21. TRUST FUNDS AND FEDERAL FUNDS

The budget consists of two major groups of funds: Federal funds and trust funds. This section presents summary information about the transactions of each of these two fund groups. Information is provided about the income and outgo of the major trust funds and a number of Federal funds that are financed by earmarked collections in a manner similar to trust funds. The effects on the Medicare trust funds and on Federal funds of the recently-enacted Medicare Prescription Drug, Improvement, and Modernization Act of 2003 are reflected in this chapter.

Federal Funds Group

The Federal funds group comprises the larger part of the budget. It includes all transactions not classified by law as being in trust funds.

The main financing component of the Federal funds group is the general fund, which is used to carry out the general purposes of Government rather than being restricted by law to a specific program. It consists of all collections not earmarked by law to finance other funds, including virtually all income taxes and many excise taxes, and all expenditures financed by these collections and by general Treasury borrowing.

Table 21–1. RECEIPTS, OUTLAYS, AND SURPLUS OR DEFICIT BY FUND GROUP

(In billions of dollars)

	2003 actual	Estimate					
		2004	2005	2006	2007	2008	2009
Receipts:							
Federal funds cash income:							
From the public	1,067.2	1,062.3	1,231.4	1,371.1	1,468.5	1,555.4	1,645.1
From trust funds	1.1	1.2	4.0	0.8	2.2	2.7	2.8
Total, Federal funds cash income	1,068.3	1,063.4	1,235.5	1,371.9	1,470.6	1,558.1	1,647.8
Trust funds cash income:							
From the public	801.1	827.9	894.3	955.3	1,010.3	1,056.7	1,104.7
From Federal funds:							
Interest	157.8	155.5	162.6	173.7	187.2	202.8	221.3
Other	185.7	215.5	242.7	292.4	313.1	333.5	352.6
Total, trust funds cash income	1,144.6	1,199.0	1,299.6	1,421.4	1,510.6	1,593.0	1,678.6
Offsetting receipts	–430.6	–464.3	–498.8	–587.7	–630.4	–665.9	–710.0
Total, unified budget receipts	1,782.3	1,798.1	2,036.3	2,205.7	2,350.8	2,485.3	2,616.4
Outlays:							
Federal funds cash outgo	1,622.0	1,772.1	1,842.4	1,918.5	2,007.8	2,117.5	2,223.1
Trust funds cash outgo	966.2	1,011.1	1,056.3	1,142.5	1,214.7	1,272.7	1,340.5
Offsetting receipts	–430.6	–464.3	–498.8	–587.7	–630.4	–665.9	–710.0
Total, unified budget outlays	2,157.6	2,318.8	2,399.8	2,473.3	2,592.1	2,724.3	2,853.5
Surplus or deficit (–):							
Federal funds	–553.7	–708.6	–606.9	–546.6	–537.1	–559.3	–575.2
Trust funds	178.4	187.9	243.3	279.0	295.8	320.4	338.2
Total, unified surplus/deficit (–)	–375.3	–520.7	–363.6	–267.6	–241.3	–239.0	–237.1

Note: Receipts include governmental, interfund, and proprietary receipts. They exclude intrafund receipts, which are offset against intrafund payments so that cash income and cash outgo are not overstated.

The Federal funds group also includes special funds and revolving funds, which earmark collections for spending on specific purposes. Where the law requires that Federal fund collections from a specified source be earmarked to finance a particular program, such as a portion of the Outer Continental Shelf mineral leasing receipts deposited into the Land and Water Conservation Fund, the collections and associated disbursements are recorded in special fund receipt and expenditure accounts. The majority of special fund collections are derived from the Government's power to impose taxes, fines, and other compulsory payments. They must be appropriated before they can be obligated and spent. However, significant amounts of collections credited to special funds are derived from business-like activity, such as the receipts from Outer Continental Shelf mineral leasing.

Revolving funds conduct continuing cycles of business-like activity. They charge for the sale of products or services and use the proceeds to finance their spending. Instead of being deposited in receipt accounts, their proceeds are recorded in the revolving funds, which are expenditure accounts. These collections generally are available automatically for obligation and making payments. Outlays for revolving funds are reported net of offsetting collections. There are two classes of revolving funds. Public enterprise funds, such as the Postal Service Fund, conduct business-like operations mainly with the public. Intragovernmental funds, such as the Federal Buildings Fund, conduct business-like operations mainly within and between Government agencies.

Trust Funds Group

The trust funds group consists of funds that are designated by law as trust funds. Like special funds and revolving funds, they earmark collections for spending on specific purposes. Many of the larger trust funds finance social insurance payments for individuals, such as Social Security, Medicare, and unemployment compensation. Other major trust funds finance military and Federal civilian employees' retirement, highway and transit construction, and airport and airway development. There are a few trust revolving funds that are credited with collections earmarked by law to carry out a cycle of business-type operations. Trust funds also include a few small funds established to carry out the terms of a conditional gift or bequest.

There is no substantive difference between trust funds and special funds or between revolving funds and trust revolving funds. Whether a particular fund is designated in law as a trust fund is, in many cases, arbitrary. For example, the National Service Life Insurance Fund is a trust fund, but the Servicemen's Group Life Insurance Fund is a Federal fund, even though both are financed by earmarked fees paid by veterans and both provide life insurance payments to veterans' beneficiaries. [1]

The Federal budget meaning of the term "trust" differs significantly from the private sector usage. The beneficiary of a private trust owns the trust's income and often its assets. A custodian manages the assets on behalf of the beneficiary according to the stipulations of the trust, which he or she cannot change unilaterally. In contrast, the Federal Government owns the assets and earnings of most Federal trust funds, and it can unilaterally raise or lower future trust fund collections and payments, or change the purpose for which the collections are used, by changing existing law. Only a few small Federal trust funds are managed pursuant to a trust agreement where the Government is the trustee, and the Government generally has some ability to determine the amount deposited into or paid out of these funds. Other amounts are held in deposit funds by the Government as a custodian on behalf of some entity outside the Government. The Government makes no decisions about the amount of these deposits or how they are spent. Therefore, they are considered to be non-budgetary instead of Federal trust funds and are excluded from the Federal budget.

A trust fund must use its income for the purposes designated by law. Some, such as the Federal Employees Health Benefits fund, spend their income almost as quickly as it is collected. Others, such as the Social Security and the Federal civilian employees retirement trust funds, currently spend considerably less than they collect each year. A surplus of income over outgo adds to the trust fund's balance, which is available to finance future expenditures. The balances are generally invested, by law, in Treasury securities. [2]

A trust fund normally consists of one or more receipt accounts (to record income) and an expenditure account (to record outgo). However, a few trust funds, such as the Veterans Special Life Insurance fund, are established by law as revolving funds. These funds are similar to revolving funds in the Federal funds group. They conduct a cycle of business-type operations, offsetting collections are credited to the funds (which are expenditure accounts), and their outlays are displayed net of the offsetting collections.

Income and Outgo by Fund Group

Table 21–1 shows income, outgo, and surplus or deficit by fund group and adds them together (and removes double-counting) to derive the total unified budget receipts, outlays, and surplus or deficit. The estimates assume enactment of the President's budget proposals. Income consists mostly of receipts (derived from governmental activity—primarily income, payroll, and excise taxes—and gifts). It also consists of offsetting receipts, which include proprietary receipts (derived from business-like transactions with the public) and interfund collections (receipts by one fund of payments from a fund in the other fund group) that are deposited in receipt accounts. Outgo consists of payments made to the public and/or to a fund in the other fund group.

[1] Another example is the Violent Crime Reduction Trust Fund, established pursuant to the Violent Crime Control and Law Enforcement Act of 1994. Because the Fund is substantively a means of accounting for general fund appropriations, and does not have any dedicated receipts, it is classified as a Federal fund rather than a trust fund, notwithstanding the presence of the words "Trust Fund" in its official name.

[2] The relationship between Treasury securities held by trust funds (and by other Government accounts), debt held the public, and gross Federal debt is discussed in Chapter 15, "Federal Borrowing and Debt."

Table 21–2. INCOME, OUTGO, AND BALANCES OF TRUST FUNDS GROUP

(In billions of dollars)

	2003 actual	Estimate					
		2004	2005	2006	2007	2008	2009
Total Trust Funds							
Balance, start of year	2,544.5	2,722.8	2,910.7	3,153.9	3,432.9	3,728.7	4,049.1
Income:							
Governmental receipts	758.3	780.7	844.3	886.5	932.9	974.6	1,017.6
Proprietary receipts	53.9	58.8	62.3	81.8	91.2	96.8	102.6
Receipts from Federal funds:							
Interest	157.8	155.5	162.6	173.7	187.2	202.8	221.3
Other	214.6	248.3	277.8	328.9	352.2	374.6	396.0
Subtotal, income	1,184.7	1,243.3	1,347.0	1,470.9	1,563.4	1,648.8	1,737.5
Outgo:							
To the public	1,005.2	1,054.3	1,099.7	1,191.1	1,265.4	1,325.7	1,396.6
Payments to Federal funds	1.1	1.2	4.0	0.8	2.2	2.7	2.8
Subtotal, outgo	1,006.3	1,055.5	1,103.7	1,191.9	1,267.6	1,328.4	1,399.3
Change in fund balance:							
Surplus or deficit (–):							
Excluding interest	20.5	32.4	80.7	105.3	108.7	117.6	116.8
Interest	157.8	155.5	162.6	173.7	187.2	202.8	221.3
Subtotal, surplus or deficit (–)	178.4	187.9	243.3	279.0	295.8	320.4	338.2
Adjustments:							
Transfers/lapses (net)	–*	–*	–0.1	....	....	....	....
Other adjustments	–*	*	*	....	....	....	....
Total, change in fund balance	178.4	187.9	243.2	279.0	295.8	320.4	338.2
Balance, end of year	2,722.8	2,910.7	3,153.9	3,432.9	3,728.7	4,049.1	4,387.3

* $50 million or less.

Two types of transactions are treated specially in the table. First, income and outgo for a fund group exclude transactions between funds within the same fund group.[3] These intrafund transactions constitute outgo and income for the individual funds that make and collect the payments. However, because the totals for each fund group measure its transactions with the public and the other fund group, intrafund transactions must be subtracted from the sum of the income and outgo of all individual funds within the fund group to calculate the consolidated income and outgo for that fund group as a whole. Second, income excludes the offsetting collections, which are offset against outgo in revolving fund expenditure accounts instead of being deposited in receipt accounts.[4] It would be conceptually appropriate to classify these collections as income, but at present the data are not tabulated centrally for both fund groups. Consequently, they are offset against outgo in Table 21–1 and are not shown separately.

Some funds in the Federal funds group and some trust funds are authorized to borrow from the general fund of the Treasury.[5] Borrowed funds are not recorded as receipts and are excluded from the income of the fund. The borrowed funds finance outlays by the fund in excess of available receipts. Subsequently, fund receipts are transferred from the fund to the general fund in repayment of the borrowing. The repayment is not recorded as an outlay of the fund or included in fund outgo.

Some income in both Federal funds and trust funds consists of offsetting receipts. In contrast, for most budget purposes, offsetting receipts are excluded from receipts figures and subtracted from gross outlays. There are two reasons for this treatment:

- *Business-like or market-oriented activities with the public:* The collections from such activities are deducted from gross outlays, rather than added to receipts, in order to produce budget totals for receipts and outlays that represent governmental rather than market activity.
- *Intragovernmental transactions:* Collections by one Government account from another are deducted from gross outlays, rather than added to receipts,

[3] For example, the railroad retirement trust funds pay the equivalent of social security benefits to railroad retirees, in addition to the regular railroad pension. These benefits are financed by a payment from the Federal Old-Age and Survivors Insurance trust fund to the railroad retirement trust funds. The payment and collection are both deducted so that total trust fund income and outgo measure disbursements to the public and to Federal funds.

[4] For example, postage stamp fees are deposited as offsetting collections in the Postal Service fund. As a result, the Fund's outgo is disbursements net of collections.

[5] For example, the Bonneville Power Administration Fund, a revolving fund in the Department of Energy, is authorized to borrow from the general fund, and the Black Lung Disability Trust Fund in the Department of Labor is authorized to receive appropriations of repayable advances from the general fund (a form of borrowing).

so that the budget totals measure the transactions of the Government with the public.

Because the income for Federal funds and for trust funds recorded in Table 21–1 includes offsetting receipts, those offsetting receipts must be deducted from the two fund groups' combined gross income in order to reconcile to total (net) unified budget receipts. Similarly, because the outgo for Federal funds and for trust funds in Table 21–1 consists of gross outlays, the amount of the offsetting receipts must be deducted from the sum of the Federal funds' and the trust funds' gross outgo in order to reconcile to total (net) unified budget outlays. Table 21–3 reconciles, for fiscal year 2003, the gross total of all trust fund and Federal fund receipts with the net total of the Federal fund group's and the trust fund group's cash income (as shown in Table 21–1), and with the unified budget's receipt total.

Table 21–3. RELATIONSHIP OF TOTAL FEDERAL FUND AND TRUST FUND RECEIPTS TO UNIFIED BUDGET RECEIPTS, FISCAL YEAR 2003

(In billions of dollars)

Gross trust fund receipts	1,167.8
Gross Federal fund receipts	1,097.6
Total of trust fund receipts and Federal fund receipts	2,265.4
Deduct intrafund receipts (from funds within the same fund group):	
Trust intrafund receipts	–23.2
Federal intrafund receipts	–29.2
Subtotal, intrafund receipts	–52.5
Total of trust funds cash income and Federal funds cash income	2,213.0
Deduct offsetting receipts: [1]	
Trust fund receipts from Federal funds:	
Interest in receipt accounts	–156.1
General fund payment to Medicare Part B	–80.9
Employing agencies' payments for pensions, Social Security, and Medicare	–41.2
General fund payments for unfunded liabilities of Federal employees retirement funds	–40.1
Transfer of taxation of Social Security benefits to OASDI, HI, and RRB	–22.7
Other receipts from Federal funds	–2.7
Subtotal, trust fund receipts from Federal funds	–343.6
Federal fund receipts from trust funds	–1.1
Proprietary receipts	–85.9
Subtotal, offsetting receipts	–430.6
Unified budget receipts	1,782.3

[1] Offsetting receipts are included in cash income for each fund group, but in the unified budget totals are excluded from the receipts total and instead deducted from outlays.

Income, Outgo, and Balances of Trust Funds

Table 21–2 shows, for the trust funds group as a whole, the funds' balance at the start of each year, income and outgo during the year, and the end of year balance. Income and outgo are divided between transactions with the public and transactions with Federal funds. Receipts from Federal funds are divided between interest and other interfund receipts.

The definition of income and outgo in this table differs from those in Table 21–1 in one important way. Trust fund collections that are offset against outgo (as offsetting collections) within expenditure accounts instead of being deposited in separate receipt accounts are classified as income in this table but not in Table 21–1. This classification is consistent with the definitions of income and outgo for trust funds used elsewhere in the budget. It has the effect of increasing both income and outgo by the amount of the offsetting collections. The difference was approximately $40 billion in 2003. Table 21–2, therefore, provides a more complete summary of trust fund income and outgo.

The trust funds group is expected to have large and growing surpluses over the projection period. As a consequence, trust fund balances are estimated to grow substantially, as they have over the past two decades. The size of the anticipated balances is unprecedented, and it results mainly from relatively recent changes in the way some trust funds are financed.

Primarily because of these changes, but also because of the impact of real growth and inflation, trust fund balances increased tenfold from 1982 to 2000, from $205 billion to $2.1 trillion. Under the proposals in the President's budget, the balances are estimated to double again by the year 2009, rising to $4.4 trillion. Almost all of these balances are invested in Treasury securities and earn interest. Therefore, they represent the value, in current dollars, of taxes and user fees that have been paid in advance for future benefits and services.

Until the 1980s, most trust funds operated on a pay-as-you-go basis. Taxes and user fees were set at levels high enough to finance benefits and administrative expenses, and to maintain prudent reserves, generally defined as being equal to one year's expenditures. As a result, trust fund balances tended to grow at about the same rate as their annual expenditures.

Pay-as-you-go financing was replaced in the 1980s by full or partial accrual funding for some of the larger trust funds. In order to partially prefund the social security benefits of the "baby-boomers", the Social Security Amendments of 1983 raised payroll taxes above the levels necessary to finance current expenditures. In 1984 a new system was set up to finance military retirement benefits on a full accrual basis. In 1986 full accrual funding of retirement benefits was mandated for Federal civilian employees hired after December 31, 1983. The latter two changes require Federal agencies and their employees to make annual payments to the Federal employees' retirement trust funds in an amount equal to the value of the retirement benefits earned by employees in that year. Since many years will pass before current employees are paid retirement benefits, the trust funds will accumulate substantial balances over time.

These balances are available to finance future benefit payments and other trust fund expenditures—but only in a bookkeeping sense. These funds are not set up to be pension funds, like the funds of private pension plans. The holdings of the trust funds are not assets of the Government as a whole that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury. When trust fund holdings are redeemed to pay benefits, Treasury will have to finance the expenditure in the same way as any other Federal expenditure: out of current receipts, by borrowing from the public, or by reducing benefits or other expenditures. The existence of large trust fund balances, therefore, does not, by itself, increase the Government's ability to pay benefits.

From an economic standpoint, the Government is able to prefund benefits only by increasing saving and investment in the economy as a whole. This can be fully accomplished only by simultaneously running trust fund surpluses equal to the actuarial present value of the accumulating benefits and not allowing the Federal fund deficit to increase, so that the trust fund surplus reduces a unified budget deficit or increases a unified budget surplus. This would reduce Federal borrowing by the amount of the trust funds surplus and increase the amount of national saving available to finance investment. Greater investment would increase future incomes and wealth, which would provide more real economic resources to support the benefits.

Table 21–4, on the CD-ROM included with this volume, shows estimates of income, outgo, and balances for 2003 through 2009 for the major trust funds. With the exception of transactions between trust funds, the data for the individual trust funds are conceptually the same as the data in Table 21–2 for the trust funds group. As explained previously, transactions between trust funds are shown as outgo of the fund that makes the payment and as income of the fund that collects it in the data for an individual trust fund, but the collections are offset against outgo in the data for the trust fund group. Additional information for these and other trust funds can be found in the Status of Funds tables in the Budget Appendix.

Table 21–5 (also on the CD-ROM) shows income, outgo, and balances of four existing Federal funds—two revolving funds and two special funds. It also shows a new special fund of the same general type established last year: a new fund for military retirees' health benefits. All these funds are similar to trust funds in that they are financed by earmarked receipts, excesses of income over outgo are invested, the interest earnings add to balances, and the balances remain available to finance future expenditures. The table is illustrative of the Federal funds group, which includes many other revolving funds and special funds in addition to the ones shown.