

**BRIEF ANALYSIS OF THE PROVISIONS OF  
S. 1 and H.R. 1**

**Hospital Insurance, Social Security, and Public  
Assistance Amendments of 1965**

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**THE COMMITTEE ON FINANCE  
UNITED STATES SENATE  
EIGHTY-NINTH CONGRESS  
FIRST SESSION**



Printed for the use of the Committee on Finance

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U.S. GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1965

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## **A. HEALTH INSURANCE PROVISIONS**

### **I. GENERAL DESCRIPTION**

Under social security (old-age and survivors insurance) and railroad retirement administrative mechanisms, provides (1) hospital, post-hospital extended care (skilled nursing home), home health, and out-patient diagnostic services to persons 65 or over eligible to receive (or receiving) social security or railroad retirement benefits, financed by an increase in taxes for workers and employers under these systems; (2) similar benefits out of Federal general revenue for certain uninsured individuals 65 or over.

In addition includes a complementary private health coverage provision which authorizes the establishment of associations of insurance carriers (two or more carriers) whose purpose is to make available to individuals 65 and over, on a nonprofit basis and at a reasonable cost, a health benefits plan which will protect them against the cost of health services which are not covered under the social security hospital insurance program.

### **II. HOSPITAL INSURANCE BENEFITS FOR SOCIAL SECURITY AND RAILROAD RETIREMENT ELIGIBLES AND THE UNINSURED**

**A. Scope of benefits:** Benefits would consist of payments to health facilities and organizations for services rendered to eligible individuals. Such payments may be made for the following kinds of services:

(1) Inpatient hospital care for 60 days per benefit period<sup>1</sup> subject to deductible of an amount equal to the national average per diem rate for such services for one day.

(2) Posthospital extended care (skilled nursing facility services) up to 60 days in a benefit period after transfer from a hospital in an institution which has a transfer agreement with a hospital that provides for timely transfer of patients together with appropriate medical and other information.

(3) Home health services up to 240 visits a year (120 visits in 1966).

(4) Outpatient diagnostic services—no durational limit but subject to a deductible each 30-day period equal to one-half that for inpatient hospital care.

**Effective dates:** Hospital, home health, and outpatient diagnostic services would be first available on July 1, 1966, while posthospital

<sup>1</sup> A period of consecutive days beginning with the first day an individual is furnished with hospital or nursing home services and ending after he has been out of the hospital or nursing home for 90 days. The 90 days need not be consecutive but must occur within a period of not more than 180 consecutive days.

extended care benefits would not be available until the following January.

**B. Eligibility for benefits:**

(1) All persons who—

(a) are age 65 or over; and

(b) are eligible to receive (or receiving) social security or railroad retirement benefits.

(2) All persons not insured under social security or railroad retirement who either—

(a) have reached age 65 before 1968; or

(b) have reached age 65 after 1967 if they have three quarters of coverage for each year elapsing after 1965 and before the year they reach age 65.

The operation of this provision is illustrated by the following table:

*Quarters of coverage required for OASI cash benefits as compared to hospital insurance*

Year attains age 65	Men		Women	
	OASI	Hospital insurance	OASI	Hospital insurance
1967.....	16	0	18	0
1968.....	17	6	14	6
1969.....	18	9	16	9
1970.....	19	12	16	12
1971.....	20	15	17	15
1972.....	21	18	18	(1)
1973.....	22	21	.....	.....
1974.....	23	(1)	.....	.....

(1) Same as OASI.

Excluded from (2) would be nonresidents or resident aliens with less than 10 years in the United States, members of certain subversive organizations, persons convicted of certain subversive crimes, and persons eligible for benefits (whether or not they had actually elected benefits) under the Federal employee or retired Federal employee health plans.

**III. FINANCING**

In order to finance health benefits for social security eligibles (and for the 7-percent benefit increase in cash benefits which the bill also provides) there would be an increase in the tax rate on employers and employees, the self-employed and in the maximum taxable earnings base. The wage base, now \$4,800, would be increased to \$5,600, effective January 1, 1968.

The contribution schedule of existing law is noted in parentheses in the following table showing the tax increases provided:

*Federal Insurance Contributions Act*

(In percent)

Year	Employer		Employee		Self-employed
1966-67.....	4.25	(4.125)	4.25	(4.125)	6.4 (6.2)
1968-70.....	5.0	(4.625)	5.0	(4.625)	7.5 (6.9)
1971 and after.....	5.2	(4.625)	5.2	(4.625)	7.8 (6.9)

Under the Railroad Retirement Tax Act an increase in social security tax automatically results in a comparable increase in the railroad retirement tax.

From social security tax revenues an allocation of 0.60 percent of employer-employee taxable wages the first year (1966); 0.76 percent of taxable wages in 1967 and 1968; and 0.90 percent of taxable wages in 1969 and subsequent years would be made to a separate Federal hospital insurance trust fund from which all health benefits and administrative expenses therefore would be paid. Similar allocations of self-employment tax revenue would be made of 0.45, 0.57, and 0.675, respectively.

Benefits for railroad retirement eligibles would be paid directly from the railroad retirement account and not through the Federal Hospital Insurance Trust Fund.

For *ineligibles* under social security and railroad retirement there would be an authorization of appropriation out of general revenues.

#### IV. COMPLEMENTARY PRIVATE HEALTH INSURANCE FOR THE AGED

The bill provides complementary private health coverage by authorizing the establishment of associations of insurance carriers (two or more carriers) whose purpose is to make available to individuals 65 and over, on a nonprofit basis and at a reasonable cost, health benefit plans which will protect them against the cost of health services which are not covered under the social security hospital insurance program.

The Secretary of Health, Education, and Welfare shall approve any such plan if (1) it furnishes reasonable assurance that it will provide for physician's services which amount, on the average, to not less than 75 percent of the cost of physician's services for aged persons 65 years or older; (2) the terms and conditions of the plan are uniform except (subject to limitations by the Secretary) that there may be variations in different areas of any State or the United States (a) in the premiums and benefits to reflect differences in health care costs, and (b) in the timing of annual enrollment periods to minimize adverse selection; (3) the operation of the association is nonprofit and, on dissolution, any assets remaining, after payment of all obligations, will be paid over to the United States; (4) the association will adhere to such limitations on the amount claimed for administrative and other expenses in connection with the plan as the Secretary may prescribe in order to hold such expenses within reasonable limits; and (5) any additional health benefits for sale in connection with an approved plan will be offered in a manner which enables prospective subscribers clearly to distinguish between the two plans.

The plan must be approved, without change, by the State insurance agencies in a majority of the States or in States with a majority of the population of the United States. If it is offered for sale in States other than those who have approved it without change, this must be done only with such modifications as may be necessary to meet the special requirements of such State insurance agency as are deemed reasonable by the Secretary.

The Sherman (Antitrust) Act (other than so much thereof as relates to any agreement to boycott, coerce, or intimidate or any act of boy-

cott, coercion, or intimidation), the Clayton Act, the Federal Trade Commission Act, and the antitrust laws of any State shall not apply to the operations of such associations as are concerned exclusively with offering for sale, selling, or administering any approved plan.

If, after notice and opportunity for a hearing, the Secretary finds an association has not complied substantially with the above requirements, the antitrust law exemptions will not be operative. Any carrier which falsely represents that it is selling an approved plan shall be fined not more than \$10,000. Any denial of approval of a plan (or subsequent withdrawal of approval) by the Secretary shall be subject to judicial review.

## **B. SOCIAL SECURITY AMENDMENTS**

### **I. BENEFIT PAYMENTS, TAXABLE EARNINGS BASE AND TAX CONTRIBUTIONS**

A 7-percent benefit increase to all old-age, survivor, and disability insurance beneficiaries. The minimum primary benefit would thereby be increased from \$40 per month to \$42.80 and the maximum from \$127 to \$135.90. Benefit increases would be paid retroactively to January 1, 1965.

The maximum annual earnings on which taxes and benefits are computed would be increased from \$4,800 to \$5,600 a year, effective January 1, 1966. The maximum primary benefit would thereby be further increased to \$149.90 and maximum benefit for a family would be increased from \$254 at present to \$312.

The social security tax contribution schedule (combined for social security and hospital benefits) would be changed as noted in section on hospital insurance benefits (see page 2).

### **II. PHYSICIANS AND INTERNS**

The bill would provide for the coverage of physicians who are self-employed and for interns.

Self-employed physicians would be covered for taxable years ending after December 31, 1965. Interns would be covered beginning on January 1, 1966.

### **III. CASH TIPS**

The bill would include in the definition of "wages" for social security purposes cash tips received by an employee in the course of his employment, whether directly from customers of his employer or through his employer. There would be withholding on tips by employers for both social security and income tax purposes. Effective as to tips received after 1965.

### **IV. MILITARY WAGE CREDITS**

Replaces present provision authorizing reimbursement of trust funds out of general revenue for gratuitous social security wage credits for servicemen so that such payments will be spread over the next 50 years.

### **V. DIVISION OF RETIREMENT SYSTEMS**

Alaska and Kentucky would be added to the list of States which may cover State and local government employees under the divided retirement system provision. This provision allows existing members to elect coverage; future members are covered compulsorily.

Another opportunity would be provided, through 1966, for the election of coverage by people who originally did not choose coverage under the divided retirement system provision.

## **VI. CERTAIN HOSPITAL EMPLOYEES**

Coverage would be extended to certain hospital employees in California whose positions were removed from a State or local government retirement system.

## **VII. FILING OF PROOF**

Extends, where good cause exists, the period of filing proof of support for dependent husbands, widowers, and parent's benefits and lump-sum death payments.

## **VIII. AUTOMATIC RECOMPUTATION OF BENEFITS**

The retirement benefits of people on the rolls would be recomputed automatically each year to take account of any covered earnings that the worker might have had in the previous year that would increase his benefit amount. Under existing law there are various application requirements, including filing of an application and earnings of over \$1,200 a year after entitlement.

## **IX. REALLOCATION OF CONTRIBUTION INCOME BETWEEN THE TRUST FUNDS**

Under the bill, an additional 0.17 percent of taxable wages and 0.1275 percent of taxable self-employment income would be allocated to the disability insurance trust fund bringing the total allocation to 0.67 and 0.5025 percent, respectively, beginning in 1966. This would have the effect of making a corresponding reduction in the allocation to the old-age and survivors insurance trust fund.



## **C. PUBLIC ASSISTANCE AMENDMENTS**

### **I. MATCHING FORMULAS**

Revises matching formula for the needy aged, blind, and disabled (and for combined program, title XVI) to provide a Federal share of \$31 out of the first \$37 (now  $\frac{3}{4}$ ths of the first \$35) up to a maximum of \$75 (now \$70) per month per individual on an average basis. Revises matching formula for aid to families with dependent children so as to provide a Federal share of  $\frac{1}{2}$ ths of the first \$18 (now  $\frac{1}{7}$ ths of the first \$17) up to a maximum of \$32 (now \$30). A provision is included so that States will not receive additional Federal funds except to the extent they pass them on to individual recipients.

### **II. TUBERCULAR AND MENTAL PATIENTS**

Removes exclusion from Federal matching in old-age assistance and medical assistance for the aged programs (and for combined program, title XVI) as to aged individuals who are patients in institutions for tuberculosis or mental diseases, or who have been diagnosed as having tuberculosis or psychosis and, as a result, are patients in a medical institution. Requires as condition of Federal participation in such payments to, or for, mental patients certain agreements and arrangements to assure that better care results from the additional Federal money. Provides that States will receive no more in Federal funds under this provision than they increase their expenditures for mental health purposes under public health and public welfare programs. Also removes restrictions as to Federal matching for needy blind and disabled who are tubercular or psychotic and are in general medical institutions.

### **III. PROTECTIVE PAYMENTS TO THIRD PERSONS**

Adds a provision for protective payments to third persons on behalf of old-age assistance recipients (and recipients on combined title XVI program) unable to manage their money because of physical or mental incapacity.

### **IV. EARNINGS EXEMPTION UNDER OLD AGE ASSISTANCE**

Increases earnings exemption under old-age assistance program (and aged in combined program) so that a State may, at its option, exempt the first \$20 (now \$10) and one-half of the next \$60 (now \$40) of a recipient's monthly earnings.

### **V. DEFINITION OF MEDICAL ASSISTANCE FOR AGED**

Modifies definition of medical assistance for the aged so as to allow Federal sharing as to old-age assistance recipients for the month they are admitted to or discharged from a medical institution.

Effective date for public assistance amendments: January 1, 1966.