APPENDIX

E

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, which are issued by the Treasury. At the end of fiscal year 2014, there was $5.0 trillion in such securities outstanding, over 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 Social Security Old-Age and Survivors 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 E-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 government securities) is an asset for the individual program, such as Social Security, but a liability for the rest of the government. The resources required to redeem a trust fund's government 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, 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 balances held by federal trust funds will increase by $82 billion in fiscal year 2015. CBO projects that, in total, income credited to the trust funds will exceed outlays in each year from 2015 through 2020; however, in each year thereafter, spending from the trust funds is projected to exceed income by an increasing amount.

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

Table E-1.

Trust Fund Balances Projected in CBO's Baseline

Billions of Dollars

	Actual, 2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Social Security												
Old-Age and Survivors Insurance	2,713	2,763	2,802	2,826	2,828	2,806	2,755	2,676	2,566	2,422	2,239	2,012
Disability Insurance[a]	70	40	9	0	0	0	0	0	0	0	0	0
Subtotal	2,783	2,802	2,811	2,826	2,828	2,806	2,755	2,676	2,566	2,422	2,239	2,012
Medicare												
Hospital Insurance (Part A)	202	204	201	207	218	216	208	194	161	132	107	57
Supplementary Medical Insurance (Part B)	68	67	67	67	67	67	67	67	67	68	68	68
Subtotal	271	271	267	274	284	282	275	261	229	199	175	125
Military Retirement	483	533	592	670	759	850	947	1,052	1,159	1,278	1,411	1,547
Civilian Retirement[b]	876	895	910	927	943	959	976	992	1,008	1,024	1,041	1,057
Unemployment Insurance	29	37	41	44	45	45	48	53	57	60	62	65
Highway and Mass Transit[a]	15 [c]	1	0	0	0	0	0	0	0	0	0	0
Airport and Airway	13	12	11	11	12	12	13	15	17	19	21	24
Railroad Retirement (Treasury holdings)[d]	3	3	3	3	3	3	3	3	3	3	3	3
Other[e]	108	110	112	113	115	117	119	121	123	125	127	129
Total Trust Fund Balance	**4,581**	**4,662**	**4,747**	**4,869**	**4,989**	**5,074**	**5,136**	**5,173**	**5,161**	**5,130**	**5,078**	**4,963**
Memorandum:												
Railroad Retirement (Non-Treasury holdings)[d]	26	25	24	23	22	21	21	20	19	19	18	18

Source: Congressional Budget Office.

Note: These balances are for the end of the fiscal year and include only 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 scheduled payments will continue to be made in full after the balance of 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. Includes $4 billion in uninvested balances.

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

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

All told, CBO projects a cumulative net deficit of $219 billion over the 2016–2025 period (see Table E-2).

Some of the trust funds' income is in the form of intragovernmental transfers—which are projected to total $658 billion in 2015 and to reach nearly $1.1 trillion in 2025. Those transfers consist of interest credited to the trust funds; payments from general funds to cover most of the costs of Medicare's payments for outpatient services, prescription drugs, and some other services; the government's share of payments for federal employees' retirement; and certain other transfers of general funds. Such transfers shift resources 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 of the government (such as payroll taxes and Medicare premiums) counted, the trust funds will add to federal deficits throughout the 2016–2025 period by amounts that grow from $596 billion in 2016 to $1.2 trillion in 2025, CBO projects.

Without legislative action to address shortfalls, balances in two trust funds are projected to be exhausted during

Table E-2.

Trust Fund Deficits or Surpluses Projected in CBO's Baseline

Billions of Dollars

	Actual, 2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total 2016-2020	Total 2016-2025
Social Security														
Old-Age and Survivors Insurance	57	50	40	24	2	-22	-51	-79	-110	-145	-183	-227	-7	-750
Disability Insurance[a]	-31	-30	-30	-32	-34	-34	-35	-39	-42	-45	-49	-51	-165	-390
Subtotal	27	19	9	-7	-31	-57	-86	-118	-151	-189	-231	-278	-173	-1,141
Medicare														
Hospital Insurance (Part A)	-4	2	-3	7	10	-2	-7	-14	-33	-30	-25	-50	4	-147
Supplementary Medical Insurance (Part B)	1	-2	*	*	*	*	*	*	*	*	*	*	*	2
Subtotal	-3	*	-3	7	10	-2	-7	-14	-33	-29	-25	-50	5	-146
Military Retirement	62	50	59	78	89	91	97	105	107	119	133	136	414	1,013
Civilian Retirement[b]	138	19	16	17	16	16	16	16	16	16	17	17	81	163
Unemployment Insurance	6	7	4	3	1	0	3	6	3	3	2	3	11	29
Highway and Mass Transit[a]	9	-14	-14	-14	-14	-15	-16	-17	-18	-19	-20	-21	-73	-169
Airport and Airway	1	-1	*	*	*	1	1	1	2	2	3	3	2	13
Other[c]	4	2	2	1	1	2	2	2	2	2	2	2	8	19
Total Trust Fund Deficit (-) or Surplus	**244**	**82**	**72**	**85**	**73**	**36**	**10**	**-18**	**-72**	**-96**	**-121**	**-188**	**275**	**-219**
Intragovernmental Transfers to Trust Funds[d]	972	658	668	692	707	747	791	837	897	949	973	1,052	3,604	8,313
Net Budgetary Impact of Trust Fund Programs	**-728**	**-577**	**-596**	**-606**	**-635**	**-711**	**-781**	**-855**	**-969**	**-1,045**	**-1,094**	**-1,240**	**-3,329**	**-8,532**

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 the balance of this trust fund will be exhausted during the 2016–2025 period. However, in keeping with the rules in section 257 of the Deficit Control Act of 1985, CBO's baseline incorporates the assumption that scheduled payments will continue to be made in full after the balance of the trust fund has been exhausted, although there is no legal authority to make such payments. The manner by which those payments 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.

that period: the Highway Trust Fund (early in fiscal year 2016) and Social Security's Disability Insurance Trust Fund (early in fiscal year 2017).

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.

Table E-3.

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

Billions of Dollars

	Actual, 2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total 2016-2020	Total 2016-2025
OASI Trust Fund														
Beginning-of-Year Balance	2,656	2,713	2,763	2,802	2,826	2,828	2,806	2,755	2,676	2,566	2,422	2,239	n.a.	n.a.
Income (Excluding interest)	667	696	724	754	786	818	852	887	924	962	1,002	1,043	3,933	8,752
Expenditures	-706	-740	-775	-820	-875	-934	-997	-1,061	-1,127	-1,198	-1,272	-1,351	-4,401	-10,411
Noninterest Deficit	-39	-45	-51	-66	-90	-116	-145	-174	-203	-236	-270	-308	-468	-1,659
Interest received	96	94	90	90	92	94	94	95	94	91	87	81	461	909
Total Deficit (-) or Surplus	57	50	40	24	2	-22	-51	-79	-110	-145	-183	-227	-7	-750
End-of-Year Balance	**2,713**	**2,763**	**2,802**	**2,826**	**2,828**	**2,806**	**2,755**	**2,676**	**2,566**	**2,422**	**2,239**	**2,012**	**n.a.**	**n.a.**
DI Trust Fund[a]														
Beginning-of-Year Balance	101	70	40	9	0	0	0	0	0	0	0	0	n.a.	n.a.
Income (Excluding interest)	110	115	119	124	129	134	139	145	151	157	163	169	646	1,430
Expenditures	-145	-148	-152	-157	-162	-168	-175	-183	-192	-202	-212	-221	-814	-1,824
Noninterest Deficit	-34	-33	-33	-33	-34	-34	-35	-39	-42	-45	-49	-51	-169	-394
Interest received	4	3	2	1	0	0	0	0	0	0	0	0	3	3
Total Deficit	-31	-30	-30	-32	-34	-34	-35	-39	-42	-45	-49	-51	-165	-390
End-of-Year Balance	**70**	**40**	**9**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**n.a.**	**n.a.**
HI Trust Fund														
Beginning-of-Year Balance	206	202	204	201	207	218	216	208	194	161	132	107	n.a.	n.a.
Income (Excluding interest)	262	273	287	303	317	332	348	366	384	404	424	446	1,587	3,610
Expenditures	-275	-281	-300	-306	-316	-344	-365	-389	-426	-441	-455	-500	-1,632	-3,843
Noninterest Deficit (-) or Surplus	-13	-8	-13	-3	1	-12	-17	-23	-42	-37	-31	-55	-45	-232
Interest received	9	10	10	10	10	10	10	9	9	7	6	4	49	85
Total Deficit (-) or Surplus	-4	2	-3	7	10	-2	-7	-14	-33	-30	-25	-50	4	-147
End-of-Year Balance	**202**	**204**	**201**	**207**	**218**	**216**	**208**	**194**	**161**	**132**	**107**	**57**	**n.a.**	**n.a.**

Source: Congressional Budget Office.

Notes: Balances shown are invested in Treasury Government Account Series securities.

DI = Disability Insurance; HI = Hospital Insurance; OASI = Old-Age and Survivors Insurance; 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 scheduled payments will continue to be made in full after the balance of 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.

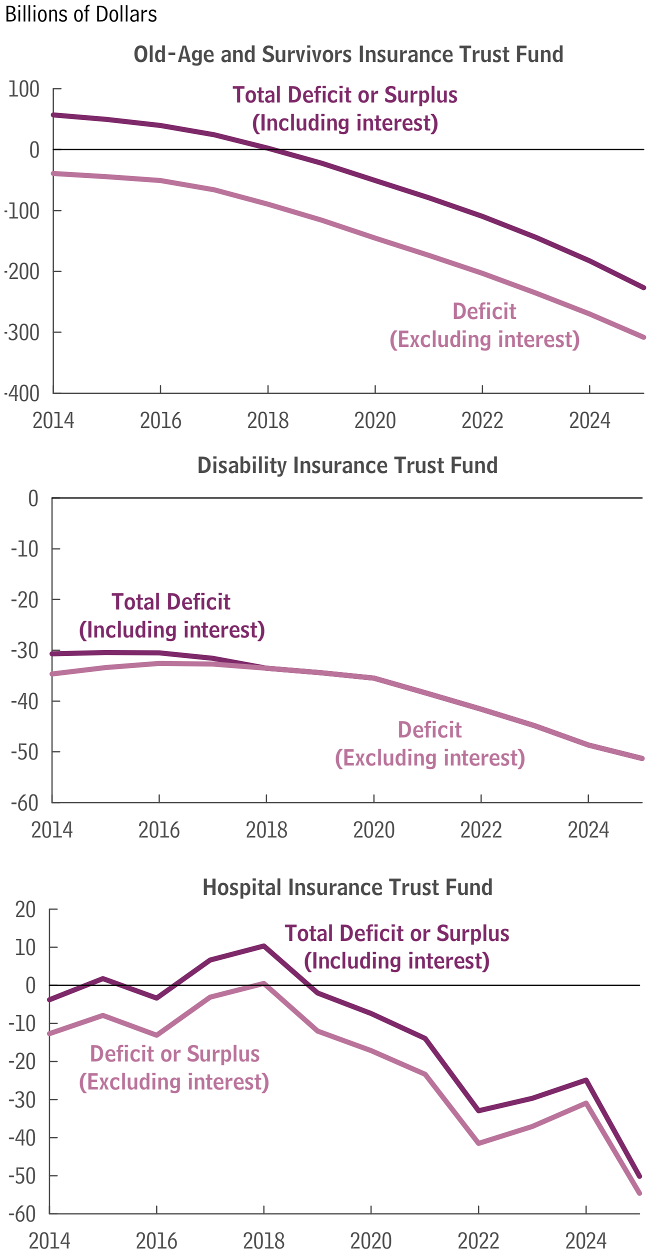
Old-Age and Survivors Insurance

The OASI trust fund is by far the largest of all federal trust funds, with $2.7 trillion in holdings of government account securities at the end of 2014. CBO projects that the fund's annual income, excluding interest on those securities, will amount to $696 billion in 2015 and increase to more than $1.0 trillion by 2025 (see Table E-3).[2] Annual expenditures from the fund are projected to be greater and to grow faster than noninterest income, rising from $740 billion in 2015 to nearly $1.4 trillion in 2025. With expenditures growing by an average of about

2. 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 E-3.

Figure E-1.

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



Source: Congressional Budget Office.

Note: DI = Disability Insurance; HI = Hospital Insurance; OASI = Old-Age and Survivors Insurance.

6 percent a year and noninterest income (mostly from payroll taxes) growing by an average of about 4 percent a year, 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 $308 billion in 2025, CBO estimates.

With interest receipts included, the OASI trust fund will show a surplus in every year through 2018 but by amounts that will decline over that period. By 2019, even taking into account interest receipts, the trust fund is projected to start recording deficits that will reach $227 billion in 2025 (see Figure E-1).[3]

Disability Insurance

The DI trust fund is much smaller than the OASI fund, with a balance of $70 billion at the end of 2014. In its current baseline, CBO projects that, excluding interest, the yearly income of the DI fund will rise from $115 billion in 2015 to $169 billion in 2025 (see Table E-3). But, as with the OASI fund, annual expenditures from the DI fund are expected to be greater than noninterest income, rising steadily from $148 billion in 2015 to $221 billion in 2025. 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 that increase from $33 billion early in the period to $51 billion in 2025, CBO estimates. Even with interest receipts included, the DI trust fund is expected to run a yearly deficit throughout that period (see Figure E-1). In the absence of legislative action, the balance of the DI fund will be exhausted in 2017, CBO projects (the same year the agency projected in its August 2014 baseline).

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 Trust Fund

The HI fund is the larger of the two Medicare trust funds, with a balance of $202 billion at the end of 2014. The fund's income is derived largely from the Medicare

3. According to CBO's most recent projections, the balance of the OASI trust fund will be exhausted in calendar year 2032. See Congressional Budget Office, *The 2014 Long-Term Budget Outlook* (July 2014), www.cbo.gov/publication/45471.

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.

payroll tax (2.9 percent of workers' earnings, divided equally between the worker and the employer); in 2014, those taxes accounted for 87 percent of the $262 billion in noninterest income credited to the HI trust fund.[5] Another 7 percent came from part of the income taxes on Social Security benefits collected from beneficiaries with relatively high income. The remaining 6 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 $9 billion in 2014.

The fund's noninterest income is projected to increase from $273 billion in 2015 to $446 billion in 2025—an average annual increase of about 5 percent. But annual expenditures from the HI fund are projected to grow more rapidly—at an average annual rate of close to 6 percent, rising from $281 billion in 2015 to $500 billion in 2025. CBO expects expenditures to outstrip income, excluding interest, in all years through 2025 other than in 2018, producing annual deficits that are relatively small in the first half of the period but rise to $55 billion in 2025.[6] Including interest receipts, the trust fund is expected to run deficits in most years during the baseline period (see Table E-3 and Figure E-1). By 2025, CBO projects, the annual deficit (including interest receipts) will reach $50 billion and the fund's balance will be down to $57 billion. CBO has not projected the fund's balance beyond the 10-year period spanned by the baseline, but it is likely that such projections would show the fund continuing to incur deficits in subsequent years. CBO anticipates that, if current law remained in place, the fund's balance would probably be exhausted early in the decade after 2025.

5. Starting in 2013, an additional Medicare tax of 0.9 percent has been assessed on the amount of an individual's earnings over $200,000 (or $250,000 for married couples filing joint income tax returns). 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 small surplus in 2018 occurs because October 1, 2017, falls on a weekend. Therefore, payments to private Medicare plans for that month will be accelerated into fiscal year 2017, resulting in one fewer payment during fiscal year 2018. (The same type of shift occurs from 2017 to 2016, from 2023 to 2022, and from 2024 to 2023.)

Supplementary Medical Insurance Trust Fund

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, low-income people who receive 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 income to the SMI fund (other than interest) does not consist mainly of a specified set of revenues collected from the public. Rather, 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. (In 2014, for example, $245 billion was transferred from general funds to the SMI fund, accounting for about three-quarters of its income.) Thus, the balance in the SMI fund cannot be exhausted.

The SMI fund currently holds $68 billion in government account securities, and the amount of such holdings is projected to remain at about that level throughout the next decade.

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.[7]

Almost all spending from the fund is controlled by limitations on obligations set in appropriation acts. Over the past eight years, spending has exceeded the fund's revenues by $64 billion. In addition, CBO expects spending to exceed revenues by $14 billion in 2015, reflecting outlays of $53 billion and revenues of $39 billion. To keep the Highway Trust Fund from delaying payments to state and local governments, starting in 2008, lawmakers have authorized a series of transfers to the fund. Including amounts transferred in accordance with the most recent authorization for highway and transit programs, those transfers have totaled more than $65 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 2015, adjusted annually for inflation. Under those circumstances, and without further legislative action, the two accounts would be unable to meet all obligations in a timely manner at some point in 2015, and the fund's balance would be exhausted in early fiscal year 2016. The Department of Transportation has indicated that it needs $5 billion in cash—$4 billion in the highway account and $1 billion in the transit account—to make required payments. The most recent authorization for highway and transit programs expires on May 31, 2015.

Other Trust Funds

Among the remaining trust funds in the federal budget, the largest balances are held by various civilian employee retirement funds (a total of $876 billion at the end of 2014) and by the Military Retirement Trust Fund ($483 billion).[8] In its current baseline, CBO projects that the balances of those funds will increase steadily over the coming decade, reaching $1.1 trillion for the civilian funds and $1.5 trillion for the military retirement fund in 2025, more in total than the balance of the OASI trust fund (see Table E-1 on page 146). Unlike the Social Security and Medicare trust funds, these funds are projected to run surpluses throughout the coming decade, growing to more than $150 billion combined in 2025. The balances of the military retirement fund will grow at a rapid rate over the next 10 years because the Treasury is making additional payments to that fund to cover the initial unfunded liabilities that arose from the fund's creation.

7. 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.

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