Federal Trust Funds:  
Budgetary and Other Implications
Foreword

Examination into the background and operations of major Federal trust funds is of timely interest if only because these funds involve such huge amounts of revenues and expenditures. There are, however, other significant implications and issues which merit attention.

With the change in budget concept adopted in the fiscal year 1969, trust fund receipts and expenditures became a major element in the new unified budget. The new concept initially received strong support. In certain ways, however, it has introduced new complexities, which have generated increasing criticism from Congressional and other sources.

Expenditures of the trust funds, financed through special or earmarked taxes, or by contributions, largely escape annual review and control by the Congress through the regular appropriation process. Social insurance programs financed through trust funds comprise the largest among a growing array of Federal programs and activities currently classified in the executive budget as "uncontrollable."

Additionally, trust fund investments in Treasury securities, required by statute, have become an important element in the make-up of the Federal debt. This has raised issues concerning the concept or definition of public debt, as well as the role of the statutory debt limitation.

This study examines these and other aspects of Federal trust fund operations. Maynard H. Waterfield, Manager of the Foundation's Washington Office, was primarily responsible for the preparation of the study.

The Tax Foundation is a private, non-profit organization founded in 1937 to engage in non-partisan research and public education on the fiscal and management aspects of government. Its purpose is to aid in the development of more efficient and economical government. It serves as a national information agency for individuals and organizations concerned with government fiscal problems.

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I.
Introduction

Trust funds are defined in the Federal budget document as those funds "established to account for receipts which are held in a fiduciary capacity by the Government for use in carrying out specific purposes and programs." There is, however, great variety in the size and kinds of trust funds.

According to the Office of Management and Budget there were 831 trust fund accounts on the books of the Treasury Department, as of May 1970. Included are 673 Indian tribal funds which, for budget purposes, are consolidated and treated as one fund. Eighteen others are designated as "trust revolving" funds; they carry on a cycle of business-type operations and are normally reported in the budget on a net basis (outlays vs. receipts) — the Federal Deposit Insurance Corporation is a prime example of this type.

Excluding the Indian tribal and trust revolving funds, there are thus about 140 of what may be described as "regular" trust funds, under the budgetary definition. Many are small and relatively unfamiliar. Fourteen major funds account for all but a minor portion of total trust fund finances reported in the budget. These finance the principal social insurance programs, Federal employee retirement and other benefits, veterans insurance programs, and major transportation programs. The Congress this year established a major new trust fund, the airport and airway trust fund.

In both size and scope, the operations of Federal trust funds have grown significantly in recent years. For the current fiscal year (1971) trust fund receipts are estimated at $64.1 billion, and outlays at $55.4 billion. By comparison, actual trust fund receipts and outlays as recently as fiscal 1965 were less than half as large — $29.2 billion and $27.0 billion, respectively.

The new unified Federal budget concept, adopted in fiscal 1969, includes trust fund receipts and outlays along with strictly Federal (or general) funds and the net result of the operations of Federal lending programs. This change followed the recommendations of the President’s Commission on Budget Concepts, appointed in 1967 by President Johnson. Inclusion of the trust funds, of course, enlarged the scope of the budget and substantially increased overall totals.

Prior to fiscal 1969, the Federal budget concept most familiar was the "administrative budget," which excluded trust fund operations. Two other measures of Federal financial transactions — the consolidated cash statement and the Federal sector of the national income accounts — did partially include transactions of trust funds.

The new budget concept initially gained general acceptance. However, in recent months criticisms have been voiced, particularly within the Congress, on the ground that the new unified budget tends to obscure the "true state" of Federal finances (with large current trust fund surpluses more than offsetting substantial deficits in the general fund accounts). Congress has no control over trust fund expenditures through the annual appropriation process and but limited control otherwise; thus Congress is inclined to focus its attention and concerns upon the Federal funds sector of the budget. This sector conforms generally to the old administrative budget concept.

Additionally, Congress so far has declined to alter the concept of Federal debt or the statutory debt limitation to accord with the unified budget concept, as recommended by the Commission on Budget Concepts. The trust fund statutes require that unneeded balances in the funds be invested in Treasury securities, and in recent years the amount of Federal debt held by these funds has been increasing while that held by the public has been declining. This development also raises interesting questions.

The 1970 establishment of the new airway trust fund, and current controversy over a proposal to broaden the highway trust fund so as to provide financing for other Federal or Federally-aided transportation programs, also directs attention to the use and operation of the trust fund device.

Scope of Study

Trust fund programs loom increasingly large in the total picture of Federal finances. This study examines the operation of the funds, their character and growth, and their budgetary and other implications. The focus is primarily upon the 14 major trust funds.

The study attempts no evaluation of the philosophy or merits of programs financed through the trust funds; however, certain questions are raised as to the appropriateness of the use of this funding device for certain types of programs.

Most of the information included is based upon material provided in Federal budget documents, reports provided by the Treasury Department and the agencies which administer the trust funds, and Congressional reports and debates. Except where specially noted, all years mentioned refer to the Federal fiscal year, ending June 30.

Sections II and III explore the background and nature of the major trust funds, their growth, and current status. The fourth section analyzes the implications of the trust funds in the context of the unified budget concept. Section V discusses the trust funds in relation to problems of expenditure control. The relationship of the funds to public debt issues is examined in Section VI. The final section summarizes major issues and offers some general comment and conclusions.

2. This matter of controllability of trust fund expenditures requires further explanation. The Executive can exercise some control over certain trust fund outlays, such as those for highway construction. Control of trust fund outlays by Congress through the regular annual appropriation process is definitely limited. But Congress does affect these outlays through the legislative process—for example, by frequent actions to adjust social security benefit levels, the taxable wage base, or social security payroll tax rates. In a broader technical sense, of course, Congress could exercise whatever control over these programs it desired, through amendment of the basic statute, even to abolishing trust funds or programs currently financed through this device.
II. Nature of Trust Funds

Federal trust funds of the kind and scope currently operating are a comparatively recent innovation. Prior to 1920 the Department of the Treasury acted as custodian of numerous accounts which were referred to as "special trust funds," but these really were simply deposit or "holding" funds. They had none of the characteristics of the huge trust funds which currently account for nearly one-third of all Federal receipts, and about one-fourth of all expenditures.

Most of the more than 800 trust fund accounts on the books of the Treasury today are still, in effect, deposit funds. The hundreds of Indian tribal funds are essentially of this type. The list also includes numerous other funds which serve primarily as depositories for special gifts or donations, for receipts from sales, or for fees for services.

The 14 major trust funds account for 98 percent of all trust fund receipts and almost 99 percent of their outlays. These funds are identified in Table 1; it also indicates for each the basic source of financing, the administering agency, and the statute under which each was created.

Characteristics of Major Funds

These 14 major funds have certain distinctive characteristics. They are variously financed through special taxes on employees and/or employers, other earmarked taxes, contributions by individuals and the government, payment of premiums, with substantial contributions from general funds in certain instances. They provide benefits or related services to specified groups of individuals, or insure availability of funds for specified purposes or programs, under statutory directives. Amounts not needed for current operations or payments must, by statute, be invested in Treasury securities (usually special issues) or Federal agency issues, with certain relatively minor exceptions. Accordingly, they derive substantial amounts of interest income. Their outlays are subject to only limited review and control through the annual Congressional appropriation process.

The forerunners of this group of trust funds were the United States Government life insurance fund and the civil service retirement and disability fund. The former was created by Congress in 1919, to receive premiums and pay claims on insurance issued to veterans under provisions of the War Risk Insurance Act. Unneeded balances were "available for the purpose of investment."1

The Civil Service Retirement Act of 1920 established the civil service retirement and disability fund, financed initially by employee contributions only. This act included a provision relating to the investment of unneeded fund balances which set the pattern for what has

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<th>Account</th>
<th>Basic financing</th>
<th>Administering agency</th>
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<tr>
<td><strong>SOCIAL INSURANCE</strong></td>
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<tr>
<td>Federal old-age and survivors insurance fund</td>
<td>Special payroll tax on covered employees and employers, and on self-employed individuals; interest on investments; some general fund contributions.</td>
<td>Social Security Administration, Department of Health, Education, and Welfare</td>
<td>Public Law 76-379 August 10, 1939 Social Security Act Amendments of 1939</td>
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<td>Federal disability insurance trust fund</td>
<td>Special payroll tax on covered employees and their employers and on self-employed individuals; contributions from general revenues to cover benefits to aged persons not eligible under social security program.</td>
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<td>Public Law 84-880 August 1, 1956 Social Security Act Amendments of 1956</td>
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<td>Federal hospital insurance trust fund</td>
<td>Monthly premium payments by enrollees with matching contributions from general revenues; premium payments deducted from monthly benefit payments to social security, railroad retirement, or civil service recipients.</td>
<td></td>
<td>Public Law 89-97 July 30, 1965 Social Security Act Amendments of 1965</td>
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<td>Federal supplementary medical insurance fund</td>
<td>Special payroll taxes, primarily from employers; Federal tax for administrative costs.</td>
<td>Bureau of Employment Security, Manpower Administration, Department of Labor</td>
<td>Public Law 74-271 August 14, 1935 Social Security Act of 1935</td>
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<td>Unemployment trust fund</td>
<td>Special payroll taxes paid by railroad employees and their employers</td>
<td>Railroad Retirement Board</td>
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<td>Account</td>
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<td>Civil Service retirement and disability fund</td>
<td>Federal civilian employee contributions as a deduction from wages, matched by Federal contributions.</td>
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<td>Public Law 66-215 May 22, 1920 Civil Service Retirement Act</td>
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<td>Employees life insurance fund</td>
<td>Premiums withheld from Federal civilian employees, with a 50 percent matching by employing agency.</td>
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<td>Public Law 83-598 August 17, 1954 Federal Employees' Group Life Insurance Act of 1954</td>
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<td>Employees health benefits fund</td>
<td>Payroll withholdings from employees' salaries and annuitants' benefits with general fund payments of 40 percent of cost.</td>
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<td>U. S. Civil Service Commission</td>
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<td>Retired employees health benefits fund</td>
<td>Contributions from enrolled participants and general Treasury fund.</td>
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<td>Public Law 86-724 September 8, 1960 Retired Employees Health Benefits Act</td>
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<td>United States Government life insurance fund</td>
<td>Premium payments by eligible veterans</td>
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<td>Public Law 66-104 December 24, 1919 Veterans Administration</td>
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<td>National Service Life Insurance fund</td>
<td>Premium payments by covered members of the armed forces.</td>
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<td>Public Law 76-801 October 8, 1940 National Service Life Insurance Act of 1940</td>
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<td><strong>TRANSPORTATION:</strong></td>
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<td>Highway trust fund</td>
<td>Federal taxes on motor fuel, lubricating oil, tires and tubes, new trucks, buses and trailers, truck and bus parts and accessories, and on heavy vehicle use.</td>
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<td>Federal Highway Administration, Department of Transportation Public Law 84-627 June 29, 1956 Federal-Aid Highway Act of 1956</td>
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<td>Airport and airway trust fund</td>
<td>Passenger excise tax, international passenger head tax, gasoline and jet fuel tax, air cargo waybill tax, annual commercial airplane registration fee plus takeoff weight per pound charge.</td>
<td></td>
<td>Federal Aviation Administration, Department of Transportation Public Law 91-258 May 20, 1970 Airport and Airway Development Act of 1970</td>
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become an important feature of all major trust funds. It directed the Secretary of the Treasury "to invest from time to time in interest-bearing securities of the United States" such portions of the fund as "in his judgment may not be immediately required for the payment of annuities, etc.,” with “the income derived from such investments to constitute a part of the fund.”

Subsequent acts of Congress have adjusted the premiums or contributions paid into these funds, and the levels of benefits, refined the investment requirements, and provided for regular government contributions from general funds to the civil service retirement fund.

No additional trust funds of major importance were established until 1935. In that year, with enactment of the original Social Security Act, the unemployment trust fund was established, from which payment of unemployment compensation benefits are made. The basic financing is derived from special state payroll taxes, primarily on employers. A Federal tax (0.4 percent of the first $3,000 of covered employees’ wages) is also levied to finance Federal-state administrative costs.

The Social Security Act of 1935 also established the old-age and survivors insurance program. Initially the financial transactions for this program were handled through an "old age reserve account;" the Federal old-age and survivors insurance (OASI) trust fund was established (effective January 1, 1940) with the enactment of the Social Security Act Amendments of 1939. Financed by a special tax on covered employees and their employers (and by subsequent action, from the self-employed), it is from this fund that the basic old-age (social security) benefits are paid.

The Railroad Retirement Act of 1937 established another trust fund — the railroad retirement account — through which are paid annuities, pensions, and death benefits of railroad workers. The basic financing for this fund is provided by special taxes paid by railroad employers and employees. Provision also has been made for annual financial interchanges with the social security system.

Other trust funds in the social insurance category were created later. The Federal disability insurance trust fund was established by the Social Security amendments of 1956 to handle financial operations of the system of monthly disability benefits payable to insured workers and their dependents. It derives its financing from the same source as the OASI fund, i.e., special employment taxes. The Federal hospital insurance and supplementary medical insurance trust funds came into being with enactment of the Social Security Act Amendments of 1965. The hospital insurance program provides protection for persons on the social security and railroad retirement rolls, and certain others, against costs of inpatient hospital services, post-hospital extended care services, and post-hospital home health services. It is also financed by a special tax on covered employees and employers, and the self-employed; costs for beneficiaries not under social security or railroad retirement programs are met from general revenues. The supplementary medical

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5. Public Law 75-162.
6. Public Law 84-880.
insurance trust fund is financed through monthly premium payments by enrollees, with matching contributions from general revenues of the Treasury. Almost all persons aged 65 and over are eligible for enrollment in this program, designed to cover costs of physicians' services not covered under the hospital insurance program, outpatient services, and certain other medical costs.

Legislation in 1940\(^8\) established the national service life insurance trust fund, to provide a system of life insurance for persons in active service in the military forces in World War II. The program is largely self-supporting, except for administrative expenses and certain extraordinary claims. It is financed primarily through payment of premiums by the insured, plus investment income.

The list of major trust funds also includes three others established to provide additional benefits for Federal employees. The Federal employees life insurance fund to finance payments to private companies for employees' group life insurance was inaugurated in 1954.\(^9\) Financing is provided by premiums withheld from the salaries of employees, and a 50 percent matching by the employing agencies. In 1959 the Federal employees health benefits trust fund was created.\(^10\) This fund pays health benefits for active Federal employees and for those who retired after June 1960, or their survivors, with the monies provided by withholdings from active employees and annuitants, and general fund contributions (which have recently been increased to 40 percent of the cost).\(^11\) In 1960 a separate fund was established\(^12\) to finance both the cost of health benefits for retired employees and survivors who enroll in a government-sponsored uniform health benefits plan and contributions to retired employees and survivors who retain or purchase private health insurance. Contributions from enrolled participants and a government contribution from general funds support this fund.

\textbf{A Departure}

These social insurance, Federal employee benefit, and similar trust funds have one common denominator: their basic financing is provided largely through special taxes or contributions on individuals, or groups of individuals for programs which will subsequently provide benefits to the contributing individuals. These 12 funds thus appear to fall within the budgetary definition of funds held in a "fiduciary capacity" by the Federal Government.

The other two major trust funds — the highway and the new airport and airway trust funds — depart somewhat from this pattern. The highway fund was established in 1956.\(^13\) Its purpose is to provide for completion of the national system of interstate and defense highways, and increased support for the Federal-aid primary and secondary road systems (referred to as the "ABC" program), through 1972. Revenues derived from Federal taxes on motor fuel, lubricating oil, tires and tubes, new trucks, buses, and trailers, truck and bus parts and accessories, and the heavy vehicle use tax, are dedicated to this trust fund. Col-

\(^8\). Public Law 76-801.
\(^9\). Public Law 83-598.
\(^10\). Public Law 86-382.
\(^11\). Public Law 91-418.
\(^12\). Public Law 86-724.
\(^13\). Public Law 84-627.
lected from the producer, these taxes are passed along through distributors and dealers and ultimately are paid by consumers.\textsuperscript{14} The trust fund is the sole source of Federal support for the Federal-aid ABC and interstate highway programs.

The new airport and airway trust fund follows almost the same pattern. It is designed to provide assured levels of Federal assistance for the construction, improvement, or repair of public airports (including land acquisition), establishment, or improvement of air navigation facilities, and related research and development activities. These activities will be financed through designated Federal taxes earmarked for this fund — a tax on domestic air passenger tickets, a head tax on passengers departing on international flights, additional levies on air freight waybills, aircraft fuels, aircraft tires and tubes, and an aircraft use tax. General fund contributions will be required for several years to supplement this fund.

The significant differences between these two and other trust funds described have been pointed out: the revenues which support the highway and airway funds are, in some opinion, essentially general-type revenues, withheld from the general fund of the Treasury and specifically earmarked to finance these programs; and the programs so financed are said to be of a more "public" nature than the limited special benefit purpose of the social insurance and other trust funds.

The earmarking of revenues, particularly for general purposes, has long been looked upon with disfavor by many students of public finance. An earlier Tax Foundation study\textsuperscript{15} cited these objections leveled by critics of earmarking: the practice can hamper effective budgetary control; it can lead to a misallocation of funds, giving excess revenues to some functions while others are under-supported; it introduces a strong element of rigidity into the budget; earmarking statutes tend to remain in effect after the purpose for which they were established has been accomplished; and, finally, earmarking infringes on the policy-making powers of both the executive and the legislature.

Proponents of earmarking, on the other hand, contend that the practice makes it possible to require those who benefit from a government program to pay for it; that it assures a minimum level of support for desired governmental activities along with continuity for specific projects; and that earmarking can help to induce the public to support new or increased taxes.

\textbf{More Earmarking?}

While numerous proposals to expand the scope, coverage, and outlays of the social security, health insurance, and similar funds are regularly advanced, some of the strongest recent pressures for expansion of trust fund operations have been focused upon the "earmarking" type of fund. The establishment of the airport and airway trust fund resulted from such pressures. Previously, Federal assistance for airport construction and related programs had been financed from the general fund. Proposals for new taxes on aircraft fuel, etc., were repeatedly ignored or rejected — until in 1970 such taxes were specifically tied to spending for airport and airway facilities.

\textsuperscript{14} Federal-Aid Financing and the Highway Trust Fund (FE-Summary-1969), Federal Highway Administration, Department of Transportation.

\textsuperscript{15} Earmarked State Taxes, June 1965.
Proposals now pending would shift the financing of forest and public land highways from the general fund to the trust fund. It is also proposed to finance highway beautification and safety programs through the trust fund, or to establish a separate trust fund for this purpose. Additionally, recommendations have been made that the scope of the highway fund be expanded to provide funds for bridge replacement on Federally-aided road systems, to provide trust fund financing for a new urban highway system, and other similar programs.

Considerable attention is being given currently to a proposal, supported by the Secretary of the U. S. Department of Transportation, under which the present highway and airway trust funds would be combined into an expanded single transportation fund to provide Federal support for all modes of transportation and types of projects.

Another program innovation now in the spotlight also would involve the earmarking of substantial general revenues — Federal revenue sharing with states and local governments. The Nixon Administration has advanced this tax sharing plan as a key element in its “new Federalism.” While the proposal does not envision creation of a new trust fund, it would establish a permanent appropriation account in the Treasury, funded by an “earmarked” percentage of certain tax collections (or the tax base), and would thus operate in much the same way as do the trust funds. Section V discusses this proposal.

Such expansions, if approved, could be expected to generate demands for use of the trust fund and similar devices to support other programs and activities. And such action, if taken, could have important budgetary implications, affecting both revenues and outlays, as well as controllability.
Growth and Status of Trust Funds

Once established, programs financed through trust funds, like most other Federal programs, tend to grow in both size and scope. Like other programs they gain the support of special interest groups. Although the Congress may not exercise the same degree of annual control over these programs that it does over those financed through general funds, it does legislate tax and contribution rates, levels of benefits or payments, coverage, grant formulas, etc. And because many of these programs have great popular appeal, legislative actions to expand the scope and/or liberalize benefits or payments are infrequent.

Yet, because trust fund programs are not subject to review through the annual spending authorization process, they probably are not so thoroughly scrutinized by Congress as are those activities financed through general revenues. Such scrutiny as they do receive is by legislative oversight committees rather than the appropriation committees.

Growth Trends

Two decades ago total receipts and outlays of the major trust funds were relatively modest when measured by the level of current transactions. In 1950, for example, receipts of the old-age and survivors insurance fund, including interest on investments, totaled about $2.4 billion, while total outlays were under $800 million. Receipts in the unemployment insurance trust fund in that year totaled $1.3 billion, and outlays were $2.0 billion; receipts and outlays of the civil service retirement fund totaled only about $800 million and $270 million, respectively.

Since the mid-1950's the financial transactions of most major trust funds — particularly the social insurance, Federal retirement, and highway funds — have increased significantly. Table 2 traces the increases in the receipts and outlays of these funds from 1955 through 1969 (the last year for which actual totals are available). In order to further indicate the scope of trust fund finances, this table also shows the cumulative totals, by fund, from inception through the end of 1969.

As might be expected, the most dramatic growth has been in the old-age and survivors insurance program. Both receipts and expenditures increased fivefold between 1955 and 1969 — with receipts and outlays exceeding $27 billion and $24 billion, respectively, in 1969. Receipts and outlays of the disability insurance fund also have increased sharply since its establishment in 1956. The railroad retirement fund transactions also rose, but at a much slower pace. Though significant, the financial transactions of the unemployment insurance fund understandably fluctuate with economic conditions and the attendant unemployment levels.

The receipts and outlays of the civil service retirement fund have risen substantially in the 1960's, reflecting the rather dramatic increase in Federal pay levels as well as recent Congressional
### Table 2

Growth of Major Federal Trust Fund Receipts and Outlays
Selected Fiscal Years, and Cumulative Totals through Fiscal 1969

(Millions)

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<td><strong>SOCIAL INSURANCE:</strong></td>
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<tr>
<td>Old-age and survivors insurance</td>
<td>$5,586</td>
<td>$4,487</td>
<td>$10,439</td>
<td>$11,152</td>
<td>$16,417</td>
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<td>$27,347</td>
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<td>Disability insurance</td>
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<td>1,071</td>
<td>571</td>
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<td>Hospital insurance</td>
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<td>5,344</td>
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<td>Supplementary medical insurance</td>
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<td>1,911</td>
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<td>Unemployment insurance</td>
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<td>1,965</td>
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<td>Railroad retirement</td>
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<td>1,659</td>
<td>1,558</td>
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<td>Civil service retirement</td>
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<td>126</td>
<td>82</td>
<td>182</td>
<td>156</td>
<td>393</td>
<td>242</td>
<td>2,529</td>
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<td><strong>VETERANS:</strong></td>
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<tr>
<td>Government life insurance</td>
<td>78</td>
<td>84</td>
<td>61</td>
<td>83</td>
<td>48</td>
<td>71</td>
<td>43</td>
<td>76</td>
<td>3,504</td>
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<tr>
<td>National service life insurance</td>
<td>590</td>
<td>538</td>
<td>643</td>
<td>582</td>
<td>662</td>
<td>545</td>
<td>708</td>
<td>627</td>
<td>22,347</td>
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<td><strong>TRANSPORTATION:</strong></td>
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<td></td>
</tr>
<tr>
<td>Highway</td>
<td>—</td>
<td>—</td>
<td>2,900</td>
<td>3,304</td>
<td>3,670</td>
<td>4,026</td>
<td>4,690</td>
<td>4,151</td>
<td>41,909</td>
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<td>Airport and airwaya</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$9,084</td>
<td>$8,086</td>
<td>$21,109</td>
<td>$20,539</td>
<td>$30,850</td>
<td>$28,493</td>
<td>$54,184</td>
<td>$46,430</td>
<td>$489,409</td>
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actions liberalizing retirement benefits. Highway trust fund receipts and expenditures grew steadily, but less dramatically, after the fund became operative in 1957, each reaching a relatively stable level of around $4.5 billion in the late 1960's. Though the trust fund balance increased significantly, outlays were held at the indicated level by administrative action.

Cumulatively, from the time of inception through the end of 1969 (June 30, 1969), the combined receipts of the major trust funds totaled more than $49 billion, and expenditures more than $407 billion.

**Status of Funds**

On occasion, certain of the major trust funds have operated on a deficit basis, i.e., their expenditures have exceeded receipts in a given fiscal year. In 1960, for example, outlays of the old-age and survivors insurance fund exceeded receipts by more than $700 million. Deficits in certain years have also occurred in the disability insurance, unemployment, and highway trust funds.

In almost all instances, however, deficit operations were of limited duration, lasting no more than a year or two. Additionally, it should be pointed out that such deficits were financed out of accumulated balances in the funds and did not require a call upon general revenues. In more recent years trust fund deficits have become a rarity, and the larger funds, individually and collectively, have produced sizable surpluses each year.

In 1967, for example, the over-all trust fund surplus amounted to $6.1 billion; in 1968 and 1969 there were surpluses of $3.2 billion and $8.7 billion, respectively; and in 1970 the surplus amounted to $10.1 billion.

One measure of the status of these funds is the build-up of substantial balances, representing the excess of receipts over outgo during the life of the funds. Table 3 shows the actual balances in the major funds, for selected years between 1955 and 1969, and the balances estimated to be available at the end of the current year (1971).

In total, trust fund balances almost doubled between 1955 and 1969, increasing from $43 billion to more than $80 billion. According to latest estimates, these balances will increase by an additional 20 percent by the end of fiscal 1971, rising to more than $97 billion.

The Federal old-age and survivors insurance trust fund, of course, has accumulated the largest balance, totaling $28.1 billion at the end of 1969 and estimated to rise to $35.0 billion by June 30, 1971. While the OASI fund balance has grown steadily and significantly, the balance in the civil service retirement fund has shown the sharpest rate of increase. The balance in this fund doubled between 1960 and 1969, totaling $20.5 billion at the close of the latter year (again, the result of substantial increases in contributions by Federal agencies and employees, primarily due to recent Federal salary increases).

It is reasonable to assume continued and substantial growth in the trust fund balances. While projections for all funds are not available, the latest annual report of the trustees of the OASI and disability insurance funds provides meaningful support for such an assumption. This report projects an increase in the
OASI fund balance from $28.2 billion at the end of fiscal 1969 to $62.5 billion by the close of fiscal 1974; for the disability fund the balance is estimated to increase from $3.7 billion to $12.2 billion as of June 30, 1974.

Among the largest of these funds, only the highway trust fund may be said to have an uncertain future. Under existing law this fund would expire by the end of fiscal 1973, when construction of the interstate system was to have been completed. However, Congress has acted to extend this program for several years; and, as noted previously, consideration is being given to proposals to give the fund more or less permanent status, and expand its scope to provide financing for other transportation programs.

**Actuarial Status of Funds**

With respect to the old-age and survivors insurance and related social insurance trust funds, the Social Security Act, as amended, requires consideration of the actuarial soundness of the funds and the submission of annual reports by the trustees which must include long-range projections of their actuarial status. The Secretaries of the Departments of the Treasury (as Managing Trustee), Labor, and Health, Education, and Welfare, serve as members of the Board of Trustees of the four major social security and health insurance funds, with the Commissioner of Social Security serving as Secretary.

The latest annual reports of the trustees (covering 1969) indicate that the old-age and survivors insurance fund is in "substantial" actuarial balance, and the disability insurance fund is in exact actuarial balance; the hospital insurance fund, on the other hand, was reported to have an "unfavorable" actuarial balance. The status of the supplementary medical insurance fund is more difficult to determine on a long-range basis, because of difficulties inherent in projecting costs of a service benefit program, as contrasted

**Table 3**

Balances of Major Federal Trust Funds
Selected Fiscal Years, 1955-1971

(Millions)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Federal old-age and survivors insurance</td>
<td>$21,140</td>
<td>$20,829</td>
<td>$20,180</td>
<td>$28,119</td>
<td>$35,011</td>
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<tr>
<td>Federal disability insurance</td>
<td>—</td>
<td>2,167</td>
<td>2,007</td>
<td>3,659</td>
<td>6,640</td>
</tr>
<tr>
<td>Health insurance</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>2,353</td>
<td>3,342</td>
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<tr>
<td>Unemployment insurance</td>
<td>8,454</td>
<td>6,683</td>
<td>7,861</td>
<td>12,566</td>
<td>13,228</td>
</tr>
<tr>
<td>Railroad retirement</td>
<td>736</td>
<td>3,916</td>
<td>4,016</td>
<td>4,633</td>
<td>4,799</td>
</tr>
<tr>
<td>Federal employees retirement</td>
<td>6,210</td>
<td>10,267</td>
<td>16,108</td>
<td>20,491</td>
<td>23,407</td>
</tr>
<tr>
<td>Highway</td>
<td>—</td>
<td>119</td>
<td>285</td>
<td>1,521</td>
<td>3,406</td>
</tr>
<tr>
<td>Veterans life insurance</td>
<td>6,541</td>
<td>6,923</td>
<td>6,874</td>
<td>7,092</td>
<td>7,229</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$43,081</td>
<td>$50,904</td>
<td>$57,331</td>
<td>$80,434</td>
<td>$97,062</td>
</tr>
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</table>

a. Budget data used in this table combine balances of certain related trust funds.

with a cash benefit program; at the end of calendar 1969, however, the fund trustees reported a "net actuarial surplus" of minus $515 million, reflecting an excess of liabilities over assets.

The actuarial condition of the civil service retirement fund appears to be in sharp contrast with that of most other funds. The unfunded liability of the retirement fund was estimated at $58 billion as of June 30, 1969. But it was increased by Federal pay increases made effective in July of that year, and in 1970.

In 1969 the Congress acted to improve the financing of the civil service retirement fund by (1) increasing the employee and matching agency contribution rate, (2) providing for annual payments of interest on the unfunded liability, out of general funds, (3) making annual transfers from general funds to cover costs of military service credits, and (4) requiring that the unfunded liability of future liberalizations be amortized by annual payments over the succeeding 30 years. These changes are designed to "stabilize" the unfunded liability of the civil service retirement fund at an estimated $77 billion.2

2. Public Law 91-93 (1969) increased the employee and matching agency contribution rate for Federal civilian employees from 6 1/2 percent to 7 percent, for Congressional employees to 7 1/2 percent, and for Members of Congress to 8 percent. Under this act the interest payments on the unfunded liability will begin with 10 percent of such interest in 1971 (estimated at $200 million) and increase by 10 percent each year until 100 percent of the interest is credited in 1980 and thereafter (estimated to amount to $2.7 billion annually).