APPENDIX

F

Trust Funds

The federal government uses several accounting mechanisms to link earmarked receipts—money designated for a specific purpose—with corresponding expenditures. Those mechanisms include trust funds (such as the Social Security trust funds), special funds (such as the fund that the Department of Defense uses to finance its health care program for military retirees), and revolving funds (such as the Federal Employees' Group Life Insurance fund). When the receipts designated for those funds exceed the amounts needed for expenditures, the funds are credited with nonmarketable debt instruments, known as Government Account Series (GAS) securities, that are issued by the Treasury. At the end of fiscal year 2013, about $4.7 trillion in such securities was outstanding, more than 90 percent of which was held by trust funds.[1]

The federal budget has numerous trust funds, although most of the money credited to such funds goes to fewer than a dozen of them. By far the largest trust funds are the two for Social Security (the Old-Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund), Medicare's Hospital Insurance Trust Fund, and the funds dedicated to the government's retirement programs for its military and civilian personnel (see Table F-1).

Ordinarily, when a trust fund receives cash that is not needed immediately to pay benefits or cover other expenses, the Treasury issues GAS securities in that amount to the fund and then uses the extra income to reduce the amount of new federal borrowing that is necessary to finance the governmentwide deficit. In other words, in the absence of changes to other tax and spending policies, the government borrows less from the public than it would without that extra net income. The reverse happens when revenues for a trust fund program fall short of expenses.

The balance of a trust fund at any given time is a measure of the historical relationship between the related program's receipts and expenditures. That balance (in the form of GAS securities) is an asset for the individual program, such as Social Security, but a liability for the rest of the government. The resources to redeem a trust fund's GAS securities—and thereby pay for benefits or other spending—in some future year must be generated through taxes, income from other government sources, or borrowing from the public in that year. Trust funds have an important legal meaning in that their balances are a measure of the amounts that the government has the legal authority to spend for certain purposes under current law, but they have little relevance in an economic or budgetary sense.

To assess how all federal activities, taken together, affect the economy and financial markets, it is useful to include the cash receipts and expenditures of trust funds in the budget totals along with the receipts and expenditures of other federal programs. Therefore, the Congressional Budget Office (CBO), the Office of Management and Budget, and other fiscal analysts generally focus on the total deficit in that "unified budget," which includes the transactions of trust funds.

According to CBO's current baseline projections, the value of securities held by federal trust funds will increase by $225 billion in fiscal year 2014. About half of that increase is attributable to investments made to the Civil Service Retirement and Disability Fund last October that normally would have been made in fiscal year 2013 but were not because of debt limit constraints.[2] CBO projects

1. Debt issued in the form of GAS securities is included in a measure of federal debt called gross debt. Because such debt is intragovernmental in nature, however, it is not included in the measure of debt held by the public. (For a discussion of different measures of federal debt, see Chapter 1.)

2. For more information on the debt limit, see Congressional Budget Office, *Federal Debt and the Statutory Limit, November 2013* (November 2013), www.cbo.gov/publication/44877.

Table F-1.

Trust Fund Balances Projected in CBO's Baseline

(Billions of dollars)

	Actual, 2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Social Security												
Old-Age and Survivors Insurance	2,656	2,725	2,783	2,832	2,868	2,890	2,892	2,868	2,818	2,738	2,626	2,475
Disability Insurance[a]	101	70	39	6	0	0	0	0	0	0	0	0
Subtotal	2,756	2,795	2,821	2,838	2,868	2,890	2,892	2,868	2,818	2,738	2,626	2,475
Medicare												
Hospital Insurance (Part A)	206	196	194	190	196	197	188	173	153	114	79	32
Supplementary Medical Insurance (Part B)	67	72	77	65	68	88	96	92	87	67	66	91
Subtotal	273	268	271	255	264	285	284	266	240	181	144	123
Military Retirement	421	475	542	610	688	777	868	966	1,070	1,177	1,297	1,430
Civilian Retirement[b]	738	871	886	900	915	932	949	966	985	1,003	1,023	1,044
Unemployment Insurance	29	31	28	33	37	39	38	35	27	21	15	7
Highway and Mass Transit[a]	2	3	0	0	0	0	0	0	0	0	0	0
Airport and Airway	12	12	12	12	12	12	12	12	12	12	12	12
Railroad Retirement (Treasury holdings)[c]	2	2	2	2	2	2	2	2	2	2	2	2
Other[d]	101	103	105	107	109	111	114	117	119	122	125	128
Total Trust Fund Balance	**4,335**	**4,560**	**4,667**	**4,756**	**4,896**	**5,048**	**5,158**	**5,232**	**5,273**	**5,256**	**5,243**	**5,221**
Memorandum:												
Railroad Retirement (Non-Treasury holdings)[c]	25	25	24	23	22	21	20	19	18	17	17	16

Source: Congressional Budget Office.

Note: These balances are for the end of the fiscal year and include securities invested in Treasury holdings, unless otherwise noted.

a. In keeping with the rules in section 257 of the Deficit Control Act of 1985, CBO's baseline incorporates the assumption that payments will continue to be made after the trust fund has been exhausted, although there is no legal authority to make such payments. Because the manner by which those payments would continue would depend on future legislation, CBO shows zero rather than a cumulative negative balance in the trust fund after the exhaustion date.

b. Includes Civil Service Retirement, Foreign Service Retirement, and several smaller retirement trust funds.

c. The Railroad Retirement and Survivors' Improvement Act of 2001 established an entity, the National Railroad Retirement Investment Trust, that is allowed to invest in non-Treasury securities, such as stocks and corporate bonds.

d. Consists primarily of trust funds for federal employees' health and life insurance, Superfund, and various insurance programs for veterans.

that, in total, income credited to the trust funds will exceed outlays in each year from 2015 through 2020; however, spending from the trust funds is projected to exceed income in each year thereafter. All told, CBO projects a cumulative net surplus of $171 billion over the 2015–2024 period (see Table F-2). But that surplus would result, in part, from interest payments on the funds' GAS securities and other sums transferred from elsewhere in the budget. Such intragovernmental transfers—which are projected to total $646 billion in 2014 and to reach $1.1 trillion in 2024—reallocate costs from one category of the budget to another, but they do not directly change the total deficit or the government's borrowing needs. With those intragovernmental transfers excluded and only income from sources outside the government (such as payroll taxes) counted, the trust funds will add to federal deficits throughout the 2015–2024 period by amounts that grow from $572 billion in 2015 to $1.2 trillion in 2024, CBO projects.

Without legislative action, two trust funds are projected to be exhausted during that period: Social Security's Disability Insurance Trust Fund and the Highway Trust Fund.

Table F-2.

Trust Fund Surpluses or Deficits Projected in CBO's Baseline

(Billions of dollars)

	Actual, 2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total 2015-2019	Total 2015-2024
Social Security														
Old-Age and Survivors Insurance	69	69	58	49	37	21	2	-23	-50	-80	-112	-151	167	-250
Disability Insurance[a]	-32	-30	-32	-33	-34	-35	-36	-37	-40	-44	-48	-52	-169	-389
Subtotal	37	39	26	17	2	-14	-33	-60	-91	-124	-160	-203	-2	-639
Medicare														
Hospital Insurance (Part A)	-22	-10	-2	-3	6	1	-9	-14	-21	-39	-35	-47	-8	-164
Supplementary Medical Insurance (Part B)	-2	4	5	-12	3	20	8	-4	-5	-21	-1	26	24	20
Subtotal	-24	-6	3	-16	9	21	-2	-18	-26	-59	-36	-22	16	-145
Military Retirement	45	53	67	68	78	89	91	98	104	107	120	133	394	956
Civilian Retirement[b]	-107	133	14	14	16	16	17	18	18	19	19	21	77	173
Unemployment Insurance	9	2	-3	5	4	2	-1	-3	-7	-7	-6	-7	6	-24
Highway and Mass Transit[a]	-8	1	-16	-16	-15	-16	-17	-17	-18	-19	-20	-20	-80	-174
Airport and Airway	1	*	*	*	*	*	*	*	*	*	*	*	*	*
Other[c]	4	3	2	2	2	2	3	3	3	3	3	3	11	25
Total Trust Fund Surplus or Deficit	**-42**	**225**	**93**	**74**	**96**	**102**	**58**	**19**	**-17**	**-81**	**-80**	**-93**	**423**	**171**
Intragovernmental Transfers to Trust Funds[d]	643	646	665	690	722	760	813	862	916	980	1,021	1,057	3,651	8,486
Net Budgetary Impact of Trust Fund Programs	**-685**	**-421**	**-572**	**-617**	**-626**	**-659**	**-755**	**-842**	**-933**	**-1,061**	**-1,101**	**-1,150**	**-3,228**	**-8,316**

Source: Congressional Budget Office.

Notes: Negative numbers indicate that the trust fund transactions add to total budget deficits.

* = between -$500 million and $500 million.

a. CBO projects that this trust fund will be exhausted during the 2015–2024 period. However, in keeping with the rules in section 257 of the Deficit Control Act of 1985, CBO's baseline incorporates the assumption that payments will continue to be made after the trust fund has been exhausted, although there is no legal authority to make such payments. The manner by which those payments would continue would depend on future legislation.

b. Includes Civil Service Retirement, Foreign Service Retirement, and several smaller retirement trust funds.

c. Consists primarily of trust funds for railroad workers' retirement, federal employees' health and life insurance, Superfund, and various insurance programs for veterans.

d. Includes interest paid to trust funds, payments from the Treasury's general fund to the Supplementary Medical Insurance Trust Fund, the government's share of payments for federal employees' retirement, lump-sum payments to the Civil Service and Military Retirement Trust Funds, taxes on Social Security benefits, and smaller miscellaneous payments.

Social Security Trust Funds

Social Security provides benefits to retired workers, their families, and some survivors of deceased workers through the Old-Age and Survivors Insurance (OASI) program; it also provides benefits to some people with disabilities and their families through the Disability Insurance (DI) program. Those benefits are financed mainly through payroll taxes collected on workers' earnings, at a rate of 12.4 percent—6.2 percent of which is paid by the worker and 6.2 percent by the employer.

Old-Age and Survivors Insurance

The OASI trust fund is by far the largest of all federal trust funds, with nearly $2.7 trillion in holdings of GAS securities at the end of 2013. CBO projects that the fund's annual income, excluding interest on those

Table F-3.

Balances Projected in CBO's Baseline for the OASI, DI, and HI Trust Funds

(Billions of dollars)

	Actual, 2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total 2015-2019	Total 2015-2024
Old-Age and Survivors Insurance Trust Fund														
Beginning-of-Year Balance	2,587	2,656	2,725	2,783	2,832	2,868	2,890	2,892	2,868	2,818	2,738	2,626	n.a.	n.a.
Income (Excluding interest)	640	677	703	736	770	807	842	878	915	954	994	1,032	3,859	8,633
Expenditures	-671	-705	-741	-783	-834	-889	-949	-1,014	-1,080	-1,148	-1,219	-1,294	-4,196	-9,951
Noninterest Deficit	-31	-28	-38	-47	-63	-82	-107	-136	-164	-194	-225	-261	-338	-1,318
Interest Received	100	98	95	97	100	104	109	112	114	114	113	111	505	1,069
Total Surplus or Deficit	69	69	58	49	37	21	2	-23	-50	-80	-112	-151	167	-250
End-of-Year Balance	**2,656**	**2,725**	**2,783**	**2,832**	**2,868**	**2,890**	**2,892**	**2,868**	**2,818**	**2,738**	**2,626**	**2,475**	**n.a.**	**n.a.**
Disability Insurance Trust Fund[a]														
Beginning-of-Year Balance	132	101	70	39	6	0	0	0	0	0	0	0	n.a.	n.a.
Income (Excluding interest)	106	112	116	121	127	133	138	144	150	156	162	169	635	1,415
Expenditures	-143	-146	-151	-156	-162	-167	-174	-181	-190	-200	-210	-220	-810	-1,810
Noninterest Deficit	-37	-35	-35	-35	-35	-35	-36	-37	-40	-44	-48	-52	-175	-395
Interest Received	6	4	3	2	1	0	0	0	0	0	0	0	6	6
Total Surplus or Deficit	-32	-30	-32	-33	-34	-35	-36	-37	-40	-44	-48	-52	-169	-389
End-of-Year Balance	**101**	**70**	**39**	**6**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**n.a.**	**n.a.**
Hospital Insurance Trust Fund														
Beginning-of-Year Balance	228	206	196	194	190	196	197	188	173	153	114	79	n.a.	n.a.
Income (Excluding interest)	245	267	280	295	311	328	344	361	379	398	418	437	1,559	3,553
Expenditures	-277	-287	-292	-308	-315	-336	-363	-384	-408	-444	-459	-487	-1,615	-3,797
Noninterest Deficit	-32	-20	-12	-13	-4	-9	-19	-23	-29	-46	-41	-51	-56	-245
Interest Received	10	10	10	10	10	10	9	9	8	7	5	4	48	80
Total Surplus or Deficit	-22	-10	-2	-3	6	1	-9	-14	-21	-39	-35	-47	-8	-164
End-of-Year Balance	**206**	**196**	**194**	**190**	**196**	**197**	**188**	**173**	**153**	**114**	**79**	**32**	**n.a.**	**n.a.**

Source: Congressional Budget Office.

Note: Balances shown are invested in Treasury Government Account Series securities; n.a. = not applicable.

a. In keeping with the rules in section 257 of the Deficit Control Act of 1985, CBO's baseline incorporates the assumption that payments will continue to be made after the trust fund has been exhausted, although there is no legal authority to make such payments. Because the manner by which those payments would continue would depend on future legislation, CBO shows zero rather than a cumulative negative balance in the trust fund after the exhaustion date.

securities, will amount to $677 billion in 2014 and increase to more than $1.0 trillion by 2024 (see Table F-3).[3] Annual expenditures from the fund are projected to be greater and to grow faster than non-interest income, rising from $705 billion in 2014 to about $1.3 trillion in 2024. As a result, the annual cash flows of the OASI program, excluding interest credited to the trust fund, will add to federal deficits in every year of the coming decade by amounts that will grow to $261 billion in 2024, CBO estimates. With interest receipts included, the OASI trust fund will show a

3. Although it is an employer, the federal government does not pay taxes. However, it makes an intragovernmental transfer from the general fund of the Treasury to the OASI and DI trust funds to cover the employer's share of the Social Security payroll tax for federal workers. That transfer is included in the income line in Table F-3.

surplus in every year through 2019, but by amounts that will decline over that period. By 2020, even taking into account interest receipts, the trust fund is projected to start recording deficits that will reach about $150 billion in 2024 (see Figure F-1).

Disability Insurance

Because the DI program is much smaller than OASI, the DI trust fund is much smaller than the OASI fund, with a balance of $101 billion at the end of 2013. In its current baseline, CBO projects that, excluding interest, the DI fund will have yearly income of $112 billion in 2014, which will increase to $169 billion in 2024 (see Table F-3). As with the OASI fund, annual expenditures from the DI fund are expected to be higher than non-interest income, totaling $146 billion in 2014 and rising steadily to $220 billion in 2024. Thus, the annual cash flows of the DI program, excluding interest, will also add to federal deficits in each year of the projection period, by amounts ranging from $35 billion to $52 billion, CBO estimates. Even with interest receipts included, the DI trust fund is expected to run a yearly deficit throughout that period (see Figure F-1). In the absence of legislative action, the balance of the DI fund will be exhausted in 2017, CBO projects (the same year projected in the agency's previous baseline, published in May 2013).

Medicare Trust Funds

Cash flows for payments to hospitals and payments for other services covered by Medicare are accounted for in two trust funds. The Hospital Insurance (HI) Trust Fund accounts for payments made to hospitals and providers of post-acute care services under Part A of the Medicare program, and the Supplementary Medical Insurance (SMI) Trust Fund accounts for payments made for outpatient services, prescription drugs, and other services under Parts B and D of Medicare.[4]

Hospital Insurance

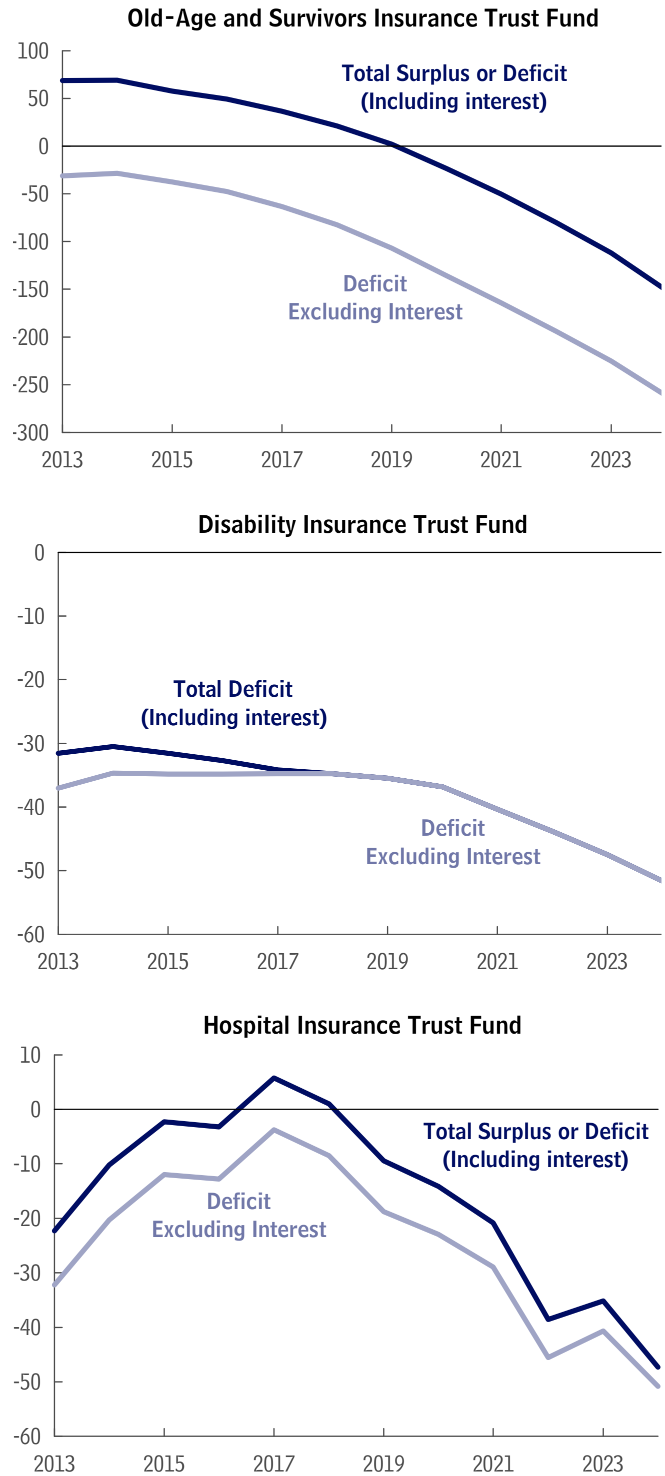
The HI fund is the larger of the two Medicare trust funds, with a balance of $206 billion at the end of 2013. The fund's income is derived largely from the Medicare payroll tax (2.9 percent of workers' earnings, divided equally between the worker and the employer); in 2013 those taxes accounted for 87 percent of the $245 billion

4. Part C of Medicare (known as Medicare Advantage) specifies the rules under which private health care plans can assume responsibility for, and be compensated for, providing benefits covered under Parts A, B, and D.

Figure F-1.

Annual Surpluses or Deficits Projected in CBO's Baseline for the OASI, DI, and HI Trust Funds

(Billions of dollars)



Source: Congressional Budget Office.

in noninterest income credited to the HI trust fund.[5] Another 6 percent came from part of the income taxes on Social Security benefits collected from beneficiaries with relatively high income. The remaining 7 percent of noninterest income credited to the HI trust fund consisted largely of premiums paid by beneficiaries; amounts paid to providers and later recovered; fines, penalties, and other amounts collected by the Health Care Fraud and Abuse Control program; and other transfers and appropriations. In addition, the trust fund is credited with interest on its balances; that interest amounted to $10 billion in 2013.

The fund's noninterest income is projected to increase from $267 billion in 2014 to $437 billion in 2024. Annual expenditures from the HI fund are projected to grow from $287 billion in 2014 to $487 billion in 2024. CBO expects expenditures to outstrip income, excluding interest, throughout the 2014–2024 period, producing annual deficits that reach a low of $4 billion in 2017 but rise thereafter to $51 billion in 2024. Including interest receipts, the trust fund is expected to run deficits in most years during the baseline period (see Table F-3 on page 146 and Figure F-1 on page 147). By 2024, CBO projects, the fund's balance will be down to $32 billion.

Supplementary Medical Insurance

The SMI trust fund contains two separate accounts: one that pays for physicians' services and other health care provided on an outpatient basis under Part B of Medicare (Medical Insurance) and one that pays for prescription drug benefits under Part D. The funding mechanisms used for the two accounts differ slightly:

- The Part B portion of the SMI fund is financed primarily through transfers from the general fund of the Treasury and through monthly premium payments from Medicare beneficiaries. The basic monthly premium for the SMI program is set to cover approximately 25 percent of the program's spending (with adjustments to maintain a contingency reserve to cover unexpected spikes in spending); an additional premium is assessed on beneficiaries with relatively high income. The amount transferred from the general fund equals about three times the amount expected to be collected from basic premiums minus the amount collected from the income-related premiums and fees from drug manufacturers.
- The Part D portion of the SMI fund is financed mainly through transfers from the general fund, monthly premium payments from beneficiaries, and transfers from states (which are based on the number of people in a state who would have received prescription drug coverage under Medicaid in the absence of Part D). The basic monthly premium for Part D is set to cover 25.5 percent of the program's estimated spending, under the assumption that all participants would pay it. However, people who receive low-income subsidies available under Part D are not required to pay Part D premiums, so receipts are projected to cover less than 25.5 percent of the program's costs. Higher-income participants in Part D pay an income-related premium. The amount transferred from the general fund is set to cover total expected spending for benefits and administrative costs, net of the amounts transferred from states and collected from basic and income-related premiums.

Unlike the HI trust fund, the accounts in the SMI fund are not dependent solely on a specified set of revenues collected from the public. The amounts credited to those accounts from the general fund of the Treasury are automatically adjusted to cover the differences between program spending and specified revenues. Thus, the SMI fund cannot be exhausted.

The Part B account of the SMI fund currently holds $67 billion in GAS securities. Including the contingency reserve that is maintained to cover unanticipated increases in spending, the balance in the fund is expected to reach $91 billion in 2024.

Highway Trust Fund

The Highway Trust Fund comprises two accounts: the highway account, which funds construction of highways and highway safety programs, and the transit account, which funds mass transit programs. Revenues credited to those accounts are derived mostly from excise taxes on gasoline and certain other motor fuels, which account for more than 85 percent of all receipts to the trust fund.[6]

5. As it does with the Social Security payroll tax, the federal government makes an intragovernmental transfer from the general fund of the Treasury to the HI trust fund to cover the employer's share of the Medicare payroll tax for federal workers.

6. The other revenues credited to the Highway Trust Fund come from excise taxes on trucks and trailers, on truck tires, and on the use of certain kinds of vehicles.

Almost all spending from the fund is controlled by limitations on obligations set in appropriation acts. Over the past seven years, that spending has exceeded the fund's revenues by $49 billion. In addition, CBO expects spending to exceed revenues by $14 billion in 2014. Consequently, from 2008 through 2014—including amounts transferred in accordance with the most recent authorization for highway and transit programs—lawmakers authorized a series of transfers to the Highway Trust Fund to keep that fund from being exhausted. Those transfers totaled more than $54 billion, mostly from the general fund of the Treasury.

For its baseline spending projections, CBO assumes that future limitations on obligations will be equal to amounts set for 2014, adjusted annually for inflation. Under those circumstances, and without other legislative action, the two accounts would be unable to meet obligations in a timely manner at some point in 2015, although it is possible that the highway account will have to delay certain payments during the latter half of 2014.

Other Trust Funds

Among the remaining trust funds in the federal budget, the largest balances are held by various civilian retirement funds (a total of $738 billion at the end of 2013) and by the Military Retirement Trust Fund ($421 billion).[7] In its current baseline, CBO projects that the balances of those funds will increase steadily over the coming decade, reaching $1.0 trillion for the civilian funds and $1.4 trillion for the military retirement fund in 2024, about the same size in total as the balance of the OASI trust fund (see Table F-1 on page 144). Unlike the Social Security and Medicare trust funds, these funds are projected to run surpluses throughout the coming decade; in 2024, the surplus for the military retirement fund will reach $133 billion and that for the civilian funds will total $21 billion.

7. Those civilian retirement funds include the Civil Service Retirement Trust Fund, the Foreign Service Retirement Trust Fund, and several smaller retirement funds.