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1981 ANNUAL REPORT
FEDERAL SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND

COMMUNICATION

FROM

THE BOARD OF TRUSTEES
FEDERAL SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND

TRANSMITTING

THE 1981 ANNUAL REPORT OF THE BOARD, PURSUANT TO SECTION 1341(b) OF THE SOCIAL SECURITY ACT

JULY 8, 1981.—Referred to the Committees on Energy and Commerce, and Ways and Means and ordered to be printed

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U.S. GOVERNMENT PRINTING OFFICE

81–439 O WASHINGTON : 1981

LETTER OF TRANSMITTAL

Board of Trustees of the
Federal Supplementary Medical Insurance Trust Fund
Washington, D.C., July 2, 1981

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

SIR: We have the honor to transmit to you the 1981 Annual Report of the Board of Trustees of the Federal Supplementary Medical Insurance Trust Fund (the 16th such report), in compliance with the provisions of section 1841(b) of the Social Security Act.

Respectfully,

Donald T. Regan

DONALD T. REGAN,
Secretary of the Treasury,
and Managing Trustee of the Trust Fund

Ray Donovan

RAYMOND J. DONOVAN,
Secretary of Labor,
and Trustee

Richard S. Schweiker

RICHARD S. SCHWEIKER,
Secretary of Health and Human Services,
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CAROLYNE K. DAVIS, Ph.D.,
Administrator of the Health Care Financing
Administration, and Secretary, Board of Trustees

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Click on a Topic Below

C O N T E N T S

1981 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND

THE BOARD OF TRUSTEES

The Federal Supplementary Medical Insurance Trust Fund, established on July 30, 1965, is held by the Board of Trustees under the authority of section 1841(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 and Human Services. The Secretary of the Treasury is designated by law as the Managing Trustee. The Administrator of the Health Care Financing Administration is Secretary of the Board. The Board of Trustees reports to the Congress once each year in compliance with section 1841(b)(2) of the Social Security Act. This is the 1981 annual report, the sixteenth such report.

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HIGHLIGHTS

(a) Disbursements of the supplementary medical insurance trust fund increased 21.8 percent in fiscal year 1980 over 1979. Most of this increase resulted from higher physician fees recognized by the program and the use of more physician services by program enrollees.

(b) Income to the trust fund increased 4.4 percent in fiscal year 1980 over 1979. This resulted from increased adequate actuarial rates which determine the general revenue contribution and from increased enrollment in the program.

(c) The trust fund decreased $462 million to $4,532 million during 1980.

(d) In December of 1980, the Secretary of Health and Human Services promulgated a standard monthly premium rate of $11.00 and adequate actuarial rates of $22.60 for the aged enrollees and $36.60 for the disabled enrollees for the 12-month period ending June 30, 1982.

(e) An average 24.4 million persons aged 65 and over were enrolled in the program in fiscal year 1980. This is about 95 percent of the aged population. An additional 2.7 million disabled beneficiaries were enrolled in the same period.

SOCIAL SECURITY AMENDMENTS SINCE THE 1980 TRUSTEES REPORT

Public Law 96-499, "The Omnibus Reconciliation Act of 1980," which was enacted on December 5, 1980, has many provisions which have an impact upon the Federal Supplementary Medical Insurance Trust Fund. They are:

(1) Limits are imposed on reimbursement for markups of physicians' bills for services performed by independent clinical laboratories. The limit is the lesser of the reasonable charge of the laboratory, or the amount it actually charged the physician, plus a minimal fee for physician handling of the specimen. Effective April 1, 1981.

(2) An unlimited number of home health visits is provided and occupational therapy becomes a qualifying criterion for such services. Effective July 1, 1981.

(3) The $60 deductible applied to home health benefits is eliminated. Effective July 1, 1981.

(4) Full coverage is extended without deductible or coinsurance for diagnostic tests furnished by a hospital outpatient department and, to the extent practicable, for tests administered in a physician's office (applies only where tests are performed within seven days of hospital admission). Effective upon enactment.

(5) Comprehensive outpatient rehabilitation facilities are reimbursed as Medicare providers. Effective July 1, 1981.

(6) Reimbursement is extended to include the costs of certain surgical procedures specified by the Secretary which are performed in ambulatory surgical centers and, under certain conditions, in physicians'

offices. Physicians who accept assignment for such procedures will be reimbursed at 100 percent of reasonable charges. Effective upon enactment.

(7) The annual limit is raised from $100 to $500 for reimbursable outpatient services furnished by independently practicing physical therapists. Effective with calendar year 1982.

(8) Coverage is extended to include services performed by dentists whenever the procedure would have been covered if performed by a physician. Effective July 1, 1981.

(9) Coverage is extended to include services furnished by optometrists in connection with the condition of aphakia. Effective April 1, 1981.

(10) Coverage is provided for a reasonable supply of antigens, including a supply forwarded to another physician or rural health clinic for administration. Effective January 1, 1981.

(11) Coverage is provided for the treatment of plantar warts. Effective July 1, 1981.

(12) Provisions authorizing presumed periods of coverage by type of diagnosis for skilled nursing facility and home health services are repealed. Effective January 1, 1981.

(13) Reimbursement for outpatient services to providers is limited to the reasonable cost of services less the copayment amounts charged beneficiaries. Effective upon enactment.

(14) One hundred percent reimbursement for radiologists and pathologists is limited to physicians who agree to accept assignment for all hospital inpatients. Effective July 1, 1981.

(15) The requirement that a physician establish a detailed treatment plan for speech pathology services is repealed. Effective January 1, 1981.

(16) Continuous open enrollment in the SMI program is provided. Effective April 1, 1981.

(17) Unlimited re-enrollment in the SMI program is provided. Effective April 1, 1981.

(18) The determination of reasonable charge is based on the date the medical service was rendered rather than the date on which the claim was processed. Effective with bills submitted, or requests for payment made, on or after July 1, 1981.

(19) States which do not have SMI buy-in agreements may enter into such agreements and those which have buy-in agreements covering only cash assistance recipients may cover other Medicaid eligibles. Effective during calendar year 1981 only.

(20) Individuals whose State buy-in coverage has ended may terminate coverage effective with the month the Health Care Financing Administration (HCFA) is notified that such coverage is no longer desired, rather than having to continue enrollment for as long as 6 months.

(21) Section 227 of P.L. 92-603 (concerning reimbursement to physicians in teaching hospitals), which was never implemented, is repealed.

(22) Medicare would be the secondary payor in accident cases where care could be paid for under liability coverage or under no-fault insurance. Effective upon enactment.

(23) Medicare reimbursement may be made, prior to payment of the physician bill, to the person with the legal obligation to pay bills for a deceased beneficiary. Effective with claims filed on or after January 1, 1981.

Public Law 96-611, which was enacted on December 28, 1980, provides coverage, without deductible or coinsurance, for pneumococcal vaccine and its administration. Effective date July 1, 1981.

NATURE OF THE TRUST FUND

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

The major sources of receipts of the trust fund are (1) premiums paid by eligible persons who are voluntarily enrolled in the program and (2) contributions of the Federal Government that are authorized to be appropriated and transferred from the general fund of the Treasury. Eligible persons aged 65 and over have been able to enroll in the program since its inception in July 1966. Since July 1973, disabled persons under age 65, who meet certain eligibility requirements, have also been able to enroll in the program.

The premiums paid by participants are based on the standard monthly premium rate, which is the same for participants aged 65 and over and for disabled participants under age 65. Premiums paid for fiscal years 1967 through 1973 were matched by an equal amount of Government contributions. Beginning July 1973, the amount of Government contributions corresponding to premiums paid by each of the two groups of participants is determined by applying a ratio, prescribed in the law for each group, to the amount of premiums received from that group of participants. The ratio is equal to (1) twice the amount of the adequate actuarial rate applicable to the particular group of participants, minus the amount of the standard monthly premium rate, divided by (2) the amount of the standard monthly premium rate.

Standard monthly premium rates and adequate actuarial rates are promulgated each year by the Secretary of Health and Human Services. The standard monthly premium rates in effect from the beginning of the program, July 1966 through June 1981, and the rate promulgated for July 1981 through June 1982 are shown in table 1. Adequate actuarial rates in effect from July 1973 through June 1981, and the rates promulgated for July 1981 through June 1982 are also shown.

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.

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

Expenditures for benefit payments and administrative expenses under the program are paid out of the trust fund. All expenses incurred by the Department of Health and Human Services and by the Department of the Treasury in carrying out the supplementary medical insurance provisions of title XVIII of the Social Security Act are charged to the trust fund. The Secretary of Health and Human Services certifies benefit payments to the Managing Trustee, who makes the payments from the trust fund in accordance therewith.

TABLE 1.--STANDARD MONTHLY PREMIUM RATES AND ADEQUATE ACTUARIAL RATES

	Standard monthly premium rate	Adequate actuarial rate	
		Participants aged 65 and over	Disabled participants under age 65
July 1966-March 1968	$ 3.00	--	--
April 1968-June 1970	4.00	--	--
12-month period ending June 30 of --			
1971	5.30	--	--
1972	5.60	--	--
1973	5.80	--	--
1974*	6.30	$ 6.30	$14.50
1975	6.70	6.70	18.00
1976	6.70	7.50	18.50
1977	7.20	10.70	19.00
1978	7.70	12.30	25.00
1979	8.20	13.40	25.00
1980	8.70	13.40	25.00
1981	9.60	16.30	25.50
1982	11.00	22.60	36.60

* In accordance with limitations on the costs of health care imposed under Phase III of the Economic Stabilization program, the standard premium rate for July and August 1973 was set at $5.80 and $6.10, respectively. Effective September 1973, the rate increased to $6.30.

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

The Social Security Amendments of 1967 and 1972 authorize the Secretary of Health and Human Services to develop and conduct a broad range of experiments and demonstration projects designed to determine various methods of increasing efficiency and economy in providing health care services, while maintaining the quality of such services, under the hospital insurance and supplementary medical insurance programs. A sizeable portion of such costs of such experiments and demonstration projects are paid out of the hospital insurance and supplementary medical insurance trust funds, with the remainder funded through general revenues.

Congress has authorized expenditures from the trust funds for construction, rental, and lease or purchase contracts of office buildings and related facilities for use in connection with the supplementary medical insurance program. Both the capital costs of construction financed directly from the trust fund and the rental, lease, or purchase contract costs of acquiring facilities are included in trust fund expenditures. In 1972-75, construction of several large facilities was authorized under purchase contract authority, wherein initial capital costs were borne by the private sector.

Under this method of facilities acquisition, trust fund expenditures for use and ultimate Government ownership of a facility are made over periods of from 10 to 30 years. Whatever the manner of acquisition, the net worth of facilities and other fixed capital assets is not carried in the statement of the assets of the trust fund presented in this report. This is because the value of fixed capital assets does not represent funds available for benefit or administrative expenditures and, therefore, is not viewed as being a consideration in assessing the actuarial status of the funds.

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

The Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust fund. The law requires that such special public-debt obligations shall bear interest at a rate based on the average market yield (computed on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States forming a part of the public debt which are not due or callable until after the expiration of 4 years from the end of such calendar month.

SUMMARY OF THE OPERATIONS OF THE TRUST FUND, FISCAL YEAR 1980

A statement of the income and disbursements of the Federal Supplementary Medical Insurance Trust Fund in fiscal year 1980 and of the assets of the fund at the beginning and end of the fiscal year is presented in table 2. Comparable amounts for fiscal year 1979 are also shown in the table.

The total assets of the trust fund amounted to $4,994 million on September 30, 1979. During fiscal year 1980, total receipts amounted to $10,275 million, and total disbursements were $10,737 million. Total assets thus decreased $462 million during the year to a total of $4,532 million on September 30, 1980.

Of the total receipts, $2,637 million represented premium payments by (or on behalf of) participants aged 65 and over, and $291 million represented premium payments by (or on behalf of) disabled participants under age 65. Total premium payments amounted to $2,928 million, an increase of 11.1 percent over the amount of $2,635 million for the preceding year. This increase in premiums from participants resulted primarily from (1) the growth in the number of persons enrolled in the supplementary medical insurance program and (2) the increase from $8.20 to $8.70 per month in the standard premium rate that became effective on July 1, 1979, and the increase from $8.70 to $9.60 per month in the standard premium rate that became effective on July 1, 1980.

Contributions received from the general fund of the treasury amounted to $6,932 million. This amount consisted of $5,601 million representing contributions relating to premiums paid by participants aged 65 and over,

Table 2.—STATEMENT OF OPERATIONS OF THE SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND DURING FISCAL YEARS 1979 and 1980
(In thousands)

	Fiscal year 1979	Fiscal year 1980
Total assets of the trust fund, beginning of period	$3,968,425	$4,993,913
Receipts:		
Premiums from participants:		
Participants aged 65 and over	2,372,679	2,636,849
Disabled participants under age 65	262,813	290,862
Total premiums	2,635,492	2,927,711
Transfers from general fund of the Treasury:		
Government contributions:		
For premiums received from participants aged 65 and over	5,459,406	5,601,297
For premiums received from disabled participants under age 65	1,368,383	1,321,754
Total Government contributions	6,827,790	6,923,051
Interest on delayed transfers of Government contributions	12,995	8,663
Total transfers from general fund of the Treasury	6,840,785	6,931,713
Interest:		
Interest on investments	362,357	416,805
Interest on amounts of interfund transfers due to adjustment in allocation of administrative expenses and construction costs1/	431	-1,295
Total interest	362,787	415,510
Total receipts	9,839,064	10,274,935
Disbursements:		
Benefit payments:		
Paid directly from the trust fund for costs of health services	8,250,653	10,136,707
Transfers to the hospital insurance trust fund for reimbursement of interest loss related to transfer payments made in conjunction with the costs of radiology and pathology services2/	6,000	6,000
Total benefit payments	8,256,653	10,142,707
Costs of experiments and demonstration projects2/	2,423	1,223
Administrative expenses:		
Department of Health and Human Services3/	549,768	577,968
Treasury Department	67	47
Railroad Retirement Board	1,796	0
Office of Personnel Management	62	0
Construction of facilities	196	2,206
Interfund transfers due to adjustment in allocation of—Administrative expenses 4/	2,983	13,122
Construction costs4/	-367	69
Gross administrative expenses	554,504	593,412
Less receipts from sale of surplus supplies, materials, etc.	5	85
Net administrative expenses	554,499	593,327
Total disbursements	8,813,575	10,737,257
Net addition to the trust fund	1,025,489	-462,322
Total assets of the trust fund, end of year	4,993,913	4,531,591

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

2/ For explanation, see text.

3/ Includes administrative expenses of the carriers and intermediaries.

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

NOTE: Totals do not necessarily equal the sum of rounded components.

$1,322 million representing contributions relating to the premiums paid by disabled participants under age 65, and $9 million in interest on delayed transfers of Government contributions.

The remaining $416 million of receipts consisted almost entirely of interest on the investments of the trust fund.

Of the $10,737 million in total disbursements, $10,137 million represented benefits paid directly from the trust fund for health services covered under Title XVIII of the Social Security Act. In addition, transfers were made to the hospital insurance trust fund consisting of $6 million to adjust for the loss of interest caused by the delay in transferring payments for the costs of radiology and pathology services that were paid initially from the hospital insurance trust fund but that were liabilities of the supplementary medical insurance trust fund. Total benefit payments from the trust fund in fiscal year 1980, therefore, amounted to $10,143 million, an increase of 22.8 percent over the corresponding amount of $8,257 million paid in the preceding year. An additional $1 million in disbursements constituted payment for costs of experiments and demonstration projects in providing health care services.

The remaining $593 million of disbursements was for net administrative expenses. Administrative expenses are allocated and charged directly to each of the four trust funds--old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance--on the basis of provisional estimates. Similarly, the expenses of administering other programs of the Health Care Financing Administration are also allocated and charged directly to the general fund of the Treasury on a provisional basis. Periodically, as actual experience develops and is analyzed, adjustments to the allocations of administrative expenses and costs of construction for prior periods are affected by interfund transfers, including transfers between the hospital insurance and supplementary medical insurance trust funds and the program management general fund account, with appropriate interest allowances.

In table 3, the experience with respect to actual amounts of participants' premiums, Government contributions, and benefit payments in fiscal year 1980 is compared with the estimates for fiscal year 1980 which appeared in the 1979 and 1980 annual reports. The actual experience was relatively close to the estimates for premiums, Government contributions, and benefit payments.

The assets of the trust fund at the end of fiscal year 1979 totaled \$4,994 million, consisting of \$4,974 million in the form of obligations of the U.S. Government and an undisbursed balance of \$20 million. The assets of the trust fund at the end of fiscal year 1980 totaled \$4,532 million, consisting of \$4,558 million in the form of obligations of the U.S. Government and, as an offset, an extension of credit of \$26 million against securities to be redeemed. Table 4 shows a comparison of the total assets of the fund and their distribution at the end of fiscal year 1979 and at the end of fiscal year 1980. A comparison of assets of the trust fund with liabilities for incurred but unpaid benefits (and related administrative expenses) is shown in a later section.

TABLE 3.--COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND, FISCAL YEAR 1980
(Dollar amounts in millions)

		Comparison of actual experience with estimates for fiscal year 1980 published in--			
		1980 report		1979 report	
Item	Actual amount	Estimated amount	Actual as percentage of estimate	Estimated amount	Actual as percentage of estimate
Premiums from participants	$ 2,928	$2,912	101	$2,916	100
Government contributions	6,932	7,046	98	7,078	98
Benefit payments	10,144	9,767	104	9,559	106

Table 4.--ASSETS OF THE SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND, AT THE END OF FISCAL YEARS 1979 AND 1980 1/

	September 30, 1979	September 30, 1980
Investments in public-debt obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
8 3/4-percent, 1980	$162,278,000.00	—
9 -percent, 1980	110,722,000.00	—
11 1/8-percent, 1981	--	$198,647,000.00
Bonds:		
7 1/8-percent, 1981	56,246,000.00	—
7 1/8-percent, 1982	56,245,000.00	53,210,000.00
7 1/8-percent, 1983	56,245,000.00	56,245,000.00
7 1/8-percent, 1984	56,245,000.00	56,245,000.00
7 1/8-percent, 1985	56,245,000.00	56,245,000.00
7 1/8-percent, 1986	56,245,000.00	56,245,000.00
7 1/8-percent, 1987	56,245,000.00	56,245,000.00
7 1/8-percent, 1988	56,245,000.00	56,245,000.00
7 1/8-percent, 1989	56,245,000.00	56,245,000.00
7 1/8-percent, 1990	56,246,000.00	56,246,000.00
7 1/8-percent, 1991	56,246,000.00	56,246,000.00
7 1/8-percent, 1992	137,816,000.00	137,816,000.00
7 3/8-percent, 1981	11,547,000.00	—
7 3/8-percent, 1982	11,547,000.00	11,547,000.00
7 3/8-percent, 1983	11,546,000.00	11,546,000.00
7 3/8-percent, 1984	11,546,000.00	11,546,000.00
7 3/8-percent, 1985	11,546,000.00	11,546,000.00
7 3/8-percent, 1986	11,547,000.00	11,547,000.00
7 3/8-percent, 1987	11,547,000.00	11,547,000.00
7 3/8-percent, 1988	11,547,000.00	11,547,000.00
7 3/8-percent, 1989	11,547,000.00	11,547,000.00
7 3/8-percent, 1990	73,510,000.00	73,510,000.00
7 1/2-percent, 1981	8,060,000.00	—
7 1/2-percent, 1982	8,060,000.00	8,060,000.00
7 1/2-percent, 1983	8,061,000.00	8,061,000.00
7 1/2-percent, 1984	8,061,000.00	8,061,000.00
7 1/2-percent, 1985	8,061,000.00	8,061,000.00
7 1/2-percent, 1986	8,061,000.00	8,061,000.00
7 1/2-percent, 1987	8,061,000.00	8,061,000.00
7 1/2-percent, 1988	8,061,000.00	8,061,000.00
7 1/2-percent, 1989	8,061,000.00	8,061,000.00
7 1/2-percent, 1990	8,060,000.00	8,060,000.00
7 1/2-percent, 1991	81,570,000.00	81,570,000.00
7 5/8-percent, 1981	61,964,000.00	—
7 5/8-percent, 1982	61,964,000.00	61,964,000.00
7 5/8-percent, 1983	61,964,000.00	61,964,000.00
7 5/8-percent, 1984	61,964,000.00	61,964,000.00
7 5/8-percent, 1985	61,964,000.00	61,964,000.00
7 5/8-percent, 1986	61,963,000.00	61,963,000.00
7 5/8-percent, 1987	61,963,000.00	61,963,000.00
7 5/8-percent, 1988	61,963,000.00	61,963,000.00
7 5/8-percent, 1989	61,963,000.00	61,963,000.00
8 1/4-percent, 1981	115,977,000.00	—
8 1/4-percent, 1982	115,978,000.00	115,978,000.00
8 1/4-percent, 1983	115,978,000.00	115,978,000.00
8 1/4-percent, 1984	115,978,000.00	115,978,000.00
8 1/4-percent, 1985	115,978,000.00	115,978,000.00
8 1/4-percent, 1986	115,978,000.00	115,978,000.00
8 1/4-percent, 1987	115,978,000.00	115,978,000.00
8 1/4-percent, 1988	115,978,000.00	115,978,000.00
8 1/4-percent, 1989	115,978,000.00	115,978,000.00
8 1/4-percent, 1990	115,978,000.00	115,978,000.00
8 1/4-percent, 1991	115,978,000.00	115,978,000.00
8 1/4-percent, 1992	115,978,000.00	115,978,000.00
8 1/4-percent, 1993	253,794,000.00	253,794,000.00
8 3/4-percent, 1980	126,825,000.00	—
8 3/4-percent, 1981	72,935,000.00	—
8 3/4-percent, 1982	72,935,000.00	72,935,000.00
8 3/4-percent, 1983	72,935,000.00	72,935,000.00
8 3/4-percent, 1984	72,935,000.00	72,935,000.00
8 3/4-percent, 1985	72,935,000.00	72,935,000.00
8 3/4-percent, 1986	72,934,000.00	72,934,000.00
8 3/4-percent, 1987	72,934,000.00	72,934,000.00
8 3/4-percent, 1988	72,934,000.00	72,934,000.00
8 3/4-percent, 1989	72,934,000.00	72,934,000.00
8 3/4-percent, 1990	72,934,000.00	72,934,000.00
8 3/4-percent, 1991	72,934,000.00	72,934,000.00
8 3/4-percent, 1992	72,934,000.00	72,934,000.00
8 3/4-percent, 1993	72,934,000.00	72,934,000.00
8 3/4-percent, 1994	326,728,000.00	326,728,000.00
9 3/4-percent, 1995	--	115,003,000.00
Total investments in public-debt obligations	4,974,022,000.00	4,558,083,000.00
Undisbursed balance	19,891,272.88	-26,491,686.18 2/
Total assets	4,993,913,272.88	4,531,591,313.82

1/ The assets are carried at par value, which is the same as book value.
2/ The negative figure represented an extension of credit which was covered by the redemption of securities on the first day of the following month.

The net increase in the par value of the investments owned by the fund during fiscal year 1979 amounted to $953 million. New securities at a total par value of $11,190 million were acquired during the fiscal year through the investment of receipts and reinvestments of funds made available from the redemption of securities. The par value of securities redeemed during the year was $10,237 million. Included in these amounts is $9,788 million in certificates of indebtedness that were acquired, and $9,983 million in certificates of indebtedness that were redeemed, within the fiscal year.

The net decrease in the par value of the investments held by the fund during fiscal year 1980 amounted to $416 million. New securities at a total par value of $10,474 million were acquired during the fiscal year through the investment of receipts and reinvestment of funds made available from the redemption of securities. The par value of securities redeemed during the year was $10,890 million. Included in these amounts is $10,190 million in certificates of indebtedness that were acquired, and $10,264 million in certificates of indebtedness that were redeemed, within the fiscal year.

The effective annual rate of interest earned by the assets of the supplementary medical insurance trust fund during the 12 months ending on June 30, 1980, was 8.3 percent. (This period is used because interest on special issues is paid semiannually on June 30 and December 31.) The interest rate on special issues purchased by the trust fund in June 1980 was 9 3/4 percent, payable semiannually.

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING THE PERIOD OCTOBER 1, 1980 TO DECEMBER 31, 1983

Financing for the supplementary medical insurance program is established annually on the basis of standard monthly premium rates (paid by or on behalf of the participants) and adequate actuarial rates (on which general revenue contributions are based) which are applicable to a period of July 1 through the following June 30. In recent years, allowable fee limits for physician services have also been established to apply to the same July 1 to June 30 period.

Standard premium rates and adequate actuarial rates have been promulgated for periods through June 30, 1982. It has been assumed in this report that financing after that time will be established to cover the incurred expenses of the program.

The projections shown in the following tables are based on two sets of economic assumptions labeled alternative A and alternative B. These alternatives reflect different levels of expectation as to the enactment and effectiveness of the President's economic program. Appendix A presents an explanation of the effects of alternative A and alternative B on the projections in this report.

Under both projections it is assumed that allowable fees for physician services will increase an average of 10.0 percent for the 12-month period ending June 30, 1981 and will increase an average of 10.3 percent for the 12-month period ending June 30, 1982. The costs per enrollee for institutional and other services under part B are projected to increase an average of 22 percent for the

12-month period ending June 30, 1981 over the previous 12 months and an additional 5 percent for the 12-month period ending June 30, 1982. These values reflect the implementation effect of Public Law 96-499 on the cost per enrollee increases.

Table 5 shows the projected operations of the trust fund on a fiscal year basis through fiscal year 1983. Table 6 shows the corresponding development on a calendar year basis. The trust fund decreased slightly in fiscal year 1980 due primarily to the fact that actual expenditures were greater than anticipated at the time the financing for this period was established. At the time the actuarial rates were promulgated for the 12-month period ending June 30, 1981, it appeared that the assets were more than sufficient to cover the incurred costs of the program and provide an appropriate contingency. Therefore the actuarial rates for this period were set to reduce the assets to a more appropriate level. In addition, the current estimate for expenditures exceeds the estimate made at the time of the promulgation. The combination of these two factors will reduce the assets, at the end of the 12-month period ending June 30, 1981, to a level which while adequate to cover program payments, is not sufficient to cover outstanding liabilities. Thus, the actuarial rates for the 12-month period ending June 30, 1982 were promulgated with specific margins to build assets to a desirable level. As a result the fund is projected to increase substantially to $6.5 billion under both alternatives by the end of fiscal year 1982.

Table 5.--ESTIMATED PROGRESS OF SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND (CASH BASIS) FISCAL YEARS 1981-1983 AND ACTUAL DATA FOR 1967-1980

(In millions)

Fiscal year	Income: Premiums from participants	Income: Government contributions 1/	Income: Interest on fund	Income: Total income	Disbursements: Benefit payments	Disbursements: Administrative expenses	Disbursements: Total disbursements	Balance in fund at end of year 2/
Historical:								
1967	$ 647	$ 623	$ 15	$1,285	$ 664	$ 135 3/	$ 799	$ 486
1968	698	634	21	1,353	1,390	142	1,532	307
1969	903	984	24	1,911	1,645	195	1,840	378
1970	936	928	12	1,876	1,979	217	2,196	57
1971	1,253	1,245	18	2,516	2,035	248	2,283	290
1972	1,340	1,365	29	2,734	2,255	289	2,544	481
1973	1,427	1,430	45	2,902	2,391	246	2,637	746
1974	1,704	2,029	76	3,809	2,874	409	3,283	1,272
1975	1,887	2,330	105	4,322	3,765	405	4,170	1,424
1976	1,951	2,939	104	4,994	4,672	528	5,200	1,219
Interim 4/	539	878	4	1,421	1,269	132	1,401	1,239
1977	2,193	5,053	137	7,383	5,867	475	6,342	2,279
1978	2,431	6,386	228	9,045	6,852	504	7,356	3,968
1979	2,635	6,841	363	9,839	8,259	555	8,814	4,994
1980	2,928	6,932	415	10,275	10,144	593	10,737	4,532
Projected:								
Alternative A:								
1981	3,310	8,737	337	12,384	12,300	704	13,004	3,911
1982	3,841	13,441	412	17,694	14,372	727	15,099	6,506
1983	4,335	14,314	606	19,255	17,004	792	17,796	7,965
Alternative B:								
1981	3,310	8,737	337	12,384	12,300	704	13,004	3,911
1982	3,841	13,446	414	17,701	14,378	727	15,105	6,507
1983	4,342	14,366	611	19,319	17,055	792	17,847	7,980

1/ The payments shown as being from the general fund of the Treasury include certain interest-adjustment items.
2/ The financial status of the program depends on both the total net assets and the liabilities of the program. (See Table 8)
3/ Administrative expenses shown include those paid in fiscal years 1966 and 1967.
4/ Interim Period is the period from July 1, 1976 to September 30, 1976 and is the transitional period between fiscal years beginning July 1 and fiscal years beginning October 1.

Table 6.--ESTIMATED PROGRESS OF SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND (CASH BASIS), CALENDAR YEARS 1981-1983 AND ACTUAL DATA FOR 1966-1980
(In millions)

Calendar year	Income: Premiums from participants	Income: Government contributions 1/	Income: Interest on fund	Income: Total income	Disbursements: Benefit payments	Disbursements: Administrative expenses	Disbursements: Total disbursements	Balance in fund at end of year 2/
Historical:								
1966	$ 322	$ 0	$ 2	$ 324	$ 128	$ 75	$ 203	$ 122
1967	640	933	24	1,597	1,197	110	1,307	412
1968	832	858	21	1,711	1,518	184	1,702	421
1969	914	907	18	1,839	1,865	196	2,061	199
1970	1,096	1,093	12	2,201	1,975	237	2,212	188
1971	1,302	1,313	24	2,639	2,117	260	2,377	450
1972	1,382	1,389	37	2,808	2,325	289	2,614	643
1973	1,550	1,705	57	3,311	2,526	318	2,844	1,111
1974	1,804	2,225	95	4,124	3,318	410	3,728	1,506
1975	1,918	2,648	106	4,673	4,273	462	4,735	1,444
1976	2,060	3,810	107	5,977	5,080	542	5,622	1,799
1977	2,247	5,386	172	7,805	6,038	467	6,505	3,099
1978	2,470	6,287	299	9,056	7,252	503	7,755	4,400
1979	2,719	6,645	404	9,768	8,708	557	9,265	4,902
1980	3,011	7,455	408	10,874	10,635	610	11,245	4,530
Projected:								
Alternative A:								
1981	3,446	10,930	374	14,750	12,806	710	13,516	5,764
1982	3,964	13,236	509	17,709	15,054	743	15,797	7,676
1983	4,456	14,668	664	19,768	17,741	808	18,549	8,895
Alternative B:								
1981	3,446	10,930	376	14,752	12,807	710	13,517	5,765
1982	3,964	13,246	513	17,723	15,067	743	15,810	7,678
1983	4,473	14,753	655	19,881	17,824	808	18,632	8,927

1/ The payments shown as being from the general fund of the Treasury include include certain interest-adjustment items.
2/ The financial status of the program depends on both the total net assets and the liabilities of the program. (See Table 8)

ACTUARIAL STATUS OF THE TRUST FUND

1. ACTUARIAL SOUNDNESS OF THE SUPPLEMENTARY MEDICAL INSURANCE PROGRAM

The concept of actuarial soundness, as it applied to the supplementary medical insurance program, is closely related to the concept as it applies to private group insurance. The supplementary medical insurance program essentially is yearly renewable term insurance intended to be self-supporting from premium income paid by the enrollees and from income contributed from general revenue in proportion to premium payments. The law requires the Secretary of Health and Human Services to establish income on the basis of incurred costs. That is, the income to the program during a 12-month period for which financing is being established must be sufficient to pay for services (including associated administrative costs) expected to be rendered during that period even though payment for some of these services will not be made until after the close of the period. The portion of income required to cover those benefits not paid until after the close of the year is added to the trust fund until needed. Thus, the amount of assets in the trust fund at any time should be no less than the costs of the benefits and administration incurred but not yet paid. Since the income per enrollee (premium plus government contribution rate) is established prospectively, it is subject to projection error. As a result, the income to the program may not be equal to incurred costs; therefore trust fund assets should be maintained at a level which is adequate to cover the impact of a moderate degree of projection error as well as the value of incurred but unpaid expenses.

In testing the actuarial soundness of the supplementary medical insurance program, it is not appropriate to look beyond the period for which the enrollee premium rate and level of general revenue financing have been established. The primary tests of actuarial soundness, then, are that (1) income for years for which financing has been established be sufficient to meet the projected benefits and associated administrative expenses incurred for that period, (2) assets be sufficient to cover projected liabilities which will have been incurred by the end of that time but will not have been paid yet, and (3) assets be sufficient further to protect against the possibility that cost increases under the program will be somewhat higher than assumed in the projection. Even if these tests of actuarial soundness are not met, the program can continue to operate if the trust fund remains at a level adequate to permit the payment of claims as presented.

2. INCURRED EXPERIENCE OF THE SUPPLEMENTARY MEDICAL INSURANCE PROGRAM

The tests of actuarial soundness of the supplementary medical insurance program noted above rely on the incurred experience of the program. Cash disbursements for benefits and administrative expenses by themselves are misleading, due to the relatively large liabilities outstanding at any time for benefits and processing costs that must be paid for services already performed. These liabilities result from the lag between the time that services are performed and the time that payments for them are made.

The experience of the program is substantially more difficult to determine on an incurred basis than on a cash basis. Payment for some services is reported only on a cash basis, and the incurred experience must be inferred from the cash payment information. For recent time periods, the tabulations of bills are incomplete due to normal processing delays. Finally, since bills are tabulated only for a sample of beneficiaries, the data is subject to bias and random fluctuation inherent in the sampling process.

Table 7 shows the estimated transactions of the trust fund on an incurred basis. For the reasons stated above, the incurred experience must be viewed as an estimate even for historical years. Various checks, such as cash outlay data, assure that the estimates are reasonably close, however.

3. ACCUMULATED EXCESS OF ASSETS OVER LIABILITIES

The liability outstanding at any time for the cost of services performed for which no payment has been made is referred to as "benefits incurred but unpaid." Estimates of the amount of benefits incurred but unpaid as of June 30 of each year, and of the administrative expenses related to processing these benefits, appear in table 8. For most years of the program, assets have not been as large as outstanding liabilities. Nonetheless, the fund has remained positive, allowing claims to be paid.

Program financing has been established through June 1982. On the basis of this financing the estimated excess of assets over liabilities of $1,272 million at the end of June 1980 is projected to decrease to $-62 million at the end of June 1981, and then to increase to $1,678 million under Alternative A and to $1,677 under Alternative B at the end of June 1982. These projected values as of

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Table 7.--ESTIMATED INCOME AND DISBURSEMENTS INCURRED UNDER SUPPLEMENTARY MEDICAL INSURANCE PROGRAM, 12-MONTH PERIODS ENDING JUNE 30, 1967-1982
(In millions)

12-month period ending June 30,	Premiums from participants	Government contributions	Interest on fund	Benefit payments	Administrative expenses	Net operations in year
Historical:						
1967	$ 647	$ 647	$ 15	$1,108	$190*	$ 11
1968	698	698	21	1,442	147	-172
1969	903	903	23	1,766	209	-146
1970	936	936	12	1,930	212	-258
1971	1,253	1,253	17	2,090	255	178
1972	1,340	1,340	29	2,289	293	127
1973	1,427	1,426	45	2,499	257	142
1974	1,704	2,031	76	3,151	448	212
1975	1,887	2,395	108	3,933	422	35
1976	1,951	2,972	109	4,822	545	-335
1977	2,156	4,697	158	5,881	508	622
1978	2,358	5,991	247	7,060	509	1,027
1979	2,601	6,570	371	8,319	595	628
1980	2,823	6,627	421	10,058	613	-800
Projected:						
Alternative A:						
1981	3,174	8,215	337	12,355	705	-1,334
1982	3,716	12,512	427	14,173	742	1,740
Alternative B:						
1981	3,174	8,215	337	12,355	705	-1,334
1982	3,716	12,512	429	14,176	742	1,739

*Includes administrative expenses incurred prior to the beginning of the program.

Table 8.--SUMMARY OF ESTIMATED ASSETS AND LIABILITIES OF THE SUPPLEMENTARY MEDICAL INSURANCE PROGRAM, ON JUNE 30, 1967-1982
(Dollar amounts in millions)

12-month period ending June 30,	Balance in trust fund	Government contributions due and unpaid	Total assets	Benefits incurred but unpaid	Adminis-trative costs thereon	Total liabilities	Excess of assets over liabilities	Ratio*
Past experience:								
1967	$ 486	$24	$ 510	$ 444	$ 56	$ 500	$ 10	.01
1968	307	88	395	496	60	556	-161	-.08
1969	378	7	385	617	74	691	-306	-.14
1970	57	15	72	568	69	637	-565	-.24
1971	290	22	312	623	76	699	-387	-.15
1972	481	-3	478	657	81	738	-260	-.09
1973	746	-7	739	765	92	857	-118	-.03
1974	1,272	-5	1,267	1,042	131	1,173	94	.02
1975	1,424	67	1,491	1,210	149	1,359	132	.03
1976	1,219	105	1,324	1,361	165	1,526	-202	-.03
1977	2,170	91	2,261	1,653	190	1,843	418	.06
1978	3,786	40	3,826	2,156	226	2,382	1,444	.16
1979	4,880	2	4,882	2,555	255	2,810	2,072	.19
1980	4,657	0	4,657	3,097	288	3,385	1,272	.10
Projected:								
Alternative A:								
1981	3,859	0	3,859	3,604	317	3,921	-62	.00
1982	6,030	0	6,030	4,014	338	4,352	1,678	.09
Alternative B:								
1981	3,859	0	3,859	3,604	317	3,921	-62	.00
1982	6,029	0	6,029	4,014	338	4,352	1,677	.09

*Ratio of the excess of assets over liabilities to the following year's total incurred expenditures.

June 30, 1982 amount to 9 percent of incurred expenditures for the following 12-month period, a level which is sufficient to cover the impact of a moderate degree of projection error.

4. SENSITIVITY TESTING

Some of the assumptions underlying the projection presented in this report are highly uncertain, and variations in these assumptions would have a substantial impact on expenditures. In order to test the future status of the program under varying assumptions, a low cost projection and a high cost projection were prepared by varying these key assumptions. The low and high cost alternative sets of assumptions are intended to reflect growth rates for the various components of program costs which are more favorable and adverse, respectively, than those of the intermediate projection and which are not unreasonable themselves in light of the nature and historical experience of the program. As such, they provide a range of financial outcomes within which the actual experience of the program might reasonably be expected to fall.

Table 9 indicates that, under the low cost assumptions, trust fund assets would exceed liabilities significantly by the end of June 1982 (the period through which financing has been established), reaching a level of 22 percent of the following year's incurred expenditures. If these low growth rates were actually to materialize, then subsequent financing rates could be adjusted downward in order to lower the excess of assets over liabilities to more appropriate levels. Under the high cost assumptions, trust fund liabilities would exceed assets by the end of June 1982, reaching a level of -2 percent of the following year's incurred expenditures. If these high growth rates were to

Table 9.--ACTUARIAL STATUS OF THE SMI TRUST FUND UNDER THREE SETS OF ASSUMPTIONS FOR THE 12-MONTH PERIOD ENDING WITH JUNE 30 OF THE YEAR SHOWN

	Intermediate projection this report 1/			Low cost projection			High cost projection		
	1980	1981	1982	1980	1981	1982	1980	1981	1982
Per enrollee increases over prior year (in percent):									
Physician's fees 2/									
Aged	8.6	10.0	10.3	8.1	9.5	9.8	9.1	10.5	10.8
Disabled	8.6	10.0	10.3	8.1	9.5	9.8	9.1	10.5	10.8
Utilization of physicians' services 3/									
Aged	5.5	7.0	3.2	4.5	5.0	1.2	6.5	9.0	5.2
Disabled	9.0	10.0	6.1	7.0	5.0	1.1	11.0	15.0	11.1
Outpatient hospital services									
Aged	18.8	25.0	15.8	15.8	18.0	5.8	21.8	32.0	25.8
Disabled	20.4	25.0	15.8	12.4	15.0	5.8	28.4	35.0	25.8
Actuarial status (in millions):									
Assets	$4,657	$3,859	$6,029	$4,657	$4,327	$7,564	$4,657	$3,375	$4,391
Liabilities	3,385	3,921	4,352	3,217	3,664	3,963	3,554	4,185	4,775
Assets less liabilities	1,272	-62	1,677	1,440	663	3,601	1,103	-810	-384
Ratio of assets less liabilities to expenditures (in percent) 4/	9.7	0.0	9.4	11.5	4.8	22.5	8.1	-5.0	-1.9

1/ Because of the manner in which alternative economic assumptions affect the projected operations of the supplementary medical insurance program, there is not a substantial difference in the projections based upon the two sets of assumptions. Therefore only one projection, alternative B is presented here. Appendix A presents an explanation of the effects of alternative A and alternative B on the projections in this report.

2/ As recognized for payment under the program.

3/ Increase in the number of services received per enrollee and greater relative use of more expensive services.

4/ Ratio of assets less liabilities at the end of the year to total incurred expenditures during the following year, expressed as a percent.

occur, the subsequent financing rates would have to be adjusted upward in order to generate more appropriate levels for the excess of assets over liabilities.

CONCLUSION

The financing of the supplementary medical insurance program has been established through June 1982, by the promulgation of standard monthly premium rates (paid by or on behalf of each enrollee) of $9.60 for the year ending June 1981 and $11.00 for the year ending June 1982 and of adequate actuarial rates which determine the amount to be contributed from general revenue on behalf of each enrollee.

Under both sets of intermediate assumptions used in this report, disbursements from the trust fund are projected to exceed income during fiscal year 1981, and then during fiscal year 1982, income is projected to exceed disbursements. As a result the assets in the trust fund, on a cash basis, are projected to decrease from $4,532 million at the end of fiscal year 1980 to an estimated $3,911 million at the end of 1981 and then to increase to an estimated $6,506 million under alternative A and $6,507 million under alternative B at the end of fiscal year 1982.

Program assets exceeded liabilities by approximately $1,272 million at the end of June 1980. During the 12-month period ending June 30, 1981, the assets of the trust fund decrease while liabilities increase, so that by June 30, 1981, liabilities exceed assets by $62 million. However the financing for the 12-month period ending June 30, 1982 was established to place the trust fund on a sound actuarial basis. By the end of June 1982 assets are projected to exceed liabilities by $1,678 million under alternative A and by $1,677 million under alternative B (representing 9 percent of projected incurred expenditures for the following 12-month period). Under more pessimistic assumptions as to cost increases, assets based on financing already established will be insufficient to cover outstanding liabilities. However the trust fund should remain positive allowing claims to be paid.

Hence, the financing established through June 1982 is sufficient to cover projected benefit and administrative costs incurred through that time period and to build a level of trust fund assets which is adequate to cover the impact of a moderate degree of projection error.