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1967 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

LETTER

FROM

ACTING SECRETARY OF THE TREASURY

SECRETARY OF LABOR

SECRETARY OF HEALTH, EDUCATION, AND WELFARE

COMMISSIONER OF SOCIAL SECURITY AND SECRETARY, BOARD OF TRUSTEES

TRANSMITTING

THE 1967 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

FEBRUARY 28, 1967.—Referred to the Committee on Ways and Means, and ordered to be printed

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LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL HOSPITAL INSURANCE TRUST FUND,
Washington, D.C., February 28, 1967.

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

SIR: We have the honor to transmit to you the 1967 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund, in compliance with the provisions of section 1817(b) of the Social Security Act, as amended, which is the second such report.

Respectfully,

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

W. WILLARD WIRTZ,
Secretary of Labor.

JOHN W. GARDNER,
Secretary of Health, Education, and Welfare.

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

Click on a Topic Below

CONTENTS

1967 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

Since the hospital insurance program did not provide benefit protection until July 1, 1966, there were no benefits paid in the fiscal year 1966. There were transactions in the trust fund, however, the first ones occurring in February, due to the facts that hospital insurance taxes commenced January 1, 1966, and that there were significant administrative expenses incurred prior to the commencement of benefits.

Total receipts of the hospital insurance trust fund in the fiscal year 1966 amounted to $915 million, of which $6 million was interest on investments. Total disbursements consisted entirely of administrative expenses, amounting to $64 million. The balance in the fund at the end of the fiscal year 1966 was $851 million.

LEGISLATION IN 1965

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 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).

[1] Public Law 89-212, approved Sept. 29, 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.

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 1965 and before age 65, so that the provision becomes ineffective for men attaining age 65 after 1973 (for women, 1971), since then the "regular" insured status conditions for cash benefits are easier to meet.

III. Benefits provided

(*a*) Hospital benefits: Full cost of all hospital services (i.e., including room and board, operating room, laboratory tests and X-rays, drugs, dressings, general nursing services, and services of interns and residents in training) for semiprivate accommodations for up to 90 days in a "spell of illness" (a period beginning with the first day of hospitalization and ending after the person has been out of a hospital 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; after 1968, the $40 deductible and the $10 coinsurance 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 home-bound 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*) Out-patient hospital diagnostic services benefits: 80 percent of the cost of such services, after a deductible of $20 with respect to services furnished by a particular hospital in a 20-day period; the amount of the deductible would be adjusted after 1968 in the same manner as the hospital deductible; any deductible paid for these services is used as an incurred expense under the voluntary supplementary plan.

(*e*) 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.

(*f*) 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 and development of transfer agreements between hospitals and extended-care facilities.

(*g*) Effective date: July 1, 1966, for all benefits except extended care facility benefits (January 1, 1967).

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 A), with same maximum taxable earnings base as scheduled for the old-age, survivors, and disability insurance system, $6,600; 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*) Noninsured persons: From general revenues, through the hospital insurance trust fund.

TABLE A.—*Hospital insurance contribution rates*

[In percent]

Calendar year—	*Rate* [1]
1965	-----
1966	0.35
1967–72	.50
1973–75	.55
1976–79	.60
1980–86	.70
1987 and after	.80

[1] Rate for employee; same for both employer and self-employed.

Legislation in 1966

Section 7 of Public Law 89–713, approved November 2, 1966, required that regulations in the case of extended care services furnished by proprietary facilities shall include provision for specific recognition of a reasonable return on equity capital (including necessary working capital) invested in the facility and used in the furnishing of such services. The rate of return shall not exceed 1½ times the average of the rates of interest on obligations issued for purchase by the Federal hospital insurance trust fund.

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.

The major sources of receipts of the trust 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. All employees and their employers in employment covered by the program are required to pay contributions with respect to the wages of individual workers. All covered self-employed persons are required to pay contributions with respect to their self-employment income. In general, beginning with calendar year 1966, an individual's contributions are computed on annual wages or self-employment income, or both wages and self-employment income combined, up to a maximum of $6,600, with the contributions being determined first on the wages and then on any self-employment income necessary to make up the $6,600.

Under the Internal Revenue Code, as amended, the contribution rates in effect for calendar year 1966 are 0.35 percent each for employees, for their employers, and for the self-employed. Table A shows the scheduled increases in tax rates in the present law.

Except for amounts received by the Secretary of the Treasury under State agreements (to effect coverage under the program for State and local government employees) and deposited directly in the trust fund, all contributions for both hospital insurance and old-age, survivors, and disability insurance 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, after proper allocation, are transferred to the hospital insurance, old-age and survivors insurance, and disability insurance trust funds 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 contributions; old-age, survivors, and disability insurance contribution; 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 each of the trust funds in the ratio in which the amount was appropriated to or deposited in such trust funds for that period.

The hospital insurance trust fund also has receipts from appropriations from the general fund of the Treasury with respect to the benefit payments to presently uninsured persons (and the accompanying administrative expenses).

Another source from which receipts of the hospital insurance trust fund are derived is interest received on investments held by the trust fund. The investment procedures of the trust 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. A system of coordination and financial interchange between the railroad retirement and hospital insurance programs is provided. A description of the legislative provisions governing the allocation of costs between the two programs 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, 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 will accumulate 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 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 not credited to the trust funds, but rather are used as an offset to administrative expenses under the appropriations from Congress. Accordingly, such administrative expenses, and the offsetting receipts, do not appear in the financial statements of the trust funds.

Public Law 881, approved August 1, 1956, granted noncontributory $160 monthly wage credits to persons who served in the Armed Forces from September 16, 1940, through December 31, 1956. Public Law 85–840 broadened the provisions of prior law dealing with noncontributory wage credits of $160 for each month of active military service for the United States to provide such credits for certain American citizens who served in the Armed Forces of our allies during World War II. Public Law 89–97 provided that the hospital insurance trust fund will be reimbursed for the additional costs arising from these provisions for noncontributory credit for military service. A summary of the method for the financing of credit for military service appears in appendix II.

Expenditures for benefit payments and administrative expenses under the hospital insurance program are paid out of the hospital insurance trust fund. All expenses incurred by the Department of Health, Education, and Welfare and by the Treasury Department in carrying out the hospital insurance 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 fund in accordance therewith.

The managing trustee invests that portion of the trust fund which, in his judgment, is not required to meet current expenditures for benefits and administration. The Social Security Act restricts permissible investments of the trust fund to interest-bearing obligations of the U.S. Government or to obligations guaranteed as to both principal and interest by the United States. Obligations of these types may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price. In addition, the Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust fund. The law requires that such special public-debt obligations shall have maturities fixed with due regard for the needs of the trust fund and shall bear interest at a rate based on the average market yield (computed by the managing trustee on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States forming a part of the public debt which are not due or callable until after the expiration of 4 years from the end of such calendar month. Where such average market yield is a multiple of one-eighth of 1 percent, this is taken as the rate of interest on such special obligations; otherwise, such rate is the multiple of one-eighth of 1 percent nearest such market yield.

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

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 1 and 2.

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

Summary of the Operations of the Trust Fund, Fiscal Year 1966

Tax 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 fter

January 1, 1966. A statement of the income and disbursements of the Federal hospital insurance trust fund for the fiscal year is presented in table B.

The total receipts of the trust fund amounted to $915 million. Of this total, $862 million represented tax collections appropriated to the trust fund and $47 million represented amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the trust fund. The remaining $6 million of receipts consisted of net interest on the investments of the trust fund

Disbursements of the trust fund amounted to $64 million, representing administrative expenses only, since benefit payments under the program did not begin until July 1966.

The assets of the trust fund at the end of fiscal year 1966 totaled $851 million, consisting of $786 million in the form of obligations of the U.S. Government, and $65 million in undisbursed balances (table C).

TABLE B.—*Statement of operations of the hospital insurance trust fund during the fiscal year 1966*

Receipts, fiscal year 1966:		
Tax contributions:		
Appropriations	$862, 000, 000. 00	
Deposits arising from State agreements	46, 796, 913. 88	
Net tax contributions	908, 796, 913. 88	
Interest:		
On investments	6, 898, 007. 15	
Less interest on amounts transferred to old-age and survivors insurance trust fund for reimbursed administrative expenses	927, 855. 00	
Net interest	5, 970, 152. 15	
Total receipts	914, 767, 066. 03	
Disbursements:		
Administrative expenses:		
Reimbursement to old-age and survivors insurance trust fund:		
For administrative expenses of the Department of Health, Education, and Welfare	61, 768, 325. 00	
For construction of facilities for Social Security Administration	88, 675. 00	
Treasury Department	1, 706, 531. 62	
Net administrative expenses	63, 563, 531. 62	
Total disbursements	63, 563, 531. 62	
Net addition to the trust fund		$851, 203, 534. 41
Total assets of the trust fund, June 30, 1966		851, 203, 534. 41

NOTE.—The hospital insurance trust fund was created by the Social Security Amendments of 1965. Receipts and disbursements both began in February 1966. Expenditures for benefits began in July 1966.

TABLE C.—*Assets of the hospital insurance trust fund, by type, at end of fiscal year 1966*

	Par value	Book value
Investments in public-debt obligations sold only to this fund (special issues):		
Certificates of indebtedness: 4⅞ percent, 1967	$52,383,000	$52,383,000.00
Notes:		
4⅞ percent, 1968	52,383,000	52,383,000.00
4⅞ percent, 1969	52,383,000	52,383,000.00
4⅞ percent, 1970	52,383,000	52,383,000.00
4⅞ percent, 1971	576,226,000	576,226,000.00
Total investments in public-debt obligations	785,758,000	785,758,000.00
Undisbursed balances		65,445,534.41
Total assets		851,203,534.41

The 1965 amendments provided that the public-debt obligations issued for purchase by the hospital insurance trust fund shall 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, 1966, special issues held by the hospital insurance trust fund were distributed in equal amounts of $52,383,000 maturing in each of the 5 years, 1967–71 (table C). In addition, $523,843,000 (representing 10 years' annual amounts at the foregoing $52,383,000 rate) was invested in 5-year notes bearing 4⅞-percent interest and maturing on June 30, 1971. These latter 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, $52,383,000 of bonds maturing in each of the 10 years, 1972–81. Such bonds—with more than 5 years to maturity—would have been required, under present law (31 U.S.C. 752), to bear an interest rate no higher than 4¼ percent. However, the application of section 1817(c) of the Social Security Act, relating to the determination of the interest rate on special issues, resulted in a rate of 4⅞ percent. Accordingly, a 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 4⅞-percent notes maturing June 30, 1971.

The net increase in the par value of the investments owned by the trust fund during fiscal year 1966 amounted to $786 million. New securities at a par value of $1,620 million were acquired during the fiscal year through the investment of receipts, the reinvestment of funds made available from the maturity or sale of securities, and the exchange of securities. The par value of securities redeemed, exchanged, or sold during the fiscal year was $834 million. A summary of transactions for the fiscal year, by type of security, is presented in table D.

TABLE D.—*Statement of transactions in public-debt securities for the hospital insurance trust fund during the fiscal year 1966*

[All amounts represent par values]

	Acquisitions	Dispositions
Obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
4¾ percent, 1966	$454,938,000	$454,938,000
4⅞ percent, 1966	236,125,000	236,125,000
4⅞ percent, 1967	52,383,000	0
5 percent, 1966	143,001,000	143,001,000
Notes:		
4⅞ percent, 1968	52,383,000	0
4⅞ percent, 1969	52,383,000	0
4⅞ percent, 1970	52,383,000	0
4⅞ percent, 1971	576,226,000	0
Total transactions	1,619,822,000	834,064,000

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING THE PERIOD JULY 1, 1966, TO JUNE 30, 1969

In the following statement of the expected operations and status of the hospital insurance trust fund during the period July 1, 1966, to June 30, 1969, 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 1 to show the expected operations of the trust fund in fiscal years 1967–69. They are based on the assumption that economic activity will expand throughout the period, with employment and earnings increasing steadily. Under this assumption the estimated number of persons with taxable earnings under the hospital insurance program is expected to increase from 83½ million during calendar year 1966 to 90 million during calendar year 1969; their taxable earnings are estimated to increase from $314 billion in 1966 to $357 billion in 1969. The increase in estimated income from contributions in fiscal years 1967–69 reflects the assumed upward trend in the levels of employment and earnings as well as the effect of the scheduled increase in contribution rates, effective on January 1, 1967. Benefit disbursements increase from fiscal year 1967 to 1969 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 1.—*Actual and estimated future operations of the hospital insurance trust fund, fiscal years 1966–69*

[In millions]

Item	Actual 1966	Estimated 1967	Estimated 1968	Estimated 1969
Income:				
Tax contributions [1]	$909	$2,646	$3,302	$3,339
Interest on investments [2]	6	62	94	142
Transfers from railroad retirement account		16	44	46
Reimbursement for uninsured persons: [3]				
Benefit payments		270	262	[4] 423
Administrative expenses		56	11	12
Reimbursement for military service wage credits		22	11	11
Disbursements:				
Benefit payments		2,395	2,624	2,822
Administrative expenses [5]	64	85	96	103
Net increase in fund	851	592	1,004	1,048
Fund at end of year	851	[6] 1,444	[6] 2,447	[6] 3,495

[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 (interest adjustment therefor is included in "interest on investments" item).
[4] Includes adjustment for fact that appropriations for benefit payments for 1967 and 1968 were not adjusted to allow for higher number of persons eligible on an uninsured basis than had originally been estimated.
[5] Receipts from sales of surplus materials, services, etc., are deducted from gross administrative expenses.
[6] Includes $50 million of investments in participation certificates (issued by the Federal National Mortgage Association).

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

Income of the trust fund is expected to exceed outgo in each of the 4 fiscal years 1966–69. During this period, there is an estimated net increase in the trust fund of $3.5 billion. Benefit disbursements from the trust fund will increase over the period as the program goes into operation.

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 1 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 budget of the U.S. Government for the fiscal year 1968 makes provision for an appropriation for this reimbursement amounting to $11 million for this fiscal year. In fiscal year 1967, an appropriation of the same amount was made for both fiscal years 1966 and 1967. The estimates shown in table 1 reflect the effect of the annual reimbursements on this basis.

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. Long-range estimates are needed, therefore, to show how much the cost is likely to increase and to indicate whether the scheduled tax rates are adequate.

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, on the average. 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 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, increases in the general earnings level, when accompanied by parallel increases in hospitalization costs, result in higher costs relative to taxable payroll unless the maximum taxable earnings base is kept up to date, since under these conditions hospitalization costs rise