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Report to the Chairman, Committee on
Government Operations, House of
Representatives

September 1988

BUDGET ISSUES

Trust Funds and Their Relationship to the Federal Budget



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Accounting and Financial
Management Division

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September 30, 1988

The Honorable Jack Brooks
Chairman, Committee on
Government Operations
House of Representatives

Dear Mr. Chairman:

Your letter of October 28, 1987, expressed concern over the budget status of trust funds, particularly the technical and policy implications raised by the number of bills and amendments that have been introduced to remove certain trust funds from the budget. To help clarify the situation, you asked us for information on four items: (1) what distinguishes trust fund receipts from other receipts in the government's accounts, (2) whether trust fund balances should be used to finance programs and deficits in the nontrust fund parts of the budget, (3) how trust funds should be treated for budget purposes, and (4) which trust funds are on-budget and which are off-budget, along with the receipts, outlays, and balances of each for the most recently completed fiscal year.

Our review of trust funds disclosed the following:

- In fiscal year 1987, the 165 on-budget and 2 off-budget trust funds had gross receipts of \$465 billion (46 percent of the government's gross receipts) and gross outlays of \$392 billion (34 percent of the gross outlays). Accumulated balances totaled \$450 billion. The two off-budget trust funds (the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund) accounted for about half of all trust fund receipts and outlays in fiscal year 1987.
- Trust fund receipts are distinguished from other receipts in the budget by being legally dedicated to financing accounts that are, for the most part, statutorily designated as "trust funds."
- Most trust fund balances are not cash set aside in the Treasury or bank accounts, but rather are, usually by law, invested in Treasury securities.
- The current unified budget masks the effect of trust fund surpluses upon the budget's totals because it focuses on a single surplus or deficit total.

against gross outlays in order to better show the full magnitude of outlays and receipts. In developing our gross totals, however, we reduced outlays for intragovernmental transactions to avoid double counting.

Background

The federal budget's approximately 1,300 accounts are grouped into two major fund groups: federal funds and trust funds. Federal funds include the general, special, intragovernmental revolving or management, and public enterprise revolving funds. The gross outlays relating to federal funds in fiscal year 1987 were \$771 billion (66 percent of the government's total gross outlays).

Trust funds in 1987 accounted for the balance of the government's gross outlays, \$392 billion, or 34 percent of the total. Trust funds may be either nonrevolving or revolving. Nonrevolving trust fund receipts may be expended only after receiving authorization from the Congress. The Highway Trust Fund is an example of a nonrevolving trust fund. A revolving trust fund's collections, on the other hand, may automatically be spent to carry out operations. An example is the Office of Personnel Management's Employees Health Benefits Fund.

Trust fund receipts, as defined by OMB, have become a dominant part of governmental receipts. During the period from 1947 through 1987, trust fund receipts rose from 8.2 percent of total governmental receipts to 37.6 percent. Social insurance programs have been the major cause of this growth. Appendix I illustrates this trend in governmental receipts.

Prior to fiscal year 1969, there were three federal budgets—the administrative, consolidated cash, and national income accounts budgets. The most commonly used one was the administrative budget. This budget excluded the operations of all trust funds, including the Social Security, federal retirement, and highway trust funds. Trust fund transactions were covered in the consolidated cash budget and the national income accounts budget. Neither received much attention in appropriations debates and action. However, the fiscal year 1968 budget message singled out the national income accounts budget as the most appropriate measure of the federal government's overall economic impact. In addition, the administrative budget was cited as an increasingly incomplete and unreliable measure of the government's activities because it did not include trust fund activities, which amounted to about one-third of its totals.

Our examination of 26 trust funds showed that all 26 had earmarked receipts and that 20 were designated as trust funds in law. The following provides a discussion of these two features of trust fund receipts.

Trust Fund Receipts Are Earmarked

A significant portion of government receipts are not earmarked for particular programs and accounts. For example, income tax revenues are placed in Treasury's general fund for whatever uses are decided upon in appropriations enactments. In fiscal year 1987, \$527 billion (52 percent) of the government's gross receipts were not earmarked. Trust fund receipts are earmarked and represent almost all of the 48 percent of receipts that are earmarked for specific purposes only. An example is the Highway Trust Fund, which consists primarily of gasoline excise tax revenues dedicated by law to be spent only for the fund's programs.

This financing by earmarked receipts is one feature which distinguishes trust funds from general fund accounts. The general fund accounts, such as the Veterans Administration's Construction, Major Projects account, are financed by unearmarked receipts, such as income taxes and other receipts deposited in the Treasury's general fund. Funds are made available to such accounts by appropriation action.

However, other accounts besides trust funds are also financed by earmarked receipts. Examples include public enterprise and intragovernmental revolving funds and special funds. Public enterprise revolving funds are credited with receipts generated by a cycle of business-type operations with the public. The Postal Service Fund is an example of such a fund. Its receipts come primarily from mail and service revenues which are available, without appropriation, to be spent only on operations of the Postal Service.

Intragovernmental revolving funds are credited with receipts from selling services primarily to government agencies. The General Supply Fund administered by the General Services Administration (GSA) is an example of an intragovernmental revolving fund. The fund is used to procure personal property, such as office furniture and supplies, for the government. Federal agencies then purchase these items from GSA and the payments are credited to the fund.

Special fund receipts are earmarked by law for specific uses, deposited into separate receipt accounts, and available for use only under statutorily prescribed conditions. An example is the Nuclear Waste Fund, which receives mainly two kinds of receipts: fees from civilian nuclear

stated that the individual members of the Board of Trustees are not considered fiduciaries. Also, while separate accounting records are maintained, the moneys of federal trust funds are commingled with other government moneys.

If a trust fund is truly a fiduciary fund in the customary sense, it probably does not belong in the federal budget. This was our position regarding the Thrift Savings Fund established as a federal employees' savings plan by the Federal Employees' Retirement System Act of 1986. We stated that the federal government did not own the fund's moneys, but rather held them in a fiduciary capacity as required by law. We therefore suggested removing the fund from the budget, which OMB did beginning with the budget for fiscal year 1989.¹

Trust Fund Designations Are Inconsistently Applied

Trust fund designations are applied inconsistently to similar programs. It is possible to find trust funds that share features of public enterprise revolving funds or special funds. For example, the Federal Deposit Insurance Corporation (FDIC) and the Federal Savings and Loan Insurance Corporation (FSLIC) operate similar programs in a similar manner. However, FDIC is designated as a trust revolving fund, whereas FSLIC is designated as a public enterprise revolving fund. Likewise, the Environmental Protection Agency's Hazardous Substance Superfund was designated by law as a trust fund, while the Department of Energy's similar Nuclear Waste Fund was established in legislation as a separate fund and is shown by Treasury and OMB as a special fund.

We are presently making a separate study of these inconsistencies and expect to report on the results later this year.

Most Trust Fund Receipts Finance Social Insurance and Retirement Programs

The largest trust funds are mainly used for social insurance and retirement entitlements. The payroll taxes and contributions for such programs are earmarked for trust fund programs. These include social security and railroad retirement taxes, unemployment insurance taxes, and employee retirement contributions that help fund the old-age and survivors insurance, unemployment insurance, and employee retirement programs. About 80 percent of all gross trust fund receipts in fiscal year 1987 were for these programs.

¹Letter to Representative Willis D. Gradison, Jr., (B-227344, May 29, 1987).

Table 1: Trend in Cumulative Trust Fund Balances for Selected Years

Trust funds	Cumulative balances at end of fiscal year ^a			
	1967	1977	1987	Estimated 1989
Federal Old-Age and Survivors Insurance	\$23	\$35	\$58	\$139
Federal Hospital Insurance	1	11	51	86
Civil Service Retirement and Disability	18	50	177	214
Military Retirement	0	0	38	67
Unemployment Trust Fund	11	6	30	46
Highway Trust Fund	1	10	14	16
All other trust funds	19	40	83	93
Total	\$73	\$153	\$450	\$660

^aCalculated from the Appendix to the Budget and Special Analysis C for fiscal years 1969, 1979, and 1989. Totals have been rounded.

To the extent that future annual outlays from trust funds exceed their annual receipts, Treasury will use cash receipts generated by the general fund to redeem the securities held by the trust funds and meet trust fund outlay requirements. If the nontrust portion of the budget continues to be in a deficit situation, as it has for many years, the cash to redeem the securities and pay trust fund outlays would need to be generated by either increased tax receipts and/or borrowing from the public. The latter would entail transferring Treasury debt held by the trust funds to Treasury debt held by the public.

Several alternatives to the current policy of investing trust fund balances in Treasury securities have been proposed. One such alternative would be to invest trust fund balances in stocks, corporate and municipal bonds, and other nonfederal financial instruments as many state and private pension plans do. Other alternatives would be to forgo investing trust fund balances or to move away from accumulating balances in the social insurance and retirement trust funds. The investigation of the pros and cons of these alternatives was beyond the scope of this review.

It should be noted, however, that the manner in which trust funds are administered, including the investment of fund balances, was developed long before the adoption of the unified budget. These practices have not changed significantly since the adoption of the unified budget. That is, the investment of surpluses in Treasury securities is essentially the same now as it was decades ago. For example, the Civil Service Retirement Act, which established the Civil Service Retirement and Disability

Table 2: Impact of Annual Trust Fund Surpluses on Overall Budget Deficits

Funds	Surplus (deficit) by fiscal year ^a					1993 (estimated)
	1947	1957	1967	1977	1987	
Trust funds	\$3	\$2	\$7	\$10	\$73	\$163
Federal funds	1	2	(16)	(63)	(223)	(186)
Total budget surplus (deficit)	\$4	\$3	\$(9)	\$(54)	\$(150)	\$(23)

^aCalculated from OMB's Historical Tables budget volume for fiscal year 1989. Totals have been rounded.

In addition, the Congressional Budget Office (CBO), in its February 1988 report on the economic and budget outlook, emphasizes the impact of trust fund transactions on the unified budget. CBO's projections of a declining total deficit through fiscal year 1993 show a growing nontrust fund deficit.

By far, the largest single component of the trust fund surpluses is Social Security. The effect of the annual trust fund surpluses on the budget deficits has received considerable attention in recent months as observers discuss the implications of the Social Security trust funds' growing annual surpluses. These reflect annual payroll tax revenues in excess of annual benefit payments. Under the long-range Social Security financing plan adopted by the Congress in 1983, large annual surpluses will accumulate in the Social Security trust funds, but in the first quarter of the 21st century, these surpluses are projected to disappear. This will require the funds' administrators to redeem Treasury securities to obtain the cash needed for benefit payments.

Redemption of securities need not present a problem, provided there is a sound fiscal balance between the trust and nontrust sides of government operations. However, a large nontrust deficit could affect the taxing and borrowing options available for redeeming the securities. Unfortunately, the current structure of budget information, with its focus upon a single surplus or deficit total, does not facilitate the kind of analyses needed to ensure a proper fiscal relationship between trust and nontrust operations.

Table 3: U.S. Government Trust Funds
(Fiscal Year 1987)

Dollars in billions					
Types of trust funds	Number of funds ^a	Receipts	Outlays	Surplus	Year-end balance
On-budget					
Nonrevolving	146	\$237	\$186	\$51	\$357
Revolving	19	16	14	2	28
Total	165	253	200	53	385
Off-budget					
	2	229	209	20	65
Total	167	481^b	409^b	73	450
Less:					
Intragovernmental transactions	N/A ^c	17	17	0	0
Total	167	\$465	\$392	\$73	\$450

^aThe number of funds does not correspond with the number of appropriation accounts shown in the budget appendix because some funds are lumped under miscellaneous appropriation accounts and some trust funds have multiple appropriation accounts.

^bTotal transactions of the individual trust fund accounts, consisting of transactions with the public and intragovernmental transactions of two types: (1) transactions between the trust funds and federal funds and (2) transactions among trust funds. Totals have been rounded.

N/A here means not applicable.

The two off-budget trust funds are the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund. These Social Security funds account for about one-half of the total trust fund transactions.

Total trust funds account for 46 and 34 percent (\$465 billion and \$392 billion) of the gross federal receipts and outlays, respectively.

Table II.1, appendix II, summarizes the number of on-budget and off-budget trust funds by government branch, department, and agency and provides relevant dollar amounts. This table shows that 69 trust funds (about 40 percent of the total) are concentrated in five federal departments: Agriculture (16), Interior (13), Defense (Military) (14), Health and Human Services (12), and Transportation (14).

Table II.2, appendix II, shows the 10 largest trust funds. They principally comprise retirement and insurance programs and account for 94 percent of trust fund receipts and outlays.

Table II.3, appendix II, identifies each of the 165 on-budget and 2 off-budget trust funds and provides the 1987 receipts, outlays, and balances of each fund.

Trust Fund Transactions

Table II.1: Summary of Trust Fund Receipts, Outlays, and Balances by Agency for Fiscal Year 1987

Dollars in thousands

Government entity	Number of funds	Trust receipts	Trust outlays	Fund balances
On-budget				
Government branch				
Legislative	6	\$7,883	\$6,892	\$17,014
Judicial	1	13,425	7,283	119,124
Executive				
Executive Office of the President	1	4	(0)	4
Funds appropriated to the President	8	8,514,530	9,919,145	5,119,434
Department				
Agriculture	16	413,302	214,165	719,595
Commerce	3	41,337	35,393	18,171
Defense-Military	14	366,153	359,907	291,892
Defense-Civil	7	32,499,252	18,311,924	38,622,638
Education	2	683	50	647
Energy	2	155,275	172,476	64,645
Health and Human Services	12	90,560,561	81,662,026	57,038,259
Housing and Urban Development	1	17	17	4
Interior	13	365,135	364,538	1,203,418
Justice	2	38,683	38,174	7,239
Labor	5	28,329,722	21,241,268	30,049,822
State	3	768,795	242,200	3,477,219
Transportation	14	18,617,048	16,392,483	23,920,633
Treasury	7	225,311	275,567	335,290
Independent agency				
Environmental Protection Agency	5	1,525,718	555,732	1,448,454
General Services Administration	1	0	0	1
NASA	2	28	1	176
Office of Personnel Management	4	52,076,894	34,130,904	186,247,872
Veterans Administration	5	2,344,299	1,982,092	12,071,602
Other independent agencies	31	15,941,891	13,804,580	23,768,418
Total	165	\$252,805,946	\$199,716,817	\$384,541,571
Off-budget				
Social Security Administration	2	\$228,635,174	\$209,065,232	\$65,439,834
Total	167	\$481,441,120	\$408,782,049	\$449,981,405
Less intragovernmental transfers		\$16,620,644	\$16,620,644	
Total		\$464,820,476	\$392,161,405	

**Appendix II
Trust Fund Transactions**

Table II.3: Trust Fund Receipts, Outlays, and Balances for Fiscal Year 1987

Dollars in thousands

Fund number	Fund title	Receipts	Outlays	Balance
On-Budget				
Government branch				
Legislative				
8022	Payment of Interest on Bequest of B.M. Hubbard	\$1	\$0	\$4
8031	Library of Congress Gift Fund	2,261	1,533	2,917
8032	Library of Congress Trust Fund	602	756	8,004
8094	Contributions and Donations	3	4	12
8115	Tax Court Judges Survivors Annuity Fund	394	60	2,187
8208	Library of Congress, Service Fees	4,622	4,539	3,890
	Total	\$7,883	\$6,892	\$17,014
Judiciary				
8110	Judicial Survivors' Annuities Fund	\$13,425	\$7,283	\$119,124
	Total	\$13,425	\$7,283	\$119,124
Executive				
Executive Office of the President				
8241 ^a	Donations for the Official Residence of the Vice President	\$4	\$(0)	\$4
	Total	\$4	\$(0)	\$4
Funds				
Appropriated to the President				
8242	Foreign Military Sales Trust Fund	\$8,503,911	\$9,910,489	\$5,100,338
8243	Gifts and Contributions, Inter-American Foundation	1	0	6
8244	Disaster Relief, Bequests and Gifts	62	17	1,198
8245	Gifts and Contributions	297	337	139
8246	Advances From Foreign Governments	0	209	94
8502 ^b	Technical Assistance	10,258	8,093	17,235
8824 ^b	Gifts and Donations			165
8981	Gifts and Contributions	1	0	259
	Total	\$8,514,530	\$9,919,145	\$5,119,434
Agriculture				
8015	Expenses and Refunds, Inspecting and Grading of Farm Products	\$85,502	\$65,692	\$16,393
8028	Cooperative Work Trust Fund	254,019	72,216	659,084
8034	Gifts, Donations, and Bequests, for Forest and Rangeland Research	27	39	246
8044	Expenses and Refunds, Inspection and Grading of Farm Products	(2)	0	11

(continued)

**Appendix II
Trust Fund Transactions**

Fund number	Fund title	Receipts	Outlays	Balance
8862	Rivers and Harbors Contributed Funds	114,943	74,870	83,581
8863	Harbor Maintenance Trust Fund	59,331	42,998	16,333
8930 ^a	Soldiers' and Airmen's Home Permanent Fund	48,250	36,767	204,410
	Total	\$32,499,252	\$18,311,924	\$38,622,638
Education				
8258	Contributions	\$673	\$34	\$640
8893	Promotion of Education for the Blind	10	16	7
	Total	\$683	\$50	\$647
Energy				
8575	Advances for Cooperative Work	\$152,975	\$170,176	\$64,645
8576 ^a	Gifts and Donations	2,300	2,300	0
	Total	\$155,275	\$172,476	\$64,645
Health and Human Services				
8004	Federal Supplementary Medical Insurance Trust Fund	\$27,797,439	\$30,836,809	\$6,391,762
8005	Federal Hospital Insurance Trust Fund	62,734,640	50,803,029	50,605,817
8073 ^b	Indian Health Facilities	28,482	22,188	31,524
8248 ^b	Unconditional Gift Fund, National Institutes of Health			4,026
8249 ^b	Unconditional Gift Fund, Public Health Service			451
8247 ^c	Food and Drug Administration Unconditional Gift Fund			15
8253 ^b	Conditional Gift Fund, National Institutes of Health			131
8254 ^b	Conditional Gift Fund, Public Health Service			4,189
8555 ^b	Saint Elizabeth's Hospital Unconditional Gift Fund			84
8559 ^c	Patients' Benefit Fund, Saint Elizabeth's Hospital			10
8888 ^b	Patients' Benefit Fund, National Institutes of Health			155
8889 ^c	Patients' Benefit Fund, Public Health Service			95
	Total	\$90,560,561	\$81,662,026	\$57,038,259
Housing and Urban Development				
8093 ^a	Gifts and Bequests	\$17	\$17	\$4
	Total	\$17	\$17	\$4
Interior				
8037	Donations, National Park Service	\$8,459	\$7,240	\$7,636
8052	Preservation, Birthplace of Abraham Lincoln	11	4	112
8060	Bequest of George Edgeter	2	(89)	91
8068	Jefferson National Expansion Memorial	0	0	3
8069	Land and Resources Management Trust Fund	7,237	2,909	7,429
8070	Reclamation Trust Fund	36,034	38,031	864
8216	Contributed Funds	3,670	3,932	1,545
8287	Contributed Funds	713	805	482

(continued)

**Appendix II
Trust Fund Transactions**

Fund number	Fund title	Receipts	Outlays	Balance
Treasury				
8053	Pershing Hall Memorial Fund	\$ (4)	\$ (7)	\$256
8111	State and Local Government Fiscal Assistance Trust Fund	0	76,346	182,888
8413 ^c	Assessment Funds	207,288	184,359	135,187
8789	Refunds, Transfers, and Expenses; Unclaimed, Abandoned, and Seized Goods	16,217	14,759	14,699
8790 ^a	Gifts and Bequests	1,699	92	1,641
8886	National Defense Conditional Gift Fund	67	0	150
8902	Esther Cattell Schmitt Gift Fund	44	18	469
	Total	\$225,311	\$275,567	\$335,290
Independent agency				
Environmental Protection Agency				
8143	Asbestos Trust Fund	\$900	\$0	\$831
8145 ^a	Hazardous Substance Superfund	1,444,594	554,379	1,355,494
8146	Post Closure Liability Trust Fund	258	0	18,982
8153	Leaking Underground Storage Tank Trust Fund	79,947	1,330	73,077
8741	Miscellaneous Contributed Funds	19	23	70
	Total	\$1,525,718	\$555,732	\$1,448,454
General Services Administration				
8198	Unconditional Gifts of Real, Personal, or Other Property	\$0	\$0	\$1
	Total	\$0	\$0	\$1
National Aeronautics and Space Administration				
8979	International Cooperation	\$0	\$1	\$2
8980	Gifts and Donations	28	0	174
	Total	\$28	\$1	\$176
Office of Personnel Management				
8135	Civil Service Retirement and Disability Fund	\$43,248,825	\$25,798,311	\$176,929,890
8424 ^c	Employees Life Insurance Fund	1,692,567	990,256	8,102,951
8440 ^c	Employees Health Benefits Fund	7,125,311	7,329,754	1,212,661
8445 ^c	Retired Employees Health Benefit Fund	10,191	12,583	2,370
	Total	\$52,076,894	\$34,130,904	\$186,247,872
Veterans Administration				
8132 ^a	National Service Life Insurance Fund	\$1,869,449	\$1,512,994	\$10,133,304
8133	Post-Vietnam Era Veterans Education Account	233,106	283,607	601,647

(continued)

**Appendix II
Trust Fund Transactions**

Fund number	Fund title	Receipts	Outlays	Balance
Off-Budget				
Social Security				
8006 ¹	Federal Old-Age and Survivors Insurance Trust Fund	\$208,520,324	\$187,774,952	\$58,266,271
8007	Federal Disability Insurance Trust Fund	20,114,850	21,290,280	7,173,563
Total Off-Budget		\$228,635,174	\$209,065,232	\$65,439,834
Total Trust Funds		\$481,441,120	\$408,782,049	\$449,981,405

¹Amounts include offsetting collections.

²Merged or miscellaneous funds

³Identifies Trust Revolving Funds. Amounts shown include offsetting collections and gross outlays

Glossary

Intragovernmental Receipts	Payments into receipt accounts from governmental appropriation or fund accounts. In most cases, intragovernmental receipts are deducted from both the outlays and the budget authority of the subfunction and the agency receiving the payment.
Offsetting Collections	Collections from government accounts or from transactions with the public that are of a business-type or market-oriented nature. They are classified into two major categories: (a) collections credited to appropriation or fund accounts and (b) offsetting receipts (i.e., amounts deposited in receipt accounts).
Offsetting Receipts	Offsetting collections that are credited to receipt accounts. Offsetting receipts are subdivided into two categories: proprietary receipts from the public and intragovernmental transactions. They are deducted by OMB from budget authority and outlays to arrive at the net budget authority and outlay totals reported in the budget. In this report, however, we include proprietary receipts from the public in our calculation of gross receipts and outlays.
Outlays	Payments, normally in the form of checks issued, cash disbursed, and electronic fund transfers, net of refunds, reimbursements, and offsetting collections. Outlays include interest accrued on public issues of the public debt.
Proprietary Receipts From the Public	Collections from the public, deposited in receipt accounts, that arise out of business-type or market-oriented activities of the government. These receipts are generally deducted by OMB from budget authority and outlays by subfunction and agency to arrive at the net budget authority and outlays reported in the budget. In this report, however, we included these receipts in our calculation of gross receipts and outlays.
Sequestration	Reduction of new budget authority or other budgetary resources in accordance with the Balanced Budget and Emergency Deficit Control Act of 1985, as amended (Gramm-Rudman-Hollings).

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Trust Fund Balances

Unspent balances of trust fund receipts consisting of amounts on deposit with the Treasury and investments in U.S. securities. Included are both obligated and unobligated balances of budget authority and unappropriated receipts.

Glossary

Appropriation Account	Account established to record appropriated amounts of receipts to be available for expenditure.
Budget Deficit	The amount by which the budget's outlays exceed the budget's governmental receipts for a given fiscal year.
Budget Receipts	See Governmental Receipts.
Budget Surplus	The amount by which the budget's governmental receipts exceed the budget's outlays for a given fiscal year.
Entitlements	Legislation that requires the payment of benefits (or entitlements) to any person or unit of government that meets the eligibility requirements established by such law. Authorizations for entitlements constitute a binding obligation on the part of the federal government, and eligible recipients have legal recourse if the obligation is not fulfilled.
Governmental Receipts	Collections from the public (based on the government's exercise of its sovereign powers) and from payments by participants in certain voluntary federal social insurance programs. These collections, also called budget receipts, consist primarily of tax receipts and social insurance premiums, but also include receipts from court fines, certain licenses, gifts and contributions, and deposits of earnings by the Federal Reserve System.
Gross Outlays	As used in this report, total payments from government accounts, adjusted by intragovernmental transactions to avoid double counting.
Gross Receipts	As used in this report, total collections available to government accounts, adjusted by intragovernmental transactions to avoid double counting.

**Appendix II
Trust Fund Transactions**

Fund number	Fund title	Receipts	Outlays	Balance
8150 ¹	United States Government Life Insurance Fund	23,575	46,348	222,416
8180	General Post Fund, National Homes	21,430	20,617	21,414
8455	Veterans Special Life Insurance Fund	196,739	118,526	1,092,821
	Total	\$2,344,299	\$1,982,092	\$12,071,602
Other Independent Agencies				
8200	Gifts and Bequests, Fire Administration	\$0	\$2	\$1
8298	Donations	2	2	1
8419 ¹	Federal Deposit Insurance Corporation	6,578,779	5,140,930	16,880,699
8569	Contributions	1,582	75	1,583
8025 ¹	Japan-United States Friendship Trust Fund	2,683	3,250	22,146
8040	Gifts and Donations (Arts)	38	31	148
8050	Gifts and Donations (Humanities)	77	141	45
8077 ¹	Gifts and Donations	2	3	0
8078	Contributions	(1)	(1)	6
8080	Gifts and Donations (Museum Service)	10	13	6
8088	Grants and Donations	0	0	2
8090	Administrative Expenses	3,500	3,830	2,379
8092	Gifts and Donations	(4)	(216)	208
8095	Gifts and Donations	86	30	56
8127	National Archives Gift Fund	21	(12)	333
8155	Contributions	122	97	137
8188	Endowment Challenge Fund	0	0	794
8222	National Institutes of Building Sciences Trust Fund	374	753	5,126
8281	Barry Goldwater Scholarship and Excellence in Education Fund	42,378	0	42,378
8283 ¹	Gifts and Contributions	1,003	657	346
8296	Harry S. Truman Memorial Scholarship Trust Fund	2,838	2,717	44,610
8431 ¹	National Archives Trust Fund			319
8436 ¹	National Archives Trust Fund	9,893	10,412	595
8960	Donations	15,708	15,905	13,905
8010	Railroad Social Security Equivalent Benefit Account	6,339,379	6,251,281	351,775
8011 ¹	Rail Industry Pension Fund	2,813,848	2,256,729	6,344,945
8012	Supplemental Annuity Pension Fund	126,753	115,663	50,245
8112	Gifts and Donations	1,202	755	455
8190	Canal Zone Biological Area Fund	146	129	71
8167	Miscellaneous Trust Funds	1,442	1,363	5,101
8279	Gifts and Donations	30	41	3
	Total	\$15,941,891	\$13,804,580	\$23,768,418
	Total On-Budget	\$252,805,946	\$199,716,817	\$384,541,571

(continued)

**Appendix II
Trust Fund Transactions**

Fund number	Fund title	Receipts	Outlays	Balance
8365	Indian Tribal Funds	307,159	311,225	1,170,053
8366	Cooperative Fund (PAPAGO)	1,527	0	14,683
8562	Contributed Funds	261	243	19
8563	Funds Contributed for the Advancement of the Indian Race	59	234	451
8565	Trustee Funds, Alaska Townsites	3	4	50
	Total	\$365,135	\$364,538	\$1,203,418
Justice				
8408	Commissary Funds, Federal Prisons	\$38,683	\$38,174	\$7,236
8906	Drug Abuse Prevention and Control Gift Fund	0	0	3
	Total	\$38,683	\$38,174	\$7,239
Labor				
8042	Unemployment Trust Fund	\$27,612,542	\$20,526,510	\$30,009,605
8130	Longshoremen's and Harborworkers' Compensation Act	58,656	60,433	28,046
8131	Gifts and Bequests	1	0	3
8134	District of Columbia Compensation Act	16,137	11,551	9,560
8144	Black Lung Disability Trust Fund	642,386	642,774	2,608
	Total	\$28,329,722	\$21,241,268	\$30,049,822
State				
8186	Foreign Service Retirement and Disability Fund	\$766,844	\$240,371	\$3,474,823
8821	Unconditional Gift Fund	527	317	1,135
8822	Conditional Gift Fund	1,424	1,512	1,261
	Total	\$768,795	\$242,200	\$3,477,219
Transportation				
8054	Advances From State Cooperating Agencies	\$1,770	\$1,760	\$178
8102	Highway Trust Fund	14,434,899	13,600,724	13,607,039
8103	Airport and Airways Trust Fund	3,959,398	2,649,669	9,934,927
8147	Aquatic Resources Trust Fund	211,884	127,269	340,873
8264	Contributions for Highway Research Program	40	52	58
8265	Cooperative Work, Forest Highways	1,461	871	1,451
8420	Surcharge Collections, Sales of Commissary Stores	4,856	4,940	33,900
8428	Coast Guard Cadet Fund			184
8502	Technical Assistance, U.S. Dollars Advanced From Foreign Governments	2,617	3,293	543
8503	Gifts and Bequests	2	1	51
8533	Coast Guard General Gift Fund	0	0	144
8547	Special Studies, Services, and Projects	30	0	673
8548	Gifts and Bequests	91	3,904	412
8632	Equipment, Supplies, etc. for Cooperating Countries	0	0	200
	Total	\$18,617,048	\$16,392,483	\$23,920,633

(continued)

**Appendix II
Trust Fund Transactions**

Fund number	Fund title	Receipts	Outlays	Balance
8046	Reforestation Trust Fund	31,195	33,159	4,675
8101	Expenses, Feed, and Attendants for Animals in Quarantine	2,096	1,914	759
8137	Expenses and Refunds, Inspection and Grading of Farm Products	874	918	250
8203	Gifts and Bequests	50	41	204
8210	Miscellaneous Contributed Funds	292	964	5,815
8214	Miscellaneous Contributed Funds	3,039	3,000	3,429
8218	Miscellaneous Contributed Funds	153	104	149
8225	Miscellaneous Contributed Funds	0	0	0
8226	Miscellaneous Contributed Funds	2,992	2,814	1,201
8227	Miscellaneous Contributed Funds	53	47	17
8232	Miscellaneous Contributed Funds	2,664	2,909	4,762
8412	Milk Market Orders Assessment Fund	30,348	30,348	22,600
	Total	\$413,302	\$214,165	\$719,595
Commerce				
8501	Gifts and Bequests	\$427	\$376	\$563
8509	Regional Development Commission	0	100	238
8546	Information Products and Services	40,910	34,917	17,370
	Total	\$41,337	\$35,393	\$18,171
Defense-Military				
8008	Office of Naval Records and History Fund	\$34	\$72	\$409
8063	Bequest of Major General F. C. Ainsworth	0	0	18
8418	Air Force Cadet Fund			5,674
8420	Surcharge Collections, Sales of Commissary Stores, Air Force	162,291	179,220	33,900
8420	Surcharge Collections, Sales of Commissary Stores, Army	85,248	86,069	159,962
8420	Surcharge Collections, Sales of Commissary Stores, Navy	86,541	66,626	53,764
8421	Surcharge Collections, Sales of Commissary Stores, Marine Corps			19,447
8423	Midshipmen's Store, U.S. Naval Academy			708
8716	Department of the Navy General Gift Fund	276	222	1,356
8723	Ship's Store Profits	28,203	23,670	7,860
8730	Naval Academy Museum Fund	189	194	1,933
8733	Naval Academy General Gift Fund	888	499	2,827
8927	General Gift Fund	2,347	101	3,043
8928	Air Force General Gift Fund	136	3,234	991
	Total	\$366,153	\$359,907	\$291,892
Defense-Civil				
8097	Military Retirement Fund	\$31,919,262	\$18,077,875	\$37,511,368
8098	Education Benefits Fund	275,830	45,265	511,575
8463	Soldiers' and Airmen's Home Revolving Fund	563	540	211
8861	Inland Waterways Trust Fund	81,073	33,609	295,160

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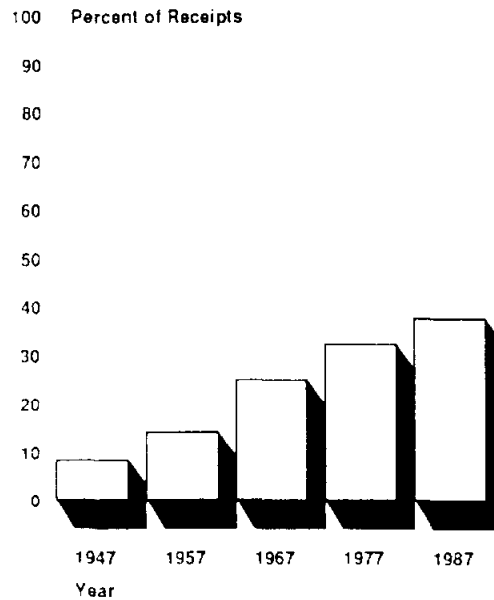
**Appendix II
Trust Fund Transactions**

Table II.2: Ten Largest Trust Funds Ranked by Receipts for Fiscal Year 1987

Dollars in thousands

Fund number	Fund title	Receipts	Outlays	Balance
8006	Federal Old-Age and Survivors Insurance Trust Fund	\$208,520,324	\$187,774,952	\$58,266,271
8005	Federal Hospital Insurance Trust Fund	62,734,640	50,803,029	50,605,817
8135	Civil Service Retirement and Disability Fund	43,248,825	25,798,311	176,929,890
8097	Military Retirement Fund	31,919,262	18,077,875	37,511,368
8004	Federal Supplementary Medical Insurance Trust Fund	27,797,439	30,836,809	6,391,762
8042	Unemployment Trust Fund	27,612,542	20,526,510	30,009,605
8007	Federal Disability Insurance Trust Fund	20,114,850	21,290,280	7,173,563
8102	Highway Trust Fund	14,434,899	13,600,724	13,607,039
8242	Foreign Military Sales Trust Fund	8,503,911	9,910,489	5,100,338
8010	Railroad Social Security Equivalent Benefit Account	6,339,379	6,251,281	351,775
Total		\$451,226,071	\$384,870,260	\$385,947,428

Trends in Trust Fund Receipts^a as a Percentage of Governmental Receipts



^aAs defined by OMB

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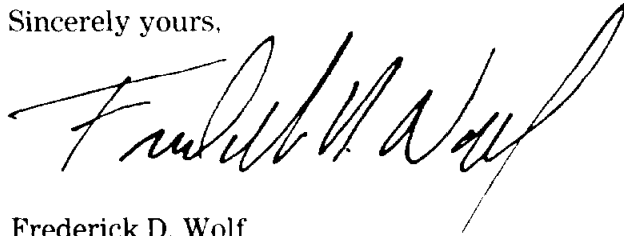
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Abbreviations

CBO	Congressional Budget Office
FDIC	Federal Deposit Insurance Corporation
FSLIC	Federal Savings and Loan Insurance Corporation
GAO	General Accounting Office
GSA	General Services Administration
NASA	National Aeronautics and Space Administration
OMB	Office of Management and Budget

As you requested, we did not obtain agency comments on a draft of this report. However, we obtained the views of responsible agency officials during the course of our work and incorporated them as appropriate. Unless you release the contents of this report earlier, we will not distribute the report until 30 days from its date. Then we will send copies to the Budget Committees of the House and Senate, the Acting Director of the Congressional Budget Office, the Director of the Office of Management and Budget, the Secretary of the Treasury, and other interested congressional committees and parties. We will also make copies available to others on request.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Frederick D. Wolf". The signature is written in black ink and is positioned to the right of the typed name.

Frederick D. Wolf
Director

We have expressed concern about not displaying trust funds subtotals more prominently in the unified budget. In 1985, we commented on proposed legislation to remove the Social Security trust funds from the unified budget.² We suggested that separately accounting for Social Security revenues and expenditures could serve to highlight the relationship between the trust fund and federal funds without sacrificing the benefits of the unified budget concept. Also, in June 1988 congressional testimonies on the need to restructure the federal budget,³ we stated that providing separate subtotals for trust and nontrust funds could address the masking problem.

Providing surplus or deficit subtotals for the trust and federal parts of the budget should, in our view, be only one element of a comprehensive restructuring of the current cash-based unified budget. We are now developing a report on restructuring the budget to provide more useful subtotals including (but not necessarily limited to) subtotals for trust and federal funds and subtotals for operating and capital budgets.

Identification of On-Budget and Off-Budget Trust Fund Receipts, Outlays, and Balances

We identified the on-budget and off-budget trust funds, as well as all the receipts, outlays, and balances for each. Table 3 summarizes the actual fiscal year 1987 activity of the 167 trust funds existing in 1987 that were contained in the fiscal year 1989 budget documents. To identify the total trust fund transactions of the individual trust fund accounts, we included transactions between the trust fund and federal funds as well as transactions within each fund group. Since this results in double counting of these funds when they relate to the budget as a whole, we adjusted this total trust fund number for the intragovernmental transactions to arrive at gross receipts and outlays. Additional details on trust fund amounts and trends are in appendixes I and II.

²Letter to Senator William V. Roth, Jr. (B-220761, October 11, 1985).

³"Budget Reform for the Federal Government" (GAO/T-AFMD-88-13, June 7, 1988) and "The Postal Service and the Unified Budget" (GAO/T-AFMD-88-14, June 7, 1988).

Fund in 1920, directed that trust fund balances not needed for current payments be invested in interest bearing U.S. securities. What has changed is (1) the display of trust funds in the budget, integrating them into a unified budget display which reduces the federal deficit, (2) the magnitude of the trust fund surpluses, and (3) the size of the federal funds deficit which the trust funds are helping to finance.

Budget Treatment of Trust Funds

The merging of trust and federal fund receipts and outlays into a single unified budget surplus or deficit has led to two kinds of problems.

First, proponents of some major trust fund programs, such as the Highway and the Airport and Airways trust funds, have stated that including these trust funds in the budget's totals has prompted the misuse of the trust funds. They charge that while these trust funds have a steady stream of dedicated tax receipts, budgeting actions have restricted fund outlays in order to create trust fund surpluses, thereby lowering the reported deficit. The proponents hold that this breaks the implied agreement underlying the original tax enactment—that is, that the tax receipts raised would be fully used for the trust fund programs.

We agree that restricting trust fund outlays for budgetary purposes to levels below the level of receipts probably departs from the programmatic uses envisioned when the trust funds were established. At the same time, we believe that the Congress may decide that fiscal considerations may warrant the need to take such action. However, any such departures should be more fully disclosed in the budget. This disclosure would be facilitated by a new set of budget subtotals for the trust and federal funds in the federal budget, as discussed further below.

The second, closely related problem that observers have pointed out is that including trust fund transactions in the unified budget has served to “mask” important fiscal relationships and trends. When combined with the nontrust fund deficits, the trust fund surpluses produce a unified budget total that masks the true severity of the deficit on the nontrust fund side of the government's operations. For example, the \$150.4 billion total deficit reported for fiscal year 1987 does not reveal that the nontrust fund deficit was \$223.1 billion, offset by trust fund surpluses for the year of \$72.7 billion. Table 2 demonstrates how the annual trust fund surpluses can mask the nontrust fund deficits when combined to show the total budget deficit.

Some Trust Funds Are Exempt From Gramm-Rudman-Hollings

Congress exempted the program benefits, but not the administrative expenses, of most social insurance and retirement entitlements from sequestration (reduction of budgetary resources) under Gramm-Rudman-Hollings. Many of these programs are funded through trust funds. For example, Social Security benefit payments are exempt, but the administrative costs for paying those benefits are subject to sequestration. The major exempt trust fund programs include:

- Social Security,
- Civil Service Retirement and Disability,
- Military Retirement,
- Federal Disability Insurance, and
- Railroad Retirement.

The trust fund accounts that are not listed in the act as exempt are subject to sequestration, but they do not lose their budget authority. The amount sequestered reverts back to the fund balance and is available in the following fiscal year. This is similar to the treatment of special funds, but contrasts with general fund accounts, where the sequestered amounts are permanently withdrawn.

Use of Trust Fund Balances

Trust fund balances generally do not represent cash balances in government or bank accounts. They are cumulative surpluses of trust fund receipts over outlays and comprise almost exclusively investments in U.S. Treasury securities. The law requires that fund surpluses from most of the largest and several of the smaller trust funds be invested in Treasury securities. The balances therefore exist in accounting records as Treasury debt owed to the trust funds, much like the Treasury debt owed on securities issued to the public. Both kinds of debt represent claims against the future tax and borrowing resources of the government. When a trust fund's outlays exceed its receipts, it draws upon Treasury's resources, through redemption of its Treasury securities, to make trust fund outlays.

The trust fund investments in Treasury securities reduce Treasury borrowings from the public. Treasury uses the invested amounts to meet the cash needs of the general operations of the government in the same way it uses the amounts raised from the sale of Treasury securities to the public. The redemption of securities issued to the public or trust funds is made through the general fund. Table 1 illustrates the increase in trust fund balances in recent years.

power operators and interest income from investments in United States securities which can only be used as authorized for the development, acquisition, and operation of facilities for the disposal of high-level nuclear waste.

Therefore, the earmarking attribute alone does not distinguish trust funds from many other kinds of accounts. An additional attribute must be present.

Trust Funds Are Designated by Law

The deciding factor determining budgetary designation as a trust fund is whether the law that earmarks receipts to a program also identifies the account as a “trust fund” account. If the law carries that designation, then OMB, in consultation with Treasury, classifies the account as a trust fund. Without such a designation, OMB would normally classify any earmarked account as a special, public enterprise revolving, or intragovernmental revolving or management fund.

Because there are no generally accepted governmental definitions to guide the Congress in designating an account a trust fund account, the Congress approaches the matter on a case-by-case basis. This results in statutory trust fund designations at variance with customary trust fund concepts and usages in the general public. Also, federal programs similar to one another are inconsistently designated.

Statutory Trust Fund Designations Differ From Practices Outside the Federal Government

Most federal accounts designated as trust funds differ fundamentally from the customary public understanding of a trust fund. In customary usage, the term refers to money belonging to one party held by another party—a trustee—operating as a fiduciary. The trustee is under a legal obligation to conserve and use the funds in accordance with the trust’s terms, which the trustee may not unilaterally modify. The trust’s funds are maintained separately and not commingled with the trustee’s own funds.

Most trust funds in the federal government lack the fiduciary relationship present in the customary understanding of trust funds. The beneficiaries do not own the funds, and the Congress may, and often does, unilaterally alter the tax rates, benefit levels, or other features of programs financed from federal trust funds. For example, the Social Security Amendments of 1983 made several such changes and specifically

In 1967, the Report of the President's Commission on Budget Concepts recommended adoption of a "unified budget" with a single surplus or deficit total for use by the Congress and President in making spending decisions. The new budget was to combine elements from the three budgets. Following this recommendation, the federal government adopted a unified budget that included the transactions of both federal and trust funds in calculating a single budget surplus or deficit. The decision to include trust fund transactions in the 1969 budget did not definitively resolve the budget status of trust funds. Rather, it opened a new debate on their budget treatment and status. Not long after the adoption of the unified budget, observers raised concerns that trust fund surpluses were being used to "finance" and "mask" increasing deficits in the federal funds.

In 1983, Public Law 98-21 provided for the removal of the Federal Old-Age and Survivors Insurance, Federal Disability Insurance, and Federal Hospital Insurance trust funds from the budget's totals beginning in fiscal year 1993. The Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177, Gramm-Rudman-Hollings), however, amended the 1983 legislation to remove the first two from the budget's totals beginning in fiscal year 1986. However, for purposes of calculating the deficit under Gramm-Rudman-Hollings, the receipts and outlays of these two funds are to be added to the budget's totals. Most public reporting includes these funds.

During the 100th Congress, the issue of the budgetary status of other trust funds resurfaced. Several bills were introduced to remove trust funds such as those for highways, airports and airways, and civil service retirement from the unified budget. In addition, some of these bills would exempt these trust funds from any limitation on expenditures and exclude them from calculation of the deficit under Gramm-Rudman-Hollings.

Distinction Between Trust Fund and Other Government Receipts

OMB's policy is to identify receipts as belonging to a trust fund if the receipts have the following two attributes:

- the receipts must be earmarked, that is, dedicated by law to a particular program or set of programs, and
- the receipts are dedicated to accounts designated in law as "trust fund" accounts.

Objective, Scope, and Methodology

The objective of this report is to provide information on the four items specified by the Chairman, House Committee on Government Operations, in his letter of October 28, 1987. To achieve our objective, we analyzed the receipt and outlay accounts for fiscal year 1987 as contained in the 1989 budget computer tape provided by the Office of Management and Budget (OMB) and in the Appendix to the Department of the Treasury's Annual Report. To gain insight into trust fund concepts and uses, we reviewed the 1967 Report of the President's Commission on Budget Concepts; OMB budget documents for selected years, including the Special Analyses, Historical Tables, and Appendixes; GAO reports concerning federal trust funds; and various publications and reports about trust fund practices in the private sector and in the state and local governments.

OMB publishes summary data on trust fund receipts, outlays, and balances in Special Analyses (Special Analysis C). However, in order to identify the total number of trust funds, we analyzed the separate trust fund receipt and expenditure accounts for fiscal year 1987 contained in the 1989 budget tape and the Appendix to Treasury's Annual Report for fiscal year 1987. By matching the individual receipt and expenditure accounts, we identified 148 nonrevolving trust funds that existed in fiscal year 1987. The remaining 19 revolving trust funds are combined receipt and expenditure accounts. It was not necessary to match receipt and expenditure accounts to identify them.

The scope of our work did not include verifying the accuracy of the receipt and expenditure data obtained from OMB and Treasury or determining whether the funds were spent only for purposes authorized by the legislation establishing the trust funds.

We performed our review from November 1987 through March 1988 in accordance with generally accepted government auditing standards. Although we used Treasury data to help identify the trust funds existing in 1987, we used OMB data for the rest of this review, except where individual trust fund balances could be determined solely by using Treasury data.

Unless otherwise indicated, the receipt and outlay totals contained in this report are gross amounts, not reflecting the OMB "offsetting" practices. In OMB's budget, the reported outlay totals are net amounts, derived by offsetting certain proprietary collections from the public against gross outlays. OMB does not include such proprietary collections in the budget's reported receipt totals. We have not offset these receipt
