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CURRENT EXPERIENCE OF SMI PROGRAM ON A "CASH" BASIS

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Although proper analysis of the emerging costs of the Supplementary Medical Insurance program can only be made on an "accrual" basis, in view of the controversy over the adequacy of the \$4 premium rate when it was extended beyond the current premium period (April 1968 through June 1969) so as to apply for one additional year, it is worthwhile looking at the recent "cash" experience.

The relevant data for each quarter since the \$4 premium rate went into effect is shown in the following table (dollar figures in millions) :

Period	(1) Premiums from Enrollees	(2) Benefits and Administrative Expenses	(3) Ratio of Col. (2) to 2 Times Col. (1)
2nd Quarter, 1968	\$ 224	\$ 418	93.3%
3rd Quarter, 1968	225	435	96.7
4th Quarter, 1968	224	444	99.1
1st Quarter, 1969	228	457	100.2
2nd Quarter, 1969	226	503	111.3
Total, 5 Quarters	1,127	2,257	100.1

It is necessary to consider the data on a quarterly basis because of the month-by-month fluctuations in the premium income within each quarter (because those not receiving cash benefits frequently pay on a quarterly basis, rather than monthly). Also, the comparison of outgo for benefit payments and administrative expenses is made with the premium income, since the equal-matching government contributions are not always made simultaneously (although eventually such equal matching is assured through proper actuarial adjustments).

The analysis made here does not include the interest income to the SMI Trust Fund, which amounts to about \$5 million per quarter, on the average. This, of course, will have

relatively little effect in view of the size of the excess of benefit outgo over income from premiums and government contributions that is apparently certain to occur in the new premium period. Moreover, no progress has been made in regard to eliminating the sizeable unfunded accrued liability that existed at the end of 1968 (an estimated deficit of \$155 million). In fact, it seems certain that the maintenance of the \$4 premium rate after June 1969 will mean both a decrease in the cash balance of the fund (as outgo progressively exceeds income) and a sizeable increase in the unfunded accrued liability.

Also, the cash figures to date include little (if any) of the accruing cost to SMI for the professional component of inpatient pathol-

ogy and radiology services which are billed directly by some hospitals, which cost is initially charged (on an interim basis) to the HI program and later is reimbursed to HI by SMI. Such reimbursement can be done on a preliminary estimated basis and later adjusted from audited cost reports, but it has not yet been possible to obtain adequate data to make reasonably accurate estimates for this purpose. It appears, however, that such costs average about \$16 million per quarter, so that the cash figures should be about this much larger if the initial payments for such pathology and radiology services had come from the SMI Trust Fund, instead of the HI Trust Fund. If allowance is made for pathology and radiology services, the ratio of benefits and administrative expenses to premiums and matching government contributions would be 103.7%.

As can be seen from the above data, the outgo as a percentage of the income from premiums and matching government contributions has been increasing significantly. The low ratio for the first quarter considered

results from the fact that, at that time, little of the additional benefit cost arising from the 1967 Amendments was included in the benefit payments actually made. In the first quarter of 1969, for the first time in the period considered, outgo exceeded income from premiums and matching government contributions (by about $\frac{1}{4}$ %). In the second quarter of 1969, outgo exceeded such income by a larger margin (about 11 %). For the entire 5-quarter premium period, outgo was 100.1% of such income. Thus, the trend is definitely upward. Disregarding investment income, the \$4 premium rate is not quite adequate on a "cash" basis for this premium period; quite apparently, it will be inadequate on both "cash" and "accrual" bases for the new premium period beginning July 1. It seems certain that the \$4 rate was not adequate on an "accrual" basis for the premium period, April 1968 through June 1969, although the difference was probably relatively small.