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**1966 ANNUAL REPORT OF THE BOARD
OF TRUSTEES OF THE FEDERAL
HOSPITAL INSURANCE
TRUST FUND**

L E T T E R

FROM

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

TRANSMITTING

**THE 1966 ANNUAL REPORT OF THE BOARD OF TRUSTEES
PURSUANT TO THE PROVISIONS OF SECTION 1817(b) OF
THE SOCIAL SECURITY ACT, AS AMENDED**

LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL HOSPITAL INSURANCE TRUST FUND,

Washington, D.C, February 28, 1966.

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

SIR: We have the honor to transmit to you the 1966 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 first such report.

Respectfully,

HENRY H. FOWLER,
*Secretary of the Treasury
and 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*

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THE BOARD OF TRUSTEES

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

FISCAL YEAR HIGHLIGHTS

The hospital insurance program was not enacted until after the close of the fiscal year covered by this report so that there are no activities about it to report on for fiscal year 1965.

SOCIAL SECURITY AMENDMENTS 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).

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

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.

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individuals who could have been covered if they had so elected), are not members of any organization referred to in section 210(a)(17) of the Social Security Act, and have not been convicted of any offense listed in section 202(u) of the Social Security Act. 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 homebound persons and include visiting nurse services and various types of therapy treatment, including outpatient hospital services when equipment cannot be brought to the home.

(d) Outpatient 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 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.

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(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*

<i>Calendar year—</i>	[In percent]	<i>Rate ¹</i>
1965		
1966		0.35
1967-1972		.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.

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

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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 contributions, 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 miscellaneous supplies and reimbursable services 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 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, 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 credited to and form a part of the trust fund.

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 insurance 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

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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.

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING THE PERIOD JULY 1, 1965 TO JUNE 30, 1968

In the following statement of the expected operations and status of the hospital insurance trust fund during the period July 1, 1965, to June 30, 1968, 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 1966-68. 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 81 million during calendar year 1966 to 85 million during calendar year 1968; their taxable earnings are estimated to increase from \$298 billion in 1966 to \$321 billion in 1968. The increase in estimated income from contributions in fiscal years 1966-68 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 1968 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.

Income of the trust fund is expected to exceed outgo in each of the 3 fiscal years 1966-68. During this period, there is an estimated net increase in the trust fund of \$1.9 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.

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TABLE 1.—*Estimated future operations of the hospital insurance trust fund, fiscal years 1966-68*

[In millions]

Item	1966	1967	1968
Income:			
Tax contributions ¹	\$816	\$2,385	\$3,055
Interest on investments ²	8	40	63
Transfers from Railroad retirement account		16	41
Reimbursement for noninsured persons ³	26	283	275
Disbursements:			
Benefits payments for insured persons		2,068	2,306
Benefit payments for noninsured persons		270	262
Administrative expenses for insured persons ⁴	27	75	77
Administrative expenses for noninsured persons ⁴	26	13	13
Net increase in fund	797	298	776
Fund at end of year	797	1,095	1,871

¹ Includes reimbursement from general fund of the Treasury for additional cost of noncontributory credits for military service. Adjusted to exclude refunds of employee taxes paid on wages in excess of maximum taxable earnings base.

² Includes net profits on marketable investments.

³ Reimbursement for benefit costs and additional administrative expense for noninsured persons is made currently from general fund of the Treasury.

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

NOTE.—In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared in January 1966.

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 United States Government for the fiscal year 1967 makes provision for appropriations initiating these reimbursements (for both fiscal years 1966 and 1967 at \$11 million each year). 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

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in hospitalization costs per unit of service. The cost for 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, so as to attempt to keep the system up to date with price and earnings changes. 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 more rapidly than the covered earnings, whose increase is "dampened" by the effect of the earnings base. Thus, the use of the rising-earnings assumption for the hospital insurance program is of a conservative nature and provides a margin of safety.

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

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TABLE 2.—*Estimated progress of hospital insurance trust fund, intermediate-cost estimate at 3.50 percent interest*¹

[In millions]

Calendar year	Contributions ²	Benefit payments	Administrative expenses	Interest on fund	Balance in fund at end of year
1966	\$1,637	\$987	³ \$50	\$18	\$618
1967	2,756	2,210	66	25	1,123
1968	3,018	2,406	72	46	1,709
1969	3,123	2,623	79	66	2,196
1970	3,229	2,860	86	82	2,561
1971	3,329	3,077	92	91	2,812
1972	3,433	3,303	99	95	2,938
1973	3,891	3,540	106	100	3,283
1974	4,096	3,788	114	108	3,585
1975	4,260	4,047	121	112	3,789
1980	6,113	5,307	159	166	5,790
1985	7,026	6,860	206	259	8,341
1990	9,015	8,797	264	323	10,426

¹ An interest rate of 3.50 percent is used in determining the level-costs, but in developing the progress of the trust fund, a higher rate is used in the 1st 10 years (4.0 percent for 1966-70, and then a gradually decreasing rate).

² Includes financial interchange payments from the railroad retirement system.

³ Includes administrative expenses incurred in 1965.

NOTE.—The transactions relating to the uninsured persons who would be covered for the benefits of this program, the cost for whom is borne out of the general funds of the Treasury, are not shown in the above figures.

Table 2 shows the estimated progress of the hospital insurance trust fund according to the intermediate-cost estimate. This estimate is that which was derived at the time the 1965 amendments were enacted. It should be noted that the progress of the trust fund shown in table 2 does not include the transactions relating to the uninsured persons who would be covered for the benefits of this program, the cost for whom is borne out of the general fund of the Treasury. The early year figures for the progress of the trust fund on a long-range, calendar-year basis are not completely consistent with the short-range estimates on a fiscal-year basis, shown in the preceding section, which were prepared in January 1966, but the differences are relatively small. The benefit payment figures are fully consistent between the two sets of estimates, while the contribution income figures are slightly lower in the long-range cost estimates.

The estimated level-cost of the benefits under the hospital insurance program is 1.23 percent of taxable payroll. The level-equivalent of the contribution schedule is also 1.23 percent of taxable payroll. Accordingly, this estimate indicates that the program is in exact actuarial balance under the assumptions made.

The benefits for the uninsured group and the accompanying administrative expenses will be paid from the hospital insurance trust fund, with current reimbursement therefor from the general fund of the Treasury. The estimated cost will decrease slowly because the effect of mortality on this closed group more than offsets the increasing hospital utilization per capita for this group, as the average age becomes higher, and the rising trend of hospitalization costs. The estimated cost for the first 5 calendar years of operation is as follows:

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<i>Calendar year</i>	[In millions]	<i>Cost</i>
1966	-----	\$140
1967	-----	278
1968	-----	272
1969	-----	264
1970	-----	256

These figures on a calendar-year basis are completely consistent with the short-range fiscal-year figures presented in the preceding section.

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

CONCLUSION

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

APPENDICES

APPENDIX I. ASSUMPTIONS AND METHODOLOGY, AND DETAILS OF LONG-RANGE COST ESTIMATES

The basic assumptions used in the long-range cost estimates for the hospital insurance system are described in this appendix.² Also given are more detailed data in connection with the results of these estimates.

HOSPITAL UTILIZATION RATES

The first basic factor in making estimates of hospital benefit costs is the hospital utilization rate assumptions. The hospital utilization rate is the average number of days of hospitalization per insured person (including both those who are hospitalized and those who are not). Such rate, of course, varies significantly by age and sex.

The hospital utilization rates used in the cost estimates of this report are, in essence, those of the high-cost assumptions of Actuarial Study No. 59 of the Social Security Administration. These rates are based on the results of a beneficiary survey, with upward adjustment to allow for the effect of the availability of insurance benefits and for the decedents during the survey period. The hospital utilization rates are appropriately adjusted to reflect the effect of the deductible and coinsurance provisions. Different rates are used for various age-sex groups, but with no variation by time period.

It was assumed in the cost estimates that a substantial majority of the covered persons would not "fill in" the deductible and coinsurance provisions by private insurance. If a large proportion of the protected persons do purchase this supplementary insurance "filling in" the deductible and the coinsurance, the utilization rates of the hospital insurance program might be somewhat higher than estimated because of the elimination of these deterrents to overutilization.

INITIAL HOSPITAL PER DIEM RATE

The second basic factor in estimates of hospital benefits costs is the average daily cost of hospitalization. This rate was obtained by projecting the annual series of average hospital expense per patient day, prepared by the American Hospital Association, from the 1963 figure (which was the most recent one available at the time the estimates were prepared) to 1966, and then applying a 13 percent reduction factor. This factor was intended to represent the combined effect of (a) the lower average daily cost for persons aged 65 and over as compared with persons of all ages (because of their longer durations of hospitalization, with resultant averaging of the cost of auxiliary services over a longer period), and (b) the inclusion of certain items of hospital expense in the

² For more details as to the procedures followed in making the long-range cost estimates, see (a) Actuarial Study No. 59, Social Security Administration, January 1965, and (b) "Actuarial Cost Estimates and Summary of Provisions of the Old-Age, Survivors, and Disability Insurance System as Modified by the Social Security Amendments of 1965 and Actuarial Cost Estimates and Summary of Provisions of the Hospital Insurance and Supplementary Medical Insurance Systems as Established by Such Act," Committee on Ways and Means, House of Representatives, July 30, 1965.

American Hospital Association index that are not properly chargeable to inpatient costs (such as the expense of operating outpatient clinics, public restaurants, and gift shops—for which income is available from charges to those who use the services).

Implicit in this approach was the assumption that the reimbursement of hospitals on a “reasonable cost” basis would follow previously existing patterns of hospital cost accounting and analysis (or that any changes made in such cost accounting and analysis would produce approximately the same results). For example, hospital charges contain an allowance for such factors as depreciation of assets. The depreciation practices of hospitals vary. The implicit assumption mentioned previously, however, is that depreciation allowances included in “reasonable cost” reimbursement will, in general, follow the pattern of depreciation allowances now included in American Hospital Association data and that no major changes will occur in present hospital cost accounting and analysis methods with respect to such allowances. Specifically, it was assumed that, in the aggregate, the proportion of hospital per diem costs due to depreciation will be approximately the same as in the past (or that any increases therein will be offset by other factors).

Also implicit in the assumption that hospital accounting practices will remain the same in the future is the assumption that the “reasonable costs” of the services used by persons age 65 and over will be determined as they have been previously (or, alternatively, that if there are changes therein, the results will not produce higher costs in the aggregate).

It was assumed that only the bad debts of the beneficiaries would be considered as part of the “reasonable cost.”

RELATIVE FUTURE TRENDS OF HOSPITALIZATION COSTS

The cost estimates assume that hospitalization costs will increase more rapidly than total earnings rates by a net differential of 2.7 percent per year (the actual difference in the period 1954-63) for the first 5 years after 1965. This differential is then assumed to decrease to zero over the next 5 years. Thereafter, hospitalization costs and wages are assumed to increase at the same rate. In the entire period after 1965, the general level of earnings is assumed to increase at a rate of 3 percent per year. Accordingly, hospitalization costs are assumed to increase 5.7 percent per year until 1970, and by 3 percent per year after 1975.

SUPPLEMENTARY BENEFITS

The cost estimates have not attempted to subdivide the cost for the hospital benefits and the posthospital extended care facility benefits. In the early years of operation, virtually all of such costs will be for hospital benefits because of the limited availability of extended care facilities. It is estimated that only about \$25-\$50 million will be expended in 1967 for posthospital extended care facility benefits. In later years, it seems quite possible that greater use of posthospital extended care services will be possible and that such use will tend to reduce the use of hospitals. It is assumed that the posthospital extended care benefits will be provided almost entirely for cases that would otherwise have required inpatient hospital care and will not cover purely custodial care.

The cost estimates for the outpatient diagnostic benefits and for the posthospital home health service benefits are based on rather limited data. Both these benefits are estimated to have a relatively low cost in the early years of operation (about \$10 million in the first full year for

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each of them). The estimated cost for home health benefits is so low primarily because of the limited number of qualifying facilities available. The estimated cost for the outpatient diagnostic benefits will be relatively low because of the deductible and coinsurance provisions. Allowance has been made in the cost estimates for both of these benefits for the likely future expansion of facilities providing such services.

ADMINISTRATIVE EXPENSES

It has been assumed that the administrative expenses in connection with the hospital insurance program, including those of the fiscal intermediaries that are reimbursable under the program, will amount to 3 percent of the benefit payments.

INTEREST RATE

An interest rate of 3.5 percent is used in determining the level costs of the benefit payments and administrative expenses and the level equivalent of the contributions. However, in developing the progress of the trust fund, a higher rate is used in the first 10 years—namely, 4 percent for 1966-70, a gradually declining rate for the next 5 years, to a level of 3.5 percent after 1975.

TIMING OF BENEFIT PAYMENTS

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

LEVEL-COSTS OF BENEFITS, BY TYPE OF BENEFIT

The estimated level-cost of the benefits provided by the hospital insurance system and the accompanying administrative expenses is 1.23 percent of taxable payroll, of which 1.19 percent is for benefit payments and 0.04 percent is for administrative expenses. The level-cost of the benefit payments is subdivided as follows: 1.15 percent for hospital benefits and posthospital extended-care facility benefits combined; 0.01 percent for outpatient diagnostic benefits; and 0.03 percent for posthospital home health service benefits.

APPENDIX II. LEGISLATIVE HISTORY AFFECTING THE TRUST FUND**BOARD OF TRUSTEES**

Beginning with July 30, 1965, when the Federal hospital insurance trust fund was established, the three members of the board of trustees, who serve in an ex officio capacity, have been the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. Since the establishment of the fund, the Secretary of the Treasury has been managing trustee. The Commissioner of Social Security has been secretary of the board of trustees. The board of trustees meets not less frequently than once each 12 months.

CONTRIBUTION RATES

The Social Security Amendments of 1965, which established the hospital insurance program, fixed the contribution rates for employees and their employers and for self-employed persons as shown previously in table A. The maximum amount of earnings to which these rates are applicable was established at \$6,600 per year.

SPECIAL REFUNDS OF EMPLOYEE CONTRIBUTIONS

With respect to wages, refunds to employees who work for more than one employer during the course of a year and pay contributions on such wages in excess of the statutory maximum paid from the Treasury account for refunding internal revenue collections. The managing trustee pays, from time to time, from the hospital insurance trust fund into the Treasury, as repayments to the account for refunding internal revenue collections, the amount of contributions which are subject to refund.

CREDITS FOR MILITARY SERVICE

The Social Security Act Amendments of 1946 provided survivor-insurance protection to certain World War II veterans for a period of 3 years following their discharge from the Armed Forces. The 1950 amendments provided noncontributory \$160 monthly wage credits to persons who served in the Armed Forces during World War II, and the 1952, 1953, 1955, and 1956 amendments provided similar noncontributory credits on account of active military or naval service from July 25, 1947, through December 31, 1956. The 1956 amendments provided contributory coverage for military personnel beginning January 1, 1957. The trust fund is to be reimbursed from general revenues for expenditures resulting from the provisions that granted noncontributory \$160 monthly wage credits to persons who served in the Armed Forces from September 16, 1940, through December 31, 1956, and from the provisions enacted in 1946. The existing statutory provisions that provide for the financing of these noncontributory credits for military service are set forth in appendix III.

**COORDINATION OF HOSPITAL INSURANCE AND RAILROAD
RETIREMENT PROGRAM**

Public Law 234, approved October 30, 1951, amended the Railroad Retirement Act to provide a basis of coordinating the railroad retirement program with the old-age and survivors insurance system, and this is also applicable to the hospital insurance system as a result of Public Law 89-97. The 1951 legislation provides that the railroad wage credits

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

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

**APPENDIX III. STATUTORY PROVISIONS, AS OF JUNE 30, 1965,
CREATING THE TRUST FUND, DEFINING THE DUTIES OF THE BOARD OF
TRUSTEES, FINANCING THE COST OF NONCONTRIBUTORY CREDITS FOR
MILITARY SERVICE, FINANCING THE COST OF BENEFITS FOR
PRESENTLY UNINSURED INDIVIDUALS, AND PROVIDING FOR ADVISORY
COUNCILS ON SOCIAL SECURITY**

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

FEDERAL HOSPITAL INSURANCE TRUST FUND

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FINANCING THE COST OF BENEFITS IN CASE OF VETERANS

Section 217(g)(1). In September 1965, and in every fifth September thereafter up to and including September 2010, the Secretary shall determine the amount which, if paid in equal installments at the beginning of each fiscal year in the period beginning—

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

(B) with the July 1 following the determination in the case of all other such determinations, and ending with the close of June 30, 2015, would accumulate, with interest compounded annually, to an amount equal to the amount needed to place each of the Trust Funds and the Federal Hospital Insurance Trust Fund in the same position at the close of June 30, 2015,

as he estimates they would otherwise be in at the close of that date if section 210 of this Act as in effect prior to the Social Security Act Amendments of 1950, and this section, had not been enacted. The rate of interest to be used in determining such amount shall be the rate determined under section 201(d) for public-debt obligations which were or could have been issued for purchase by the Trust Funds in the June preceding the September in which such determination is made.

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

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

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

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

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

PAYMENTS AND REPORTS BY STATES

Section 218. (e)(1) Each agreement under this section shall provide—

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

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

DEPOSITS IN TRUST FUNDS; ADJUSTMENTS

Section 218. (h)(1) All amounts received by the Secretary of the Treasury under an agreement made pursuant to this section shall be deposited in the Trust Funds and the Federal Hospital Insurance Trust Fund in the ratio in which amounts are appropriated to such Funds pursuant to subsection (a)(3) of section 201, subsection (b)(1) of such section, and subsection (a)(l) of section 1817, respectively.

(2) If more or less than the correct amount due under an agreement made pursuant to this section is paid with respect to any payment of remuneration, proper adjustments with respect to the amounts due under such agreement shall be made, without interest, in such manner

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and at such times as may be prescribed by regulations of the Secretary of Health, Education, and Welfare.

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

FAILURE TO MAKE PAYMENTS

Section 218. (j) In case any State does not make, at the time or times due, the payments provided for under an agreement pursuant to this section, there shall be added, as part of the amounts due, interest at the rate of 6 percent per annum from the date due until paid, and the Secretary of Health, Education, and Welfare may in his discretion, deduct such amounts plus interest from any amounts certified by him to the Secretary of the Treasury for payment to such State under any other provision of this Act. Amounts so deducted shall be deemed to have been paid to the State under such other provision of this act. Amounts equal to the amounts deducted under this subsection are hereby appropriated to the Trust Funds in the ratio in which amounts are deposited in such Funds pursuant to subsection (h)(1).

**FINANCING THE COST OF BENEFITS FOR PRESENTLY UNINSURED
INDIVIDUALS**

Section 103. (c) There are authorized to be appropriated to the Federal Hospital Insurance Trust Fund (established by sec. 1817 of the Social Security Act) from time to time such sums as the Secretary deems necessary for any fiscal year, on account of—

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

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

(3) Any loss in interest to such Trust Fund resulting from the payment of such amounts in order to place such Trust Fund in the same position at the end of such fiscal year in which it would have been if the preceding subsections of this section had not been enacted.

ADVISORY COUNCIL ON SOCIAL SECURITY

Section 706. (a) During 1968 and every fifth year thereafter, the Secretary shall appoint an Advisory Council on Social Security for the purpose of reviewing the status of the Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund, the Federal Hospital Insurance Trust Fund, and the Federal Supplementary Medical Insurance Trust Fund in relation to the long-term commitments of the old-age, survivors, and disability insurance program and the programs under parts A and B of title XVIII, and of reviewing the scope of coverage and the adequacy of benefits under, and all other aspects of,

these programs, including their impact on the public assistance programs under this Act.

(b) Each such Council shall consist of the Commissioner of Social Security, as Chairman, and 12 other persons, appointed by the Secretary without regard to the civil service laws. The appointed members shall, to the extent possible, represent organizations of employers and employees in equal numbers, and represent self-employed persons and the public.

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

(2) Appointed members of any such Council, while serving on business of the Council (inclusive of travel time), shall receive compensation at rates fixed by the Secretary, but not exceeding \$100 per day and, while so serving away from their homes or regular places of business, they may be allowed travel expenses, including per diem in lieu of subsistence, as authorized by section 5 of the Administrative Expenses Act of 1946 (5 U.S.C. 73 b-2) for persons in the Government employed intermittently.

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

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

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

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

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