduly small; and

(4) Review the general policies followed in managing the Trust Fund, and recommend changes in such policies, including necessary changes in the provisions of law which govern the way in which the Trust Fund is to be managed.

The report provided for in paragraph (2) shall include a statement of the assets of, and the disbursements made from, the Trust Fund during the preceding fiscal year, an estimate of the expected income to, and disbursements to be made from, the Trust Fund during the current fiscal year and each of the next 2 fiscal years, and a statement of the actuarial status of the Trust Fund. Such report shall be printed as a House document of the session of the Congress to which the report is made.

(c) It shall be the duty of the Managing Trustee to invest such portion of the Trust Fund as is not, in his judgment, required to meet current withdrawals. Such investments may be made only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. For such purpose such obligations may be acquired (1) on original issue at the issue price, or (2) by purchase of outstanding obligations at the market price. The purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize the issuance at par of public-debt obligations for purchase by the Trust Fund. Such obligations issued for purchase by the Trust Fund shall have maturities fixed with due regard for the needs of the Trust Fund and shall bear interest at a rate equal to the average market yield (computed by the Managing Trustee on the basis of market quotations as of the end of the calendar month next preceeding the date of such issue) on all marketable interest-bearing obligations of the United States then forming a part of the public debt which are not due or callable until after the expiration of 4 years from the end of such calendar month; except that where such average market yield is not a multiple of one-eighth of 1 percent, the rate of interest on such obligations shall be the multiple of one-eighth of 1 percent nearest such market yield. The Managing Trustee may purchase other interest-bearing obligations of the United States or obligations guaranteed as to both principal and interest by the United States, on original issue or at the market price, only where he determines that the purchase of such other obligations is in the public interest.

(d) Any obligations acquired by the Trust Fund (except public-debt obligations issued exclusively to the Trust Fund) may be sold by the Managing Trustee at the market price, and such public-debt obligations may be redeemed at par plus accrued interest.

(e) The interest on, and the proceeds from the sale or redemption of, any obligations held in the Trust Fund shall be credited to and form a part of the Trust Fund.

(f) (1) The Managing Trustee is directed to pay from time to time from the Trust Fund into the Treasury the amount estimated by him as taxes imposed under section 3101(b) which are subject to refund under section 6413(c) of the Internal Revenue Code of 1954 with respect to wages paid after December 31, 1965. Such taxes shall be determined on the basis of the records of wages established and maintained by the Secretary of Health, Education, and Welfare in accordance with the wages reported to the Secretary of the Treasury or his delegate pursuant to subtitle F of the Internal Revenue Code of 1954, and the Secretary of Health, Education, and Welfare shall furnish the Managing Trustee such information as may be required by the Managing Trustee for such purpose. The payments by the Managing Trustee shall be covered into the Treasury as repayments to the account for refunding internal revenue collections.

(2) Repayments made under paragraph (1) shall not be available for expenditures but shall be carried to the surplus fund of the Treasury. If it subsequently appears that the estimates under such paragraph in any particular period were too high or too low, appropriate adjustments shall be made by the Managing Trustee in future payments.

(g) There shall be transferred periodically (but not less often than once each fiscal year, to the Trust Fund from the Federal Old-Age and Survivors Insurance Trust Fund and from the Federal Disability Insurance Trust Fund amounts equivalent to the amounts not previously so transferred which the Secretary of Health, Education, and Welfare shall have certified as overpayments, other than amounts so certified to the Railroad Retirement Board) pursuant to section 1870(b) of this Act. There shall be transferred periodically (but not less often than once each fiscal year) to the Trust Fund from the Railroad Retirement Account amounts equivalent to the amounts not previously so transferred which the Secretary of Health, Education, and Welfare shall have certified as overpayments to the Railroad Retirement Board pursuant to section 1870(b) of this Act.

(h) The Managing Trustee shall also pay from time to time from the Trust Fund such amounts as the Secretary of Health, Education, and Welfare certi-

fies are necessary to make the payments provided for by this part, and the payments with respect to administrative expenses in accordance with section 201(g) (1).

FINANCING THE COST OF BENEFITS IN CASE OF VETERANS

SEC. 217. * * *

* * * * *

(g) (1) In September 1965, and in every fifth September thereafter up to and including September 2010, the Secretary shall determine the amount which, if paid in equal installments at the beginning of each fiscal year in the period beginning—

(A) with July 1, 1965, in the case of the first such determination, and

(B) with the July 1 following the determination in the case of all other such determinations,

and ending with the close of June 30, 2015, would accumulate, with interest compounded annually, to an amount equal to the amount needed to place each of the Trust Funds and the Federal Hospital Insurance Trust Fund in the same position at the close of June 30, 2015, as he estimates they would otherwise be in at the close of that date if section 210 of this Act as in effect prior to the Social Security Act Amendments of 1950, and this section, had not been enacted. The rate of interest to be used in determining such amount shall be the rate determined under section 201(d) for public-debt obligations which were or could have been issued for purchase by the Trust Funds in the June preceding the September in which such determination is made.

(2) There are authorized to be appropriated to the Trust Funds and the Federal Hospital Insurance Trust Fund—

(A) for the fiscal year ending June 30, 1966, an amount equal to the amount determined under paragraph (1) in September 1965, and

(B) for each fiscal year in the period beginning with July 1, 1966, and ending with the close of June 30, 2015, an amount equal to the annual installment for such fiscal year under the most recent determination under paragraph (1) which precedes such fiscal year.

(3) For the fiscal year ending June 30, 2016, there is authorized to be appropriated to the Trust Funds and the Federal Hospital Insurance Trust Fund such sums as the Secretary determines would place the Trust Funds and the Federal Hospital Insurance Trust Fund in the same position in which they would have been at the close of June 30, 2015, if section 210 of this Act as in effect prior to the Social Security Act Amendments of 1950, and this section, had not been enacted.

(4) There are authorized to be appropriated to the Trust Funds and the Federal Hospital Insurance Trust Fund annually, as benefits under this title and part A of title XVIII are paid after June 30, 2015, such sums as the Secretary determines to be necessary to meet the additional costs, resulting from subsections (a), (b), and (e), of such benefits (including lump-sum death payments).

PAYMENTS AND REPORTS BY STATES

SEC. 218. * * *

* * * * *

(e) (1) Each agreement under this section shall provide—

(A) that the State will pay to the Secretary of the Treasury, at such time or times as the Secretary of Health, Education, and Welfare may by regulations prescribe, amounts equivalent to the sum of the taxes which would be imposed by sections 3101 and 3111 of the Internal Revenue Code of 1954 if the services of employees covered by the agreement constituted employment as defined in section 3121 of such code; and

(B) that the State will comply with such regulations relating to payments and reports as the Secretary of Health, Education, and Welfare may prescribe to carry out the purposes of this section.

DEPOSITS IN TRUST FUNDS; ADJUSTMENTS

SEC. 218. * * *

* * * * *

(h) (1) All amounts received by the Secretary of the Treasury under an agreement made pursuant to this section shall be deposited in the Trust Funds and the Federal Hospital Insurance Trust Fund in the ratio in which amounts are

appropriated to such Funds pursuant to subsection (a) (3) of section 201, subsection (b) (1) of such section, and subsection (a) (1) of section 1817, respectively.

(2) If more or less than the correct amount due under an agreement made pursuant to this section is paid with respect to any payment of remuneration, proper adjustments with respect to the amounts due under such agreement shall be made, without interest, in such manner and at such times as may be prescribed by regulations of the Secretary of Health, Education, and Welfare.

(3) If an overpayment cannot be adjusted under paragraph (2), the amount thereof and the time or times it is to be paid shall be certified by the Secretary of Health, Education, and Welfare to the Managing Trustee, and the Managing Trustee, through the Fiscal Service of the Treasury Department and prior to any action thereon by the General Accounting Office, shall make payment in accordance with such certification. The Managing Trustee shall not be held personally liable for any payment or payments made in accordance with a certification by the Secretary of Health, Education, and Welfare.

FAILURE TO MAKE PAYMENTS

SEC. 218. * * *

* * * * *

(j) In case any State does not make, at the time or times due, the payments provided for under an agreement pursuant to this section, there shall be added, as part of the amounts due, interest at the rate of 6 per centum per annum from the date due until paid, and the Secretary of Health, Education, and Welfare may, in his discretion, deduct such amounts plus interest from any amounts certified by him to the Secretary of the Treasury for payment to such State under any other provision of this Act. Amounts so deducted shall be deemed to have been paid to the State under such other provision of this Act. Amounts equal to the amounts deducted under this subsection are hereby appropriated to the Trust Funds in the ratio in which amounts are deposited in such Funds pursuant to subsection (h) (1).

FINANCING THE COST OF BENEFITS FOR DEEMED MILITARY SERVICE WAGES AFTER 1967

SEC. 229. * * *

* * * * *

(b) There are authorized to be appropriated to the Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund, and the Federal Hospital Insurance Trust Fund annually, as benefits under this title and part A of title XVIII are paid after December 1967, such sums as the Secretary determines to be necessary to meet (1) the additional costs, resulting from subsection (a), of such benefits (including lump-sum death payments), (2) the additional administrative expenses resulting therefrom, and (3) any loss in interest to such trust funds resulting from the payment of such amounts. Such additional costs shall be determined after any increases in such benefits arising from the application of section 217 have been made.

FINANCING THE COST OF BENEFITS FOR PRESENTLY UNINSURED INDIVIDUALS

SEC. 103. * * *

* * * * *

(c) There are authorized to be appropriated to the Federal Hospital Insurance Trust Fund (established by section 1817 of the Social Security Act) from time to time such sums as the Secretary deems necessary for any fiscal year, on account of—

(1) payments made or to be made during such fiscal year from such Trust Fund under part A of title XVIII of such Act with respect to individuals who are entitled to hospital insurance benefits under section 226 of such Act solely by reason of this section,

(2) the additional administrative expenses resulting or expected to result therefrom, and

(3) any loss in interest to such Trust Fund resulting from the payment of such amounts,
in order to place such Trust Fund in the same position at the end of such fiscal year in which it would have been if the preceding subsections of this section had not been enacted.

ADVISORY COUNCIL ON SOCIAL SECURITY

SEC. 706. (a) During 1969 (but not before February 1, 1969) and every fourth year thereafter (but not before February 1 of such fourth year) the Secretary shall appoint an Advisory Council on Social Security for the purpose of reviewing the status of the Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund, the Federal Hospital Insurance Trust Fund, and the Federal Supplementary Medical Insurance Trust Fund in relation to the long-term commitments of the old-age, survivors, and disability insurance program and the programs under parts A and B of title XVIII, and of reviewing the scope of coverage and the adequacy of benefits under, and all other aspects of, these programs, including their impact on the public assistance programs under this Act.

(b) Each such Council shall consist of a Chairman and 12 other persons, appointed by the Secretary without regard to the provisions of title 5, United States Code, governing appointments in the competitive service. The appointed members shall, to the extent possible, represent organizations of employers and employees in equal numbers, and represent self-employed persons and the public.

(c) (1) Any Council appointed hereunder is authorized to engage such technical assistance, including actuarial services, as may be required to carry out its functions, and the Secretary shall, in addition, make available to such Council such secretarial, clerical, and other assistance and such actuarial and other pertinent data prepared by the Department of Health, Education, and Welfare as it may require to carry out such functions.

(2) Appointed members of any such Council, while serving on business of the Council (inclusive of travel time), shall receive compensation at rates fixed by the Secretary, but not exceeding \$100 per day and, while so serving away from their homes or regular places of business, they may be allowed travel expenses, including per diem in lieu of subsistence, as authorized by section 5703 of title 5, United States Code, for persons in the Government employed intermittently.

(d) Each such Council shall submit reports (including any interim reports such Council may have issued) of its findings and recommendations to the Secretary not later than January 1 of the second year after the year in which it is appointed, and such reports and recommendations shall thereupon be transmitted to the Congress and to the Board of Trustees of each of the Trust Funds. The reports required by this subsection shall include—

(1) a separate report with respect to the old-age, survivors and disability insurance program under title II and of the taxes imposed under sections 1401(a), 3101(a), and 3111(a) of the Internal Revenue Code of 1954,

(2) a separate report with respect to the hospital insurance program under part A of title XVIII and of the taxes imposed by sections 1401(b), 3101(b), and 3111(b) of the Internal Revenue Code of 1954, and

(3) a separate report with respect to the supplementary medical insurance program established by part B of title XVIII and of the financing thereof.

After the date of the transmittal to the Congress of the reports required by this subsection, the Council shall cease to exist.

APPENDIX IV. SUMMARY OF PRINCIPAL PROVISIONS

Public Law 89-97, approved July 30, 1965, amended the Social Security Act and related provisions of the Internal Revenue Code by establishing the hospital insurance program. A summary of its provisions, as amended by Public Law 90-248, approved January 2, 1968, is as follows:

I. COVERAGE PROVISIONS (FOR CONTRIBUTION PURPOSES)

(a) All workers covered by old-age, survivors, and disability insurance system.

(b) All railroad workers (covered directly by system, and not through financial interchange provisions, if railroad retirement taxable wage base is not the same as the hospital insurance base; if bases are the same, railroad retirement

system collects contributions and transfers them to hospital insurance trust fund through financial interchange provisions;¹ hospital insurance trust fund pays benefits to suppliers of services in either case).

II. PERSONS PROTECTED (FOR BENEFIT PURPOSES)

(a) Insured persons—all individuals aged 65 or over who are eligible for any type of old-age, survivors, and disability insurance or railroad retirement monthly benefit (i.e., as insured workers, dependents, or survivors), without regard to whether retired (i.e., no earnings test).

(b) Uninsured persons—individuals who attain age 65 before 1968 who are not eligible for any type of monthly benefit under the old-age, survivors, and disability insurance or railroad retirement programs, who are citizens or aliens lawfully admitted for permanent residence with at least 5 consecutive years of residence, and who are not covered under the Federal Employees Health Benefits Act of 1959 (including certain individuals who could have been covered if they had so elected) and have not been convicted of any offense listed in section 202(u) of the Social Security Act. (Sec. 103(b)(1) of Public Law 89-97 also excluded individuals who are members of any organization referred to in section 210(a)(17) of the Social Security Act. This provision was held to be unconstitutional by a Federal court, and its enforcement was enjoined). Those in this category attaining age 65 after 1967 must have certain amounts of old-age, survivors, and disability insurance or railroad retirement coverage to be eligible for hospital insurance benefits—namely, three quarters of coverage for each year after 1966 and before age 65, so that the provision becomes ineffective for men attaining age 65 after 1975 (for women, 1974), since then the “regular” insured status conditions for cash benefits are easier to meet.

III. BENEFITS PROVIDED

(a) Hospital benefits—full cost of all hospital services (i.e., including room and board, operating room, laboratory tests and X-rays, drugs, dressings, general nursing services, and services of interns and residents in training) for semi-private accommodations for up to 90 days in a “spell of illness” (a period beginning with the 1st day of hospitalization and ending after the person has been out of a hospital and an extended care facility for 60 consecutive days), after a deductible of \$40 and coinsurance of \$10 per day for all days after the 60th one and also a deductible of the cost of the first three pints of blood; in addition to such 90 days per spell of illness, a lifetime reserve of 60 days with coinsurance of \$20 per day is available; after 1968, the deductible and the coinsurance amounts will be automatically adjusted to reflect changes in hospital costs after 1966; lifetime maximum of 190 days for psychiatric hospital care.

(b) Extended care facility (skilled nursing home or convalescent wing of hospital) benefits—following at least 3 days of hospitalization, beginning within 14 days of leaving hospital, and for continued care of a condition for which a person was hospitalized, up to 100 days of such care in a spell of illness, with coinsurance of \$5 per day for all days after the 20th one; after 1968, the \$5 coinsurance will be automatically adjusted to reflect changes in hospital costs after 1966.

(c) Home health services benefits—following at least 3 days of hospitalization, beginning within 14 days of leaving hospital or extended care facility, up to 100 visits in the next 365 days and before the beginning of the next spell of illness; such services are essentially for homebound persons and include visiting nurse services and various types of therapy treatment, including out-patient hospital services when equipment cannot be brought to the home.

(d) Services not covered—services obtained outside of the United States (except for emergency services for an illness occurring in the United States and the foreign hospital involved was closer, or substantially more accessible, than the nearest adequate U.S. hospital), elective “luxury” services (such as private room or television), custodial care, hospitalization for services not necessary for the treatment of illness or injury (such as elective cosmetic surgery), services performed in a Federal institution (such as a Veterans’ Administration hospital), and cases eligible under workmen’s compensation.

¹ Public Law 89-212, approved September 20, 1965, provided that the railroad retirement wage base will, in the future, be automatically adjusted so as to be the same as the earnings base under the hospital insurance system.

(c) Administration—by Department of Health, Education, and Welfare. Each provider of services can nominate a fiscal intermediary (such as Blue Cross, other health insurance organizations, or State agencies) or can deal directly with the Department. The providers of services are reimbursed on a “reasonable cost” basis, and the fiscal intermediaries are reimbursed for their reasonable costs of administration. The providers of services must meet certain standards, including establishment of utilization review committees for hospitals and extended care facilities, development of transfer agreements between hospitals and extended care facilities, and quality care.

IV. FINANCING

(a) Insured persons—on a long-range self-supporting basis (just as under the old-age, survivors, and disability insurance system), through separate schedule of increasing tax rates on covered workers (see table in “Nature of the Trust Fund” section), with same maximum taxable earnings base as scheduled for the old-age, survivors, and disability insurance system, \$7,800; same rate applies to employees, employers, and self-employed (unlike under the old-age, survivors, and disability insurance system).

(b) Hospital insurance trust fund—separate trust fund, with separate board of trustees (same membership as for old-age and survivors insurance and disability insurance trust funds) and with same investment procedures.

(c) Uninsured persons—from general revenues, through the hospital insurance trust fund.

