Federal Trust Funds and the Budget

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Summary

Federal trust funds are an important part of the budget. About 40% of all federal outlays are through trust funds and about 45% of all federal receipts come to trust funds. This importance is further highlighted by the considerable congressional interest in trust funds; as of July 1, 2010, over 580 bills had been introduced in the 111th Congress to create or modify federal trust funds.

A federal trust fund often represents a long-term commitment to use specific funds for a certain purpose. It has been argued that the creation of a trust fund is one way for Congress to "commit" future Congresses to fund a specific program or "to make long-term promises stick." Dedicated revenues are used to fund the program and the revenues usually come from the beneficiaries of the program.

There are about 200 federal trust funds, but most trust funds are relatively small with balances of less than $100 million. The 12 largest trust funds account for over 98% of income to all trust funds, outgo from all trust funds, and balances of all trust funds.

The trust funds surplus (i.e., revenues minus outgo) in FY2009 amounted to $127.3 billion. This surplus is mostly invested in government obligations and transferred to the general fund for spending. The federal funds deficit for FY2009 was $1,540.0 billion, but because of the trust funds surplus, the unified federal budget deficit (what is widely reported in the press) was $1,412.7 billion. Receipts in excess of outlays are added to the balance of the trust funds. By law, all trust funds except the Railroad Retirement fund must invest balances in government obligations. The government securities held by trust funds are part of federal debt that is subject to the statutory federal debt limit. At the end of FY2009, the trust funds held $4,013.8 billion in government securities.

From time to time, it is reported that one trust or another is on the verge of bankruptcy. In the context of trust funds the term "bankruptcy" is meaningless. It is true that a trust fund's outgo can be greater than its income and trust funds can have a zero balance, but the federal government is not in danger of "going out of business" or having its assets seized by creditors. Congress has often taken actions to increase a trust fund's revenues or reduce its outgo when it has faced imminent insolvency or exhaustion of its balances.

Some observers have argued that trust fund programs increase the federal deficit and reduce national saving. The evidence supports the claim that trust fund surpluses reduced the federal government deficit and increased public saving. This becomes important at the time when a trust fund's revenues are less than its outgo and the Treasury securities held by the trust fund need to be redeemed to cover outgo. The Treasury securities in the trust fund are claims on the government and the government will to find real resources (by raising revenue, decreasing spending, or issuing more debt) to cover these claims when the obligations are redeemed.

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Federal trust funds are an important part of the budget. About 40% of all federal outlays are through trust funds and about 45% of all federal receipts come to trust funds. This importance is further highlighted by the considerable congressional interest in trust funds; as of July 1, 2010, over 580 bills had been introduced in the 111th Congress to create or modify federal trust funds.

The unified federal budget consists of four basic fund groups—the general fund, special funds, revolving funds, and trust funds. The first three are often referred to as the federal funds group. General funds are not earmarked for a specific purpose and, consequently, there is not a direct link between revenues (primarily tax revenues) and the goods and services paid for out of the fund. Both special and revolving funds receive dedicated monies for spending on specific purposes. Trust funds are an accounting mechanism that records revenues, offsetting receipts, or collections earmarked for the purpose of the specific fund. Trust funds generally share three common features: (1) they are established for programs serving long-term purposes, (2) monies are used for a single purpose, and (3) users are charged to finance the trust fund.

Despite the name, federal trust funds are not the same as private sector trust funds. A trust in the private sector is "a fiduciary relationship in which one person (the trustee) holds property for the benefit of another (the beneficiary)."[1] The trustee must follow the express terms of the trust instrument and administer the trust for the benefit of the beneficiary. Most federal trust funds are not based on a legal fiduciary relationship. Congress creates trust funds that involve a commitment to use monies for a specific purpose, but can alter the terms (e.g., receipts, outlays, or purpose) of the trust fund at any time.

There are about 200 federal trust funds, but this is a result of some trust funds having multiple accounts; OMB tracks 123 trust funds and trust fund aggregates. While most trust funds are associated with a particular program, some trust funds were established to carry out the terms of a conditional gift.[2] Most trust funds are relatively small with balances of less than $100 million.

Why Use Trust Funds?

A federal trust fund often represents a long-term commitment to use specific funds for a certain purpose. It has been argued that the creation of a trust fund is one way for Congress to "commit" future Congresses to fund a specific program or "to make long-term promises stick."[3] Dedicated revenues are used to fund the program and the revenues usually come from the beneficiaries of the program.

Generally, the largest source of funds for the trust fund is charges to users or future users. Most receipts for the two Social Security trust funds come from payroll taxes on current workers (and future beneficiaries)—82% for the Old-Age and Survivors Insurance trust fund and 88% for the Disability Insurance trust fund. The same is true for the Hospital Insurance trust fund (one of the two Medicare trust funds) with 83% of receipts coming from payroll taxes. Funds for the Airport and Airway trust fund come mainly from taxes on passengers and other users (96% of receipts).

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[1] Eric M. Patashnik, *Putting Trust in the US Budget: Federal Trust Funds and the Politics of Commitment* (Cambridge: Cambridge University Press, 2000), pp. 7-8.

[2] Patashnik, *Putting Trust in the US Budget*, p. 2. Patashnik notes there are 35 such trust funds.

[3] Patashnik, *Putting Trust in the US Budget*.

However, this is not true for all trust funds. For example, only about 20% of receipts for the Supplemental Medical Insurance trust fund come from premiums on current users and over 70% comes from general revenues.

The promise by Congress to fund a specific program in the future is not a legal commitment, but is more of a political commitment that future Congresses may find difficult to overturn. It has been argued that trust fund programs couple “the benefits and costs of these programs more closely, and it also lends a degree of assurance to beneficiaries and grantees that trust fund benefit or grant schedules once established will be protected.”[4]

It has further been argued that, in addition to the expectations deriving from this political commitment, “a trust fund is only as secure as its beneficiaries are powerful.”[5] For example, in the creation of Social Security and unemployment insurance, President Franklin D. Roosevelt insisted that workers pay payroll taxes. Roosevelt reportedly said “[w]e put those payroll contributions there so as to give the contributors a legal, moral, and political right to collect their pensions and their unemployment benefits. With those taxes in there, no damn politician can ever scrap my social security program.”[6] Roosevelt’s rhetoric indicates he wanted to create a large and powerful constituency for the program—workers and beneficiaries.

The use of user fees or other earmarked revenues for trust fund programs may help explain why trust funds generally run an annual surplus whereas federal funds generally run annual deficits. Taxpayers may be more willing to pay earmarked taxes because they know what the taxes are used for, whereas they often have little idea of how general revenues are spent. Alice Rivlin argued that taxpayers may believe that general revenues are “spent wastefully or even fraudulently, or that a substantial part of it goes for services of which they disapprove.”[7]

Once a trust fund is created with a dedicated revenue source, Congress does not necessarily take a hands-off approach to the program. Congress frequently changes these programs, often to better align receipts with outlays, and in at least one instance terminated the program (e.g., the revenue-sharing trust fund).[8]

Trust Funds and the Budget

Prior to fiscal year (FY) 1969, the federal budget consisted of three different budget concepts: the administrative budget, the cash budget, and the national income accounts budget. Much of the

[4] President’s Commission on Budget Concepts, *Report of the President’s Commission on Budget Concepts* (Washington: U.S. Government Printing Office, 1967), p. 26.

[5] Allen Schick, *The Federal Budget: Politics, Policy, Process*, 3rd ed. (Washington: Brookings Institution Press, 2007), p. 44.

[6] Arthur M. Schlesinger, Jr., *The Coming of the New Deal* (Boston: Houghton Mifflin Co., 1958), pp. 308-309. While workers may have a moral and political right to their Social Security benefit, the Supreme Court ruled in 1960 (Fleming v. Nestor) that they do not have a contractual right to their benefit.

[7] Alice M. Rivlin, “The Continuing Search for a Popular Tax,” *American Economic Review, Papers and Proceedings*, vol. 79, no. 2 (May 1989), p. 114.

[8] The most recent example is the Airport and Airway Extension Act of 2010, Part II (P.L. 111-197), which extended through August 1, 2010, the increased taxes to fund the Airport and Airways Trust Fund. Additionally, the Social Security Act states that “[t]he right to alter, amend, or repeal any provision of this Act is hereby reserved to the Congress” (42 USC 1304).

congressional, press, and public attention focused was on the administrative budget, which did not measure all federal government activities. The administrative budget omitted receipts and expenditures of federal trust funds. The 1967 President's Commission on Budget Concepts noted that

> the administrative budget, the consolidated cash budget, and the national income accounts budget have often been used as competing measures of the total scope of Federal activity; they are not unified and can be used together only with fairly elaborate reconciliation that tends to confuse more than it enlightens.[9]

In 1968, the Johnson Administration adopted the unified budget concept to account for all receipts and expenditures of the federal government. Subsequent administrations have continued using the unified budget concept, and focus on the surplus or deficit of all federal and trust funds together.

In the annual appropriations process, Congress appropriates money, which gives agencies budget authority to enter into obligations (i.e., legal commitments to make a payment). Most trust fund programs have permanent budget authority and all monies in the trust fund are available for obligation. Most trust funds lack the authority to incur obligations that exceed the monies in the trust fund. Some trust funds, however, are authorized to borrow from the general fund.[10]

The trust funds surplus (i.e., revenues in excess of outgo) in FY2009 amounted to $127.3 billion. This surplus is mostly invested in government obligations and transferred to the general fund for spending. The federal funds deficit for FY2009 was $1,540.0 billion, but because of the trust funds surplus, the unified federal budget deficit (what is widely reported in the press) was $1,412.7 billion.

Receipts in excess of outlays are added to the balance of the trust funds. By law, all trust funds except the Railroad Retirement fund must invest balances in government obligations.[11] The Railroad Retirement fund is allowed to invest its balance in equities (in FY2009, about 9% of the trust fund balance was invested in government obligations).[12] The government securities held by trust funds are part of federal debt that is subject to the statutory federal debt limit. At the end of FY2009, the trust funds held $4,013.8 billion in government securities.

Trust fund receipts come from a variety of sources. Almost all trust funds receive monies from current or future beneficiaries. Most trust funds receive general revenues in terms of direct payments or interest payments. In addition, some trust funds receive payments from other trust funds. For example, some railroad retirement benefits are financed by a payment from one of the Social Security trust funds (Old-Age and Survivors Insurance (OASI) trust fund) to the Railroad Retirement trust fund. **Table 1** shows the trust fund receipts coming from federal funds in FY2009, which amounted to $589.6 billion.

[9] President's Commission on Budget Concepts, *Report of the President's Commission on Budget Concepts* (Washington: U.S. Government Printing Office, 1967), p. 3.

[10] For example, the Black Lung Disability trust fund.

[11] 31 USC 9702.

[12] National Railroad Retirement Investment Trust, *Annual Management Report for Fiscal Year 2009*, January 2010, available at http://www.rrb.gov/pdf/nrrit/reportFY2009.pdf.

Table 1. Trust Fund Receipts from Federal Funds, FY2009

(in billions of dollars)

Description	Amount
Interest on balances	$181.6
General fund payment to Medicare Parts B and D	194.3
Employing agencies' payments for pensions and social insurance	60.0
General fund payments for unfunded liabilities of federal employees retirement funds	82.9
Transfer of taxation of Social Security and railroad retirement benefits to trust funds	33.5
Other receipts from federal funds	37.3

Source: Office of Management and Budget, "Trust Funds and Federal Funds," *Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2011* (Washington: GPO).

The balances of the trust funds do not represent real resources available for spending.[13] Rather they are obligations of the federal government, and the federal government will have to divert revenues or borrow money from the public to redeem those obligations when they come due. Likewise, the interest on trust fund balances does not represent real resources available for spending—these payments are simply bookkeeping entries debiting one federal account and crediting another. If these interest payments to the trust funds are excluded, the trust funds would show a $56.1 billion deficit instead of a $127.3 billion surplus. Transfers between trust funds and federal funds, however, do not change the unified budget deficit or the level of federal debt.

Figure 1 displays the evolution of trust fund surpluses since FY1962. With the exception of FY1962 (with a $299 million deficit), the trust funds have shown surpluses. As a percentage of gross domestic product (GDP), the trust fund surplus reached a high of 2.4% in FY2000. The surplus fell dramatically in FY2009 because of the increased unemployment benefits paid and reduced payroll tax revenue due to the severe recession beginning in December 2007. The large increase in the trust fund surplus after 1982 is due to the 1983 Social Security amendments, which moved Social Security from primarily pay-as-you-go to partial prefunding by increasing the payroll tax rate and taxing Social Security benefits.[14]

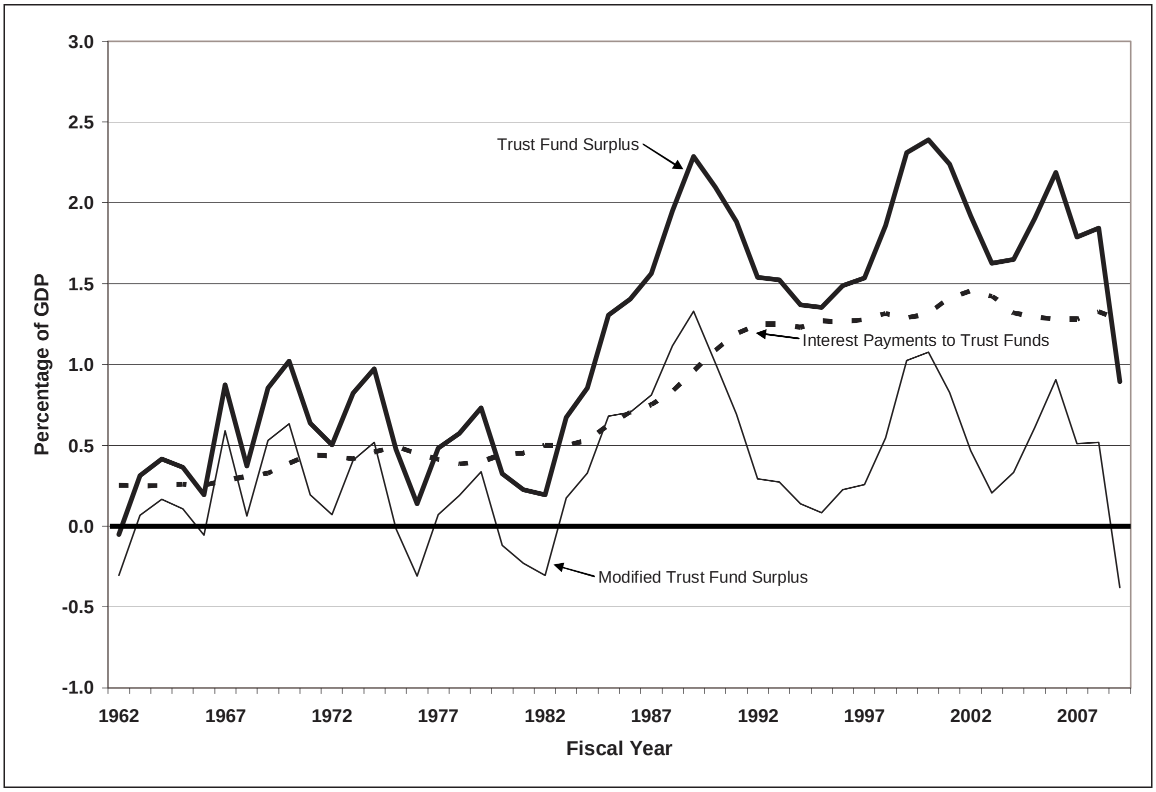
Interest payments to the trust funds are also shown in **Figure 1**. These payments increased from about 0.2% of GDP in FY1962 to 1.3% of GDP by FY2009. Excluding interest payments from the calculation of the trust funds surplus produces a modified trust funds surplus that compares trust fund outgo with trust revenues (earmarked taxes, user fees, and legislatively dedicated general fund revenue). The modified trust fund surplus essentially shows what the trust funds add to or subtract from the real resources of the federal government available for spending. The modified trust fund surplus, while following the same trend as the trust fund surplus, was negative in FY1962, FY1976, FY1980-1982, and FY2009. By excluding interest payments to the

[13] The Congressional Budget Office argues that trust fund balances are not meaningful from an economic standpoint, rather they primarily serve a bookkeeping role. See Congressional Budget Office, *Federal Debt and Interest Costs,* CBO Study, May 1993.

[14] The Old-Age and Survivors Insurance trust fund was projected to be exhausted by mid-1983. The National Commission on Social Security Reform (known as the Greenspan, after its chairman Alan Greenspan) recommended several changes that formed the basis of the Social Security Amendments of 1983 (P.L. 98-21).

trust funds, the average trust fund surplus since FY1983 is reduced from 1.7% of GDP to 0.6% of GDP.

Figure 1. Trust Funds Surplus, FY1962-FY2009



Source: CRS calculations of OMB data.

The Office of Management and Budget (OMB) estimates that the trust funds will have a $58.3 billion surplus in FY2010 and an aggregate $954.3 billion five-year surplus for FY2011-FY2015.[15] OMB, however, projects that $183.4 billion in interest payments will be transferred from federal funds to the trust funds in FY2010. Consequently, the non-interest revenue to the trust funds will be $134.9 billion less than trust fund program expenditures—the modified trust fund surplus will be negative. Over the five-year period from FY2011-FY2015, non-interest revenues are projected to be $113.5 billion less than expenditures.

Status of Largest Trust Funds

The FY2009 income, outgo, and balances of the 12 largest trust funds are reported in **Table 2**. A description of these trust funds is provided in **Table 3**. These 12 trust funds account for over 98% of income to all trust funds, outgo from all trust funds, and balances of all trust funds. These 12 trust funds had a combined positive balance totaling $4,004.8 billion at the end of FY2009. However, only five trust funds had income exceeding outgo in FY2009. The other seven trust

[15] Office of Management and Budget, "Trust Funds and Federal Funds," *Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2011* (Washington: GPO), p. 419.

funds had a deficit. The unemployment trust fund's large deficit ($58.6 billion) is due to increased payments to the public because of legislation to deal with the recession. This trust fund had surpluses in most fiscal years between 2000 and 2007. The Administration projects surpluses for this trust fund after FY2012 as the economy recovers and the labor market improves.

Table 2. Income, Outgo, and Balances of the 12 Largest Trust Funds, FY2009

(billions of dollars)

Trust Fund	Income	Outgo	Surplus/ Deficit	Balance
Social Security	$807.1	$669.8	$137.3	$2,503.8
Old-Age and Survivors Insurance (OASI)	*697.4*	*551.7*	*145.7*	*2,296.2*
Disability Insurance (DI)	*109.7*	*118.1*	*-8.4*	*207.6*
Medicare	499.4	506.2	-6.8	371.2
Supplementary Medical Insurance (SMI)	*265.1*	*262.8*	*2.3*	*61.4*
Hospital Insurance (HI)	*234.3*	*243.4*	*-9.1*	*309.8*
Civil Service Retirement and Disability	93.1	67.7	25.4	754.3
Military Retirement	75.1	50.0	25.2	276.1
Unemployment Insurance	58.7	117.3	-58.6	22.8
Highway	42.3	45.0	-2.7	14.1
Federal Employees Health Benefits	37.2	37.4	-0.2	15.3
Foreign Military Sales	24.9	21.9	3.0	17.2
Airport and Airway	11.0	11.9	-0.9	8.8
Railroad Retirement	8.5	10.9	-2.4	21.2
Total (largest trust funds)	1,657.3	1,538.1	119.3	4,004.8
Total (all trust funds)	1,688.3	1,561.0	127.3	4,088.5

Source: Office of Management and Budget

Notes: Trust funds ranked by income.

While five trust funds recorded a surplus for FY2009, only three would be in surplus if interest payments from federal funds were excluded (OASI, military retirement, and foreign military sales). In total, the 12 trust funds would have had a FY2009 deficit of about $60 billion if interest payments were excluded.[16]

[16] Much of the Railroad Retirement trust fund balances are invested in non-governmental securities such as equities. The trust fund suffered $728 million in losses on these securities and earned $378 million in interest and dividends from these securities in FY2009.

Table 3. Description of Largest Trust Funds

Trust Fund	Year Began	Purpose
Social Security	Social Security Act of 1935, as amended (OASI in 1939, DI in 1956)	Payroll taxes placed in these two trusts funds; benefits paid out of trust funds to retired or disabled workers, their spouses and dependents.
Medicare	Social Security amendments of 1965	Medicare Part A is financed through the HI trust fund by payroll tax revenues and provides hospital, hospice, and other services to retired workers; Medicare Part B is financed through the SMI trust fund by premiums and general fund transfers and provides outpatient services to retired and disabled workers.
Civil Service Retirement and Disability	The Civil Service Retirement Act of 1920	Covers the defined benefit pension component of the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). Funded by employee and agency contributions, and other receipts from federal funds.
Military Retirement	Department of Defense Authorization Act of 1984	Provides retirement and survivor benefits to qualified retired military personnel. Funded by general fund transfers.
Unemployment Insurance	Social Security Act of 1935, as amended	Provides temporary unemployment compensation to qualified unemployed workers. Funded through employer taxes and general fund transfers.
Highway	Highway Revenue Act of 1956 (highways) and Surface Transportation Assistance Act of 1982 (mass transit)	Primarily funded by gasoline excise taxes with some transfers from the general fund. Provides funding for capital construction of highways and mass transit infrastructure.
Federal Employees Health Benefits	Federal Employees Health Benefits Act of 1959	Employer-provided health insurance program for federal government employees and retirees. Funded by employer and employee contributions.
Foreign Military Sales	Foreign Military Sales Act of 1968	Facilitates government-to-government sales of U.S. manufactured defense equipment, services and construction services. Funds provided by foreign government purchasers.
Airport and Airway	Airport and Airway Revenue Act of 1970	Provides funding for capital improvements and operations of U.S. airports and airway system. Funded by tax on domestic airline tickets and other taxes on airway users.
Railroad Retirement	Railroad Retirement Act of 1934	Provides retirement, survivor, disability, unemployment, and sickness insurance for railroad workers and their families. Funded by general fund transfers and investment income.

Source: Government Accountability Office and Congressional Research Service.

Overall, the 31 trust funds with a FY2009 deficit had a combined deficit of $66 billion (see **Table 4**). If interest payments from federal funds are excluded, the combined deficit of these 31 trust funds would be $70 billion. Most of this deficit (89%), however, is due to just one trust fund—the unemployment trust—that has a large deficit due to congressional actions in response to the severe recession. Forty-nine trust funds had a FY2009 surplus with a combined surplus of $228.4 billion, but this would be only $49 billion if interest payments from federal funds were excluded (and nine would be in deficit).

Bankruptcy and Insolvency

A recent Google search on "entitlement crisis" turned up over 1.5 million entries.[17] Many of the entries point to recent news articles and opinion pieces exclaiming the pending bankruptcy of many trust funds, especially the Social Security trust funds. In the context of trust funds, however, the term "bankruptcy" is meaningless. It is true that a trust fund's outgo can be greater than its income and trust funds can have a zero balance, but the federal government is not in danger of "going out of business" or having its assets seized by creditors. Congress has often taken actions to increase a trust fund's revenues or reduce its outgo when it has faced imminent insolvency or exhaustion of its balances. Examples include the Social Security trust fund in 1983 and, more recently, the airport and airway trust fund. Policymakers are always free to prevent insolvency of any trust fund simply by raising taxes and fees or by injecting general revenues into it. That said, this does not mean Congress does not face making difficult choices that affect revenues and spending now or in the future. For example, injecting general revenue into a trust fund means reducing spending elsewhere in the budget, increasing the federal deficit, or raising taxes. In the absence of congressional action, however, the program's annual outgo could be no greater than its annual income.

In FY2009, total trust fund balances increased by $135.2 billion to $4,088.5 billion.[18] Most trust funds had a positive balance at the end of FY2009 (see **Table 4**). A handful of trust funds (21) had a zero balance at the end of the fiscal year, but 17 of these trust funds had no income and outgo, three had income equal to outgo, and one had a deficit of $4 billion thus exhausting the trust fund. In addition, nine trust funds had a positive end of FY2009 balance, but no income and outgo in FY2009. Two trust funds—the Railroad Social Security Equivalent Benefit (SSEB) account and the Black Lung Disability trust fund—had negative balances at the end of FY2009 (totaling $8.6 billion). The negative balance of the SSEB account, however, is due to a timing issue rather than outgo exceeding income. Retired railroad workers receive the equivalent of a Social Security benefit from the Railroad Retirement Board. The funds for this benefit are transferred from the Social Security trust fund once a year, but benefits are paid monthly. The SSEB account receives monthly advances from the general fund to pay the monthly benefits. The general fund advances are repaid annually after the financial transfer from the Social Security trust fund to the SSEB account.

Longer-Term Status of Trust Funds

The Administration estimates the status of the larger trust funds for the upcoming fiscal year and the five subsequent years in its annual budget submission. In addition, the Social Security and Medicare Trustees produce two annual reports that project the financial status of the Social Security and Medicare trust funds for the next 75 years.

According to Administration projections, by the end of FY2015, all but one of the trust funds listed in **Table 2** are projected to have a positive balance.[19] The Highway trust fund is projected to

[17] Google search performed on July 7, 2010.

[18] Office of Management and Budget, "Trust Funds and Federal Funds," *Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2011* (Washington: GPO, 2010).

[19] Office of Management and Budget, "Trust Funds and Federal Funds," *Analytical Perspectives, Budget of the U.S.* (continued...)

be exhausted early in FY2011 and have a negative balance through to FY2015. This trust fund has the legal authority, however, to incur obligations that exceed its balance up to the receipts anticipated to be collected in the following four years. The balance at the end of FY2015 is projected to be -$7.8 billion.

In the 2010 Trustees reports, the Trustees project that the Social Security and Medicare trust funds will be exhausted within the next 30 years: the Old-Age and Survivors Insurance (OASI) trust fund in 2040, the Disability Insurance (DI) trust fund in 2018, and the Hospital Insurance (HI) trust fund in 2029.[20] The Supplementary Medical Insurance (SMI) trust fund is projected to be adequately financed indefinitely because under current law general fund financing is automatically provided to meet next year's expected costs. The recently passed health care reform legislation—the Patient Protection and Affordable Care Act (P.L. 111-148) and the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152)—affected Medicare finances and thus the Medicare trust funds. CBO estimates that this legislation will reduce the annual growth rate of Medicare spending (from 4% to about 2%), but questions whether or not the lower growth rate can be sustained in the long-term.[21] Thus this legislation postpones the year the HI trust fund is exhausted by about 10 years.

Once the trust funds are exhausted, the trust fund programs in any year will have the authority to obligate only the revenues received that year (in the absence of any legislation). For example, after trust fund exhaustion in 2037, Social Security will have tax revenue sufficient to pay about 75% of scheduled benefits, which would entail reducing Social Security beneficiaries' monthly benefits by 25%, absent other changes.

Economic Effects of Trust Funds

Trust funds and trust fund programs can have both short-term and long-term effects on the economy. In the short term, many trust fund programs provide monetary benefits to the public, which are in turn spent on goods and services. A change in these benefits will increase or decrease consumer spending and thus economic activity. For example, government spending on unemployment compensation increases during recessions, which acts as a short-term fiscal stimulus. Unemployment compensation is part of what is known as automatic stabilizers.

The long-term effect is through the impact the trust funds have on national saving. Saving is the portion of national output that is not consumed and represents resources that can be used to increase, replace, or improve the nation's capital stock. Consequently, saving can increase the productive capacity of the nation, future income, and the amount of goods and services consumed in the future.

(...continued)

Government, Fiscal Year 2011 (Washington: GPO). All the trust funds combined are projected to experience increasing surpluses and growing balances between FY2010 and FY2015.

[20] Social Security and Medicare Board of Trustees, *A Summary of the 2010 Annual Reports*, available at http://www.ssa.gov/OACT/TRSUM/tr10summary.pdf. Together, the two Social Security trust funds will be exhausted in 2037.

[21] Congressional Budget Office, *The Long-Term Budget Outlook*, June 2010, ch. 2.

National saving is the sum of private saving (by households and businesses) and public saving (by federal, state, and local governments). It has been argued that trust funds and trust fund programs (especially Social Security) can adversely affect both private and public saving. First, in a widely cited and influential article, Martin Feldstein estimated that Social Security has had the effect of lowering personal saving (a component of private saving) by 20% - 50% through an asset-substitution effect and the inducement-to-retire effect.[22] However, Feldstein's results were questioned by Dean Leimer and Selig Lesnoy who found that Feldstein's work was flawed because of a computer programming error.[23] After correcting the error, they concluded that the data show that Social Security had very little effect on personal saving. In a subsequent paper, Feldstein reestimated his model with updated data and obtained essentially the same results as in his earlier paper.[24] Dennis Coates and Brad Humphreys, and Philip Meguire, however, showed that Feldstein's results are not robust to alternative specifications.[25] In a review of the literature, the Congressional Budget Office (CBO) concluded that for each dollar of Social Security wealth, private wealth is reduced by between zero and 50 cents; however, CBO could not rule out higher or lower effects.[26]

Second, two studies suggest that trust fund surpluses in general and the Social Security trust funds in particular tend to increase federal deficits and reduce public saving. Kent Smetters estimated that for each dollar increase in the Social Security surplus, the non-Social Security federal budget deficit increased by more than $2.00.[27] Sita Nataraj and John Shoven examined all trust fund surpluses rather than just the Social Security trust fund surplus and estimated that each dollar increase in trust fund surpluses is offset by a $1.50 increase in the federal funds deficit.[28] The authors blame the shift to the unified budget concept after FY1969.

Subsequent research, however, has questioned these findings. Peter Orszag showed that the results of Nataraj and Shoven are sensitive to the variables used and time period examined.[29] Thomas Hungerford shows that previous researchers (Smetters, and Nataraj and Shoven) paid insufficient attention to the statistical properties of their variables, and, consequently, their results appear to be spurious.[30] After correcting the methodological problems, he found no support for the argument that trust fund surpluses increased federal funds deficits.

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22 Martin Feldstein, "Social Security, Induced Retirement, and Aggregate Capital Accumulation," *Journal of Political Economy*, vol. 82, no. 5 (1974), pp. 905-926.

23 Dean R. Leimer and Selig D. Lesnoy, "Social Security and Private Saving: New Time-series Evidence," *Journal of Political Economy*, vol. 90, no. 3 (1982), pp. 606-629.

24 Martin Feldstein, "Social Security and Saving: New Time Series Evidence," *National Tax Journal*, vol. 49, no. 2 (1996), pp. 151-164.

25 Dennis Coates and Brad R. Humphreys, "Social Security and Saving: Comment," *National Tax Journal*, vol. 52, no. 2 (1999), pp. 261-268; and Philip Meguire, "Comment: Social Security and Saving," *National Tax Journal*, vol. 51, no. 2 (1998), pp. 339-358.

26 Congressional Budget Office, *Social Security and Private Saving: A Review of the Literature*, CBO Memorandum, July 1998.

27 Kent Smetters, "Is the Social Security Trust Fund a Store of Value?" *American Economic Review, Papers and Proceedings*, vol. 94, no. 2 (2004), pp. 176-181.

28 Sita Nataraj and John Shoven, *Has the Unified Budget Undermined the Federal Government Trust Funds?*, National Bureau of Economic Research, Working Paper no. 10953, Cambridge, MA, December 2004.

29 Peter Orszag, Comments on Sita Nataraj and John Shoven "Has the Unified Budget Undermined the Federal Government Trust Funds?" presented at the Future of Social Security Conference, Washington, DC, November 2004.

30 Thomas Hungerford, "The Social Security Surplus and Public Saving," *Public Finance Review*, vol. 37, no. 1 (2009), pp. 94-114.

The evidence supports the claim that trust fund surpluses reduced the federal government deficit and increased public saving. This becomes important at the time when trust funds need to redeem the Treasury obligations held by the trust fund to cover outgo. The Treasury obligations in the trust fund are claims on the government and the government will have to find real resources (by raising revenue, decreasing spending, or issuing more debt) to cover these claims when the obligations are redeemed. For example, Social Security outlays are projected to be greater than payroll tax revenues beginning in 2016, and the Treasury will have to transfer real resources to Social Security to pay promised benefits. By increasing public saving and thus national saving, the accumulation of assets in the Social Security trust fund will probably lead to national income being higher than it would have been in the absence of trust fund surpluses. Consequently, it could be easier to find the real resources necessary to redeem the Treasury obligations.

Table 4. Income, Outgo, and Balances of All Trust Funds, FY2009

(millions of dollars)

Trust Fund Name and Fund Number	Income	Outgo	Surplus	Balance
Federal Old-age and Survivors Insurance Trust Fund (016-00-8006)	697,448	551,664	145,784	2,296,208
Civil Service Retirement and Disability Fund (027-00-8135)	96,061	67,668	25,393	754,263
Federal Hospital Insurance Trust Fund (009-38-8005)	234,283	243,377	9,094	309,836
Military Retirement Fund (200-05-8097)	75,146	49,964	25,182	276,098
Federal Disability Insurance Trust Fund (016-00-8007)	109,652	118,114	8,462	207,563
Federal Supplementary Medical Insurance Trust Fund (009-38-8004)	265,059	262,801	2,258	61,407
Employees Life Insurance Fund (027-00-8424)	4,294	2,509	1,785	35,652
National Railroad Retirement Investment Trust (446-00-8118)	-327	1,623	-1,950	23,304
Unemployment Trust Fund (012-05-8042)	58,711	117,323	-58,612	22,850
Foreign Military Sales Trust Fund (184-70-8242)	24,913	21,894	3,019	17,188
Foreign Service Retirement and Disability Fund (014-05-8186)	1,295	815	480	15,334
Employees and Retired Employees Health Benefits Funds (027-00-9981)	37,198	37,373	-175	15,296
Highway Trust Fund (021-15-8102)	42,299	45,023	-2,724	14,094
Airport and Airway Trust Fund (021-12-8103)	10,959	11,884	-925	8,780
National Service Life Insurance Fund (029-25-8132)	880	1,420	-540	8,743
Harbor Maintenance Trust Fund (202-00-8863)	1,253	805	448	5,004
Hazardous Substance Superfund (020-00-8145)	2,099	1,654	445	3,376
Leaking Underground Storage Tank Trust Fund (020-00-8153)	276	99	177	3,347
Vaccine Injury Compensation Program Trust Fund (009-15-8175)	324	109	215	2,905
Aquatic Resources Trust Fund (024-60-8147)	667	646	21	2,341
Education Benefits Fund (200-10-8098)	664	431	233	2,052
Veterans Special Life Insurance Fund (029-25-8455)	199	197	2	2,002
Oil Spill Liability Trust Fund (024-60-8185)	501	232	269	1,437
Assessment Funds (015-57-8413)	775	704	71	967
Rivers and Harbors Contributed Funds (202-00-8862)	456	385	71	851

Trust Fund Name and Fund Number	Income	Outgo	Surplus	Balance
Foreign National Employees Separation Pay (007-55-8165)	32	41	-9	571
Gifts and Contributions (485-00-9972)	183	151	32	508
Judicial Survivors' Annuities Fund (002-35-8110)	34	23	11	485
Voluntary Separation Incentive Fund (007-55-8335)	83	133	-50	463
Rail Industry Pension Fund (446-00-8011)	4,188	4,401	-213	431
Forest Service Trust Funds (005-96-9974)	249	156	93	409
Host Nation Support Fund for Relocation (007-55-8337)	389	52	337	352
Miscellaneous Trust Funds (009-91-9971)	80	61	19	324
Surcharge Collections, Sales of Commissary Stores, Defense (007-55-8164)	313	278	35	323
Judicial Officers' Retirement Fund (002-35-8122)	75	35	40	319
Armed Forces Retirement Home (200-20-8522)	61	156	-95	244
Foreign Service National Separation Liability Trust Fund (014-05-8340)	20	16	4	197
Special Workers' Compensation Expenses (012-15-9971)	145	-146	-1	141
District of Columbia Judicial Retirement and Survivors Annuity Fund (349-10-8212)	13	9	4	124
Miscellaneous Trust Funds (021-15-9971)	20	67	-47	114
South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund (202-00-8217)	14	1	13	112
Expenses and Refunds, Inspection and Grading of Farm Products (005-45-8015)	152	148	4	105
United Mine Workers of America Combined Benefit Fund (476-00-8295)	193	179	14	98
General Post Fund, National Homes (029-15-8180)	37	38	-1	82
Donations (422-00-8960)	47	50	-3	80
Commissary Funds, Federal Prisons (trust Revolving Fund) (011-20-8408)	322	318	4	77
Miscellaneous Trust Funds (010-24-9972)	31	44	-13	73
Post-Vietnam Era Veterans Education Account (029-25-8133)	1	2	-1	67
Barry Goldwater Scholarship and Excellence in Education Foundation (313-00-8281)	3	3	0	67
Cheyenne River Sioux Tribe Terrestrial Wildlife Habitat Restoration Trust Fund (015-10-8209)	8	0	8	66
Inland Waterways Trust Fund (202-00-8861)	77	150	-73	60
Harry S Truman Memorial Scholarship Trust Fund (372-00-8296)	2	2	0	55
Gift and Trust Fund Accounts (001-25-9971)	12	23	-11	51
Other DOD Trust Funds (007-55-9971)	37	35	2	40
Tribal Trust Fund (010-90-8030)	98	124	-26	40
Miscellaneous Trust Funds, AID (184-15-9971)	27	25	2	39

Trust Fund Name and Fund Number	Income	Outgo	Surplus	Balance
James Madison Memorial Fellowship Trust Fund (381-00-8282)	2	2	0	38
Japan-United States Friendship Trust Fund (382-00-8025)	1	2	-1	38
Morris K. Udall and Stewart L. Udall Foundation (487-00-8615)	6	3	3	37
Miscellaneous Trust Funds (010-04-9971)	13	14	-1	36
Reclamation Trust Funds (010-10-8070)	2	6	-4	32
Radiation Exposure Compensation Trust Fund (011-06-8116)	74	60	14	32
Foreign Service National Separation Liability Trust Fund (184-15-8342)	4	0	4	32
Miscellaneous Trust Funds (014-05-9971)	5	8	-3	27
United States Government Life Insurance Fund (029-25-8150)	2	6	-4	26
Miscellaneous Contributed Funds (005-18-8214)	24	22	2	25
Limitation on Administrative Expenses (016-00-8704)	10,396	10,421	-25	23
Special studies, services and projects (021-70-8547)	1	59	-58	23
Court of Appeals for Veterans Claims Retirement Fund (345-00-8290)	3	1	2	19
United States Court of Federal Claims Judges' Retirement Fund (002-35-8124)	5	3	2	18
Miscellaneous Trust Funds (005-32-9971)	17	17	0	18
Center for Middle Eastern-Western Dialogue Trust Fund (014-25-8813)	0	1	-1	18
Contributions (200-15-8569)	1	1	0	18
John C. Stennis Center for Public Service Training and Development Trust Fund (001-45-8275)	2	1	1	14
Science, Space, and Technology Education Trust Fund (026-00-8978)	1	1	0	14
Gifts and Donations, African Development Foundation (184-50-8239)	3	2	1	13
Israeli Arab and Eisenhower Exchange Fellowship Programs (014-25-8276)	0	0	0	12
U.S. Capitol Preservation Commission (001-45-8300)	0	0	0	11
Tax Court Judges Survivors Annuity Fund (001-40-8115)	0	0	0	9
Open World Leadership Center Trust Fund (001-45-8148)	15	15	0	9
National Archives Trust Fund (393-00-8436)	16	17	-1	9
Contributed Funds (010-18-8216)	5	4	1	8
Peace Corps Miscellaneous Trust Fund (184-35-9972)	2	2	0	8
National Security Education Trust Fund (007-55-8168)	0	0	0	5
Manufactured Housing Fees Trust Fund (025-09-8119)	8	6	2	5
General Gift Fund (024-60-8533)	2	2	0	4
Gifts and Donations, National Endowment for the Arts (417-00-8040)	1	1	0	4
Gifts and Bequests (005-03-8203)	1	1	0	3

Trust Fund Name and Fund Number	Income	Outgo	Surplus	Balance
Expenses and Refunds, Inspection and Grading of Farm Products (005-35-8137)	13	9	4	3
Gifts and Donations, Bureau of Indian Affairs (010-76-8361)	0	0	0	3
Unconditional Gift Fund (023-05-8198)	0	0	0	3
National Space Grant Program (026-00-8977)	0	0	0	3
Miscellaneous Trust Funds (309-00-9971)	8	7	1	3
National Archives Gift Fund (393-00-8127)	3	2	1	3
Gifts and Bequests (006-05-8501)	1	1	0	2
Contributed Funds (010-12-8562)	2	2	0	2
Gifts and Donations (024-10-8244)	0	0	0	2
US Customs Refunds, Transfers and Expenses, Unclaimed and Abandoned Goods (024-58-8789)	4	4	0	2
Tobacco Trust Fund (005-49-8161)	951	1,130	-179	1
Christopher Columbus Fellowship Foundation (465-00-8187)	0	0	0	1
Gifts and Donations (001-15-8189)	0	0	0	0
Gifts and Donations (001-18-8292)	0	0	0	0
Milk Market Orders Assessment Fund (005-45-8412)	54	54	0	0
Miscellaneous Contributed Funds (005-53-8210)	0	0	0	0
Foreign Service National Separation Liability Trust Fund (006-25-8344)	0	0	0	0
Department of Defense General Gift Fund (007-55-8163)	0	0	0	0
Other DOD Trust Revolving Funds (007-55-9981)	1	5	-4	0
Ricky Ray Hemophilia Relief Fund (009-15-8074)	0	0	0	0
Allowance for Transitional Medicare Low-income Drug Assistance (009-38-9068)	0	0	0	0
Class Independence Fund (009-90-8160)	0	0	0	0
Cooperative Fund (Papago) (010-90-8366)	0	0	0	0
Capital Magnet Fund, Community Development Financial Institutions (015-05-8524)	0	0	0	0
Gifts and Bequests (015-05-8790)	0	0	0	0
Advances for Cooperative Work (019-20-8575)	0	0	0	0
Payments to Air Carriers (021-04-8304)	0	0	0	0
Research, Engineering and Development (Airport and Airway Trust (021-12-8108)	0	0	0	0
Operations and Maintenance (021-40-8003)	0	0	0	0
Miscellaneous Trust Revolving Funds (024-60-9981)	9	9	0	0
District of Columbia Federal Pension Liability Trust Fund (349-30-8230)	0	0	0	0
Gifts and Donations, National Endowment for the Humanities (418-00-8050)	1	1	0	0

Trust Fund Name and Fund Number	Income	Outgo	Surplus	Balance
Patient-Centered Outcomes Research Trust Fund (579-00-8299)	0	0	0	0
Railroad Social Security Equivalent Benefit Account (446-00-8010)	6,162	6,416	-254	-2,555
Black Lung Disability Trust Fund (012-15-8144)	7,144	2,819	4,325	-6,109

Source: OMB.

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