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The Impact of Trust Fund Programs on Federal Budget Surpluses and Deficits

Summary

Although currently the federal budget is in deficit, federal trust fund programs as a group appear to be running a surplus. Under the Congressional Budget Office's latest budget projections, the combined income of the trust funds is estimated to exceed their cumulative expenditures by $3.4 trillion over the next 10 years. However, much of trust funds' income comes not from sources outside the government but from credits from one government account to another, or intragovernmental transfers. Consequently, such transfers have no effect on whether the government is running an overall surplus or deficit. In assessing the cash flow that trust fund programs generate, if one considers only the portion of their income that represents receipts to the government, the trust funds are projected to run a cumulative deficit of $1.2 trillion over the next 10 years.

Trust fund accounting, which credits intragovernmental transfers to trust fund programs, is designed to show legal measures of spending authority and outlays, not the government's receipts and expenditures for such programs. Currently, trust fund measures of income and expenditures are distorting the effects that the programs have on the federal budget. Their apparent surplus relies on both actual receipts and the government's promise to pay money to itself. In fact, more money is going out of the Treasury for trust fund programs than is coming in, and this imbalance only grows larger as one looks out into the future.

Trust Funds in the Budget

Trust fund programs differ in a number of ways from other government programs. Many trust fund programs, including Social Security and Medicare, have distinct revenue authorities to finance, or help finance, the benefits that they provide or functions that they serve. And that income, when received by the Treasury, is accounted for by crediting federal securities to the trust fund accounts. Notably, those securities represent the government's promise to pay money to itself. For some of the larger funds, the securities basically serve as spending authority: as long as the fund has a balance, the Department of the Treasury has the legal authority to make program expenditures. Further, trust fund balances may change continuously as the programs receive new distinct tax revenues and fees and as interest on their security holdings accrues.[1]

The receipts themselves are deposited in the Treasury, and program expenditures are made from the Treasury. So while trust fund programs' sources of spending authority and accounting may differ from those of other federal activities, the programs affect the overall financial condition of the government in the same manner as all other programs—through the income and expenditures of the Treasury.

Overall, federal trust fund programs now appear to be running a large surplus, and the rest of the government is running a deficit. People may therefore have the impression that the excess income generated for those programs is supporting activities beyond the ones for which they were intended or, perhaps, that if it was not for these programs, the government's overall (or unified) budget deficit would be larger. Under the Congressional Budget Office's August 2002 budget projections, the combined income of the various federal trust funds is projected to exceed their expenditures by $219 billion in fiscal year 2003, and all other activities are expected to run a deficit of $364 billion. An overall budget deficit of $145 billion represents the difference between the two projections. The quick conclusion that one might draw is that federal trust funds are favorably affecting the budget and that other governmental activities are draining it.

1. One exception is the Highway Trust Fund, which no longer earns interest on its balance. The various highway programs also are subject to limits set by annual appropriations (in addition to the limit established by the balance of the trust fund).

The Influence of Intragovernmental Payments

Although many trust fund programs have distinct revenue sources, the income attributed to them is not all from outside the government. Much of it is intragovernmental, resulting from credits from one Treasury account to another. Part B of Medicare (Supplementary Medical Insurance), for instance, receives only 25 percent of its funding from receipts from outside the government—that is, premiums paid by its enrollees. The Civil Service Retirement System receives part from the outside (payments made by federal employees), but most is from an internal source (payments made by federal employers). The Military Retirement System receives no receipts from the outside. Even Social Security, largely supported by taxes on employees and employers, is credited with substantial amounts of intragovernmental income, the largest being "interest" accrued on its holdings of federal securities. But no public or outside entity pays that interest; it is a credit from the government's general fund to the Social Security trust funds. Overall, $95 billion, or 15 percent, of Social Security's projected income in fiscal year 2003 arises from sources within the government (*see Table 1*). All such intragovernmental transfers are required by law, and the accounting used for those transfers shows them as trust fund "receipts," despite their source.

Table 1.

The Significance of Intragovernmental Transfers for the Social Security, Medicare, and Civil Service Retirement Trust Funds in Fiscal Year 2003

(In billions of dollars)

	Trust Fund Surplus	Intragovernmental Transfers from General Fund to Trust Fund	Surplus or Deficit (-) Excluding Intragovernmental Transfers
Social Security	171	95	76
Medicare	27	105	-78
Civil Service Retirement	35	81	-46
Total	233	281	-47

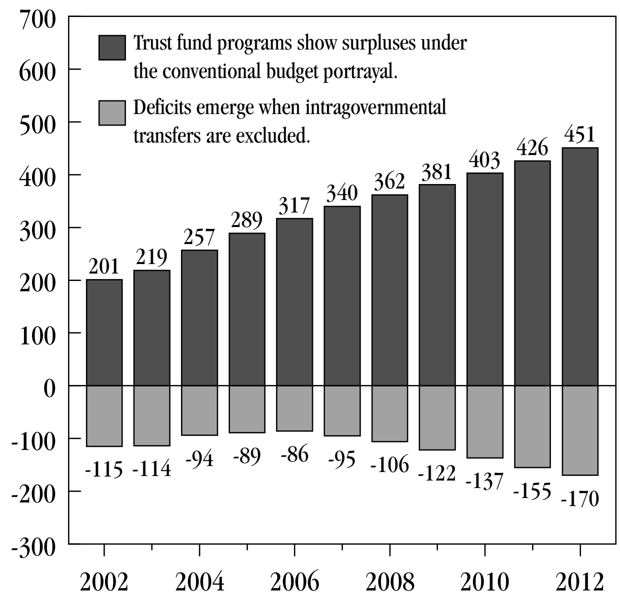
Source: Congressional Budget Office.

Note: Numbers do not always sum to totals because of rounding.

Figure 1.

Two Portrayals of Trust Fund Programs' Surpluses or Deficits, 2002 to 2012

(In billions of dollars)



Source: Congressional Budget Office.

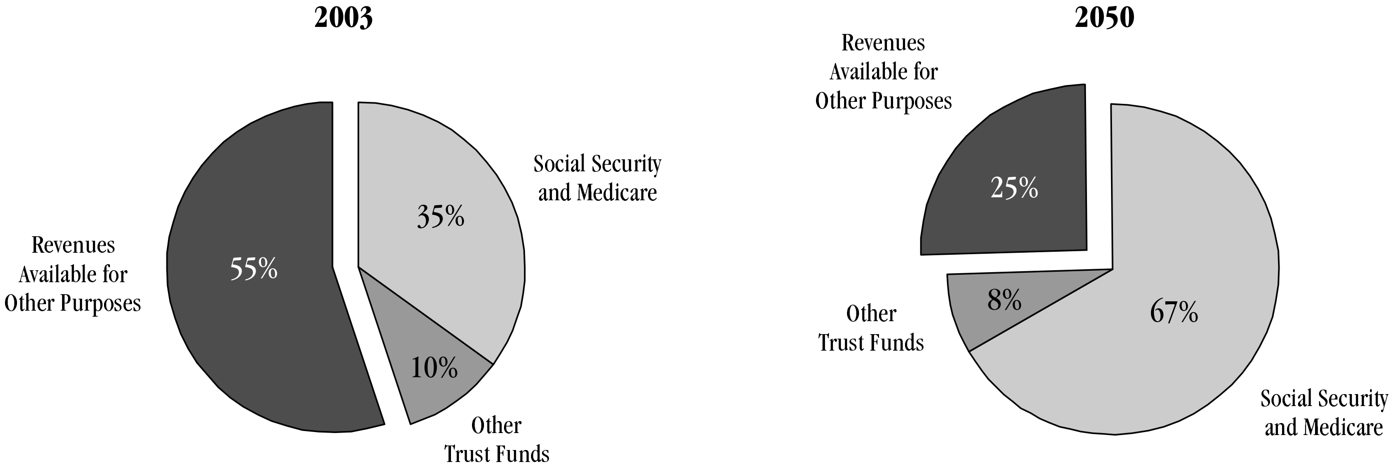
Although some trust fund programs, such as Social Security, are now running surpluses even without the intragovernmental transfers, in the aggregate trust fund programs are not creating surplus income for the government—they are generating deficits. For example, the Military Retirement System is projected to be credited with roughly $8 billion in surplus income in fiscal year 2003. The system is actually spending about $36 billion on benefits to retirees and collecting nothing from the outside. The "surplus" comes from federal "agency contributions" of $30 billion and intragovernmental interest of $13 billion credited to the trust fund balance. Part B of Medicare is shown to be running a deficit of $0.7 billion in fiscal year 2003, but $86 billion of the program's recorded income—75 percent—is provided by credits from the government's general fund. Only $27 billion of its projected spending of $113 billion is funded from receipts from premiums paid by enrollees.

The programs that account for the largest portion of the projected trust fund surpluses in fiscal year 2003—Social Security, Medicare, and Civil Service Retirement—are estimated to have combined surpluses of $233 billion. But with intragovernmental transfers excluded, they are projected to run a deficit of $47 billion (*see Table 1*). In other words, the

Figure 2.

Projected Trust Fund Spending, 2003 and 2050

(As a percentage of projected federal revenues)



Source: Congressional Budget Office.

Note: Figure assumes that federal tax revenues remain at about 19 percent of gross domestic product.

government will spend more for the programs than it receives for them this fiscal year.

Trust Fund Programs' Long-Range Effects

For the next 10 years, trust fund programs overall are projected to run a cumulative surplus of $3.4 trillion, under the assumption that current tax and spending policies continue unchanged. However, with intragovernmental transfers excluded, the funds' activities are expected to generate deficits that grow from $114 billion in fiscal year 2003 to $170 billion in fiscal year 2012—resulting in a cumulative 10-year deficit of $1.2 trillion (*see Figure 1*). And those deficits only grow larger as one looks farther out.

Under the Social Security trustees' latest projections, receipts from Social Security taxes will exceed program expenditures until 2017 (albeit by amounts smaller than the surplus income credited to the program's trust funds), but then deficits emerge and grow. With intragovernmental transfers excluded, the two parts of Medicare together are already running deficits that similarly grow.[2] Under current policies, the deficits for both Social Security and Medicare will continue to grow as an aging population brings increased costs. If overall federal tax revenues remained in the range of 19 percent of gross domestic product and the trust fund programs had first claim to them, those programs by themselves could eventually absorb most of the revenues of the federal government (general and earmarked receipts combined). Spending for them could rise from 45 percent of the government's revenues today (35 percent for Social Security and Medicare and 10 percent for other trust fund programs) to 75 percent by 2050 (67 percent for those two largest programs and 8 percent for the others, *see Figure 2*).[3]

Conclusion

In summary, although trust fund accounting, which is required by law and established by convention, accurately reflects the spending authority of trust fund programs by crediting their accounts with intragovernmental transfers, it distorts the effects that those programs have on the budget

2. The deficit in Part B now exceeds the surplus in Part A, the Hospital Insurance portion of the program. See Congressional Budget Office, "*Social Security and the Federal Budget: The Necessity of Maintaining a Comprehensive Long-Range Perspective*," Long-Range Fiscal Policy Brief (August 1, 2002).

3. For this calculation, Social Security and Medicare expenditures are assumed to grow under the provisions of current law. Long-range spending for all other trust fund programs is assumed to be a fixed share of gross domestic product set at the level projected for fiscal year 2012, the last year of CBO's 10-year baseline projections. For further discussion of the underlying assumptions, see Congressional Budget Office, *"A 125-Year Picture of the Federal Government's Share of the Economy, 1950 to 2075,"* Long-Range Fiscal Policy Brief (July 3, 2002).

overall. When budget accounting separates trust funds from all other categories of spending, it presents an unclear picture of the source of budget deficits or surpluses. Indeed, although trust fund programs may appear to be running a surplus when viewed in isolation, once one considers the intragovernmental transfers to those funds, they are already running a deficit—and they will do so to an even greater extent in the coming decades.

Related CBO Publication: *Federal Debt and the Commitments of Federal Trust Funds*, Long-Range Fiscal Policy Brief No. 4 (October 25, 2002).

Contacts: This policy brief was prepared by Dave Koitz and Melissa D. Bobb. It and other publications by CBO are available at the agency's Web site: **www.cbo.gov**.

Congressional Budget Office
Washington, D.C. 20515