

GAO**Testimony****Before the Committee on Ways and Means
House of Representatives**

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**Status of Medicare's Federal
Hospital Insurance Trust Fund**

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Health, Education, and Human Services Division



Mr. Chairman and Members of the Committee:

You asked us to testify today on our ongoing review of the status of Medicare's Federal Hospital Insurance (part A) Trust Fund. Specifically, the Committee asked us to determine (1) when the administration became aware that the trust fund had an operating deficit--that is, cash outlays exceeded cash receipts--of \$36 million for fiscal year 1995 and how the information was disseminated and (2) the status of current projections regarding the trust fund.

To address your questions, we spoke with officials of the Departments of Health and Human Services (HHS), Labor, and the Treasury; the Health Care Financing Administration (HCFA), including its Chief Actuary; the Congressional Budget Office (CBO); the Office of Management and Budget (OMB); the Social Security Administration; and one of the public members of the Board of Trustees. We also obtained relevant documents from these officials and reviewed the monthly cash-basis part A trust fund reports for fiscal years 1991 through 1995 and the first quarter of fiscal year 1996.

The Board of Trustees'¹ annual report issued in April 1995 estimated that the part A trust fund would have an operating surplus in fiscal year 1995, just about break even in fiscal year 1996, and move to an operating deficit in fiscal year 1997.² The Trustees projected that the fund would be depleted in calendar year 2002. The fund actually had an operating deficit for fiscal year 1995.

WHEN DID THE OPERATING
DEFICIT BECOME KNOWN?

The fact that the part A trust fund had run an operating deficit during fiscal year 1995 was first published in a Department of the Treasury monthly report³ dated October 27,

¹The Federal Hospital Insurance Board of Trustees consists of the Secretaries of Health and Human Services, Labor, and the Treasury; the Commissioner of Social Security; and two members who represent the public.

²The Trustees' report presents three sets of estimates based on high cost, low cost, and intermediate sets of assumptions. In this testimony, we use the estimates based on the intermediate assumptions, which are those the Trustees considered the most likely to occur.

³Final Monthly Treasury Statement of Receipts and Outlays of the United States Government for Fiscal Year 1995 Through September 30, 1995, and Other Periods (Washington, D.C.: Department of the

1995.⁴ This report includes a number of tables summarizing the financial activities of the federal government.⁵ HCFA's Chief Actuary told us he became aware of the operating deficit in late November 1995 after HCFA received from the Department of Treasury more detailed monthly tables on the part A trust fund.⁶

On December 2, in response to the HCFA Administrator's request several days earlier for an update on Medicare and Medicaid spending, the Chief Actuary sent the Administrator an electronic mail message explaining the operating deficit. The message stated that cash outlays were \$3.3 billion higher than estimated in the Trustees' 1995 report and that cash payroll tax receipts were \$1.6 billion lower, accounting for most of the estimating error.

In a December 6 electronic mail message, the Chief Actuary told the Administrator that, if the assumptions used for the April 1995 Trustees' report were applied without change to the new data, the trust fund depletion date would advance from the end of 2002 to roughly the middle of 2001. He pointed out that changes to the assumptions could advance or postpone the depletion date somewhat, but he would not know for sure until the estimates for the 1996 Trustees' report are completed.

The Secretary of HHS was informed by memo, dated December 8, 1995, that she would be briefed on the Social Security and Medicare trust funds in preparation for the biannual Trustees meeting and that one important item to be discussed was the part A operating deficit. The Administrator briefed the Secretary of HHS on December 11 on the trust fund operating deficit and other matters related to the upcoming Trustees meeting, and the other federal Trustees were also briefed individually before the Board of Trustees meeting on December 13, 1995. The Administrator's briefing document basically covers the items included in the two electronic mail messages from the Chief Actuary to the Administrator.

Treasury, Oct. 27, 1995).

⁴This report is routinely distributed to about 2,400 addressees.

⁵Table 8 in the Treasury report showed that the trust fund had cash receipts of \$114.85 billion and cash outlays of \$114.88 billion, resulting in an operating deficit of \$36 million. (See appendix I for a copy of table 8.)

⁶About 3 weeks after HCFA receives the Treasury's monthly receipts and outlays report, Treasury also sends a more detailed monthly set of tables on the part A trust fund.

The Board of Trustees biannual meeting was held on December 13, 1995. All of the trustees participated in the meeting, which was chaired by the Secretary of the Treasury.

Also on December 13, CBO released its updated budget baseline,⁷ which reflected the fiscal year 1995 data on the part A trust fund. The overall spending estimates for Medicare for fiscal years 1996 through 2002 decreased slightly.⁸ While CBO's March 1995 baseline had underestimated part A expenditures by about \$1 billion, it said that lower inflation would largely offset the rise in spending. CBO did not make an estimate of trust fund receipts and has not updated its estimate for the date the trust fund will be depleted.

OMB staff became aware of the part A operating deficit for fiscal year 1995 in December 1995. An OMB official advised the Special Assistant to the President for Health Policy Development of the operating deficit sometime after the December 13 Board of Trustees meeting.

In our discussions with the Chief Actuary and a public trustee who attended the December 13 Board of Trustees meeting, they said that the news of the operating deficit for fiscal year 1995 did not seem to cause alarm. They stated that the need for corrective action was clear in prior Trustees' reports and that the trust fund's 1995 performance did not change this bottom line. Outlays have been growing faster than receipts in recent years, leading to the operating deficit.

The Chief Actuary and the public trustee also remembered a question being asked about the part A trust fund deficit related to whether this information would be fully discussed in the 1996 Trustees' report. The question was answered in the affirmative.

STATUS OF CURRENT PROJECTIONS REGARDING THE TRUST FUND

The part A trust fund had an operating deficit in October and November of 1995, but the monthly Treasury statement for December 1995 showed that the part A trust fund had generated a surplus of \$747 million for the first quarter of fiscal year 1996. The surplus for the first quarter of fiscal year 1995 was

⁷The Economic and Budget Outlook: December 1995 Update
(Washington, D.C.: CBO, Dec. 1995).

⁸Spending on part A and part B (Supplemental Medical Insurance) was estimated to be \$45 billion lower than in the March 1995 baseline, mainly because part B spending was about \$2 billion lower relative to CBO's March 1995 baseline for fiscal year 1995.

\$3.3 billion, as shown in appendix II.

The Office of the Actuary has been trying to identify reasons for the estimating error in the 1995 Trustees' report. We were told that a number of possible reasons are being explored. Preliminary data indicate that hospitals had speeded up the submission of claims, causing some claims that normally would have been paid in October to be paid in September. Because the trust fund numbers are presented on a cash basis, this would result in higher than expected outlays in fiscal year 1995. In addition, preliminary data indicate that admissions to hospitals and the case mix index of admissions also increased at faster rates than had been estimated. Both of these factors would tend to increase outlays. Finally, trust fund receipts were below projected amounts.

The Office of the Actuary expects to complete its analysis for the 1996 Trustees' report by late March or April.

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This completes my prepared statement. I will be glad to answer any questions you may have.

For more information on this testimony, please call Tom Dowdal, Assistant Director, at (202) 512-6588. Other major contributors were Roger Hultgren and Pete Oswald.

TREASURY'S FISCAL YEAR 1995
TRUST FUND SUMMARY

Table 8. Trust Fund Impact on Budget Results and Investment Holdings as of September 30, 1995
(\$ millions)

Classification	This Month			Fiscal Year to Date			Securities held as investments Current Fiscal Year		
	Receipts	Outlays	Excess	Receipts	Outlays	Excess	Beginning of		Close of This Month
							This Year	This Month	
Trust receipts, outlays, and investments held:									
Airport	333	777	-445	6,125	7,242	-1,117	12,206	11,547	11,145
Black lung disability	416	462	-46	987	987	( )	.....	.....	.....
Federal disability insurance	4,749	3,606	1,143	70,215	41,360	28,835	6,100	34,146	35,225
Federal employees life and health .....	.....	-145	145	.....	-1,240	1,240	22,503	23,601	23,729
Federal employees retirement	24,375	3,268	21,108	66,821	38,899	27,923	346,317	353,081	374,219
Federal hospital insurance	9,150	10,271	-1,121	114,847	114,883	-38	128,716	130,931	129,864
Federal old-age and survivors insurance	26,560	24,569	1,991	326,084	294,474	31,611	413,425	445,944	447,947
Federal supplementary medical insurance	1,746	5,903	-4,157	58,169	65,213	-7,044	21,489	17,673	13,513
Highways	2,115	2,340	-226	23,613	22,688	925	17,694	18,846	18,531
Military advances	967	1,314	-347	12,469	13,417	-948	.....	.....	.....
Railroad retirement	451	675	-224	9,093	7,924	1,169	12,203	14,063	14,440
Military retirement	918	2,386	-1,468	34,624	27,797	6,827	105,367	114,320	112,963
Unemployment	336	1,801	-1,465	32,820	25,282	7,539	39,788	48,660	47,141
Veterans life insurance	23	110	-86	1,356	1,231	126	13,477	13,690	13,606
All other trust	525	555	-30	6,056	4,346	1,710	12,317	14,180	14,060
Total trust fund receipts and outlays and investments held from Table 8-D	72,665	57,893	14,772	783,281	664,521	68,760	1,151,801	1,240,682	1,256,365
Less: Interfund transactions	27,150	27,150	.....	212,849	212,849	.....	.....	.....	.....
Trust fund receipts and outlays on the basis of Tables 4 & 5	45,515	30,742	14,772	550,432	451,671	98,760			
Total Federal fund receipts and outlays	100,994	108,480	-7,486	835,221	1,097,794	-262,573			
Less: Interfund transactions	443	443	.....	975	975	.....		
Federal fund receipts and outlays on the basis of Table 4 & 5	100,551	108,037	-7,486	834,245	1,096,819	-262,573			
Less: Offsetting proprietary receipts	2,846	2,846	.....	34,101	34,101	.....		
Net budget receipts & outlays	143,219	135,833	7,286	1,350,578	1,514,389	-163,813			

... No transactions.

Note: Interfund receipts and outlays are transactions between Federal funds and trust funds such as Federal payments and contributions, and interest and profits on investments in Federal securities. They have no net effect on overall budget receipts and outlays since the receipts side of such transactions is offset against budget outlays. In this table, interfund receipts are shown as an adjustment to arrive at total receipts and outlays of trust funds respectively.

Note: Details may not add to totals due to rounding.

Source: Final Monthly Treasury Statement of Receipts and Outlays of the United States Government for Fiscal Year 1995 Through September 30, 1995, and Other Periods (Washington, D.C.: Department of the Treasury, Oct. 27, 1995).

RECEIPTS, OUTLAYS, AND BALANCE OF FEDERAL
HOSPITAL INSURANCE TRUST FUND FOR FISCAL YEARS 1991-95
AND FIRST QUARTER OF FISCAL YEAR 1996

Dollars in millions

Quarters	Quarterly			Balance in trust fund (at end of quarter)
	Receipts	Outlays	Change in trust fund balance	
Fiscal year 1991				
Oct-Dec	\$19,300	\$15,998	\$3,302	\$98,933
Jan-Mar	20,433	17,270	3,163	102,096
Apr-June	25,313	18,399	6,913	109,009
July-Sept	18,892	17,971	921	109,930
Total	\$83,938	\$69,638	\$14,299	
Fiscal year 1992				
Oct-Dec	\$24,201	\$19,074	\$5,127	\$115,057
Jan-Mar	20,134	20,167	(33)	115,024
Apr-June	28,927	21,328	7,598	112,623
July-Sept	19,415	21,405	(1,990)	120,633
Total	\$92,677	\$81,974	\$10,703	
Fiscal year 1993				
Oct-Dec	\$25,360	\$21,971	\$3,389	\$124,022
Jan-Mar	20,833	22,134	(1,301)	122,722
Apr-June	29,581	23,982	5,599	128,320
July-Sept	21,327	23,517	(2,190)	126,131
Total	\$97,101	\$91,604	\$5,497	
Fiscal year 1994				
Oct-Dec	\$26,446	\$24,758	\$1,688	\$127,818
Jan-Mar	22,047	25,458	(3,411)	124,408
Apr-June	33,155	25,937	7,219	131,626
July-Sept	24,547	26,618	(2,071)	129,555
Total	\$106,195	\$102,770	\$3,425	
Fiscal year 1995				
Oct-Dec	\$29,821	\$26,533	\$3,288	\$132,844
Jan-Mar	25,215	28,638	(3,423)	129,420
Apr-June	35,570	30,513	5,057	134,477
July-Sept	24,241	29,199	(4,958)	129,520
Total	\$114,847	\$114,883	(\$36)	
Fiscal year 1996				
Oct-Dec	\$30,001	\$29,253	\$747	\$130,267

Note: Totals may not add because of rounding.

Sources: Fiscal year 1991-95 data were compiled from monthly reports prepared by HCFA's Office of the Actuary. Fiscal year 1996 data are from the monthly Treasury statement, Dec. 31, 1995.

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