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IN FOCUS

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The Social Security Trust Funds and the Budget

Social Security, a self-financing program, is the federal government's single largest program in terms of the number of people affected (i.e., covered workers and beneficiaries) and its finances (i.e., receipts and expenditures). This In Focus provides an overview of the Social Security trust funds and describes their status within the federal budget.

The Social Security Trust Funds

Social Security is comprised of two programs: Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI). Current law requires each to use a trust fund mechanism to account for its dedicated receipts (primarily tax revenues and interest) and expenditures (primarily benefit payments and administrative costs) and to provide an accounting of any accumulated assets. They are frequently referred to on a combined basis as the Social Security, or OASDI, trust funds. The trust funds are legally distinct, with no general authority to borrow or transfer money between them. Accumulated assets are dedicated to pay benefits to current and future Social Security beneficiaries. This arrangement legally requires benefits be paid to workers and their family members who meet eligibility requirements. The trust funds have *mandatory* budget authority, meaning funds can be spent to pay benefits without further appropriation. This feature allows Social Security to continue paying benefits during lapses in appropriations.

Money is credited to and debited from the trust funds on a daily basis; the balance functions as the program's accumulated holdings. Accumulated holdings can be drawn down through years of deficit when the programs' expenditures are larger than receipts. Said differently, the trust funds can act as contingency funds and be used to supplement tax revenues during years in which tax revenues are less than expenditures. However, once depleted, the trust funds can neither borrow money from the General Fund of the U.S. Treasury nor enter into debt. Although the trust funds would no longer have accumulated holdings, they would still exist as designated accounts that provide a mechanism to track continuing receipts and expenditures.

The Unified Budget

The unified budget accounts for all federal receipts and expenditures on a *consolidated* basis. It does not distinguish between sources of receipts and types of expenditures or how a program is fiscally structured. Thus, a program that is self-financed through a trust fund structure, such as Social Security, is grouped together with all other federal receipts and expenditures. This provides lawmakers with a single measure, giving a comprehensive picture of all federal fiscal activity and its impact on the economy.

Social Security as "Off-Budget"

Most receipts and spending included in the unified budget are designated as "on-budget." By statute, however, the receipts and expenditures of the Social Security trust funds are designated as "off-budget." Specifically, Section 13301 of the Budget Enforcement Act of 1990 (P.L. 101-508, Title XIII; see 2 U.S.C. §632 note) provides that

> Notwithstanding any other provision of law, the receipts and disbursements of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund shall not be counted as new budget authority, outlays, receipts, or deficit or surplus for purposes of—
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> (1) the budget of the United States Government as submitted by the President,
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> (2) the congressional budget, or
>
> (3) the Balanced Budget and Emergency Deficit Control Act of 1985.

The off-budget status also is provided in Section 710 of the Social Security Act (42 U.S.C. §710). The off-budget status does not affect the Social Security programs' funding, spending, or operations. (The Postal Service Fund is the only other account designated as off-budget.)

Implications of Off-Budget Status

This off-budget status results in the reporting of three measures of the federal deficit/surplus: (1) the unified budget deficit/surplus; (2) the on-budget deficit/surplus; and (3) the off-budget deficit/surplus. The Social Security trust fund balances, in any year, affect these measures. For example, during years in which the Social Security program operates a surplus (total receipts exceed total expenditures), its off-budget surplus is subtracted from the on-budget deficit in the unified budget deficit calculation. That is, the Social Security surplus improves the position of the unified budget. Alternatively, during years in which the program operates a deficit (total expenditures exceed total receipts), its off-budget deficit would be added to the on-budget deficit in the unified budget deficit calculation, making the position of the unified budget worse.

Procedural Implications of Off-Budget Status

The trust funds' off-budget status largely excludes them from most budget enforcement rules. For example, the general enforcement rules associated with the budget resolution, enforceable during congressional consideration, and the requirements of the Statutory Pay-As-You-Go Act of 2010 (P.L. 111-139, Title I), enforceable after enactment, do not apply to legislation that is estimated to affect Social Security revenues or expenditures. That is, any estimated effects to Social Security revenues or expenditures are not counted for purposes of determining compliance with such rules. In practice, the tradeoffs among budgetary priorities required by most budget enforcement rules do not involve the Social Security programs. For example, legislation to increase spending for another mandatory spending program generally cannot be offset by a reduction in Social Security benefits or an increase in Social Security taxes. The Congressional Budget Act (2 U.S.C. §621 et seq.) reinforces this separation by specifically excluding changes to Social Security from any reconciliation legislation.

The estimated budgetary effects to the Social Security trust funds are subject to certain budget enforcement rules. For example, the House Pay-As-You-Go rule prohibits legislation that would increase the unified deficit, which includes any off-budget effects to the Social Security trust funds, over 6 or 11 years. The House and Senate each have separate rules for legislation estimated to affect the trust funds. In the Senate, for example, the Budget Act prohibits legislation that would cause a decrease in the trust funds' surplus (or an increase in their deficit) for the first fiscal year and the total for all fiscal years, relative to the levels set forth in the budget resolution. In other words, the legislation must not worsen the trust fund balances relative to existing law.

History of Social Security Budget Status

The Social Security Act was enacted in 1935. Payroll taxes were first collected in 1937, and the OASI Trust Fund was established in 1940. The Social Security Amendments of 1956 created the DI program, and its trust fund was established that same year. For each trust fund, there has been little change in financing and investment procedures, although the treatment of the trust funds in the federal budget process has changed.

The current off-budget status of the Social Security trust funds is provided in the context of the *unified budget* framework. The framework was first adopted with the FY1969 budget submitted by President Lyndon B. Johnson and continues today. Prior to the FY1969 budget, the federal budget was presented in many different forms. The *administrative budget*, a widely-used presentation, included all federal funds but excluded trust funds, such as the Social Security trust funds. The unified budget framework, by consolidating the receipts and expenditures from both federal funds and trust funds, was intended to provide an integrated and comprehensive presentation of the full range of federal activities.

Financial shortfalls for Social Security programs in the late 1970s and early 1980s led to a reassessment of the Social Security trust funds' inclusion in the unified budget. In 1983, the National Commission on Social Security Reform (i.e., the Greenspan Commission) suggested the Social Security trust funds be taken off-budget, among other financing-related reforms. The commission's final report argued that "changes in the Social Security program should be made only for programmatic reasons, and not for purposes of balancing the budget," and that doing so "would be more likely to be carried out if the Social Security program were not in the unified budget."

Accordingly, the Social Security Amendments of 1983 (P.L. 98-21), which enacted many of the commission's suggestions, required that the Social Security trust funds not be included in the budget totals, beginning in FY1993. The act also required that, beginning in FY1985, the trust funds (as well as both Medicare trust funds, the Federal Hospital Insurance Trust Fund [Medicare Part A], and the Federal Supplementary Medical Insurance Trust Fund [Medicare Part B]) be presented separately in the budget, with disbursements treated as a separate, major functional budget category. Prior to this change, Social Security outlays were included in the "Income Security" functional category.

In 1985, the Balanced Budget and Emergency Deficit Control Act (P.L. 99-177, Title II) moved the Social Security trust funds' off-budget status to begin in FY1986. The act also established annual maximum deficit targets and a process to automatically reduce certain spending (i.e., "sequestration") if deficit targets were unmet. As part of the new budget enforcement process, receipts and outlays of the Social Security program were counted for purposes of meeting deficit targets, but benefit outlays were exempt from any reductions through sequestration if the targets were not met.

In 1990, even though the Social Security trust funds were already off-budget (42 U.S.C. §911), the Budget Enforcement Act (BEA; P.L. 101-508, Title XIII) reaffirmed the off-budget status by enacting a separate, similar provision (Section 13301 of P.L. 101-508). Section 13301 required that the receipts and disbursements of the Social Security trust funds not be "counted as new budget authority, outlays, receipts, or deficit or surplus for purposes of" the President's budget, the congressional budget, and the 1985 Deficit Control Act. The BEA also established certain budget enforcement rules applicable specifically to legislation estimated to affect the receipts and outlays of the Social Security program.

About 45% of discretionary administrative expenses for the Social Security Administration (SSA) are derived from the trust funds and have been treated as if such funds were on-budget. That is, those amounts for discretionary administrative expenses of the SSA are counted against any budget enforcement rules related to discretionary spending, such as the statutory limits and the so-called 302(b) appropriations subcommittee allocations. This practice appears to have begun without any provision in the BEA directing it. Since 2000, however, the budget resolution has explicitly provided the authority for counting such amounts for purposes of the congressional budget process. Amounts for the discretionary administrative expenses of the SSA are generally provided in the annual Labor, Health and Human Services, and Education, and Related Agencies Appropriations Act, mostly, but not exclusively, in the form of a limitation on administrative expenses.

Related Resources

CRS Report RL33028, *Social Security: The Trust Funds*.

CRS Report R41328, *Federal Trust Funds and the Budget*.

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