

1979 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 1979 ANNUAL REPORT OF THE BOARD, PURSUANT TO
SECTION 1817(b) OF THE SOCIAL SECURITY ACT, AS AMENDED



APRIL 24, 1979.—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., April 13, 1979.

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

Sir: We have the honor to transmit to you the 1979 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund (the 14th such report), in compliance with the provisions of section 1817(b) of the Social Security Act.

Respectfully,

W. MICHAEL BLUMENTHAL,
*Secretary of the Treasury
and Managing Trustee of the Trust Fund.*
RAY MARSHALL,
Secretary of Labor.

JOSEPH A. CALIFANO, JR.,
*Secretary of Health, Education,
and Welfare.*

LEONARD D. SCHAEFFER,
*Administrator of the Health Care
Financing Administration
and Secretary, Board of Trustees.*

(iii)

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1979 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 Administrator of the Health Care Financing Administration is Secretary of the Board. The Board of Trustees reports to the Congress once each year in compliance with section 1817(b)(2) of the Social Security Act. This is the 1979 annual report, the fourteenth such report.

ADVISORY COUNCIL ON SOCIAL SECURITY

The Secretary of Health, Education, and Welfare, on February 26, 1978, announced the appointment of an Advisory Council on Social Security under the provisions of section 706 of the Social Security Act. The Council consists of a Chairman and 12 members representing organizations of employers and of employees, self-employed persons, and the public.

Under the law, the Social Security Advisory Council is charged with making a comprehensive study of the status of the social security cash benefit and Medicare programs. This study is to include an examination of the financial status of the trust funds in relation to the long-term commitments of the program, benefit levels, the scope of coverage, and other aspects of the programs, including their impact on public assistance.

The Council is required to submit its final reports to the Secretary of Health, Education, and Welfare no later than October 1, 1979. After the Council's reports are transmitted by the Secretary to the Congress and to the Board of Trustees of each of the trust funds, the Council will cease to exist. The Council's report and recommendations with respect to the hospital insurance program will be included in the 1980 annual report of the Board of Trustees.

HIGHLIGHTS

(a) Disbursements of the hospital insurance trust fund in fiscal year 1978 were \$17.9 billion, an increase of 17 percent over fiscal year 1977. Most of this increase was due to a substantial rise in the cost of hospital services. Increases in both payroll and nonpayroll expenses in hospitals

were significantly greater than comparable increases in the general economy.

(b) Income to the trust fund amounted to \$18.5 billion, representing an increase of 20.6 percent in fiscal year 1978 over 1977. The majority of this increase was due to higher average earnings for persons in covered employment and increases in the maximum taxable amount of annual earnings and in the tax rate.

(c) The trust fund increased from \$11.1 billion to \$11.8 billion at the end of fiscal year 1978. The effective annual rate of interest earned by the assets of the hospital insurance trust fund during fiscal year 1978 was 7.4 percent.

(d) The Secretary of Health, Education, and Welfare promulgated an inpatient deductible of \$160 for calendar year 1979 and a monthly premium of \$69 for noninsured enrollees for the 12-month period beginning July 1979.

(e) Approximately 23.5 million persons aged 65 and over were protected by the hospital insurance program in July 1978. This represents about 95 percent of the aged population. An additional 2.8 million disabled beneficiaries had protection in the same month.

SOCIAL SECURITY AMENDMENTS SINCE THE 1978 REPORT

During 1978, the following public law affecting the operation of the Federal Hospital Insurance Trust Fund was enacted:

Public Law 95-292, enacted June 13, 1978, provides incentives for the end-stage renal disease (ESRD) patient to self-dialyze at home or in a self-care dialysis unit of a facility; encourages early renal transplantation; and provides incentive reimbursement methods to assure more cost-effective delivery of services to patients who dialyze in institutions and at home. The amendments also provide for experiments and studies on ways to reduce ESRD program costs and for regular reports to the Congress on the cost and operation of the ESRD program. Thus, the law is designed to encourage ESRD beneficiaries to use less costly forms of treatment without jeopardizing their health. Other provisions, unrelated to ESRD, include replacing the Commissioner of Social Security with the Administrator of the Health Care Financing Administration as the Secretary of the Board of Trustees of the Federal Hospital Insurance Trust Fund and extending to October 1, 1978, the interim provisions of Public Law 93-233 concerning teaching physician reimbursement.

NATURE OF THE TRUST FUND

The Federal Hospital Insurance Trust Fund was established on July 30, 1965, as a separate account in the United States Treasury. All the financial operations of the hospital insurance system are handled through this fund.

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

employment income, in work covered by the hospital insurance program and (2) amounts deposited in it representing contributions paid by workers employed by State and local governments and by such employers with respect to work covered by the program. The coverage of the hospital insurance program includes workers covered under the old-age, survivors, and disability insurance program and those covered under the railroad retirement program.

All employees, and their employers, in employment covered by the program are required to pay contributions with respect to the wages of individual workers. Cash tips, covered as wages beginning in 1966 under the 1965 amendments, are an exception. Employees pay contributions with respect to cash tips but, prior to 1978, employers did not. Beginning in 1978, under the 1977 amendments, employers are required to pay contributions on that part of the tip income deemed to be wages under the Federal minimum wage law. All covered self-employed persons are required to pay contributions with respect to their self-employment income.

In general, an individual's contributions are computed on annual wages or self-employment income, or both wages and self-employment income combined, up to a specified maximum annual amount, with the contributions being determined first on the wages and then on any self-employment income up to the annual maximum amount.

The hospital insurance contribution rates applicable to taxable earnings in each of the calendar years 1966 and later are shown in table 1. For 1978 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 1966-79 and the bases scheduled in the provisions of present law for each year 1980-81 are shown also. For 1975-78, the contribution and benefit bases were determined under the automatic increase provisions in section 230 of the Social Security Act. In 1979, the base increased to the value shown in table 1. For 1980-81, the base is scheduled to increase to specific amounts as provided under the 1977 amendments. After 1981, the automatic increase provisions will again be applicable.

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

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

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

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

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

Hospitals, at their option, are permitted to combine their billing for both hospital and physician components of radiology and pathology services rendered hospital inpatients by hospital-based physicians. Where hospitals elect this billing procedure, payments are made initially from the hospital insurance trust fund, with reimbursement

from the supplementary medical insurance trust fund. The reimbursements so made are on a provisional basis and are subject to adjustment, with appropriate interest allowance, as the actual experience develops and is analyzed.

The Social Security Amendments of 1972 provide that hospital admissions under all Federal programs be reviewed by Professional Standards Review Organizations. Under section 1168 of the Social Security Act, payments for the costs of such reviews are made initially from the hospital insurance trust fund, with reimbursement from the general fund of the Treasury for the costs of reviews of admissions covered under Federal programs other than the hospital insurance program.

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

Congress has authorized expenditures from the trust funds for construction, rental, and lease or purchase contract of office buildings and related facilities for use in connection with the administration of the hospital insurance program. Both the capital costs of construction financed directly from the trust funds and the rental, lease, or purchase contract costs of acquiring facilities are included in trust fund expenditures. In 1972-75, construction of several large facilities was authorized under purchase contract authority, wherein initial capital costs 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 on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States forming a part of the public debt which are not due or callable until after the expiration of 4 years from the end of such month.

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

Calendar years	Maximum taxable amount of annual earnings	Contribution rates (percent of taxable earnings)	
		Employees and employers, each	Self-employed
Past experience:			
1966.....	\$6,600	0.35	0.35
1967.....	6,600	.50	.50
1968-71.....	7,800	.60	.60
1972.....	9,000	.60	.60
1973.....	10,800	1.00	1.00
1974.....	13,200	.90	.90
1975.....	14,100	.90	.90
1976.....	15,300	.90	.90
1977.....	16,500	.90	.90
1978.....	17,700	1.00	1.00
1979.....	22,900	1.05	1.05
Changes scheduled in present law:			
1980.....	25,900	1.05	1.05
1981.....	29,700	1.30	1.30
1982-84.....	(¹)	1.30	1.30
1985.....	(¹)	1.35	1.35
1986 and later.....	(¹)	1.45	1.45

¹ Subject to automatic increase.

SUMMARY OF THE OPERATIONS OF THE TRUST FUND, FISCAL YEAR 1978

A statement of the income and disbursements of the Federal Hospital Insurance Trust Fund in fiscal year 1978, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2. Corresponding amounts for fiscal year 1977 are also shown in the table.

The total assets of the trust fund amounted to \$11,115 million on September 30, 1977. During fiscal year 1978, total receipts amounted to \$18,543 million, and total disbursements were \$17,862 million. The assets of the trust funds thus increased \$681 million during the year to a total of \$11,796 million on September 30, 1978.

Included in total receipts during fiscal year 1978 were \$14,913 million representing contributions appropriated to the trust fund and \$1,844 million representing amounts received in accordance with State agreements for coverage of State and local government employees and deposited in the trust fund. As an offset, \$80 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 \$16,677 million, representing an increase of 22 percent over the amount of \$13,649 million for the preceding 12-month period. This growth in contribution income resulted primarily from (1) the higher level of earnings in covered employment; (2) the two increases in the maximum annual amount of earnings taxable—from \$15,300 to \$16,500 and from \$16,500 to \$17,700—that be-

came effective on January 1, 1977, and January 1, 1978, respectively; and (3) the increase in the combined tax rate from 1.8 percent to 2.0 percent effective January 1, 1978.

The section entitled "Nature of the Trust Fund" referred to provisions of the Social Security Act under which certain persons aged 65 and over but not otherwise eligible for hospital insurance protection may obtain such protection by enrolling in the program and paying a monthly premium. Premiums collected from such voluntary participants in fiscal year 1978 amounted to about \$12 million.

In accordance with provisions for annual reimbursement from the general fund of the Treasury for the costs of granting noncontributory wage credits for military service, the Secretary of Health, Education, and Welfare made a determination in 1975 of the level annual appropriations to the trust fund necessary to amortize over a 39-year period, beginning in fiscal year 1977, 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 1966-76 that have been deposited into the trust fund. The annual amount resulting from this determination was \$141 million. Reimbursement from general revenues for costs arising from the granting of noncontributory wage credits to persons of Japanese ancestry who were interned during World War II was \$2 million in fiscal year 1978, based on a determination made by the Secretary of Health, Education, and Welfare in 1976. Thus, a reimbursement amounting to \$143 million was received by the trust fund in December 1977.

Again, the section entitled "Nature of the Trust Fund" referred to provisions under which the hospital insurance trust fund is to be reimbursed from the general fund of the Treasury for costs of paying benefits under this program on behalf of certain uninsured persons. The reimbursement in fiscal year 1978 amounted to \$688 million, consisting of \$657 million for benefit payments, \$13 million for administrative expenses, and \$18 million due the trust fund for interest on adjustments to costs in prior fiscal years.

The remaining \$780 million of receipts consisted almost entirely of interest on the investments of the trust fund.

Of the \$17,862 million in total disbursements, \$17,417 million represented benefits paid directly from the trust fund for health services covered under title XVIII of the Social Security Act. As offsets to benefit payments, transfers were made from the supplementary medical insurance trust fund amounting to \$6 million to adjust for the loss of interest caused by the delay in transferring payments for the costs of radiology and pathology services that were paid initially from the hospital insurance trust fund but that were liabilities of the supplementary medical insurance trust fund. Net benefit payments from the trust fund in fiscal year 1978, therefore, amounted to \$17,411 million, an increase of 16.8 percent over the corresponding amount of \$14,906 million paid during the preceding 12 months. An additional \$4 million in disbursements constituted payment for costs of experiments and demonstration projects in providing health care services.

The remaining \$447 million of disbursements was for net administrative expenses. Administrative expenses are allocated and charged directly to each of the four trust funds—old-age and survivors insurance, disability insurance, hospital insurance, and supplementary

medical insurance—on the basis of provisional estimates. Similarly, the expenses of administering other programs of the Health Care Financing Administration are also allocated and charged directly to the general fund of the Treasury on a provisional basis. Periodically, as actual experience develops and is analyzed, adjustments to the allocations of administrative expenses and costs of construction for prior periods are affected by interfund transfers, including transfers between the hospital insurance and supplementary medical insurance trust funds and the program management general fund account, with appropriate interest allowances.

Table 3 compares the actual experience in fiscal year 1978 with the estimates presented in the 1977 and 1978 annual reports. The section entitled "Nature of the Trust Fund" referred to the appropriation of contributions to the trust funds on an estimated basis, with subsequent periodic adjustments to account for differences from the amounts of contributions actually payable on the basis of reported earnings. In interpreting the figures in table 3, it should be noted that the "actual" amount of contributions in fiscal year 1978 reflects the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions in fiscal year 1978 does not reflect adjustments to contributions for fiscal year 1978 that were to be made after September 30, 1978. While estimated contributions in 1977 differed from actual contributions by 7 percent, the difference between actual contributions and those estimated in the 1978 report was negligible. Actual benefit payments were 3 percent lower than estimated in the 1977 report and one percent lower than estimated in the 1978 report.

The assets of the hospital insurance trust fund at the end of fiscal year 1977 totaled \$11,115 million, consisting of \$10,974 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations and an undisbursed balance of \$141 million. The assets of the hospital insurance trust fund at the end of fiscal year 1978 totaled \$11,796 million, consisting of \$11,757 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations and an undisbursed balance of \$39 million. Table 4 shows the total assets of the fund and their distribution at the end of fiscal years 1977 and 1978.

The net decrease in the par value of the investments owned by the fund during fiscal year 1977 amounted to \$36 million. New securities at a total par value of \$16,555 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 \$16,591 million. Included in these amounts is \$14.669 million in certificates of indebtedness that were acquired and \$14,850 million in certificates of indebtedness that were redeemed during the fiscal year.

The net increase in the par value of the investments held by the fund during fiscal year 1978 amounted to \$784 million. New securities at a total par value of \$19,951 million were acquired during the fiscal year through the investment of receipts and the reinvestment of funds made available from the redemption of securities. The par value of securities redeemed during the fiscal year was \$19.167 million. Included in these amounts is \$17.798 million in certificates of indebtedness that were acquired and \$17,567 million in certificates of indebtedness that were redeemed within the fiscal year.

The effective annual rate of interest earned by the assets of the hospital insurance trust fund during the 12 months ending June 30, 1978, was 7.4 percent. (This period is used because interest on special issues is paid semiannually on June 30 and December 31). The interest rate on public-debt obligations issued for purchase by the trust fund in June 1978 was 8¼ percent, payable semiannually.

TABLE 2.—STATEMENT OF OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEARS 1977 AND 1978

[In thousands of dollars]

	Fiscal year 1977	Fiscal year 1978
Total assets of the trust fund, beginning of period.....	\$10,947,810	\$11,114,685
Receipts:		
Contributions:		
Appropriations.....	\$12,434,383	\$14,913,356
Deposits arising from State agreements.....	1,276,073	1,843,511
Gross contributions.....	13,710,455	16,756,867
Less payment into the Treasury for contributions subject to refund.....	61,920	79,600
Net contributions.....	13,648,535	16,677,267
Premiums collected from voluntary participants.....	10,506	12,094
Transfer from railroad retirement account.....		213,745
Reimbursement from general fund of Treasury for costs of—		
Noncontributory credits for military service.....	141,000	141,000
Noncontributory credits for U.S. citizens of Japanese ancestry interned during World War II.....		1,997
Benefits for uninsured persons:		
Benefit payments.....	775,000	657,048
Administrative expenses.....	16,000	12,800
Interest on adjustments to costs in prior fiscal years.....	12,000	18,093
Total reimbursement for costs for benefits for uninsured persons.....	803,000	687,941
Review of medicaid, and maternal and child health hospital admissions.....		29,000
Interest:		
Interest on investments.....	769,925	780,058
Interest on amounts of interfund transfers due to adjustment in allocation of administrative expenses and construction costs ¹	1,041	-88
Total interest.....	770,966	779,970
Gifts.....	3	
Total receipts.....	\$15,374,010	\$18,543,015
Disbursements:		
Benefit payments:		
Paid directly from the trust fund for the costs of health services.....	14,911,842	17,416,782
Less transfers from the supplementary medical insurance trust fund for reimbursement of interest loss related to transfer payments made in conjunction with the costs of radiology and pathology services ²	6,000	6,000
Net benefit payments.....	14,905,842	17,410,782
Costs of experiments and demonstration projects ²	6,528	4,350
Administrative expenses:		
Department of Health, Education, and Welfare ³	292,671	425,506
Treasury Department.....	11,973	13,996
Construction of facilities.....	90	2,473
Gross administrative expenses.....	304,734	441,975
Interfund transfers due to adjustment in allocation of:		
Administrative expenses.....	-9,000	4,469
Costs of construction ⁴	-954	100
Less receipts from sale of supplies, materials, etc.....	15	8
Net administrative expenses.....	294,765	446,537
Total disbursements.....	15,207,134	17,861,668
Net addition to the trust fund.....	166,875	681,346
Total assets of the trust fund, end of period.....	\$11,114,685	\$11,796,031

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

² For explanation, see text.

³ Includes administrative expenses of the intermediaries.

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

TABLE 3.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND, FISCAL YEAR 1978

[Dollar amounts in millions]

Item	Comparison of actual experience with estimates for fiscal year 1978 published in—				
	1978 report			1977 report	
	Actual amount	Estimated amount	Actual as percentage of estimate	Estimated amount	Actual as percentage of estimate
Net contributions.....	\$16,677	\$16,701	100	\$17,933	93
Benefit payments.....	17,411	17,543	99	17,925	97

TABLE 4.—ASSETS OF THE HOSPITAL INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1977 AND 1978

	Sept. 30, 1977, book value ¹	Sept. 30, 1978, book value ¹
Investments in public-debt obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
7 percent, 1978.....	\$506,993,000.00	
8 1/4 percent, 1979.....		\$737,003,000.00
Notes:		
6 5/8 percent, 1980.....	2,113,173,000.00	1,530,179,000.00
Bonds:		
7 1/8 percent, 1979.....	290,112,000.00	
7 1/8 percent, 1992.....	524,479,000.00	524,479,000.00
7 3/8 percent, 1981.....	165,760,000.00	165,760,000.00
7 3/8 percent, 1982.....	165,760,000.00	165,760,000.00
7 3/8 percent, 1983.....	165,760,000.00	165,760,000.00
7 3/8 percent, 1984.....	165,760,000.00	165,760,000.00
7 3/8 percent, 1985.....	165,760,000.00	165,760,000.00
7 3/8 percent, 1986.....	165,759,000.00	165,759,000.00
7 3/8 percent, 1987.....	165,759,000.00	165,759,000.00
7 3/8 percent, 1988.....	165,759,000.00	165,759,000.00
7 3/8 percent, 1989.....	165,760,000.00	165,760,000.00
7 3/8 percent, 1990.....	165,760,000.00	165,760,000.00
7 1/2 percent, 1981.....	571,444,000.00	571,444,000.00
7 1/2 percent, 1982.....	109,372,000.00	109,372,000.00
7 1/2 percent, 1983.....	109,372,000.00	109,372,000.00
7 1/2 percent, 1984.....	109,372,000.00	109,372,000.00
7 1/2 percent, 1985.....	109,372,000.00	109,372,000.00
7 1/2 percent, 1986.....	109,373,000.00	109,373,000.00
7 1/2 percent, 1987.....	109,373,000.00	109,373,000.00
7 1/2 percent, 1988.....	109,372,000.00	109,372,000.00
7 1/2 percent, 1989.....	109,372,000.00	109,372,000.00
7 1/2 percent, 1990.....	109,372,000.00	109,372,000.00
7 1/2 percent, 1991.....	680,816,000.00	680,816,000.00
7 5/8 percent, 1981.....	405,685,000.00	405,685,000.00
7 5/8 percent, 1982.....	405,685,000.00	405,685,000.00
7 5/8 percent, 1983.....	405,685,000.00	405,685,000.00
7 5/8 percent, 1984.....	405,685,000.00	405,685,000.00
7 5/8 percent, 1985.....	405,685,000.00	405,685,000.00
7 5/8 percent, 1986.....	405,685,000.00	405,685,000.00
7 5/8 percent, 1987.....	405,685,000.00	405,685,000.00
7 5/8 percent, 1988.....	405,684,000.00	405,684,000.00
7 5/8 percent, 1989.....	405,684,000.00	405,684,000.00
8 1/4 percent, 1981.....		45,347,000.00
8 1/4 percent, 1982.....		45,347,000.00
8 1/4 percent, 1983.....		45,347,000.00
8 1/4 percent, 1984.....		45,347,000.00
8 1/4 percent, 1985.....		45,347,000.00
8 1/4 percent, 1986.....		45,346,000.00
8 1/4 percent, 1987.....		45,346,000.00
8 1/4 percent, 1988.....		45,347,000.00
8 1/4 percent, 1989.....		45,347,000.00
8 1/4 percent, 1990.....		45,347,000.00
8 1/4 percent, 1991.....		45,347,000.00
8 1/4 percent, 1992.....		201,684,000.00
8 1/4 percent, 1993.....		726,163,000.00
Total public-debt obligations sold only to this fund (special issues).....	\$10,923,740,000.00	\$11,707,306,000.00
Investments in federally-sponsored agency obligations:		
Participations certificates:		
Federal Assets Liquidation Trust—Government National Mortgage Association:		
5.20 percent, 1982.....	50,000,000.00	50,000,000.00
Total investments.....	\$10,973,740,000.00	\$11,757,306,000.00
Undisbursed balance.....	140,945,202.67	38,725,498.62
Total assets.....	\$11,114,685,202.67	\$11,796,031,498.62

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

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING
THE PERIOD OCTOBER 1, 1978, TO DECEMBER 31, 1981

The expected operations of the trust fund during fiscal years 1979-81 are shown in table 5, together with the past experience of the program. The projection shown in table 5—and the entirety of this section—is based on the intermediate set of projection assumptions labeled alternative II, which is presented in detail in appendix A.

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

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

Estimated income to the trust fund which is appropriated from general revenues to reimburse the program for the cost of coverage of noninsured persons is the same as the estimates of disbursements for such persons, net of corrections for differences between costs and amounts transferred for previous years. Premium income and disbursements for other noninsured persons over age 65 who may enroll in the hospital insurance program on a voluntary basis are based on an estimated enrollment of 22,000 in fiscal year 1979.

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

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

The investment of new assets received during fiscal years 1979-81 is assumed to be in the form of special public-debt obligations bearing interest rates ranging from 9 percent, payable semiannually, in 1979 to 8½ percent in 1981. The average effective annual rate of interest on the assets held by the hospital insurance trust fund on September 30, 1978, was 7.7 percent.

Disbursements for benefits are projected to increase sharply in fiscal years 1979-81, primarily as a result of the high rate of increase in hospital costs reimbursable under the program. The expenditures for benefit payments shown in table 5 differ slightly from those shown in the 1980 Federal budget. These estimates are based on a more recent demographic and economic projection, and they do not reflect the implementation of certain proposed changes in regulations which were included in the budget.

The actual operation of the hospital insurance program is organized, in general, on a calendar year basis. Earnings subject to taxation and the applicable tax rates are established by calendar year, as are the in-patient 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. The following discussion of the financing of the program is on a calendar year basis.

The ratios of assets in the trust fund at the beginning of each calendar year to total disbursements during that year are shown in table 7 for past years and as projected through 1981. The ratio of assets to disbursements grew gradually until it reached approximately the level of one-half of a year's expenditures as of the beginning of 1971. After dropping slightly during both of the following 2 years, it increased to 69 percent in 1974 and 79 percent in 1975. The ratio decreased slightly in 1976 to 77 percent and decreased sharply in 1977 and 1978 to 66 percent and 57 percent, respectively. It is projected to decline during the next 3 years to 51 percent at the beginning of 1981.