BUDGET | HOUSE BUDGET COMMITTEE

Budget Digest

Chairman Steve Womack

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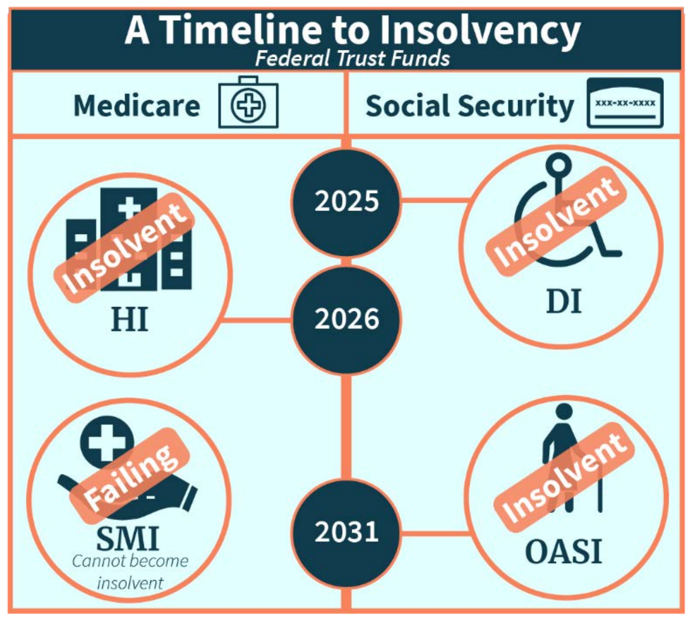
FEDERAL TRUST FUNDS 101

The federal government currently has several trust funds that are managed by the U.S. Treasury. Typically set up in order to finance the eligible benefits of a specific program, a trust fund accounts for its incoming revenues and outgoing expenses. Two of the largest federal trust funds are financed primarily through payroll taxes, which go into trusts designated for Medicare and Social Security.

Medicare. Millions of older Americans rely on Medicare for medical insurance or other health care benefits. For paying out those benefits, the program relies on the Hospital Insurance (HI) Trust Fund and the Supplementary Medical Insurance (SMI) Trust Fund. As more and more seniors age into the Medicare program, both funds face fiscal uncertainty in the near future without action.



The HI fund covers inpatient hospital services and nursing home care under Medicare Part A. According to the Congressional Budget Office (CBO), HI is projected to be insolvent by 2026, when it will only be able to pay for Part A services equal to the amount of revenues available, or 86 percent of the scheduled benefits. SMI pays for physician services and prescription drugs covered under Medicare Parts B and D. While SMI is funded by premiums and general revenue and cannot become insolvent, the Medicare Board of Trustees has expressed concern about the growing projected long-term costs of the program.

Social Security. Within Social Security, there are two separate trust funds: the Old-Age and Survivors Insurance (OASI) Trust Fund and the Disability Insurance (DI) Trust Fund. Both funds are also moving quickly toward insolvency as a result of our aging population. According to CBO, OASI is on track to become insolvent in 2031 and DI in fiscal year 2025—or combined insolvency in 2030. Following depletion, projections show that DI and OASI could only cover 88 percent and 70 percent of its scheduled benefits, respectively—or only 72 percent of combined benefits. While the two funds are legally distinct and cannot borrow from each other, Congress has exercised its authority to address shortfalls in the past by shifting funds between OASI and DI.

Unlike Medicare, the surplus of tax revenues collected for Social Security is invested in U.S. government securities, which earn interest in the General Fund of the U.S. Treasury alongside revenue from other sources. Since these assets are invested in government securities, the Social Security Trust Fund balance includes the amount of money that is essentially on loan to the General Fund. Importantly, this intragovernmental debt does not contribute to the insolvency of the OASI and DI.

Call to Action. It is not a matter of if, but when. Without significant reform to save Medicare and Social Security, these programs *will* become insolvent and *will* fail. At that time, America will be propelled into an even greater fiscal crisis or be forced to reduce program benefits for the millions of vulnerable Americans who depend on them today and those who hope to depend on them in the future.

Questions? Call 202-226-7270 or email Budget.Republicans@mail.house.gov