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1975 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

COMMUNICATION

FROM

THE BOARD OF TRUSTEES, FEDERAL HOSPITAL INSURANCE TRUST FUND

TRANSMITTING

THE 1975 ANNUAL REPORT OF THE BOARD, PURSUANT TO SECTION 1817(b) OF THE SOCIAL SECURITY ACT, AS AMENDED

LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL HOSPITAL INSURANCE TRUST FUND
Washington, D.C, May 2, 1975.

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

SIR: We have the honor to transmit to you the 1975 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund (the tenth such report), in compliance with the provisions of section 1817(b) of the Social Security Act.

Respectfully,

WILLIAM E. SIMON,
Secretary of the Treasury,
Managing Trustee of the Trust Fund.

JOHN T.DUNLOP,
Secretary of Labor.

CASPAR W. WEINBERGER,
Secretary of Health, Education, and Welfare.

JAMES B. CARDWELL,
Commissioner of Social Security

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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. The Board of Trustees reports to the Congress once each year in compliance with section 1817(b)(2) of the Social Security Act. This Report is the annual report for 1975, the tenth such report.

HIGHLIGHTS

The more important developments during fiscal year 1974, discussed in more detail in later sections, are indicated below:

(a) In July 1973, persons entitled to disability insurance benefits for at least two years and persons suffering from chronic kidney disease became eligible for protection under the hospital insurance program.

(b) The hospital insurance trust fund increased during fiscal year 1974, by an amount close to that projected in the 1974 Report. Income for fiscal 1974 amounted to $11.6 billion, up by 39 percent over fiscal 1973. Benefit payments and administrative expenses totaled $8.1 billion, 18 percent more than in fiscal 1973. The fund increased by $3.5 billion in fiscal1974 to $7.9 billion on June 30, 1974.

(c) Approximately 23.4 million persons were protected by the hospital insurance program in June 1974, including 1.9 million disabled persons under age 65. About 5.3 million persons actually received benefits during fiscal year 1974. An estimated 100 million workers had earnings in calendar year 1973 that were taxable and creditable toward eligibility under the program.

(d) The trust fund earned $0.4 billion in interest during the year, equivalent to an annual rate of 6.7 percent.

(e) The Secretary of HEW promulgated a $92 inpatient deductible for calendar year 1975 and a $40 monthly premium for noninsured enrollees for fiscal year 1976.

NATURE OF THE TRUST FUND

The Federal hospital insurance trust fund was established on July 30, 1965, as a separate account in the United States Treasury 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 program and (2) amounts deposited in it representing contributions paid by workers employed by State and local governments and by such employers with respect to work covered by the program. The coverage of the hospital insurance program includes workers covered under the old-age, survivors, and disability insurance program and those covered under the railroad retirement 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 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 contribution rates applicable to taxable earnings in each of the calendar years 1966 and later are shown in table 1. For 1976 and later, the contribution rates shown are the rates scheduled in the provisions of present law. The maximum amount of annual earnings taxable in each year, 1966-75, is also shown. Beginning with 1975, the maximum amount of earnings taxable each year is determined in the preceding year under the automatic increase provisions in section 230 of the Social Security Act, unless modified by intervening Congressional action.

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

Calendar years	Maximum taxable amount of annual earnings	Contribution rate (Percent of taxable earnings)	
		Employees and employers, each	Self-employed
Past experience:			
1966	$6,600	0.35	0.35
1967	6,600	.50	.50
1968-71	7,800	.60	.60
1972	9,000	.60	.60
1973	10,800	1.00	1.00
1974	13,200	.90	.90
1975	14,100	.90	.90
Changes scheduled In present law:			
1976-77	[1]	.90	.90
1978-80	[1]	1.10	1.10
1981-85	[1]	1.35	1.35
1986 & later	[1]	1.50	1.50

[1]Subject to automatic increase.

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 contributions, (2) old-age, survivors, and disability insurance contributions, and (3) individual income taxes are not separately identified in collection reports received by the Treasury Department. Periodic adjustments are subsequently made to the extent that the estimates are found to differ from the amounts of contributions actually payable on the basis of reported earnings.

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

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

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

Sections 217(g) and 229(b) of the Social Security Act authorize annual reimbursements from the general fund of the Treasury to the hospital insurance trust fund for any costs arising from the granting of noncontributory wage credits for military service, according to periodic determinations made by the Secretary of Health, Education, and Welfare.

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

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

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

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

Expenditures for benefit payments and administrative expense 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 pertaining to the hospital insurance program and of the Internal Revenue Code relating to the collection of contributions, are charged to the trust fund. The Secretary of Health,

Education, and Welfare certifies benefit payments to the Managing Trustee, who makes the payment from the trust fund in accordance therewith.

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

The Social Security Amendments of 1967 and 1972 authorize the Secretary of Health, Education, and Welfare to develop and conduct a broad range of experiments and demonstration projects designed to determine various methods of increasing efficiency and economy in providing health care services, while maintaining the quality of such services, under the hospital insurance and supplementary medical insurance programs. The costs of such experiments and demonstration projects are paid out of the hospital insurance and supplementary medical insurance programs.

Congress has authorized expenditures from the trust funds for constructions, rental, and lease or purchase contract of office buildings and related facilities for the Social Security Administration. Both the capital costs of construction financed directly from the trust funds and the rental, lease, or purchase contract costs of acquiring facilities are included in trust fund expenditures. In 1974, construction of several large facilities was begun under purchase contract authority, wherein initial capital costs are borne by the private sector. Under this method of facilities acquisition, trust fund expenditures for use and ultimate Government ownership of a facility are made over periods of from 10 to 30 years. Whatever the manner of acquisition, the net worth of facilities and other fixed capital assets is not carried in the statements of the operations of the trust fund presented in this report. This is because the value of fixed capital assets does not represent funds available for benefit or administrative expenditures, and therefore is not viewed as being a consideration in assessing the actuarial status of the funds.

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

The Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust fund. The law requires that such special public-debt obligations shall bear interest at a rate based on the average market yield (computed 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 State,; forming a part of the public debt which are not due or callable until after the expiration of four years from the end of such calendar month.

SUMMARY OF THE OPERATIONS OF THE TRUST FUND, FISCAL YEAR 1974

A statement of the income and disbursements of the Federal hospital insurance trust fund during fiscal year 1974 and of the assets of the fund at the beginning and the end of the fiscal year is presented in table 2. Comparable amounts for fiscal year 1973 are also shown in the table.

The total assets of the trust fund amounted to $4,369 million on June 30, 1973. During fiscal year 1974, total receipts amounted to $11,610 million and total disbursements were $8,065 million. The assets of the trust fund thus increased $3,545 million during the year to a total of $7,914 million on June 30, 1974.

Included in total receipts during fiscal year 1974 were $9,595 million representing contributions appropriated to the trust fund and $1,099 million representing amounts received by the Secretary of the Treasury in accordance with State agreements for coverage of State and local government employees and deposited in the trust fund. As an offset, $92 million was transferred from the trust fund into the Treasury as repayment for the estimated amount of contribution 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 $10,602 million, representing an increase of 38 percent over the amount for the preceding fiscal year. This growth in contribution income resulted primarily from (1) the higher level of employment and taxable earning", (2) the increase in the combined employer-employee contribution rate from 1.2 percent to 2.0 percent (and the corresponding increase in the self-employed contribution rate) that became effective January 1, 1973, and (3) the two increase,; in the maximum annual amount of earnings taxable—from $9,000 to $10,800 and from $10,800 to 13,200—that became effective on January 1, 1973, and January 1, 1974, respectively. Although the increase in the contribution rate became effective in 1973, fiscal year 1974 was the first full fiscal year during which a combined employer-employee contribution rate in excess of 1.2 percent was operative. (The increase in net contribution income would have been larger had it not been for the decrease in the combined employer-employee contribution rate from 2.0 percent to 1.8 percent—and the corresponding decrease in the self-employed contribution rate—that became effective on January 1, 1974.) Similarly, although the first increase in the maximum annual amount of earnings taxable, from $9,000 to $10,800, became effective in 1973, the first full fiscal year during which earnings between $9,000 and $10,800 were taxable was 1974.

Reference has been made in an earlier section to provisions of the Social Security Act under which certain persons aged 65 and over but not otherwise eligible for hospital insurance protection may obtain such protection by enrolling in the program and paying a monthly premium. Premiums collected from such voluntary participants in fiscal year 1974, the first year the premiums were payable, amounted to about $4 million.

Reference has been made in an earlier section to provisions of the Railroad Retirement Act which coordinate the railroad retirement and the hospital insurance programs and which govern the financial interchange arising from the allocation of costs between the two systems. In accordance with these provisions, the Railroad Retirement, Board and the Secretary of Health, Education, and welfare determined that a transfer of $98,069,000 from the railroad retirement account to the hospital insurance trust fund would place this fund in the same position, as of June 30, 1973, 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 August 1973, together with interest to the date of transfer amounting to $1,113,000.

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 the costs of granting noncontributory credits for military service. In accordance with these provisions, the Secretary of Health, Education, and Welfare made a determination in 1970 of the level annual appropriations to the trust fund necessary to amortize over a 44-year period, beginning in fiscal year 1972, the estimated total additional costs, for military service performed before 1957, arising from payments that have been made since July 1966 and that will be made in future years, taking into account the amounts of annual appropriations in fiscal years 1966-71 that have been deposited into the trust funds. The annual amount resulting from this determination was $48 million. Thus, a reimbursement amounting to $48 million was received by the trust fund in December 1973.

Again, reference has been made earlier to provisions under which the hospital insurance trust fund is to be reimbursed from the general fund of the Treasury for costs of paying benefits under this program in behalf of certain uninsured persons. The reimbursement in fiscal year 1974 amounted to $4.51 million, consisting of $445 million for benefit payments, $8 million for administrative expenses, and, as an offset, $2 million due the general fund for net interest on adjustments to costs in prior fiscal years.

Reference has also been made in an earlier section to provisions under which money gifts or bequests may be deposited in the trust fund. In fiscal year 1974, the trust fund received a gift of $12.

The remaining $405 million of receipts consisted almost entirely of interest on the investments of the trust fund.

Of the $8,065 million in total disbursements, $7,812 million represented benefits paid directly from the trust fund for health services covered under Title XVIII of the Social Security Act. As offsets to benefit payments, transfer,; were made from the supplementary medical insurance trust fund amounting to $6 million for certain costs of radiology and pathology services that were paid initially from the hospital insurance trust fund but that were liabilities of the supplementary medical insurance trust fund. Net benefit payments from the trust fund in fiscal year 1974, therefore, amounted to $7,806 million, an increase of 17.4 percent over the corresponding amount paid in fiscal year 1973.

Reference has been made in an earlier section to provisions which authorize payment from the trust fund for costs of experiments and demonstration projects in providing health care services. In fiscal year 1974, payments for such costs amounted to about $707,000.

The remaining $258 million of disbursements was for net administrative expenses. Administrative expenses are allocated and charged directly to each of the four trust funds—old-age insurance, disability insurance, hospital insurance, and supplementary medical insurance—on the basis of provisional estimates. Periodically, as actual experience develops and is analyzed, adjustments to the allocations of administrative expenses and costs of construction for prior periods are effected by transfers among the four trust funds, with appropriate interest allowances.

Table 3 compares the actual experience in fiscal year 1974 with the estimates presented in the 1974 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 1974 reflects the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions in fiscal year 1974 does not reflect adjustments to contributions for fiscal year 1974 that were to be made after June 30, 1974. The estimated contributions and benefit payments in the 1974 report were both quite close to actual experience.

The assets of the trust fund at the end of fiscal year 1974 totaled $7,914 million, consisting of $7,864 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations, and an undisbursed balance of $49 million. Table 4 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1973 and 1974.

The net increase in the par value of the investments held by the fund during fiscal year 1974 amounted to $3,642 million. New securities at a total par value of $15,229 million were acquired during the fiscal year, through the investment of receipts and the reinvestment of funds made available from the redemption of securities. The par value of securities redeemed during the fiscal year was $11,587 million. Included in these amounts is $11,577 million in certificates of indebtedness that were acquired and redeemed within the fiscal year.

The effective annual rate of interest earned by the assets of the hospital insurance trust fund during fiscal year 1974 was 6.7 percent. The interest rate on public-debt obligations issued for purchase by the trust fund in June 1974 was 7⅞ percent, payable semiannually.

TABLE 2.—STATEMENT OF OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEARS 1973 AND 1974
[In thousands of dollars]

	Fiscal Year 1973	Fiscal Year 1974
Total assets of the trust fund, beginning of period	$2,858,725	$4,368,666
Receipts:		
Contributions:		
Appropriations	6,993,232	9,595,278
Deposits arising from State agreements	724,930	1,099,424
Gross Contributions	7,718,163	10,694,702
Less payment into the Treasury for contributions subject to refund	55,044	92,432
Net Contributions	7,663,119	10,602,270
Premiums collected from voluntary participants		4,281
Transfer from railroad retirement account	63,238	99,182
Reimbursement from the general fund of Treasury for costs of—		
Noncontributory credits for military service	48,000	48,000
Benefits for uninsured persons:		
Benefit payments	369,699	445,000
Administrative expenses	19,496	8,101
Gross reimbursement for costs for benefits for uninsured persons	389,195	453,101
Less interest on adjustments to costs in prior fiscal years	7,780	2,321
Net reimbursement for costs for benefits for uninsured persons	381,415	450,780
Interest:		
Interest on Investments	195,673	405,523
Interest on amounts of interfund transfers due to adjustment in allocation of administrative expenses and construction costs [1]	155	−269
Total interest	195,828	405,254
Total receipts [2]	8,351,599	11,609,767
Disbursements:		
Benefit payments:		
Paid directly from the trust fund for the costs of health services	6,653,977	7,811,980
Less transfers from the supplementary medical insurance trust fund for reimbursement of payments made initially from the hospital insurance trust fund for costs of radiology and pathology services [3]	6,000	6,000
Net benefit payments	6,647,977	7,805,980
Costs of experiments and demonstration projects [3]	842	707
Administrative expenses:		
Department of Health, Educations, and Welfare [4]	180,475	243,893
Treasury Department	8,844	11,142
Construction of facilities for Social Security Administration	919	172
Interfund transfers due to adjustment in allocation of—		
Administrative expenses [5]	2,776	2,827
Construction costs [5]	−172	32
Gross administrative expenses	192,842	258,066
Less receipts from sale of supplies, materials, etc.	3	18
Net administrative expenses	192,839	258,048
Total disbursements	6,841,658	8,064,735
Net addition to the trust fund	1,509,942	3,545,032
Total assets of the trust fund. end of year	$4,368,666	7,913,699

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

[2] Includes a gift amounting to $12.

[3] For explanation, see text.

[4] Includes administrative expenses of the intermediaries.

[5] A positive figure represents a transfer from the hospital insurance trust fund to the other social security trust funds. A negative figure represents a transfer to the hospital insurance trust fund from the other social security trust funds.

TABLE 3.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS HOSPITAL INSURANCE TRUST FUND, FISCAL YEAR 1974

[Dollar amounts in millions]

Item	Actual amount	Estimated amount published in 1974 report	Actual as percentage of estimate
Net contributions	$10,602	$10,581	100
Benefit payments	7,806	7,731	101

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

TABLE 4.—ASSETS OF THE HOSPITAL INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1973 AND 1974

	June 30, 1973		June 30, 1974	
	Par value	Book value [1]	Par value	Book value [1]
Investments In public-debt obligations sold only to this fund (special Issues):				
Notes:				
5¾ percent, 1979	$537,999,000	$537,999,000.00	$537,999,000	$537,999,000.00
6¼ percent, 1978	931,182,000	931,182,000.00	931,182,000	931,182,000.00
6⅝ percent, 1980	2,159,064,000	2,159,064,000.00	2,159,064,000	2,159,064,000.00
7⅛ percent, 1977	544,120,000	544,120,000.00	534,947,000	534,947,000.00
Bonds:				
7⅛ percent, 1981			405,685,000	405,685,000.00
7⅛ percent, 1982			405,685,000	405,685,000.00
7⅛ percent, 1983			405,685,000	405,685,000.00
7⅛ percent, 1984			405,685,000	405,685,000.00
7⅛ percent, 1985			405,685,000	405,685,000.00
7⅛ percent, 1986			405,685,000	405,685,000.00
7⅛ percent, 1987			405,685,000	405,685,000.00
7⅛ percent, 1988			405,684,000	405,684,000.00
7⅛ percent, 1989			405,684,000	405,684,000.00
Total public-debt obligations sold only to this fund (special issues)	4,172,365,000	4,172,365,000.00	7,814,355,000	7,814,355,000.00
Investments in federally-sponsored agency obligations: Participation certificates: Federal Assets liquidation Trust—Government National Mortgage Association: 5.20 percent, 1982	50,000,000	50,000,000.00	50,000,000	50,000,000.00
Total Investments	4,222,365,000	4,222,365,000.00	7,864,355,000	7,864,355,000.00
Undisbursed balance		146,301,420.67		49,343,611.03
Total assets		4,368,666,420.67		7,913,698,611.03

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

ADVISORY COUNCIL ON SOCIAL SECURITY

Pursuant to section 706 of the Social Security Act, an Advisory Council on Social Security was appointed by the Secretary of Health, Education, and Welfare in April 1974. The Council submitted its reports on March 6, 1975. The following recommendation of the Council would have a very significant impact on the financing of the hospital insurance program and the future integrity of the hospital insurance trust fund:

Employee-employer taxes: The OASDI tax rate should be gradually increased, as OASDI costs increase, and the increases should be met by reallocating taxes now scheduled in the law for part A (hospital insurance) of the Medicare program. Income lost to the hospital insurance program by this reallocation should be made up from the general funds of the Treasury.

Additional revenues for the social security cash benefits program will be required through increased contribution rates, an increase in the earnings base or some combination of these two elements. However, the Board is opposed to the use of additional general revenue financing for the hospital insurance program.

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING THE PERIOD JULY 1, 1974 TO SEPTEMBER 31, 1977

The expected operation of the trust fund during fiscal years 1975 and 1976, the transition period July through September of 1976, and fiscal year 1977 (on the new October through September basis) is shown in Table 5, together with the past experience of the program.

The estimates of income from hospital insurance contributions are at a considerably higher level during the period projected than during the earlier years of the program, primarily as a result of the increased hospital insurance tax rates beginning January 1, 1973. Income during successive years of the projection is increased also by the projected increases in the earnings bases, in accordance with the automatic adjustment provisions.

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

Income to the trust fund appropriated from general revenues to reimburse the program for the cost of noninsured persons for coverage paid for by the federal government is estimated to be the same as the estimates of disbursements for such persons, net of corrections for differences between costs and reimbursements for previous years. Premium income and disbursements for other noninsured persons over age 65 who are permitted to enroll in the hospital insurance program are based on an estimated enrollment of 11,000.

Reimbursement from general revenues for military wage credits is projected at $48 million in each year, based on the determination made by the Secretary of Health, Education, and Welfare in 1970 of the level annual appropriations necessary to amortize the additional costs arising from these wage credits. The estimates assume that the amount of appropriation due for such military service wage credits is paid in the appropriate period.

Estimated disbursements for benefits and administrative expenses increase sharply in fiscal years 1975 and 1976, jointly as a result of the coverage of eligible disabled beneficiaries and persons suffering from chronic kidney disease beginning in fiscal year 1974 and as a result of the high rate of increase in reimbursement levels for hospital costs recognized by the program.

The expenditures for benefit payments shown in Table 5 are slightly higher than those shown in the current Federal Budget. Benefit payments in Table 5 reflect more recent program experience and a slightly revised schedule of implementation of certain changes in regulations. The actual operation of the hospital insurance program is, in general, organized on a calendar year basis. Earnings subject to taxation and the applicable tax rates are established by calendar year, as are the inpatient deductible and other cost sharing amounts. The projected operations of the trust fund on a calendar year basis are shown in Table 6, according to the same basis as used in Table 5. Further discussion of the financing of the program is on a calendar year basis.

The ratios of the balance in the trust fund at the beginning of each calendar year to the total disbursements during that year are shown in Table 7 for past years and as projected through 1977. The ratio of the

fund to such disbursements grew gradually until it reached approximately the level of one half of a year's expenditures as of the beginning of 1971. After dropping slightly during both of the following two years, it increased to 69 percent in 1974; the ratio is expected to increase to 81 percent in 1975 and to follow a generally increasing trend over the next several years, exceeding 100 percent of expenditures during the early 1980's.

TABLE 5.—OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEARS 1967-77
[In millions of dollars]

	Income							Disbursements			Trust Fund	
Fiscal year[1]	Payroll taxes	Transfers from Railroad retirement account	Reimburse-ment for uninsured persons	Premiums from voluntary enrollees	Reimburse-ment for military wage credits	Interest on investments	Total income	Benefits payments	Adminis-trative expenses	Total disburse-ments	Net increase in fund	Fund at end of year
Historical Data:												
1967	2,689	$16	$327		$11	$46	$3,089	$2,508	$89	$2,597	$492	$1,343
1968	3,514	44	273		11	61	3,902	3,736	79	3,815	88	1,431
1969	4,423	54	749		22	96	5,344	4,654	104	4,758	586	2,017
1970	4,785	64	617		11	137	5,614	4,804	149	4,953	661	2,677
1971	4,898	66	863		11	180	6,018	5,442	150	5,592	426	3,103
1972	5,226	66	503		48	188	6,031	6,108	167	6,276	−245	2,859
1973	7,663	63	381		48	196	8,352	6,648	194	6,842	1,510	4,369
1974	10,602	99	451	$4	48	405	11,610	7,806	259	8,065	3,545	7,914
Projection:												
1975	11,258	132	471	5	48	617	12,531	10,231	287	10,518	2,013	9,927
1976	11,803	140	622	5	48	717	13,335	11,729	343	12,072	1,263	11,190
Transition	3,219	0[2]	0[3]	1	0	7	3,227	3,142	85	3,227	0	11,190
1977	13,856	194[2]	728[3]	6	48	804	15,636	14,137	374	14,511	1,125	12,315

[1]For 1967 through 1976, fiscal years cover the interval from July 1 through June 30; the 3-month interval from July 1, 1976, through Sept. 30, 1976, is labeled the "transition" quarter; fiscal year 1977 covers the interval from Oct. 1, 1976 through Sept. 30, 1977.

[2]The 1977 transfer is for contributions during the 5-quarter period covering fiscal year 1976 and the "transition" period.

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

TABLE 6.—OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING CALENDAR YEARS 1966-77
[In millions of dollars]

	Income							Disbursements			Trust Fund	
Calendar year	Payroll taxes	Transfers from Railroad retirement account	Reimbursement for uninsured persons	Premiums from voluntary enrollees	Reimbursement for military wage credits	Interest on investments	Total income	Benefits payments	Administrative expenses	Total disbursements	Net increase in fund	Fund at end of year
Historical Data:												
1966	$1,858	$16	$26		$11	$32	$1,943	$891	$108	$999	$944	$944
1967	3,152	44	301		11	51	3,559	3,353	77	3,430	129	1,073
1968	4,116	54	1,022		22	74	5,287	4,179	99	4,277	1,010	2,083
1969	4,473	64	617		11	113	5,279	4,739	118	4,857	422	2,505
1970	4,881	66	863		11	158	5,979	5,124	157	5,281	698	3,202
1971	4,921	66	503		48	193	5,732	5,751	150	5,900	−168	3,034
1972	5,731	63	381		48	180	6,403	6,318	185	6,503	−99	2,935
1973	9,944	99	451	$2	48	278	10,821	7,057	232	7,289	3,532	6,467
1974	10,844	132	471	5	48	523	12,024	9,099	272	9,372	2,652	9,119
Projection:												
1975	11,342	140	622	5	48	642	12,799	10,956	316	11,272	1,527	10,646
1976	12,435	194[1]	0[2]	6	48	723	13,406	12,689	357	13,046	360	11,006
1977	14,194	164	728[2]	6	48	773	15,913	14,670	381	15,051	862	11,868

[1]The 1976 transfer is for contributions during the 15-month period beginning July 1975 and ending September 1976.

[2]No transfer is made in 1976 because of the change in transfer dates from December to March. The 1977 transfer is for benefits and administrative expenses during the 15-month period beginning July 1976 and ending September 1977.

TABLE 7.—RATIO OF THE FUND AT THE BEGINNING OF THE YEAR TO EXPENDITURES DURING THE YEAR FOR THE HOSPITAL INSURANCE TRUST FUND

Calendar Year	Ratio
Historical Data:	
1967	28
1968	25
1969	43
1970	47
1971	54
1972	47
1973	40
1974	69
Projection:	
1975	81
1976	82
1977	73

ACTUARIAL STATUS OF THE TRUST FUND

The hospital insurance program is a mature, long-range social insurance program. In recognition of this and acting on the recommendation of the 1971 Advisory Council, the Board of Trustees has adopted the general principle that the financing of the program should be on a current cost basis, with the trust fund maintained at a level approximately equal to one year's expenditures. The current cost for a specific year is the ratio of (1) the cost of benefits and administration for insured persons for the year plus an amount required to maintain the trust fund at the level of the next year's expenditures to (2) the total payroll subject to hospital insurance taxation.

The adequacy of the contribution schedule under current law, to provide for benefits and administrative expenses for insured persons and to maintain the trust fund at the level of the next year's expenditures, is measured by comparing on a year-to-year basis the actual contribution rates specified by law with the corresponding current costs. If the trust fund is not equal to the level of the next year's disbursements at the beginning of the 25-year valuation period, an additional allowance must be made for increasing it to that level.

The current costs of the hospital insurance program over the next 25 years are summarized in Table 8, along with that part of the current cost required to actually pay disbursements in each year. For purposes of comparison, the latter are also shown for past years.

As can be seen from Table 8, the ratio of expenditures to taxable payroll has increased from 0.95 percent in 1967 to an estimated 1.50 percent in 1974, reflecting both the higher rate of increase in hospital costs than in earnings subject to hospital insurance taxes and the extension of hospital benefits to disabled beneficiaries and persons suffering from chronic kidney disease. Further increases in this ratio to 2.06 percent in 1980 and to 3.58 percent in 1995 result from the assumed continued increases in the cost of institutional health care at a higher rate than in taxable earnings (see Appendix A for a description of the methodology and assumptions used in this projection).

The additional allowance necessary to maintain the trust fund at the level of 100 percent of the next year's disbursements (provided the trust fund is already at the level of the current year's disbursements at the beginning of the year) will be at a reasonably high level in the short run as a result of increases in disbursements due primarily to the relatively high rates of increase projected for hospital costs. In the long run, this

factor is relatively less important. The current cost is estimated to be 1.83 percent for 1975, and it is projected to increase to 2.13 percent by 1980 and to 3.61 percent by 1995.

Since the level of the hospital insurance trust fund at the beginning of calendar year 1975 is 81 percent of the projected disbursements during 1975, provision must be made for increasing the trust fund to the desired level. The average allowance required for this purpose over the 25-year projection period is added to the average of the current costs over this period to obtain the average cost of 2.86 percent of taxable payroll. Table 9 compares the average cost with the average combined contribution rate under current law for the same 25-year period. The actuarial balance of −0.16 percent of taxable payroll is cl.6 percent of the average cost.

TABLE 8.—EXPENDITURES AND CURRENT COSTS OF THE HOSPITAL INSURANCE PROGRAM, EXPRESSED AS A PERCENT OF TAXABLE PAYROLL [1]

Calendar year	Expenditures [2]	Current cost [3]
Historical Data:		
1967	0.95	
1968	1.03	
1969	1.09	
1970	1.17	
1971	1.30	
1972	1.26	
1973	1.37	
1974	1.50	
Projection:		
1975	1.73	1.83
1976	1.82	1.91
1977	1.85	1.94
1978	1.90	1.99
1979	1.97	2.05
1980	2.06	2.13
1985	2.60	2.64
1990	3.10	3.13
1995	3.58	3.61
Average cost [4]		2.86

[1] Taxable payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple employer "excess wages."

[2] Benefit payments and administrative expenses for insured beneficiaries.

[3] Includes provision for maintenance of fund equal to next year's expenditures.

[4] The average cost is the average of the "current costs" tor the 25-year period 1975-99, adjusted to build the trust fund to 100 percent of the following year's expenditures.

TABLE 9.— ACTUARIAL BALANCE OF THE HOSPITAL INSURANCE PROGRAM, EXPRESSED AS A PERCENT OF TAXABLE PAYROLL[1]

	Percent
Average contribution rate in present schedule	2.70
Average current cost	2.86
Actuarial balance	−0.16

[1] For the 25-year period 1975-99.

CONCLUSION

The present financing schedule for the hospital insurance program is adequate over most of the 25-year valuation period to provide the expenditures anticipated, provided that the assumptions underlying the estimates prove to be realistic. The trust fund balance at the beginning of calendar year 1975 is 81 percent of the projected expenditures for that year, below the level of one year's expenditures recommended by the 1971 Advisory Council. The ratio of fund to expenditures is expected to increase, with the trust fund balance projected to reach 100 percent of the following year's expenditures by the early 1980's. Balances greater than the 100 percent level are projected throughout the 1980's, reflecting

contribution rates during these years that are slightly in excess of those required to meet the financing objective.

The negative actuarial balance shown in Table 9 (−0.16 percent of taxable payroll) reflects the fact that the contribution rates in present law are not adequate to provide for program expenditures anticipated and to maintain the trust fund at the level of 100 percent of the following year's expenditures through the end of the 25-year valuation period. The relatively large amounts accumulated in the trust fund in the 1980's are drawn down in the last few years of the valuation period, and the fund is exhausted at the end of the period.

APPENDIXES

APPENDIX A.—ACTUARIAL METHODOLOGY AND PRINCIPAL ASSUMPTIONS FOR COST ESTIMATES[1]

The basic methodology and assumptions used in the estimates for the hospital insurance program are described in this appendix.

1. *Methodology*

The adequacy of the financing for the hospital insurance program for the next 25 years is expressed as an actuarial balance. The actuarial balance is calculated as the difference between the average of the contribution rates specified in current law and the average of the current costs for the 2.5 year period, adjusted to build the trust fund to the level of a year's expenditures. The current cost for any year is the ratio of (1) the cost of benefits and administration for insured persons plus an amount required to maintain the trust fund at the level of the next year's expenditures to (2) the effective taxable payroll. In projecting the taxable payroll, it is assumed that the taxable wage base is adjusted periodically to keep pace with rising earnings.

2. *Principal problems in projecting the cost of the hospital insurance program*

The principal problems involved in projecting the future costs of the hospital insurance program are (1) establishing the present cost of the services provided by type of service, to serve as a base for projecting the future and (2) estimating increases in the cost of hospital services, which account for approximately 95 percent of the cost of the program.

(a) Problems involved in establishing the present cost of services incurred as a base for projecting future costs.

In order to establish a suitable base from which to project the future costs of the hospital insurance program, it is necessary to eliminate the effect of any transitory factors. The initial step is to reconstruct the incurred cost of services provided for the most recent year for which reliable estimates can be made. To do this, the nonrecurring effects of any changes in regulations or administration of the program and of any irregularities in the system of payments to providers must be eliminated. As the result of the elimination of such transitory factors, the rates of increase in the cost of the hospital insurance program differ from the increases in cash disbursements shown in Tables 5 and 6. This analysis concentrates on the long run cost of the hospital insurance program in relation to the designated sources of income.

The hospital insurance program is obligated by law to reimburse institutions for the actual reasonable cost of providing covered services to beneficiaries. Payment is initially made on an "interim" or temporary basis, with the remainder of reasonable costs paid in a series of subsequent cost settlements with the institution.

On the average, interim payments have been set at rates lower than actual costs, as recovery of any overpayment is thought to pose a serious problem. Further, there is a delay between the date on which services are performed and the date on which interim payments based on bills are made. Such delay is due to the time required (1) for the institutions to bill intermediaries; (2) for the intermediaries to query the Social

[1]Prepared by the Office of the Actuary, Social Security Administration.

Security Administration to determine the benefit period status of the patient, determine that the services are covered, and draw checks for approved services; and (3) for the institutions to present these checks for payment. An alternative method of interim reimbursement, "periodic interim payments," makes fixed payments to the hospitals at regular intervals throughout the year. These payments are based on projections of estimated reasonable costs from past experience and may vary somewhat from the actual bills submitted from month to month.

In order to adjust interim payments to the actual cost of providing covered services to beneficiaries, as determined by cost reports, a series of settlements is made with each institution. Total cost settlements have averaged around 5.5 percent of the corresponding interim payments during the early years of the program; however, the incomplete data available do not permit an accurate estimate of the exact amount. Due to the time required to obtain cost reports from institutions and to verify and, where appropriate, audit these reports, final settlements have lagged behind the liability for such payments by as much as several year for some institutions. The final cost of the program has not been completely determined for the most recent years of the program, and some degree of uncertainty exists even for the early years.

Additional problems are posed by changes in administrative or reimbursement policy which have a substantial effect on either the amount or incidence of payment. The extent and timing of the incorporation of such changes into interim payment rates cannot be determined precisely.

Allocating the various payments to the proper incurred period, using incomplete data and estimates of the impact of administrative actions, presents difficult problems, the solution of which can be only approximate. Under the circumstances, the best that can be expected is that the actual incurred cost of the program for a recent. period can be estimated within a few percent. This increases the error of projection directly, by incorporating any error in estimating the base year into the future years

Hospital insurance program data from 1973 indicates that aged patients used and average of 3.89 days per capita of hospital services. The average reimbursement for a day of hospital care for the aged, as adjusted for anticipated final settlements with providers, was $83.70 per day. They paid 6.3 percent of their hospital costs in the form of the inpatient deductible and coinsurance. The average reimbursement per cay in skilled nursing facilities for services covered by the hospital insurance program was $25.60. The unit reimbursement for home health services was approximately $16.20 in 1973

(b) Problems involved in estimating the increase in hospital costs.

In order to evaluate the adequacy of a tax schedule to support the hospital insurance program, it is necessary to relate the increases in the cost of institutional care for beneficiaries to the increases in taxable earnings which support these costs. Three principal factors should be considered: (1) aggregate increases in expenditures by institutions for producing services of the types covered by the hospital insurance program, (2) changes in the share of these expenditures that are for beneficiaries and hence will be paid by the HI program (as affected by administrative policy), and (3) resultant hospital insurance program expenditure increases. These factors, in addition to a factor indicating

the differential between program costs and taxable earnings, are shown in Table A1.

TABLE A1.—COMPONENTS OF HISTORICAL AND PROJECTED INCREASES IN HI HOSPITAL COSTS INCURRED, COMPARED TO THE INCREASE IN HI TAXABLE EARNINGS[1]

[Percent]

Calendar year	Aggregate inpatient hospital costs[2]	HI Share of Aggregate inpatient hospital costs[3]	Total HI hospital costs	HI taxable earnings	Cost-earnings differential
Historical Data:					
1956-65	10.4				
1966	11.7				
1967	18.6				
1968	16.5	7.0	24.6		
1969	18.4	−2.7	15.2		
1970	16.8	−4.1	12.0		
1971	13.7	.4	14.1		
1972	13.5	−3.5	9.5		
1973	10.1	4.2	14.7		
Projection					
1974	15.0	8.9	25.2	14.3	9.5
1975	16.2	5.1	22.1	3.5	18.0
1976	15.3	.3	15.6	10.9	4.2
1977	15.2	.7	16.0	14.0	1.8
1978	14.1	1.0	15.2	12.2	2.7
1979	13.3	.8	14.2	10.5	3.3
1980	13.0	.7	13.8	9.5	3.9
1985	10.5	.7	11.3	7.1	3.9
1990	10.0	.5	10.6	6.8	3.6
1995	9.4	.3	9.7	6.7	2.8

[1]Increase in year indicated over previous year.
[2]See table A2.
[3]See table A5.

Aggregate inpatient hospital costs have exhibited a very rapid rate (typically, 13 percent to 18 percent per year) and irregular pattern of increases. The share of hospital costs allocated to beneficiaries has also fluctuated somewhat in recent years, but it is projected to stabilize for future years under the assumption that present law and present administrative policy are retained. The changes in share for other institutional services have been substantial, as well as changes in aggregate expenditures, but these influence only 5 percent of the overall costs of the program. The primary assumption that determines the level of costs is thus the differential between the rates of increase in the hospital in insurance program's share of aggregate hospital costs and in taxable earnings.

3. *Principal assumptions used in projecting the future costs of the hospital insurance system*

(*a*) Trends in covered hospital costs:

(1) Analysis of data concerning past trends

The increase in the aggregate cost of covered hospital services paid by the hospital insurance program may be analyzed into the following components

a. Increases in aggregate inpatient hospital costs, consisting of increases due to:

1. Factor prices: the increase in unit costs that would result if every function were performed in precisely the same way by the same people and only the salaries of the people employed or the cost of the equipment and other supplies used changed.

2. Services provided and their method of provision, consisting of:

Changes in the number and composition by relative expense of services furnished (including the increase in services required to keep pace with population growth).

Changes in the method of providing the same services (including improvements to a given service, normally increasing the unit cost, and the effects of more efficient techniques or labor-saving equipment, normally decreasing the unit cost).

Incorporation of new services not previously provided (normally new, technically advanced services).

b. Increases in the hospital insurance program's share of aggregate inpatient hospital costs, consisting of increases due to:

1. Proportion of the population covered: the increase in the proportion of the general population which receives reimbursement for its hospital care under the hospital insurance program.

2. Relative amount of care paid by the hospital insurance program, consisting of:

Changes in the proportion of hospital services used by beneficiaries (including the number of services and their relative value), independent of any population change.

Changes in administrative or reimbursement policy which have an effect on the amount or incidence of payment.

It has been possible to isolate some of these elements and identify their role in previous hospital cost increases. Table A2 shows the values of the principal components of the increases for periods for which data is available, together with the projections used in the estimates

Hospital factor prices can be divided into those for personnel and those for non-personnel expenditures. Table A3 shows the approximate increases that have occurred in these components and in overall factor costs. Slightly more than half of hospital costs are for personnel. For several years preceding the beginning of the hospital insurance program, average hospital wages and salaries (as reported by the American Hospital Association) increase at a rate of about one percent per year more than the rate of increase in earnings in OASDI covered employment. Since the beginning of the hospital insurance program this differential has ranged between 3 percent and 5 percent per year, with the exception of 1972 and 1973 during which hospital costs were subject to the Economic Stabilization Program. Increases in the prices of goods and services hospitals purchase are treated as the equivalent of increases in the Consumer Price Index, as no index of hospital non-personnel factor prices is available.

TABLE A2.—COMPONENTS OF HISTORICAL AND PROJECTED LONG-RANGE INCREASE IN AGGREGATE INPATIENT HOSPITAL COSTS INCURRED[1]

[Percent]

Calendar year	Factor prices[2]	Services provided and method of provision[3]	Aggregate inpatient hospital costs
Historical Data:			
1956-65	3.6	6.8	10.4
1966	1.5	10.2	11.7
1967	6.9	11.7	18.6
1968	7.8	8.7	16.5
1969	8.0	10.4	18.4
1970	8.6	8.2	16.8
1971	8.0	5.7	13.7
1972	6.1	7.4	13.5
1973	5.4	4.7	10.1
Projection			
1974	10.0	5.0	15.0
1975	10.4	5.8	16.2
1976	9.5	5.8	15.3
1977	9.4	5.8	15.2
1978	8.2	5.9	14.1
1979	7.1	6.2	13.3
1980	6.5	6.5	13.0
1985	5.3	5.2	10.5
1990	5.0	5.0	10.0
1995	5.0	4.4	9.4

[1]Increase in year indicated over previous year.
[2]See table A3.
[3]See table A4.

TABLE A3.—HISTORICAL AND PROJECTED LONG RANGE PRICE INCREASES FOR FACTORS USED BY HOSPITALS[1]

[Percent]

Calendar year	Average earnings in covered employment	Average payroll per hospital employee[2]	CPI	Factor prices
Historical Data:				
1956-65	3.7	4.7	1.7	3.6
1966	5.5	.6	2.9	1.5
1967	5.7	9.3	2.9	6.9
1968	6.4	9.9	4.2	7.8
1969	6.5	9.4	5.4	8.0
1970	5.3	10.1	5.9	8.6
1971	5.4	10.3	4.3	8.0
1972	6.9	8.1	3.3	6.1
1973	6.3	4.5	6.2	5.4
Projection				
1974	6.5	8.5	11.0	10.0
1975	6.2	11.0	9.0	10.4
1976	9.0	11.5	6.6	9.5
1977	11.0	11.5	6.5	9.4
1978	8.8	10.0	5.7	8.2
1979	7.7	9.0	4.6	7.1
1980	7.0	8.5	4.0	6.5
1985	6.0	6.5	4.0	5.3
1990	6.0	6.0	4.0	5.0
1995	6.0	6.0	4.0	5.0

[1]Increase in year indicated over previous year.
[2]Based on data from the American Hospital Association through 1973.

Increases in hospital costs due to changes in services and how they are provided (exclusive of the effect of any change in factor costs) are analyzed on an aggregate basis. Due to lack of data, the increases are separated into a part due to population growth and a part due to all other causes, the latter being treated as a residual. Before 1966, this residual averaged slightly over 5 percent per year. After a surge in the early years of the hospital insurance program, it has declined to an average level similar to the pre-program level.

TABLE A4.—CHANGES IN SERVICES PROVIDED AND THEIR METHOD OF PROVISION, FOR INPATIENT HOSPITALS[1]

[Percent]

Calendar year	Total population	Nonpopulation sources[2]	Services provided and method of provision
Historical Data:			
1956-65	1.6	5.1	6.8
1966	1.1	9.0	10.2
1967	1.1	10.5	11.7
1968	1.0	7.6	8.7
1969	1.0	9.3	10.4
1970	1.1	7.0	8.2
1971	1.0	4.7	5.7
1972	.9	6.4	7.4
1973	.7	4.0	4.7
Projection			
1974	.7	4.3	5.0
1975	.8	5.0	5.8
1976	.8	5.0	5.8
1977	.8	5.0	5.8
1978	.9	5.0	5.9
1979	.9	5.3	6.2
1980	.9	5.6	6.5
1985	.9	4.3	5.2
1990	.8	4.2	5.0
1995	.6	3.8	4.4

[1] Increase in year indicated over previous year.
[2] A residual, by nature: the increase in hospital costs not explained by factor cost increases or the number of hospital employees.

Changes in the program's share of aggregate hospital costs result from changes in the proportion of the population covered (including changes due to legislation), changes in the relative number and value of services received by beneficiaries, and the effect of administrative actions defining the services eligible for reimbursement and the corresponding level of payment. Historical and projected changes in program share appear in Table A5, with changes in the proportion of the population covered netted from the other sources.

TABLE A5.—HISTORICAL AND PROJECTED LONG-RANGE INCREASES IN SHARE OF INCURRED HOSPITAL COSTS PAID BY HI[1]

[Percent]

Calendar year	Proportion of population covered	Relative amount of care paid by HI	HI share of aggregate inpatient hospital costs
Historical Data:			
1968	0.5	6.5	7.0
1969	.5	−3.2	−2.7
1970	.5	−4.6	−4.1
1971	.6	−.2	.4
1972	.6	−4.1	−3.5
1973	[2] 5.3	−1.0	4.2
Projection			
1974	[2] 5.6	3.1	8.9
1975	1.7	3.3	5.1
1976	1.3	−1.0	.3
1977	1.2	−.5	.7
1978	1.0	0	1.0
1979	.8	0	.8
1980	.7	0	.7
1985	.7	0	.7
1990	.5	0	.5
1995	.3	0	.3

[1] Increase in year indicated over previous year.
[2] Reflects the extension of HI coverage to new classes of beneficiaries under the 1972 amendments.

Regulations promulgated under the Economic Stabilization program restricted several of these components of the increase in hospital costs. The Social Security Administration adopted the policy of withholding reimbursements which reflected increases in costs of more than 9 percent per year (adjusted for volume) for accounting periods beginning after the announcement of controls in August 1971, unless the hospital obtained certification of compliance from the Internal Revenue Service. This reimbursement policy establishing presumptive compliance levels had a substantial impact on aggregate reimbursable hospital cost increases; during 1972 and 1973, program cost increases (excluding the effects of new beneficiary groups) were at a lower rate than in previous years and than the rate for aggregate inpatient hospital costs.

(2) Projection of future increases in hospital costs

The average earnings of hospital employees have been increasing more rapidly than the average earnings of other workers over the past decade.

Historically, hospital employees earned less than similarly skilled workers in other industries. With the growth in third party reimbursement of hospitals, hospital workers began to receive higher increases in earnings than other workers. The differential has been particularly pronounced since the beginning of the hospital insurance and medicaid programs, which brought the level of third party payments up to the point that most of the financing for hospital care in the U.S. is provided through such payments. As a result, resistance to expensive increases in the quality of services and wage demands of personnel has been lessened. Under these conditions, average wages of hospital workers have been increasing from 9 percent to 10.5 percent per year since 1966 (with the exception of 1972 and 1973, which were subject to Economic Stabilization Program controls). Part of this increase in average wages has been due to a change in composition of the hospital work force so as to include relatively more higher paid personnel.

The cost estimates assume that the average increase in payroll per hospital employee will average slightly over 11 percent per year during 1975-76, somewhat higher than the rates for all workers. Eventually this difference should disappear entirely, when hospital workers' wages are comparable to those for similarly skilled personnel in other industries and the proportion of highly trained personnel grows relatively large. This has been assumed to occur by the mid-1980's as a result of public pressure on hospitals to reduce the rate of increase in their costs.

Changes in the CPI, used to measure the rate of increase in prices paid by hospitals for factors other than personnel, rose from a rate of nearly 3% per year in 1966 to a level of lightly more than 6 percent in 1973 and to a level of 11 percent in 1974. The increases beyond 1974 are projected by the rate of increase in the CPI assumed in projecting the experience of the OASDI program.

No data is available beyond 1973 pertaining to increases in costs due to changes in services and how provided. The overall rate of increase in hospital costs appears to have increased substantially from 10 percent in 1973 to 15 percent in 1974. This higher rate of increase is attributable primarily to increases in factor prices.

(b) Assumptions as to increase in the cost per capita of skilled nursing facility benefits:

The number of days of care per capita in skilled nursing facilities covered by the program dropped very sharply in 1970 and continued to decline through 1972. This is the result of strict enforcement of regulations separating skilled nursing from custodial care. The 1972 amendments extended benefits to persons who require skilled rehabilitative services regardless of their need for skilled nursing services (the former prerequisite for benefits). This change has resulted in a significant increase in services rendered in 1973 (the first effective year of the provision), with more gradual increases anticipated thereafter.

Increases in the average cost per day in skilled nursing facilities under the program are caused principally by increasing payroll costs for nurses and other skilled labor required. The average cost per day of skilled nursing facility services covered by the program remained virtually unchanged in 1973 over 1972, presumably reflecting both the impact of the 1972 amendments and the effect of the Economic Stabilization Program. The rates of increase are assumed to be comparable to the increases in general wages throughout the projection. The resulting increases in the cost per capita of skilled facility services are shown in Table A6.

(c) Assumptions as to increases in the cost per capita of home health service benefits:

A modest increase in visits per capita is projected for the next several years. It is anticipated that cost per service will increase at a rate comparable to the rate of increase in general wages. The assumptions used in the cost estimates are shown in Table A6.

TABLE A6.—PROJECTED INCREASES IN HI COST PER CAPITA FOR SKILLED NURSING FACILITIES AND HOME HEALTH AGENCIES[1]

[Percent]

Calendar year	Skilled nursing facilities	Home health agencies
1975	10.5	11.8
1976	10.3	10.3
1977	11.6	11.6
1978	9.8	9.8
1979	8.7	8.7
1980	8.0	8.0
1985	6.0	6.0
1990	6.0	6.0
1995	6.0	6.0

[1] Increase in year indicated over previous year.

(d) Cost estimates by type of beneficiary:

The 1972 amendments increased the scope of the program by providing protection for certain disabled beneficiaries and persons with chronic kidney disease beginning in fiscal year 1974. Estimates of the short range expenditures by type of beneficiary are summarized in Table A7, and the long range estimates as a percent of payroll are shown in Table AS.

(e) Administrative expenses:

The short range projections of administrative expenses are based on estimates of workloads and approved budgets for carriers and the Social Security Administration. The long range administrative expenses per capita are assumed to increase at 5 percent each year, 1 percer.t less

than the increase in average earnings. Historical data showing the relationship between administrative expenses and benefits is shown in Table A9 together with projections through 1977.

(f) Interest rate:

It has been assumed that trust fund investments will earn an average of 7 percent interest per annum. The actual rate earned on the hospital insurance trust fund during fiscal 1974 was 6.7 percent.

TABLE A7.—PROJECTION OF HOSPITAL INSURANCE BENEFIT OUTLAYS, BY TYPE OF BENEFICIARY, CALENDAR YEARS 1975-1977

[In millions]

Calendar year	Aged beneficiaries	Disabled beneficiaries	Chronic kidney disease beneficiaries
1975	$9,960	$946	$50
1976	11,431	1,200	58
1977	13,130	1,471	69

TABLE A8.—PROJECTION OF EXPENDITURES [1] OF THE HOSPITAL INSURANCE PROGRAM, BY TYPE OF BENEFICIARY, AS A PERCENT OF TAXABLE PAYROLL

[In percent]

Calendar year	Aged insured beneficiaries [2]	Disabled beneficiaries	Chronic kidney disease beneficiaries
1975	1.56	0.16	0.01
1976	1.63	.18	.01
1977	1.65	.19	.01
1978	1.69	.20	.01
1979	1.74	.22	.01
1980	1.82	.23	.01
1985	2.27	.31	.02
1990	2.69	.38	.03
1995	3.08	.46	.04

[1] Benefits and administrative expenses.

[2] Excludes expenditures for uninsured beneficiaries which are reimbursed from general revenues.

TABLE A9.—RATIO OF ADMINISTRATIVE EXPENSES TO BENEFIT PAYMENTS

[Percent]

Calendar year	Ratio
Historical Data:	
1967	2.3
1968	2.4
1969	2.5
1970	3.1
1971	2.6
1972	2.9
1974	3.3
1973	3.0
Projection	
1975	2.9
1976	2.8
1977	2.6

(g) Population:

The population projections used in this report are based on unpublished revisions to those in Actuarial Study Number 72, Social Security Administration.

4. *Sensitivity Testing of Long Term Cost Estimates.*

During the four-year period preceding the Economic Stabilization Program, hospital reimbursement per capita under the Hospital Insurance program increased at an average annual rate of approximately 14½ -percent; during the following two years of cost controls, the average annual rate of increase was reduced to a level of approximately 8½ percent; preliminary data for 1974, decontrolled during the last 8 months, indicates a rate of increase of approximately 16½ percent. The wide differences in cost increase experience among these three periods raise significant questions concerning the implications for the future. On one side of the spectrum is the thesis that the 8½ percent increases during 1972 and 1973 represented a temporary and artificial condition, created solely by the application of cost controls to medicare reimbursement: as evidenced by the 16½ percent increase rate following the lifting of controls, reimbursable cost increases would be expected to return to a considerably higher level. On the other side of the spectrum is the argument that cost controls had only a moderate effect on medicare reimbursement and that the 8½ percent increases represent a stabilization of cost increases in the hospital sector relative to the general economy: Removal of direct controls would not be expected to have a major impact per se on anticipated rates of increase, the high rate of increase for 1974 simply reflecting inflationary surges in the general economy. The assumptions underlying the projection in this report take an intermediate position: a combination of the removal of controls and inflationary pressures in the general economy have resulted and will continue to result in cost increases in excess of the pre-control level in the immediate future but that ultimately more modest increases will be experienced.

Table Al0 compares the cost of the program as projected in this report with two alternative projections, based on different assumptions as to the rate of increase in hospital costs. The first alternative shows the current cost ratios that would occur if the rates of hospital cost increase in the short range were to revert to a level consistent with the corresponding rates experienced under Medicare prior to cost controls, somewhat higher in the immediate future to reflect anticipated inflationary pressures in the general economy, and in the long range were to decrease to the level of 10½ percent per year. The second alternative shows corresponding figures that would occur if the rates of increase in the short range were to remain at a level relative to the general economy which is consistent with experience under medicare during the period of cost controls and in the long range were to decrease to the level of 6½ percent per year.

TABLE A10.—SUMMARY OF ALTERNATIVE PROJECTIONS OF THE COST OF THE HI PROGRAM
[Percent]

Year	This report	Alternative 1	Alternative 2
Assumed percent increase in hospital costs per capita			
1975	18.2	19.2	17.2
1976	14.6	16.6	12.6
1977	13.8	15.8	11.8
1978	13.0	15.0	11.0
1979	12.5	14.5	10.5
1980	12.0	14.0	10.0
1985	9.5	11.5	7.5
1990	9.0	11.0	7.0
1995	8.5	10.5	6.5
Current percent cost ratios and resulting actuarial balance			
1975	1.83	1.87	1.79
1976	1.91	1.99	1.84
1977	1.94	2.05	1.84
1978	1.99	2.14	1.84
1979	2.05	2.25	1.87
1980	2.13	2.37	1.91
1985	2.64	3.21	2.17
1990	3.13	4.15	2.35
1995	3.61	5.24	2.49
Average tax	2.70	2.70	2.70
Average cost	2.86	3.74	2.22
Actuarial balance	−.16	−1.04	+.48

APPENDIX B.—SUMMARY OF PRINCIPAL PROVISIONS

Public Law 89-97, enacted 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, is as follows:

I. COVERAGE PROVISIONS (FOR CONTRIBUTION PURPOSES)

A. All workers covered by the old-age, survivors, and disability insurance system.

B. All railroad workers (the railroad retirement system collects contributions and transfers them to the hospital insurance trust fund through the financial interchange provisions).

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) are eligible.

B. Noninsured persons transitionally eligible without charge-all other individuals aged 65 or over before 1968 who are citizens or aliens lawfully admitted for permanent residence with at least 5 consecutive years of residence and who are not retired Federal employees (or dependents of such individuals) covered under the Federal Employees Health Benefits Act of 1959 (including certain individuals who could have been covered if they had so elected) are eligible. Those individuals in this category attaining age 65 after 1967 must have certain amounts of OASDI (or railroad retirement) coverage to be eligible for HI benefits: 3 quarters of coverage are required for each year after 1966 and before age 6., so that the provision becomes ineffective for individuals attaining age 6.5 in 1975 and later, since then the "regular" OASDI insured status conditions are as easy to meet.

C. Other noninsured persons aged 65 or over-beginning July 1973, other persons over age 65 who meet the residence and citizenship requirements for transitional eligibility can elect to enroll in HI under the same conditions applicable to SMI. Continued coverage depends on payment of the standard monthly premium rate and on continued enrollment in the SMI program.

D. Disabled beneficiaries-beginning July 1973, persons under age 65 who have been entitled to disability insurance benefits for 24 months or longer are eligible, and benefits for such individuals continue for three months after the month of recovery.

E. Persons under age 65 with chronic kidney disease, requiring dialysis or renal transplant-such individuals (if fully or currently insured, or spouse of dependent child of such insured person, or a monthly beneficiary) are covered under HI, beginning with the 3rd month after month in which course of treatment began and ending with 12th month after month of transplant (or after dialysis terminated).

III. BENEFITS PROVIDED

A. Hospital benefits—the full cost of all hospital services (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 semiprivate accommodations for up to 90 days in a "spell of illness" (a period beginning with the first day of hospitalization and ending after the person has been out of a hospital or skilled nursing facility for 60 consecutive days) is provided, after payment of the inpatient deductible ($92 in 1975), the cost of the first 3 pints of blood, and copayments of ¼th of the inpatient deductible ($23 in 1975) per day for the 61st through the 90th day. A lifetime reserve of 60 days with copayments of ½ of the inpatient deductible ($46 in 1975 is available for each eligible individual in addition to the days of coverage otherwise available (90 days per spell of illness). There is a lifetime maximum of 190 days for psychiatric hospital care. The inpatient deductible is automatically adjusted each year to reflect changes in hospital costs (see Appendix C for the inpatient deductible promulgation for 1975).

B. Skilled nursing facility benefits—following at least 3 days of hospitalization and beginning within 14 days of leaving a hospital (under certain conditions, an additional 14-day extension may be granted), such care, which is needed on a daily basis and which can only be provided by such a facility on an inpatient basis, is provided for a period of up to 100 days in a spell of illness with copayments of one-eighth of the inpatient deductible ($11.50 in 1975) per day for all days after the 20th.

C. Home health agency benefits—following at least 3 days of hospitalization and beginning within 14 days of leaving a hospital or skilled nursing facility, such care is provided for an amount of up to 100 visits in the next 365 days and before the beginning of the next spell of illness; these services are essentially for homebound persons and include visiting nurse services, various types of therapy treatment, and outpatient hospital services when equipment cannot be brought to the home.

D. Services not covered—services obtained outside the United States (except for emergency services for an illness occurring in the United States or in transit in Canada between Alaska and another state, and except for illness of a U.S. resident treated in a hospital which is nearer his residence than any in the U.S.), elective "luxury" services (such as private room or television), custodial care, hospitalization for services not necessary for the treatment of an 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 are not covered.

IV. ADMINISTRATION.

The program is administered by the Social Security Administration with the Department of Health, Education, and Welfare, through fiscal intermediaries (such as Blue Cross, other health insurance organizations, and state agencies). Each provider of services can nominate a fiscal intermediary or can deal directly with the Social Security Administration. The providers of services are reimbursed on a "reasonable cost" basis, and the fiscal intermediaries are reimbursed for their reasonable costs of administration. Establishment of utilization review committees is required for hospitals and skilled nursing facilities,

and the latter must develop transfer agreements with hospitals. Special reimbursement provisions apply to Health Maintenance Organizations which elect and are offered at-risk contracts which may reward them financially for more favorable operating experience.

V. FINANCING.

A. Insured persons—benefits arc financed on a long range self-supporting basis (the same as for OASDI) through a separate schedule of increasing tax rates on covered workers, with the same maximum taxable earnings base as scheduled for OASDI; the same rate applies to employees, employers, and self-employed (unlike OASDI).

B. Noninsured persons transitionally eligible—benefits are financed through transfers from general revenues to the HI trust fund.

C. Other noninsured persons who enroll—benefits are financed through a standard monthly premium rate which is approximately self-supporting. The rate is $40 in fiscal year 1976 and will be increased thereafter at the rate of increase in the inpatient deductible (see Appendix D for the premium promulgation for fiscal year 1976).

D. Non-contributory wage credits granted to persons who served in the armed forces—benefits related to these credits arc financed through transfers from general revenues to the HI trust fund. The Secretary of Health, Education, and Welfare must determine the level annual appropriations to the trust fund necessary to amortize the estimated total additional costs arising from these payments.

APPENDIX C.—DETERMINATION AND ANNOUNCEMENT OF THE "1975 INPATIENT HOSPITAL DEDUCTIBLE"[2]

Pursuant to authority contained in section 1813(b)(2) of the Social Security Act (42 U.S.C. 1395e(b)(2)), as amended, I hereby determine and announce that the dollar amount which shall be applicable for the inpatient hospital deductible, for purposes of section 1813(a) of the Act, as amended, shall be $92 in the case of any spell of illness beginning during 1975.

There follows a statement of the actuarial bases employed in arriving at the amount of the inpatient hospital deductible for the calendar year 1975. Certain other cost-provisions under the Hospital Insurance program are also affected by changes in the amount of the inpatient hospital deductible.

The law provides that, for calendar years after 1968, the inpatient hospital deductible shall be equal to $40 multiplied by the ratio of (1) the current average per diem rate for inpatient hospital services for the calendar year preceding the year in which the promulgation is made (in this case, 1973) to (2) the current average per diem rate for such services for 1966. The law further provides that, if the amount so determined is not an even multiple of $4, it shall be rounded to the nearest multiple of $4. Further, it is provided that the current average per diem rates referred to shall be determined by the Secretary of Health, Education, and Welfare from the best available information as to the amounts paid under the program for inpatient hospital services furnished during the year by hospitals who are qualified to participate in the program, and for whom there is an agreement to do so, for individuals who are entitled to benefits as a result of insured status under the Old-Age, Survivors, and Disability Insurance program or the Railroad Retirement program.

The data available to make the necessary computations of the current average per diem rates for calendar years 1966 and 1973 are derived from individual inpatient hospital bills that are recorded on a 100 percent basis in the records of the program. These records show, for each bill, the total inpatient days of care, the interim reimbursement amount, and the total cost (the sum of interim reimbursement, deductible and coinsurance).

Each individual bill is assigned both an initial month and a terminal month, as determined from the first day covered by the bill and the last day so covered. Insofar as the initial month and the terminal month fall in the same calendar year, no problems of classification occur.

Two tabulations are prepared, one summarizing the bills with each assigned to the year in which the period it covers begins, and the other summarizing the same bills with each assigned to the year in which the period it covers ends. The true value with respect to the costs for a given year on an accurate accrual basis should fall between the amount of total costs shown for bills beginning in that year and the amount shown for bills ending in that year.

The current average per diem rate for inpatient hospital services for calendar year 1966, on the basis described, is $37.92, while the corresponding figure for calendar year 1973 is $85.77. It may be noted

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[2] This statement was published in the *Federal Register* for Oct. 3, 1974 (Vol. 39, No. 193, pp. 35699–35700).

that these averages are based on about 30 million days of hospitalization in 1966 and 66 million days of hospitalization in 1973. Accordingly the ratio of the 1973 rate to the 1966 rate is 2.262.

In order to accurately reflect the change in the average per diem hospital cost under the program, the average interim cost (as shown in the tabulations) must be adjusted for (i) the effect of final cost settlements made with each provider of services after the end of its fiscal year to adjust the reimbursement to that provider from the amount paid during that year on an interim basis to the actual cost of providing covered services to beneficiaries, and (ii) for changes in the benefit structure since the base year, 1966. To the extent that the ratio of final cot to interim cost is different in the current year than it was in 1966, the increase in average interim per diem costs will not coincide with the increase in actual cost that has occurred. The inclusion of the lifetime reserve days in the current tabulation of the average interim per diem cost when such days were not included in the corresponding tabulation for the base year, 1966, will understate the estimate of the increase in cost that has occurred, because the average cost per day of very long confinements in a hospital is less than the average for all confinements. In order to estimate the increase in average per diem cost that has occurred, a comparison must be based on similar benefits in the two periods (1973 and 1966); thus the effect of lifetime reserve days must be eliminated from the current year tabulation.

The best data available indicates that these adjustments do not change the ratio shown above by enough to result in a different deductible for 1975. The values shown in this report do not reflect these adjustments for final cost settlements or lifetime reserve days. When the ratio of 2.262 is multiplied by $40, it produces an amount of $90.48, which must be rounded to $92. Accordingly, the inpatient hospital deductible for spells of illness beginning during calendar year 1975 is $92.

Dated: September 30, 1974.

CASPAR W. WEINBERGER,
Secretary.

APPENDIX D.—DETERMINATION AND ANNOUNCEMENT OF THE HOSPITAL INSURANCE "PREMIUM RATE FOR THE UNINSURED AGED" FOR FISCAL YEAR 1976 [3]

Pursuant to authority contained in section 1818(d) (2) of the Social Security Act (42 U.S.C. 1395i-2(d)(2)), I hereby determine and promulgate that the hospital insurance premium, applicable for the 12-month period commencing July 1, 1975, is $40.

Section 1818 of the Social Security Act, added by section 202 of the Social Security Amendments of 1972 (Public Law 92-603), provides for voluntary enrollment in the hospital insurance program (Part A of Medicare) by certain uninsured persons 65 and older who are otherwise ineligible. Section 1818(d) (2) of the Act requires the Secretary to determine and promulgate, during the final quarter of 1974, the dollar amount which will be the monthly Part A premium for voluntary enrollment, for months occurring in the 12-month period beginning July 1, 1975. As required by statute, this amount must be $33 times the ratio of (1) the 1975 inpatient hospital deductible to (2) the 1973 inpatient hospital deductible, rounded to the nearest multiple of $1, or if midway between multiples of $1, to the next higher multiple of $1.

Under section 1813(b)(2) of the Act, the 1975 inpatient hospital deductible was determined to be $92. The 1973 deductible was actuarially determined to be $76, but to comply with a ruling by the Cost of Living Council, it was promulgated at $72. Thus, the change in the 1973 inpatient hospital deductible required by the Cost of Living Council ruling has caused an ambiguity in the use of the formula for calculating the hospital insurance premium. Using the $72 figure in the calculation of the hospital insurance premium would result in the following computation: $33×(92/72) =$42.17 which must be rounded to $42. If, however, the actuarially determined amount of the 1973 deductible, $76, is used, the computation becomes $33×(92/76)=$39.95 which is rounded to $40. The following table provides a comparison of the premium calculations to date on the two bases:

MONTHLY HOSPITAL INSURANCE PREMIUM, AS CALCULATED

Fiscal Year	With 1973 deductible = $72	With 1973 deductible = $76
1974	$33	$33
1975	39	36
1976	42	40

The purpose of the premium formula is to adjust the original $33 premium for changes in the cost of providing hospital care. The ratio of the inpatient hospital deductibles does this approximately, since the deductible as calculated under section 1813(b) (2), is based on the average daily cost of providing hospital care under the hospital insurance program. To use an amount for the deductible which is not at all related to the experience of the program, as in the case of the $72 deductible for 1973, is therefore inappropriate in a formula of this type. More importantly, it was the intent of the provision that the costs

[3] This statement was published in the *Federal Register* for Dec. 31, 1974 (Vol. 39 No. 252, p. 45309).

of providing Part A coverage to the uninsured enrollees be covered by the enrollees themselves. As explained by the Senate Finance Committee,

"The intent is that the cost of such coverage would be fully financed through payment of a monthly premium by those who elect to enroll for this protection." (S. Rep. No. 92-1230, 92 Cong., 2nd Sess., 179 (1972)).

Assuming that the average incurred cost per premium paying enrollee is the same as the average incurred cost per insured aged enrollee, the following comparison can be made:

COMPARISON OF PROMULGATED PREMIUM RATES WITH THE ACTUARIALLY ADDJUSTED RATE

Year ending June 30	Promulgated premium rate	Estimated cost per enrollee in the year	Premium less cost	Accumulated value of col. (4) for prior years[1]	Actuarially adjusted rate cols. (3) − (5)
(1)	(2)	(3)	(4)	(5)	(6)
1974	$33.00	$33.90	+$2.10		$30.90
1975	36.00	36.10	−.10	+$2.20	33.90
1976	40.00	81.80	−1.80	+2.20	39.60

[1] For a given year, this value is the sum of the differences shown in col. (4) for all preceding years, accumulated with interest and changes in size of enrollment.

Thus, the premium of $40 derived by using $76 for the 1973 inpatient hospital deductible, is adequate to cover the projected costs of the uninsured enrollees. The actuarially determined $76 amount for the 1973 inpatient hospital deductible was used in determining the hospital insurance premium rate for the 12-month period commencing July 1, 1974.

In view of the foregoing it is appropriate that the Part A premium be calculated using the amount that was actuarially determined for the 1973 inpatient hospital deductible. It is the use of this amount which was originally foreseen by the Congress in enacting section 1818; the results of its use are more consistent with the remedial purposes of the Social Security Act; and, perhaps most importantly, it is consistent with the legislative intent that the program of hospital insurance under section 1818 be self-supporting. Accordingly, the hospital insurance monthly premium for fiscal year 1976 is $40.

Dated December 23, 1974.

CASPAR W. WEINBERGER,
Secretary.