

DRAFT: QUESTIONS

WALKER

Need for New Revenues

- Q. I think that everyone in this room, as well as the President, agrees with your conclusion that Medicare's situation is unsustainable and must be addressed immediately. Your testimony suggests that the only solution is reducing Medicare spending. Yet, the Medicare actuaries have estimated that spending growth would have to be held to 2.8 percent per beneficiary for 20 straight years to protect Medicare through 2020 -- and 2020 is a dozen years before Social Security goes bankrupt without a dime from the surplus. Is such a growth rate sustainable in even the most efficient private health plan? Isn't it true that Medicare cannot provide the baby boom generation today's Medicare services without some type of new financing? [yes or no]

Surplus versus Other Revenue Sources

- Q. I agree with you, that early actions to reduce Medicare spending is essential to improving its long-term health. This is why I supported the Balanced Budget Act and will support other reforms to make Medicare more efficient and competitive. But, doesn't the same hold true for financing? It seems inevitable that, even with greater efficiency, new revenues will be needed. Shouldn't we act now to find such resources? And, if we don't, aren't we shifting this shortfall to our children?
- Q. The demographic facts alone point to the inevitable need for new financing as well as reductions in Medicare spending. On the issue of financing, the President has proposed to add a capped amount from the surplus to Medicare. The surplus was created in large part by the baby boomers who contributed to the strong performance of the economy. As such, putting aside part of the surplus for Medicare is like asking the baby boom generation to help fund the Medicare services that it will need later. The alternative to the President's plan are to immediately raise the payroll tax, or simply wait, shifting this burden to younger people. Assuming, for a moment, that there is no way around new revenues for Medicare, which financing approach is most targeted, time limited and appropriate to the needs of the Medicare program -- raising taxes or using the surplus?
- Q. At the last hearing, the question was raised about whether an income tax would now be used to fund hospital services. Is it true that the President's proposal raises income taxes -- or any other type of tax -- to fund Medicare? Is there any different way to raise \$686 billion in new revenues without raising taxes?

Contention that Surplus for Medicare is a Bad Idea

- Q. I want to make sure that I understand something. You assume that Congress will not reduce Medicare spending without a fiscal crisis -- that the natural tendency of Congress is to spend. But then you say that it is not necessary to lock away the surplus in the Social Security and Medicare Trust Funds, because Congress will not spend it. That makes absolutely no sense -- especially since this is not one of the options on the table. The options are: use the surplus for Medicare -- and debt reduction -- or using the surplus for tax cuts. Which would you recommend?
- Q. You say that the President's proposal is more perceived than real. If the surplus were used for a tax cut, would it be a perceived or real tax cut? If, instead of dedicating part of the surplus to Medicare, payroll taxes were raised, would those revenue be perceived or real? If there is no additional funding for Medicare, would the money that Medicare has to borrow to pay for health services for Medicare beneficiaries be perceived or real?
- Q. You state that the President's proposal could "undermine the remaining fiscal discipline associated with the self-financing trust fund concept." Are you suggesting that we keep Medicare on the brink of financial ruin to maintain some concept of fiscal discipline? Isn't this the same as telling a patient that they cannot have needed medical care because they don't smoke when they are sick? Or like taking guardrails off the highway because people tend to drive slower without them? Are you suggesting that artificially maintaining a financing crisis is necessary to make Senators like me care about Medicare spending growth?

Medicare Spending Growth

- Q. I agree with you, that Medicare's spending growth is primarily driven by demographics and technology -- two powerful, magnificent trends. This so-called problem is that more people are living longer and that medical breakthroughs are making those lives healthier. So, how would you recommend slowing growth due to these trends -- making fewer people eligible for Medicare? Reducing services? Restricting technology?

CRIPPEN

President's Budget is not his Proposal for Long-Term Medicare Solvency

Q. I want to make an important clarification about the President's framework for Medicare. You have repeatedly stated that the President's so-called plan is more money and more benefits. This is simply not true. The President has clearly and repeatedly said that he would support a broad reform package that includes:

1. modernizations and more competition in Medicare to make it more efficient;
2. a strong defined benefit that includes the long-overdue prescription drug benefit; and
3. new financing that will inevitably be needed as the baby boom generation retires.

Each of these elements is essential to a plan to address Medicare's long-term challenges. However, at the request of Senator Breaux and in deference to the Commission, the President did not introduce such a plan in his budget before the Medicare Commission finished its work.

So, let me ask you a question. Can Medicare provide today's services to the baby boom generation in 2030 without new revenues?

Surplus versus Other Revenue Sources

Q. If you concede that new revenues are needed for Medicare, what alternative is there besides the President's proposal that does not involve a large tax increase? If we wait to see if reforms work, won't that tax increase be larger, and fall on even younger workers?

Medicare Trust Fund

Q. Director Crippen, in your letter to Senator Breaux on premium support, you state that the solvency of Part A trust fund is "not an accurate measure of the fiscal health of the program." Indeed, the projections of Part B spending is that it is growing at even a more rapid rate than Part A. Doesn't this suggest that the problem is worse than the solvency date would suggest? And do you agree with Mr. Walker that Part A solvency -- despite the fact that it doesn't tell the whole story -- is an important signal about Medicare's financial situation? What would you suggest as an alternative?

Medicare Spending Growth

Q. Both you and Mr. Walker expressed concern about the growth in Medicare spending as a percent of the Federal budget and the economy. I share those concerns, but question your methods. As I understand it, the proportion of Americans who are elderly will increase

from 12 percent today to 20 percent in 2030. Isn't it natural that Medicare spending should increase by the same amount because of the sheer demographic trend alone? Did you take that into account when doing your numbers?

And, a second related question. You state that Medicare spending growth per enrollee is substantially above growth in the economy and is too high. Most health economists that I know do not consider growth in the economy as an appropriate yardstick for Medicare spending growth. Health care is different than producing cars or farming. Recent technological advances are producing tremendous advances in health, but at a cost. This cost is not unique to Medicare but affects private insurers as well. Doesn't it make sense, then, to judge Medicare by how its growth per person compares to private health spending growth? Even then, should we expect Medicare, which treats the oldest and sickest in our society, to outperform the private sector?

Prescription Drug Benefit

Q. In your testimony, you describe the costs of a drug benefit. I personally believe that the problems caused by the lack of Medicare drug coverage today are as serious as the financing challenges it faces tomorrow. Studies prove that elderly people without drug coverage are less likely to take essential medications like insulin or blood pressure medication. They are more likely to end up in hospitals and nursing homes, causing an even greater cost to Medicare and Medicaid. Every doctor I know worries about prescribing life-saving drugs to Medicare beneficiaries, not knowing whether they can purchase the drugs and what they will give up to do so.

But, clearly cost matters. You picked out a very generous drug benefit for Medicare, Director Crippen: a \$250 deductible, cap on out-of-pocket expenses, a 75 percent subsidy of the premium. No wonder it would cost the government about \$22 billion a year. But wouldn't this benefit be significantly less expensive if we made it more like what beneficiaries get in Medicare managed care? Did you take into account the savings to Medicaid, which now pays for the coverage for the poorest beneficiaries? And what would happen if you made the government pay half, and not 75 percent of the premium?

Should I touch
Base w/ Stuart?

Should I set up meeting w/
him tomorrow (Dare I say,
breakfast?!)

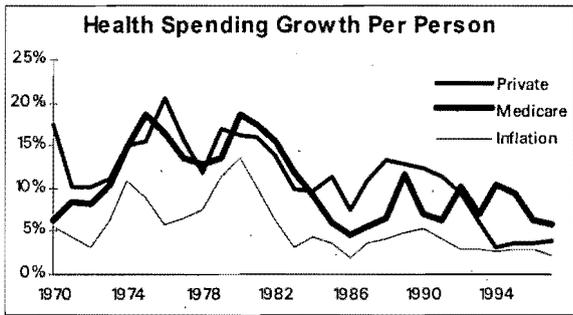
Medicare Surplus
 Dedication Rationale

**PRESIDENT'S FRAMEWORK FOR STRENGTHENING
 MEDICARE FOR THE 21st CENTURY**

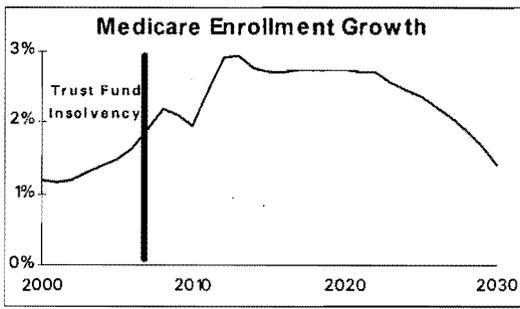
DRAFT: March 14, 1999

MEDICARE'S PROBLEMS ARE LARGE -- AND SOONER THAN THOSE OF SOCIAL SECURITY

- **Impending "senior boom".** Like Social Security, Medicare enrollment will double between 1999 (39 million) and 2032 (78 million) as the baby boom generation retires. Not only will there be more elderly in the future, but the elderly will live up to 6 years longer on average by the middle of the next century.
- **Additional challenges of health care.** Compounding the demographic challenges are the unique factors that affect health spending -- changing disease patterns, technological advances, and a high value placed on health. For example, the improved ability to prevent and cure diseases, while making tremendous improvements in the nation's health, has also driven up costs. As a result, health spending growth has historically exceeded that of general inflation. These trends are expected to continue into the next century. Private health spending growth per person is projected to be 7.3 percent between 1999 and 2007 -- more than twice as high as general inflation.



- **Improved but still large Trust Fund problem.** In 1993 when President Clinton took office, the Medicare Hospital Insurance (HI) Trust Fund was projected to be exhausted in 1999. Today, it is projected to be solvent through 2008, in large part because of the historic changes in the Balanced Budget Act of 1997. Despite this improvement, the Trust Fund is expected to become insolvent just as the baby boom generation begins to retire.



- **Medicare spending outstrips income.** According to the Medicare Trustees' 1998 report, Medicare spending is now larger than its annual income from payroll taxes and other sources. As such, it has begun to use up its assets -- by 2008, these assets will be gone. Although the health of the economy and success in constraining Medicare spending will probably improve the prognosis in the 1999 report, it is certain that as the baby boom generation retires and begins to need Medicare services, its income will be insufficient.
- **Over \$1 trillion shortfall by 2020.** Once Medicare's Part A Trust Fund runs out of money, it will have to borrow money -- with interest -- to pay for services. The annual shortfall in income plus this interest will build to over \$1 trillion by 2020. Also, Medicare's Part B services are growing rapidly, causing the automatic premium increases and general revenue contribution to rise.

OPTIONS FOR ADDRESSING MEDICARE'S LONG-TERM SOLVENCY: A wide range of ideas have been considered to help solve Medicare's fiscal imbalance. These can be categorized as:

- **Reducing provider payments and increasing efficiency:**
- **Restricting the benefits covered**
- **Increasing beneficiary contributions to Medicare and/or**
- **Adding new revenue to Medicare**

1. Reducing Provider Payments and Increasing Efficiency

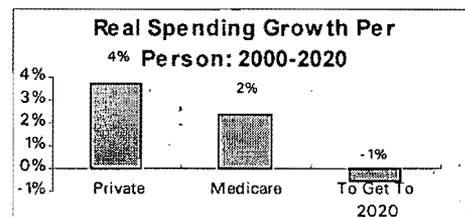
Improving Medicare's efficiency and competitiveness and reducing its overpayments and fraud are the focus of most efforts to strengthen Medicare's financial situation.

- **Strong gains in reducing Medicare spending.** Working with Congress, this Administration has reigned in Medicare spending growth. Since 1992, overpayments to health care providers have been reduced, important preventive benefits have been added, and payment systems for services like skilled nursing facilities and managed care have been modernized. Additionally, aggressive efforts to reduce fraud have saved the government billions. As a result, Medicare spending growth per beneficiary is projected to grow at 5.8 percent between 2000 and 2020 -- compared to an average rate of 10.8 percent between 1970 and 1996.

- **Provider payment reductions and improved efficiency alone cannot solve Medicare's long-term problems.** Adopting effective management tools and reducing overpayments undoubtedly contributes towards Medicare long-term solvency. However, by themselves, they cannot solve this problem. If reductions in growth alone were used to extend the life of the Medicare Trust Fund, spending growth per beneficiary would have to be constrained to 2.8 percent per year -- in every year -- to get to 2020. To put this rate into perspective:

- Medicare growth would have to be over 60 percent below projected private health insurance spending per person (7.3 percent). By 2020, a growth rate of 2.8 percent per beneficiary would result in Medicare spending that is over 40 percent below what is projected to be under current law.

- This growth rate is about 1 percent below inflation according to the Trustees, reducing the value of Medicare spending per beneficiary over time. By 2020, Medicare's spending would be 10 percent below today's level.



2. Restricting Benefits Covered by Medicare

A second option for addressing Medicare's long-term solvency is to reduce its benefits (e.g., limit coverage for home health care services; eliminate coverage of skilled nursing facility care).

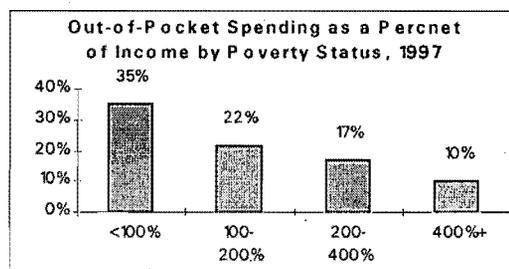
- **Today, Medicare benefits are sub-standard.** Medicare benefits were designed in 1965 to be similar to those offered by the private sector. Since then, however, Medicare benefits have not kept pace with changes, so that Medicare is now less generous than 80 percent of large employer's health insurance plans.

- **Medicare does not cover prescription drugs.** Drugs have become an essential part of modern medicine, yet 13 million beneficiaries have no health insurance coverage, and millions more have inadequate or unstable coverage.
- **Only removing major, critical services could keep Medicare solvent through 2020.** Although Medicare already has a limited benefits package, limiting even more would not be sufficient to solve its long-term problems. Even removing all skilled nursing facility plus hospice spending or all graduate medical education and disproportionate share hospital spending from Medicare would not be enough to extend the life of the Trust Fund to 2020.

3. Increasing Beneficiary Contributions to Medicare

A third option for addressing Medicare's long-term financing problem is to have beneficiaries pay for more of the cost of health care.

- **Beneficiaries already pay for almost half of their health care costs.** Because of its less generous benefits and higher cost sharing, Medicare only pays 52 percent of the total health care costs of its beneficiaries.
- **Low-income and sick beneficiaries are particularly vulnerable to cost increases.** Despite Medicaid coverage of Medicare premiums and cost sharing for most poor beneficiaries, out-of-pocket health spending consumes over one-third of poor beneficiaries' income.



- **Relying on beneficiaries alone to solve the financing gap would increase Medicare premiums by 75 percent.** A \$37 premium per month on top of the current premium would be needed to equal the amount transferred from the surplus in 2000 under the President's proposal. This would be about \$890 a year for an elderly couple.

4. Adding New Revenue to Medicare

The fourth and final option is adding new revenue to Medicare to assure that its services are adequately funded in the next century. Unlike the previous options, adding new revenues does not change Medicare spending. Instead, it fills in the inevitable, remaining shortfall after some combination of the other options have reduced Medicare spending as much as possible.

- **Increasing the Medicare payroll tax would mean that all workers -- including younger and lower wage workers -- would pay for the shortfall.** Without reducing Medicare spending, nearly a 20 percent increase in the payroll tax for both employees and employers would be needed (from 2.9 to 3.4 percent combined) to fund Medicare through 2020. This includes the 60 million American workers who earn less than \$30,000 in income (check).
- **Waiting shifts the burden to our children.** If funds aren't immediately added to the Medicare Trust Fund, its assets will continue to be used up, making size of the problem even larger. More importantly, it means that the larger taxes that would be needed would not come from the baby boomers --who will be retiring -- but from their children.

THE PRESIDENT'S FRAMEWORK FOR MEDICARE REFORM

In his State of the Union speech, the President outlined his framework for Medicare: improve Medicare's financial outlook by dedicating 15 percent of the surplus to its depleted Trust Fund, and enact broader reforms including the addition of a long-overdue prescription drug benefit.

Dedicate Surplus to Secure Medicare until at least 2020. The President's proposal would transfer 15 percent of the projected unified budget surplus to the Medicare Hospital Insurance (HI) Trust Fund for the next 15 years (2000 through 2014). This amount would equal \$686 billion over the period (\$120 billion in the next 5 years).

- **Trust Fund solvency through at least 2020.** This early investment in the Medicare Trust Fund prevents it from being used up and allows it to generate income. This has the effect of adequately funding Medicare for at least another decade.
- **Surplus locked into Trust Fund:** Under this proposal, the Treasury would transfer the annual amount of funds to the Medicare Trust Fund. This amount would no longer be considered part of the unified budget surplus. Once these funds are transferred, they would be treated the same way as other HI Trust Fund assets. As such, they would be invested and generate interest income for the Trust Fund to the extent that they are not needed to pay for services. If there is not enough Trust Fund income to pay for HI expenditures, these funds, indistinguishable from other Trust Fund assets, would be redeemed to pay for that shortfall.
- **Investing now prevents larger problem later.** Even though the Medicare shortfall is projected to accumulate to \$1 trillion by 2020, the President's \$686 billion investment can fill this hole because it is invested early, earns interest, and prevents Medicare from having to borrow to pay for services.
- **One-time, fixed contribution.** The President's proposal does not create an unlimited tap on general revenue for Medicare. Instead, it takes a fixed proportion of the surplus -- in large part created by the baby boom generation -- and invests it in Medicare to pay for the services when this generation retires. As such, it is similar to pre-funding: putting aside the extra revenues from the strong economy to pay for the temporary but overwhelming influx of retirees beginning in 2010.

Modernize Medicare and Make It More Competitive.

- **Commitment to strengthening Medicare's competitiveness.** The President has proposed many policies that would give Medicare the same tools that the private sector uses to control costs. Although Congress has not passed all of them, he is committed to review the recommendations of the Medicare Commission. He also is committed to working with Congress on policies to adopt the best management, payment, clinical and competitive practices used by the private sector, to help maintain high-quality services and keep spending growth in line with the private spending.

Guarantee Defined Set of Benefits Without Excessive New Costs to Beneficiaries.

- **Strong, modernized defined benefits must be assured.** As reform proposals are considered by Congress, the President will evaluate them to assure that beneficiaries are entitled to an adequate set of health benefits. A modernized, well-defined benefits package is needed to assure that health plans compete on cost and quality rather than price. Proposals should also maintain or strengthen protections for low-income beneficiaries, assure that any new cost burdens are not excessive, and assure that beneficiaries have access to a viable traditional Medicare program.

Use Savings from Proposals to Help Fund a Prescription Drug Benefit.

- **Prescription drugs are an essential part of modern medicine.** Prescription drugs have become an essential part of treatments and cures, and are expected to play an even greater role in health care in the next century. Over 85 percent of Medicare beneficiaries use at least one prescription drug in the course of a year. The elderly's per capita spending on drugs is over three times as high as that of non-elderly adults, and nearly 10 times that of children.
- **Medicare does not cover prescription drugs.** About 13 million beneficiaries have no insurance coverage for drugs whatsoever, and millions more have unstable, inadequate or expensive coverage. Lack of coverage can hurt beneficiaries' health. One study found that elderly and disabled Medicaid beneficiaries experienced significant declines in the use of essential medicines (e.g., insulin, lithium, cardiovascular agents, bronchodilators) when their drug coverage was limited.
- **Proposals to address Medicare's challenges should include a meaningful, affordable drug benefit for all beneficiaries.** The President believes that any legislation to prepare Medicare for the challenges of the next century must include coverage of prescription drugs. This coverage should be available to all beneficiaries, regardless of where they live or whether they are in a managed care plan. It should be affordable, with a large enough government contribution to the cost of the coverage to assure that all beneficiaries can afford the option. And it should be designed and managed in a way comparable to private managed care plan coverage.
- **Paid for in the context of broader reforms.** A well-designed prescription drug benefit for Medicare could be financed in a comprehensive legislative package that both reduces spending through competition and aggressive purchasing and increases financing through dedication of funds from the surplus. The President believes that re-investing Medicare savings in this benefit will have a long-run effect of improving the medical management of Medicare beneficiaries, especially those with chronic illness, and reducing costs associated with underuse of critical drugs (e.g., unnecessary hospitalizations, complications). This benefit can be financed without detracting from the President's goal of making Medicare stable and solvent through 2020.

PRESIDENT CLINTON UNVEILS PRINCIPLES FOR MEDICARE REFORM AND UNDERScores NEED TO DEDICATE THE SURPLUS TO MEDICARE

February 3, 1999

Today, in his speech to the American Association of Retired Persons (AARP), President Clinton underscored the need to dedicate 15 percent of the budget surplus to secure the Medicare Trust Fund until 2020. He stressed his preference for bipartisan Medicare reform that is necessary to modernize Medicare and achieve additional savings to strengthen the program, and outlined four main principles that he believes any such plan should meet. The President:

- **Highlighted the Need to Dedicate Budget Surplus to Strengthen Medicare.** The President highlighted the fact that, while we need reform to improve competition and efficiency in the Medicare program, these reforms will not produce savings that are sufficient to significantly extend the life of the Trust Fund. In fact, if reductions in growth alone were used to extend the life of the Medicare Trust Fund, spending growth per beneficiary would have to be limited to 2.8 percent per year -- in every year -- to get to 2020. This rate is over 60 percent below projected private health insurance spending per person (7.3 percent). Moreover, since this growth rate is below general inflation, the value of Medicare spending per beneficiary would erode. These projections help explain why virtually every independent health analyst agrees that Medicare cannot be significantly strengthened without adding outside financial support such as the surplus.
- **Unveiled Principles to Guide Medicare reform.** The President outlined principles that he will use to evaluate any Medicare reform proposal. Any broad-based reforms should:
 - **Dedicate Surplus to Secure Medicare until 2020.** One of the fundamental goals of Medicare reform is to put the program on stronger financial footing to better prepare it for the demographic and health challenges of the next century. These challenges cannot be addressed solely through making the program more efficient, transferring current liabilities out of the Trust Fund, or increasing payments. The President is proposing to use 15 percent of the projected surpluses over the next 15 years to secure the Medicare Trust Fund until 2020 as part of broader reforms to further strengthen the program.
 - **Modernize Medicare and Make It More Competitive.** Medicare should adopt the best management, payment, clinical and competitive practices used by the private sector, to help maintain high-quality services and keep spending growth in line with the private spending. Moreover, strong and effective Federal administration of Medicare should be assured.
 - **Guarantee Defined Set of Benefits Without Excessive New Costs to Beneficiaries.** Beneficiaries should still be entitled to an adequate set of health benefits. A modernized, well-defined benefits package is needed to assure that health plans compete on cost and quality rather than price. Reforms should also maintain or strengthen protections for low-income beneficiaries, assure that any new cost burdens are not excessive, and assure that beneficiaries have access to a viable traditional Medicare program.
 - **Use Savings from Reform to Help Fund a Prescription Drug Benefit.** Millions of Medicare beneficiaries have no or inadequate coverage for their medications, limiting their access to needed treatments. In fact, over half of Medicare beneficiaries pay more than \$500 per month for prescription drugs and one in ten pay more than \$2,000. Prescription drugs have become an essential part of treatments and cures, and are expected to play an even greater role in health care in the next century. The President believes that additional savings from making Medicare more efficient should be used to help finance a long-overdue prescription drug benefit for all Medicare beneficiaries.

DRAFT: BACKGROUND: STRENGTHENING THE MEDICARE TRUST FUND

February 2, 1998

CHALLENGES FACING MEDICARE

- **Impending "senior boom".** Like Social Security, Medicare enrollment will double between 1999 (39 million) and 2032 (78 million) as the baby boom generation retires. Not only will there be more elderly in the future, but the elderly will live up to 6 years longer on average by the middle of the next century.
- **Additional challenges of changing health and medicine.** Compounding the demographic challenges are the unique factors that influence health spending -- changing disease patterns, technological and pharmacological advances, a high value placed on health. As a result, spending growth has almost always exceeded that of general inflation. In the last 35 years, private health spending growth has been below general inflation only in 3 years (between 1994 and 1996) [check]; Medicare spending growth was below inflation for the first time ever in 1998 [check]. This recent low growth, in part due to unique trends such as the shift to managed care, is expected to end. Private health spending growth per person is projected to be 7.3 percent between 1999 and 2007 -- more than twice as high as general inflation.
- **Improved but still large Trust Fund problem.** In 1993 when President Clinton took office, the Medicare Trust Fund was projected to be exhausted in 1999. Today, it is projected to be solvent through 2008, in large part because of the historic changes in the Balanced Budget Act of 1997.
 - Medicare spending growth per beneficiary (HI and supplemental medical insurance, Parts A and B) is projected to grow at 5.8 percent between 2000 and 2020. This compares to an average per beneficiary growth rate of 10.8 percent between 1970 and 1996.
 - Medicare spending in 1998 was well below expectations -- growing at about 3 percent in aggregate.

Despite this improvement, Medicare will become insolvent just as the baby boom generation begins to retire.

ACTIONS NEEDED WITHOUT THE SURPLUS

- **Competition, efficiency and traditional savings alone cannot secure Medicare.** If reductions in growth alone were used to extend the life of the Medicare Trust Fund, spending growth per beneficiary would have to be 2.8 percent per year -- in every year -- to get to 2020. To put this rate into perspective:
 - Medicare growth would have to be over 60 percent below projected private health insurance spending per person (7.3 percent).

- By 2020, Medicare spending would be over 40 percent below what is projected currently.
- Since this growth rate is below general inflation, the value of Medicare spending per beneficiary would erode (yielding a real cut of 10 percent by 2020).
- **An increase in the payroll tax of 2.5 percent, each, for employees or employers would be needed to get to 2020.** Without changes to Medicare spending, the payroll tax rate would have to be increased by nearly 20 percent to secure Medicare through 2020.

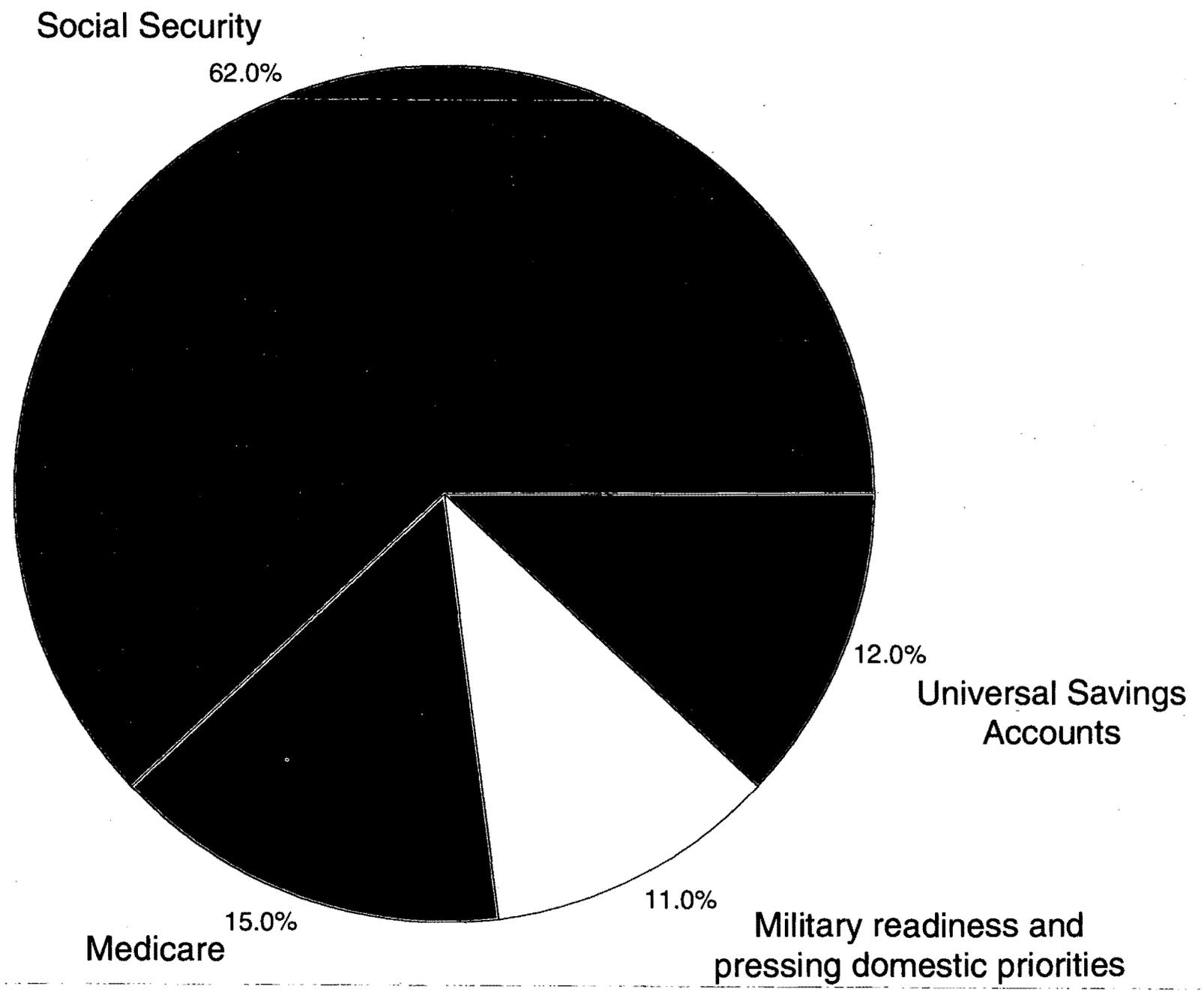
DEDICATING THE SURPLUS TO MEDICARE.

- The President has proposed to use part of the surplus to strengthen the Medicare Hospital Insurance Trust Fund. Specifically, he would dedicate an amount equal to 15 percent of the surplus over the next 15 years to Medicare. This will have the effect of securing Medicare's solvency until 2020 with no other changes.

Calendar Year (\$ billions)	Current Projections				With Surplus			
	Expenditures	Total Income	Change in Fund	Fund at Yr End	Surplus Amount	Total Income	Change in Fund	Fund at Yr End
2000	149.5	145.0	-4.4	96.7	17.6	163.0	13.7	114.8
2005	193.3	178.1	-15.2	56.6	32.6	220.3	27.0	236.5
2008	236.8	203.0	-33.8	-24.3	50.0	272.9	36.1	339.5
2010	270.0	220.2	-49.8	-115.5	60.9	310.5	40.5	418.6
2015	381.4	259.0	-122.4	-563.2	--	321.5	-59.9	500.9
2020	540.7	283.0	-257.6	-1054.6	--	367.7	-172.9	-105.6
Trust Fund Exhaustion: 2008					Total Surplus Amount:		\$689.9	
					Trust Fund Exhaustion:		2020	

Allocation of Projected Budget Surpluses

Fiscal years 2000-2014





Medicare Surplus 15% 876

7500 SECURITY BOULEVARD
BALTIMORE MD 21244-1850

DATE: January 27, 1999

FROM: Richard S. Foster
Office of the Actuary

SUBJECT: Estimated Year of Exhaustion for the HI Trust Fund under a Proposal
To Augment HI Financing with General Fund Transfers

TO: Nancy-Ann Min DeParle
Administrator

This memorandum responds to your request for the estimated year of exhaustion for the Hospital Insurance trust fund under a legislative proposal developed for the President's Fiscal Year 2000 Budget. At this time, we do not know the full specifics of this proposal. It is our understanding that the proposal would create a new transfer of revenues from the general fund of the U.S. Treasury to the HI trust fund for each year from 2000 through 2014. The transfer amount each year would be set equal to a specified percentage of the HI taxable payroll for the year.¹ The applicable percentages would be specified in the legislation and would equal 15 percent of the unified budget surpluses projected for the President's Fiscal Year 2000 Budget, expressed as a percentage of the projected HI taxable payrolls.

Under the proposal, the future transfers from the general fund would depend only on the specified percentages of HI taxable payroll and would not be affected if actual future unified budget surpluses differed from the Fiscal Year 2000 Budget projections. We understand that, in contrast to the associated proposal for the Social Security program, there would be no change in current-law investment practices for the HI trust fund. Similarly, the estimates in this memorandum reflect Medicare's current benefit provisions as specified under present law.

We were provided with projected additional HI revenues under this proposal based on the intermediate set of assumptions from the 1998 Trustees Report, as estimated by the Office of Management and Budget and the Social Security Administration's Office of the Chief Actuary. These amounts are listed below (in billions):

Calendar year									
2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
\$17.6	\$19.6	\$27.2	\$26.0	\$29.5	\$32.6	\$40.0	\$45.4	\$50.0	\$55.7
2010	2011	2012	2013	2014	2000-2004		2000-2009	2000-2014	
\$60.9	\$65.9	\$70.2	\$73.7	\$75.5	\$119.9	\$343.8	\$689.9		

¹ "HI taxable payroll" is the total amount of all wages, salaries, and net income from self-employment that is subject to the HI payroll tax under the Federal Insurance Contributions Act (FICA) and the Self-Employment Contributions Act (SECA).

Based on the intermediate assumptions and the projected general fund transfers listed above, we estimate that the assets of the HI trust fund would be depleted in calendar year 2020 under this proposal, as compared to 2008 under present law. Thus, this Budget proposal would postpone the year of exhaustion by an estimated 12 years.

This estimate is subject to change if our understanding of the proposal is incorrect. In addition, it is important to note that the financial operations of the HI trust fund will depend heavily on future economic, demographic, and health cost trends. For this reason, the estimated year of depletion under this proposal is very sensitive to the underlying assumptions. In particular, under adverse conditions such as those assumed by the Trustees in their "high cost" assumptions, asset depletion could occur significantly earlier than the intermediate estimate. Conversely, favorable trends would delay the year of exhaustion. The intermediate assumptions represent a reasonable basis for planning.

The estimated year of exhaustion is only one of a number of measures and tests used to evaluate the financial status of the HI trust fund. If you would like additional information on the estimated impact of this proposal, we would be happy to provide it.



Richard S. Foster, F.S.A.
Chief Actuary

A BILL

To protect and provide resources for the Social Security System, to reserve surpluses to protect, strengthen and modernize the Medicare Program, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Strengthen Social Security and Medicare Act of 1999."

SEC. 2. FINDINGS AND PURPOSE.

(a) FINDINGS. The Congress finds that:

(1) The Social Security system is one of the cornerstones of American national policy and has allowed a generation of Americans to retire with dignity. For 30 percent of all senior citizens, Social Security benefits provide almost 90 percent of their retirement income. For 66 percent of all senior citizens, Social Security benefits provide over half of their retirement income. Poverty rates among the elderly are at the lowest level since the United States began to keep poverty statistics, due in large part to the Social Security system. The Social Security system, together with the additional protections afforded by the Medicare system, have been an outstanding success for past and current retirees and must be preserved for future retirees.

(2) The long-term solvency of the Social Security and Medicare trust funds is not assured. There is an estimated long-range actuarial deficit in the Social Security trust funds. According to the 1999 report of the Board of Trustees of the Social Security trust funds, the accumulated balances in the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund are currently projected to become

unable to pay benefits in full on a timely basis starting in 2034. The Medicare system faces more immediate financial shortfalls, with the Hospital Insurance Trust Fund projected to become exhausted in 2015.

(3) In addition to preserving Social Security and Medicare, the Congress and the President have a responsibility to future generations to reduce the Federal debt held by the public. Significant debt reduction will contribute to the economy and improve the Government's ability to fulfill its responsibilities and to face future challenges, including preserving and strengthening Social Security and Medicare.

(4) The Federal Government is now in sound financial condition. The Federal budget is projected to generate significant surpluses. In fiscal years 1998 and 1999, there were unified budget surpluses B the first consecutive surpluses in more than 40 years. Over the next 15 years, the Government projects the on-budget surplus, which excludes Social Security, to total \$2.9 trillion. The unified budget surplus (including Social Security) is projected by the Government to total \$5.9 trillion over the next 15 years.

(5) The surplus, excluding Social Security, offers an unparalleled opportunity to: preserve Social Security; protect, strengthen, and modernize Medicare; and significantly reduce the Federal debt held by the public, for the future benefit of all Americans.

(b) PURPOSE. B It is the purpose of this Act to protect the Social Security surplus for debt reduction, to extend the solvency of Social Security, and to set aside a reserve to be used to protect, strengthen, and modernize Medicare.

SEC. 3. ADDITIONAL APPROPRIATIONS TO FEDERAL OLD-AGE AND SURVIVORS

INSURANCE TRUST FUND AND FEDERAL DISABILITY INSURANCE TRUST FUND.

(a) **PURPOSE.** B The purpose of this section is to assure that the interest savings on the debt held by the public achieved as a result of Social Security surpluses from 2000 to 2015 are dedicated to Social Security solvency.

(b) **ADDITIONAL APPROPRIATION TO TRUST FUNDS.** B Section 201 of the Social Security Act is amended by adding at the end the following new subsection:

A(n) **ADDITIONAL APPROPRIATION TO TRUST FUNDS.**

A(1) In addition to the amounts appropriated to the Trust Funds under subsections (a) and (b), there is hereby appropriated to the Trust Funds, out of any moneys in the Treasury not otherwise appropriatedB

A(A) for the fiscal year ending September 30, 2011, and for each fiscal year thereafter through the fiscal year ending September 30, 2016, an amount equal to the prescribed amount for the fiscal year; and

A(B) for the fiscal year ending September 30, 2017, and for each fiscal year thereafter through the fiscal year ending September 30, 2044, an amount equal to the prescribed amount for the fiscal year ending September 30, 2016.

A(2) The amount appropriated by paragraph (1) in each fiscal year shall be transferred in equal monthly installments.

A(3) The amount appropriated by paragraph (1) in each fiscal year shall be allocated between the Trust Funds in the same proportion as the taxes imposed by chapter

21 (other than sections 3101(b) and 3111(b)) of Title 26 with respect to wages (as defined in section 3121 of Title 26) reported to the Secretary of the Treasury or his delegate pursuant to subtitle F of Title 26, and the taxes imposed by chapter 2 (other than section 1401(b)) of Title 26 with respect to self-employment income (as defined in section 1402 of Title 26) reported to the Secretary of the Treasury or his delegate pursuant to subtitle F of Title 26, are allocated between the Trust Funds in the calendar year that begins in the fiscal year.

A(4) For purposes of this subsection, the Aprescribed amount@ for any fiscal year shall be determined by multiplying:

A(A) the excess of:

A(i) the sum of:

A(I) the face amount of all obligations of the United States held by the Trust Funds on the last day of the fiscal year immediately preceding the fiscal year of determination purchased with amounts appropriated or credited to the Trust Funds other than any amount appropriated under paragraph (1); and

A(II) the sum of the amounts appropriated under paragraph (1) and transferred under paragraph (2) through the last day of the fiscal year immediately preceding the fiscal year of determination, and an amount equal to the interest that would have been earned thereon had those amounts been invested in obligations of the

United States issued directly to the Trust Funds under subsections (d) and (f),

AoverB

A(ii) the face amount of all obligations of the United States held by the Trust Funds on September 30, 1999,

AtimesB

A(B) a rate of interest determined by the Secretary of the Treasury, at the beginning of the fiscal year of determination, as follows:

A(i) if there are any marketable interest-bearing obligations of the United States then forming a part of the public debt, a rate of interest determined by taking into consideration the average market yield (computed on the basis of daily closing market bid quotations or prices during the calendar month immediately preceding the determination of the rate of interest) on such obligations; and

A(ii) if there are no marketable interest-bearing obligations of the United States then forming a part of the public debt, a rate of interest determined to be the best approximation of the rate of interest described in clause (i), taking into consideration the average market yield (computed on the basis of daily closing market bid quotations or prices during the calendar month immediately preceding the determination of the rate of interest) on investment grade corporate obligations selected by the Secretary of the Treasury, less an adjustment made by the Secretary of the

Treasury to take into account the difference between the yields on corporate obligations comparable to the obligations selected by the Secretary of the Treasury and yields on obligations of comparable maturities issued by risk-free government issuers selected by the Secretary of the Treasury.®.

SEC. 4. PROTECTION OF SOCIAL SECURITY SURPLUSES.

(a) POINTS OF ORDER TO PROTECT SOCIAL SECURITY SURPLUSES. B Section 312 of the Congressional Budget Act of 1974 is amended by adding at the end the following new subsection:

A(g) POINTS OF ORDER TO PROTECT SOCIAL SECURITY SURPLUSES B

A(1) CONCURRENT RESOLUTIONS ON THE BUDGET B It shall not be in order in the House of Representatives or the Senate to consider any concurrent resolution on the budget, or conference report thereon or amendment thereto, that would set forth an on-budget deficit for any fiscal year.

A(2) SUBSEQUENT LEGISLATION B It shall not be in order in the House of Representatives or the Senate to consider any bill, joint resolution, amendment, motion, or conference report if - -

A(A) the enactment of that bill or resolution as reported;

A(B) the adoption and enactment of that amendment; or

A(C) the enactment of that bill or resolution in the form

recommended in that conference report,

would cause or increase an on-budget deficit for any fiscal year.

A(3) BUDGET RESOLUTION BASELINE. B(A) For purposes of this section, A set forth an on-budget deficit®, with respect to a budget resolution,

means the resolution sets forth an on-budget deficit for a fiscal year and the baseline budget projection of the surplus or deficit for such fiscal year on which such resolution is based projects an on-budget surplus, on-budget balance, or an on-budget deficit that is less than the deficit set forth in the resolution.

A(B) For purposes of this section, Acause or increase an on-budget deficit@ with respect to legislation means causes or increases an on-budget deficit relative to the baseline budget projection.

A(C) For purposes of this section, the term Abaseline budget projection@ means the projection described in section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985 of current year levels of outlays, receipts, and the surplus or deficit into the budget year and future years, except thatB

A(i) if outlays for programs subject to discretionary appropriations are subject to discretionary statutory spending limits, such outlays shall be projected at the level of any applicable current adjusted statutory discretionary spending limits;

A(ii) if outlays for programs subject to discretionary appropriations are not subject to discretionary spending limits, such outlays shall be projected as required by section 257 beginning in the first fiscal year following the last fiscal year in which such limits applied; and

A(iii) with respect to direct spending or receipts legislation previously enacted during the current calendar year and after the most recent baseline estimate pursuant to section 257 of the Balanced Budget

and Emergency Deficit Control Act of 1995, the net extent (if any) by which all such legislation is more than fully paid for in one of the applicable time periods shall count as a credit for that time period against increases in direct spending or reductions in net revenue.Ⓔ.

(b) CONTENT OF CONCURRENT RESOLUTION ON THE BUDGET. B Section 301(a) of the Congressional Budget Act of 1974 is amended by redesignating paragraphs (6) and (7) as paragraphs (7) and (8), respectively, and by inserting after paragraph (5) the following new paragraph:

A(6) the receipts, outlays, and surplus or deficit in the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, combined, established by title II of the Social Security Act;Ⓔ.

(c) SUPER MAJORITY REQUIREMENT. B

(1) Section 904(c)(1) of the Congressional Budget Act of 1974 is amended by inserting A312(g),Ⓔ after A310(d)(2),Ⓔ.

(2) Section 904(d)(2) of the Congressional Budget Act of 1974 is amended by inserting A312(g),Ⓔ after A310(d)(2),Ⓔ.

SEC. 5. PROTECTION OF MEDICARE.

(a) POINTS OF ORDER TO PROTECT MEDICARE B

(1) Section 301 of the Congressional Budget Act of 1974 is amended by adding at the end the following:

A(j) POINT OF ORDER TO PROTECT MEDICARE. B

(1) IN GENERAL. -- It shall not be in order in the House of Representatives or the Senate to consider any concurrent resolution on the budget (or amendment, motion, or conference report on the resolution) that would decrease the on-budget surplus for the total of the period of fiscal years 2000 through 2009 below the level of the Medicare surplus reserve for those fiscal years as calculated in accordance with section 3(11).

A(2) INAPPLICABILITY. B This subsection shall not apply to legislation that

B

A(A) appropriates a portion of the Medicare reserve for new amounts for prescription drug benefits under the Medicare program as part of or subsequent to legislation extending the solvency of the Medicare Hospital Insurance Trust Fund; or

A(B) appropriates new amounts from the general fund to the Medicare Hospital Insurance Trust Fund.@.

(2) Section 311(a) of the Congressional Budget Act of 1974 is amended by adding at the end the following:

A(4) ENFORCEMENT OF THE MEDICARE SURPLUS RESERVE. B

A(A) IN GENERAL. B It shall not be in order in the House of Representatives or the Senate to consider any bill, joint resolution, amendment, motion, or conference report that together with associated interest costs would decrease the on-budget surplus for the total of the period of fiscal years 2000 through 2009

below the level of the Medicare surplus reserve for those fiscal years as calculated in accordance with section 3(11).@.

A(B) INAPPLICABILITY. B This paragraph shall not apply to legislation that

B

A(i) appropriates a portion of the Medicare reserve for new amounts for prescription drug benefits under the Medicare program as part of or subsequent to legislation extending the solvency of the Medicare Hospital Insurance Trust Fund; or

A(ii) appropriates new amounts from the general fund to the Medicare Hospital Insurance Trust Fund.

(b) DEFINITION B Section 3 of the Congressional Budget Act of 1974 is amended by adding at the end the following:

A(11) The term >Medicare surplus reserve= means one-third of any on-budget surplus for the total of the period of the fiscal years 2000 through 2009, as estimated by the Congressional Budget Office in the most recent initial report for a fiscal year pursuant to section 202(e).@.

(c) SUPER MAJORITY REQUIREMENT. B

(1) Section 904(c)(2) of the Congressional Budget Act of 1974 is amended by inserting A301(j),@ after A301(i),@.

(2) Section 904(d)(3) of the Congressional Budget Act of 1974 is amended by inserting A301(j),@ after A301(i),@.

SEC. 6. EXTENSION OF DISCRETIONARY SPENDING LIMITS.

(a) EXTENSION OF LIMITS. B Section 251(b)(2) of the Balanced Budget and Emergency Deficit Control Act of 1985 is amended, in the matter before paragraph (A), by deleting A2002@, and inserting A2014@.

(b) EXTENSION OF AMOUNTS. B Section 251(c) of the Balanced Budget and Emergency Deficit Control Act of 1985 is amended by striking paragraphs (4), (5), (6) and (7), and inserting the following:

A(4) With respect to fiscal year 2000,

A(A) for the discretionary category: \$535,368,000,000 in new budget authority and \$543,257,000,000 in outlays;

A(B) for the highway category: \$24,574,000,000 in outlays;

A(C) for the mass transit category: \$4,117,000,000 in outlays; and

A(D) for the violent crime reduction category: \$4,500,000,000 in new budget authority and \$5,564,000,000 in outlays;

A(5) With respect to fiscal year 2001,

A(A) for the discretionary category: \$573,004,000,000 in new budget authority and \$564,931,000,000 in outlays;

A(B) for the highway category: \$26,234,000,000 in outlays; and

A(C) for the mass transit category: \$4,888,000,000 in outlays;

A(6) With respect to fiscal year 2002,

A(A) for the discretionary category: \$584,754,000,000 in new budget authority and \$582,516,000,000 in outlays;

A(B) for the highway category: \$26,655,000,000 in outlays; and

A(C) for the mass transit category: \$5,384,000,000 in outlays;

A(7) With respect to fiscal year 2003,

A(A) for the discretionary category: \$590,800,000,000 in new budget authority and \$587,642,000,000 in outlays;

A(B) for the highway category: \$27,041,000,000 in outlays; and

A(C) for the mass transit category: \$6,124,000,000 in outlays;

A(8) With respect to fiscal year 2004, for the discretionary category:

\$604,319,000,000 in new budget authority and \$634,039,000,000 in outlays;

A(9) With respect to fiscal year 2005, for the discretionary category:

\$616,496,000,000 in new budget authority and \$653,530,000,000 in outlays;

A(10) With respect to fiscal year 2006, for the discretionary category:

\$630,722,000,000 in new budget authority and \$671,530,000,000 in outlays;

A(11) With respect to fiscal year 2007, for the discretionary category:

\$644,525,000,000 in new budget authority and \$687,532,000,000 in outlays;

A(12) With respect to fiscal year 2008, for the discretionary category:

\$663,611,000,000 in new budget authority and \$704,534,000,000 in outlays; and

A(13) With respect to fiscal year 2009, for the discretionary category:

\$678,019,000,000 in new budget authority and \$721,215,000,000 in outlays,

Aas adjusted in strict conformance with subsection (b).

With respect to fiscal year 2010 and each fiscal year thereafter, the term Adiscretionary spending limit@ means, for the discretionary category, the baseline amount calculated pursuant to the requirements of Section 257(c), as adjusted in strict conformance with subsection (b).@.

SEC. 7. EXTENSION AND CLARIFICATION OF PAY-AS-YOU-GO REQUIREMENT.

Section 252 of the Balanced Budget And Emergency Deficit Control Act of 1985 is amended B

(a) in subsection (a), by striking AOctober 1, 2002@ and inserting AOctober 1, 2014@ and by adding Aor decreases the surplus@ after Aincreases the deficit@;

(b) (1) in paragraph (1) of subsection (b), by striking AOctober 1, 2002@ and inserting AOctober 1, 2014@ and by adding Aor any net surplus decrease@ after Aany net deficit increase@;

(2) in paragraph (2) of subsection (b),

(i) in the header by adding Aor surplus decrease@ after Adeficit increase@;

(ii) in the matter before subparagraph (A), by adding Aor surplus@ after Adeficit@; and

(iii) in subparagraph (C), by adding Aor surplus@ after Anet deficit@; and

(3) in the header of subsection (c), by adding Aor surplus decrease@ after Adeficit increase@.

SEC. 8. EXTENSION OF BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT. B

Section 275(b) of the Balanced Budget and Emergency Deficit Control Act of 1985 is amended by striking ASeptember 30, 2002@ and inserting ASeptember 30, 2014@ and by striking ASeptember 30, 2006@ and inserting ASeptember 30, 2018@.

SEC. 9. EXTENSION OF SOCIAL SECURITY FIREWALL IN CONGRESSIONAL BUDGET ACT. B

Section 904(e) of the Congressional Budget Act of 1974 is amended by striking ASeptember 30, 2002@ and inserting ASeptember 30, 2014@.

SEC. 10. PROTECTION OF SOCIAL SECURITY INTEREST SAVINGS TRANSFERS.

(a) DEFINITION OF DEFICIT AND SURPLUS UNDER BUDGET ENFORCEMENT ACT. B Section 250(c) of the Balanced Budget and Emergency Deficit Control Act of 1985 is amended in paragraph (1) by adding A>surplus=,@ before Aand >deficit=@.

(b) REDUCTION OR REVERSAL OF SOCIAL SECURITY TRANSFERS NOT TO BE COUNTED AS PAY-AS-YOU-GO OFFSET. B Any legislation that would reduce, reverse or repeal the transfers to the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund made by Section 201(n) of the Social Security Act, as added by Section 3 of this Act, shall not be counted on the pay-as-you-go scorecard and shall not be included in any pay-as-you-go estimates made by the Congressional Budget Office or the Office of Management and Budget under Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985.

(c) CONFORMING CHANGE B Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 is amended, in paragraph (4) of subsection (d), byB

- (1) striking Aand@ after subparagraph (A),
- (2) striking the period after the subparagraph (B) and inserting A; and@ , and
- (3) adding the following:

A(C) provisions that reduce, reverse or repeal transfers under Section 201(n) of the Social Security Act.@.

SEC. 11. CONFORMING CHANGES.

(a) **REPORTS.** B Section 254 of the Balanced Budget and Emergency Deficit Control Act of 1985 is amendedB

(1) in paragraph (3) of subsection (c),

(A) in subparagraph (A), by adding Aor surplus@ after Adeficit@;

(B) in subparagraph (B), by adding Aor surplus@ after Adeficit@; and

(C) in subparagraph (C), by adding Aor surplus decrease@ after Adeficit increase@;

(2) in paragraph (4) of subsection (f), by adding Aor surplus@ after Adeficit@; and

(3) in subparagraph A of paragraph (2) of subsection (f), by striking A2002@ and inserting A2009@.

(b) **ORDERS.** B Section 258A(a) of the Balanced Budget and Emergency Deficit Control Act of 1985 is amended in the first sentence by adding Aor increase the surplus@ after Adeficit@.

(c) **PROCESS.** B Section 258(C)(a) of the Balanced Budget and Emergency Deficit Control Act of 1985 is amendedB

(1) in paragraph (2), by adding Aor surplus increase@ after Adeficit reduction@;

(2) in paragraph (3), by adding Aor increase in the surplus@ after Aredution in the deficit@; and

(3) in paragraph (4), by adding Aor surplus increase@ after Adeficit reduction@.

###

SAVING SOCIAL SECURITY NOW, WHILE MEETING AMERICA'S CHALLENGES FOR THE 21st CENTURY

In His State of the Union Address, President Clinton Put Forward His Framework To Save Social Security Now, While Meeting America's Challenges for the 21st Century. The President and Vice President's framework strengthens Social Security by:

- **Using The Budget Surplus To Help Save Social Security And Invest A Portion In the Stock Market To Seek Higher Returns.** The President proposes to transfer 62 percent of the projected budget surpluses over the next 15 years -- more than \$2.7 trillion -- to the Social Security system. The President proposes to invest less than one-quarter of the transferred surpluses in the private sector to achieve higher returns for Social Security -- just as any state or local government, or private pension does -- after working with Congress to devise a mechanism to ensure that the investments are made independently and without political interference by private sector managers with minimum administrative costs.
- **This Framework Will Save Social Security Until 2055 -- And the President Will Work With Congress To Save It Until At Least 2075.** Transferring over 60 percent of the surpluses to Social Security and investing a portion in the market will keep Social Security solvent until 2055. The President believes we must work on a bipartisan basis to make the hard-headed but sensible and achievable choices to save Social Security until at least 2075. As part of this effort, President Clinton believes that we must:
 - (1) **Reduce Poverty Among Single Women.** Reduce poverty among elderly women -- particularly widows, who have a poverty rate nearly twice the overall poverty rate for older Americans; and
 - (2) **Eliminate The Earnings Test.** Eliminate the confusing and out-dated earnings test so that we stop discouraging work and earnings among older Americans.

After Social Security Reform Is Secured -- Consistent With the President's "Save Social Security First" Commitment -- the President Proposes To:

- **Strengthen Medicare for the 21st Century.** The President's framework will reserve 15 percent of the projected surpluses for Medicare, securing Medicare until 2020. The President further called for bipartisan reforms that would allow Medicare to be secure until 2020 while also providing prescription drug benefits. *modernize + strengthen the life of the TF, Dr. e*
- **Provides \$500 Billion in Tax Credits to Create New Universal Savings Accounts -- USA Accounts.** The President's framework will reserve 12 percent of the projected surpluses to create new Universal Savings Accounts (USAs) so all working Americans can build wealth to meet their retirement needs. To help Americans save and to strengthen our current pension system, we would provide Americans an flat tax credit to make contributions into their USA Account. In addition, we would provide additional tax credits to match a portion of an individual's savings -- with more help for lower-income workers.
- **Prepare America for the Challenges of the Future.** The President's framework will reserve 11 percent of the projected surpluses for military readiness and pressing national domestic priorities, such as education and research.

A FISCALLY RESPONSIBLE PROPOSAL: PUBLICLY HELD DEBT FALLS TO LOWEST LEVEL SINCE 1917

- **Debt-to-GDP Ratio Will Fall to Lowest Level Since 1917.** As a share of the economy, the publicly held debt increased from 26% in 1981 to 50% in 1993. Since President Clinton took office, the publicly held debt as a share of GDP has dropped to about 45 percent. And under the President's framework, current projections suggest that the publicly held debt, as a share of GDP, will fall from about 45% today to less than 10% in 2014 -- its lowest level since 1917.

NEW REVENUES AND THE SURPLUS

NEED FOR NEW REVENUE

- **Massive cuts would be needed.** For the Hospital Insurance (HI) Trust Fund to be solvent only through 2022, it would take an 18 percent reduction in baseline spending in each year (all else held constant). To give an example of what that means, in 2000, this would amount to about \$26 billion -- more than Medicare pays for all of outpatient services or home health care.
- **Growth would have to be slowed to below general inflation.** Even if Medicare per capita cost growth were constrained to general inflation in every year -- unprecedented in health care and less than half projected private spending growth rate -- the Trust Fund would only be extended to 2016.

EFFECTS OF THE SURPLUS

- **Reserving remainder of the surplus for Medicare.** The President's plan would include a provision that automatically sends to the Medicare Trust Fund a set dollar amount from the surplus annually for the next 15 years. These funds would be prohibited from being used for any other purpose, thus preventing the Trust Fund from being raided for other priorities.
- **Part of a broader Medicare reform initiative.** The President strongly urged the Medicare Commission and the Congress to include his proposal as part of a broader reform initiative. Medicare reform is about more than solvency -- it should also improve Medicare's efficiency, equity, and adequacy in terms of benefits. Medicare has fewer management tools and less ability to use competition than private health plans. Moreover, its benefits are outdated. Unlike virtually every employer health plan, Medicare does not pay for prescription drugs, for example. Thus, structural reforms as well as funds are needed to strengthen Medicare.
- **Ensuring that Medicare is financed for the next two decades.** Even in the absence of broader reforms, the President's plan would ensure that Medicare can continue to provide its critical health services. His proposal would double the life expectancy of the Medicare Trust Fund to 2020, making its outlook better than it has been in the last quarter of a century.

ADVANTAGES OF THE SURPLUS

- **Baby boom generation created the surplus -- and will need it when they retire.** In fact, the same generation -- the baby boomers -- that has helped create this surplus is going to need it when they retire and are covered by Medicare. By taking this action, the President is ending the need in the foreseeable future to look for new revenues from younger generations.
- **More progressive than a payroll tax increase.** The payroll tax, which is the main source of financing for the Medicare Trust Fund, is not progressive. It imposes a constant tax rate on earnings and does not tax other types of income at all, such as income from stocks. The budget surplus is primarily funded by the income tax. This is not a "flat tax" -- it imposes somewhat higher tax rates on those with higher incomes, who have more ability to pay. Thus, even without further Medicare reforms, the proposed commitment of the surplus will make Medicare more progressive right away.
- **Enhances the likelihood of a reform package.** To meet the goals of Medicare reform, a proposal must: (1) make Medicare more efficient; (2) modernize and rationalize its benefits; and (3) add new revenues. This proposal to add new revenues improves the prospects for a bipartisan reform plan.

PRESCRIPTION DRUG COVERAGE FOR MEDICARE BENEFICIARIES

NEED FOR COVERAGE

- **Prescription drugs are a growing part of health care in the U.S.** In the past 10 year, spending on prescription drugs has risen as a percent of total spending, by 20 percent. In the next 10 years, its share of national health spending is projected to increase by nearly 30 percent. This means that nearly one in ten health care dollars will be spent on drugs.
- **Medicare does not pay for prescription drug coverage.** Although virtually all private health insurance plans cover prescription drugs, Medicare does not.
- **The elderly and people with disabilities have a greater need for prescription drugs.** Over 80 percent of Medicare beneficiaries use at least one prescription drug. Although the elderly comprise 12 percent of the population, they use one-third of all prescription drugs. This reflects the greater prevalence of conditions like arthritis and high blood pressure that require daily medicines.
- **Higher spending on drugs.** About half of Medicare beneficiaries have more than \$500 per year in expenditures on prescription drugs; over one in ten have more than \$2,000.
- **Fall back on expensive Medigap insurance, former employers, or Medicaid.** Low-income beneficiaries rely on Medicaid to pay the costs of drugs. Others either turn to former employers or pay for Medigap coverage. Medigap premiums range from \$402 to \$7,196, depending on the state and type of coverage. The major source of drug coverage for the elderly -- employer sponsored retiree insurance -- is eroding. In 4 years, the percent of large firms offering employer-sponsored coverage for Medicare eligibles dropped about 20%.
- **Millions of beneficiaries have inadequate coverage.** About 13 million Medicare beneficiaries have no coverage at all. Millions more have drug coverage through Medicare managed care plans, but the amount of that coverage is increasingly low. For example, about one-third of beneficiaries' managed care plans pay less than \$1,000 for drugs annually.
- **Older Americans pay more.** A recent study found that the average older American without insurance coverage for drugs pays twice as much as large insurers or HMOs.
- **Difficult choices.** According to one survey, one in eight older Americans had to choose between buying food and buying medicine.

MEMORANDUM

May 14, 1998

From: Richard S. Foster
Solomon M. Mussey
Elliott A. Weinstein
Office of the Actuary
Health Care Financing Admin.

Subject: Actuarial Evaluation of Illustrative Approaches for Improving HI Solvency Through Expenditure Reductions or Payroll Tax Increases—Update Based on 1998 Trustees Report

The long-range solvency of the Medicare Hospital Insurance (HI) program remains the subject of considerable discussion. Most of the discussion has focused on the reductions in HI expenditures that would be required to meet certain financing or budgetary goals. This memorandum provides an analysis of the effects on the HI trust fund of various illustrative approaches for reducing future HI expenditures or raising payroll tax rates.

The analysis presented here should not be interpreted as advocating a particular approach to addressing the projected financial imbalance for the HI trust fund; nor should a negative inference be made from the absence of other analyses. Our purpose is to help provide a framework for analysis by the program's policymakers. Also, in the case of the illustrative proposals to reduce expenditures, this memorandum provides no information as to how such reductions might be accomplished. In other words, these estimates illustrate the financial impact of various theoretical changes in expenditure levels or growth rates—development of legislative provisions that would result in such changes is rather more challenging.

The illustrations presented in this memorandum are based on the intermediate financial projections from the 1998 HI Trustees Report. Under different economic and demographic conditions, such as the Trustees' "low cost" or "high cost" assumptions, the steps required to reach financial balance can differ significantly from those based on the intermediate assumptions. Equivalently, a legislative package designed to restore balance under the intermediate assumptions could ultimately result in too much or too little savings, depending on actual future economic and other conditions.

I. Background

Under section 1817(b) of the Social Security Act, the Board of Trustees for the HI program is required to report to Congress annually on the financial status of the HI trust fund. In keeping with the program's long-term financial obligations, the law requires both a short-range and a long-range evaluation of the trust fund's actuarial status. The latest Trustees Report was issued to Congress on April 28, 1998.

The Balanced Budget Act of 1997 was designed in part to postpone the imminent exhaustion of the HI trust fund, which was expected to occur in 2001 in the absence of corrective legislation. The Act included numerous provisions to (i) implement new prospective payment systems for most HI services not already reimbursed on a prospective basis, (ii) reduce payment updates for all HI providers, and (iii) shift payment for the majority of home health care services from the HI trust fund to the SMI trust fund. Under the BBA, and based on the intermediate assumptions in the 1998 Trustees Report, the HI trust fund is estimated to be depleted in 2008. Although not designed to address the program's long-range financial imbalance, the Balanced Budget Act also had the important effect of reducing the 75-year actuarial deficit by about one-half, from 4.32 percent of taxable payroll to 2.10 percent in the 1998 Trustees Report.

The 1998 Trustees Report projections still show that the program faces a serious imbalance between projected income and expenditures in the long range, in part due to the demographic changes that will occur with the retirement of the post-World War II "baby boom" generation. To bring HI into actuarial balance for the next 25 years under the intermediate assumptions would require that expenditures be reduced by 18 percent or revenues increased by 22 percent or some combination thereof. Alternative combinations of such measures are shown in the table below. Over the full 75 years of the Trustees' projection, substantially greater changes would be required.

Alternative combinations of revenue increases or
expenditure reductions for actuarial balance during
1998-2022 (1998 intermediate assumptions)

Revenue Increase	Expenditure Reduction
0%	18%
5%	14%
10%	10%
15%	6%
20%	2%
22%	0%

The analysis shown in the annual Trustees Report is significantly different in scope and purpose from the financial projections for the HI trust fund shown in the President's Budget or the projections of the Congressional Budget Office (CBO). Budget estimates are generally prepared for at most the next 10 years and are based on somewhat different assumptions concerning future economic growth, inflation rates, medical care utilization, etc. For purposes of evaluating the financial status of the Social Security and Medicare programs, Congress normally relies on the Trustees' projections. Specific proposals to address the current financial imbalance would normally be evaluated using the Trustees' assumptions. Their effects would also be "scored" for budget purposes using Administration and/or CBO budget assumptions.

HI expenditures for benefits and administrative expenses are projected to increase in the future for several reasons. One factor is growth in the number of eligible beneficiaries. Chart 1 shows the projected annual rate of increase in the number of beneficiaries over the next 75 years. Enrollment is estimated to grow around 2 percent or less annually until 2010, around 2-3 percent between 2010 and 2030, when the baby boom generation retires, and well under 1 percent afterwards. While the baby boom represents a serious long-term issue for HI solvency, they are not the cause of the short-range financial problem. In particular, the trust fund is projected to be depleted in 2008 under the intermediate assumptions—just as the first baby boomers near age 65.

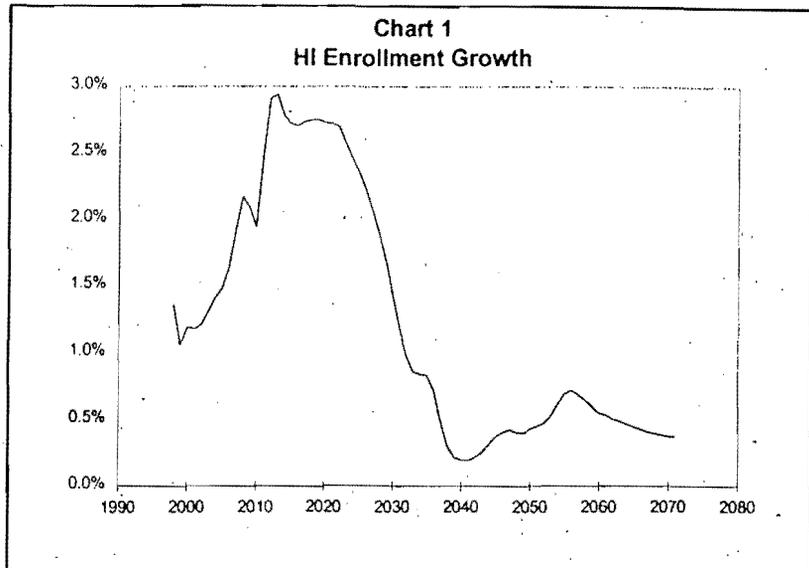
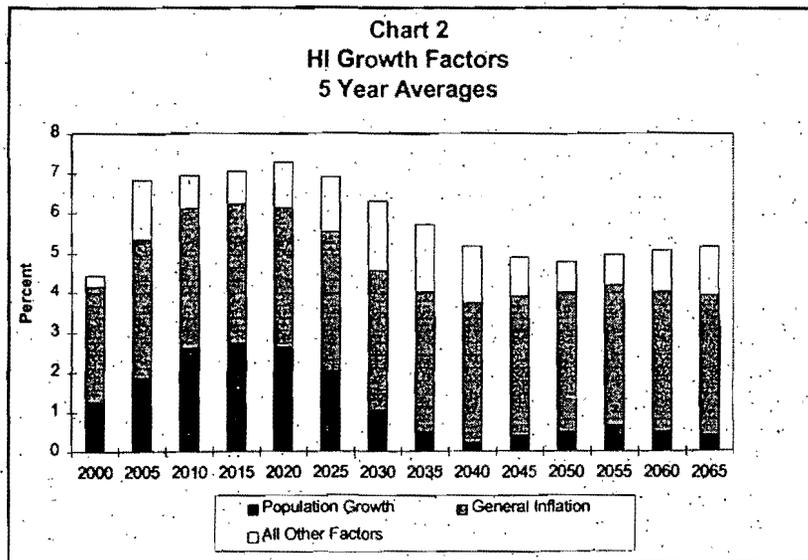


Chart 2 shows projected enrollment growth, general inflation (as measured by the Consumer Price Index), and other cost factors which contribute to HI expenditure growth. Each bar represents the average annual growth rate over the 5-year period beginning with the year shown. During 2005-2009, for example, HI expenditures are expected to increase by about 6.9 percent annually. Beneficiary growth accounts for 1.9 percent of the total and general inflation represents another 3.5 percent. The residual, 1.4 percent, is attributable to all other factors, including assumed additional inflation in the health care sector, increasing utilization and intensity of medical services, and so forth.¹



¹A portion of the increasing utilization of services is attributable to projected increases in the average age of beneficiaries. The average residual growth rate shown for 2000-2004 (0.3 percent) reflects the average of substantially slower rates in 2000-2002, attributable to the Balanced Budget Act provisions, and reaccelerating growth thereafter.

As noted above, future growth in the number of beneficiaries will vary considerably. General inflation is assumed to be fairly stable in the range of about 3.5 percent annually throughout the projection period. The residual factors vary somewhat over time (see section II.F of the HI Trustees Report for the specific assumptions). Table 1, attached, lists the components of HI expenditure growth rates.

During calendar years 1999 through 2007, the HI program is projected to spend a total of \$1,583 billion under the intermediate assumptions. If growth in program spending were limited to increases attributable to population growth alone, then the resulting reduction in HI expenditures compared to present law would be about \$207 billion for those years. If spending growth were constrained to population growth plus an allowance for general inflation, then the reduction in HI expenditures for 1999-2007 would be about \$50 billion.

II. Measures used to evaluate financial effect of proposals

In the budget context, most attention is focused on the dollar amount of expenditure reductions over a given period of time. To evaluate trust fund solvency, however, several key factors are considered. For each of the illustrative proposals to reduce HI expenditures or increase taxes, we show the following results:

- A. The "actuarial balance" for the next 25, 50, and 75 years. This amount is expressed as a percentage of the total wages, salaries, and self-employment earnings subject to the HI payroll tax. It represents the net difference between future HI income and expenditures over the period in question. Positive figures are surpluses and negative figures are deficits.
- B. The dollar reduction in HI expenditures or increase in tax revenues for various years. (Estimates are shown only for the next 10 years since such amounts are difficult to interpret for long periods of time, due to the changing value of the dollar.)
- C. The "trust fund ratio," which is the ratio of HI trust fund assets at the beginning of the year to HI expenditures for that year. The Board of Trustees has recommended that HI assets be maintained at the level of one year's expenditures, to serve as an adequate contingency reserve against temporary economic downturns or other adverse circumstances.
- D. The year the trust fund is depleted.
- E. The results of the Trustees' tests for short-range financial adequacy and long-range close actuarial balance.²

²These tests are complex. See the Glossary in the 1998 HI Trustees Report for complete definitions.

It is important to note the extreme sensitivity of measures based on trust fund assets (i.e., the trust fund ratio and the year of trust fund depletion described in C and D above). As can be seen in the attached tables, seemingly minor differences in expenditure growth rates can result in major changes in the projected level of assets. For this reason, evaluation of the long-range financial status of the HI program (and Social Security) has generally focused more on the actuarial balance, which is a more stable measure of the program's financial status. Conversely, short-range analysis is generally based on the trust fund ratio.

III. Reducing future expenditures by an overall percentage (Table 2)

Four general approaches to reducing HI expenditures are illustrated in this memorandum. The first would reduce outlays by the same overall percentage in all years, compared to current law projections. For example, under present law HI expenditures are projected to increase from \$139 billion in calendar year 1997 to \$221 in

2007 (see chart 3). If policy-makers wished to address the actuarial deficit in the first 25 years by uniformly reducing HI expenditures in all years, then as noted previously expenditures would have to be reduced by about 18 percent in each year. Such a reduction is illustrated in chart 3. (Mathematically, this approach is equivalent to reducing outlays in the first year by the desired percentage and then allowing subsequent expenditures to increase at the same rates as projected under current law.)

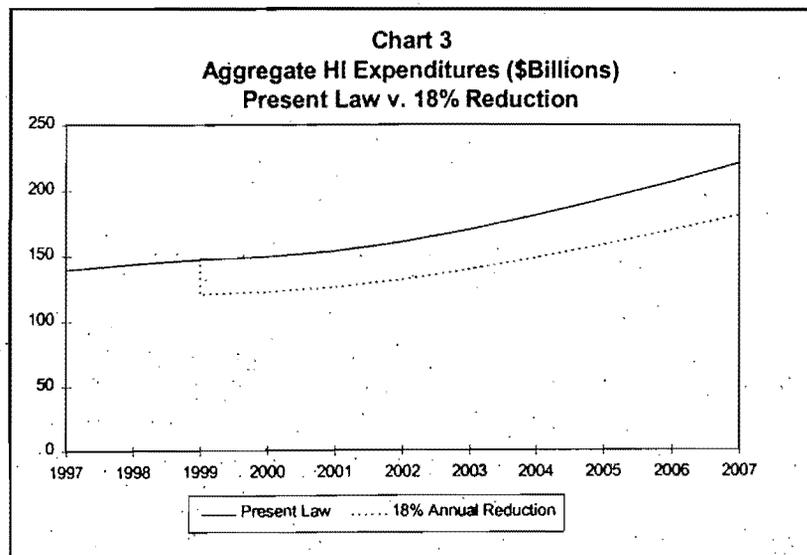


Table 2 shows the effects on the financial status of the HI trust fund of alternative proposals to reduce outlays in all future years by 10, 20, 30, or 40 percent relative to the levels projected under present law. These results indicate that a 10-percent reduction would delay trust fund depletion by 9 years; a 20-percent reduction by 20 years. A 20-percent reduction would also result in an actuarial balance of 0.03 percent for 1998-2022 (i.e., almost exact balance between future income and expenditures for the period), but an overall reduction of close to 40 percent would be required to achieve a zero balance over the full 75-year projection period.

As noted previously, these examples are intended to illustrate the nature of the financial imbalance facing the HI program and the impact of theoretical general approaches to closing the imbalance. In practice, developing legislative packages that would result in overall expenditure reductions of the magnitude illustrated here would be very challenging.

IV. Reducing annual growth in expenditures by a specified percentage (Table 3)

Another approach would be to reduce the rate of growth by a fixed percentage each year. Under present law, for example, HI expenditures are projected to increase at about 4.5 percent annually during 2000-2004. Under this category of proposals, an attempt would be made to reduce annual growth rates by a specified amount, such as 1 percentage point each year (i.e., to about 3.5 percent during 2000-2004). Similarly, growth rates in subsequent years would also be reduced by 1 percentage point. Over time, the effects of these lower growth rates would accumulate.

The effects of alternative reductions in growth rates are shown in table 3. To achieve solvency over the full 75-year projection period, growth rates would have to be reduced by about 2 percentage points in every year, relative to the intermediate projections. The effects of such a reduction are illustrated in chart 4. As can be seen by comparing charts 3 and 4, a reduction in growth rates would produce a different pattern of savings than would an overall percentage reduction.

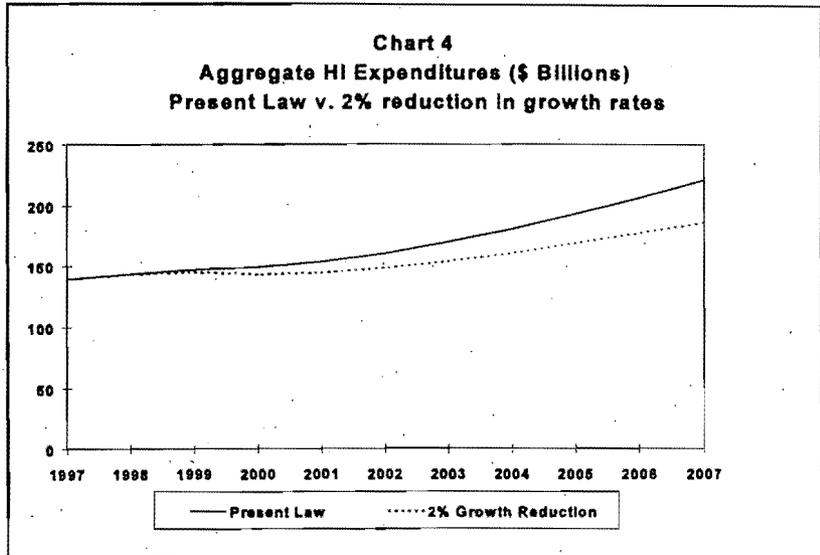
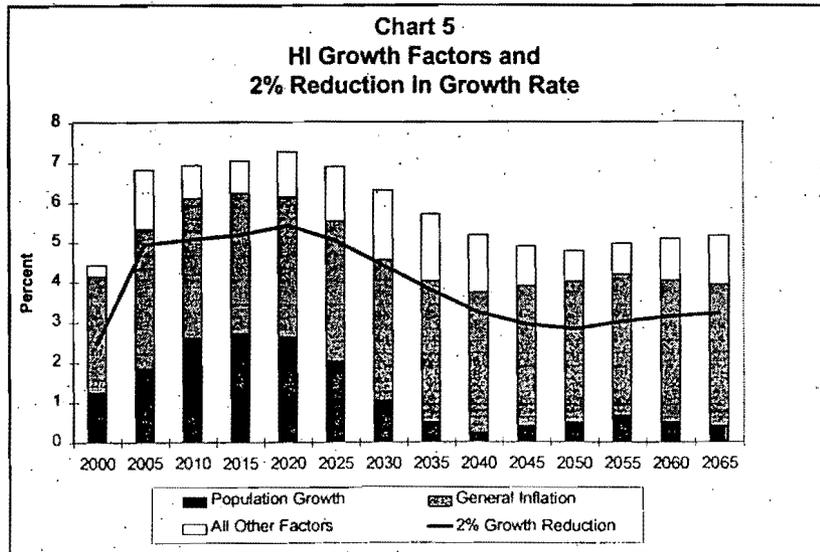


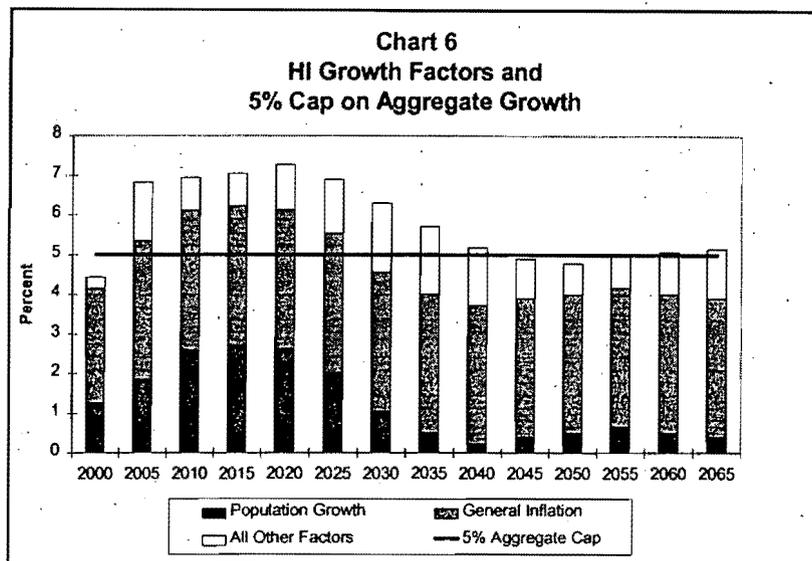
Chart 5 illustrates the nature of proposals to reduce expenditure growth rates. Growth rates under present law would be reduced by the same amount in each period (in this illustration, 2 percentage points). It is also apparent from chart 5 that achieving a 2-percentage-point reduction would necessitate growth rates below the level associated with population growth plus general inflation.



V. Limiting annual growth in aggregate expenditures to a specified maximum percentage (Table 4)

A variation of the approach described in the previous section would be to cap aggregate expenditure increases at a targeted level. If annual program growth fell below the target, the cap would have no effect; however, if expenditures grew faster than the target, then growth would be limited to the target level. For example, under the 1998 Trustees Report assumptions HI expenditure growth is projected to be 3.6 percent in 2000 and 7.1 percent in 2007. A 6-percent cap would not affect growth in 2000 but would reduce 2007 growth by 1.1 percentage points.

The financial effects of alternative caps on aggregate spending growth are shown in table 4. A 5-percent cap would fall a little short of bringing the program into exact actuarial balance throughout the long-range projection period.³ Chart 6 compares a 5-percent cap with the projected expenditure growth rates under present law. As indicated, most of the reduction in growth rates under such a proposal would occur in the first half of the projection period.

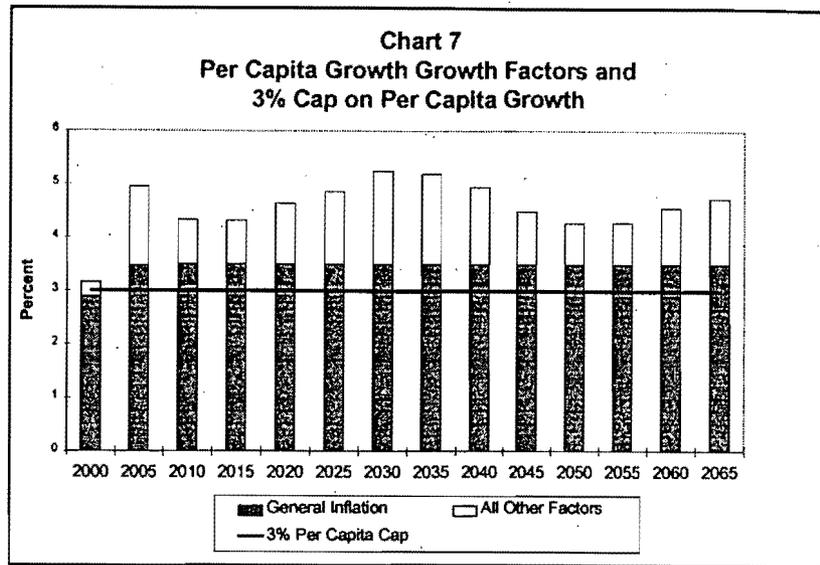


VI. Limiting annual growth in per capita expenditures to a specified maximum percentage (Table 5)

Since Medicare population growth will not be constant (as indicated in the introduction), capping aggregate growth at constant levels would result in arbitrary fluctuations in per capita growth. Accordingly, some analysts have considered a cap on per capita expenditure growth rather than a cap on aggregate growth rates.

³Under the intermediate assumptions, HI tax revenue is projected to increase at around 5 percent per year. Most of this increase is due to assumed increases in average earnings subject to the HI payroll tax; a small portion is attributable to growth in the number of covered workers. Thus, if annual expenditure growth could be reduced to below 5 percent, then income and outgo would remain in approximate balance indefinitely.

Table 5 presents the estimated financial effects of alternative caps on per capita HI expenditure growth. The results indicate that a 3-percent per capita cap would fall somewhat short of bringing the program into balance for the first 25 years. Chart 7 illustrates the 3-percent per capita growth limitation in comparison to the projected per capita growth rates. As indicated, such a cap would require restricting growth to less than the levels required to keep pace with projected general inflation.



VII. Increasing the employer/employee tax rate by a specified percentage (Table 6)

Section I of this report illustrated the combination of expenditure reductions and/or revenue increases necessary to achieve actuarial balance over the first 25-year projection period. The scenarios in this report have so far considered the effects of reductions in HI expenditures. Alternatively, the effects of increasing the HI employer/employee tax rate by a specified percentage can be considered. Currently, the HI payroll tax rate is 1.45% for employers and employees, each, for a total of 2.9%, and this tax rate will remain in effect in all future years unless legislation is enacted to modify the rate. Table 6 illustrates the financial effects of alternative proposals to increase the employer/employee tax rate by a specified percentage. For example, a 0.25% increase in the tax rate for employers and employees, each, yielding a combined 0.5% increase and hence a new total payroll tax rate of 3.4%, would result in an exhaustion date of 2020 (close to the end of the first 25-year projection period). A 1% employer/employee tax increase, increasing the combined tax rate from 2.9% to 4.9%, would nearly maintain solvency over the full 75-year projection period and would just meet the Trustees' long-range test.

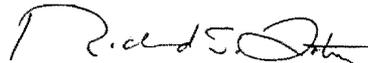
In each of these tax illustrations, an increase in the tax rate would initially result in an accumulation of trust fund assets while tax income exceeded expenditures. Subsequently, as expenditures increased as a percentage of taxable payroll to a level in excess of the combined tax rate, income would be inadequate to cover costs and trust fund assets would be drawn down to cover the shortfall. This financing pattern is very similar to the projected financial operations for the Social Security program and has generated considerable debate over the advantages and disadvantages of accumulating large trust fund reserves invested in Treasury securities. A discussion of these issues exceeds the scope of this memorandum.

VIII. Conclusion

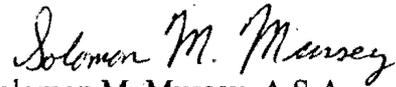
The results here indicate that substantial reductions in future HI expenditures or expenditure growth rates and/or increases in payroll tax rates would be required to address projected deficits. The illustrations also show that the year-by-year patterns of savings can vary substantially among the different approaches.

As a final illustration, table 7 shows the year-by-year expenditure reductions or payroll tax revenue increases that would be required to exactly balance income and outlays and to maintain trust fund assets at the level of one year's expenditures. The results indicate that a reduction in expenditures of about \$149 billion or about 10 percent of present-law expenditures would be required during 1999-2007, with steadily larger reductions necessary in later years. The corresponding increases in HI tax revenues are slightly larger in the short range, and considerably larger in the long run.

Once again, these estimates are illustrative and do not represent an expression of desired policy by the Office of the Actuary or the Health Care Financing Administration. Moreover, the implications of any effort to reduce HI costs or increase HI taxes deserve careful consideration and analysis extending well beyond these illustrations.



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Attachments: 7

Table 1--Projected growth of factors affecting future HI expenditures,
based on the intermediate set of assumptions from the 1998
Trustees Report

Average annual percentage increase in...

Period	No. of HI beneficiaries	General inflation ^{1/}	All other factors ^{2/}	HI expenditures	
				Aggregate	Per Capita
1998-1999	1.21%	1.90%	-0.40%	2.72%	1.49%
2000-2004	1.26	2.88	0.28	4.47	3.17
2005-2009	1.86	3.48	1.48	6.96	5.01
2010-2014	2.61	3.50	0.83	7.08	4.36
2015-2019	2.73	3.50	0.81	7.19	4.34
2020-2024	2.63	3.50	1.14	7.43	4.68
2025-2029	2.03	3.50	1.36	7.04	4.91
2030-2034	1.05	3.50	1.74	6.41	5.30
2035-2039	0.51	3.50	1.69	5.79	5.25
2040-2044	0.23	3.50	1.45	5.24	5.00
2045-2049	0.40	3.50	0.99	4.94	4.52
2050-2054	0.50	3.50	0.77	4.82	4.30
2055-2059	0.67	3.50	0.78	5.01	4.31
2060-2064	0.51	3.50	1.06	5.13	4.60
2065-2069	0.41	3.50	1.24	5.21	4.78
1998-2019	2.03	3.21	0.75	6.09	3.98
2020-2044	1.29	3.50	1.47	6.38	5.03
2045-2069	0.50	3.50	0.96	5.02	4.50

^{1/} As measured by the Consumer Price Index.

^{2/} All other factors include "excess" wage and price increases in the health sector, relative to the CPI, and increases in the average volume and intensity of services per beneficiary. After 2010, much of the variation shown in the all-other category is related to change in the utilization of services as the baby boom generation moves into and through the beneficiary population.

Office of the Actuary
Health Care Financing Administration
May 14, 1998

Table 2 -- Estimated financial effects of alternative proposals to reduce future HI expenditures by an overall percentage in all years, relative to present law ("overall reduction")

Reduce present-law expenditures in each year by...

	Present law	10%	20%	30%	40%
A. Actuarial Balance (percentage of taxable payroll)					
1998-2022.....	-0.73%	-0.35%	0.03%	0.41%	0.79%
1998-2047.....	-1.61%	-1.14%	-0.66%	-0.19%	0.29%
1998-2072.....	-2.10%	-1.57%	-1.04%	-0.52%	0.01%
B. Reduction in HI expenditures (in billions)					
1999.....	-	\$11	\$22	\$32	\$43
2000.....	-	15	29	44	59
2001.....	-	15	30	46	61
2002.....	-	16	32	48	64
2003.....	-	17	34	50	67
2004.....	-	18	36	54	72
2005.....	-	19	38	57	77
2006.....	-	20	41	61	82
2007.....	-	22	44	66	88
1999-2003.....	-	74	147	220	294
1999-2007.....	-	153	306	458	613
C. Trust Fund Ratio (assets at beginning year as a % of annual expenditures)					
1999.....	73%	81%	91%	104%	121%
2000.....	68%	88%	111%	141%	182%
2001.....	63%	93%	129%	177%	240%
2002.....	58%	98%	148%	213%	299%
2003.....	53%	103%	166%	248%	356%
2004.....	46%	105%	181%	278%	408%
2005.....	37%	106%	194%	307%	457%
2006.....	27%	106%	205%	333%	503%
2007.....	16%	104%	215%	357%	547%
2010.....	(*)	90%	234%	418%	664%
2015.....	(*)	37%	228%	473%	801%
2020.....	(*)	(*)	176%	472%	868%
2025.....	(*)	(*)	77%	414%	863%
2030.....	(*)	(*)	(*)	318%	819%
2035.....	(*)	(*)	(*)	200%	762%
2040.....	(*)	(*)	(*)	65%	703%
2045.....	(*)	(*)	(*)	(*)	644%
2050.....	(*)	(*)	(*)	(*)	583%
2055.....	(*)	(*)	(*)	(*)	515%
2060.....	(*)	(*)	(*)	(*)	433%
2065.....	(*)	(*)	(*)	(*)	334%
2070.....	(*)	(*)	(*)	(*)	220%
D. Year of trust fund depletion.....					
	2008	2017	2028	2042	Never
E. Board of Trustees tests:					
Short range test.....	No	Yes	Yes	Yes	Yes
Long-range test.....	No	No	No	No	Yes

* Fund is depleted.

- Notes:
1. The above estimates are based on the intermediate set of assumptions from the 1998 Trustees Report.
 2. Illustrative proposals are assumed to take effect starting in 1999.
 3. All years shown are calendar years.
 4. The Board of Trustees tests are complex. Complete definitions of these tests are available in the Glossary of the 1998 HI Trustees Report.

Office of the Actuary
Health Care Financing Admin.
May 14, 1998

Table 3 -- Estimated financial effects of alternative proposals to reduce annual growth in HI expenditures ("growth rate reduction")

	Present law	Reduce expenditure growth rate in each year by...	
		1%	2%
A. Actuarial Balance (percentage of taxable payroll)			
1998-2022.....	-0.73%	-0.28%	0.09%
1998-2047.....	-1.61%	-0.60%	0.15%
1998-2072.....	-2.10%	-0.61%	0.36%
B. Reduction in HI expenditures (in billions)			
1999.....	-	\$1	\$2
2000.....	-	3	6
2001.....	-	4	9
2002.....	-	6	12
2003.....	-	8	16
2004.....	-	10	20
2005.....	-	12	24
2006.....	-	15	29
2007.....	-	18	35
1999-2003.....	-	22	45
1999-2007.....	-	77	153
C. Trust Fund Ratio (assets at beginning year as a % of annual expenditures)			
1999.....	73%	73%	74%
2000.....	68%	71%	74%
2001.....	63%	68%	73%
2002.....	58%	66%	75%
2003.....	53%	64%	78%
2004.....	46%	62%	82%
2005.....	37%	60%	86%
2006.....	27%	57%	90%
2007.....	16%	53%	95%
2010.....	(*)	38%	112%
2015.....	(*)	0%	145%
2020.....	(*)	(*)	176%
2025.....	(*)	(*)	196%
2030.....	(*)	(*)	211%
2035.....	(*)	(*)	239%
2040.....	(*)	(*)	299%
2045.....	(*)	(*)	411%
2050.....	(*)	(*)	597%
2055.....	(*)	(*)	876%
2060.....	(*)	(*)	1254%
2065.....	(*)	(*)	1745%
2070.....	(*)	(*)	2369%
D. Year of trust fund depletion.....			
	2008	2015	Never
E. Board of Trustees tests:			
Short range test.....	No	No	No
Long-range test.....	No	No	Yes

* Fund is depleted.

- Note 1. The above estimates are based on the intermediate set of assumptions from the 1998 Trustees Report.
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Office of the Actuary
 Health Care Financing Admin.
 May 14, 1998

Table 4 -- Estimated financial effects of alternative proposals to limit annual growth in aggregate HI expenditures to a specified maximum percentage ("aggregate cap")

	<u>Cap annual growth in aggregate expenditures at...</u>			
	<u>Present law</u>	<u>4%</u>	<u>5%</u>	<u>6%</u>
A. Actuarial Balance (percentage of taxable payroll)				
1998-2022.....	-0.73%	0.10%	-0.16%	-0.43%
1998-2047.....	-1.61%	0.37%	-0.17%	-0.81%
1998-2072.....	-2.10%	0.54%	-0.22%	-1.08%
B. Reduction in HI expenditures (in billions)				
1999.....	-	\$0	\$0	\$0
2000.....	-	0	0	0
2001.....	-	0	0	0
2002.....	-	1	0	0
2003.....	-	3	1	0
2004.....	-	8	4	1
2005.....	-	13	7	3
2006.....	-	20	12	5
2007.....	-	27	16	8
1999-2003.....	-	4	1	0
1999-2007.....	-	72	40	17
C. Trust Fund Ratio (assets at beginning year as a % of annual expenditures)				
1999.....	73%	73%	73%	73%
2000.....	68%	68%	68%	68%
2001.....	63%	63%	63%	63%
2002.....	58%	58%	58%	58%
2003.....	53%	54%	53%	53%
2004.....	46%	49%	47%	46%
2005.....	37%	46%	40%	38%
2006.....	27%	44%	35%	30%
2007.....	16%	43%	30%	21%
2010.....	(*)	49%	15%	(*)
2015.....	(*)	84%	(*)	(*)
2020.....	(*)	151%	(*)	(*)
2025.....	(*)	252%	(*)	(*)
2030.....	(*)	388%	(*)	(*)
2035.....	(*)	566%	(*)	(*)
2040.....	(*)	792%	(*)	(*)
2045.....	(*)	1068%	(*)	(*)
2050.....	(*)	1397%	(*)	(*)
2055.....	(*)	1787%	(*)	(*)
2060.....	(*)	2243%	(*)	(*)
2065.....	(*)	2775%	(*)	(*)
2070.....	(*)	3391%	(*)	(*)
D. Year of trust fund depletion.....				
	2008	Never	2013	2009
E. Board of Trustees tests:				
Short range test.....	No	No	No	No
Long-range test.....	No	No	No	No

* Fund is depleted.

- Note 1. The above estimates are based on the intermediate set of assumptions from the 1998 Trustees Report.
 2. Illustrative proposals are assumed to take effect starting in 1999.
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Office of the Actuary
 Health Care Financing Admin.
 May 14, 1998

Table 5 -- Estimated financial effects of alternative proposals to limit annual growth in per capita HI expenditures to a specified maximum percentage ("per capita cap")

Cap annual growth in per capita expenditures at...

	Present law	2%	3%	4%	5%
A. Actuarial Balance (percentage of taxable payroll)					
1998-2022.....	-0.73%	0.10%	-0.20%	-0.50%	-0.70%
1998-2047.....	-1.61%	0.37%	-0.21%	-0.93%	-1.53%
1998-2072.....	-2.10%	0.68%	-0.03%	-1.04%	-1.98%
B. Reduction in HI expenditures (in billions)					
1999.....	-	\$0	\$0	\$0	\$0
2000.....	-	0	0	0	0
2001.....	-	1	0	0	0
2002.....	-	2	0	0	0
2003.....	-	6	2	0	0
2004.....	-	12	6	3	1
2005.....	-	18	11	5	1
2006.....	-	25	15	8	2
2007.....	-	33	20	10	2
1999-2003.....	-	9	2	0	0
1999-2007.....	-	97	54	26	6
C. Trust Fund Ratio (assets at beginning year as a % of annual expenditures)					
1999.....	73%	73%	73%	73%	73%
2000.....	68%	68%	68%	68%	68%
2001.....	63%	63%	63%	63%	63%
2002.....	58%	59%	58%	58%	58%
2003.....	53%	56%	53%	53%	53%
2004.....	46%	54%	48%	46%	46%
2005.....	37%	53%	43%	37%	37%
2006.....	27%	54%	40%	32%	28%
2007.....	16%	57%	36%	25%	18%
2010.....	(*)	73%	28%	(*)	(*)
2015.....	(*)	114%	8%	(*)	(*)
2020.....	(*)	164%	(*)	(*)	(*)
2025.....	(*)	224%	(*)	(*)	(*)
2030.....	(*)	311%	(*)	(*)	(*)
2035.....	(*)	468%	(*)	(*)	(*)
2040.....	(*)	739%	(*)	(*)	(*)
2045.....	(*)	1161%	(*)	(*)	(*)
2050.....	(*)	1757%	(*)	(*)	(*)
2055.....	(*)	2557%	(*)	(*)	(*)
2060.....	(*)	3599%	(*)	(*)	(*)
2065.....	(*)	4988%	(*)	(*)	(*)
2070.....	(*)	6815%	(*)	(*)	(*)
D. Year of trust fund depletion.....					
	2008	Never	2016	2009	2008
E. Board of Trustees tests:					
Short range test.....	No	No	No	No	No
Long-range test.....	No	No	No	No	No

* Fund is depleted.

- Note 1. The above estimates are based on the intermediate set of assumptions from the 1998 Trustees Report.
 2. Illustrative proposals are assumed to take effect starting in 1999.
 3. All years shown are calendar years.
 4. The Board of Trustees tests are complex. Complete definitions of these tests are available in the Glossary of the 1998 HI Trustees Report.

Office of the Actuary
 Health Care Financing Admin.
 May 14, 1998

Table 6 -- Estimated financial effects of various proposals to increase the HI tax rate for employers and employees, each, by a specified percentage

	Present law	Increase the employer/employee payroll tax rate by ...			
		0.25%	0.50%	0.75%	1.00%
A. Actuarial Balance (percentage of taxable payroll)					
1998-2022.....	-0.73%	-0.25%	0.23%	0.71%	1.18%
1998-2047.....	-1.61%	-1.13%	-0.64%	-0.15%	0.33%
1998-2072.....	-2.10%	-1.61%	-1.12%	-0.64%	-0.15%
B. Increase in payroll tax revenues (in billions)					
1999.....	-	\$16	\$32	\$49	\$65
2000.....	-	23	45	68	90
2001.....	-	24	47	71	94
2002.....	-	25	49	74	98
2003.....	-	26	51	77	103
2004.....	-	27	54	81	108
2005.....	-	28	57	85	113
2006.....	-	30	60	90	119
2007.....	-	31	63	94	126
1999-2003.....	-	114	224	339	450
1999-2007.....	-	230	458	689	916
C. Trust Fund Ratio (assets at beginning year as a % of annual expenditures)					
1999.....	73%	73%	73%	73%	73%
2000.....	68%	84%	99%	115%	130%
2001.....	63%	94%	125%	156%	187%
2002.....	58%	104%	151%	198%	245%
2003.....	53%	114%	176%	238%	301%
2004.....	46%	121%	198%	275%	352%
2005.....	37%	127%	218%	309%	400%
2006.....	27%	131%	236%	341%	446%
2007.....	16%	134%	252%	371%	489%
2010.....	(*)	133%	290%	447%	605%
2015.....	(*)	97%	310%	524%	737%
2020.....	(*)	20%	279%	538%	797%
2025.....	(*)	(*)	195%	490%	784%
2030.....	(*)	(*)	73%	402%	730%
2035.....	(*)	(*)	(*)	292%	659%
2040.....	(*)	(*)	(*)	166%	582%
2045.....	(*)	(*)	(*)	27%	502%
2050.....	(*)	(*)	(*)	(*)	415%
2055.....	(*)	(*)	(*)	(*)	319%
2060.....	(*)	(*)	(*)	(*)	208%
2065.....	(*)	(*)	(*)	(*)	81%
2070.....	(*)	(*)	(*)	(*)	(*)
D. Year of trust fund depletion.....					
	2008	2020	2032	2045	2068
E. Board of Trustees tests:					
Short range test.....	No	Yes	Yes	Yes	Yes
Long-range test.....	No	No	No	No	Yes

* Fund is depleted.

- Note 1. The above estimates are based on the intermediate set of assumptions from the 1998 Trustees Report.
 2. Illustrative proposals are assumed to take effect starting in 1999.
 3. All years shown are calendar years.
 4. The Board of Trustees tests are complex. Complete definitions of these tests are available in the Glossary of the 1998 HI Trustees Report.

Office of the Actuary
 Health Care Financing Admin.
 May 14, 1998

Table 7--Estimated reductions in HI expenditures or increases in payroll tax revenues required to maintain HI trust fund assets at 100% of annual expenditures ("actuarial balance")

CY	Reduction in HI expenditures...		Increase in payroll tax revenues...	
	In billions of dollars	As a % of present law expenditures	In billions of dollars	As a % of present law payroll taxes
1999	\$9	6%	\$19	15%
2000	20	14%	31	24%
2001	26	17%	7	5%
2002	8	5%	10	7%
2003	10	6%	12	8%
2004	13	7%	16	10%
2005	16	8%	20	12%
2006	22	11%	25	14%
2007	25	11%	28	15%
2010	(*)	15%	(*)	22%
2015	(*)	23%	(*)	34%
2020	(*)	31%	(*)	52%
2025	(*)	39%	(*)	73%
2030	(*)	44%	(*)	92%
2035	(*)	48%	(*)	108%
2040	(*)	50%	(*)	115%
2045	(*)	51%	(*)	121%
2050	(*)	52%	(*)	125%
2055	(*)	52%	(*)	128%
2060	(*)	53%	(*)	132%
2065	(*)	54%	(*)	140%
2070	(*)	56%	(*)	149%
1999-2007	149	10%	168	13%
1999-2070	(*)	51%	(*)	120%

* Estimates of the dollar expenditure reductions and payroll tax increases and their totals are shown only through 2007, since inflation and interest cause such amounts to lose their meaning over long periods.

Notes: 1. Currently, the trust fund ratio is slightly under 100%. Under these scenarios, the ratio would reach 100% in the year 2001, after which the necessary reductions or increases would maintain the ratio at 100% every year thereafter. This would result in a slightly negative actuarial balance over the entire period beginning from 1999, and a zero actuarial balance beginning from 2001. Both the short-range and long-range tests of the Trustees would be satisfied over the entire period.

2. The above estimates are based on the intermediate set of assumptions from the 1998 Trustees Report.

Office of the Actuary
Health Care Financing Administration
May 14, 1998

Medicaid Trust Fund FFB

→ Chris Jennings

September 19, 1997

▼ **Health Division** ▼

Office of Management and Budget
Executive Office of the President
Washington, D.C. 20503

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- ASAP
- Time Action Requested by _____
- Not Time-Sensitive

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- OVERNIGHT _____
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With informational copies for:

HD/HFB chrons.; HFB Medicare, Barry Anderson, Ellen Balis, [REDACTED], Keith Fontenot, Chris Jennings

Phone: 202/395-7844
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Room: NEOB 7002
Email: blum_j@al.eop.gov

To: Josh Gotbaum

Through: Barry Clendenin
Mark Miller

BC 9/22/97

Subject: **HI Trust Fund Report for August 1997**

From: Jonathan Blum **B**

The attached charts display data from the Monthly Treasury Statement on outlays, revenue, and change in the balance of the Hospital Insurance (HI) Trust Fund. The charts include August data that were released on Friday, September 19 in the Monthly Treasury Statement for August.

Monthly Performance in August

HI outlays (summarized in Tables 1A and 1B) were 12% higher than the same time last year at \$12,769 million. Revenues (summarized in Tables 2A and 2B) were 15% higher than last year at \$9,291 million. The combination of outlays and revenues yielded a shortfall in August of \$3,478 million, compared to a loss of \$3,289 million a year ago. Tables 3A and 3B illustrate this shortfall. The FY1997 year-to-date HI Trust Fund deficit at the end of August was \$10,233 million. As Table 3B illustrates, the Trust Fund has lost \$11,027 million since FY1994.

At the end of August 1997, the Trust Fund's balance was \$115,352 million. Tables 4A and 4B illustrate the downward historical trend of the Trust Fund's balance.

Table 1A -- Gross HI Outlays: August 1997 Report
Comparison of FY 1997 Monthly Performance to Previous Years
(\$ in millions)

<u>Actual Outlays</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>Sept.</u>	<u>FY Total</u>
FY 1997	11,377	11,517	10,972	11,583	11,281	10,448	12,017	13,222	9,977	12,476	12,769		
FY 1996	9,082	9,869	10,302	10,169	10,709	10,410	10,947	14,699	8,880	11,530	11,372	9,713	127,683
FY 1995	7,834	8,942	9,757	8,630	8,838	11,171	8,680	10,394	11,440	8,157	10,770	10,271	114,884
FY 1994	7,432	8,006	9,319	7,193	8,196	10,069	8,224	8,339	9,374	8,676	8,937	9,006	102,771
FY 1993	7,299	6,555	8,117	6,171	7,423	8,539	8,321	7,102	8,559	8,249	7,476	7,792	91,603
FY 97 - FY 96	2,295	1,648	670	1,414	572	38	1,070	(1,477)	1,097	946	1,397		
% Difference	25%	17%	7%	14%	5%	0%	10%	-10%	12%	8%	12%		

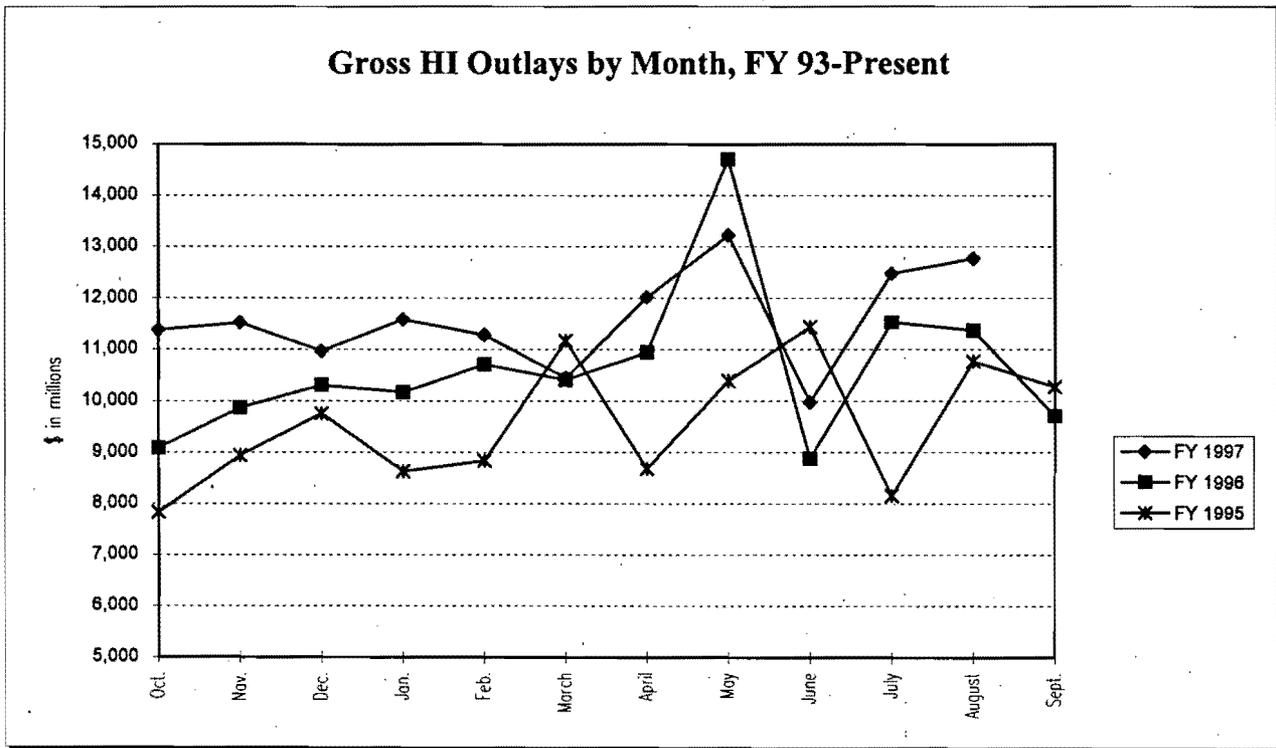


Table 1B -- Gross HI Outlays: August 1997 Report
Cumulative Comparison of FY 1997 Performance to Previous Years
(\$ in millions)

	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>Sept.</u>	<u>FY Total</u>
FY 1997	11,377	11,517	10,972	11,583	11,281	10,448	12,017	13,222	9,977	12,476	12,769		
FY 1996	9,082	9,869	10,302	10,169	10,709	10,410	10,947	14,699	8,880	11,530	11,372	9,713	127,683
FY 1995	7,834	8,942	9,757	8,630	8,838	11,171	8,680	10,394	11,440	8,157	10,770	10,271	114,884
FY 1994	7,432	8,006	9,319	7,193	8,196	10,069	8,224	8,339	9,374	8,676	8,937	9,006	102,771
FY 97 - FY 96													
Cumulative Difference	2,295	3,943	4,613	6,027	6,599	6,637	7,707	6,230	7,327	8,273	9,670		
Cumulative % Difference	25.3%	20.8%	15.8%	15.3%	13.2%	11.0%	10.8%	7.2%	7.7%	7.8%	8.2%		

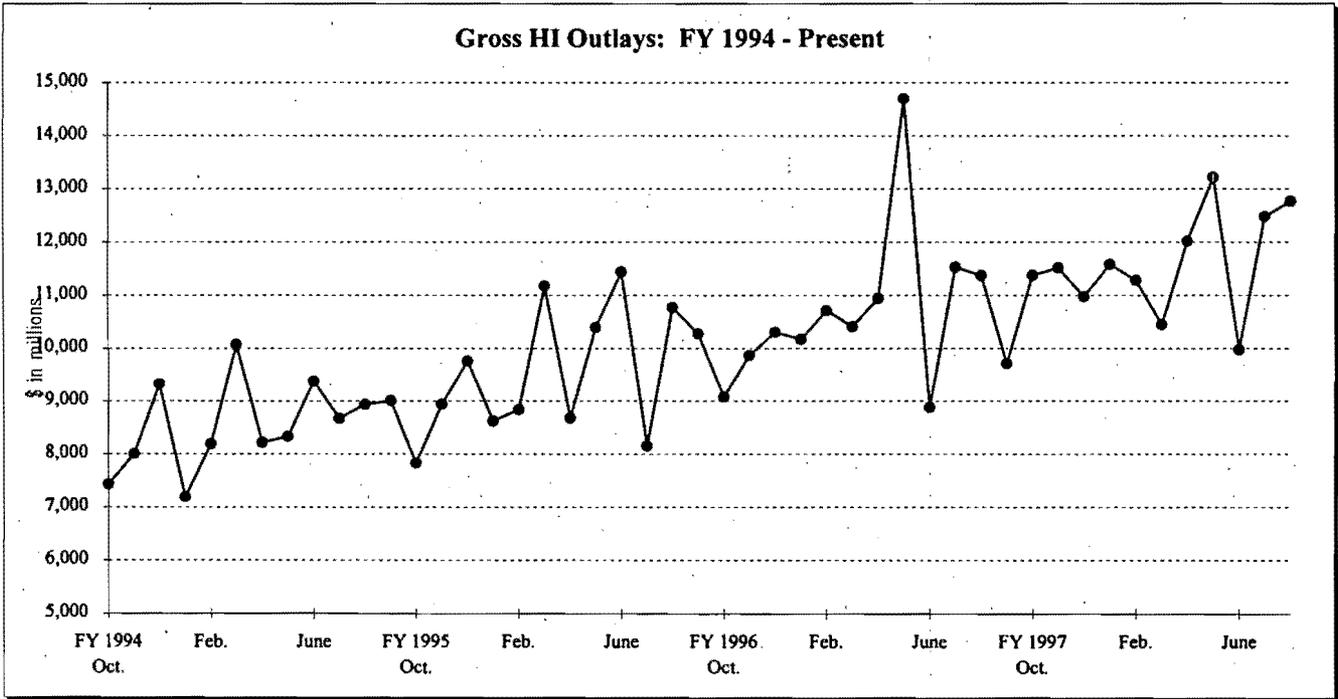


Table 2A -- HI Revenues: August 1997 Report
Comparison of FY 1997 Monthly Performance to Previous Years
(\$ in millions)

<u>Actual Revenues</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>Sept.</u>	<u>FY Total</u>
FY 1997	8,394	9,169	15,907	11,574	8,286	9,685	12,058	8,527	16,049	8,467	9,291		
FY 1996	7,165	8,633	14,202	9,555	7,558	9,180	15,632	8,087	15,646	8,259	8,083	11,517	123,501
FY 1995	7,574	8,224	14,023	9,207	7,438	8,570	12,847	7,724	14,999	7,474	7,617	9,150	114,847
FY 1994	6,594	7,127	12,725	7,166	6,888	7,993	10,819	7,508	14,829	7,538	7,544	9,465	106,196
FY 1993	6,299	6,816	12,245	5,500	6,405	7,123	9,356	6,859	13,366	6,639	6,650	8,038	95,296
FY 97 - FY 96	1,229	536	1,705	2,019	728	505	(3,574)	440	403	208	1,208		
% Difference	17%	6%	12%	21%	10%	6%	-23%	5%	3%	3%	15%		

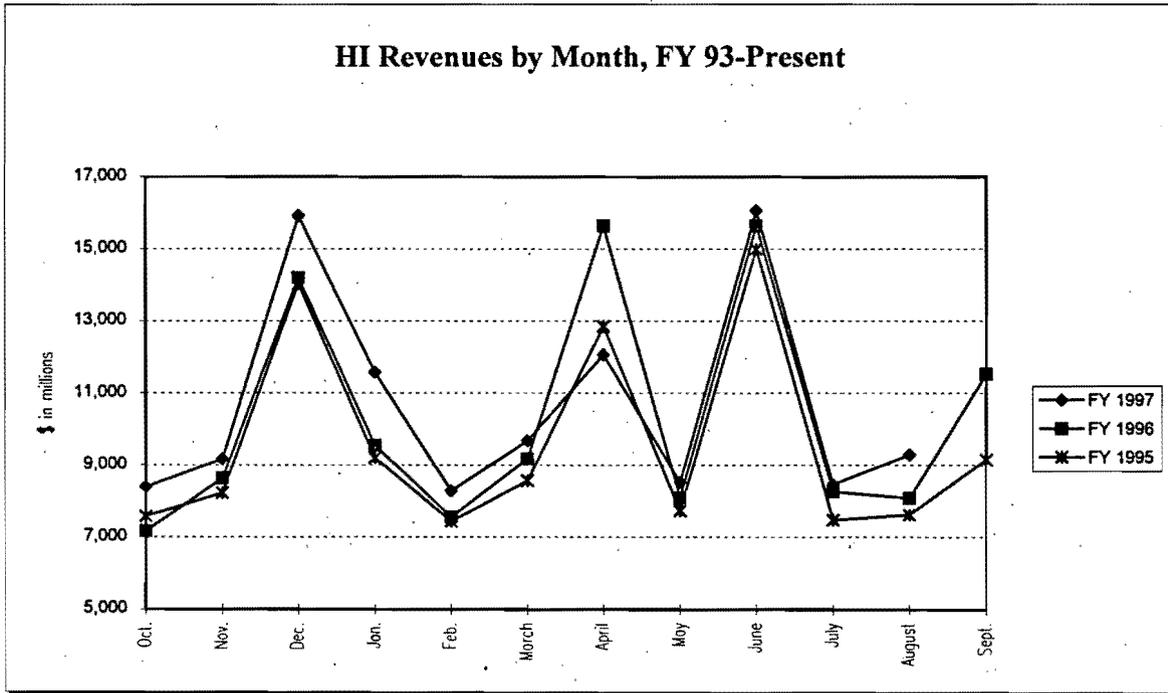


Table 2B -- HI Revenues: August 1997 Report
Cumulative Comparison of FY 1997 Performance to Previous Years
(\$ in millions)

	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>Sept.</u>	<u>FY Total</u>
FY 1997	8,394	9,169	15,907	11,574	8,286	9,685	12,058	8,527	16,049	8,467	9,291		
FY 1996	7,165	8,633	14,202	9,555	7,558	9,180	15,632	8,087	15,646	8,259	8,083	11,517	123,501
FY 1995	7,574	8,224	14,023	9,207	7,438	8,570	12,847	7,724	14,999	7,474	7,617	9,150	114,847
FY 1994	6,594	7,127	12,725	7,166	6,888	7,993	10,819	7,508	14,829	7,538	7,544	9,465	106,196
FY 97 - FY 96													
Cumulative Difference	1,229	1,765	3,470	5,489	6,217	6,722	3,148	3,588	3,991	4,199	5,407		
Cumulative % Difference	17.2%	11.2%	11.6%	13.9%	13.2%	11.9%	4.4%	4.5%	4.2%	4.0%	4.8%		

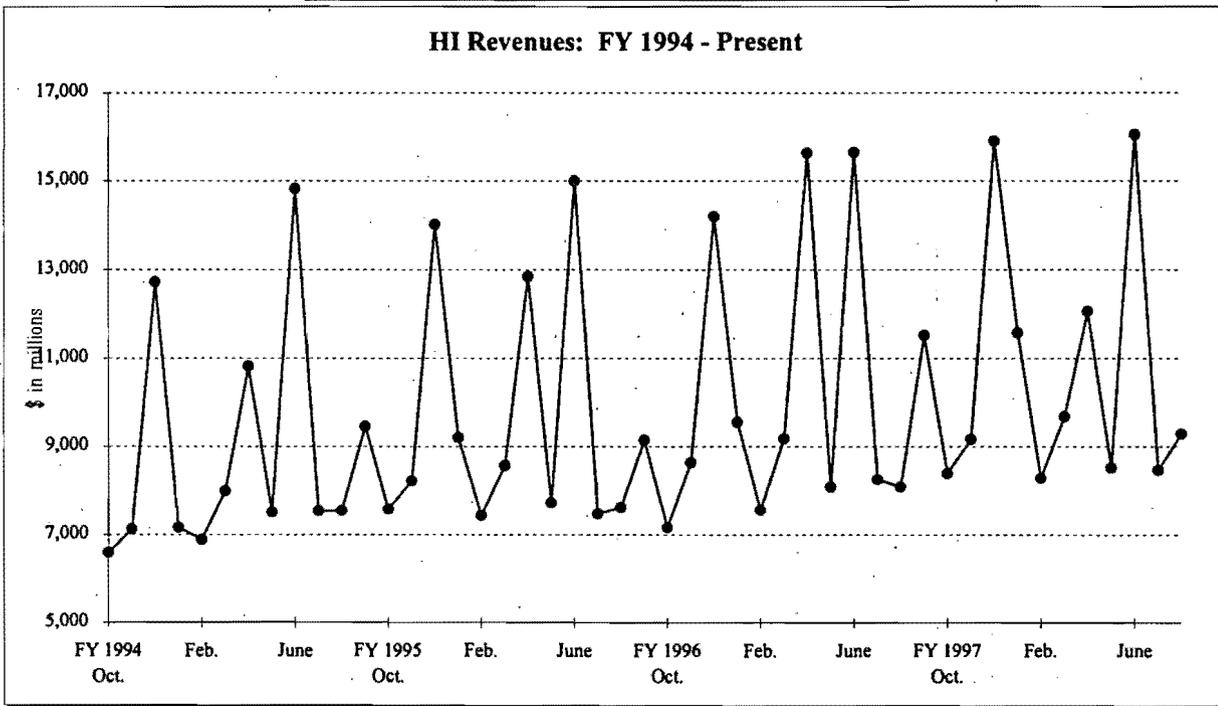


Table 3A -- Surplus (Shortfall) in HI Trust Fund: August 1997 Report
Comparison of FY 1997 Monthly Performance to Previous Years
(\$ in millions -- FY totals may not add due to rounding)

<u>Actual Change</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>Sept.</u>	<u>FY Total</u>
FY 1997	(2,983)	(2,348)	4,935	(9)	(2,995)	(763)	41	(4,695)	6,072	(4,010)	(3,478)		(10,233)
FY 1996	(1,917)	(1,236)	3,900	(614)	(3,151)	(1,230)	4,685	(6,612)	6,766	(3,271)	(3,289)	1,804	(4,182)
FY 1995	(260)	(718)	4,266	577	(1,400)	(2,601)	4,167	(2,670)	3,559	(683)	(3,153)	(1,121)	(37)
FY 1994	(838)	(879)	3,406	(27)	(1,308)	(2,076)	2,595	(831)	5,455	(1,138)	(1,393)	459	3,425
FY 1993	(1,000)	261	4,128	(671)	(1,018)	(1,416)	1,035	(243)	4,807	(1,610)	(826)	246	3,693
FY 97 - FY 96	(1,066)	(1,112)	1,035	605	156	467	(4,644)	1,917	(694)	(739)	(189)		
% Difference	56%	90%	27%	-99%	-5%	-38%	-99%	-29%	-10%	23%	6%		

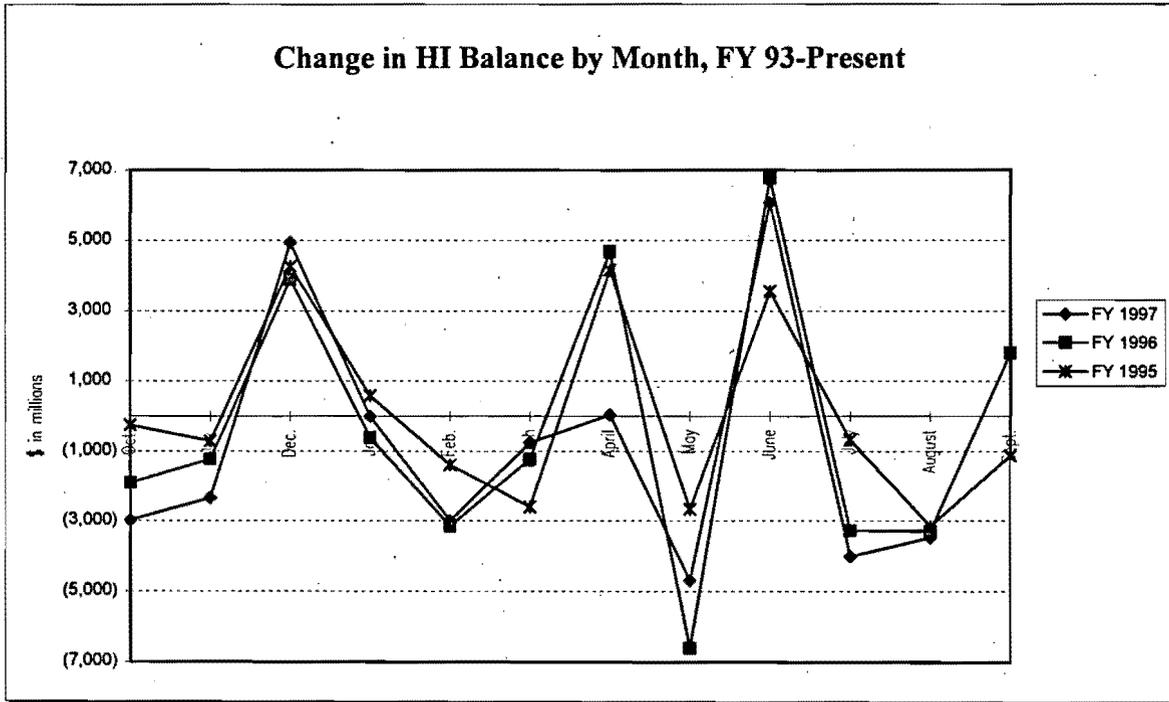


Table 3B -- Surplus (Shortfall) in HI Trust Fund: August 1997 Report
Cumulative Comparison of FY 1997 Performance to Previous Years
(\$ in millions -- FY totals may not add due to rounding)

	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>Sept.</u>	<u>FY Total</u>
FY 1997	(2,983)	(2,348)	4,935	(9)	(2,995)	(763)	41	(4,695)	6,072	(4,010)	(3,478)		(10,233)
FY 1996	(1,917)	(1,236)	3,900	(614)	(3,151)	(1,230)	4,685	(6,612)	6,766	(3,271)	(3,289)	1,804	(4,182)
FY 1995	(260)	(718)	4,266	577	(1,400)	(2,601)	4,167	(2,670)	3,559	(683)	(3,153)	(1,121)	(37)
FY 1994	(838)	(879)	3,406	(27)	(1,308)	(2,076)	2,595	(831)	5,455	(1,138)	(1,393)	459	3,425

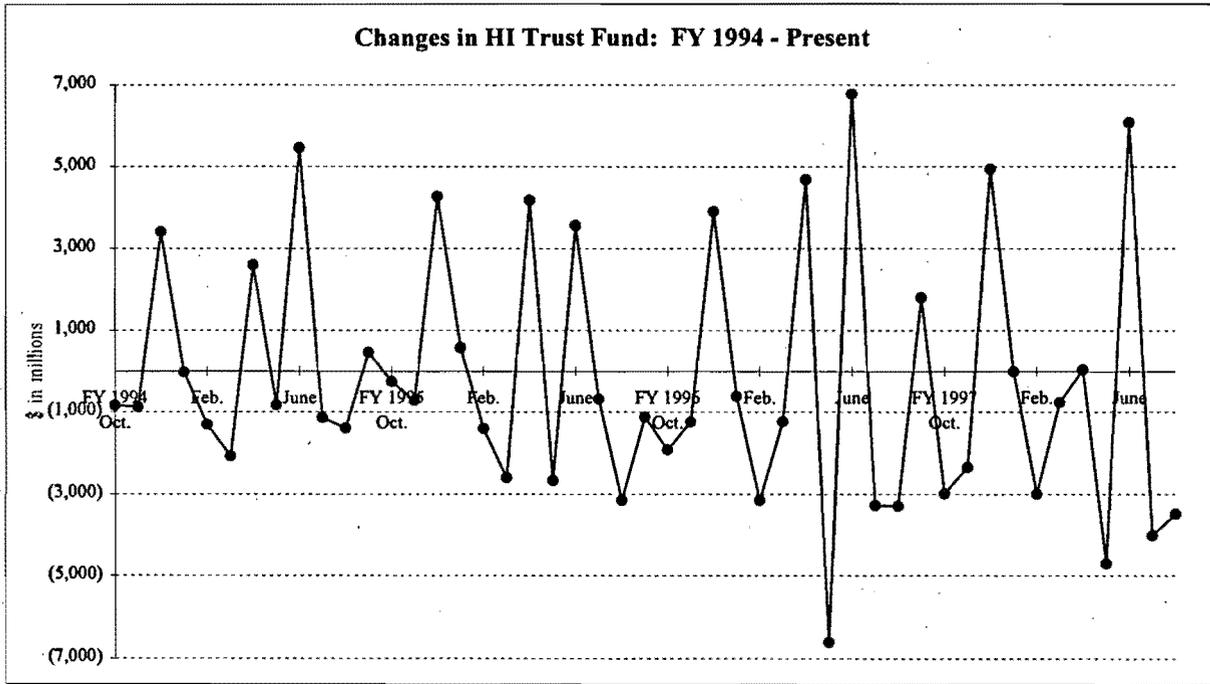


Table 4A -- HI Trust Fund Balance: August 1997 Report
Comparison of FY 1997 Monthly Balance to Previous Years
(\$ in millions)

<u>Actual Change</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>Sept.</u>	<u>FY Average</u>
FY 1997	122,541	120,038	126,709	125,468	122,375	121,948	121,635	116,190	123,001	118,801	115,352		
FY 1996	127,495	126,554	131,443	130,649	127,583	126,072	130,357	124,339	129,890	127,355	123,780	125,805	127,610
FY 1995	129,218	128,695	133,541	133,316	132,132	129,750	133,765	131,222	135,559	134,013	130,931	129,864	131,834
FY 1994	125,104	124,309	128,804	127,969	126,876	124,645	127,177	126,289	131,599	129,876	129,114	128,716	127,540
FY 1993	119,371	119,993	124,584	123,443	122,883	123,040	123,805	123,626	128,222	126,381	125,995	126,078	123,952
FY 97 - FY 96	(4,954)	(6,516)	(4,734)	(5,181)	(5,208)	(4,124)	(8,722)	(8,149)	(6,889)	(8,554)	(8,428)		
% Difference	-4%	-5%	-4%	-4%	-4%	-3%	-7%	-7%	-5%	-7%	-7%		

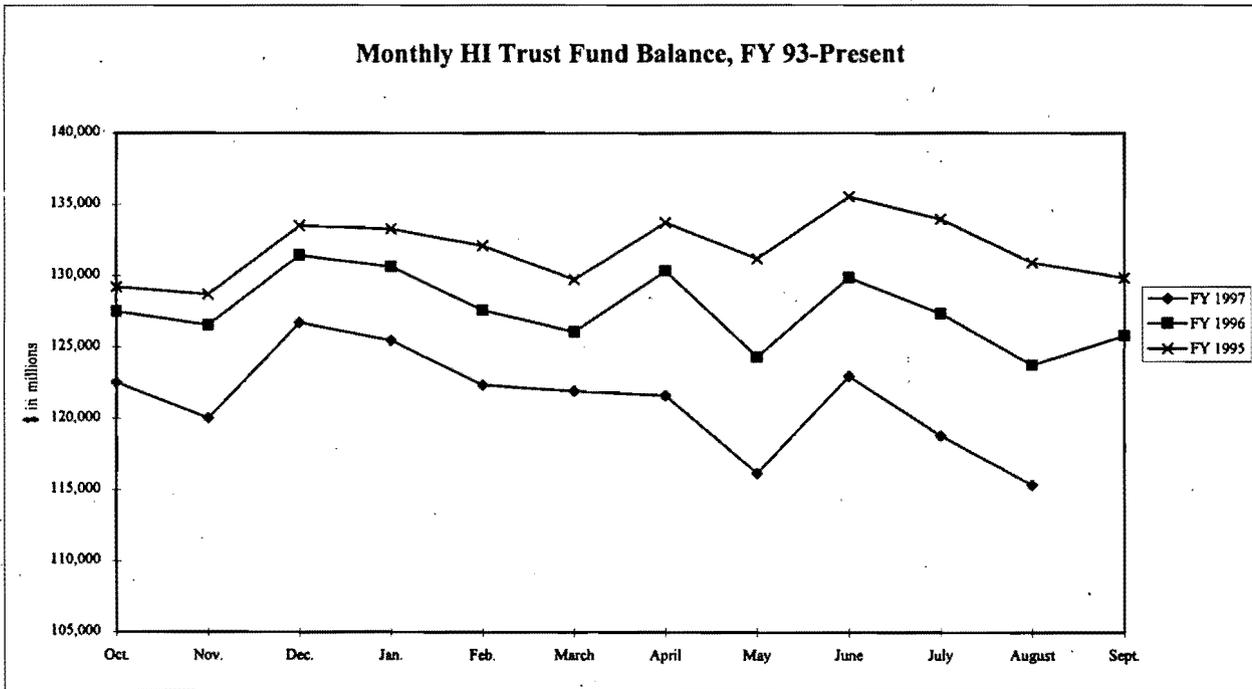


Table 4B -- HI Trust Fund Balance: August 1997 Report
Long-Term Comparison of FY 1997 Balance to Previous Years
 (\$ in millions)

	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>Sept.</u>	<u>FY Average</u>
FY 1997	122,541	120,038	126,709	125,468	122,375	121,948	121,635	116,190	123,001	118,801	115,352		
FY 1996	127,495	126,554	131,443	130,649	127,583	126,072	130,357	124,339	129,890	127,355	123,780	125,805	127,610
FY 1995	129,218	128,695	133,541	133,316	132,132	129,750	133,765	131,222	135,559	134,013	130,931	129,864	131,834
FY 1994	125,104	124,309	128,804	127,969	126,876	124,645	127,177	126,289	131,599	129,876	129,114	128,716	127,540

