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**1968 ANNUAL REPORT OF THE BOARD OF
TRUSTEES OF THE FEDERAL HOSPITAL
INSURANCE TRUST FUND**

LETTER

FROM

**BOARD OF TRUSTEES,
FEDERAL HOSPITAL INSURANCE
TRUST FUND**

TRANSMITTING

**THE 1968 ANNUAL REPORT OF THE BOARD OF TRUSTEES
OF THE FEDERAL HOSPITAL INSURANCE
TRUST FUND**

LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL HOSPITAL INSURANCE TRUST FUND,
Washington, D.C, March 25, 1968.

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

SIR: We have the honor to transmit to you the 1968 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund (the third such report), in compliance with the provisions of section 201(c) of the Social Security Act, as amended.

Respectfully,

HENRY H. FOWLER,
*Secretary of the Treasury,
and Managing Trustee of the Trust Funds.*

W. WILLARD WIRTZ,
Secretary of Labor.

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

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

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1968 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

THE BOARD OF TRUSTEES

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

FISCAL YEAR HIGHLIGHTS

The fiscal year 1967 was the first full year of operation of the hospital insurance program insofar as benefit payments are concerned (since benefits were first available on July 1, 1966). Contributions had been collected during the latter half of the preceding fiscal year (i.e., on and after January 1, 1966).

Contributions in fiscal year 1967 amounted to \$2,689 million from persons directly covered by the hospital insurance program, plus an additional \$16 million with respect to railroad workers that was transferred from the railroad retirement account under the financial interchange provisions (which transfer is essentially the gross contributions less certain administrative expenses of the Railroad Retirement Board in connection with collecting the contributions and other matters relating to the hospital insurance program).

Total receipts of the trust fund amounted to \$3,089 million in fiscal year 1967. In addition to contributions, receipts consisted of \$46 million in interest on investments, and \$338 million reimbursed from the general fund of the Treasury (\$11 million for the long-range costs of benefits based on noncontributory credit³ for military service before 1957 and \$327 million for the past actual costs of benefits, and the related administrative expenses, for uninsured persons).

Total disbursements from the trust fund in fiscal year 1967 amounted to \$2,597 million. Of this amount, \$2,508 million was paid out for benefits (this amount is based on Treasury statements; an additional \$17 million has been identified by the fiscal intermediaries as benefit withdrawals in fiscal year 1967 that did not clear through the Treasury before July 1, 1967). The remaining \$89 million was for administrative expenses, which thus represented 3.5 percent of benefit disbursements. The actual outgo for benefits in this first year of operation was 7 percent higher than the original estimate, made at the time the legislation was enacted.

The excess of total income over total outgo, amounting to \$492 million, increased the total assets of the trust fund from \$851 million on June 30, 1966, to \$1,343 million on June 30, 1967.

After the close of fiscal year 1967, Congress enacted amendments to the Social Security Act and related sections⁴ of the Internal Revenue Code that significantly changed the financing provisions of the hospital insurance program, but that made no extensive changes in its benefit provisions, insofar as cost aspects are concerned. The maximum amount

of earnings taxable and creditable toward benefits was raised to \$7,800, beginning January 1968. The schedule of contribution rates for hospital insurance was revised upward to continue to reflect the intent of Congress that the program be self-supporting on a long-range basis. These and other provisions of the 1967 amendments are described more fully in another section of this report, and their effects are taken into account in the actuarial cost estimates presented in this report.

Estimates for the 3 fiscal years 1968-70 show that, as compared with fiscal year 1967, although both receipts and disbursements will increase steadily, the receipts will rise more rapidly, due to the increase in the maximum taxable earnings base in calendar year 1968 and to the scheduled rises in contribution rates in the law. Consequently, at the end of fiscal year 1970, this trust fund will amount to an estimated \$4.1 billion, or an increase of \$2.8 billion in the 3-year period. Receipts during fiscal year 1970 are estimated to total \$5.3 billion, and disbursements, \$4.4 billion.

Long-range cost estimates for the hospital insurance program indicate that the program has a small positive actuarial balance. The level-cost of benefit payments and administrative expenses combined, estimated over a period of 25 years on an intermediate-cost basis, is 1.38 percent of taxable payroll, as compared with the level-equivalent of the graded schedule of contributions of 1.41 percent of taxable payroll.

LEGISLATION IN 1967

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

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

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

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

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

(4) Under the 1965 law, uninsured persons attaining age 65 in 1968 had to have six quarters of social security coverage in order to be eligible for hospital insurance. Under the 1967 law, this requirement is reduced to three quarters of coverage for 1968. For those attaining age 65 in subsequent years, this requirement

increases by three quarters each year until the number of quarters so required equals or exceeds that required for fully insured status, at which time the special requirement becomes ineffective (since the regular insured status requirements for monthly benefits are easier to fulfill).

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

NATURE OF THE TRUST FUND

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

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

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

Under the Internal Revenue Code, as amended, the contribution rate for hospital insurance for employees and their employers of 0.35 percent each that was in effect in calendar year 1966 increased to 0.50 percent each on January 1, 1967; the contribution rate for the self-employed also rose from 0.35 to 0.50 percent. The following table shows the scheduled tax rates in the present law:

Calendar years	Percent of taxable earnings	
	Employees and employers, each ¹	Self-employed
1967	0.50	0.50
1968-1972	.60	.60
1973-75	.65	.65
1976-79	.70	.70
1980-86	.80	.80
1987 and after	.90	.90

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

Except for amounts received by the Secretary of the Treasury under State agreements (to effectuate coverage under the program for State and local government employees) and deposited directly in the trust fund, all contributions are collected by the Internal Revenue Service and are paid into the Treasury as internal revenue collections. However, sums equivalent to 100 percent of these taxes are transferred to the trust fund from time to time. Such transfers are first made on the basis of estimated tax receipts. The exact amount is not known since hospital insurance taxes, old-age, survivors, and disability insurance taxes, and income taxes withheld are not separately identified in tax-collection reports received by the Treasury Department from the district offices of the Internal Revenue Service. Periodic adjustments are subsequently made to the extent that the estimates are found to differ from the amounts of contributions actually payable on the basis of reported earnings.

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

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

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

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

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

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

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

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

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

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

In addition, the Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust fund. The law requires that such special public-debt obligations shall have

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

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

Marketable public issues acquired by the fund may be sold at any time by the managing trustee at their market price. Special public-debt obligations issued for purchase by the trust fund may be redeemed at par plus accrued interest. Interest receipts and proceeds from the sale or redemption of obligations held in the trust fund are available for investment in the same manner as other receipts of the fund. Interest earned by the invested assets of the trust fund will provide income to meet a portion of future benefit disbursements. The role of interest in meeting future benefit payments is indicated in tables 4 and 5.

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

SUMMARY OF THE OPERATIONS OF THE TRUST FUND, FISCAL YEAR 1967

Contributions to finance benefits for insured persons under the hospital insurance program became payable on wages received, and on self-employment income for taxable years beginning on or after January 1, 1966. A statement of the income and disbursements of the Federal hospital insurance trust fund for the fiscal year 1967 is presented in table 1.

TABLE 1.—STATEMENT OF OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEAR 1967

Total assets of the trust fund, June 30, 1966		\$851,203,534.41
Receipts, fiscal year 1967:		
Contributions:		
Appropriations	\$2,482,722,429.56	
Deposits arising from State agreements	205,961,977.52	
Total Contributions		\$2,688,634,407.05
Transfer from railroad retirement account		16,305,000.00
Reimbursement from the general fund of the Treasury for costs of—		
Noncontributory credits for military service		11,000,000.00
Benefits for uninsured persons:		
Benefit payments		270,000,000.00
Administrative expenses		56,850,000.00
Interest:		
Interest on Investments	\$45,882,460.55	
Less interest on amounts transferred to old-age and survivors insurance trust fund for reimbursement of administrative expenses	84,146.00	
Net interest		45,798,315.55
Total receipts		3,088,637,722.60
Disbursements, fiscal year 1968: Benefit payments		2,507,772,978.73
Administrative expenses:		
Department of Health, Education, and Welfare	\$81,904,942.34	
Treasury Department	4,100,700.64	
Reimbursement to old-age and survivors insurance trust fund for administrative expenses ¹	2,850,292.00	
Gross administrative expenses	88,855,934.98	
Less receipts from sale of surplus supplies, materials, etc.	8,344.91	
Net administrative expenses		88,847,590.07
Total disbursements		2,596,620,568.80
Net addition to the trust fund		492,017,153.80
Total assets of the trust fund, June 30, 1967		1,343,220,688.21

¹ Amount represents sum of (a) \$2,107,000 for a payment made initially from the old-age and survivors insurance trust fund in fiscal year 1967 for expenses of the Public Health Service and (b) \$743,292 due to adjustment in interfund allocation of expenses of the Department of Health, Education, and Welfare for fiscal year 1966.

The total receipts of the trust fund amounted to \$3,089 million. Of this total, \$2,483 million represented tax collections appropriated to the trust fund and \$206 million represented amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the trust fund. About \$16 million represented a transfer from the railroad retirement account under the financial interchange provisions (described in app. II). In accordance with these provisions, the Railroad Retirement Board and the Secretary of Health, Education, and Welfare determined that a transfer of \$16,200,000 from the railroad retirement account to the hospital insurance trust fund would place this fund in the same position as of June 30, 1966, as it would have been if railroad employment had always been covered under the Social Security Act. This amount, together with interest thereon for 2 months amounting to \$105,000, was transferred to the trust fund on August 31, 1966.

Reference has been made earlier to provisions under which the hospital insurance trust fund is to be reimbursed annually from the general fund of the Treasury for costs of granting noncontributory credits for military service performed before 1957, according to a determination made by the Secretary of Health, Education, and Welfare in September 1965. The annual amount of this determination for this

trust fund was \$14.2 million. The first annual reimbursement, for fiscal year 1966 and amounting to \$11.0 million, was received in July 1966.

Reference has also been made earlier to provisions under which the hospital insurance trust fund is to be reimbursed annually from the general fund of the Treasury for costs (including administrative expenses) of paying benefits under this program to certain uninsured persons. The reimbursements so made are on a provisional basis and are subject to adjustment, with appropriate interest allowances, as the actual experience develops and is analyzed. The first reimbursements were made in fiscal year 1967 and amounted to \$327 million, of which \$270 million was with respect to benefit payments, and \$57 million was with respect to administrative expenses (for fiscal year 1966, as well as for fiscal year 1967); the administrative expenses were relatively high because of the one-time expense of determining the eligibility of these persons.

The remaining \$46 million of receipts consisted of net interest on the investments of the trust fund.

Disbursements of the trust fund amounted to \$2,597 million, representing \$2,508 million in benefit payments and \$89 million in net administrative expenses. Benefit payments under the program began in July 1966 and were thus effective for the entire fiscal year.

The assets of the trust fund at the end of fiscal year 1967 totaled \$1,343 million, consisting of \$1,192 million in the form of obligations of the U.S. Government, \$107 million in securities of federally sponsored agencies, and \$45 million in undisbursed balances (table 2a).

TABLE 2-a.—ASSETS OF THE HOSPITAL INSURANCE TRUST FUND, BY TYPE, AT END OF FISCAL YEARS 1966 AND 1967

	June 30, 1966		June 30, 1967	
	Par value	Book value ¹	Par value	Book value ¹
Investments in public-debt obligations sold only to this fund (special issues):				
Certificates of indebtedness:				
4½ percent, 1968			\$15,718,000	\$15,718,000.00
4½ percent, 1967	\$52,383,000	\$52,383,000.00		
Notes:				
4½ percent, 1969			46,131,000	46,131,000.00
4½ percent, 1972			46,131,000	46,131,000.00
4½ percent, 1973			46,131,000	46,131,000.00
4½ percent, 1974			415,179,000	415,179,000.00
4½ percent, 1968	52,383,000	52,383,000.00		
4½ percent, 1969	52,383,000	52,383,000.00		
4½ percent, 1970	52,383,000	52,383,000.00	46,131,000	46,131,000.00
4½ percent, 1971	576,226,000	576,226,000.00	576,226,000	576,226,000.00
Total public-debt obligations sold only to this fund (special issues)	785,758,000	785,758,000.00	1,191,647,000	1,191,647,000.00
Investments in federally-sponsored agency obligations:				
Agency securities:				
Federal Land Bank bonds: 5½ percent, 1967			15,000,000	15,000,000.00
Federal National Mortgage Association debentures: 6 percent, 1969			41,500,000	41,520,894.07
Participation certificates:				
Federal Assets liquidation Trust, Federal National Mortgage Association: 5.20 percent, 1982			50,000,000	50,000,000.00
Total investments in federally-sponsored agency obligations			106,500,000	106,520,894.07
Total Investments	785,758,000	785,758,000.00	1,298,147,000	1,298,167,894.07
Undisbursed balance		65,445,534.41		45,052,794.14
Total assets		851,203,534.41		1,343,220,688.21

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

The net increase in the par value of the investments owned by the fund during the fiscal year 1967 amounted to \$512 million. New securities at a total par value of \$3,471 million (including \$106,500,000 of federally-sponsored agency obligations) were acquired during the fiscal year through the investment of receipts and the reinvestment of funds made available from the maturity or sale of securities. The par value of securities redeemed during the fiscal year was \$2,958 million. A summary of transactions for the fiscal year, by type of security, is presented in table 2b.

TABLE 2b.— STATEMENT OF TRANSACTIONS IN PUBLIC DEBT AND IN FEDERALLY SPONSORED AGENCY SECURITIES
FOR THE HOSPITAL INSURANCE TRUST FUND DURING THE FISCAL YEAR 1967
[All amounts represent par values]

	Acquisitions	Dispositions
Public-debt obligations sold only to this fund (special issues)		
Certificates of indebtedness:		
4¾ percent, 1967	\$279,657,000	\$279,657,000
4½ percent, 1967	272,394,000	272,394,000
4¾ percent, 1967	164,872,000	164,872,000
4¾ percent, 1967	1,011,181,000	1,011,181,000
4¾ percent, 1968	15,718,000	0
4¾ percent, 1967	0	52,383,000
5 percent, 1967	529,740,000	529,740,000
5½ percent, 1967	359,304,000	359,304,000
5½ percent, 1967	177,866,000	177,866,000
Notes:		
4¾ percent, 1969	46,131,000	0
4¾ percent, 1972	46,131,000	0
4¾ percent, 1973	46,131,000	0
4¾ percent, 1974	415,179,000	0
4¾ percent, 1968	0	52,383,000
4¾ percent, 1969	0	52,383,000
4¾ percent, 1970	0	6,252,000
Total obligations sold only to this fund (special issues)	3,364,304,000	2,958,415,000
Federally-sponsored agency obligations:		
Agency securities:		
Federal Land Bank bonds: 5½ percent, 1967	15,000,000	0
Federal National Mortgage Association debentures: 6 percent, 1969	41,500,000	0
Participation certificates:		
Federal Assets Liquidation Trust, Federal National Mortgage Association:		
5.20 percent, 1982	50,000,000	0
Total federally-sponsored agency obligations	106,500,000	0
Total transactions	3,470,804,000	2,958,415,000

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

On June 30, 1967, special issues held by the hospital insurance trust fund were distributed in equal amounts of \$46,131,000 maturing in each of the 4 years, 1969, 1970, 1972, and 1973. In addition, \$415,179,000—representing 9 years' annual amounts at the foregoing \$46,131,000 rate—was invested in 7-year notes bearing 4¾-percent interest and maturing on June 30, 1974; \$576,226,000—representing approximately 11 years' annual amounts at a rate of \$52,383,000—was invested in 5-year notes bearing 4½-percent interest and maturing on June 30, 1971; and \$15,718,000 was invested in 1-year certificates of indebtedness maturing on June 30, 1968.

The 5-year notes were acquired on June 30, 1966, under the following circumstances: If, on June 30, 1966, the trust fund holdings of special

issues had been spread equally over a 15 year period, it would have been necessary for the Treasury to issue for purchase by the trust fund, approximately \$52,383,000 of bonds maturing in each of the 10 years, 1972-81, which spreading was accomplished for the first 5 years by notes in the amount of \$52,383,000, maturing on June 30 of each year in the period 1967-71. Such bonds—with more than 5 years to maturity—would have been required, under the then-existing law (31 U.S.C. 752 and 753(a)), to bear an interest rate no higher than $4\frac{1}{4}$ percent. On the other hand, the application of section 1817(e) of the Social Security Act, relating to the determination of the interest rate on special issues, resulted in a rate of $4\frac{3}{4}$ percent. Accordingly, the sum of \$523,843,000 that would have been invested in bonds maturing during the period 1972-81 was, instead, invested in notes that had the longest possible duration to maturity—that is, in $4\frac{3}{4}$ -percent notes maturing June 30, 1971—which were in addition to the \$52,383,000 of notes that had the same maturity date, which were issued as part of the normal 15-year spread, as mentioned previously.

The 7-year notes were acquired on June 30, 1967 under the following circumstances. The amount then available for investment in special issues was \$569,290,000. The existing investments at that time, were the aforementioned \$576,226,000 of 5-year notes maturing June 30, 1971 and the balance of \$46,131,000 of the $4\frac{3}{4}$ % notes maturing June 30, 1970—of which there had originally been \$52,383,000, but the difference had to be redeemed during the fiscal year 1967 to meet expenditures—as did also the entire amounts of the similar obligations maturing on June 30 of 1967, 1968, and 1969. The \$569,290,000 was divided into 12 units equal to the foregoing \$46,131,000 amount, with a remaining balance of \$15,718,000, which was invested in 1-year certificates of indebtedness maturing June 30, 1968. The 12 units of \$46,131,000 were invested in notes such that one unit would mature in each of the 3 years, 1969, 1972, and 1973, and the other nine units were invested in 7-year notes maturing June 30, 1974. All these investments on June 30, 1967 bore the $4\frac{3}{4}$ -percent interest rate then applicable.

The investment of the remaining nine units was in 7-year notes—rather than being spread out over the future at 1-year intervals—because the law (31 U.S.C. 753(a)) limiting the maturity date for notes to not more than 5 years from date of purchase was amended (Public Law 90-39, approved June 30, 1967), extending the limitation to 7 years.

As a result, the investments may be viewed as being in units of \$46,131,000 maturing at annual intervals as of June 30 of each year from 1969 through 1974—the 1971 unit being part of the \$576,226,000 of notes maturing then—plus an additional eight such units in notes maturing on June 30, 1974.

Table 3 compares the actual experience in the fiscal year with the estimates presented in the previous two reports. The actual net contributions have been somewhat higher than the estimates, due to increases in earnings being greater than had been assumed. The actual benefit payments were about 5 to 7 percent higher than the estimates.

TABLE 3.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND, FISCAL YEAR 1967
[Dollar amounts in millions]

	1966 report			1967 report	
	Actual amount	Estimated amount	Estimate as percentage of actual	Estimated amount	Estimate as percentage of actual
Net contributions_____	\$2,689	\$2,385	89	\$2,646	98
Benefit payments_____	2,508	2,338	93	2,395	95
Assets, end of year_____	1,343	1,095	82	1,444	108

Note: In interpreting the figures in the above table, reference should be made to the accompanying text. Amendments affecting the benefit costs were enacted in 1966, but these had a relatively minor—although increasing—effect.

However, in comparing the data for benefit payments in fiscal year 1967, the first full year of operation, caution should be exercised because the lag in making payment of benefits might be more than had been assumed, so that the comparison would be less close than it appears to be.

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING THE PERIOD JULY 1, 1967 TO JUNE 30, 1970

In the following statement of the expected operations and status of the hospital insurance trust fund during the period July 1, 1967, to June 30, 1970, it is assumed that present statutory provisions affecting the hospital insurance program remain unchanged throughout the period. The income and disbursements of the program, however, are affected by general economic conditions, hospital utilization rates under this new program, and hospitalization costs, as well as by legislative provisions. Because it is difficult to forecast these factors, the assumptions and the resulting cost estimates presented here are subject to some uncertainty. This statement of the expected operations of the trust fund should therefore be read with full recognition of the difficulties involved in making the estimates.

Estimates are presented in table 4 to show the expected operations of the trust fund in fiscal years 1968-70. They are based on the assumption that economic activity will expand throughout the period, with employment and earnings increasing steadily through 1970. Under this assumption, the estimated number of persons with taxable earnings under the hospital insurance program is expected to increase from \$86.7 million during calendar year 1967 to \$92.3 million during calendar year 1970; their taxable earnings are estimated to increase from \$329 billion in 1967 to \$369 billion in 1968 and to \$402 billion in 1970. The increase in estimated income from contributions in fiscal years 1968-70 reflects the assumed upward trend in the levels of employment and earnings, as well as the effect of the scheduled increase in contribution rates and maximum taxable earnings base, effective on January 1, 1968. Benefit disbursements increase from fiscal year 1968 to 1970 because of the long-range upward trend in the number of beneficiaries under the program and the assumed increase in hospitalization costs per unit of service.

TABLE 4.—ACTUAL AND ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND,
FISCAL YEARS 1966-70

[In millions]

Item	Actual		Estimated		
	1966	1967	1968	1969	1970
Income:					
Contributions ¹	\$909	\$2,689	\$3,613	\$4,356	\$4,541
Interest on investments ²	6	46	69	131	179
Transfers from Railroad retirement account		16	44	55	65
Reimbursement for uninsured persons ³		327	541	465	471
Reimbursement for military service wage credits		11	11	11	11
Disbursements:					
Benefits payments		2,508	3,369	3,865	4,258
Administrative expenses ⁴	64	89	83	97	105
Net increase in fund	851	492	825	1,056	904
Fund at end of year	851	1,343	2,168	3,225	4,129

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

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

³ Reimbursement for benefit costs and additional administrative expenses for uninsured persons is made currently from general fund of the treasury (including interest adjustment therefor).

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

Note.—In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared in December 1967.

Income of the trust fund is expected to exceed outgo in each of the fiscal years 1968-70. During this period, there is an estimated net increase in the trust fund of \$2.8 billion.

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

Section 217(g) of the Social Security Act, as amended by the 1965 amendments, provides that the trust fund shall be reimbursed from general revenues for expenditures resulting from the provisions that granted noncontributory \$160 monthly wage credits to persons who served in the Armed Forces at some time during the period September 16, 1940, through December 31, 1956, and from the provisions enacted in 1946 that granted survivor protection to certain World War II veterans for a period of 3 years after leaving service. A description of the legislative history of provisions relating to credit for military service is contained in appendix II. The estimated total additional costs arising from payments that will be made in future years are intended to be amortized by level annual appropriations to the trust fund over a 50-year period beginning in fiscal year 1966 according to a determination made by the Secretary of Health, Education, and Welfare in September 1965 (the amount so determined was \$14.2 million). Periodically, the estimated amount of annual payment will be refigured to reflect actual costs incurred and revision in the future estimates.

The first reimbursement, for fiscal year 1967, amounting to \$11 million, was received by the trust fund in July 1967 (i.e., in fiscal year 1968). A like amount has been appropriated for fiscal year 1968, and it is assumed that the reimbursement will be received by the trust fund in July 1968. Moreover, the Budget Document of the United States for the fiscal year 1969 makes similar provision for another reimbursement to the trust fund. The estimates shown in table 4 reflect the effect of past reimbursements and assume that future reimbursements will be made in similar fashion.

ACTUARIAL STATUS OF THE TRUST FUND

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

The benefit cost will rise for somewhat the same reasons that are applicable to the cash benefits under the old-age, survivors, and disability insurance program and, in addition, because of the likely increase in hospitalization costs per unit of service. The cost for the cash benefits increases primarily because the U.S. population will, in the long run, almost certainly become relatively much older. Hospitalization costs have increased in the past significantly more rapidly than general earnings levels, and it is likely that this trend will continue for some years. Even in the long run, it is likely that hospitalization costs will continue to rise since somewhat over 60 percent of hospital costs are wage costs and since the general earnings level has a similar trend (although the current differential between the rates of increase of these two factors will very probably be eliminated or may even be reversed).

The long-range actuarial cost estimates for the hospital insurance program are made over a future period of 25 years, whereas the long-range actuarial cost estimates for the old-age, survivors, and disability insurance program are made over a 75-year future period. It is believed that a 25-year projection period for the hospital insurance program is as far ahead as should be considered because of the uncertainties as to future hospital practices. Even so, it is necessary to look ahead for a period such as this so as to have some idea of the rising cost that can possibly ensue.

Another difference between the cost estimates for the two programs is that for old-age, survivors, and disability insurance, the cost estimates assume level earnings trends in the future, whereas under the hospital insurance program, rising earnings are assumed; this different approach is used so as to provide a margin of safety in each case. Under the former program, the level-earnings assumption is a conservative one and provides a margin of safety, since increases in earnings, with no changes in the program, result in lower costs relative to taxable payroll; or, to put it another way, this assumption provides a margin that can be used, when earnings rise, to increase benefits without changing the contribution rates. Such increases would, in all probability, be somewhat more than enough to keep up with price changes, so long as the maximum taxable earnings base is also increased from time to time.

On the other hand, under the hospital insurance program, if the maximum taxable earnings base is not increased so as to keep up to date, increases in the general earnings level, when accompanied by parallel (or greater) increases in hospital costs, result in higher costs relative to taxable payroll. The reason for this is that, under these conditions, hospital costs rise more rapidly than covered earnings, whose increase is “dampened” by the effect of the earnings base. Thus, the use of the rising-earnings assumption for the hospital insurance program, coupled with a rising hospital-cost assumption and with the assumption of no change in the earnings base, is of a conservative nature and provides a margin of safety.

Since the cost estimates assume that the earnings base will not be changed in the 25-year period under consideration, but do assume that earnings and hospitalization costs will rise steadily, the cost estimates are on a conservative basis, because it seems unlikely that, in the face of rising earnings, the taxable earnings base would not be changed for 25 years. It is for this reason that steadily increasing contribution rates over the 25-year period were adopted to finance the hospital insurance program. Correspondingly, if the earnings base is kept up to date, and if the experience follows the various assumptions, then the several increases in contribution rates scheduled for 1973 and after will not be necessary; in essence, then, this means that under these conditions, and with the existing contribution schedule, there would be about a 15-percent safety margin in the financing.

Table 5 shows the estimated progress of the hospital insurance trust fund according to the intermediate-cost estimate. This estimate is that which was derived at the time the 1967 amendments were enacted.

TABLE 5.—PROGRESS OF HOSPITAL INSURANCE TRUST FUND, INTERMEDIATE-COST ESTIMATE ¹

[In millions]					
Calendar year	Contributions ¹	Benefit payments	Administrative expenses ¹	Interest on fund	Balance in fund at end of year
Actual data: ²					
1966 -----	\$1,911	\$891	³ \$107	\$31	\$944
1967 -----	3,508	3,353	77	51	1,073
Estimated data: ⁴					
1968 -----	3,972	3,190	112	64	2,066
1969 -----	4,223	3,636	127	90	2,616
1970 -----	4,391	3,982	139	108	2,994
1971 -----	4,564	4,292	150	117	3,233
1972 -----	4,732	4,602	161	121	3,323
1973 -----	5,274	4,912	172	125	3,638
1974 -----	5,503	5,216	183	132	3,874
1975 -----	5,695	5,522	193	135	3,989
1980 -----	8,087	6,940	243	203	6,454
1985 -----	9,241	8,690	304	373	10,731
1990 -----	11,627	10,843	380	553	15,711

¹ Includes transfers from railroad retirement account under financial interchange provisions. These transfers are essentially the contribution collections for the hospital insurance program less the administrative expenses of the Railroad Retirement Board in connection with such collection and certain other aspects of the program. Also includes reimbursement for noncontributory military service wage credits.

² Including transactions with respect to uninsured persons. The payments therefor from the general fund of the Treasury are included in the contributions column (actually, \$37,000,000 in 1966 and \$301,000,000 in 1967).

⁴ Excluding transactions with respect to uninsured persons. The progress of the trust fund is based on a figure of \$1,332,000,000 at the end of 1967, which differs from the actual figure largely because of the fact that reimbursements from the general fund of the Treasury with respect to uninsured persons were not up to date (but such amounts will be paid in the future).

The estimated future progress of the trust fund shown in table 5 does not include the transactions relating to the uninsured persons who are covered for the benefits of this program, the cost for whom is borne out of the general fund of the Treasury. The early-year figures for the progress of the trust fund on a long-range, calendar-year basis shown in table 5, which were prepared in mid-1966 while the legislation was in course of enactment, are not fully consistent with the short-range estimates on a fiscal-year basis, shown in the preceding section, which were prepared in December 1967, but the differences are relatively small. The benefit-payment figures are fully consistent between the two sets of estimates, but the contribution income figures are somewhat lower in the long-range cost estimates.

The estimated level-cost of the benefits under the hospital insurance pro nun is 1.38 percent, of taxable payroll. The level-equivalent of the contribution schedule is estimated at 1.41 percent of taxable payroll.

Accordingly, his estimate indicates that the program has a small positive actuarial balance of 0.03 percent of taxable payroll under the assumptions made.

The benefits with respect to the uninsured group, and the accompanying administrative expenses, are paid from the hospital insurance trust fund, with the intention being that there will be current reimbursement therefor from the general fund of the Treasury. These benefit payments will decrease slowly in the future because the effect, of mortality on this closed group more than offsets the rising trend of hospitalization costs and the increasing hospital utilization per capita for this group, as the average age becomes higher. The estimated benefit payments and administrative expenses for this category for 1968 and the following 4 calendar years are as follows (in millions):

Calendar year:	Outgo
1968.....	\$465
1969.....	471
1970.....	459
1971.....	432
1972.....	403

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

Table 5 also shows data on the actual operation of the hospital insurance trust fund in calendar years 1966 and 1967, including the effect of the benefit payments for uninsured persons and the corresponding reimbursements from the general fund of the Treasury.

CONCLUSION

The current long-range actuarial cost estimates for the hospital insurance system indicate that the system has a favorable actuarial balance. According to the intermediate-cost estimate, the program has a favorable actuarial balance of 0.03 percent of taxable payroll on a level-cost basis computed over the next 25 years. These long-range cost estimates show that the system, as modified by the 1967 amendments and according to the cost estimates made at the time of enactment of that legislation, continues to be financed on an actuarially-sound basis.

It is recognized that, in a new program such as this, the actuarial cost estimates are subject to a range of variation. Nonetheless, the intermediate-cost estimate indicates that a sizable fund will be accumulated, which, after some years, will reach a magnitude of 1 year's benefit payments. In the initial years of operation, the balance in this fund, according to this estimate, should be sufficient to meet any adverse fluctuations of benefit payments as compared with contribution income.

APPENDIXES

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

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

(1) Past increases in hospital costs and in earnings.

Table A presents a summary comparison of the annual increases in daily hospital costs and the corresponding increases in wages that have occurred since 1954 and up through 1966.

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

The annual increases in earnings fluctuated somewhat over the 10-year period up through 1963, although there were not very large deviations from the average annual rate of 4.0 percent; no upward or downward trend over the period is discernible. The annual increases in hospital costs likewise fluctuated from year to year during this period, around the average annual rate of 6.7 percent.

TABLE A.—COMPARISON OF ANNUAL INCREASE IN HOSPITAL COSTS AND IN WAGES
(In percent)

Year	Increase over previous year	
	Average wages in covered employment ¹	Average daily hospitalization costs ²
1955	3.8	6.3
1956	5.7	4.5
1957	5.5	7.7
1958	3.3	8.6
1959	3.3	6.8
1960	4.3	6.8
1961	3.1	8.5
1962	4.2	5.3
1963	2.4	5.6
Average for 1955-63 ³	4.0	6.7
1964	3.1	6.9
1965	1.6	7.0
1966	4.4	8.3

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

² Data are for fiscal years ending in September of year shown. When the data are adjusted on a calendar-year basis, the increase from 1965 to 1966 was determined to be 11.0 percent.

³ Rate of increase compounded annually that is equivalent to total relative increase from 1955 to 1963.

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

Calendar Year	Low-cost	Intermediate-cost	High-cost
1967	12.0	15.0	15.0
1968	10.0	15.0	15.0
1969	8.0	10.0	15.0
1970	6.0	6.0	15.0
1971	5.2	5.2	15.0
1972	4.6	4.6	10.0
1973	4.1	4.1	4.1
1974	3.6	3.6	3.6
1975 and after	3.0	3.0	3.0

Note: It is also assumed in the cost estimates that the General wage level increases at an average rate of 3 percent per year over the 25-year period considered in the estimates (the year-by-year increases will be somewhat more than this in the early years and thus are assumed to be somewhat less in subsequent years).

During the period 1954-63, hospital costs increased at a faster rate than earnings. The differential between these two rates of increase fluctuated widely, being as high as somewhat more than 5 percent in some years and as low as a negative differential of about 1 percent in 1956 (with the next lowest differential being a positive one of about 1 percent in 1962). Over the entire 10-year period, the differential of the average annual rate of increase in hospital costs over the average annual rate of increase in earnings was 2.7 percent.

In 1964-66, the increases in hospital costs as compared to the increase in wages resulted in differentials that are in excess of the 2.7 percent applicable in 1954-63. The 1967 experience to date shows a slightly higher rate of increase in hospital costs than did 1966, but it seems likely that wages also increased more in 1967 than in 1966.

Over the next 25 years, earnings are assumed to increase at an average rate of about 3 percent per year. It is much more difficult to predict what the corresponding increase in hospital costs will be.

(2) *Effect on cost estimates of rising hospital costs*

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

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

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

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

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

As indicated previously, the financing basis of the hospital insurance program should be developed on a conservative basis. For the reasons brought out, the cost estimates should not be developed on a level-earnings basis, but rather they should assume dynamic conditions as to both earnings levels and hospitalization costs. Accordingly, it seems appropriate to make cost projections for only 25 years in the future and to develop the financing necessary for only this period (but with a resulting trust fund balance at the end of the period equal to about 1 year's disbursements). Several estimates of the short-term future trend of average daily hospital costs have recently been made by persons with experience in this field. All of these are well above the rate of 5.7 percent per year until 1970 that was assumed in the initial cost estimates for the program made when it was enacted in 1965. The American Hospital Association has estimated an annual rate of increase of as much as 15 percent for the next 3 to 5 years. The Blue Cross Association has made a corresponding estimate of 9 percent per year in the period up to 1970.

Three sets of assumptions as to the short-term trend of average daily hospital costs have been made. (See table B.) In the cost estimate presented here, only the intermediate-cost assumption is used. In each case, the annual rates of increase are assumed to merge with those used in the initial cost estimates for the program for 1971 for the low-cost and intermediate-cost assumptions and 1973 for the high-cost assumptions; namely, increases slightly above the increases in the earnings level from these dates until about 1975, and then the same increases. The low-cost set of assumptions yields about the same result as the Blue Cross prediction, while the high-cost set corresponds to the highest American Hospital Association prediction. The intermediate-cost set is used to develop the financing provisions of the legislation.

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

The hospital utilization assumptions for the cost estimates in this report are founded on the hypothesis that current practices in this field

will not change relatively more in the future than past experience has indicated. In other words, no account is taken of the possibility that there will be a drastic change in philosophy as to the best medical practices, so as, for example, to utilize in-hospital care to a much greater extent than is now the case.

The hospital utilization rates used for the cost estimates are the same as those used in the initial cost estimates for the program that were prepared when it was enacted in 1965. Analysis of the available actual experience for the first year of operation seems to indicate that it is somewhat higher than the original assumptions, but the evidence is not yet conclusive and there are other cost factors in the assumptions whose experience is in the opposite direction.

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

The average daily cost of hospitalization that is used in these cost estimates is computed in the same manner as the corresponding figures in the initial cost estimates that were prepared when the legislation was enacted in 1965. Specifically, an average of about \$38.50 per day was used for 1966 (as developed under the reimbursement principles prevailing under previous law) and was projected for future years in the manner described previously. Analysis of the experience for interim reimbursements for 1966, for which data as to the adjustments between the interim and final payments are not yet available, indicates that this assumption was somewhat higher than the experience (before taking into account the effect of such adjustments).

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

The limited experience that is available to date in regard to the extended care facility benefits indicates that their cost will be considerably in excess of the initial estimates. It now appears that these benefits will amount to about \$250 to \$300 million in the first year of operation (calendar year 1967) as against the estimate of \$25 to \$50 million. The apparent major reason for this difference is the much larger number of facilities that qualified than had been expected according to the estimate. It should also be recognized that the original estimate was made on the basis of relatively little data, since this type of benefit had not been widely provided previously, which is a favorable factor in the cost estimates.

Accordingly, the cost estimates have been modified by increasing the estimated benefit outgo in 1967, as presented in previous cost estimates, by \$250 million with respect to insured persons (and a proportionate amount for noninsured persons). This figure is increased each future year up through 1975 by the assumed increases in hospitalization costs. After 1975, the same assumption as to hospitalization-cost increases is continued, but the resulting figure is gradually scaled down until it is taken as zero for 1990 (since the estimate for that year already includes the ultimate costs for extended care facility benefits). Appropriate corresponding assumptions are made for the noninsured group, taking into account its decreasing size and its increasing average age, which results in greater relative use of the extended care facility benefits.

(7) Assumptions as to home health service benefits underlying cost estimates

The cost estimates for the posthospital home health service benefits are based on rather limited data. These benefits are estimated to have a relatively low cost in the early years of operation (about \$10 million in the initial estimate for the first full year). The initial estimated first-year cost was low primarily because of the small number of qualifying facilities that had been estimated to be available; the number that have qualified has been several times larger than anticipated in the cost estimates for the first year of the program and more in line with what had been anticipated in the long run. Allowance has been made in the cost estimates for the likely future expansion of facilities providing such services. The actual experience in the first full year of operation (fiscal year 1967) showed expenditures of about \$16 million (on an accrual basis), or somewhat more than the estimate of \$10 million.

(8) Administrative expenses

It has been assumed that the administrative expenses in connection with the hospital insurance program, including those of the fiscal intermediaries that are reimbursable under the program, will amount to 3.5 percent of the benefit payments, which is consistent with the actual experience in fiscal year 1967. It appears, however, that this ratio will be somewhat lower in the future (especially as hospital costs increase more rapidly than other prices) so that this assumption somewhat overstates the cost of the program.

(9) Interest rate

An interest rate of 3.75 percent is used in determining the level-costs of the benefit payments and administrative expenses and the level-equivalent of the contributions. However, in developing the progress of the trust fund, a higher rate is used in the first 10 years; namely, 5 percent initially, gradually declining to a level of 4 percent after 1975. As of December 31, 1967, the average yield of the invested assets of the trust fund was 4.94 percent. The 3.75 percent rate used for the level-cost calculations thus is on the low side, so that this assumption somewhat overstates the cost of the program.

(10) Timing of benefit payments

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

(11) Other change in assumptions from those in initial cost estimates

In the cost estimate of this report there has been used the new population projection that was used in the cost estimates made for the old-age, survivors, and disability insurance system in late 1966 (and used in the 1967 report of the Board of Trustees for this program).

In the cost estimates for this report, benefit disbursements were increased by 2 percent to allow for the provision in the reimbursement principles for providers of services that, in general, gives an increase of 2 percent of operating costs as an allowance for costs not readily measurable (1.5 percent for proprietary institutions) and by 0.2 percent as an allowance for the accelerated-depreciation methods provided in the reimbursement principles for providers of services (the original estimates had assumed only the straight-line depreciation method).

APPENDIX II. LEGISLATIVE HISTORY AFFECTING THE TRUST FUND

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

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

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

Credits for military service.—The Social Security Act Amendments of 1946 provided survivor-insurance protection to certain World War II veterans for a period of 3 years following their discharge from the Armed Forces. The 1950 amendments provided noncontributory \$160 monthly wage credits to persons who served in the Armed Forces during World War II, and amendments in 1952-56 provided similar noncontributory credits on account of active military or naval service from July 25, 1947, through December 31, 1956. The 1956 amendments provided contributory coverage for military personnel beginning January 1, 1957. The 1967 amendments provide noncontributory credits of \$100 a month (generally) as an allowance for the value of living expenses provided.

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

Coordination of hospital insurance and railroad retirement program.—Public Law 234, approved October 30, 1951, amended the Railroad Retirement Act to provide a basis of coordinating the railroad retirement program with the old-age and survivors insurance system, and this is also applicable to the hospital insurance system as a result of Public Law

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

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

Investments.—Since the inception of the program, provision has been made for the investment of funds which are not required to meet current disbursements. As provided in the Social Security Act, the funds may be invested only in interest-bearing obligations of the U.S. Government or in obligations guaranteed as to both principal and interest by the United States; or the funds may be invested in certain federally-sponsored agency obligations that are designated in the laws authorizing their issuance as lawful investments for fiduciary and trust funds under the control and authority of the United States or any officer of the United States. These obligations may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price. In addition, the Social Security Act authorizes the issuance of public-debt obligations for purchase by the trust funds.

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

**APPENDIX III. STATUTORY PROVISIONS, AS OF JANUARY 2, 1968,
CREATING THE TRUST FUND, DEFINING THE DUTIES OF THE BOARD OF
TRUSTEES, FINANCING THE COST OF NONCONTRIBUTORY CREDITS FOR
MILITARY SERVICE, FINANCING THE COST OF BENEFITS FOR
PRESENTLY UNINSURED INDIVIDUALS, AND PROVIDING FOR ADVISORY
COUNCILS ON SOCIAL SECURITY**

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

FEDERAL HOSPITAL INSURANCE TRUST FUND

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

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

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

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

(b) With respect to the Trust Fund, there is hereby created a body to be known as the Board of Trustees of the Trust Fund (hereinafter in this section referred to as the "Board of Trustees") composed of the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health,

Education, and Welfare, all ex officio. The Secretary of the Treasury shall be the Managing Trustee of the Board of Trustees (hereinafter in this section referred to as the "Managing Trustee"). The Commissioner of Social Security shall serve as the Secretary of the Board of Trustees. The Board of Trustees shall meet not less frequently than once each calendar year. It shall be the duty of the Board of Trustees to—

- (1) Hold the Trust Fund;
- (2) Report to the Congress not later than the first day of April of each year on the operation and status of the Trust Fund during the preceding fiscal year and on its expected operation and status during the current fiscal year and the next 2 fiscal years;
- (3) Report immediately to the Congress whenever the Board is of the opinion that the amount of the Trust Fund is unduly small; and
- (4) Review the general policies followed in managing the Trust Fund, and recommend changes in such policies, including necessary changes in the provisions of law which govern the way in which the Trust Fund is to be managed.

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

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

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

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

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

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

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

(h) The Managing Trustee shall also pay from time to time from the Trust Fund such amounts as the Secretary of Health, Education, and Welfare certifies are necessary to make the payments provided for by this part, and the payments with respect to administrative expenses in accordance with section 201(g)(1).

FINANCING THE COST OF BENEFITS IN CASE OF VETERANS

SEC. 217. * * *

* * * * *

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

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

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

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

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

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

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

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

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

PAYMENTS AND BEPORTS BY STATES

SEC. 218. * * *

* * * * *

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

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

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

DEPOSITS IN TBUST FUNDS; ADJUSTMENTS

SEC. 218. * * *

* * * * *

(h) (1) All amounts received by the Secretary of the Treasury under an agreement made pursuant to this section shall be deposited in the Trust

Funds and the Federal Hospital Insurance Trust Fund in the ratio in which amounts are appropriated to such Funds pursuant to subsection (a) (3) of section 201, subsection (b) (1) of such section, and subsection (a) (1) of section 1817, respectively.

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

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

FAILURE TO MAKE PAYMENTS

SEC. 218. * * *

* * * * *

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

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

SEC. 229. * * *

* * * * *

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

FINANCING THE COST OF BENEFITS FOR PRESENTLY UNINSURED INDIVIDUALS

SEC. 103. * * *

* * * * *

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

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

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

(3) any loss in interest to such Trust Fund resulting from the payment of such amounts,

in order to place such Trust Fund in the same position at the end of such fiscal year in which it would have been if the preceding subsections of this section had not been enacted.

ADVISORY COUNCIL ON SOCIAL SECURITY

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

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

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

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

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

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

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

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

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

APPENDIX IV. SUMMARY OF PRINCIPAL PROVISIONS

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

I. COVERAGE PROVISIONS (FOR CONTRIBUTION PURPOSES)

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

(b) All railroad workers (covered directly by system, and not through financial interchange provisions, if railroad retirement taxable wage base is not the same as the hospital insurance base; if bases are the same, railroad retirement system collects contributions and transfers them to hospital insurance trust fund through financial interchange provisions; ¹ hospital insurance trust fund pays benefits to suppliers of services in either case).

II. PERSONS PROTECTED (FOR BENEFIT PURPOSES)

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

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

III. BENEFITS PROVIDED

(a) Hospital benefits: full cost of all hospital services (i.e., including room and board, operating room, laboratory tests and X-rays, drugs, dressings, general nursing services, and services of interns and residents

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

in training) for semi-private accommodations for up to 90 days in a “spell of illness” (a period beginning with the 1st day of hospitalization and ending after the person has been out of a hospital and an extended care facility for 60 consecutive days), after a deductible of \$40 and coinsurance of \$10 per day for all days after the 60th one and also a deductible of the cost of the first 3 pints of blood; in addition to such 90 days per spell of illness, a “lifetime reserve” of 60 days with coinsurance of \$20 per day is available; after 1968, the deductible and the coinsurance amounts will be automatically adjusted to reflect changes in hospital costs after 1966; lifetime maximum of 190 days for psychiatric hospital care.

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

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

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

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

IV. FINANCING

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

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

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