

January 2006

MANDATORY
SPENDING

Using Budget Triggers
to Constrain Growth



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Highlights

Highlights of [GAO-06-276](#), a report to Congress

Why GAO Did This Study

Prepared as part of GAO's basic statutory responsibility for monitoring the condition of the nation's finances, the objectives of this report were to (1) determine the feasibility of designing and using trigger mechanisms to constrain growth in mandatory spending programs and (2) provide an analysis of the factors that led to differences between estimated and actual outlays in seven mandatory budget accounts during fiscal years 2000 through 2004.

What GAO Recommends

To promote explicit scrutiny of significant growth in mandatory accounts, as mandatory spending programs are created, reexamined, or reauthorized, Congress should consider incorporating budget triggers that would signal the need for action. Further, it should determine whether in some cases it might be appropriate to consider automatically causing some action to be taken when the trigger is exceeded. Once a trigger is tripped, Congress could either accept or reject all or a portion of a proposed response to the spending growth. The Office of Management and Budget and agencies responsible for the seven case study accounts either did not have comments or provided comments that were clarifying and/or technical in nature, which were incorporated as appropriate.

www.gao.gov/cgi-bin/getrpt?GAO-06-276.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Susan J. Irving, 202-512-9142, irvings@gao.gov.

MANDATORY SPENDING

Using Budget Triggers to Constrain Growth

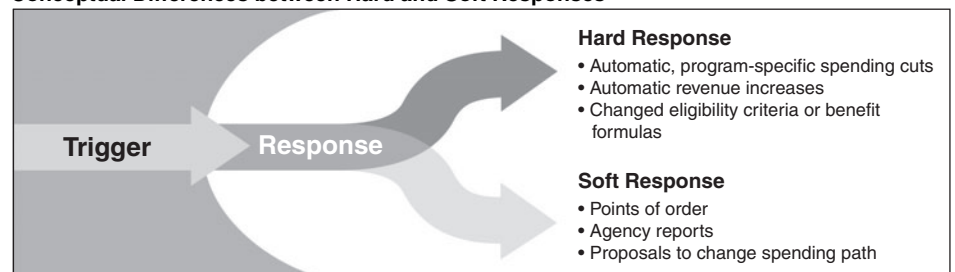
What GAO Found

One idea to constrain growth in mandatory programs is to develop program-specific triggers that, when tripped, prompt a response. A trigger could result in a "hard" or automatic response, unless Congress and the President acted to override or alter it. Alternatively, reaching a trigger could require a "soft" response, such as a report on the causes of the overage, development of a plan to address it, or an explicit and formal decision to accept or reject a proposed action or increase. By identifying significant increases in the spending path of a mandatory program relatively early and acting to constrain it, Congress may avert larger financial challenges in the future. However, both in establishing triggers and in designing the subsequent responses, the integrity of program goals needs to be preserved. In addition, tax expenditures operate like mandatory programs but do not compete in the annual appropriations process. The analysis GAO applied to spending in this report would also be useful in examining tax expenditures.

The budget experts GAO consulted had mixed views of triggers. Proponents of triggers noted that mandatory spending is currently unconstrained and a mechanism that causes decision makers to at least periodically reevaluate spending is better than allowing spending to rise unchecked. Others, however, expressed considerable skepticism about the effectiveness of triggers; many felt they would either be circumvented or ignored. While GAO appreciates the views expressed by budget experts, in our opinion establishing budget triggers warrants consideration in efforts to constrain significant and largely unchecked growth in mandatory programs. However, recognizing the natural tension in balancing both long-term fiscal challenges and other public policy goals, each program needs to be considered individually to ensure that any responses triggered strike the appropriate balance between the long-term fiscal challenge and the program goals.

To better understand growth in mandatory spending and thus inform GAO's thinking on triggers, for seven case study accounts GAO categorized the reasons provided by agencies for differences between estimated and actual outlays during a 5-year period as the result of legislative, economic, or technical changes. Out of 40 differences, subsequent legislation was the primary reason for 19, economic changes for 7, and technical changes for 13. In many cases, a combination of these factors caused the differences.

Conceptual Differences between Hard and Soft Responses



Source: GAO analysis.

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Abbreviations

AMT	Alternative Minimum Tax
BBRA	Medicare, Medicaid, and SCHIP Balanced Budget Refinement Act of 1999
BEA	Budget Enforcement Act
CBO	Congressional Budget Office
CCC	Commodity Credit Corporation
CCP	Countercyclical Payments
CMS	Centers for Medicare & Medicaid Services
CRS	Congressional Research Service
ESAA	Employment Security Administration Account
EUCA	Extended Unemployment Compensation Account
FDLP	Federal Direct Student Loan Program
FFELP	Federal Family Education Loan Program
FMAP	Federal Medical Assistance Percentage
FSA	Farm Service Agency
FUA	Federal Unemployment Account
FY	Fiscal Year
GDP	Gross Domestic Product
GRH	Gramm-Rudman-Hollings Act
HI	Hospital Insurance
LDP	Loan Deficiency Payments
MMA	Medicare Prescription Drug, Improvement, and Modernization Act of 2003
MMI	Mutual Mortgage Insurance Program Account
NRRIT	National Railroad Retirement Investment Trust
OASDI	Old Age, Survivors, and Disability Insurance
OMB	Office of Management and Budget
PAYGO	Pay-As-You-Go
PPS	Prospective Payment System
QIO	Quality Improvement Organizations
RRB	Railroad Retirement Board
RUG	Resource Utilization Group
SGR	Sustainable Growth Rate
SMI	Supplementary Medical Insurance
SNF	Skilled Nursing Facility

Contents

TEUC	Temporary Extended Unemployment Compensation Act of 2002
USDA	U.S. Department of Agriculture
UTF	Unemployment Trust Fund

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United States Government Accountability Office
Washington, D.C. 20548

January 31, 2006

The President of the Senate
The Speaker of the House of Representatives

Over the next few decades as the baby boom generation retires and health care costs continue to rise, federal spending on retirement and health programs—Social Security, Medicare, Medicaid, and other federal pension, health, and disability programs—will grow dramatically. Absent policy changes on the spending and/or revenue sides of the budget, a growing imbalance between expected federal spending and tax revenues will mean escalating and ultimately unsustainable federal deficits and debt that threaten our future economy and national security as well as the standard of living for the American people.¹

Given rising deficits, the expiration of the Budget Enforcement Act (BEA) of 1990,² and the long-term fiscal outlook, new budget control mechanisms are needed. Accordingly, there have been calls for the reintroduction of discretionary spending caps and PAYGO rules. Although PAYGO was effective in preventing legislative actions that increased the deficit, it did not address increases that occurred absent legislative action. Constraining the growth of existing mandatory spending programs requires additional action.

In our 1994 report on capping mandatory spending,³ we noted that an alternative method to prompt congressional review of mandatory spending trends would be to require Congress to vote periodically on whether or not to make program changes when mandatory spending exceeds certain targets. One way to do this and potentially achieve greater fiscal responsibility would be to create triggers for individual mandatory programs—predetermined spending or revenue thresholds—that signal the

¹For more information, see GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, [GAO-05-325SP](#) (Washington, D.C.: February 2005).

²BEA established pay-as-you-go (PAYGO) rules to ensure that legislation affecting direct, or mandatory, spending and revenues was budget-neutral over each session of Congress. In addition, annual discretionary spending limits were established. The sequestration procedure enforced PAYGO rules and discretionary spending caps. See Pub. L. No. 101-508, title XIII, § 13204, 104 Stat. 1388, Nov. 5, 1990.

³GAO, *Budget Policy: Issues in Capping Mandatory Spending*, [GAO/AIMD-94-155](#) (Washington, D.C.: July 18, 1994).

need for some type of action to be taken on the program. Once tripped, the trigger could drive either a review or an automatic action. It could, for example, trigger a requirement for Congress to either review or reaffirm acceptance of the unexpected increase in actual program spending or projections. Alternatively, it could trigger previously specified changes to the program that automatically take effect to reduce spending or increase program revenue.

Insufficient transparency regarding both the expected and actual cost path for spending and revenue decisions hampers the ability of decision makers to make informed choices. In previous work, we have called for increased disclosure and recognition of long-term costs of proposed policies and programs.⁴ The ability to monitor actual spending paths can also play an important role in decisions about both the overall fiscal position and the allocation of scarce resources. Moreover, as we reported in 1994, a cap on mandatory spending would have little if any effect on the longer-term growth trends until and unless issues of underlying program eligibility and benefits are addressed.⁵ Thus, efforts to constrain growth in mandatory programs need to be focused on and tailored to individual programs. One way to assess mandatory spending is to analyze growth by examining the estimated and actual outlays for each program. Because budget estimates can be linked to achieving fiscal responsibility in the government, identifying and understanding recurring patterns between mandatory account budget estimates and actual results can facilitate future budget decisions.

This report, prepared as part of our basic statutory responsibility for monitoring the condition of the nation's finances, examines issues related to using such triggers on mandatory programs. The objectives were to (1) determine the feasibility of designing and using trigger mechanisms to constrain growth in mandatory spending and (2) provide an analysis of the factors that led to differences between estimated and actual outlays in seven mandatory budget accounts during fiscal years 2000 through 2004.

This report does not deal with the question of projected costs at the time decisions are made but instead with the need for responses when there is

⁴GAO, *Fiscal Exposures: Improving the Budgetary Focus on Long-Term Costs and Uncertainties*, [GAO-03-213](#) (Washington, D.C.: Jan. 24, 2003).

⁵[GAO/AIMD-94-155](#).

significant growth. Analogous analyses could be applied to the revenue side of the budget (e.g., tax expenditures).

Results in Brief

One idea to constrain growth in mandatory programs is to develop triggers that, when tripped, prompt a response. A trigger could result in a “hard” or automatic response, unless Congress and the President acted to override or alter it. Alternatively, reaching a trigger could require a “soft” response, such as a report on the causes of the overage, development of a plan to address it, or an explicit and formal decision to accept or reject a proposed action or increase. By identifying significant increases in the spending path of a mandatory program relatively early and acting to constrain it, Congress may avert larger financial challenges in the future. However, both in establishing triggers and in designing the subsequent actions to be triggered, the integrity of program goals needs to be preserved.

The budget experts we consulted had mixed views of triggers. Some expressed strong support for budget triggers. These proponents of triggers noted that mandatory spending is currently unconstrained and a mechanism that causes decision makers to at least periodically reevaluate spending is better than allowing spending to rise unchecked. Others, however, expressed considerable skepticism about the effectiveness of triggers; many felt they would be circumvented or ignored. For example, one expert pointed to “accounting tricks” that have resulted from triggers with hard responses, such as when Congress mandated certain costs not be counted against spending limits so as to avoid across-the-board cuts. Others worried that applying budget triggers to various mandatory programs diverts attention from what they see as the real source of the nation’s fiscal woes—health care spending. Further, they felt that establishing triggers on such programs could mislead the public into thinking that the long-term fiscal problem had been addressed, thus delaying efforts to appropriately address it.

Any discussion to create triggered responses and their design must recognize that unlike controls on discretionary spending, there is some tension between the idea of triggers and the nature of entitlement and other mandatory spending programs. These programs—as with tax provisions such as tax expenditures—were designed to provide benefits based on eligibility formulas or actions as opposed to an annual decision regarding spending. This tension makes it more challenging to constrain costs and to design both triggers and triggered responses. At the same time, with only about one-third of the budget under the control of the annual

appropriations process, considering ways to increase transparency, oversight, and control of mandatory programs must be part of addressing the nation's long-term fiscal challenges.

Ignoring significant growth in mandatory accounts is inconsistent with evaluation of programs and their costs. While we appreciate the concerns raised by budget experts, we believe that, if carefully designed, budget constraint mechanisms such as triggers should be considered as existing programs are reexamined or reauthorized and when new programs are created. Each program would need to be considered individually to ensure that any actions that are triggered preserve program goals. The seven mandatory accounts we examined helped inform our thinking about budget constraint mechanisms, and we present illustrative examples of how growth could be constrained in many of the accounts discussed in appendix I.

For seven case study accounts,⁶ we categorized the reasons provided by agencies for differences between estimated and actual outlays during fiscal years 2000 through 2004 as the result of (1) legislative changes enacted after original estimates were submitted, (2) economic changes such as interest and unemployment rates, or (3) technical changes, which is a residual category that represents revisions to budget estimates that cannot be attributed to legislative or economic factors. Our analysis of the reasons for differences between estimated and actual outlays showed that out of 40 differences, legislative changes⁷ were the primary reason for 19, economic changes for 7, and technical changes for 13. In one case, it was unclear which factors most significantly caused the difference between estimated and actual outlays. In many cases, a combination of factors caused the differences.

OMB and agencies responsible for the seven case study accounts either did not have comments or provided comments that were clarifying and/or technical in nature. These comments were incorporated as appropriate.

⁶These seven accounts listed in the Objectives, Scope and Methodology section were selected because of the relatively large 5-year average differences between their estimated and actual outlays.

⁷Both the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB) estimate the cost of bills that affect mandatory spending.

Background

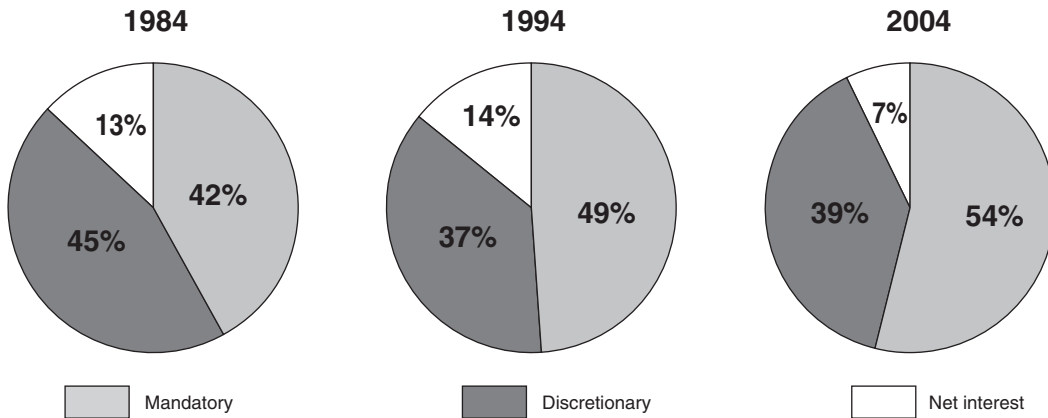
BEA⁸ divided federal spending into two broad categories: discretionary and mandatory. Discretionary spending refers to outlays from budget authority that is provided in and controlled by appropriation acts; it can and has been controlled through annual, adjustable dollar limits (spending caps) that permanently lower the base for future appropriations. Mandatory spending⁹ refers to outlays resulting from budget authority that is provided in laws other than appropriation acts, for example, entitlement programs such as Medicare, Food Stamps, and veterans' pensions. Mandatory spending—like tax expenditures—is governed by eligibility rules and benefit formulas, which means that funds are spent as required to provide benefits to those who are eligible and wish to participate. Therefore, unforeseen events such as changes in the economy or additional demands for services can translate into unanticipated additional program outlays. Congress controls spending for these programs indirectly by defining eligibility and setting the benefit or payment rules rather than directly through appropriation acts. On an annual basis, however, mandatory spending is relatively uncontrollable since Congress and the President must change substantive law in order to further increase or decrease outlays. This makes it more challenging to constrain costs and to design both triggers and triggered responses.

Over the past 4 decades, we have seen mandatory spending grow as a share of the total federal budget. For example, figure 1 shows that spending on mandatory programs rose from approximately 42 percent of total federal spending in 1984 to about 49 percent in 1994, and to 54 percent in 2004. This growth is projected to continue with mandatory programs claiming about 58 percent of total federal spending in 2010.

⁸BEA amended the Balanced Budget and Emergency Deficit Control Act of 1985, sometimes referred to as the Gramm-Rudman-Hollings Act. In this report, the amended Balanced Budget and Emergency Deficit Control Act of 1985 is referred to as the Budget Enforcement Act, or BEA.

⁹BEA defined mandatory spending (referred to as “direct spending” in BEA) as spending for entitlement authority, the Food Stamp program, and budget authority provided in laws other than appropriations acts. Mandatory programs include familiar benefits and services—among them Social Security, Food Stamps, and Medicare—as well as other lesser-known activities, such as revolving funds and certain activities of the National Park Service, the Bureau of Customs and Border Protection, and the federal judiciary.

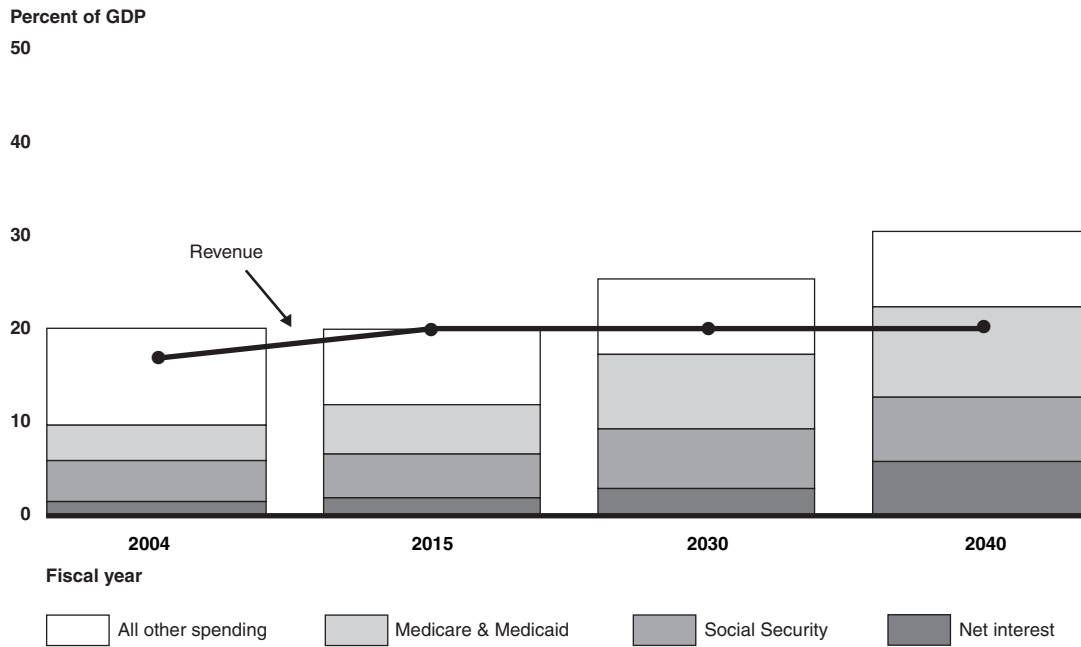
Figure 1: Federal Spending for Mandatory and Discretionary Programs



Source: GAO analysis of President's budget data.

The nation's long-term fiscal outlook is daunting under many different policy scenarios and assumptions. For instance, under a fiscally restrained scenario, if discretionary spending grew only with inflation over the next 10 years and all existing tax cuts expire when scheduled under current law, spending for Social Security and health care programs would grow to consume over three-quarters of federal revenues by 2040 (see fig. 2). On the other hand, if discretionary spending grew at the same rate as the economy—measured by Gross Domestic Product (GDP)—in the near term and if all tax cuts were extended, federal revenues may just be adequate to pay interest on the growing federal debt by 2040 (see fig. 3). Numerous alternative scenarios can be developed incorporating different combinations of possible policy choices and economic assumptions, but these two scenarios can be viewed as “bookends” showing a range of possible outcomes.

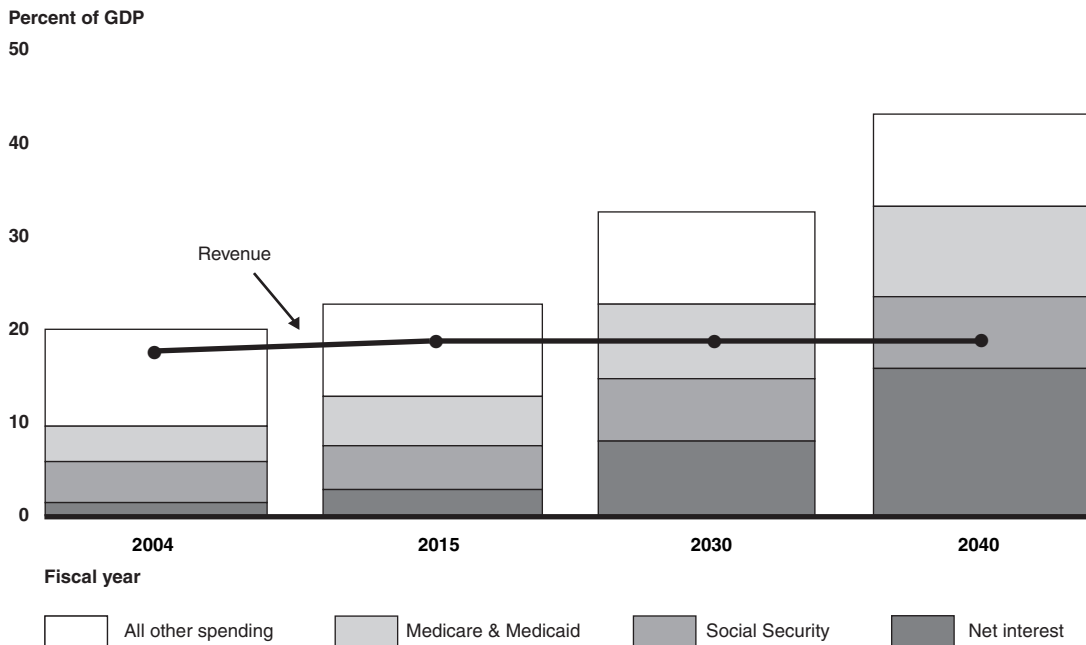
Figure 2: Composition of Spending as a Share of GDP under Baseline Extended



Source: GAO's August 2005 analysis.

Note: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the alternative minimum tax (AMT), and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

Figure 3: Composition of Spending as a Share of GDP Assuming Discretionary Spending Grows with GDP After 2005 and All Expiring Tax Provisions Are Extended



Source: GAO's August 2005 analysis.

Note: Although expiring tax provisions are extended, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

As both these simulations illustrate, absent policy changes on the spending and/or revenue side of the budget, the growth in spending on federal retirement and health entitlements will encumber an escalating share of the government's resources. Neither slowing the growth in discretionary spending nor allowing the tax provisions to expire—nor both together—would eliminate the imbalance. Although revenues will be part of the debate about our fiscal future, making no changes to Social Security, Medicare, Medicaid, and other drivers of the long-term fiscal gap would require at least a doubling of taxes—and that seems implausible. Accordingly, substantive reform of Social Security and our major health programs remains critical to recapturing our future fiscal flexibility.

These long-term spending projections can largely be attributed to the aging population and increased health care costs. This does not, however, mean that the rest of the budget should be exempt from review. It is important to

periodically look at mandatory accounts in order to determine possible ways to constrain spending and ensure a more accurate and responsible federal budget process.

Congressional interest in fiscal discipline and the adoption of budget tools to control mandatory spending are not new. The Balanced Budget and Emergency Deficit Control Act of 1985, commonly referred to as Gramm-Rudman-Hollings (GRH), established declining deficit targets and a sequestration procedure to reduce spending if those targets were exceeded. GRH was amended several times, most significantly by BEA in 1990. One important reason for BEA's success in reducing the deficit during the 1990s was that the process enforced a previously reached agreement to reduce the deficit. However, recurring surpluses at the end of the decade caused a new debate to emerge and undermined the acceptance of BEA's spending caps and PAYGO enforcement. BEA rules were not extended beyond their scheduled expiration date at the end of fiscal year 2002.

In the past, mandatory spending caps were proposed as a way to control the growth of mandatory programs. This idea was discussed in a report we issued in 1994.¹⁰ Mandatory caps fail to address underlying eligibility and benefits formulas—which drive spending. In addition, if caps were imposed in the context of a control requiring across-the-board spending cuts, they would present agencies with difficulties in successfully reducing their program spending to stay within limits, and perhaps lead to a cycle of continual sequestrations. This difficulty is because in such a regime, any shortfalls in savings or growth in spending that occurred despite agency efforts would be added to the amount of cuts required in the next year. Moreover, the mandatory programs that would be most affected by a cap—because of their high and/or volatile growth rates—are also the programs for which a cap would be hardest to implement.

In the mid-1990s, there was a period when the idea of constraining greater-than-expected growth through the use of triggers surfaced. However, it coincided with a period when actual growth generally was less than expected. Recently, with the reappearance of large deficits, there has been a resurgence of interest in restoring budget controls and containing the growth in both discretionary and mandatory spending. For example, in

¹⁰GAO/AIMD-94-155.

2005, numerous bills to reinstate fiscal discipline were proposed.¹¹ Moreover, in May 2005, OMB issued a memo to agencies that required them to propose offsets to any administrative action that would increase mandatory spending.

Budget estimates and actual outlays are determined over a period that spans nearly 2 years: from the time the President's budget is formulated, about a year before the start of the fiscal year in question, to the completion of that fiscal year. Within this 2-year lag period between original estimates and actual outlays, legislative, economic, and technical factors can affect program outlays. Budget estimates are revised part way through the fiscal year and included in the budget request for the following fiscal year. These revisions reflect updated technical and economic assumptions as well as any legislative changes. Also, midsession reviews conducted during the summer, usually in July, update budget estimates prior to the completion of the fiscal year. In addition, both CBO and OMB estimate the cost of bills that affect mandatory spending.

Objectives, Scope, and Methodology

The objectives of this study were to (1) determine the feasibility of designing and using trigger mechanisms to constrain growth in mandatory spending and (2) provide an analysis of the factors (legislative, economic, and technical) that led to differences between estimated and actual outlays in seven mandatory budget accounts during fiscal years 2000 through 2004. This second objective contributed to our understanding of programs, helped us better appreciate the reasons behind growth in mandatory accounts that experienced relatively large dollar changes, and more fully informed our thinking about triggers.

To accomplish our first objective, we performed a literature search on mechanisms to constrain mandatory spending and had discussions with numerous budget experts from OMB, CBO, the Senate Budget Committee staff, and various policy research organizations. Based on our research, interviews at agencies, and discussions with experts, we then considered possible approaches for budgetary constraint within each account.

To accomplish our second objective we extracted from OMB's budget database mandatory outlays of accounts where 50 percent or more of the

¹¹Examples of these 2005 bills include S. 19, S. 568, H.R. 523, H.R. 903, and H.R. 2290.

outlays were mandatory. We analyzed these data for fiscal years 2000 through 2004. To determine the estimated and actual outlays for each year, we used the original budget estimate and the actual outlays reported 2 years later, after the end of the fiscal year. For example, when determining the difference between estimated and actual outlays for fiscal year 2000, we compared the fiscal year 2000 budget estimates published in February 1999 to the actual outlays published in February 2001.

From the 534 accounts with outlays at least half mandatory, we selected the top 10 accounts that experienced the greatest average dollar change between original estimate and actual outlays in absolute value terms for 5 fiscal years (2000–2004). The complete list of these accounts is included as appendix III. These 10 accounts, which represent approximately 50 percent of total average mandatory outlays, include (1) Interest on Treasury Debt Securities, (2) Unemployment Trust Fund, (3) Commodity Credit Corporation Fund,¹² (4) Federal Supplementary Medical Insurance Trust Fund (Medicare Part B), (5) Federal Hospital Insurance Trust Fund (Medicare Part A), (6) Grants to States for Medicaid,¹³ (7) Rail Industry Pension Fund, (8) Federal Direct Student Loan Program (FDLP) Account, (9) Payments to Health Care Trust Funds, and (10) Mutual Mortgage Insurance Program Account (MMI). Because many of the programs we selected are relatively big, large dollar increases may represent small percentage increases relative to program size.

After initial analysis, we excluded three of these accounts from further analysis: Interest on Treasury Debt Securities, MMI,¹⁴ and Payments to Health Care Trust Funds. We eliminated the U.S. Treasury account because interest payments are a function of all other funding decisions and thus

¹²Given the size and breadth of programs covered by the Commodity Credit Corporation, we selected two programs within the large account: corn and crop disaster assistance.

¹³Although the source of Medicaid funding is through an annual appropriation act, Medicaid is not considered a discretionary spending program. Because Medicaid is an entitlement created by the operation of law, if Congress fails to appropriate money necessary to fund payments and benefits, eligible recipients may seek legal recourse. In such case, necessary payments may be made through the indefinite judgment fund pursuant to 31 U.S.C. § 1304.

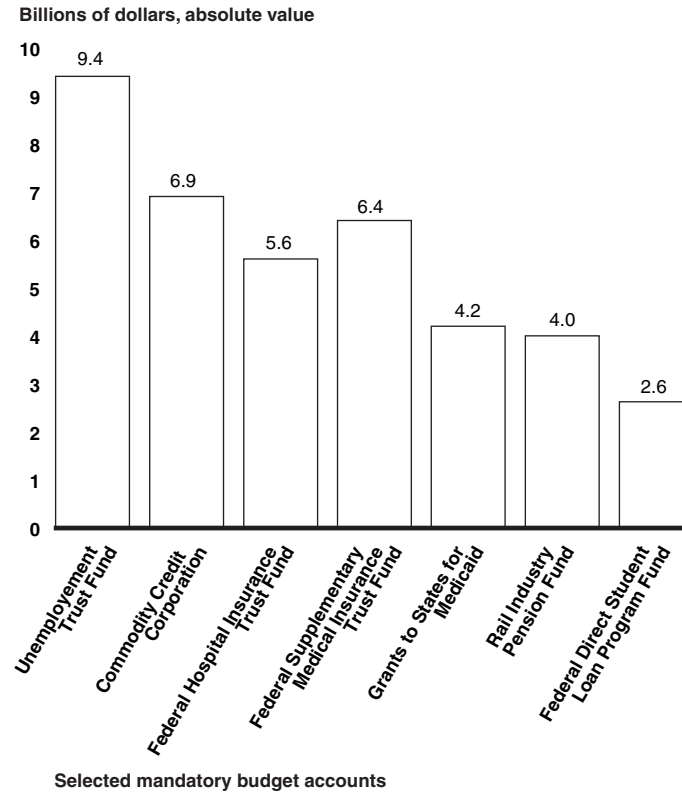
¹⁴For more information on MMI, see GAO, *Mortgage Financing: FHA's \$7 Billion Reestimate Reflects Higher Claims and Changing Loan Performance Estimates*, [GAO-05-875](#) (Washington, D.C.: Sept. 2, 2005).

provide little insight into trigger design.¹⁵ We excluded the MMI account because the program itself is discretionary—only the large mandatory reestimates of its credit subsidy required by the Federal Credit Reform Act of 1990 caused it to fall into our original sample. Because decisions about the size of this program are annually made in the appropriations process and can be informed by the reestimates of previous years' loans, there is no need for separate triggers. Finally, we excluded the Payments to Health Care Trust Funds account because the payments are classified as intragovernmental transfers and therefore do not affect overall budget outlay data. Moreover, these transfers are captured within other accounts in our sample.

Figure 4 below shows the 5-year average difference between estimated and actual mandatory outlays in absolute value terms for the seven accounts we reviewed. These differences ranged from \$9.4 billion in the Unemployment Trust Fund to \$2.6 billion in FDLP.

¹⁵In addition, these interest payments must be made in order to avoid a default on the federal government's debt obligations.

Figure 4: Five-Year Average Differences between Estimated and Actual Mandatory Outlays, Fiscal Years 2000 through 2005



Source: GAO analysis of President's budget data.

To gain more perspective on what factors contributed to the differences between estimated and actual outlays in the remaining seven accounts, we met with officials from the cognizant agencies to determine if the reasons behind the differences were (1) legislative, (2) economic, (3) technical, or a combination of the three. We did not independently verify the explanations agencies provided for differences.

Our work was done between May 2005 and January 2006 in Washington, D.C., in accordance with generally accepted government auditing standards.

Trigger Mechanisms Could Help Constrain Mandatory Spending but Must Be Carefully Designed

The purpose of a budget trigger is to either automatically cause some action to occur or to prompt decision makers to evaluate and consider responding to rising costs. For example, where differences between expected and actual growth in a program exceed a specified amount, Congress could decide explicitly—by voting—whether to accept the slippage or could take action to bring the spending path closer to the original goal by recouping some or all of the slippage through changes in the program. Our background research, work in case study agencies, and discussions with budget experts highlighted several issues to consider when designing triggers and their resulting actions, such as the extent of agreement among decision makers about underlying fiscal goals, measures selected to trip the trigger, and the triggered response.

While a budget process can surface important issues, it is not a substitute for substantive debate—no process can force agreement where one does not exist. Accordingly, the success of any effort to constrain growth depends on whether there is widespread agreement on the underlying goals; absent such agreement, any trigger would likely be circumvented. For example, underlying the successful budget enforcement mechanisms embodied in BEA was the broadly accepted goal of deficit reduction and an agreement on a specific set of legislative changes to reach that goal. Its triggers were centered around measures that Congress could control—discretionary spending caps and changes to entitlement and tax laws. However, once the budget moved into surplus in the late 1990s and there was no longer agreement on fiscal goals, actions were taken to bypass BEA controls. For example, the consolidated appropriations acts for both fiscal years 2000 and 2001 mandated that OMB change the PAYGO scorecard balance to zero. Both OMB and CBO estimated that without instructions to change the scorecard, sequestrations would have been required in 2001.

Other countries we have studied have sought to address national priorities by developing explicit goals to guide fiscal policy and justifying their goals with compelling rationales that often pointed out the potential fiscal and economic benefits of budgetary discipline. In a 2000 report,¹⁶ we noted that having fiscal goals anchored by a rationale that is compelling enough to make continued restraint acceptable is critical to sustain support for budgetary discipline.

¹⁶GAO, *Budget Surpluses: Experiences of Other Nations and Implications for the United States*, GAO/AIMD-00-23 (Washington, D.C.: Nov. 2, 1999).

Issues to Consider in Constructing a Trigger

One of the reasons for the success of BEA was its link to congressional action.¹⁷ Discretionary spending caps and PAYGO constrained congressional action—BEA held Congress accountable only for things it could control and not for the effect of economic or technical factors on spending or revenues. This was both the strength and the limitation of PAYGO. Triggers seek to go beyond the PAYGO regime by subjecting program growth to scrutiny even where that growth is the result of economic, population, or other factors outside congressional control. Triggers recognize that even the best estimates can turn out to be wrong and that decision makers who expected one path might wish to consider changes in a program where the path is significantly different from what was anticipated.

In general, there are two types of responses to budget triggers—soft and hard—depending on what type of action results when the trigger is tripped. A “soft” response prompts special consideration of a program or a proposal for action when a certain threshold or target is breached. Examples of soft responses that could be triggered include requiring the administering agency to prepare a special report explaining why the trigger’s threshold was breached, or requiring the President to submit a proposal for reform. An example of a soft response already exists in the Medicare program, which requires the President to submit a proposal to Congress for action if the Medicare Trustees determine in 2 consecutive years that the general revenue share of Medicare spending is projected to exceed 45 percent during a 7-year period.¹⁸ In addition, a few Social Security reform proposals have included language requiring presidential and congressional action if the Social Security Board of Trustees determines that the balance ratio of either of the Social Security trust funds will be zero for any calendar year during the succeeding 75 years.¹⁹

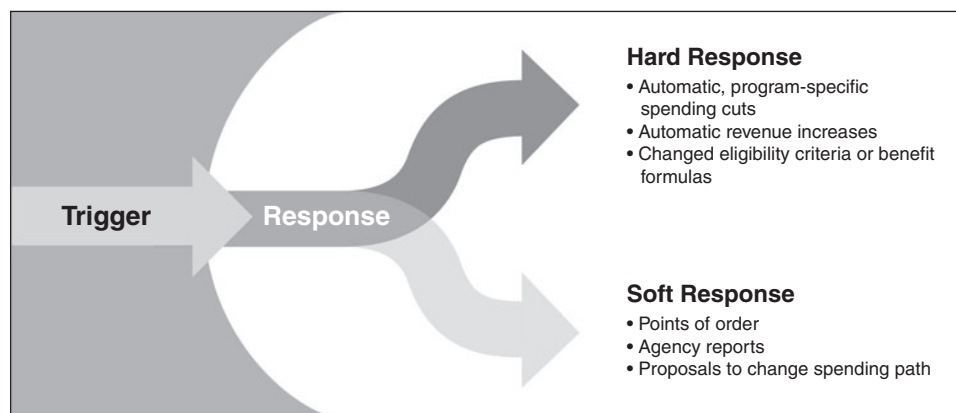
¹⁷As discussed earlier, BEA established pay-as-you-go (PAYGO) rules to ensure that legislation affecting direct spending and revenues was budget-neutral in each session of Congress. In addition, annual discretionary spending limits were established.

¹⁸For the purpose of the Medicare trigger, general revenue is defined as the difference between Medicare program outlays and dedicated Medicare financing sources. Dedicated Medicare financing sources are HI payroll taxes, the HI share of income taxes on Social Security benefits, state transfers for Part D prescription drug benefits, premiums paid under Parts A, B, and D, and any gifts received by the trust funds.

¹⁹Recently, this provision was included in the Bipartisan Retirement Security Act of 2005, H.R. 440, 109th Cong. § 14 (2005).

Soft responses can help in alerting decision makers of potential problems but they do not ensure that action to decrease spending or increase revenue is taken. With soft responses, the fiscal path continues unless Congress and the President take action. In contrast, a trigger could lead to “hard” responses requiring a predetermined, program-specific action to take place, such as changes in eligibility criteria and benefit formulas, automatic revenue increases, or automatic spending cuts. With hard responses, spending is automatically constrained, revenue is automatically increased, or both, unless Congress takes action to override. Figure 5 below illustrates the conceptual differences between hard and soft responses of a budget trigger.

Figure 5: Conceptual Differences between Hard and Soft Responses



Source: GAO analysis.

In establishing triggers, both near- and long-term perspectives need be considered. For some programs it might be appropriate to tie triggers to historical data. For example, unexpected spending growth in student loans might be measured against past historical spending data. However, for other programs that expose the government to long-term commitments—such as Medicare or Social Security—it might be more appropriate to tie the trigger to projections of future spending. Social Security, however, represents a large long-term commitment of future resources. Thus, growth for this program might be measured against changes in actuarial projections of Social Security’s 75-year outlook. Such an approach could be used for other programs with long-term commitments, such as pension insurance, if good long-term projections become available.

Since all estimates are subject to some uncertainty, the triggering mechanism should not be so tight that it is overly sensitive to normal variation in budget estimation. One way to address this concern is to establish a normal or expected range of budget uncertainty and set a trigger level that falls outside this range. For example, if a program's actual outlays historically fall within plus or minus 5 percent of estimated outlays, a trigger set at a level greater than 5 percent would best signal unexpected growth. This approach resembles one CBO uses for certain programs to analyze the budgetary effects of legislative proposals.²⁰ Using a probabilistic model, CBO estimates the weighted average of the effects associated with all possible sets of circumstances, taking into account their respective probabilities. Such an approach could be adapted to establish a range of uncertainty around a budget estimate.

Triggers also could be used to ensure that policy changes actually achieve intended reductions in spending growth. Such triggers could address concerns that some budget constraint mechanisms create the false impression that long-term problems have been addressed.

Although any hard response can be overridden by congressional action, it could be important to incorporate a more automatic escape clause into budget enforcement mechanisms such as triggers. Effective budget enforcement mechanisms need to be able to accommodate changing budget policy and political environments in which future outcomes are difficult to predict. For example, periods of economic growth may be brief or sustained, but inevitably are followed by periods of economic downturn that may be shallow or deep. Escape mechanisms, such as expiration dates, allow budget policies and procedures to be renegotiated later. In addition to expiration dates, House or Senate rules can provide flexibility. For example, any Senator may raise a point of order against legislation violating PAYGO rules prohibiting consideration of revenue or direct spending legislation that is not deficit-neutral. However, the point of order

²⁰CBO uses probabilistic modeling when the possible cost of a legislative proposal is not distributed symmetrically around a single, most likely outcome. For example, under marketing loan programs, low crop prices yield large costs to the government with farmers paying back loans at the lower market price rather than the higher loan rate. However, high crop prices provide no offsetting gains because farmers may simply repay their loans at the original loan rate. For more information, see CBO, *Estimating the Costs of One-Sided Bets: How CBO Analyzes Proposals with Asymmetric Uncertainties* (Washington, D.C.: Oct. 1999).

may be waived if there is broad consensus on the need to do so—that is, if there is an affirmative vote of three-fifths of the membership.

Although they provide important flexibility, escape clauses can be overused. For example, in fiscal year 2002, the Department of Defense and Emergency Supplemental Appropriations Act²¹ instructed that \$130.3 billion in costs be eliminated from the PAYGO scorecard. Both OMB and CBO estimated that without instructions to change the scorecard, a sequester—across-the-board spending cuts—would have been required in 2002. In addition, many programs were exempt from PAYGO’s sequestration requirement. These exemptions meant that the full brunt of any sequester was concentrated in the remaining programs, resulting in cuts so draconian that Congress and the President changed the targets rather than impose the required cuts.

Issues to Consider in Designing the Triggered Response

Whether a triggered response is soft, hard, or a combination of the two, efforts to constrain growth in mandatory programs need to be focused at the program level. The experience with GRH highlights the importance of individually designed triggers and responses. The deficit-neutrality targets under GRH triggered a hard response—across-the-board spending cuts—if they were not met. The deficit targets under GRH were not achieved due to the inability of Congress and the President to control all of the factors—mainly economic factors—that affected whether the trigger would be breached and their unwillingness to accept the across-the-board cuts that would have been necessary to meet the deficit targets.

In developing program-specific triggers and responses, proposed changes in underlying benefits structure and design of mandatory programs can be considered in the context of the factors that drove the growth and the goals and objectives of specific programs. For example, certain programs such as unemployment insurance and crop assistance are designed and intended to have a countercyclical effect on the economy. That is, they are aimed at reducing the size and duration of swings in economic activity in order to keep economic growth closer to a pace consistent with low inflation and high employment. Thus, a triggered response in these programs needs to be sensitive to whether growth is being driven by automatic budget

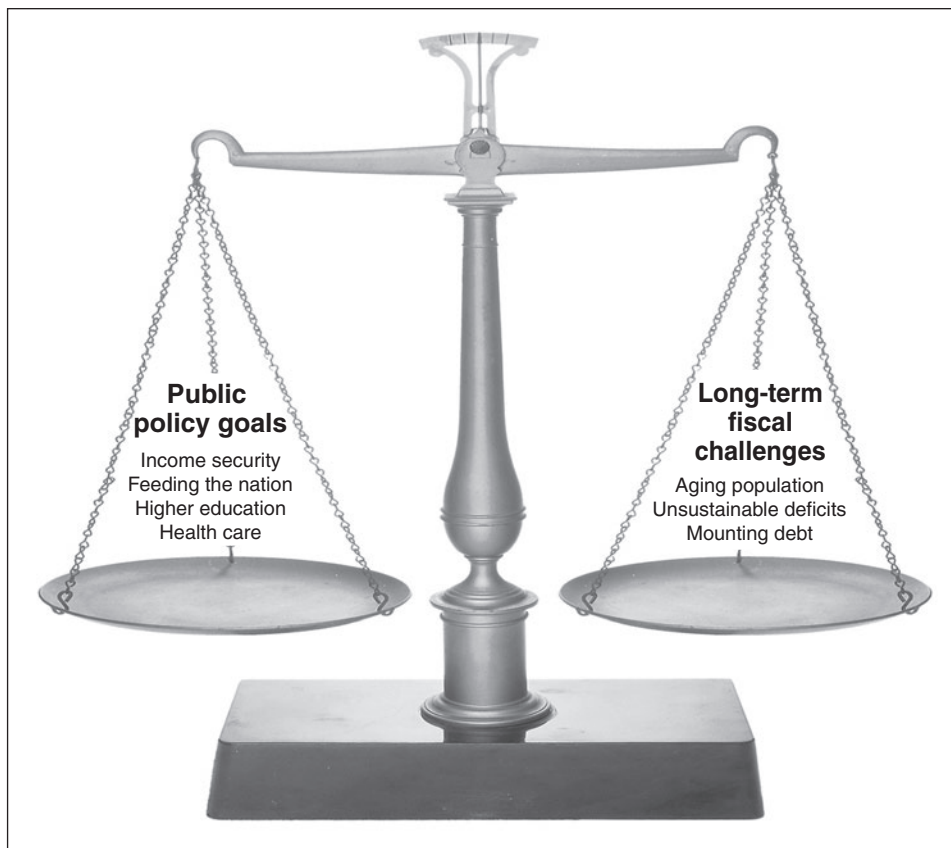
²¹Department of Defense and Emergency Supplemental Appropriations for Recovery from and Response to Terrorist Attacks on the United States, 2002, Pub. L. No. 107-117, Div. C, § 102, Jan. 10, 2002.

stabilizers. For example, a rise in the unemployment rate would by design increase outlays in federal unemployment insurance not only to provide assistance to the unemployed but also to stabilize the economy. If a trigger were established that resulted in a contractionary response, it could undermine these important goals and exacerbate the effects of unemployment on the economy. In a January 2002 report,²² the Congressional Research Service (CRS) suggested one option to avoid procyclical triggers would be to delegate to some entity—for instance Congress or an executive department—the responsibility for evaluating each year whether deteriorating economic conditions would make a trigger detrimental. If conditions were found to be deteriorating, decisions would need to be made about whether and how to implement any reduction. CRS acknowledged, however, that this type of proposal could be criticized on the grounds that it is based on a subjective decision and thus could be prey to the sort of political pressures that critics fear would undermine a trigger. Indeed, one budget expert we met with expressed concern that in devising a budget trigger, it would be helpful to acknowledge political pressures by considering who would judge progress against the trigger and the neutrality of the judging entity.

The programs and agencies we reviewed have objectives and missions that contribute to the achievement of public policy goals such as income security, feeding the nation, fostering higher education, and providing health care. To these ends, these programs are designed to provide entitlements—benefits and assistance—to eligible recipients. While striving to meet these commitments, our nation is faced with a daunting long-term fiscal outlook based on the challenges of an aging population, unsustainable deficits, and mounting debt while also ensuring truth and transparency. Figure 6 depicts the inherent tension in balancing public policy goals and long-term fiscal challenges.

²²CRS, *Fashioning a Tax Cut Trigger: Economic Issues*, Order Code RL30948 (Washington, D.C.: Updated Jan. 29, 2002).

Figure 6: Balancing Public Policy Goals and Long-term Fiscal Challenges



Source: GAO analysis and PhotoDisc (images).

Addressing this tension invariably entails difficult political choices among competing programs that promise benefits to many Americans but are collectively unaffordable and unsustainable at current revenue levels. In February 2005 we highlighted the size of fiscal imbalances looming in the future and the challenge of our policy process to act with more foresight to take early action on problems that may not constitute an urgent crisis but pose important longer-term threats to the nation’s fiscal, economic, security, and societal future.²³ Budget triggers are mechanisms that can encourage and facilitate such action.

²³[GAO-05-325SP](#).

To help us better consider the implications of establishing triggers, we looked at seven mandatory accounts with relatively large differences between estimated and actual outlays: Commodity Credit Corporation (CCC), Federal Direct Student Loan Program Account, Grants to States for Medicaid, Federal Hospital Insurance (HI) Trust Fund (Medicare Part A), Federal Supplementary Medical Insurance (SMI) Trust Fund (Medicare Part B), Rail Industry Pension Fund, and the Unemployment Trust Fund. We explored ways in which existing triggers and their corresponding actions could be revised, as well as an array of new trigger mechanisms that take into consideration the issues just discussed and could be adopted to promote better budgeting in light of the nation's long-term fiscal outlook.

It is important to consider the data upon which the trigger will hinge—future projections based on historical data, growth as a percent of GDP, total growth, or another measure altogether. For example, Congress has established a trigger to constrain growth in Medicare spending for physicians' services. The sustainable growth rate (SGR) is a statutorily set formula that estimates the allowed rate of increase in spending for physicians' services; that rate is used to construct the spending target for the following calendar year. If actual spending exceeds the cumulative SGR targets, fee updates in future years must be lowered sufficiently both to offset the accumulated excess spending and to slow expected spending for the coming year.²⁴ The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) established another trigger—the general revenue share of Medicare spending. If the Medicare Trustees determine in 2 consecutive years that the general revenue share is projected to exceed 45 percent during a 7-year projection period, the President must submit a proposal to Congress for action. To date, this threshold has not been breached and thus no response has been triggered. However, Medicare Trustees are expected to determine the first breach in their upcoming 2006 report as the trigger is projected to be tripped in 2012, which falls within the 7-year projection period captured in that report. For unemployment insurance, a trigger was established around balances in the Unemployment Trust Fund. When funds accumulating in federal unemployment accounts reach statutorily set limits, a distribution of the “excess” funds from the

²⁴Although the SGR was designed to encourage fiscal discipline, administrative and legislative actions modified or overrode the SGR system, resulting in fee increases for 2003, 2004, and 2005. For more information on this, see GAO, *Medicare Physician Payments: Concerns about Spending Target System Prompt Interest in Considering Reform*, GAO-05-85 (Washington, D.C.: Oct. 8, 2004).

trust fund to individual states' accounts—called “Reed Distributions”²⁵—are automatically triggered based on each state’s share of covered wages. One way to constrain federal spending would be to increase the statutory cap on federal unemployment accounts, thus making it more difficult to trigger Reed Distributions to states. By making it more difficult to trip the trigger, funds could continue to build during economic prosperity and be available to states when truly needed to counter rising unemployment.

Our analysis allowed us to develop a list of illustrative examples, which analyze the related trade-offs involved in balancing restraint with optimization of program goals. These are shown in appendix I, along with a brief description of the program and account. Finally, where appropriate we present illustrative examples of hard responses that could be established to constrain spending. We do not specifically advocate any of these approaches—they are presented for illustrative purposes only to provide a sense of the types of trigger and resulting actions that could be established. Although the illustrative examples we developed apply specifically to the seven case study accounts that we reviewed, we believe the information can further the larger policy conversation about how to increase oversight of the path of mandatory spending and advance and encourage budgetary discipline.

Expert Views on Trigger Mechanisms Are Mixed

We interviewed budget experts from OMB, CBO, the Senate Budget Committee staff, and various policy research organizations to discuss views on using triggers to constrain mandatory spending. Overall, views were mixed. While some were more in favor of triggers than others, many expressed concern that they would be circumvented or ignored, thereby questioning their effectiveness. In addition, many were concerned that triggers could jeopardize the underlying intent of mandatory programs. Several experts also pointed to the need to ensure that any triggers developed be carefully designed to avoid procyclical effects.

Some of the experts expressed strong support for budget triggers. These individuals believed that triggers with hard responses had the potential to constrain mandatory spending and that the accountability added by triggers would be preferable to the current unconstrained environment.

²⁵States may keep Reed Distributions in their trust funds or appropriate the money for administrative costs. Because state funds are held by the U.S. Treasury, they are not recorded as an outlay until the states distribute the funds.

For example, one expressed concern about the debt burden being permitted to mount for future generations in order to avoid the reduction in benefits or increase in taxes needed to finance current benefits. Linking revenues and spending with GDP, she argued, would help avoid such generational inequities. Another added that under current policy, spending grows automatically, by default, faster than tax revenues as the population ages and health costs soar. He argued that only by changing the budget's autopilot programming can we gain the flexibility needed to continually improve government policies and services.

Others, however, said that triggers reduced accountability because they enable decision makers to publicly extol budget constraint but quietly continue to increase spending. One pointed to "accounting tricks" that have resulted from triggers with hard responses, such as when Congress mandated certain costs not be counted against spending limits so as to avoid across-the-board cuts. However, as discussed previously, triggers also could be used to ensure that policy changes actually achieve intended reductions in spending growth. Such triggers could address concerns that some budget constraint mechanisms create the false impression that long-term problems have been addressed.

Many expressed skepticism that budget constraint mechanisms such as triggers would be adhered to; one cited Medicare's SGR as an example. The SGR system is designed to apply financial brakes whenever actual spending for physicians' services exceeds predefined spending targets. It does this by reducing physician fees or limiting their annual increase. Because the actual versus target spending comparison is cumulative, future fee updates are reduced to lower future actual spending below future target spending until total cumulative actual spending is the same as total cumulative target spending. However, fee declines were averted for 2003, 2004, and 2005 by administrative and legislative actions that modified or overrode the SGR system.

Some experts worried that applying budget triggers to various mandatory spending programs would divert attention from the real source of the nation's fiscal woes—health care—whose costs continue to rise faster than GDP. They pointed to CBO data as evidence that, outside of health care and to a lesser extent Social Security, virtually all other mandatory programs are decreasing or holding steady as a percent of GDP. Accordingly, they expressed concern that establishing triggers on such programs could mislead the public into thinking that the long-term fiscal problem had been addressed, thus delaying efforts to appropriately address it.

Many of the budget experts raised concerns about triggers jeopardizing the important underlying missions and program goals financed by mandatory accounts. In particular, concerns were raised about undermining countercyclical effects of programs such as unemployment insurance, Food Stamps, and the Earned Income Tax Credit. Some noted that the desire to preserve program goals is the reason why triggers with hard responses have not worked in the past. With respect to the SGR, for example, one expert explained that the reason Congress overrides the trigger is to ensure doctors do not stop accepting Medicare patients.

Finally, a couple of experts pointed out that triggers need not only apply to spending; the revenue side of the budget should also be addressed. One noted, for example, that an increase in taxes to cover spending growth would increase visibility to the public and thus permit the American people to be more aware of how much they are paying for services. Applying triggers to tax cuts was an issue considered in 2001 when the budget was in surplus and tax cuts were proposed. For example, Federal Reserve Chairman Greenspan at that time expressed his preference for a trigger that would make tax cuts contingent on the realized net debt level. Comptroller General Walker also raised the possibility of using a trigger to return a “surplus dividend” if actual surpluses occurred in excess of specific levels. Ultimately, however, triggers were not adopted. Instead, tax cuts were enacted through 2010 even though substantial deficits have reappeared. In addition, as we reported in a February 2005 testimony,²⁶ there has been an extensive use of tax incentives, rather than direct spending authority, to fund social objectives. As we reported in September 2005,²⁷ the sum of revenue loss estimates associated with tax expenditures—such as tax exclusions, credits, and deductions—was nearly \$730 billion in 2004.²⁸ Many tax expenditures operate like mandatory spending programs and generally are not subject to reauthorization. Such tax expenditures are embedded in the tax system and are off the radar screen for the most part. This is a concern from a budgetary standpoint because federal dollars committed to fund these expenditures do not

²⁶GAO, *Long-Term Fiscal Issues: Increasing Transparency and Reexamining the Base of the Federal Budget*, [GAO-05-317T](#) (Washington, D.C.: Feb. 8, 2005).

²⁷GAO, *Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined*, [GAO-05-690](#) (Washington, D.C.: Sept. 23, 2005).

²⁸Summing tax expenditure estimates does not take into account interactions between individual provisions.

compete in the annual appropriations process and are effectively “fully funded” before any discretionary spending is considered. The analysis we applied to spending in this report would also be useful in examining tax expenditures. However, challenges in defining and measuring tax expenditures, to some extent, would affect any effort to curtail revenues foregone through tax expenditures. For example, after taxpayers have taken advantage of tax expenditures, the federal government still may not know, with much certainty, how much tax revenue was foregone, who benefited, and what results were achieved.²⁹

Reasons for Differences between Estimated and Actual Outlays in Selected Accounts Varied

To better appreciate the reasons behind growth in mandatory accounts and thus inform our thinking on triggers, we examined the reasons for differences between originally estimated and actual outlays for seven mandatory accounts that experienced relatively large dollar changes.³⁰ Based on agencies’ explanations of differences between estimated and actual outlays of the case study accounts we examined, we found that legislation enacted after original estimates were submitted was the primary driver in 19 out of 40 differences during fiscal years 2000 through 2004. Economic factors, such as changes in interest and unemployment rates, were primarily responsible for 7 differences. Finally, technical factors, which cover a broad spectrum, most significantly drove 13 out of 40 differences. In one case, it was unclear which factors most significantly caused the difference between estimated and actual outlays. In many cases, a combination of factors resulted in differences.

In categorizing agencies’ explanations for differences between estimated and actual outlays, we applied criteria similar to those that CBO uses in its annual budget and economic outlook reports to categorize changes as legislative, technical, and economic. However, in our report, legislative action was classified in a somewhat different manner from the method that CBO applies. Whereas we examined the actual budgetary effect that resulted from the legislation, CBO projects the anticipated future

²⁹For additional details, see GAO, *Tax Policy: Tax Expenditures Deserve More Scrutiny*, GAO/GGD/AIMD-94-122 (Washington, D.C.: June 3, 1994).

³⁰Given this report’s focus on constraining growth in mandatory spending, our analysis focused more on underestimates than overestimates of actual outlays.

budgetary effect of legislation.³¹ Figure 7 describes the criteria that we applied to categorize agencies' explanations into three factors. While this framework is helpful in evaluating changes in the federal budget, it is not precise and should be viewed as indicative as opposed to determinative.

Figure 7: Factors Affecting Budget Estimates

- *Legislative*: Refers to any legislative action that (1) was enacted *after* the time that original budget estimates were submitted in a given fiscal year and (2) proved to have a direct effect on account outlays within the time period we reviewed.
- *Economic*: Includes changes that are driven by the economy (e.g., inflation, interest rates, real GDP, market prices, and the unemployment rate).
- *Technical*: Includes changes related to legislation that was passed *prior* to the formulation of original budget estimates, revisions to estimation models, some factors related to the performance of the economy (e.g., capital gains realizations), and any other changes that were not clearly driven by subsequent legislation or changes in the economic forecast.

Source: GAO analysis.

Table 1 summarizes the factors—legislative, economic, and technical—that most significantly resulted in differences between estimated and actual outlays by fiscal year and account. The factors that were major drivers for differences between estimated and actual outlays are denoted with “√.” Other factors that affected the difference are denoted with “x.” In one case, it was unclear which factors most significantly caused the difference between estimated and actual outlays. In that case, both relevant factors are marked with an “x.” Detailed explanations supporting this summary are presented in appendix I.

³¹If a new law has effects that differ from those reflected in CBO's initial estimate, the differences will appear as technical “reestimates” in later revisions to the baseline.

Table 1: Reasons for Differences between Estimated and Actual Outlays

Account	Fiscal year	Reason for differences		
		Legislative	Economic	Technical
Commodity Credit Corporation—Corn	2000	✓	x	
	2001	✓	x	x
	2002		✓	
	2003	✓	x	
	2004		✓	x
Commodity Credit Corporation—Crop Disaster Assistance	2000	✓		
	2001	✓		
	2002	✓		
	2003	✓		
	2004	✓		
Federal Direct Student Loan Program Account	2000			✓
	2001		✓	x
	2002		✓	x
	2003		✓	x
	2004			✓
Grants to States for Medicaid	2000			✓
	2001			✓
	2002			✓
	2003	✓		x
	2004	✓		x
Medicare Part A—Federal Hospital Insurance Trust Fund	2000			✓
	2001			✓
	2002			✓
	2003		x	x
	2004	✓		x
Medicare Part B—Federal Supplementary Medical Insurance Trust Fund	2000			✓
	2001			✓
	2002			✓
	2003	✓	x	x
	2004	✓		x

(Continued From Previous Page)

Account	Fiscal year	Reason for differences		
		Legislative	Economic	Technical
Rail Industry Pension Fund	2000			✓
	2001			✓
	2002	✓		x
	2003	✓		x
	2004	✓		x
Unemployment Trust Fund	2000		✓	
	2001		✓	
	2002	✓	x	
	2003	✓	x	
	2004	✓	x	
Total major drivers of differences		19	7	13

Source: GAO analysis of agencies' explanations of differences between estimated and actual outlays.

Note: Factors that were major drivers for the difference between estimated and actual outlays are denoted with "✓." Other factors that affected the difference are denoted with "x." In one case, it was unclear which factors most significantly affected the difference. In that case, both relevant factors are marked with an "x."

Legislation Enacted After Original Estimates Explained Many Differences between Estimated and Actual Outlays

As seen above in table 1, most of the accounts we reviewed were directly affected by legislation that was enacted after original estimates were developed and significantly contributed to differences between expected and actual outlays in 19 out of 40 instances.³² For example, the Temporary Extended Unemployment Compensation Act (TEUC) of 2002 led to the disbursement of greater-than-expected unemployment benefits. Supplemental appropriations for crop disaster assistance and Agricultural Market Transition Act payments largely contributed to additional outlays that were not assumed in original CCC budget projections. Similarly, the MMA and the Railroad Retirement and Survivors' Improvement Act of 2001, respectively, increased Medicare outlays and Rail Industry Pension outlays.

TEUC was enacted to provide up to 13 weeks of federally funded unemployment insurance benefits to workers in all states who had exhausted their entitlement to regular state unemployment benefits. Furthermore, the Act provided up to 13 additional weeks of federally funded benefits to workers in states with especially high unemployment

³²In all cases, CBO had prepared scoring estimates of the legislation.

rates. Congress renewed this extension in April 2003, which allowed qualified individuals to file for federal extensions through December 2003 and collect on those extensions through December 2004. As a result, program outlays exceeded estimates by \$7.9 billion in 2002, \$11 billion in 2003, and \$4.3 billion in 2004.

Outlays in both CCC programs that we reviewed also were directly affected by subsequent legislative action that occurred after original budget estimates were formulated. For example, Crop Disaster Assistance programs are funded through supplemental appropriations every year throughout the 5-year period that we reviewed, which led to an additional total of \$6 billion in program outlays. According to OMB officials, the Administration prefers not to include estimates in the budget for relatively unpredictable disaster-related programs such as crop disaster assistance. Instead, such funding is typically initiated by Congress through supplemental appropriations.³³ Accordingly, for all 5 years we examined, no estimates were provided and all of the outlays were as a result of supplemental appropriations.

Legislative action that increased market loss assistance payments to corn producers largely contributed to the greatest underestimates of outlays for that particular commodity—nearly \$9 billion in 2000 and 2001 together. These payments were authorized on an ad hoc basis and, in fiscal year 2000, were paid out for both 1999 and 2000.

The Consolidated Appropriations Resolution of 2003 provided substantially higher Medicare³⁴ payments to physicians than estimated in original budget projections and contributed to the largest discrepancy—over \$13 billion—between estimated and actual SMI outlays throughout the 5 years that we reviewed. Furthermore, both the HI and SMI trust funds incurred unanticipated additional outlays as a result of MMA. Several of the provisions under MMA were implemented in 2004 and directly affected that year's outlays; however, officials from the Centers for Medicare & Medicaid

³³Although Crop Disaster Assistance programs are generally funded through supplemental appropriations acts, the Department of Agriculture considers and applies funding in a manner similar to mandatory programs. According to a Farm Service Agency official, funding is provided to all eligible applications for assistance by prorating available funding if necessary. OMB also considers Crop Disaster Assistance programs to be mandatory in that all eligible applicants may receive benefits.

³⁴The HI Trust Fund finances Medicare Part A while the SMI Trust Fund finances Medicare Part B.

Services (CMS) said that the largest factors that led to additional HI outlays of approximately \$4.4 billion and additional SMI outlays of nearly \$12.3 billion were the substantially increased payments to private health plans and rural health providers, as well as the increased physician payment update—all of which were provided for under MMA.

Finally, the Railroad Retirement and Survivors' Improvement Act of 2001 changed a number of benefit and eligibility criteria, which led to a sharp rise in retirements. For example, the enactment of this law (1) eliminated benefit reductions to early retirees, (2) eliminated the maximum threshold on the amount of combined monthly employee and spouse benefit payments, (3) lowered the minimum eligibility requirement for railroad retirement annuities, and (4) increased benefit payments for widow(er)s. Under this legislation, funds in excess of those needed for current benefit payments and administrative expenses were transferred to the National Railroad Retirement Investment Trust. As a result, rail industry retirements increased, and pension fund outlays increased by almost \$20 billion in 2002 and 2003 collectively.

Economic Factors Were Especially Important in Some Programs' Differences

Case study agencies cited economic factors as primary reasons for differences between estimated and actual outlays for 7 out of 40 differences. This was especially true for agricultural commodities, student loans, and unemployment insurance. For example, market prices for commodities affected federal subsidy payments to farmers, changes in interest rates affected revenues received from student loan borrowers, and unemployment affected outlays of federal unemployment insurance. Economic factors also affected the hospital market basket, which contributed to greater-than-expected Medicare outlays.

For CCC's corn program,³⁵ market prices were both underestimated and overestimated over the 5-year period. According to a Department of Agriculture (USDA) official, corn prices are extremely volatile and highly dependent on weather conditions and global food production. In addition, the countercyclical design of federal commodity subsidies results in

³⁵Federal commodity subsidies essentially consist of three types of payments available to supplement farmers' income: direct payments to historical producers of the commodity, countercyclical payments, which provide a safety net in the event of low crop prices, and nonrecourse loans, which allow farmers to store production and use loan proceeds to meet cash flow needs without selling the crop.

outlays that are highly sensitive to changes in price. This official explained that a 1 cent change in estimated corn prices results in about an \$85 million change in federal outlays.

The historically low interest rates that prevailed in recent years were below levels previously forecasted, which affected estimated student loan subsidy costs. Subsidy cost estimates for FDLP are highly sensitive to changes between projected and actual interest rates because borrower interest rates are variable. The decline in interest rates resulted in lower-than-expected interest payments to the government from FDLP borrowers, thus increasing reestimated subsidy costs for these loans.³⁶ Concurrently, the volume of student consolidation loans, which allow borrowers to lock in fixed interest rates, increased as interest rates declined. In consolidating their loans, borrowers effectively paid off their underlying loans, thereby lowering anticipated interest payments to the government on the loans and, in turn, increasing the estimated subsidy costs of the underlying loans.

Discrepancies between estimated and actual unemployment insurance outlays are partially attributed to economic factors such as unanticipated changes in both the unemployment rate and benefit reciprocity rates. For example, Department of Labor officials said that most of the outlay overestimate in 2000 resulted from a lower-than-expected unemployment rate—the ratio of the total number of unemployed individuals to the total workforce—which translated into lower-than-expected outlays. In subsequent years, the unemployment rate was underestimated and thus contributed to greater-than-expected outlays. Inaccurate assumptions about the benefit reciprocity rates, that is, the ratio of the total number of unemployed individuals filing for or receiving benefits to the total number of unemployed, further contributed to the agency's errors in accurately estimating program outlays. According to agency officials, these economic factors tend to be key drivers affecting budget estimates, albeit to a somewhat lesser degree during the timeframe we reviewed given the significance of the temporary extended unemployment compensation legislation that substantially increased outlays in 2002 through 2004.

³⁶Direct loan subsidy cost is the estimated long-term cost to the government of a direct loan excluding administrative costs. It is the net present value of estimated loan disbursements, repayments of principal, payments of interest, and other payments by or to the government over the life of the loan.

To a lesser extent, economic factors affected Medicare outlays. In 2003, a higher-than-expected market basket,³⁷ which is basically a price index representing the cost of providing health care services to patients, was part of the explanation behind higher-than-originally-estimated Medicare outlays, according to CMS officials. This increase in the market basket led to greater-than-expected inpatient and outpatient hospital expenditures in the HI and SMI funds respectively.

Technical Factors Explained a Broad Spectrum of Differences

Technical factors, which encompass a somewhat wide-ranging residual category, significantly explained outlay differences in 13 out of 40 instances. Generally, technical factors account for differences between budget estimates and actual outlays that cannot be attributed to legislative or economic factors. For example, delayed implementation and difficulty in predicting the behavior of providers under new payment systems, an increased case mix, and the deferral of adjusting payments for skilled nursing facilities utilization led to differences between estimated and actual Medicare outlays. Increases in administrative costs and revised assumptions of the amount of loan defaults and collections caused some of the direct student loan outlays to differ from original estimates. Similar to the diversity of the programs we reviewed, there was great variability among the technical factors that affected account outlays.

Actual outlays for both Medicare Parts A and B differed from estimates primarily due to a number of technical factors, which accounted for both some of the largest and some of the smallest discrepancies. For example, the largest discrepancy in the HI fund (Medicare Part A) occurred in fiscal year 2000 for which outlays were lower-than-originally estimated by nearly \$16 billion. According to CMS, the majority of this inaccuracy is attributed to lower-than-expected benefit payments as a result of the agency's difficulty in predicting the behavior of providers under newly implemented payment systems for skilled nursing facility (SNF) services and home health services. CMS officials said that these payment systems were very new at the time fiscal year 2000 budget estimates were done and the effect of these new systems was unknown. Similarly, SMI outlays were \$4.6 billion less-than-originally estimated due largely to the delayed implementation of

³⁷The market basket refers to an input price index that reflects the cost of a particular type of health care provider (e.g., hospital, skilled nursing facility, home health agency) to provide services to patients. This index is used to update the payments to providers from one year to the next.

and unfamiliarity with a new outpatient hospital prospective payment system. Other technical factors CMS cited to explain the differences between estimated and actual Medicare outlays included case mixes that were more complex than expected and deferred payment refinements for SNF utilization. Case mix refers to the average complexity of inpatient admissions for Medicare beneficiaries. A change in the mix of cases causes the amount of benefit payments to change. The deferral of payment adjustments for SNF utilization contributed to greater-than-expected outlays in both fiscal years 2003 and 2004. These adjustments would have reduced payment rates that had previously been increased on a temporary basis under the Medicare, Medicaid, and SCHIP Balanced Budget Refinement Act of 1999 (BBRA).³⁸ CMS included the budgetary effects of these adjustments in their HI estimates for 2003 and 2004, but later decided not to implement them citing the need for additional time to review and analyze the implications of implementing hospital case mix refinements.

Differences between estimated and actual outlays for federal direct student loans were most frequently explained by technical factors, including revised assumptions in the Department of Education's loan subsidy model, increased administrative costs, and Congress's decision not to adopt a budget proposal to shift administrative expenses to a discretionary account. Moreover, because of the way federal credit programs are budgeted, original estimates include a loan subsidy amount for one fiscal year but actual outlays include a loan subsidy reestimate for all prior fiscal years—in the case of FDLP, up to 8 years for fiscal year 2004.

Conclusions

Given that unsustainable federal deficits and debt threaten our future economy and national security as well as the standard of living for the American people, renewed emphasis on increasing fiscal discipline is crucial. Mandatory spending represents an increasing percentage of the federal budget (e.g., about 54 percent in 2004, up from about 42 percent in 1984). Unexpected growth in individual programs—especially certain very large programs—can significantly change the nation's fiscal position. By identifying significant increases in mandatory spending relatively early and

³⁸Section 101(a) of BBRA provided for a temporary, 20 percent increase in per diem adjusted payment rates for 15 specified resource utilization groups. Under section 101(c) of the Act, this increase was to be effective for SNF services furnished on or after April 1, 2000, and would continue until the later of: (1) October 1, 2000, or (2) implementation of a refined case-mix classification system that would better account for medically-complex patients.

acting to constrain it, Congress may avert even larger fiscal challenges in the future.

The notion of establishing budget triggers to constrain growth is not new and has been used in the past with varying degrees of success. Given that spending for mandatory programs is driven by underlying benefit and eligibility formulas, serious efforts to constrain spending would require substantive changes to current law. Such changes should consider program goals and objectives and be enacted as programs are created, reexamined, or reauthorized. While budget triggers certainly are neither a panacea nor a substitute for deliberate consideration by stakeholders and decision makers, they can help to prompt action and enhance fiscal responsibility.

Ignoring significant growth in mandatory accounts is inconsistent with evaluation of programs and their costs. While we appreciate the concerns raised by budget experts, in our opinion, establishing budget triggers warrants serious consideration in order to constrain growth in mandatory spending programs. However, it is clear that how the triggers are designed must be carefully considered. For example, once widespread agreement on underlying public policy goals has been achieved, it needs to be decided whether a soft or hard response to a trigger—or a combination thereof—would be most appropriate. Also, it is important to consider the data upon which the trigger will hinge—future projections of historical data, growth as a percent of GDP, total growth, or another measure altogether. Moreover, this trigger concept might also be useful in examining tax expenditure growth. Calculating a normal range of uncertainty for a program could help avoid triggering an action prematurely or unnecessarily. In addition, it is important to strike an appropriate balance between responses that constrain spending or increase revenues. We recognize that automatic responses pose much more difficult trade-offs. Ensuring countercyclical effects are not undermined is of particular importance. In any case, recognizing the natural tension in balancing both long-term fiscal challenges and other public policy goals, each program needs to be considered individually to ensure that any responses triggered strike the appropriate balance between the long-term fiscal challenge and the program goals. Considering ways to increase transparency, oversight, and control of mandatory spending programs must be part of addressing the nation's long-term fiscal challenges.

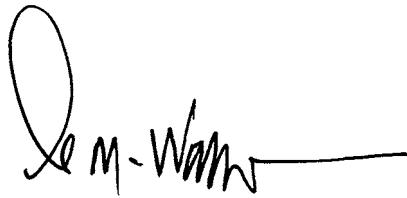
Matter for Congressional Consideration

To promote explicit scrutiny of significant growth in mandatory accounts, as mandatory spending programs are created, reexamined, or reauthorized, Congress should consider incorporating budget triggers that would signal the need for action. Further, it should determine whether in some cases it might be appropriate to consider automatically causing some action to be taken when the trigger is exceeded. Once a trigger is tripped, Congress could either accept or reject all or a portion of the response to the spending growth.

Agency Comments

We requested comments on a draft of this report from OMB; the Departments of Agriculture, Education, Health and Human Services, Labor; and the Railroad Retirement Board. OMB and the Departments of Education and Labor had no comments. The Departments of Agriculture, Health and Human Services, and the Railroad Retirement Board provided clarifying and/or technical comments, which we incorporated as appropriate.

This report was prepared under the direction of Susan J. Irving, Director, Federal Budget Analysis, Strategic Issues, who can be reached at (202) 512-9142 or irvings@gao.gov. Other key contributors are listed in appendix IV.



David M. Walker
Comptroller General
of the United States

Illustrative Examples of Triggers and Responses for Case Study Accounts

Addressing growth in mandatory spending is an important but complicated matter that requires looking below the aggregate and into specific programs. Mandatory spending is governed by eligibility rules and benefit formulas, which means that funds are spent as required to meet the needs of all those who are eligible and wish to participate. Accordingly, spending in mandatory programs cannot be constrained through the application of simple caps/limits. Rather, it requires changes in the underlying benefit structure and design of programs. As a result, constraints of individual programs that look at the specific economic and other factors that drive spending are likely to be most effective.

One idea to constrain growth in mandatory programs is to develop triggers that, when tripped, would cause some automatic cost-cutting or revenue-increasing response—such as changes in eligibility criteria, benefit formulas, or fees—automatically to go into effect unless Congress and the President act to make other changes. An alternative approach would replace such a “hard” response with a “soft” one such as requiring special consideration of a program or a proposal for action when the trigger’s threshold is breached. Examples of soft responses include raising a point of order, requiring the administering agency to prepare a special report explaining why the trigger was breached, or submitting a proposal for reform. Soft responses may be helpful in alerting decision makers of potential problems but do not ensure that such action is taken.

Especially in designing hard responses, careful consideration must be given to avoid counteracting the program’s goals and objectives. For example, a rise in the unemployment rate would by design increase outlays in federal unemployment insurance not only to provide assistance to the unemployed but also to stabilize the economy. If a trigger were established that resulted in a contractionary response, it could undermine these important goals and exacerbate the effects of unemployment on the economy.

We selected seven mandatory budget accounts to examine in order to inform our thinking about budget trigger responses and the design issues that need to be considered. These seven accounts were selected because of their relatively large 5-year average differences between estimated and actual outlays. These accounts are the

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(1) Commodity Credit Corporation¹

- Corn
- Crop Disaster Assistance,

(2) Federal Direct Student Loan Program Account,

(3) Grants to States for Medicaid,

(4) Medicare Part A: Federal Hospital Insurance Trust Fund,

(5) Medicare Part B: Federal Supplementary Medical Insurance Trust Fund,

(6) Rail Industry Pension Fund, and

(7) Unemployment Trust Fund.

In this appendix, for each case study account we present contextual information such as the administering agency, program description, and source of funding. Also we provide the agency's explanation of key differences between estimated and actual outlays and, as appropriate, other relevant information. Finally, where appropriate we present illustrative examples of hard responses that could be established to constrain spending.² In some cases these illustrative examples involve revising currently existing triggers and their corresponding actions. In other cases new triggers and responses are presented. We do not specifically advocate any of these approaches as Congress would need to balance the program and national objectives sought with the long-term fiscal challenges facing our nation. The approaches we present are for illustrative purposes only to provide a sense of the types of trigger and resulting actions that could be established.

¹The Commodity Credit Corporation budget account encompasses many programs that are influenced by different factors. Accordingly, to gain an appreciation for the factors that should be considered in designing budget triggers, we focused on two programs—corn and crop disaster assistance. These two programs experienced the greatest average 5-year differences between estimated and actual outlays.

²Given the nature of soft triggers, that is, requiring special consideration or reporting, to avoid redundancy we do not present soft triggered actions for each of the case study accounts.

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Account Name	Commodity Credit Corporation Fund—Corn
Administering Organization	Primarily the Farm Service Agency (FSA), U.S. Department of Agriculture
Program Description	<p>The Commodity Credit Corporation (CCC) is a government-owned and government-operated entity that was created in 1933 to stabilize, support, and protect farm income and prices. CCC also helps maintain balanced and adequate supplies of agricultural commodities and aids in their orderly distribution.</p> <p>For fiscal years 2000–2002 (under 1996 Farm Bill provisions), CCC provided corn-related subsidies primarily through two types of payments available to supplement farmers’ incomes: (1) production flexibility payments to historical producers of corn and (2) nonrecourse loans, which allow farmers to store production and use loan proceeds to meet cash flow needs without selling the crop. Ad hoc legislation provided additional payments in the form of market loss assistance payments to compensate producers for low prices.</p> <p>For fiscal years 2003–2004 (under 2002 Farm Bill provisions), CCC provided corn-related subsidies through three types of payments available to supplement farmers’ incomes: (1) direct payments to historical producers of corn; (2) countercyclical payments, which provide a safety net in the event of low crop prices; and (3) nonrecourse loans.</p>
Funding Source	CCC has an authorized capital stock of \$100 million held by the United States and the authority to have outstanding borrowings of up to \$30 billion at any one time. Funds are borrowed from the U.S. Treasury.
Differences between Estimated and Actual Outlays	Based on a 5-year average, estimated outlays for corn differed from actual outlays by about \$1.9 billion per year, or 63.4 percent, in absolute value terms. However, the actual annual differences varied between an overestimate of \$388 million and an underestimate of \$7 billion. Table 2 presents the estimated and actual outlays associated with CCC’s corn program, by fiscal year.

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Table 2: Estimated and Actual Corn Outlays, by Fiscal Year

Nominal dollars in millions

Fiscal year	Original outlay estimate	Actual outlays	Difference
2000	\$3,087	\$10,136	\$-7,049
2001	4,444	6,297	-1,853
2002	3,013	2,959	54
2003	1,803	1,415	388
2004	2,695	2,504	191
5-year average dollar difference			\$-1,654
5-year average difference as a percent of average estimated outlays			-55.5%
5-year average dollar difference (absolute value)			\$1,907
5-year percentage difference (absolute value)			63.4%

Source: GAO analysis of FSA budget data.

Explanation of Key Differences

According to the Farm Service Agency, legislative action and economic changes were the primary reasons behind differences between estimated and actual outlays for CCC's corn program during fiscal years 2000 through 2004. In general, weather and natural disasters are the key drivers of differences between estimated and actual outlays, which are highly sensitive to changes in the price of corn. Outlays increase when the corn price decreases. A 1 cent drop in the price of a bushel of corn can lead to about \$85 million increase in countercyclical payments. Participation also affects costs. Farm program costs depend on market prices and farm production, which in turn are influenced by world weather, the condition of the general economy, the foreign and trade policies of the United States and other food-exporting nations, the rate of inflation, and the value of the dollar, among other variables. Detailed explanations are shown in table 3.

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Table 3: Explanation of Differences between Estimated and Actual Corn Outlays

Nominal dollars in billions

Fiscal year and dollar difference ^a	FSA's explanation of differences		
	Legislative	Economic	Technical
2000 \$-7.0	Additional \$5.1 billion fixed payments for producers of grains and cotton were authorized in Oct. 1999 (Pub. L. 106-78 § 802).	Loan deficiency payments were underestimated by \$1.6 billion due to a sharp drop in prices (\$0.20 and \$0.25 per bushel for 1999 and 2000 projections). Remaining difference due to lower loan repayments since more loans were repaid at lower rates due to weak market conditions, representing marketing loan gains for producers.	
2001 \$-1.9	\$2.1 billion Market Loss Assistance payments were authorized in Aug. 2001 (Pub. L. 107-25 § 1).	Underpayment was moderated by a small reduction in loan deficiency payments resulting from a slight rise in the average market price and a change in the seasonal pattern from projections.	A small drop in net loan expenditures, as less corn was placed under loan than projected.
2002 \$0.05		Three cent per bushel drop in the 2001 price of corn, which triggered higher loan deficiency payments (LDP). As more producers opted for LDPs, fewer placed corn under loan, thus reducing net outlays.	
2003 \$0.39	Mandated policy change saved \$1.9 billion by eliminating production flexibility contract payments unless requested by producers who are parties to the contract (Pub. L. 107-171 § 1107). This was partially offset by \$1.4 billion for the new direct payment program.	Increase in net loan outlays, reflecting a change in the loan rates. The rate for 2002 and 2003 corn was assumed at \$1.67 per bushel under previous legislation but increased to \$1.98 under 2002 legislation. Thus, the face value of loans made went up.	
2004 \$0.19		An increase in prices pushed corn above the countercyclical payment (CCP) trigger level, thus reducing CCPs by \$397 million. The CCP decline outweighed increases of \$100 million for LDPs, which reflect a decline in the 2004 crop price, raising the LDP rate and quantity.	The CCP decline outweighed increases of \$130 million for direct payments, which were due to higher base acres than were assumed before the actual sign-up.

Source: Farm Service Agency.

Notes: Primary drivers of outlay differences are marked in bold.

^aA negative difference means that actual outlays were higher than originally estimated. A positive difference means that actual outlays were less than originally estimated.

Illustrative Triggers and
Response

The 2002 Farm Bill³ guaranteed historical producers of corn and other commodities a minimum price per bushel, known as a target price, which they can expect to earn. To constrain spending, one possible trigger could be when the target price exceeds the market price by some historically average percentage, the legislated target price could be reduced. However, to avoid price shocks to the industry and possible procyclical effects, the price reduction could be deferred to the following year.

The Farm Bill also established a formula for fixed, direct payments to historical producers of corn and other commodities. To limit spending on this income-support program, one idea for a trigger could be to link direct payments to farm sector production prices. For example, if production prices drop by more than 3 percent,⁴ Congress could redefine the formula to be less generous.

Alternatively, Congress could limit the guarantee of direct payments to current producers of corn rather than historical producers.

³Farm Security Act and Rural Investment Act of 2002, Pub. L. No. 107-171 (May 13, 2002).

⁴According to USDA's Economic Research Service, the average change in annual U.S. farm sector production expenses between 2001 and 2005 was about 2.5 percent.

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Account Name	Commodity Credit Corporation Fund—Crop Disaster Assistance
Administering Organization	Primarily the Farm Service Agency (FSA), U.S. Department of Agriculture
Program Description	<p>CCC is a government-owned and government-operated entity that was created in 1933 to stabilize, support, and protect farm income and prices. CCC also helps maintain balanced and adequate supplies of agricultural commodities and aids in their orderly distribution.</p> <p>Crop Disaster Assistance programs reimburse producers for qualifying losses to agricultural commodities (other than sugar cane or cotton seed) due to damaging weather or related conditions. The damages must be in excess of 35 percent of the established price of crops for lost production or 20 percent for lost quality. Crop disaster programs cover insured, uninsured, and noninsurable crops. The program has no set funding limitation, however, payments are limited to \$80,000 per person, and producers with incomes greater than \$2.5 million are ineligible. This crop disaster assistance program is not permanently authorized.</p>
Funding Source	CCC has an authorized capital stock of \$100 million held by the United States and the authority to have outstanding borrowings of up to \$30 billion at any one time. Funds are borrowed from the U.S. Treasury. Although Crop Disaster Assistance programs are provided through appropriations acts, ⁵ the Department of Agriculture considers and applies funding for the programs in a manner similar to mandatory programs. According to an FSA official, funding is provided to all eligible applications for assistance by prorating available funding if necessary. The Office of Management and Budget (OMB) also considers crop disaster assistance programs to be mandatory in that all eligible applicants may receive benefits.
Differences between Estimated and Actual Outlays	Based on a 5-year average, estimated outlays for crop disaster assistance differed from actual outlays by about \$1.2 billion per year in absolute value terms. However, the actual annual differences varied between \$230 million and \$1.9 billion. Table 4 presents the estimated and actual outlays associated with CCC's crop disaster assistance programs, by fiscal year.

⁵For example, see Military Construction Appropriation and Emergency Hurricane Supplemental Appropriations Act, 2005, Pub. L. No. 108-324, 118 Stat. 1220, 1232-37, Oct. 13, 2005.

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Table 4: Estimated and Actual Crop Disaster Assistance Outlays, by Fiscal Year

Nominal dollars in millions

Fiscal year	Original outlay estimate	Actual outlays	Difference
2000	\$0	\$1,251	\$-1,251
2001	0	1,848	-1,848
2002	0	230	-230
2003	0	1,867	-1,867
2004	0	804	-804
5-year average dollar difference			\$-1,200
5-year average difference as a percent of average estimated outlays			N/A
5-year average dollar difference (absolute value)			\$1,200
5-year percentage difference (absolute value)			N/A

Source: GAO analysis of FSA budget data.

Explanation of Key Differences

According to OMB staff, it is not OMB’s policy to include an estimate for disaster assistance in the President’s budget. Instead, these programs are typically funded through subsequent legislation.

**Ideas for Improving the
Accuracy of Estimates**

Although OMB typically does not include an estimate for crop disaster assistance in the President’s budget, we have reported in the past that shifting the budget timing to an up-front recognition of emergency costs through reserves may promote a more comprehensive and transparent debate over federal budgetary priorities during the regular budget process.⁶ For example, we suggested that federal governmentwide emergency reserves could set aside budget authority in advance for expected yet unpredictable events as part of the annual resource-allocation process. Another approach would be to establish agency-specific reserve funds for those agencies that regularly respond to federal emergencies. Funds would be appropriated to these agencies on a contingent basis, meaning that certain agency-specific criteria would have to be met before the funds could be used. While these approaches are not of the trigger/response variety that is the subject of this report, they would help accomplish a goal of constraining spending if the emergency budget authority provided in advance is assumed to be within a constrained total budget authority.

⁶GAO, *Budgeting for Emergencies: State Practices and Federal Implications*, [GAO/AIMD-99-250](#) (Washington, D.C.: Sept. 30, 1999).

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Account Name	Federal Direct Student Loan Program Account
Administering Organization	Office of Federal Student Aid, U.S. Department of Education
Program Description	<p>The Department of Education (Education) provides financial aid in part to increase access to college. Education’s first direct loans were made in the fourth quarter of fiscal year 1994.⁷ Through its William D. Ford Federal Direct Loan Program (FDLP), students and/or their parents borrow money directly from the federal government through the vocational, undergraduate, or graduate schools the students attend. As is the case under the Federal Family Education Loan Program (FFELP), or “guaranteed” student loan program, there are four types of direct loans.⁸</p> <p><i>Stafford Loans</i>—variable rate loans available to students. The federal government pays the interest on behalf of borrowers while the student is in school, during a 6-month grace period when the student first leaves school, and during statutory deferment periods related to borrower unemployment and economic hardship.</p> <p><i>Unsubsidized Stafford Loans</i>—variable rate loans to students with the same terms as Stafford Loans except that the government does not pay interest costs during in-school, grace, and deferment periods.</p> <p><i>PLUS Loans</i>—variable rate loans made to parents. The borrower pays all interest costs.</p> <p><i>Consolidation Loans</i>—borrowers may combine multiple federal student loans into a single, fixed rate loan. The interest rate is based on the weighted average of the interest rates in effect on the loans being consolidated or a fixed percentage.</p>
Funding Source	Education finances FDLP through a combination of appropriations and borrowing from Treasury. Education receives permanent, indefinite budget

⁷Under the Federal Family Education Loan Program (FFELP), private lenders fund the loans and the government guarantees them a minimum yield and repayment if borrowers default. FFELP is a larger program than is FDLP in terms of both annual and outstanding loan volume.

⁸Loans made in each fiscal year are called a cohort.

authority for estimated subsidy costs—the amount expected not to be repaid by borrowers—of its loans. These costs are generally updated, or reestimated, annually. The portion of direct loans that Education predicts will ultimately be repaid by borrowers is financed by borrowing from Treasury and is not considered a cost to the government because it is expected to be returned to the government in future years.

Differences between Estimated and Actual Outlays

Based on a 5-year average, estimated outlays for direct student loans differed from actual outlays by about \$2.6 billion per year, or 702 percent, in absolute value terms. However, the actual annual differences varied between an overestimate of \$2.8 billion and an underestimate of \$5.3 billion. A large component of these differences reflects the fact that initial estimates do not include reestimates of prior year costs, which are reflected in actual outlays. In addition, initial estimates reflect proposed policies, many of which were not enacted and so were not reflected in subsequent actual outlays. Table 5 presents the estimated and actual outlays associated with the federal direct student loan program, by fiscal year.

Table 5: Estimated and Actual Direct Student Loan Outlays, by Fiscal Year

Nominal dollars in millions				
Fiscal year	Original outlay estimate	Actual outlays	Difference	
2000	\$-42	\$-2,862	\$2,820	
2001	115	257	-142	
2002	-635	97	-732	
2003	-283	5,055	-5,338	
2004	-786	3,246	-4,032	
5-year average dollar difference			\$-1,485	
5-year average difference as a percent of average estimated outlays			455.2%	
5-year average dollar difference (absolute value)			\$2,613	
5-year percentage difference (absolute value)			702%	

Source: GAO analysis of President's budget data.

Note: A negative outlay amount indicates a positive collection of revenue. Also, for credit programs, the term actual is misleading because reestimates will continue until all the loans in that cohort have been repaid.

Explanation of Key Differences

Because FDLP is a relatively new program, it has a short history of repayment activity and little historical data are available. Accordingly, Education initially relied heavily on data from the guaranteed student loan

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program to develop estimates for most key cash flow assumptions in its FDLP cash flow model, which is used to estimate the subsidy cost of the program. Over the past few years, Education has incorporated FDLP data into many cash flow assumptions; as more data become available, Education plans to completely phase out the use of guaranteed loan data for FDLP assumptions.⁹

Drops in interest rates have been a key driver behind differences in estimated versus actual outlays. Not only are loans being paid off at lower rates than anticipated but the drop in rates has also led to a dramatic increase in consolidations (which are prepayments). Detailed explanations are shown in table 6.

Table 6: Explanation of Differences between Estimated and Actual Direct Student Loan Outlays

Nominal dollars in billions

Fiscal year and dollar differences ^a	Education's explanation of differences		
	Legislative	Economic	Technical
2000 \$2.8			Actual includes about \$2.4 billion in prior year reestimates of loans made in fiscal years (FY) 1994 through 1999. Net downward reestimate of prior cohorts primarily due to revised assumptions about a drop in defaults and an increase in collections. FY 2000 cohort subsidy decreased \$442 million. Administrative costs decreased \$30 million.
2001 \$-0.14		Changes in interest rates resulted in \$481 million upward reestimate of prior year cohorts.	Actual includes about \$481 million in prior year reestimates of loans made in FYs 1994 through 2000. FY 2001 cohort subsidy decreased \$432 million. Administrative costs increased \$94 million
2002 \$-0.73		Drop in interest rates caused FY 2002 cohort subsidy to increase \$694 million due to lower projected borrower repayments.	Administrative costs increased \$42 million.

⁹While using guaranteed loan data is appropriate for the interim, guaranteed loans may perform differently than FDLP loans. Accordingly, Education plans to phase out the use of guaranteed loan data as FDLP data become available.

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Nominal dollars in billions

Education's explanation of differences

Fiscal year and dollar differences ^a	Legislative	Economic	Technical
2003 \$-5.3		Revised assumptions on interest rates, prepayments through consolidations, and defaults resulted in upward reestimate of prior year cohorts of \$4.6 billion. FY 2003 cohort subsidy increased \$250 million.	Actual includes about \$4.6 billion for 2-years worth of prior-year reestimates of loans made in FYs 1994 through 2002. (No reestimate was executed in FY 2002.) \$15 million policy proposal to shift administrative expenses to a discretionary account not enacted by Congress.
2004 \$-4.0			\$710 million policy proposal to shift administrative expenses to a discretionary account not enacted by Congress. About \$2.6 billion in upward reestimates of prior year cohorts (loans made during FYs 1994 through 2003) reflects technical changes to model assumptions, including higher level of prepayments, which lower future interest income, and higher defaults for borrowers choosing income-contingent loan repayment.

Source: Department of Education.

Notes: Primary drivers of outlay differences are marked in bold.

^aA negative difference means that actual outlays were higher than originally estimated. A positive difference means that actual outlays were less than originally estimated.

Illustrative Trigger and Response

Congress could decrease the subsidy cost to the government by, among other things, increasing the amount of fees borrowers must pay to obtain a loan or increasing borrowers' interest rate. For example, continued differences between estimated and actual outlays could be used as a trigger, resulting in higher origination fees or interest rates for new FDLP loans. In implementing such a trigger and response, Congress would need to consider whether FFELP borrowers should similarly be affected. Under current law, loans made to borrowers, unless otherwise specified, are to have the same terms, conditions, and benefits and be made available in the same amounts under both FDLP and FFELP.¹⁰

¹⁰Higher Education Act of 1965 (Public Law 89-329), as amended, Section 455 (a)(1).

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Account Name	Grants to States for Medicaid
Administering Organization	Centers for Medicare & Medicaid Services (CMS), U.S. Department of Health and Human Services
Program Description	Medicaid is a health-financing program for eligible low-income individuals and families. Federal statute defines over 50 population groups that are potentially eligible for states' programs. In general, eligibility is limited to low-income children, pregnant women, parents of dependent children, people with disabilities, and the elderly. Although Medicaid is one federal program, it consists of 56 distinct state-level programs—one for each state, territory, Puerto Rico, and the District of Columbia. ¹¹ Each of the states has a designated Medicaid agency that administers the program. In accordance with the Medicaid statute and within broad federal guidelines, each state establishes its own eligibility standards; determines the type, amount, duration, and scope of covered services; sets payment rates; and develops its administrative structure.
Funding Source	<p>The federal government matches state Medicaid spending for medical assistance according to a formula that compares each state's average per capita income—a proxy reflecting the health of the state's economy and its response to economic changes—to the national per capita income. Therefore, states with a high per capita income receive less federal funds than states with a low per capita income. As economic conditions improve or decline in a particular state, so does the amount of federal matching funds granted to that state. The federal share, known as the Federal Medical Assistance Percentage (FMAP), can range from 50 to 83 percent. States are required to describe the nature and scope of their programs in comprehensive written plans submitted to CMS—with federal funding for state Medicaid services contingent upon CMS approval of the plans. This approval hinges on whether CMS determines that state plans meet all applicable federal laws and regulations.</p> <p>Although the source of Medicaid funding is through an annual appropriation act, Medicaid is not considered a discretionary spending program. Because Medicaid is an entitlement created by the operation of law, if Congress fails to appropriate money necessary to fund payments and benefits, eligible recipients may seek legal recourse. In such case,</p>

¹¹Hereafter, all will be referred to as states.

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necessary payments may be made through the indefinite judgment fund pursuant to 31 U.S.C. § 1304.

**Differences between Estimated
and Actual Outlays**

Based on a 5-year average, estimated Medicaid outlays differed from actual outlays by about \$4.2 billion per year, or 2.9 percent, in absolute value terms. Actual annual differences ranged from an underestimate of \$5.1 billion to an overestimate of \$6.3 billion. Table 7 presents the estimated and actual Medicaid outlays for fiscal years 2000 through 2004.

Table 7: Estimated and Actual Medicaid Outlays, by Fiscal Year

Nominal dollars in millions			
Fiscal year	Original outlay estimate	Actual outlays	Difference
2000	\$114,660	\$117,921	\$-3,261
2001	124,838	129,374	-4,536
2002	142,423	147,512	-5,089
2003	158,790	160,693	-1,903
2004	182,543	176,231	6,312
5-year average dollar difference			\$-1,695
5-year average difference as a percent of average estimated outlays			-1.2%
5-year average dollar difference (absolute value)			\$4,220
5-year percentage difference (absolute value)			2.9%

Source: GAO analysis of President's budget data.

Explanation of Key Differences

Both legislative and technical factors led to differences in estimated and actual Medicaid outlays. For example, the Jobs and Growth Tax Relief Reconciliation Act of 2003,¹² which temporarily changed federal matching rates for benefits and provided fiscal relief to states, affected estimated Medicaid outlays in both fiscal years 2003 and 2004. Technical factors included misestimates of medical assistance payments, administrative costs, vaccines for children, and collections. Also, there were a number of legislative proposals that were not adopted. It is not clear if economic factors also contributed to the differences, although it is likely so given the economic downturn that occurred during this time period. Changing economic conditions could have led to differences in the number of

¹²Pub. L. No. 108-27, §401, 117 Stat. 752, 764 (May 28, 2003).

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individuals eligible for and receiving benefits, and therefore total program outlays.

According to CMS officials, Medicaid estimates are based primarily on state estimates and may be adjusted by CMS' Office of the Actuary to reflect recent trends in how state estimates have changed over time or how they have compared with actual expenditures in recent years. Agency officials were unable to accurately identify and quantify the effects of any of these factors and explained that the difficulty lies with the variability of program structure across states. Each state is allowed the discretion to structure and modify its program, including the establishment of eligibility criteria and payment rates. Similarly, state legislative actions and economic conditions vary across the country and could have varying effects on program outlays. Consequently, aggregating state data into a single Medicaid figure would mask estimating inaccuracies and challenges since the negative effect in one might be offset by positive effect in another. In the event that the difference between estimated and actual spending is very large, CMS said it would then investigate and seek explanations from the states. Although CMS did not consider the differences evident throughout the 5-year period we reviewed to be large enough to prompt such an evaluation, they did provide some explanation behind misestimates as shown in table 8 below.

Table 8: Explanation of Differences between Estimated and Actual Medicaid Outlays

Nominal dollars in billions

Fiscal year and dollar difference ^a	CMS' explanation of differences		
	Legislative	Economic	Technical
2000 -\$3.3			Underestimated medical assistance payments by over \$3 billion, administrative costs by \$71 million, and vaccines for children by \$2 million. The resulting outlay underestimate was further increased by a legislative proposal expected to save \$161 million that had been included in the original estimate but was not accepted.

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Nominal dollars in billions

CMS' explanation of differences

Fiscal year and dollar difference ^a	Legislative	Economic	Technical
2001 -\$4.6			Underestimated medical assistance payments by \$7.1 billion and vaccines for children by \$357 million. These underestimates were partially offset by a \$977 million overestimate of administrative costs, an underestimate of almost \$1.3 billion in collections, and a legislative proposal expected to cost \$663 million that had been included in the original estimate but was not accepted.
2002 -\$5.1			Underestimated medical assistance payments by \$5.3 billion. This underestimate was partially offset by a \$138 million underestimate of collections and overestimates of administrative costs and vaccines for children by \$722 million and \$4 million respectively. The resulting outlay underestimate was further increased by a legislative proposal expected to save \$606 million that had been included in the original estimate but was not accepted.
2003 -\$1.9	The Jobs and Growth Tax Relief Reconciliation Act of 2003 was enacted in late May 2003, after original FY 2003 estimates were made. CMS said this legislation accounted for approximately \$4 billion in unanticipated outlays.		Underestimated medical assistance payments by nearly \$3 billion and vaccines for children by \$241 million. These underestimates were partially offset by a \$1.1 billion overestimate of administrative costs, a \$112 million underestimate of collections, and a legislative proposal expected to cost \$98 million that had been included in the original estimate but was not accepted.
2004 \$6.3	The Jobs and Growth Tax Relief Reconciliation Act of 2003 was enacted in late May 2003, after original FY 2004 estimates were made. CMS said this legislation accounted for approximately \$6 billion in unanticipated outlays.		Outlays were overestimated as a result of a legislative proposal expected to cost \$5.8 billion, which had been included in the original estimate but was not adopted, a \$1 billion overestimate of administrative costs, and a \$168 million underestimate of collections. The resulting outlay overestimate was partially offset by underestimates of medical assistance payments and vaccines for children by \$520 million and \$133 million respectively.

Source: Centers for Medicare & Medicaid Services.

Notes: Primary drivers of outlay differences are marked in bold.

^aA negative difference means that actual outlays were higher than originally estimated. A positive difference means that actual outlays were less than originally estimated.

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Account Name	Federal Hospital Insurance (HI) Trust Fund (Medicare Part A)
Administering Organization	Centers for Medicare & Medicaid Services, U.S. Department of Health and Human Services
Program Description	The account funds the Medicare Part A program which partially covers the costs of, among other things, home health care, inpatient care in hospitals and skilled nursing facilities, and hospice care. Based on their work history, most U.S. citizens and permanent residents and their spouses are eligible for Medicare Part A if they are 65 years of age or older. Also, certain persons under 65 years old who are disabled or have end-stage renal disease are eligible for coverage. Enrollees or their spouses who have contributed to Medicare through payroll taxes for at least 10 years of employment are automatically enrolled at age 65 and need not pay premiums to receive coverage. Individuals who have not met this eligibility requirement may pay a monthly premium to purchase Part A coverage. ¹³
Funding Source	The primary funding source for Medicare Part A comes from payroll taxes. Other relevant revenue sources include interest on investments in government securities held by the fund, ¹⁴ income from taxation of Old Age, Survivors, and Disability Insurance (Social Security) benefits, and premiums collected from voluntary participants.
Differences between Estimated and Actual Outlays	Based on a 5-year average, estimated Medicare Part A outlays differed from actual outlays by about \$5.6 billion per year, or 3.8 percent, in absolute value terms. Actual annual differences ranged from an underestimate of \$4.3 billion to an overestimate of \$15.9 billion. Table 9 presents the estimated and actual HI outlays for fiscal years 2000 through 2004.

¹³The premium for Part A was \$375 per month in 2005. Medicare premiums can change each year.

¹⁴The portion of the HI trust fund that is not needed to cover current expenditures for administration and benefits is invested on a daily basis in interest-bearing obligations of the federal government.

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Table 9: Estimated and Actual HI Outlays, by Fiscal Year

Nominal dollars in millions

Fiscal year	Original outlay estimate	Actual outlays	Difference
2000	\$143,898	\$127,973	\$15,925
2001	143,427	140,573	2,854
2002	144,674	145,606	-932
2003	147,295	151,308	-4,013
2004	159,750	164,136	-4,386
5-year average dollar difference			\$1,890
5-year average difference as a percent of average estimated outlays			1.3%
5-year average dollar difference (absolute value)			\$5,622
5-year percentage difference (absolute value)			3.8%

Source: GAO analysis of President's budget data.

Explanation of Key Differences

Both legislative and technical factors led to differences between estimated and actual HI outlays. For example, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA)¹⁵ led to greater-than-expected outlays in fiscal year 2004. Technical factors included difficulty in predicting the behavior of providers under new payment systems, misestimates of home health transfers to and from the Supplementary Medical Insurance (SMI) Trust Fund, and misestimates of service usage. Economic factors, specifically the hospital market basket, also contributed to differences. The hospital market basket is an input price index that represents the cost of the mix of goods and services that comprise routine, ancillary, and special-care unit inpatient hospital services. Detailed explanations of the differences are shown in table 10.

¹⁵Public Law 108-173. In this report, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 is referred to as the Medicare Modernization Act (MMA).

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Table 10: Explanation of Differences between Estimated and Actual HI Outlays

Nominal dollars in billions		CMS' explanation of differences		
Fiscal year and dollar difference ^a	Legislative	Economic	Technical	
2000 \$15.9				Overestimated benefit payments by \$10.1 billion, which CMS attributed to its difficulty in predicting the behavior of providers under new payment systems for skilled nursing facility (SNF) services and home health services. Also, a \$6.6 billion overestimate of home health transfers to the SMI fund ^b further widened the gap between estimated and actual outlays. CMS attributed this to discrepancies in implementing the payment system, particularly by home health agencies. Specifically, the cap on average per-beneficiary home health expenditures was treated as an absolute cap, thereby cutting services to patients requiring numerous visits per episode of care. This resulted in unexpected additional savings. The resulting outlay overestimate was partially offset by a legislative proposal expected to save \$808 million that had been included in the original estimate but was not accepted.
2001 \$2.9				Overestimated benefit payments by almost \$3.9 billion, which CMS attributed to the discrepancy between what they assumed service usage to be and actual usage. Overestimates of \$242 million in home health transfers to the SMI fund and \$84 million in quality improvement organizations (QIO) ^c further added to the difference. The resulting outlay overestimate was partially offset by a \$1.2 billion quinquennial adjustment as required by law ^d and a legislative proposal expected to save \$185 million that had been included in the original estimate but was not adopted.

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Nominal dollars in billions

CMS' explanation of differences

Fiscal year and dollar difference^a	Legislative	Economic	Technical
2002 -\$0.9			Underestimated benefit payments by \$2.3 billion, which CMS attributed to the discrepancy between what they assumed service usage to be and actual usage. The resulting outlay underestimate was partially offset by overestimates of \$1.3 billion and \$77 million in home health transfers to the SMI fund and QIOs respectively.
2003 -\$4.0		Inpatient hospital expenditures were higher than expected due to a higher-than-expected "market basket" payment update. Market basket refers to the input price index based on the cost of a particular type of health provider (e.g., hospital, skilled nursing facility, home health agency) to provide services to patients. By law these indexes are used to update Medicare payments.	Inpatient hospital expenditures were higher than expected also because of a hospital case mix increase. Case mix refers to the average complexity of inpatient admissions for Medicare beneficiaries. Payments are based on the type of case, so if the mix of cases changes, payments also change. Expenditures were also higher because expected SNF resource utilization group (RUG) refinements were not made, which would have reduced payments. SNFs received higher payments due to the introduction of a new administrative policy to adjust payment updates for past differences between actual and estimated market basket increases. The \$7.3 billion underestimate in benefit payments was further increased by an \$18 million underestimate of administrative costs, but was partially offset by overestimates of \$2.8 billion in home health transfers to the SMI fund, \$43 million in QIOs, and a legislative proposal expected to cost \$410 million that was included in the original estimate but was not adopted.
2004 -\$4.4	Underestimated benefit payments by \$4.3 billion. CMS attributed this to several MMA provisions that were enacted and implemented after original estimates were made, which led to higher actual expenditures. In particular, payments to private health plans contracting with Medicare were increased substantially as were payments to rural health providers.		Once again, expected SNF RUG refinements were not made, resulting in higher-than-estimated expenditures. Hospice expenditures were also higher than estimated. The \$4.3 billion underestimate in benefit payments was further increased by underestimates of \$23 million in QIOs and \$17 million in administrative costs.

Source: Centers for Medicare & Medicaid Services.

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Notes: Primary drivers of outlay differences are marked in bold. In 2003 it was unclear which factor most significantly affected the difference. In that case, there is no primary driver marked in bold.

^aA negative difference means that actual outlays were higher than originally estimated. A positive difference means that actual outlays were less than originally estimated.

^bHome health agency transfers occur between the HI and SMI trust funds and total billions of dollars throughout the 5-year period. However, the positive variance in one fund is equally offset by the negative variance in the other. As a result, when the Medicare trust funds are taken together, this intertrust fund activity has no cumulative impact on the federal surplus/deficit.

^cQuality improvement organizations are groups of practicing doctors and other health care experts paid by the federal government to check and improve the care given to Medicare patients.

^dSection 217(g) of the Social Security Act provides for periodic transfers between the general fund of the Treasury and the HI trust fund, if needed to adjust prior payments for the costs arising from wage credits granted for military service before 1957.

Currently Existing Program
Trigger and Response

MMA established a trigger with a soft response to constrain growth in Medicare; it requires the President to submit a proposal to Congress for action if the Medicare Trustees determine in 2 consecutive years that the general revenue share¹⁶ of Medicare is projected to exceed 45 percent during a 7-year projection period. To date, this threshold has not been breached and thus no response has been triggered. According to the 2005 Medicare Trustees' report, the trigger is expected to be breached in 2012, which falls within the 7-year projection period that will be covered in the 2006 Medicare Trustees' report. If the 45 percent threshold is projected to be breached again in the next consecutive 7-year projection period, the President will be required to propose legislation, within 15 days of submitting the fiscal year 2009 budget, to respond to the funding warning.

Illustrative Trigger and Response

Using the trigger of general revenue exceeding 45 percent in 2 consecutive years during a 7-year period, hard responses could also be developed. Possible responses are to adjust taxes, benefit formulas, or eligibility criteria. For example, Medicare payroll taxes could automatically be increased unless Congress took action to prevent the increase. Alternatively, reaching the trigger could cause automatic changes to benefit formulas or eligibility criteria, or a combination of benefit changes and tax increases. Of course congressional action could change the automatic response if it was deemed inappropriate at that time.

¹⁶For the purpose of the Medicare trigger, general revenue is defined as the difference between Medicare program outlays and dedicated Medicare financing sources. Dedicated Medicare financing sources are HI payroll taxes, the HI share of income taxes on Social Security benefits, state transfers for Part D prescription drug benefits, premiums paid under Parts A, B, and D, and any gifts received by the trust funds.

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Account Name	Federal Supplementary Medical Insurance (SMI) TrustFund (Medicare Part B)
Administering Organization	Centers for Medicare & Medicaid Services, U.S. Department of Health and Human Services
Program Description	<p>This account, also known as Medicare Part B, partially covers the cost of doctors' services, clinical laboratory services, outpatient hospital services, some physical and occupational therapy services, and some home health care. Eligibility requirements for Medicare Part B are similar to those for Part A. However, unlike for Medicare Part A, enrollment is voluntary. Enrollees must pay a monthly premium to receive Part B coverage. In 2005, premiums were \$78.20 per month and the deductible was \$110. Premium and deductible rates may change every year.</p> <p>Most Part B services are paid based on a fee schedule. Physicians, the largest Part B service type, are paid under the sustainable growth rate (SGR) system,¹⁷ which determines the increase in payments per service for the physician fee schedule for each year based on a statutory formula. Under the SGR system, actual physician-related spending is compared with target physician-related spending levels. If actual spending exceeds target spending, then future physician fee schedule updates are reduced.</p>
Funding Source	SMI is financed from general revenues (approximately 75 percent) and beneficiary premiums (approximately 25 percent).
Differences between Estimated and Actual Outlays	Based on a 5-year average, estimated Medicare Part B outlays differed from actual outlays by about \$6.4 billion per year, or 6.1 percent, in absolute value terms. Actual annual differences ranged from an underestimate of \$13.4 billion to an overestimate of \$4.6 billion. Table 11 presents the estimated and actual SMI outlays by fiscal year.

¹⁷Physician spending was about 40 percent of total Part B benefits in fiscal year 2004.

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Table 11: Estimated and Actual SMI Outlays, by Fiscal Year

Nominal dollars in billions

Fiscal year	Original outlay estimate	Actual outlays	Difference
2000	\$91,795	\$87,216	\$4,579
2001	96,372	97,531	-1,159
2002	107,830	107,113	717
2003	108,416	121,816	-13,400
2004	119,353	131,632	-12,279
5-year average dollar difference			\$-4,308
5-year average difference as a percent of average estimated outlays			-4.1%
5-year average dollar difference (absolute value)			\$6,427
5-year percentage difference (absolute value)			6.1%

Source: GAO analysis of President's budget data.

Congress has overridden the statutory updates for the 2003, 2004, and 2005 physician fee schedules. Although the SGR system called for negative updates in these years, Congress instead granted increases in physician payments per service. For several years the law was changed to specify higher spending for physicians after the budget estimates were already done. Consequently, this contributed to actual outlays that were higher than estimated.

Explanation of Key Differences

Both legislative and technical factors led to differences between estimated and actual SMI outlays. For example, the Consolidated Appropriations Resolution of 2003 and MMA led to greater-than-expected outlays for spending for physicians' services. Technical factors included delayed implementation and difficulty in predicting the behavior of providers under a new outpatient hospital prospective payment system, misestimates of home health transfers to and from the HI fund, and misestimates of service usage. Similar to the HI fund, changes in the hospital market basket also contributed to differences. Detailed explanations of the differences are shown in table 12.

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Table 12: Explanation of Differences between Estimated and Actual SMI Outlays

Nominal dollars in billions

Fiscal year and dollar difference ^a	CMS' explanation of differences		
	Legislative	Economic	Technical
2000 \$4.6			Benefit payments were \$11.6 billion lower than expected, which CMS attributed to the delayed implementation and difficulty in predicting the behavior of providers under a new outpatient hospital prospective payment system. The system was being created from scratch and little research had been done on what type of system would work best. Original projections had an earlier start date, which caused higher expenditures to be estimated. This overestimate was further increased by overestimates of \$90 million and \$17 million in transfers to Medicaid and QIOs respectively. The resulting overestimate was partially offset by a \$6.6 billion overestimate of home health transfers received from the HI fund and a legislative proposal expected to save \$570 million that had been included in the original estimate but was not adopted.
2001 -\$1.2			Most of the difference is attributed to a legislative proposal expected to save \$685 million that was not adopted. Benefit payments were \$241 million greater than expected, which CMS attributed to the discrepancy between what they assumed service usage to be and actual usage. In addition, home health transfers received from the HI fund were \$242 million less than expected.
2002 \$0.7			Most of the difference resulted from a \$2.1 billion overestimate of benefit payments, which CMS attributed to the discrepancy between what they assumed service usage to be and actual usage. This overestimate was partially offset by a \$1.3 billion overestimate of home health transfers received from the HI fund and a \$42 million underestimate of transfers to Medicaid.

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Nominal dollars in billions

CMS' explanation of differences

Fiscal year and dollar difference ^a	Legislative	Economic	Technical
2003 -\$13.4	Consolidated Appropriations Resolution 2003 was passed after the original budget estimates, which caused a substantially higher physician fee update than estimated in the projections.	A higher hospital market basket (as mentioned in the Medicare Part A section) also caused higher-than-expected outpatient hospital expenditures.	The underestimate of benefit payments was further increased by a \$112 million underestimate of transfers to Medicaid, but was partially offset by a legislative proposal expected to cost \$70 million that was not adopted and a \$16 million overestimate in QIOs.
2004 -\$12.3	As noted in the Medicare Part A section, MMA was passed in 2003 and some of its provisions were implemented in 2004, causing higher private plan and rural provider expenditures. Also, the physician fee update was much higher than had been originally estimated due to the MMA legislation that was enacted after the 2004 budget estimates were made. Consequently, benefit payments were \$12.2 billion greater than expected.		The underestimate of benefit payments was further increased by a \$168 million underestimate of transfers to Medicaid, but was partially offset by a legislative proposal expected to cost \$55 million that was included in the original estimate but not adopted.

Source: Centers for Medicare & Medicaid Services.

Notes: Primary drivers of outlay differences are marked in bold.

^aA negative difference means that actual outlays were higher than originally estimated. A positive difference means that actual outlays were less than originally estimated.

Currently Existing Program Triggers and Responses

Congress has established two triggers with soft and hard responses to constrain growth in SMI. First, under the SGR system, if actual physician-related spending exceeds target physician-related spending then future physician fee schedule updates are reduced. Because the actual versus target spending comparison is cumulative, future fee updates are reduced to lower future actual spending below future target spending until total cumulative actual spending is the same as total cumulative target spending. Although the SGR system was designed to encourage fiscal discipline, Congress has chosen to modify or override this constraint a number of times. We have previously reported on concerns about the SGR system and

considerations for reform.¹⁸ Second, MMA established a trigger with a soft response; it requires the President to submit a proposal to Congress for action if the Medicare Trustees determine in 2 consecutive years that the general revenue share of Medicare is projected to exceed 45 percent during a 7-year projection period. To date, this threshold has not been breached and thus no response has been triggered. As mentioned in the Medicare Part A section of this appendix, the trigger is expected to be breached in 2012, which falls within the specified 7-year projection period that will be covered in the 2006 Medicare Trustees' report. If the 45 percent threshold is projected to be breached again in the next consecutive 7-year projection period, the President will be required to propose legislation, within 15 days of submitting the fiscal year 2009 budget, to respond to the funding warning.

Illustrative Trigger and Response

Using the trigger of general revenue exceeding 45 percent in 2 consecutive years during a 7-year period, hard responses could also be developed. Possible responses are to adjust premiums,¹⁹ benefit formulas, or eligibility criteria. For example, Part B premiums could automatically be increased unless Congress took action to prevent the increase. Alternatively, reaching the trigger could cause automatic changes to benefit formulas or eligibility criteria, or a combination of benefit changes and premium increases. Of course congressional action could change the automatic response if it was deemed inappropriate at that time.

¹⁸GAO, *Medicare Physician Payments: Considerations for Reforming the Sustainable Growth Rate System*, [GAO-05-326T](#) (Washington, D.C.: Feb. 10, 2005) and *Medicare Physician Payments: Concerns about Spending Target System Prompt Interest in Considering Reforms*, [GAO-05-85](#) (Washington, D.C.: Oct. 8, 2004).

¹⁹Part B premiums have seen double-digit increases in the past 3 years, and are expected to continue in the future if Congress again decides to override the SGR.

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Account Name	Rail Industry Pension Fund
Administering Organization	Railroad Retirement Board (RRB)
Program Description	<p>The RRB administers a Federal retirement-survivor benefit program for the nation's railroad workers and their families, under the Railroad Retirement Act. In connection with this retirement program, the RRB has administrative responsibilities under the Social Security Act for certain benefit payments and railroad workers' Medicare coverage.</p> <p>Under the Railroad Retirement Act, retirement and disability annuities are paid to railroad workers with at least 10 years of service, or 5 years if performed after 1995. Annuities are also payable to spouses and divorced spouses of retired workers and to widow(er)s, surviving divorced spouses, remarried widow(er)s, children, and parents of deceased railroad workers. Qualified railroad retirement beneficiaries are covered by Medicare in the same way as Social Security beneficiaries.</p> <p>Railroad retirement benefits are calculated under a two-tier formula. Tier I is based on combined railroad retirement and Social Security credits, using Social Security benefit formulas. Tier II is based on railroad service only and is similar to the defined benefit pensions paid over-and-above Social Security benefits in other industries. In addition, some annuitants may also be qualified for supplemental benefits and vested dual benefits. Cost-of-living adjustments on the Tier I portion of annuities are paid similarly to those for Social Security. However, the adjustment for the Tier II portion is limited to 32.5 percent of the previous year's increase in the Consumer Price Index. Supplemental annuities and vested dual benefits are not subject to cost-of-living adjustments.</p>
Funding Source	<p>Payroll taxes paid by railroad employers and their employees are the primary source of funding for the railroad retirement benefit program. Corresponding to the two-tier benefit structure, railroad retirement taxes are levied on a two-tier basis. Railroad retirement Tier I payroll taxes are coordinated with Social Security taxes so that employees and employers pay Tier I taxes at the same rate as Social Security taxes. In addition, both employees and employers pay Tier II taxes, which are used to finance railroad retirement benefit payments over-and-above Social Security equivalent levels. These Tier II taxes are based on the ratio of certain asset balances to the sum of benefit payments and administrative expenses.</p>

While the railroad retirement system has remained separate from the Social Security system, the two systems are closely coordinated with regard to earnings credits, benefit payments, and taxes. The financing of the two systems is linked through a financial interchange under which, in effect, the portion of railroad retirement annuities that is equivalent to Social Security benefits is coordinated with the Social Security system. The purpose of this financial coordination is to place the Social Security trust funds in the same position they would be in if railroad service were covered by the Social Security program instead of the railroad retirement program.

Starting in fiscal year 2002, revenues in excess of benefit payments are invested to provide additional trust fund income. The National Railroad Retirement Investment Trust (NRRIT), established by the Railroad Retirement and Survivors' Improvement Act of 2001, manages and invests railroad retirement assets. The trust is a tax-exempt entity independent from the federal government. Railroad retirement funds are invested in nongovernmental assets, as well as in governmental securities. Prior to the Act, investment of Railroad Retirement Account assets was limited to U.S. government securities.

Additional trust fund income is derived from revenues from federal income taxes on railroad retirement benefits, and appropriations from general Treasury revenues provided after 1974 as part of a phase-out of certain vested dual benefits.

Differences between Estimated and Actual Outlays

Based on a 5-year average, estimated outlays from the Rail Industry Pension Fund differed from actual outlays by about \$4.1 billion per year, or 125.7 percent, in absolute value terms. The actual annual differences between estimated and actual outlays varied between an overestimate of \$77 million and an underestimate of about \$17.9 billion. The majority of the underestimate was a result of legislation that resulted in funds being transferred out of the account and into a nongovernmental investment trust fund. Table 13 presents the estimated and actual outlays associated with the Rail Industry Pension Fund, by fiscal year.

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Table 13: Estimated and Actual Rail Industry Pension Fund Outlays, by Fiscal Year

Nominal dollars in millions

Fiscal year	Original outlay estimate	Actual outlays	Difference
2000	\$3,038	\$2,961	\$77
2001	3,044	2,967	77
2002	3,078	4,814	-1,736
2003	3,416	21,326	-17,910
2004	3,639	4,225	-586
5-year average dollar difference			\$-4,016
5-year average difference as a percent of average estimated outlays			-123.8%
5-year average dollar difference (absolute value)			\$4,077
5-year percentage difference (absolute value)			125.7%

Source: GAO analysis of President's budget data.

Explanation of Key Differences

The discrepancies between estimated and actual outlays in fiscal years 2002 through 2004 can be attributed to the enactment of the Railroad Retirement and Survivors' Improvement Act of 2001, which was signed into law on December 21, 2001. This legislation lowered eligibility requirements for annuitants and eliminated reductions that previously applied to annuities of 30-year employees retiring between ages 60 and 62. The law also lowered the minimum eligibility requirement to receive regular annuities from 10 to 5 years of service after 1995 and increased the Tier II amount paid to a widow(er) from 50 percent to 100 percent. Additionally, the maximum limit on monthly railroad retirement benefits was eliminated. The law reduced the Tier II tax rate on rail employers in 2002 and 2003, and in 2004 provided automatic Tier II tax rate adjustments for both employers and employees. Lastly, funds in excess of those needed for current payment of benefits and administrative expenses were transferred to the National Railroad Retirement Investment Trust.

Agency officials indicated that the level of employment in the rail industry is the most difficult factor to predict when estimating revenue because it directly affects payroll tax income. Employment only affects estimates in the long term, not short term. When reporting budget estimates to OMB, the agency uses middle-range estimates that assume employment will decrease gradually over time. Additionally, financial interchanges of the estimated allocation of benefits between the Railroad Retirement Account and Social Security Equivalent Benefit Account make it difficult to estimate

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exact outlays as they are continually changing. A detailed explanation of the differences is shown in table 14.

Table 14: Explanation of Differences between Estimated and Actual Rail Industry Pension Fund Outlays

Nominal dollars in billions

Fiscal year and dollar difference ^a	RRB's explanation of differences		
	Legislative	Economic	Technical
2000 \$0.08			Difference results from changes in the estimated allocation of benefits between the Railroad Retirement Account and Social Security Equivalent Benefit Account. The actual allocation of benefits between these accounts for a given calendar year is not known until the financial interchange determination is completed some 16 months after the end of a calendar year (which implies about 19 months after the end of the fiscal year ending in the given calendar year).
2001 \$0.08			Difference results from changes in the estimated allocation of benefits between the Railroad Retirement Account and Social Security Equivalent Benefit Account.
2002 \$-1.7	The number of retirements increased due to the enactment of the Railroad Retirement and Survivors' Improvement Act of 2001, which lowered eligibility requirements for annuitants and eliminated reductions that previously applied to annuities of 30-year employees retiring at age 60. The Act also lowered the minimum eligibility requirement to receive regular annuities from 10 to 5 years of service after 1995 and increased the Tier II amount paid to a widow(er) from 50 percent to 100 percent. Additionally, the maximum limit on monthly railroad retirement benefits was eliminated. The Act reduced the Tier II tax rate on rail employers in 2002 and 2003, and in 2004 provided automatic Tier II tax rate adjustments for both employers and employees. Funds in excess of those required for current payment of benefits and administrative expenses, \$1.432 billion, were transferred to the NRRIT.		The original outlay estimates are for benefit payments only.

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Nominal dollars in billions

Fiscal year and dollar difference ^a	RRB's explanation of differences		
	Legislative	Economic	Technical
2003 \$-17.9	The number of retirements increased due to the enactment of the Railroad Retirement and Survivors' Improvement Act of 2001. Funds in excess of those required for current payment of benefits and administrative expenses, \$17.75 billion, were transferred to the NRRIT.		The original outlay estimates are for benefit payments only.
2004 \$-0.59	Funds in excess of those required for current payment of benefits and administrative expenses, \$586 million, were transferred to the NRRIT.		The original outlay estimates are for benefit payments only.

Source: Railroad Retirement Board.

Notes: Primary drivers of outlay differences are marked in bold.

^aA negative difference means that actual outlays were higher than originally estimated. A positive difference means that actual outlays were less than originally estimated.

Illustrative Trigger and Response

If actual outlays exceeded estimates by more than the historical average, Congress could reduce retirement benefits across the board. For example, if estimated outlays historically differed from actual outlays by a specified percent, increases in outlays above that specified percent could automatically result in an across-the-board increase in retirement contributions or a cut in retirement benefits. To determine an appropriate threshold, rail officials would need to look at long-term historical differences to minimize the effects of events such as the legislative change in fiscal years 2002 and 2003.

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Account Name	Unemployment Trust Fund
Administering Organization	Employment and Training Administration, U.S. Department of Labor 50 states, District of Columbia, Puerto Rico, and the Virgin Islands
Program Description	<p>Unemployment insurance is designed to serve as a “counter-cyclical” remedy to the effects of recessions by putting more dollars in the pockets of the labor force, thereby increasing the demand for goods and services and stabilizing the U.S. economy.</p> <p>The Unemployment Trust Fund (UTF) finances unemployment insurance—a joint federal-state program that provides temporary cash benefits to eligible workers who become unemployed through no fault of their own and helps to stabilize the economy in times of economic recession. Guided by federal law, unemployed workers must meet certain criteria set by their state in order to receive these benefits. Unemployment insurance is administered by state employees under state law.</p> <p>Extended benefits are paid during periods of high state unemployment. Extended benefits are financed one-half by state payroll taxes and one-half by the federal unemployment payroll tax. The federal tax also pays for the cost of federal and state administration of unemployment insurance, labor-market information programs, veterans’ employment services, and 97 percent of the costs of the employment service. States may receive repayable advances from the UTF when their balances in the fund are insufficient to pay benefits.</p> <p>Federal unemployment payroll taxes accumulate in three accounts: (1) the Employment Security Administration Account (ESAA), which covers both federal and state administrative costs; (2) the Extended Unemployment Compensation Account (EUCA), which covers the federal share of extended unemployment benefits and has been used to fund temporary extended unemployment compensation benefits; and (3) the Federal Unemployment Account (FUA), which funds loans to insolvent state accounts. There is a statutory ceiling on the size of each of these accounts, the amounts of which are calculated each September. The ceiling for the ESAA account is 40 percent of the appropriated amounts during the fiscal year for which the ceiling is being calculated. For the EUCA and FUA</p>

accounts, this ceiling is 0.5 percent of the total covered wages in the prior calendar year.

Funding Source

The UTF is funded by employer contributions (payroll taxes) and benefit reimbursements from nonprofit entities and governmental units that are paid in lieu of payroll taxes. The UTF may receive repayable advances from the general fund of the Treasury when it has insufficient balances to make advances to states or to pay the federal share of extended benefits.

The UTF invests its receipts in U.S. government securities and then draws on them when the government needs to pay unemployment benefits and/or cover administrative costs. In addition, the Treasury maintains a trust fund account for each state that it can use to build up reserves in times of economic stability. Forty-nine states have triggers that automatically raise state employer taxes when UTF balances fall below a specific level.

States finance the costs of regular unemployment insurance benefits and their half of the permanent Extended Benefits Program with employer payroll taxes imposed on at least the first \$7,000 paid annually to each employee.

Differences between Estimated and Actual Outlays

Based on a 5-year average, estimated outlays from the UTF differed from actual outlays by about \$9.4 billion per year, or 29.6 percent, in absolute value terms. However, the actual annual differences varied between an overestimate of about \$5 billion and an underestimate of about \$22 billion. Table 15 presents the estimated and actual outlays associated with the unemployment program by fiscal year.

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Table 15: Estimated and Actual Unemployment Trust Fund Outlays, by Fiscal Year

Nominal dollars in millions

Fiscal year	Original outlay estimate	Actual outlays	Difference
2000	\$25,773	\$20,790	\$4,983
2001	24,708	27,989	-3,281
2002	28,443	50,841	-22,398
2003	40,795	54,617	-13,822
2004	39,830	42,525	-2,695
5-year average dollar difference			\$-7,443
5-year average difference as a percent of average estimated outlays			-23.3%
5-year average dollar difference (absolute value)			\$9,436
5-year percentage difference (absolute value)			29.6%

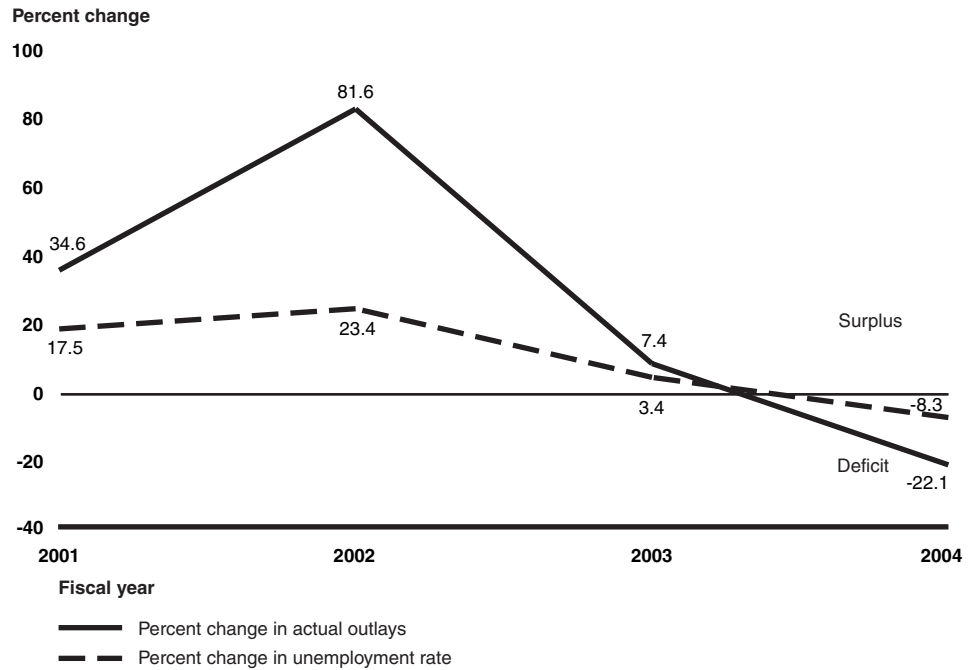
Source: GAO analysis of President's budget data.

Explanation of Key Differences

Because the overall unemployment rate increased over the 5 fiscal years, actual UTF outlays also increased as would be expected. UTF outlays are highly sensitive to changes in the unemployment rate. For example, between 2000 and 2001 the 17.5 percent increase in the unemployment rate was associated with a 34.6 percent increase in actual UTF outlays. This relationship is best illustrated by referring to figure 8.

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Figure 8: Percent Change in Unemployment Rate versus Percent Change in Actual UTF Outlays



Source: GAO analysis of data from the U.S. Bureau of Labor Statistics and the President's budgets.

Between 2001 and 2002, UTF outlays increased 81.6 percent in response to a 23.4 percent increase in the unemployment rate. In 2002, part of the outlay increase was due to legislation extending federally-funded unemployment insurance benefits through the Temporary Employment Compensation Act of 2002 (TEUC) which resulted in unanticipated UTF outlays. The unemployment rate continued to rise during this time as 130,000 workers were displaced after the events on September 11, 2001, and the economic recession persisted. Between 2002 and 2003, TEUC benefits were extended and the unemployment rate continued to increase but did so at a decreasing rate. The 3.4 percent increase in the unemployment rate and the subsequent extension of TEUC led to the 7.4 percent increase in UTF outlays. Between 2003 and 2004, the unemployment rate decreased by 8.3 percent and outlays decreased by about 22 percent. Table 16 presents the Department of Labor's (Labor) explanation for differences between estimated and actual outlays.

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Table 16: Explanation of Differences between Estimated and Actual Unemployment Trust Fund Outlays

Nominal dollars in billions

Fiscal year and dollar differences ^a	Labor's explanation of differences		
	Legislative	Economic	Technical
2000 \$5.0		An overestimate of the unemployment rate (5 percent estimated versus 4 percent actual) explained \$4.7 billion of the difference.	
2001 \$-3.3		An underestimate of the reciprocity rate^b (38 percent estimated versus 42 percent actual) explained \$2.9 billion of the difference. The reciprocity rate increased from 37 percent the prior year, which is typical for a recession, but was unanticipated.^c	
2002 \$-22.4	TEUC^d enactment resulted in \$7.9 billion of unanticipated outlays.	A 1.1 percent underestimate of the unemployment rate due to recession resulted in a \$6.6 billion difference. Underestimates of the reciprocity rate and the average weekly benefit accounted for about \$4.8 billion and \$2.4 billion in outlays, respectively. ^e	
2003 \$-13.9	TEUC extension resulted in \$11 billion of unanticipated outlays.	An underestimate of the unemployment rate accounted for an additional \$2.9 billion.	
2004 \$-2.7	TEUC extension resulted in \$4.3 billion of unanticipated outlays.	Overestimates of the reciprocity rate and average weekly benefit partly offset the TEUC extension.	

Source: Department of Labor.

Notes: Primary drivers of outlay differences are marked in bold.

^aA negative difference means that actual outlays were higher than originally estimated. A positive difference means that actual outlays were less than originally estimated.

^bThe reciprocity rate refers to the number of benefit claims and, more specifically, is the ratio of the insured unemployed (claimants) to the total number of unemployed. The rate tends to vary between 35 and 45 percent.

^cAccording to the CRS, the terrorist attacks of September 11, 2001 are directly attributed to displacing 130,000 employees.

^dThe Temporary Extended Unemployment Compensation Act (TEUC), as amended, temporarily extended unemployment benefits from March 2002 through December 2004.

^eDepartment of Labor officials did not include the \$8 billion Reed Distribution in 2002 as part of the explanation of the difference between estimated and actual outlays in fiscal year 2002 because it was considered an intragovernmental transfer and was not recorded until the states used the money held in the U.S. Treasury. Reed Distributions to states' accounts occur when funds accumulating in federal unemployment accounts reach statutorily set limits.

Illustrative Triggers and
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Currently, when funds accumulating in federal unemployment accounts reach statutorily set limits, a distribution of the “excess” funds from the UTF to individual states’ accounts in the U.S. Treasury is automatically triggered based on each state’s share of covered wages. These distributions are known as “Reed Distributions.”²⁰ Congress can also legislatively trigger a special distribution²¹ as it did in March 2002, which provided \$8 billion in distributions to all 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands and extended UTF benefits up to an additional 13 weeks longer than the maximum 26 weeks previously allowed by most states.

One potential option to constrain federal spending would be to increase the statutory cap on federal unemployment accounts, thus making it more difficult to trigger Reed Distributions to states. By making it more difficult to trip the trigger, funds could continue to build during economic prosperity and be available to states when truly needed to counter rising unemployment.

A different alternative for constraining growth would be to establish a trigger using a measure of economic prosperity—such as GDP growth in a specified number of consecutive quarters. If this trigger was reached, federal unemployment taxes would automatically increase, allowing trust fund balances to rise. To avoid procyclical effects, these taxes could be automatically reduced again using periods of rising unemployment or recession as the trigger for that action.

²⁰Reed Distributions occur when excess funds build up in federal accounts. States can keep the money in their trust funds or appropriate the money for administrative costs. Because these state funds are held by the U.S. Treasury, they are not recorded as an outlay until the states distribute the funds.

²¹Special Reed Distributions occur when Congress mandates a distribution to state UTF accounts but do not follow all the Reed Act provisions.

Analysis of Total Outlays, Receipts, and Fiscal Position

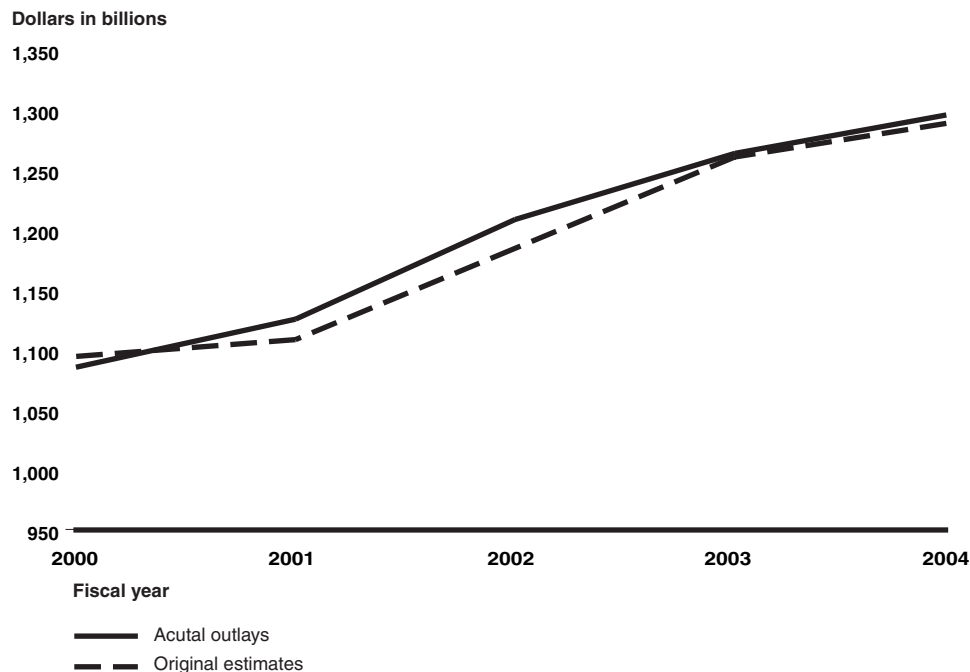
While the focus of this report is on budget triggers as they relate to selected case study accounts, we have included our analysis of aggregate receipts, outlays, and surplus/deficit measures to provide broader context. Findings related to our seven case study accounts and the reasons for differences between estimated and actual outlays are discussed in the body of this report. More detailed summaries of each account are included in appendix I.

Aggregate Mandatory Spending Estimates Were Close to Actual Outlays but Large Differences Appear at the Account Level

In the aggregate, original estimates of total mandatory spending were fairly close to actual results, however large discrepancies were evident at the account level. During fiscal years 2000 through 2004, estimated total mandatory outlays differed from actuals by no more than about 2 percent, or \$24 billion. However at the account level, average estimated and actual outlays varied greatly. While the largest difference was in the Interest on the Public Debt account—a result of other changes—other accounts also showed significant changes between estimated and actual outlays. Alternatively, there are many mandatory accounts with virtually no differences between estimated and actual outlays. The variation among individual accounts was not apparent at the aggregate level because the combination of positive and negative differences offset each other.

Figure 9 shows that total spending on mandatory programs was expected to rise throughout the 5-year period and that resulting outlays were just slightly higher than expected.

Figure 9: Estimated and Actual Total Mandatory Outlays for FYs 2000–2004, constant 2004 dollars



Source: GAO analysis of President's budget data.

Although aggregate estimates were close to actual estimates, the continued actual and forecasted growth in mandatory programs has raised concerns about the government's long-term fiscal outlook. Addressing growth in mandatory spending is an important but complicated matter that requires looking below the aggregate and into specific programs.

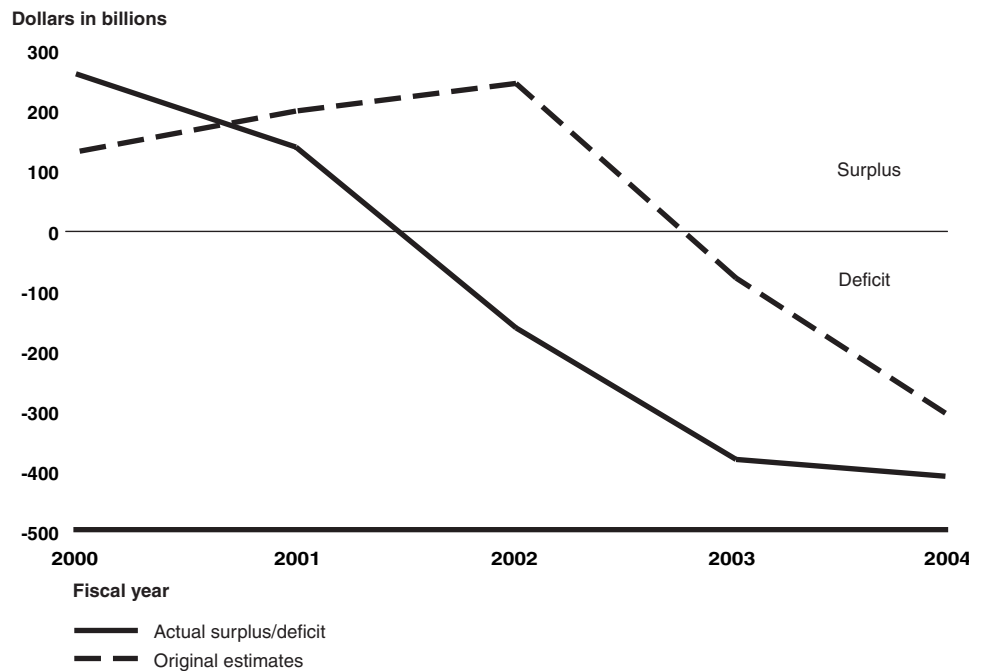
Differences between Estimated and Actual Mandatory Outlays Had Limited Effect on the Unified Deficit/Surplus

The unified budget deficit/surplus measures federal fiscal position, that is, the difference between total annual receipts and outlays. Not surprisingly, the relatively small differences between total estimated and actual mandatory outlays had a limited effect on the unified budget surplus/deficit. In most cases throughout fiscal years 2000 through 2004, the difference between estimated and actual mandatory outlays accounted for approximately 7 percent or less of the difference between the estimated and actual fiscal position. Despite the fact that mandatory outlays were close to expectations, surplus/deficit measures proved difficult to estimate

throughout the 5-year period, primarily because of misestimates of federal receipts.¹

During fiscal years 2000 through 2004, deficit/surplus projections were generally more optimistic than reality. Figure 10 illustrates the estimated and actual fiscal position (surplus/deficit) throughout the 5-year period. Although increasing surpluses were projected for the first three years followed by growing deficits, actual results show that the nation's fiscal position in fact declined throughout the 5-year timeframe. In addition, projections for fiscal years 2003 and 2004 show that the deficit was expected to grow but not to the magnitude that ultimately resulted.

Figure 10: Estimated and Actual Surplus/Deficit, Fiscal Years 2000–2004, constant 2004 dollars



Source: GAO analysis of President's budget data.

¹Differences between estimated and actual discretionary outlays were much greater than for mandatory outlays. However, on the whole, differences in receipts outweighed differences in outlays.

The fiscal position represents the difference between total federal revenues and outlays in a given year. Although mandatory spending constitutes more than half of total federal spending, misestimates of the amount of mandatory spending did not contribute significantly to the differences between the predicted and actual fiscal position. According to the detailed receipt and outlay data shown in table 17, the mandatory outlay difference in most cases accounted for less than 7 percent of the difference between the estimated and actual fiscal position with one exception. In fiscal year 2001, the mandatory outlay estimating error had a larger than usual effect—approximately 29 percent—on the fiscal position estimating error. While this particular year stands out in the analysis, it is a reasonable result given that the total amount of error in surplus/deficit projections was much smaller—approximately 30 percent or \$60 billion—compared with any other year during the 5-year period. For example, a \$242 billion surplus was projected for 2002 when in fact the nation’s fiscal position changed from surplus to deficit, resulting in a \$165 billion deficit for that year.² This discrepancy represented a misestimate of approximately 168 percent. In both fiscal years 2001 and 2002, mandatory outlay estimates differed from actual outlays by approximately 2 percent. This relatively small difference accounted for over one quarter of the resulting error in the surplus projection for 2001 because the difference between estimated and actual receipts also was relatively small. It accounted for less than one-tenth of the total error in the fiscal position projection for 2002 because the difference between estimated and actual receipts was much larger. Effects similar to the latter occurred more frequently throughout the 5-year period, indicating that estimation errors in mandatory outlays had a limited effect on fiscal position.

²Budget figures discussed here are in constant 2004 dollars.

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Table 17: Aggregate Estimated and Actual Outlays and Receipts for Fiscal Years 2000–2004

Constant 2004 dollars in billions

	Original estimate	Actual	Difference	Percent of original estimate	Percent of difference
Fiscal Year 2000					
Receipts	\$2,055.7	\$2,210.9	-\$155.3	-7.6%	119.7%
Outlays	1,927.6	1,953.1	-25.5	-1.3	19.7
Discretionary spending	645.7	671.2	-25.4	-3.9	19.6
Mandatory spending	1,093.7	1,085.0	8.6	0.8	-6.6
Offsetting receipts	-46.8	-46.5	-0.3	0.7	0.3
Net interest	234.9	243.3	-8.4	-3.6	6.5
Surplus/Deficit	\$128.1	\$257.8	-\$129.7	-101.3%	100.0%
Fiscal Year 2001					
Receipts	\$2,154.1	\$2,124.4	\$29.7	1.4%	49.9%
Outlays	1,957.8	1,987.7	-29.9	-1.5	-50.1
Discretionary spending	676.3	692.7	-16.4	-2.4	-27.6
Mandatory spending	1,107.6	1,125.1	-17.5	-1.6	-29.4
Offsetting receipts	-48.4	-50.1	1.7	-3.5	2.9
Net interest	222.2	220.0	2.2	1.0	3.8
Surplus/Deficit	\$196.3	\$136.7	\$59.6	30.3%	100.0%
Fiscal Year 2002					
Receipts	\$2,296.5	\$1,941.7	\$354.7	15.4%	87.0%
Outlays	2,054.2	2,107.1	-52.8	-2.6	-13.0
Discretionary spending	724.7	769.4	-44.6	-6.2	-11.0
Mandatory spending	1,184.1	1,208.2	-24.1	-2.0	-5.9
Offsetting receipts	-51.8	-49.7	-2.1	4.0	-0.5
Net interest	197.1	179.1	18.0	9.1	4.4
Surplus/Deficit	\$242.2	-\$165.3	\$407.6	168.3%	100.0%
Fiscal Year 2003					
Receipts	\$2,093.5	\$1,821.9	\$271.6	13.0%	89.3%
Outlays	2,175.4	2,207.8	-32.4	-1.5	-10.7
Discretionary spending	806.5	843.7	-37.2	-4.6	-12.2
Mandatory spending	1,260.0	1,263.2	-3.2	-0.3	-1.0
Offsetting receipts	-75.7	-55.6	-20.1	26.6	-6.6
Net interest	184.7	156.5	28.2	15.3	9.3
Surplus/Deficit	-\$81.9	-\$386.0	\$304.0	-371.0%	100.0%

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Analysis of Total Outlays, Receipts, and
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Constant 2004 dollars in billions

	Original estimate	Actual	Difference	Percent of original estimate	Percent of difference
Fiscal Year 2004					
Receipts	\$1,922.0	\$1,880.1	\$42.0	2.2%	40.1%
Outlays	2,229.4	2,292.2	-62.8	-2.8	-59.9
Discretionary spending	818.8	895.4	-76.6	-9.4	-73.1
Mandatory spending	1,287.9	1,295.1	-7.2	-0.6	-6.9
Offsetting receipts	-53.7	-58.5	4.8	-8.9	4.6
Net interest	176.4	160.2	16.2	9.2	15.5
Surplus/Deficit	-\$307.4	-\$412.1	\$104.7	-34.1%	100.0%

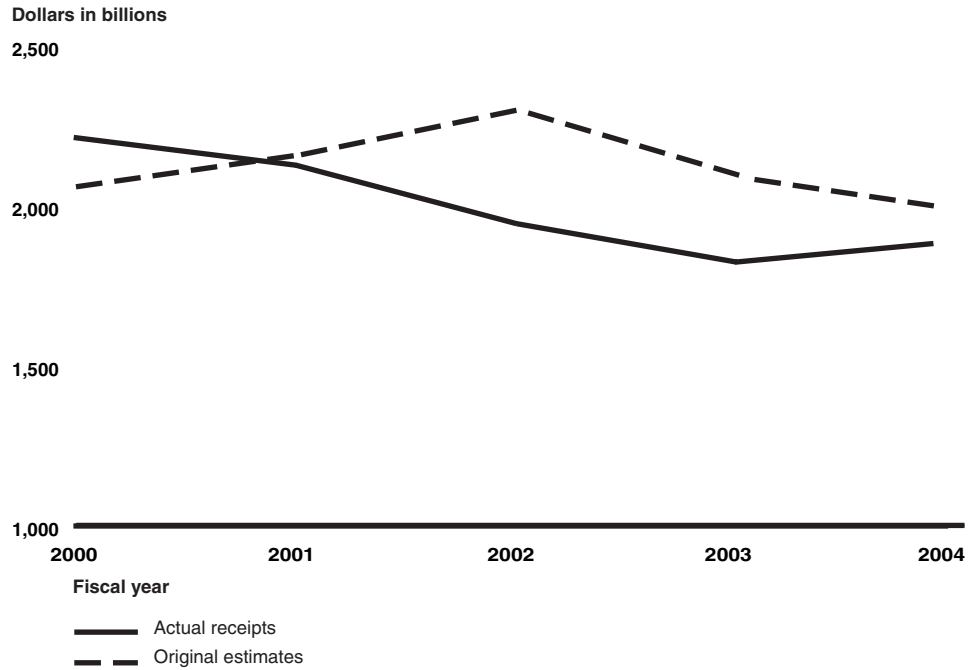
Source: GAO analysis of President's budget data.

In contrast, revenue estimate inaccuracies proved to have a greater effect on projections of the nation's fiscal position. Throughout the 5-year period, total estimated outlays differed from actual outlays by no more than 3 percent while total estimated receipts differed from actual receipts by up to 15 percent in absolute value terms. This suggests that revenue, rather than outlay estimates, led most significantly to the discrepancies in surplus/deficit projections. Figure 11 shows the total estimated and actual federal receipts in dollar terms for each year we reviewed.³

³A comparable figure showing total estimated and actual mandatory outlays for fiscal years 2000 through 2004 is included as figure 9.

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Figure 11: Total Estimated and Actual Receipts, Fiscal Years 2000–2004, constant 2004 dollars



Source: GAO analysis of President's budget data.

As mentioned earlier in this report, the greatest revenue estimating errors occurred in 2000, 2002, and 2003, which correlate with the years in which the fiscal position projections were the most inaccurate. For example, in fiscal year 2002, an approximate 2.6 percent underestimate in total outlays coupled with an approximate 15.4 percent overestimate of receipts translated into a large shift in fiscal position from surplus to deficit. Similar effects occurred in 2000 and 2003. As shown in table 18, the driving source of revenue misestimates in any given year varied, but individual and corporate income taxes often proved difficult to estimate.

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Table 18: Revenue Estimates and Actual Results by Source and Fiscal Year

Constant 2004 dollars in millions

Component of revenue	Original estimate	Actual	Actual minus original	Percent of original
Fiscal Year 2000				
Individual income taxes	\$982,250	\$1,096,574	-\$114,324	-11.6%
Corporate income taxes	206,721	226,298	-19,578	-9.5
Social insurance taxes and contributions	694,901	712,721	-17,820	-2.6
Excise taxes	76,312	75,180	1,132	1.5
Estate and gift taxes	29,445	31,670	-2,225	-7.6
Customs duties	20,048	21,740	-1,692	-8.4
Miscellaneous receipts	45,991	46,753	-762	-1.7
Total	\$2,055,668	\$2,210,937	-\$155,269	-7.6%
Fiscal Year 2001				
Individual income taxes	\$1,037,459	\$1,060,855	-\$23,396	-2.3%
Corporate income taxes	207,799	161,181	46,618	22.4
Social insurance taxes and contributions	727,707	740,389	-12,682	-1.7
Excise taxes	81,805	70,663	11,143	13.6
Estate and gift taxes	34,465	30,300	4,165	12.1
Customs duties	22,267	20,665	1,602	7.2
Miscellaneous receipts	42,590	40,341	2,249	5.3
Total	\$2,154,093	\$2,124,393	\$29,699	1.4%
Fiscal Year 2002				
Individual income taxes	\$1,130,332	\$899,356	\$230,977	20.4%
Corporate income taxes	229,239	155,117	74,122	32.3
Social insurance taxes and contributions	760,476	734,241	26,234	3.4
Excise taxes	77,557	70,190	7,367	9.5
Estate and gift taxes	30,070	27,773	2,297	7.6
Customs duties	23,614	19,491	4,123	17.5
Miscellaneous receipts	45,165	35,547	9,618	21.3
Total	\$2,296,452	\$1,941,715	\$354,737	15.4%

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Analysis of Total Outlays, Receipts, and
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Constant 2004 dollars in millions

Component of revenue	Original estimate	Actual	Actual minus original	Percent of original
Fiscal Year 2003				
Individual income taxes	\$1,028,676	\$811,304	\$217,372	21.1%
Corporate income taxes	210,047	134,701	75,346	35.9
Social insurance taxes and contributions	765,831	728,793	37,038	4.8
Excise taxes	70,552	69,022	1,530	2.2
Estate and gift taxes	23,509	22,446	1,063	4.5
Customs duties	20,244	20,303	-58	-0.3
Miscellaneous receipts	-25,371	35,308	-60,679	239.2
Total	\$2,093,489	\$1,821,877	\$271,612	13.0%
Fiscal Year 2004				
Individual income taxes	\$849,880	\$808,959	\$40,921	4.8%
Corporate income taxes	169,060	189,371	-20,311	-12.0
Social insurance taxes and contributions	764,548	733,407	31,141	4.1
Excise taxes	70,905	69,855	1,050	1.5
Estate and gift taxes	23,379	24,831	-1,452	-6.2
Customs duties	20,713	21,083	-370	-1.8
Miscellaneous receipts	38,540	32,565	5,975	15.5
Total	\$1,937,025	\$1,880,071	\$56,954	2.9%

Source: GAO analysis of President's budget data.

Mandatory Budget Accounts

Table 19: Budget Accounts with Greater than 50 percent Mandatory Outlays

Dollars in millions

Obs. #	Agency	Account	5-year avg. dollar change (absolute value)
1	Treasury	Interest on Treasury debt securities (gross)	\$20,016
2	Veterans Affairs	Disability compensation benefits*	9,977
3	Labor	Unemployment trust fund	9,436
4	Veterans Affairs	Compensation*	7,423
5	Agriculture	Commodity Credit Corporation fund	6,944
6	Health and Human Services	Federal supplementary medical insurance trust fund	6,427
7	Health and Human Services	Federal hospital insurance trust fund	5,622
8	Office of Personnel Management	Employees health benefits fund*	5,065
9	Health and Human Services	Grants to States for Medicaid	4,220
10	Railroad Retirement Board	Rail industry pension fund	4,077
11	Health and Human Services	Payments to health care trust funds	3,800
12	Housing and Urban Development	FHA—mutual mortgage insurance program account*	2,892
13	Veterans Affairs	Pensions benefits*	2,528
14	Education	Federal direct student loan program account	2,370
15	Health and Human Services	Immediate helping hand prescription drug plan*	2,240
16	Postal Service	Postal Service fund	2,129
17	Housing and Urban Development	FHA—mutual mortgage and cooperative housing insurance funds liquidating account	2,067
18	Agriculture	Food stamp program	2,058
19	Treasury	Temporary State fiscal assistance fund*	2,000
20	Social Security Administration	Federal old-age and survivors insurance trust fund	1,979
21	Office of Personnel Management	Payment to civil service retirement and disability fund	1,862
22	Allowances	Bipartisan economic security plan*	1,600
23	Treasury	Payment where child credit exceeds liability for tax	1,582
24	Education	Federal family education loan program account	1,573
25	Federal Communications Commission	Universal service fund	1,539
26	Health and Human Services	Temporary assistance for needy families	1,322
27	Health and Human Services	Allowance for Medicare modernization*	1,200
28	Justice	September 11th victim compensation (general fund)*	1,192
29	Social Security Administration	Payments to social security trust funds	1,168
30	Labor	Advances to the Unemployment trust fund and other* funds	1,154
31	Treasury	Refunding internal revenue collections, interest	1,153

**Appendix III
Mandatory Budget Accounts**

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Dollars in millions

Obs. #	Agency	Account	5-year avg. dollar change (absolute value)
32	Office of Personnel Management	Government payment for annuitants, employees health benefits	1,081
33	Treasury	Payment where earned income credit exceeds liability for tax	1,004
34	Office of Personnel Management	Civil service retirement and disability fund	988
35	Labor	Black lung disability trust fund	987
36	Housing and Urban Development	FHA—general and special risk insurance funds liquidating account	964
37	Health and Human Services	State children's health insurance fund	922
38	Transportation	Compensation for air carriers*	910
39	Social Security Administration	Federal disability insurance trust fund	865
40	International Assistance Programs	Foreign military sales trust fund	850
41	Federal Deposit Insurance Corporation	Bank insurance fund*	844
42	Treasury	Payment to the Resolution Funding Corporation	799
43	International Assistance Programs	United States quota, International Monetary Fund*	793
44	Federal Communications Commission	Spectrum auction program account*	785
45	Education	Federal family education loan liquidating account	778
46	Office of Personnel Management	Employees and retired employees health benefits funds*	775
47	Social Security Administration	Supplemental security income program	759
48	Agriculture	Rural electrification and telecommunications liquidating account	681
49	Justice	Immigration support*	652
50	Small Business Administration	Business loan program account*	625
51	Treasury	Interest paid to credit financing accounts	625
52	Justice	Crime victims fund	609
53	Veterans Affairs	Housing program account	594
54	Labor	Pension benefit guaranty corporation fund	581
55	Treasury	Claims, judgments, and relief acts	569
56	Agriculture	Commodity Credit Corporation export loans program account	553
57	Housing and Urban Development	FHA—mutual mortgage insurance capital reserve account*	543
58	Housing and Urban Development	FHA-general and special risk program account*	536
59	Export-Import Bank of the United States	Export-Import Bank loans program account*	516
60	Health and Human Services	Child care entitlement to States	499
61	Treasury	Federal Financing Bank	488
62	Homeland Security	Citizenship and Immigration Services*	471

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Obs. #	Agency	Account	5-year avg. dollar change (absolute value)
63	Agriculture	Agricultural credit insurance fund program account*	467
64	Treasury	Exchange stabilization fund	440
65	Justice	Immigration services*	418
66	Labor	Reemployment accounts*	400
67	Health and Human Services	Payments to States for foster care and adoption assistance	392
68	Other Defense Civil Programs	Payment to Department of Defense Medicare-eligible retiree health care fund*	390
69	Other Defense Civil Programs	Payment to military retirement fund	376
70	Railroad Retirement Board	National railroad retirement investment trust*	367
71	Railroad Retirement Board	Railroad social security equivalent benefit account	363
72	Other Defense Civil Programs	Department of Defense Medicare-Eligible retiree health care fund*	361
73	Labor	Welfare to work jobs	353
74	Homeland Security	Retired Pay*	352
75	Department of Defense—Military	Allied contributions and cooperation account	346
76	Veterans Affairs	Education benefits	324
77	Tennessee Valley Authority	Tennessee Valley Authority fund	323
78	Small Business Administration	Disaster loans program account*	319
79	Energy	Bonneville Power Administration fund	317
80	Department of Defense—Military	Pentagon reservation maintenance revolving fund*	317
81	Other Defense Civil Programs	Military retirement fund	312
82	Department of Defense—Military	Iraq relief and reconstruction fund, Army*	310
83	Agriculture	Federal crop insurance corporation fund	310
84	Labor	Payments to the Unemployment trust fund*	305
85	Federal Deposit Insurance Corporation	Savings association insurance fund*	295
86	Health and Human Services	Payments to States for child support enforcement and family support programs	284
87	Interior	Mineral leasing and associated payments	279
88	Treasury	Air transportation stabilization program account*	273
89	Homeland Security	National Flood Insurance Fund*	269
90	Interior	Interior Franchise Fund*	260
91	Agriculture	Farm security and rural investment programs*	254
92	Agriculture	Funds for strengthening markets, income, and supply (section 32)	241
93	Health and Human Services	Allowance for transitional Medicare low-income drug assistance*	240

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Obs. #	Agency	Account	5-year avg. dollar change (absolute value)
94	Federal Emergency Management Agency	National flood insurance fund*	227
95	Housing and Urban Development	Guarantees of mortgage-backed securities liquidating account*	223
96	Veterans Affairs	Vocational rehabilitation and employment benefits*	202
97	Department of Defense—Military	National defense stockpile transaction fund*	197
98	National Credit Union Administration	Credit union share insurance fund	195
99	Federal Deposit Insurance Corporation	FSLIC resolution fund	189
100	Export-Import Bank of the United States	Export-Import Bank of the United States liquidating account	188
101	Office of Personnel Management	Employees life insurance fund	187
102	Education	Federal student loan reserve fund*	182
103	Agriculture	Rural electrification and telecommunications loans program account*	180
104	Transportation	Coast Guard military retirement fund*	178
105	Agriculture	Child nutrition programs	177
106	Health and Human Services	Social services block grant	177
107	Treasury	Payment where health care credit exceeds liability for tax*	177
108	Transportation	Retired pay*	174
109	Agriculture	Rural development insurance fund liquidating account	174
110	Labor	Energy employees occupational illness compensation fund*	160
111	Labor	Federal unemployment benefits and allowances	159
112	Veterans Affairs	Supply fund*	159
113	Health and Human Services	Ricky Ray hemophilia relief fund*	150
114	Transportation	Payment to Coast Guard military retirement fund*	147
115	Social Security Administration	Payment to social security trust funds post-1956 military service wage credits*	146
116	Agriculture	Forest Service trust funds	139
117	Agriculture	Rural housing insurance fund liquidating account	131
118	Treasury	Restitution of forgone interest*	129
119	International Assistance Programs	Economic assistance loans liquidating account	127
120	Agriculture	Agricultural credit insurance fund liquidating account	125
121	Interior	Tribal special fund	123
122	Interior	Working capital fund*	118
123	Housing and Urban Development	Housing for the elderly or handicapped fund liquidating account	118
124	District of Columbia	Federal payment to the District of Columbia pension fund	117
125	Agriculture	Forest Service permanent appropriations	116

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Obs. #	Agency	Account	5-year avg. dollar change (absolute value)
126	Small Business Administration	Disaster loan fund liquidating account	116
127	Health and Human Services	Payment to the Ricky Ray hemophilia relief fund*	116
128	Farm Credit System Financial Assistance Corporation	Financial Assistance Corporation assistance fund liquidating account	116
129	Transportation	Ocean freight differential	115
130	Legislative Branch	Payments to copyright owners	113
131	Veterans Affairs	Housing liquidating account	104
132	Treasury	Contribution for annuity benefits*	103
133	Social Security Administration	Special benefits for disabled coal miners*	95
134	Labor	Special benefits for disabled coal miners*	94
135	International Assistance Programs	Foreign military loan liquidating account	93
136	Treasury	Treasury forfeiture fund*	88
137	Small Business Administration	Business loan fund liquidating account	87
138	Labor	Special benefits	86
139	International Assistance Programs	Overseas Private Investment Corporation program account*	86
140	Interior	Miscellaneous permanent payment accounts	82
141	Agriculture	Commodity Credit Corporation guaranteed loans liquidating account	81
142	Treasury	Payment of anti-terrorism judgments*	80
143	Judicial Branch	Judiciary filing fees	80
144	Education	Rehabilitation services and disability research	79
145	Treasury	Payment where alternative to failing school credit exceeds liability for tax*	76
146	International Assistance Programs	Foreign military financing loan program account*	70
147	Veterans Affairs	National service life insurance fund	70
148	Treasury	Internal revenue collections for Puerto Rico	68
149	Corps of Engineers—Civil Works	Rivers and harbors contributed funds	67
150	Health and Human Services	Retirement pay and medical benefits for commissioned officers	67
151	Transportation	Miscellaneous trust funds	65
152	United Mine Workers of America Benefit Funds	United Mine Workers of America combined benefit fund	63
153	Agriculture	Healthy investments in rural environments*	63
154	Railroad Retirement Board	Federal payments to the railroad retirement accounts	61
155	Transportation	Maritime guaranteed loan (Title XI) program account*	60
156	Agriculture	Rural telephone bank liquidating account	60

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Obs. #	Agency	Account	5-year avg. dollar change (absolute value)
157	General Services Administration	General supply fund*	60
158	Veterans Affairs	Burial benefits*	59
159	Treasury	Continued dumping and subsidy offset*	56
160	Transportation	Aviation insurance revolving fund*	56
161	Agriculture	Fund for rural America	55
162	Agriculture	Payments to states stabilization*	54
163	Health and Human Services	Program management*	52
164	Veterans Affairs	Burial benefits and miscellaneous assistance*	51
165	Treasury	Refunds, transfers, and expenses of operation, Puerto Rico*	51
166	Federal Communications Commission	Pioneer's preference settlement*	50
167	Treasury	Restoration of lost interest, Medicare trust funds*	49
168	Corps of Engineers—Civil Works	Revolving fund*	48
169	Agriculture	Expenses, Public Law 480, foreign assistance programs, Agriculture liquidating account	48
170	Agriculture	Expenses and refunds, inspection and grading of farm products*	48
171	Justice	Working capital fund*	48
172	Department of Defense—Military	Army conventional ammunition working capital fund*	48
173	United States Enrichment Corporation Fund	United States Enrichment Corporation Fund*	47
174	Health and Human Services	Public Health Service Commissioned Corps retirement fund*	47
175	Department of Defense—Military	Surcharge collections, sales of commissary stores, Defense*	46
176	Interior	Recreation fee permanent appropriations	45
177	Housing and Urban Development	Working capital fund*	44
178	Health and Human Services	Transitional drug assistance, Federal supplementary medical insurance trust fund*	43
179	Treasury	Confiscated and vested Iraqi property and assets*	42
180	Labor	Administrative expenses, Energy employees occupational illness compensation fund*	40
181	Interior	Lower Colorado River Basin development fund	40
182	Treasury	Federal Reserve Bank reimbursement fund	38
183	Legislative Branch	Government Printing Office revolving fund	38
184	Justice	Public safety officers' benefits*	37
185	Interior	Permanent operating funds	37
186	Department of State	Working capital fund*	36

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Obs. #	Agency	Account	5-year avg. dollar change (absolute value)
187	Treasury	Financial agent services*	36
188	Commerce	Census working capital fund*	36
189	Justice	Federal Prison Industries, Incorporated*	36
190	Federal Deposit Insurance Corporation	Federal deposit insurance fund*	36
191	Interior	Upper Colorado River Basin fund*	35
192	Farm Credit System Insurance Corporation	Farm credit system insurance fund	35
193	Health and Human Services	Payment to health care trust funds for post-1956 military service wage credits*	35
194	Justice	Assets forfeiture fund	35
195	Health and Human Services	Health care fraud and abuse control account	34
196	Health and Human Services	Health education assistance loans program account*	33
197	International Assistance Programs	Housing and other credit guaranty programs liquidating account	33
198	Agriculture	Initiative for future agriculture and food systems*	33
199	Justice	Radiation exposure compensation trust fund*	32
200	Homeland Security	Boat Safety*	30
201	Agriculture	Payments to States, northern spotted owl guarantee, Forest Service*	29
202	Treasury	Working capital fund*	29
203	Corps of Engineers—Civil Works	Coastal wetlands restoration trust fund	29
204	Transportation	Boat safety*	28
205	Other Defense Civil Programs	Contributions*	28
206	Homeland Security	Oil Spill Recovery*	28
207	Transportation	Oil spill recovery*	28
208	Interior	Tribal trust fund	27
209	Interior	Compact of free association	27
210	Commerce	Promote and develop fishery products and research pertaining to American fisheries	26
211	Health and Human Services	Payment to Public Health Service Commissioned Corps retirement system*	26
212	Central Intelligence Agency	Payment to Central Intelligence Agency retirement and disability system fund	26
213	Housing and Urban Development	Low-rent public housing—loans and other expenses	25
214	Environmental Protection Agency	Re-registration and expedited processing revolving fund*	24
215	Health and Human Services	HHS service and supply fund*	23
216	Interior	Abandoned mine reclamation fund*	23

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Obs. #	Agency	Account	5-year avg. dollar change (absolute value)
217	Federal Emergency Management Agency	Disaster assistance direct loan program account*	23
218	Justice	Fees and expenses of witnesses	23
219	Judicial Branch	Judiciary information technology fund	22
220	Health and Human Services	Vaccine injury compensation program trust fund	22
221	Interior	Natural resource damage assessment fund	22
222	Agriculture	Miscellaneous trust funds*	21
223	Health and Human Services	Promoting safe and stable families	21
224	Interior	Payments to the United States territories, fiscal assistance	21
225	Agriculture	McGovern-Dole international food for education and child nutrition program*	20
226	Treasury	Assessment funds	20
227	Transportation	Essential air service and rural airport improvement fund*	20
228	Housing and Urban Development	Revolving fund (liquidating programs)*	18
229	Agriculture	Perishable Agricultural Commodities Act fund	18
230	International Assistance Programs	Urban and environmental credit program account*	18
231	Justice	Commissary funds, Federal prisons (trust revolving fund)*	18
232	Veterans Affairs	Veterans special life insurance fund	18
233	Agriculture	Working capital fund*	17
234	Federal Emergency Management Agency	Flood map modernization fund*	17
235	Agriculture	Trade adjustment assistance for farmers*	16
236	Interior	Federal aid in wildlife restoration	16
237	Homeland Security	Refunds, transfers, and expenses of operation, Puerto Rico*	16
238	Agriculture	Milk market orders assessment fund*	16
239	Health and Human Services	Health education assistance loans liquidating account	15
240	Transportation	Right-of-way revolving fund liquidating account	15
241	Justice	Payment to radiation exposure compensation trust fund*	15
242	Interior	Working capital fund	15
243	Railroad Retirement Board	Railroad unemployment insurance trust fund	15
244	Department of Defense—Military	Other DOD trust funds	14
245	Veterans Affairs	Franchise fund*	14
246	Treasury	Office of Thrift Supervision*	14
247	Justice	Diversion control fee account	14
248	General Services Administration	Panama Canal revolving fund*	14
249	National Science Foundation	Donations	13

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Obs. #	Agency	Account	5-year avg. dollar change (absolute value)
250	Farm Credit System Financial Assistance Corporation	Financial assistance corporation trust fund*	13
251	District of Columbia	District of Columbia Federal pension liability trust fund	12
252	Interior	Colorado River dam fund, Boulder Canyon project	12
253	Interior	Sport fish restoration	12
254	Treasury	Presidential election campaign fund*	12
255	United Mine Workers of America Benefit Funds	United Mine Workers of America 1992 benefit plan	12
256	Department of State	Payment to Foreign Service retirement and disability fund	12
257	Health and Human Services	Miscellaneous trust funds	11
258	Commerce	Emergency steel guaranteed loan program account*	11
259	Health and Human Services	State grants and demonstrations*	11
260	Health and Human Services	Children's research and technical assistance	10
261	Agriculture	Rural strategic investment program grants*	10
262	Health and Human Services	Contingency fund*	10
263	Federal Emergency Management Agency	National flood mitigation fund*	10
264	Agriculture	Rural economic development grants	10
265	Interior	Everglades watershed protection*	10
266	Interior	Other permanent appropriations	10
267	Health and Human Services	Vaccine injury compensation*	9
268	Federal Emergency Management Agency	Disaster assistance direct loan liquidating account*	9
269	Interior	Interior Franchise Fund*	9
270	Federal Deposit Insurance Corporation	Office of Inspector General	9
271	Veterans Affairs	Post-Vietnam era veterans education account	9
272	Federal Retirement Thrift Investment Board	Program expenses	9
273	Interior	Assistance to territories*	9
274	Commerce	Working capital fund*	8
275	Department of Defense—Military	Buildings maintenance fund*	8
276	Department of State	Miscellaneous trust funds	8
277	Interior	Helium fund	8
278	Other Defense Civil Programs	Education benefits fund	8
279	Justice	Independent counsel	8
280	Corps of Engineers—Civil Works	Washington aqueduct*	8
281	Interior	Reclamation trust funds*	8
282	Agriculture	Rural cooperative development grants*	8

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Obs. #	Agency	Account	5-year avg. dollar change (absolute value)
283	Energy	Emergency fund, Western Area Power Administration*	8
284	United Mine Workers of America Benefit Funds	Federal payment to United Mine Workers of America combined benefit fund*	8
285	Agriculture	Rural business investment program account*	7
286	Education	College housing and academic facilities loans liquidating account	7
287	Interior	Miscellaneous trust funds*	7
288	Veterans Affairs	Service-disabled veterans insurance fund	7
289	Legislative Branch	Gift and trust fund accounts	7
290	Agriculture	Local television loan guarantee program account*	7
291	Housing and Urban Development	Community development loan guarantees liquidating account*	7
292	Transportation	Working Capital Fund*	7
293	Department of State	Foreign Service retirement and disability fund	7
294	Public Company Accounting Oversight Board	Public Company Accounting Oversight Board*	7
295	Agriculture	Miscellaneous trust funds	7
296	Department of Defense—Military	Foreign national employees separation pay	7
297	Transportation	Federal ship financing fund liquidating account	7
298	Interior	Cooperative fund (Papago)*	6
299	Commerce	Coastal zone management fund	6
300	Energy	Continuing fund, Southeastern Power Administration*	6
301	International Assistance Programs	Overseas Private Investment Corporation liquidating account*	6
302	Housing and Urban Development	Rental housing assistance fund*	6
303	Interior	Miscellaneous trust funds	6
304	Treasury	Federal interest liabilities to States	6
305	Department of Defense—Military	Voluntary separation incentive fund	5
306	Labor	Special workers' compensation expenses	5
307	Health and Human Services	State grants and demonstrations*	5
308	Housing and Urban Development	Community development loan guarantees program account*	5
309	Interior	Miscellaneous permanent appropriations	5
310	Interior	Contribution for annuity benefits*	5
311	Health and Human Services	Job opportunities and basic skills training program*	5
312	Veterans Affairs	Miscellaneous veterans housing loans program account*	5

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Obs. #	Agency	Account	5-year avg. dollar change (absolute value)
313	Agriculture	Miscellaneous contributed funds*	5
314	Commerce	Economic development revolving fund liquidating account*	5
315	Commerce	Environmental improvement and restoration fund*	5
316	Veterans Affairs	Veterans reopened insurance fund	5
317	Agriculture	Conservation reserve program*	4
318	Veterans Affairs	Canteen service revolving fund*	4
319	Legislative Branch	U.S. Capitol Preservation Commission*	4
320	Commerce	Federal ship financing fund fishing vessels liquidating account*	4
321	Interior	Payments for trust accounting deficiencies*	4
322	National Credit Union Administration	Operating fund*	4
323	Railroad Retirement Board	Supplemental annuity pension fund*	4
324	Agriculture	National Sheep Industry Improvement Center*	4
325	Agriculture	Road and trail fund*	4
326	Commerce	Payments to NOAA commissioned officer corps retirement fund*	4
327	Treasury	Administering the public debt*	4
328	International Assistance Programs	Loan guarantees to Israel program account*	4
329	Agriculture	Renewable energy program account*	4
330	District of Columbia	Federal payment for water and sewer services*	4
331	Department of Defense—Military	Host nation support fund for relocation	4
332	Standard Setting Body	Payment to standard setting body*	4
333	Agriculture	Miscellaneous contributed funds	3
334	Interior	Bureau of Reclamation loan liquidating account	3
335	General Services Administration	Disposal of surplus real and related personal property	3
336	Legislative Branch	Gifts and donations	3
337	Commerce	National Oceanic and Atmospheric Administration Commissioned Officer Corps retirement*	3
338	Treasury	Informant payments*	3
339	Legislative Branch	Judiciary office building development and operations fund*	3
340	Department of State	Foreign Service national separation liability trust fund	3
341	Treasury	Refunds, transfers and expenses, Unclaimed and abandoned goods*	3
342	Agriculture	Wetlands reserve program	3
343	Agriculture	Expenses and refunds, inspection and grading of farm products	3

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Obs. #	Agency	Account	5-year avg. dollar change (absolute value)
344	Transportation	Operations and maintenance (Harbor services fee collections)*	3
345	Veterans Affairs	General post fund, national homes	3
346	Judicial Branch	Judicial officers' retirement fund	3
347	National Archives and Records Administration	National archives gift fund*	3
348	Office of Personnel Management	Government payment for annuitants, employee life insurance	3
349	Vietnam Education Foundation	Vietnam debt repayment fund*	3
350	Agriculture	Miscellaneous contributed funds	2
351	Commerce	Damage assessment and restoration revolving fund	2
352	Housing and Urban Development	Manufactured home inspection and monitoring*	2
353	Interior	Migratory bird conservation account	2
354	Interior	Indian direct loan program account*	2
355	Transportation	Operations and maintenance*	2
356	General Services Administration	Expenses of transportation audit contracts and contract administration	2
357	International Assistance Programs	Miscellaneous trust funds, AID*	2
358	Commerce	Fisheries finance program account*	2
359	Department of Defense—Military	Other DOD trust revolving funds*	2
360	Health and Human Services	Medical facilities guarantee and loan fund	2
361	Veterans Affairs	Service members' group life insurance fund*	2
362	Farm Credit Administration	Revolving fund for administrative expenses*	2
363	Federal Housing Finance Board	Federal housing finance board*	2
364	Judicial Branch	Registry Administration	2
365	Legislative Branch	Compensation of members and related administrative expenses	2
366	Small Business Administration	Pollution control equipment fund liquidating account*	2
367	Corps of Engineers—Civil Works	Permanent appropriations	2
368	Corps of Engineers—Civil Works	Payment to South Dakota terrestrial wildlife habitat restoration trust fund*	2
369	Commerce	Limited access system administration fund*	2
370	Homeland Security	US Customs Refunds, Transfers and Expenses, Unclaimed and Abandoned Goods*	2
371	Agriculture	Wildlife habitat incentives program	2
372	Veterans Affairs	Insurance benefits	2

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Obs. #	Agency	Account	5-year avg. dollar change (absolute value)
373	District of Columbia	Federal payment to the District of Columbia judicial retirement and survivors annuity fund*	2
374	Morris K. Udall Scholarship and Excellence in National Environmental Policy Foundation	Environmental dispute resolution fund*	2
375	Agriculture	Farm storage facility loans program account*	2
376	Department of Defense—Military	Miscellaneous special funds*	2
377	Housing and Urban Development	Elderly vouchers*	2
378	Department of State	International litigation fund	2
379	Interior	National Indian Gaming Commission, Gaming activity fees	2
380	Treasury	Interest on uninvested funds	2
381	Transportation	Railroad rehabilitation and improvement liquidating account	2
382	Environmental Protection Agency	Abatement, control, and compliance direct loan liquidating account*	2
383	Panama Canal Commission	Panama Canal Commission dissolution fund*	2
384	Interior	White Earth settlement fund	1
385	Interior	Indian loan guaranty and insurance fund liquidating account*	1
386	Transportation	Emergency preparedness grants	1
387	Legislative Branch	Congressional use of foreign currency, House of Representatives	1
388	Agriculture	Rural communication development fund liquidating account*	1
389	Commerce	Franchise fund*	1
390	Justice	United States trustee system fund*	1
391	Interior	Revolving fund for loans liquidating account	1
392	Interior	National forests fund, Payment to States	1
393	Interior	Recreational fee program	1
394	Interior	Miscellaneous trust funds	1
395	Treasury	Federal tax lien revolving fund*	1
396	International Assistance Programs	Microenterprise and small enterprise development program account*	1
397	Interior	Contributed funds	1
398	Interior	Miscellaneous permanent appropriations	1
399	Treasury	Check forgery insurance fund	1
400	Treasury	Payment to terrestrial wildlife habitat restoration trust fund*	1
401	District of Columbia	District of Columbia judicial retirement and survivors annuity fund	1
402	Environmental Protection Agency	Abatement, control, and compliance loan program account*	1

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Obs. #	Agency	Account	5-year avg. dollar change (absolute value)
403	Harry S. Truman Scholarship Foundation	Harry S. Truman memorial scholarship trust fund	1
404	James Madison Memorial Fellowship Foundation	James Madison Memorial Fellowship trust fund	1
405	Legislative Branch	John C. Stennis Center for Public Service Training and Development trust fund	1
406	National Archives and Records Administration	National archives trust fund*	1
407	Agriculture	Agricultural resource conservation demonstration program account*	1
408	Agriculture	Rural economic development loans program account*	1
409	Housing and Urban Development	Manufactured housing fees trust fund*	1
410	Labor	Panama Canal Commission compensation fund	1
411	Department of State	Miscellaneous trust funds, information and exchange programs*	1
412	Interior	Operation and maintenance of quarters	1
413	Veterans Affairs	Special therapeutic and rehabilitation activities fund*	1
414	Equal Employment Opportunity Commission	EEOC education, technical assistance, and training revolving fund*	1
415	International Assistance Programs	Peace Corps miscellaneous trust fund	1
416	Judicial Branch	Judicial survivors' annuities fund	1
417	Legislative Branch	Congressional use of foreign currency, Senate	1
418	Social Security Administration	Special benefits for certain World War II veterans*	1
419	Appalachian Regional Commission	Miscellaneous trust funds	1
420	Broadcasting Board of Governors	Foreign Service national separation liability trust fund*	1
421	Christopher Columbus Fellowship Foundation	Christopher Columbus Fellowship Foundation*	1
422	Agriculture	Limitation on inspection and weighing services expenses*	1
423	Agriculture	Rural development loan fund liquidating account	1
424	Agriculture	Biomass research and development*	1
425	Energy	Payments to States under Federal Power Act	1
426	Health and Human Services	Revolving fund for certification and other services*	1
427	Labor	Working capital fund*	1
428	Interior	Range improvements	1
429	Interior	Cooperative endangered species conservation fund*	1
430	Interior	Everglades restoration account	1
431	Interior	Leases of lands acquired for flood control, navigation, and allied purposes	1

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Obs. #	Agency	Account	5-year avg. dollar change (absolute value)
432	Interior	Contributed funds*	1
433	Treasury	Payment of Government losses in shipment*	1
434	Treasury	Terrorism insurance program*	1
435	Transportation	Amtrak corridor improvement loans liquidating account*	1
436	Federal Emergency Management Agency	National insurance development fund*	1
437	International Assistance Programs	Property management fund*	1
438	International Assistance Programs	Foreign Service national separation liability trust fund	1
439	Judicial Branch	Gifts and donations, Federal Judicial Center Foundation	1
440	Legislative Branch	Senate revolving funds*	1
441	Morris K. Udall Scholarship and Excellence in National Environmental Policy Foundation	Morris K. Udall Scholarship and Excellence in National Environmental Policy Foundation*	1
442	Other Defense Civil Programs	White House commission on the national moment of remembrance*	1
443	Telecommunications Development Fund	Telecommunications development fund*	1
444	Agriculture	Distance learning, telemedicine, and broadband program*	0
445	Agriculture	Rural economic development loans liquidating account*	0
446	Agriculture	Facilities acquisition and enhancement fund*	0
447	Housing and Urban Development	Homeownership assistance fund*	0
448	Housing and Urban Development	Consolidated fee fund*	0
449	Department of State	International Center, Washington, D.C.*	0
450	Interior	Donations and contributed funds*	0
451	Treasury	Collection Contractor Support*	0
452	Veterans Affairs	United States Government life insurance fund	0
453	Veterans Affairs	Medical facilities revolving fund*	0
454	Veterans Affairs	Veterans extended care revolving fund*	0
455	International Assistance Programs	Kuwait civil reconstruction trust fund*	0
456	Judicial Branch	United States Court of Federal Claims Judges' retirement fund	0
457	Legislative Branch	Compensation of members, Senate	0
458	Legislative Branch	Tax Court judges survivors annuity fund*	0
459	Agriculture	Emergency boll weevil loan program account*	0
460	Agriculture	Gifts and bequests	0
461	Agriculture	Apple loans program account*	0
462	Agriculture	Rural community fire protection grants*	0
463	Agriculture	National sheep industry improvement center revolving fund*	0
464	Agriculture	Land acquisition reinvestment fund*	0

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Obs. #	Agency	Account	5-year avg. dollar change (absolute value)
465	Energy	Continuing fund, Southwestern Power Administration*	0
466	Energy	Advances for cooperative work*	0
467	Housing and Urban Development	Interstate land sales*	0
468	Department of State	Foreign service national defined contributions retirement fund*	0
469	Department of State	USIA Foreign Service national separation liability trust fund*	0
470	Interior	Dutch John community assistance*	0
471	Transportation	Saint Lawrence Seaway Development Corporation*	0
472	Transportation	Minority business resource center program*	0
473	Federal Financial Institutions Examination Council Appraisal Subcommittee	Registry fees	0
474	International Assistance Programs	Private sector revolving fund liquidating account*	0
475	Japan-United States Friendship Commission	Japan-United States Friendship trust fund	0
476	National Credit Union Administration	Community development credit union revolving loan fund*	0
477	Other Defense Civil Programs	Wildlife conservation	0
478	Other Defense Civil Programs	Soldiers' and airmen's home revolving fund*	0
479	Other Defense Civil Programs	White House commission on the national moment of remembrance*	0
480	Allowances	Contingent offset for the refundable portion of the health care tax credit*	0
481	Barry Goldwater Scholarship and Excellence in Education Foundation	Barry Goldwater Scholarship and Excellence in Education Foundation	0
482	Agriculture	P.L. 480 title I food for progress credits, program account*	0
483	Commerce	Gifts and bequests	0
484	Department of Defense—Military	Concurrent receipt accrual payments to the Military Retirement Fund*	0
485	Department of Defense—Military	Restoration of the Rocky Mountain Arsenal*	0
486	Education	Reading excellence*	0
487	Education	School construction*	0
488	Education	Class size reduction and teacher financing*	0
489	Education	Perkins loan revolving fund*	0
490	Education	Federal family education loan insurance fund*	0
491	Health and Human Services	State legalization impact assistance grants*	0
492	Health and Human Services	Health maintenance organization loan and loan guarantee fund*	0
493	Homeland Security	Disaster assistance direct loan program account*	0
494	Housing and Urban Development	Empowerment zones/enterprise communities*	0

**Appendix III
Mandatory Budget Accounts**

(Continued From Previous Page)

Dollars in millions

Obs. #	Agency	Account	5-year avg. dollar change (absolute value)
495	Justice	Civil liberties public education fund*	0
496	Labor	Foreign labor certification processing*	0
497	Interior	Bureau of Reclamation loan program account*	0
498	Interior	Miscellaneous permanent appropriations*	0
499	Interior	Payment to tribe, Lower Brule Sioux Trust Fund*	0
500	Interior	Miscellaneous Indian trust payments*	0
501	Interior	Operation and maintenance of quarters*	0
502	Interior	Operation and maintenance of quarters*	0
503	Interior	Fee collection support, national park system*	0
504	Interior	National park renewal fund*	0
505	Interior	Concessions improvement accounts*	0
506	Interior	Park concessions franchise fees*	0
507	Interior	African elephant conservation fund*	0
508	Interior	Miscellaneous permanent appropriations*	0
509	Treasury	Payment to Justice, FIRREA related claims*	0
510	Treasury	Payments to the farm credit system financial assistance corporation liquidating account*	0
511	Treasury	Miscellaneous activities to be authorized in tobacco legislation*	0
512	Treasury	Miscellaneous permanent appropriations*	0
513	Transportation	Railroad rehabilitation and improvement program*	0
514	Transportation	Aviation user fees	0
515	Veterans Affairs	Veterans housing benefit program fund*	0
516	Veterans Affairs	Reinstated entitlement program for survivors under P.L. 97-377*	0
517	Veterans Affairs	Miscellaneous veterans housing loans guaranteed loan financing account*	0
518	Veterans Affairs	Medical care cost recovery fund*	0
519	District of Columbia	District of Columbia Federal pension fund*	0
520	District of Columbia	Federal payment for water and sewer services*	0
521	Environmental Protection Agency	Revolving fund for certification and other services*	0
522	General Services Administration	Working capital fund*	0
523	General Services Administration	Acquisition workforce training fund*	0
524	General Services Administration	Pennsylvania Avenue activities*	0
525	General Services Administration	Land acquisition and development fund*	0

**Appendix III
Mandatory Budget Accounts**

(Continued From Previous Page)

Dollars in millions

Obs. #	Agency	Account	5-year avg. dollar change (absolute value)
526	International Assistance Programs	Payment to the Foreign Service retirement and disability fund	0
527	Judicial Branch	Payment to judiciary trust funds	0
528	Legislative Branch	Gifts and donations*	0
529	Legislative Branch	United States Capitol Police memorial fund*	0
530	National Aeronautics and Space Administration	National Space Grant Program*	0
531	National Aeronautics and Space Administration	Science, space, and technology education trust fund	0
532	Other Independent Agencies	Foreign service national separation liability trust fund*	0
533	Other Independent Agencies	Miscellaneous trust funds*	0
534	Tennessee Valley Authority	Tennessee Valley Authority Office of the Inspector General*	0
Total			\$162,987

Source: GAO analysis of President's budget data.

Note: The shaded rows indicate the 7 case study accounts discussed in appendix I. Accounts with fewer than 5 years of data are denoted with an "*".

GAO Contact and Acknowledgments

GAO Contact

Susan J. Irving, (202) 512-9142, irvings@gao.gov

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