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MEDICARE—THE 1979 TRUSTEES' REPORTS

by Roland E. King and David R. McKusick

This year's financial projections of the Medicare programs are again based on three sets of demographic and economic assumptions — optimistic, intermediate and pessimistic. Any reduced disbursements due to some proposed changes in regulations that were recognized in the 1980 Federal Budget are not reflected in these figures.

Hospital Insurance Program

The Report of the Federal Hospital Insurance (HI) Trust Fund concludes that the present financing schedule is inadequate to provide for expenditures anticipated over the next 25 years. Tax rates now scheduled, and interest earnings, are expected to support expenditures through the next 9 years but not to provide for trust fund growth toward the level of a full year's disbursements recommended by the 1971 Social Security Advisory Council. Income for the following 16 years won't even cover projected benefits and expenses.

Projected expenditures under the intermediate assumptions, expressed as percentages of taxable payroll, and scheduled tax rates, are summarized in the table below. Additions necessary to build the trust fund and then maintain it at the level of a year's disbursements are shown also. Since the level of the trust fund on Jan. 1, 1979 was 53 percent of the expected 1979 disbursements, substantial income is needed to raise it to the 100 percent level.

(1) Calendar Year	(2) Benefits & Expenses	(3) Trust fund building & Maintenance	(4) Total cost (2)+(3)	(5) Scheduled tax rate	(6) Difference (5) — (4)
1979	2.03%	0.11%	2.14%	2.10%	−0.04%
1980	2.12	0.12	2.24	2.10	−0.14
1981	2.19	0.13	2.32	2.60	+0.28
1983	2.44	0.14	2.58	2.60	−0.02
1985	2.73	0.16	2.89	2.70	−0.19
1990	3.51	0.19	3.70	2.90	−0.80
1995	4.27	0.19	4.46	2.90	−1.56
2000	4.92	0.21	5.13	2.90	−2.23
Average	3.64	0.18	3.82	2.78	−1.04*

*Corresponding Differences under the optimistic and pessimistic assumptions are —0.33% and —2.10%.

The total cost — expenditures and trust fund building and maintenance — exceeds the tax rate in nearly every year. Furthermore, expenditures for benefits and expenses alone exceed taxes for all years beginning in the mid-1980's.

Under these intermediate assumptions, the trust fund is projected to drop to a level of 51 percent of a year's disbursements by the beginning of 1981; then to increase to about 77 percent in 1984; then to decline rapidly to exhaustion about 1992. Even under the optimistic assumptions exhaustion will occur about 1998, while the pessimistic assumptions show no fund left by the late 1980's.

Supplementary Medical Insurance Program

The Report of the Federal Supplementary Medical Insurance (SMI) Trust Fund concludes that this program is soundly financed through the period for which premium rates have been set. SMI is financed, much as yearly renewable term coverage, by premiums from enrollees and proportionate federal general revenue payments. Premiums now provide about 27 percent of income.

The law's dictum that funding be on an accrued basis is interpreted as requiring that the trust fund be at least as great as incurred but unpaid claims at the close of any period for which premium rates have been announced. Under each of the three sets of assumptions, this test of soundness is met at the end of June 1979 and June 1980, the last periods for which the Secretary of HEW has promulgated premium rates and federal contributions shares. Under the intermediate assumptions, assets will exceed liabilities by about $2 billion in June 1980, this being 17 percent of the outlays projected for the following year.

The key assumptions in the intermediate projection are that physician fees *recognized by the program* will increase 7.9 percent in the 1979 premium period and 7.7 percent in the 1980 period. (These are not the rates of increase expected for the physician component of the Consumer Price Index for 1979 and 1980 since SMI reimbursement to physicians is subject to "customary and prevailing" charge determinations that reflect past experience and other constraints). It is also assumed that per capita utilization of physician services will increase 3 percent per year. "Utilization" encompasses all factors other than price that contribute to per capita cost increases. Outpatient hospital services and home health services are projected to increase 15 percent per capita per year.

Copies of this Report may be obtained from the Division of Medicare Cost Estimates, Health Care Financing Administration, Room 700, Altmeyer Building, 6401 Security Boulevard, Baltimore. MD 21235. □

TO AVOID MISUNDERSTANDING

by Walter N. Miller

The Society's recent mailing in connection with the forthcoming annual meeting in Miami included a notice prepared by the ACLI Subcommittee on Actuarial Aspects of Valuation Problems. This notice concerned a proposed amendment to the Standard Valuation and Non-Forfeiture Laws.

Please understand that the Society has taken no position on this proposed legislation. This amendment has been endorsed by the above mentioned subcommittee, but not, so far at least, by the parent ACLI Actuarial Committee or the ACLI itself. □