SOCIAL SECURITY AND MEDICARE TRUST FUNDS AND THE FEDERAL BUDGET*

Office of Economic Policy
US Department of Treasury
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*****This paper, updated annually since 2003, grew out of work of the Social Security and Medicare Trustees' Working Group. Its main objective is to provide a clear description of the nature of the trust funds and their relationship with the federal budget. The paper serves as background for the Social Security and Medicare Trustees Reports. The principal authors of the original report were James Duggan and Christopher Soares of the Office of Economic Policy at the Department of the Treasury.

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I. Introduction

Social Security and Medicare provide cash and in-kind benefits to over fifty million people each year. These social insurance programs are financed largely through payroll contributions, income taxes on benefits received, premiums, and federal general fund revenues that flow into federal trust funds for each program. The current and future financial status of the separate trust funds is the focus of the annual reports of the Social Security and Medicare Boards of Trustees, a focus necessitated by law that can be termed the "trust fund perspective." The latest reports show that in the long run the trust funds will have substantial deficits due to impending demographic shifts and projected growth in per capita health care costs.

By contrast, the federal government primarily uses the *unified budget* concept as the framework for budgetary analysis and presentation in the *Budget of the United States Government*. It represents a comprehensive display of all federal activities, regardless of fund type or budget treatment. This is a broader focus than the trust fund perspective that will be called here the "budget perspective" or "government-wide perspective."

Social Security and Medicare are among the largest expenditure categories of the U.S. federal budget. Together, they accounted for more than a third of all federal spending in 2008 and the percentage is projected to rise dramatically over the coming decades for the reasons mentioned above. The trust fund and budget perspectives are both important and appropriate for their intended purposes yet the accounting differences are often misunderstood. Medicare and (to a much smaller extent) Social Security rely on federal general fund revenues for some of their financing, and they currently are credited with large interest payments as well. In the past, these flows were relatively small. But they have increased in recent years, and the expected rapid growth of the two programs renders the flows between the trust funds and the rest of the federal budget increasingly important features of government finance. An understanding of these flows, while at the most basic level just a matter of accounting, is necessary to understanding the nature of the programs' funding shortfalls, and the implications of those shortfalls for the rest of the budget. This paper attempts to elucidate the distinctions between the trust fund and budget perspectives.[1]

[1] The U.S. Treasury Department's *2008 Financial Report of the United States Government* also describes the budget and trust fund relationship for Social Security and Medicare (pp. 117-121).

The next section summarizes the history and purpose of trust fund accounting and briefly describes the nature of the Social Security and Medicare trust funds and their relationship to the federal debt. The third section of the paper illustrates graphically and numerically (with actual 2008 data) the flow of funds between the trust funds and the rest of the federal budget, including the trust funds' connection to overall government debt. The fourth section summarizes financial projections for the programs from both the trust fund and budget perspectives and the fifth section concludes.

II. Social Security and Medicare Trust Funds

The Social Security and Medicare trust funds were created to account for monies that are dedicated to the programs. The fund accounts, maintained by the Department of the Treasury, provide a mechanism for keeping track of all program income and disbursements. Accumulated assets of the funds represent automatic authority to pay program benefits (that is, no annual legislation is needed to spend a portion of trust fund assets on these costs). If the trust funds were exhausted, Congressional action would be needed to pay benefits not covered by current program revenues. The Medicare Supplementary Medical Insurance Trust Fund is somewhat different in this regard, as discussed below.

The accumulated balances in the trust funds also give important signals to policymakers regarding the financial status of the funds. By estimating future balances, the magnitude of adjustments required by Congress to pay future benefits scheduled under current law can also be estimated.

A. Social Security Trust Funds

The federal Old-Age and Survivors Insurance (OASI) Trust Fund was established on January 1, 1940, as a separate account in the United States Treasury. The federal Disability Insurance (DI) Trust Fund, another separate account in the United States Treasury, was established on August 1, 1956. The OASI fund pays cash retirement benefits to eligible retirees and their survivors and the smaller DI fund pays cash benefits to individuals who are unable to work due to medical conditions. Though the events that trigger benefit payments are quite different, both trust funds have the same earmarked financing structure, relying almost entirely

on payroll contributions and income taxes on benefits. All financial operations of the OASI and DI programs are handled through these respective funds. The two funds are often referred to as simply the combined OASDI Trust Funds.

The primary receipts of these two funds are taxes paid by workers, their employers, and individuals with self-employment income, based on work covered by the OASDI program. Since 1990, employers and employees have each paid 6.2 percent of covered wages. The self-employed pay 12.4 percent of covered earnings. Contributions are computed on wages and net earnings from self-employment up to a specified maximum annual amount ($102,000 in 2008) that increases each year with economy-wide wages.

Since 1984, OASDI benefits have been subject to federal income taxation. Effective for taxable years beginning after 1993, the maximum percentage of benefits subject to taxation was increased from 50 percent to 85 percent. The revenue from income taxes on 50 percent of benefits is allocated to the OASDI Trust Funds and the rest is allocated to the Hospital Insurance (HI) Trust Fund.

That portion of each trust fund not required to pay benefits and administration is invested, on a daily basis, in interest-bearing obligations of the U.S. government. The Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust funds. Although the special issues cannot be bought or sold in the open market, they are redeemable at any time at face value and thus bear no risk of fluctuations in principal value due to changes in market yield rates. Special issue investments bear interest rates determined by a formula which sets the rate to the average market yield on marketable interest-bearing securities of the federal government which are not due or callable until after four years from the date the rate is determined. Interest on the bonds is credited to the trust funds and becomes an asset to the funds and a liability to the rest of government.

B. Medicare Trust Funds

The Medicare program, created in 1965, also has two parts, each with its own trust fund: the Hospital Insurance (HI) and Supplementary Medical Insurance (SMI) Trust Funds.[2] HI (referred

[2] On the political origins of the bifurcated financing structure for Medicare see Eric Patashnik, *Putting Trust in the US Budget*, Cambridge University Press, 2000.

to as Part A) pays for acute inpatient hospital services and major alternatives to hospitals (skilled nursing services, for example). Until 2004, SMI had one major account (referred to as Part B) that pays for outpatient hospital services, physician services and assorted other services and products. On December 8, 2003, the President signed into law the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) that, beginning in 2004, added to the SMI Trust Fund a second major account, referred to as Part D. Part D is a voluntary prescription drug benefit program.

Like OASDI, HI is financed primarily by payroll contributions. Employers and employees each pay 1.45 percent of all wages (no taxable earnings cap), while self-employed workers pay 2.9 percent of all of their net earnings. Other income includes a small amount of premium revenue from voluntary enrollees, a portion of the federal income taxes that beneficiaries pay on Social Security benefits, and interest credited on the U. S. Treasury securities held in the HI Trust Fund.

For Parts B and D of SMI, transfers from the general fund of the Treasury accounted for about 73 and 75 percent of total income in fiscal year 2008, respectively. Beneficiaries pay monthly premiums that currently account for about 25 percent of Part B income. In the future the percentages will change somewhat. Beginning in 2007 and phased in over five years, MMA requires Part B premiums to increase for beneficiaries with incomes above $80,000 ($160,000 for couples), thresholds that will be indexed to inflation each year. Premiums for Part D, subsidized for low-income enrollees, and state transfers made up about 25 percent of total Part D income in fiscal year 2008.

As with HI, interest due on the U.S. Treasury securities held in the SMI Trust Fund is credited to the fund, although in the case of SMI, this is quite small as the trust fund is only needed as a one-year contingency for Part B expenditures. Because annual appropriations for Part D are flexible, depending on expected expenditures, a contingency fund is not needed at all.

C. Trust Funds and Federal Debt

When a trust fund invests in U.S. Treasury securities, it has, in effect, loaned money to the rest of the government. The loan either reduces what the other government fund has to borrow from the public if the unified budget is in deficit or, if the budget is in surplus, reduces the

amount of publicly held debt (see section III). The value of the securities held is recorded in the budget as "debt held by government accounts" and represents debt owed by one part of the government to another. Just as with marketable securities (securities sold to the public) a maturity date is set, interest is accrued at established rates,[3] and the securities count as part of the overall federal debt that is subject to a ceiling set by Congress. The interest earned on the internal loan is credited to the trust fund accounts in the form of additional Treasury securities. As such, the securities constitute a liability for the Treasury as the loan must be repaid when the trust funds need to redeem securities in order to make benefit payments. As with marketable bonds, these special Treasury securities are backed by the full faith and credit of the U.S. government.

III. Cash and Accounting Flows between Trust Funds and the Rest of the Federal Budget

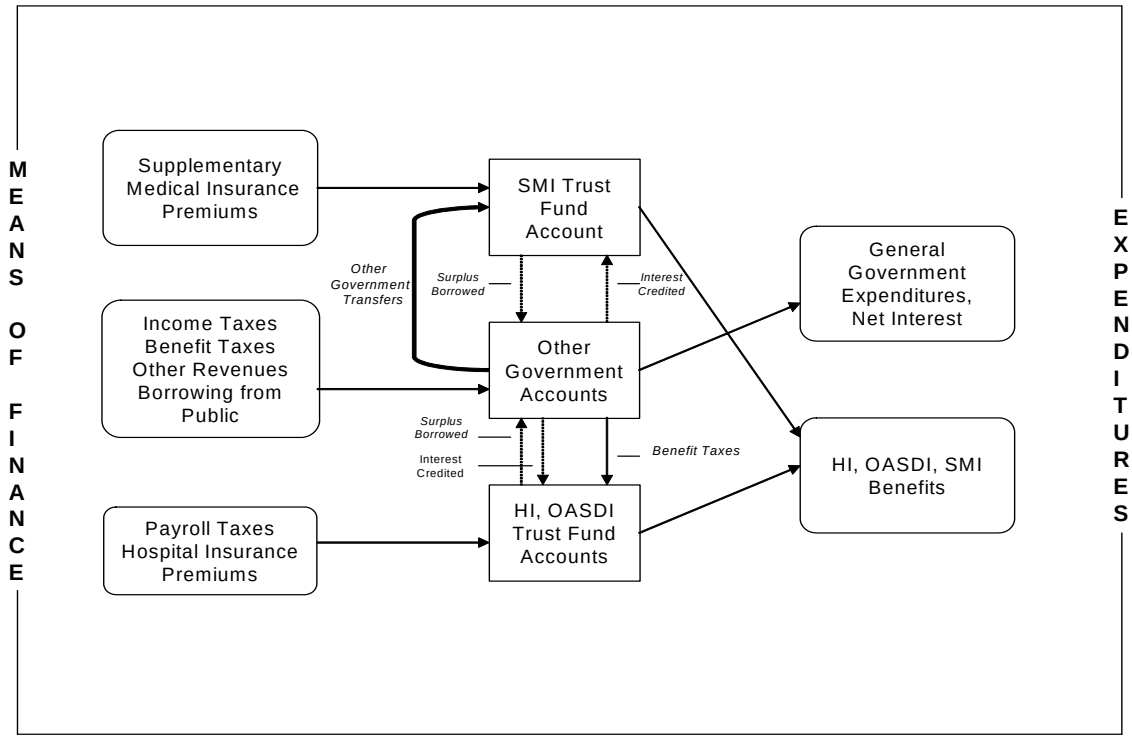
This section will describe in detail the concepts that connect the trust funds to the federal budget and illustrate the flow of funds between the trust funds and other government accounts.

A. Nature of Flows

Figure 1 shows a simplified graphical depiction of the interaction of the Social Security and Medicare trust funds with the rest of the federal budget. The boxes on the left show sources of funding, those in the middle represent the trust funds and other government accounts (of which the general fund is a part) into which that funding flows, and the boxes on the right show simplified expenditure categories. The figure is intended to illustrate how the various sources of program revenue flow through the budget to beneficiaries. The general approach is to group revenues and expenditures that are linked specifically to Social Security and/or Medicare

[3] The rates on new investments do not vary by maturity.

Figure 1
Social Security, Medicare, and Governmentwide Finances



separately from those for other federal programs. For ease of understanding, these other federal programs are referred to here as *other government*.

As noted in section II, each of the trust funds has its own sources and types of revenue. With the exception of general fund transfers to SMI, each of these revenue sources is earmarked specifically for the respective trust fund, and cannot be used for other purposes. Much of the funding for the rest of government, by contrast, is not dedicated to a specific purpose.[4] For instance, personal income taxes go into the general fund of the Treasury and are drawn down for any government program for which Congress has approved spending. A rough analogy would be that the general fund is like a checking account, from which purchases of all sorts can be

[4] A number of other programs also have dedicated revenues in the form of taxes and fees and there are a large number of earmarked trust funds in the federal budget. Trust fund receipts from the public account for about forty percent of total government receipts with the Social Security and Medicare trust funds accounting for about two-thirds of those receipts. For further discussion see *Federal Trust and Other Earmarked Funds*, GAO-01-199SP, January, 2001. In the figure and the discussion that follows, we group all other programs, including other earmarked trust fund programs and the general fund (accounts for receipts not earmarked by law), under "Other Government Accounts" to simplify the description and maintain the focus on Social Security and Medicare.

made, while the trust funds are like a retirement savings account, which has specific rules for withdrawals. From the boxes on the left the arrows represent the flow of revenues into the trust funds and into other government accounts.

The Medicare SMI Trust Fund is grouped separately in the center column of Figure 1 to highlight the unique financing of SMI. SMI receives large transfers from the general fund of the Treasury. (This transfer is represented by the arrow marked *General Revenue Transfers* in the diagram.) As noted above, these funds make up roughly three-fourths of SMI program expenses. While the other trust funds also receive transfers from the general fund (mainly from taxes on benefits), in the case of SMI the size of the transfers depends on how much the program spends, not on how much revenue comes into the Treasury. All the non-dedicated sources of federal revenue contribute to the transfer: personal and corporate income taxes, custom duties, excise taxes, etc. If non-dedicated revenues become insufficient to cover both the mandated transfer to SMI and expenditures on general government programs, Treasury will have to borrow to make up the difference. In the long run, if transfers to SMI increase — and as shown in the Medicare Trustees Report and Figure 4 below, they are projected to increase significantly in coming years — then Congress must borrow, raise taxes, cut other government spending, or reduce spending on SMI benefits.

As described in Section II, interest is credited to the trust funds when the excess of program income over expenses is loaned to the general fund. The vertical lines labeled *Surplus Borrowed* represent these flows from the trust funds to the other government accounts. These loans reduce the amount that the general fund has to borrow from the public to finance a deficit (or likewise increase the amount of debt paid off if there is a surplus). But the general fund has to credit interest on the loans from the trust fund programs, just as if it borrowed the money from the public. These flows are indicated in Figure 1 by the vertical arrows labeled *Interest Credited*. These interest credits increase trust fund income exactly as much as they increase interest transfers from the general fund (part of other government accounts). So from the standpoint of the federal budget as a whole, these interest credits are a wash. Of course, in the future, money to honor the interest credits must still be raised, through taxes, spending cuts or borrowing from the public.

It is important to understand the additional implications of this borrowing from the trust funds beyond the interest credits to the trust funds. When the trust funds loan excess revenue to the general fund, they in turn receive additional authority to spend on benefits and other program expenses. (This additional authority takes the form of an increase in the assets in the trust fund and an increase in liability for the general fund.) The general fund, in turn, has taken on the obligation of repaying the principal of those loans with interest when trust fund income falls below expenditures—the loans will be called in and the general fund will have to reduce other spending, raise taxes or borrow more from the public to make the payments to the trust funds.

B. Actual Flows for Fiscal Year 2008

The link between the trust fund and budget perspectives can be illustrated with actual dollar amounts for fiscal year 2008, as shown in Table 1. The first three columns show all revenues and expenditures for the two social insurance programs and the fifth column shows revenues and expenditures for other government programs. The final column is the sum of the preceding two columns. Note that the sums of transfers and interest credits to the trust funds are negative entries under 'Other Government' and are thus offsetting when summed for the final column. These two intragovernmental transactions are key to the differences between the two perspectives.

The *trust fund perspective* is captured in each of the three trust fund columns that contain data from the respective 2009 Trustees Reports. For HI, revenues from the public plus transfers/credits from other government accounts were $0.5 billion less than total expenditures in 2008, as shown at the bottom of the first column. This amount was subtracted from the accumulated HI Trust Fund balance (not shown) and thus, *ceteris paribus*, the unfunded obligations of the program increased. At the same time, the general fund was required to pay the program $0.5 billion for trust fund assets that were redeemed to make up the shortfall. For SMI, total revenues, including $180.4 billion in non-interest transfers from other government accounts, exceeded total expenditures by $20.0 billion. Transfers to the SMI program from other government accounts are obligated under current law and therefore appropriately viewed as revenue from the trust fund perspective. For OASDI, total revenues exceeded total expenditures of $185.7 billion. In sum, from the trust fund perspective, HI, SMI and OASDI had annual surpluses in fiscal year 2008 totaling $205.2 billion (-$0.5 + $20.0 + $185.7).

Table 1
Annual Revenues and Expenditures for Medicare and Social Security Trust Funds and the Total Federal Budget, Fiscal Year 2008
(billions of dollars)

Revenue and Expenditure Categories	Trust Funds				Other Government	Total[1]
	HI	SMI	OASDI	Combined		
Revenues from public:						
Payroll and benefit taxes	$208.9	--	$689.0	$897.9	--	$897.9
Premiums[2]	4.2	$54.2	--	58.4	--	58.4
Other taxes, fees, and payments[3]	–	7.0	--	7.0	$1,560.5	1,567.5
Total	213.2	61.3	689.0	963.4	1,560.5	2,523.9
Total expenditures to public[4]	230.2	224.8	617.0	1,072.1	1,906.6	2,978.7
Net Results for Budget Perspective (Revenues from public less expenditures to public)	**-17.1**	**-163.6**	**71.9**	**-108.7**	**-346.1**	**-454.8**
Revenues from other Government accounts:						
Transfers	0.7	180.4	--	181.1	-181.1	0.0
Interest credits	15.9	3.2	113.7	132.8	-132.8	0.0
Total	16.6	183.6	113.7	313.9	-313.9	0.0
Net Results for Trust Fund Perspective (Revenues form public less expenditures to public plus general fund transfers plus interest)	**-0.5**	**20.0**	**185.7**	**205.2**	**n/a**	**n/a**

[1] This column is the sum of the preceding two columns and shows amounts for the total federal budget. The figure $454.8 billion is the total federal budget deficit for fiscal year 2008.

[2] Includes Part D premiums paid directly to plans, which are not displayed on Treasury statements and are estimated.

[3] Includes Part D State transfers.

[4] The OASDI figure includes $4.0 billion transferred to the Railroad Retirement Board.

Notes: 1. For comparison, HI taxable payroll, OASDI taxable payroll, and GDP were $6,795 billion, $5,493 billion, and $14,260 billion, respectively, in 2008.
2. Totals do not necessarily equal the sums of rounded components.
3. "n/a" indicates not applicable.

Source: 2009 Medicare Trustees Report, Table V.D1

From the *government-wide* (*budget*) perspective only earmarked revenues received from the public — payroll and benefit taxes, premiums, and other taxes, fees and payments — and expenditures made to the public are important for the final balance. For HI, the difference between such revenues ($213.2 billion) and total expenditures made to the public ($230.2 billion) was a $17.1 billion deficit in 2008, indicating that HI increased the overall budget deficit in that year. For the SMI account, revenues from the public (primarily premiums) in 2008 fell

short of total expenditures to the public by $163.6 billion, resulting in a net draw on the overall budget balance in that year. For OASDI, the difference between revenues from the public ($689.0 billion) and total expenditures ($617.0 billion) was $71.9 billion in 2008, indicating that OASDI had a positive effect on the overall budget in that year. In sum, from the budget perspective, OASDI made a positive contribution to the budget, HI had a moderately negative impact, and SMI made a substantial draw on the budget. On net the three programs contributed $108.7 billion ($71.9 - $17.1 - $163.6, respectively) to the 2008 unified budget deficit of $454.8 billion.

Table 2
Social Security and Medicare Trust Funds and the Federal Debt
(billions of dollars)

	HI	SMI	OASDI	Combined
Trust Funds				
Assets at the end of FY2007	$319.5	$39.1	$2,180.6	$2,539.2
+ Net results for trust funds (Table 1)	-0.5	20	185.7	205.2
Assets at the end of FY2008	319.0	59.1	2,366.3	2,744.4
Federal Debt				
FY 2007 debt held by public			$5,035.1	
+ FY2008 unified deficit (Table 1)			454.8	
+ Other financing[1]			312.8	
= FY2008 debt held by public			**5,802.7**	
+ FY2008 debt held by trust funds			2,744.4	
+ FY2008 debt held in other government accounts			1,438.7	
= FY2008 gross federal debt			**9,985.8**	

[1] Other financing includes changes in U.S. Treasury cash balances, checks outstanding, compensating balances and other miscellaneous items.

Note: Totals do not necessarily equal the sums of rounded components.

Source: Social Security and Medicare Trustees Reports

Table 2 illustrates the relationship between the trust funds and federal debt. Total trust fund assets are a component of gross federal debt. An increase in trust fund assets in 2008 of $205.2 billion is the amount by which the trust funds added to gross federal debt.

IV. Future Obligations of the Trust Funds and the Budget

A. Separate Funds

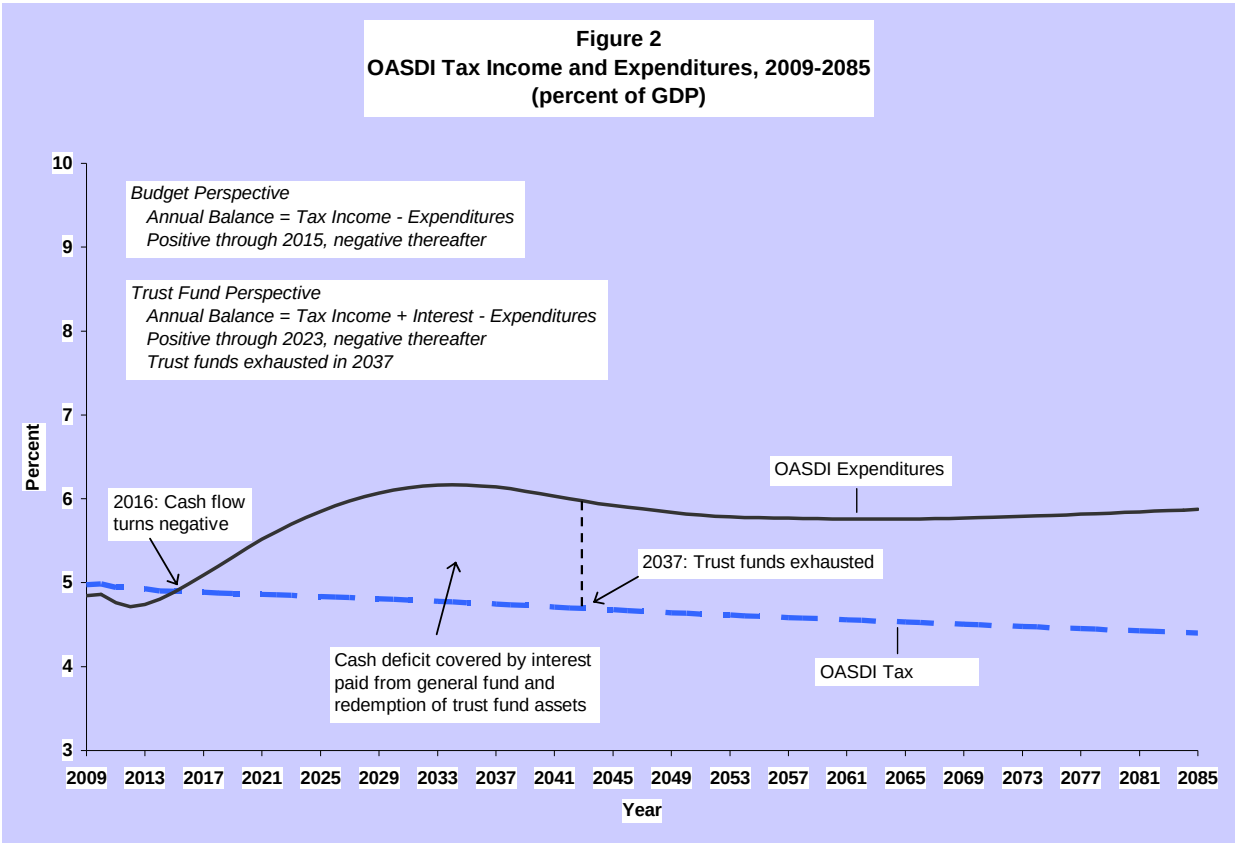
The trust fund perspective focuses on the financial status of each fund separately. This status is quite different for each of the funds, with varying impacts on the federal budget. For example, the 2009 OASDI Trustees Report projects that cash-flow deficits will begin in 2016, total income (including interest) will fall below expenditures in 2024, and the combined OASDI Trust Funds will be exhausted in 2037. From the trust fund perspective those dates are important as they indicate that, beginning in 2016, interest on assets (honored by the general fund) will be needed to pay full benefits and when the funds are exhausted in 2037 benefits can no longer be paid in full.[5]

The effect of the OASDI program on the budget occurs far sooner, however, as illustrated in Figure 2. As described earlier, while OASDI surpluses are rising, general fund borrowing or tax revenue needs are reduced relative to what would otherwise be necessary to fund a given level of expenditures in other government accounts. As early as 2013, however, the surpluses as a percent of GDP begin to decline and fall sharply thereafter, with expenditures rising above tax income beginning in 2016.

Thus, in order to maintain a given level of real expenditures in other government accounts, non-dedicated taxes (like the income tax) would have to be raised, or borrowing from the public increased, to make up for the reduction in the OASDI Trust Funds' cash-flow surpluses.

This effect on the budget will increase rapidly. The retirement of the baby boom generation causes the OASDI expenditure/GDP ratio (solid line in Figure 2) to increase by over 1.2 percentage points over the first 20 years of the projection period (i.e., expenditures are growing significantly faster than GDP) while the income ratio is falling. OASDI surpluses contribute positively to the unified budget until 2016 but at a rapidly declining rate after 2012. And beginning in 2016, the negative balances will add to a unified budget deficit (or reduce a surplus) at a rapidly increasing rate.

[5] OASDI Trust Fund asset redemptions are projected to begin in 2024.



The picture is similar for the HI Trust Fund although, as seen in Figure 3, cash flows are projected to be negative in 2009 and thereafter and the HI Trust Fund will be exhausted in 2017. Figure 3 illustrates that, while the income ratio is relatively flat, the expenditure ratio rises throughout the projection period. From the trust fund perspective, full benefits can be paid for another eight years. From a unified budget perspective the HI cash deficits will have a rapidly growing negative effect.

The distinction between trust fund and budget perspectives is most pronounced in the case of SMI (Figure 4). As described earlier, the portion of SMI expenditures financed by general revenues is adjusted each year to make up for the difference between premium income (also adjusted every year) and total expenditures—as expenditures grow, so does the general revenue transfer. From the perspective of the trust fund, SMI is always "fully funded" (that is, the trust fund will never run out, as long as there is money in the Treasury to cover expenditures), whereas, from the perspective of the budget, SMI draws significant transfers that will continue to grow with the growth in Medicare expenditures.

Figure 3
HI Tax and Premium Income and Expenditures, 2009-2083
(percent of GDP)

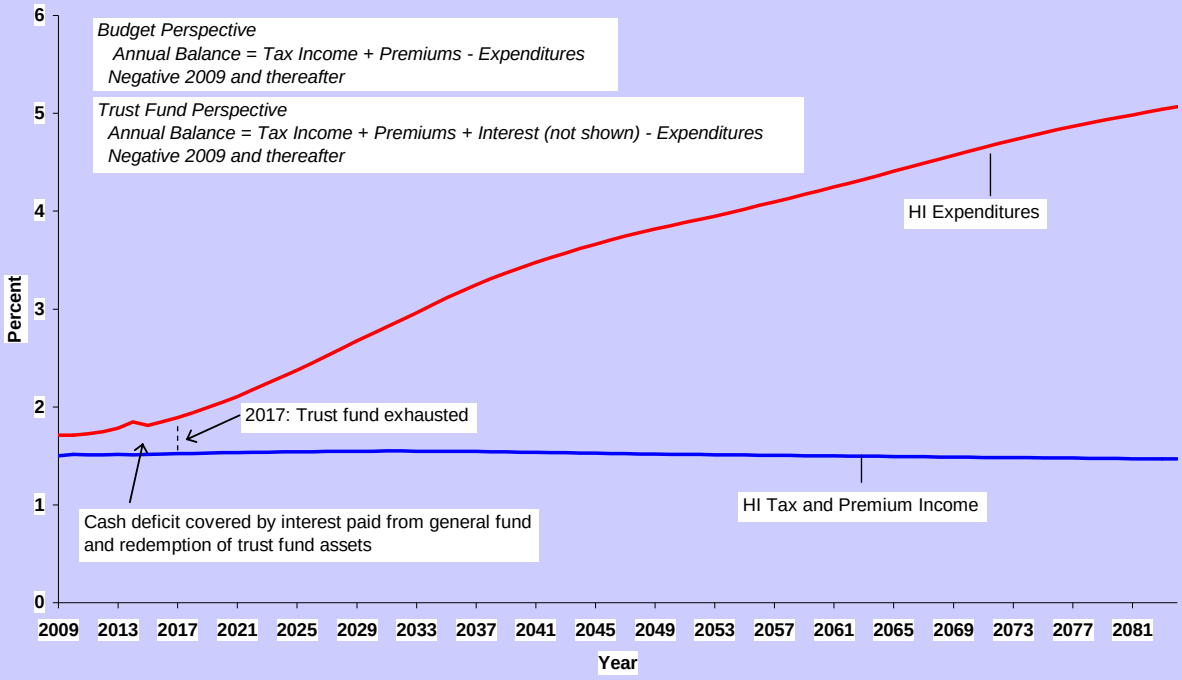
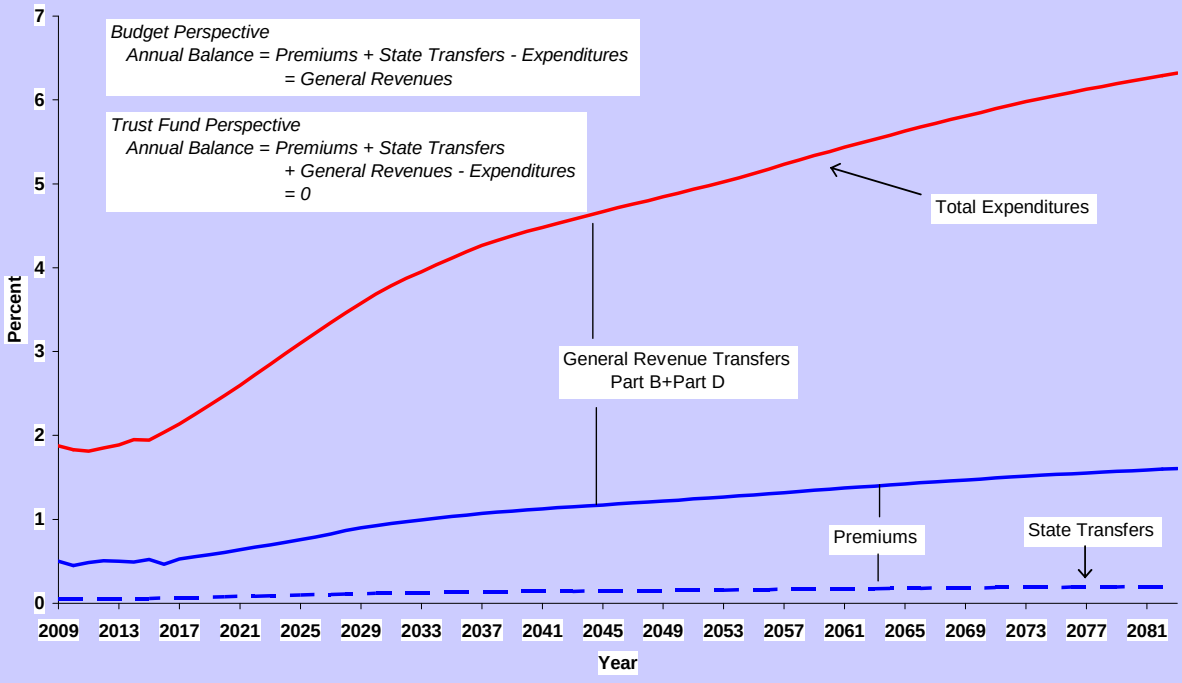


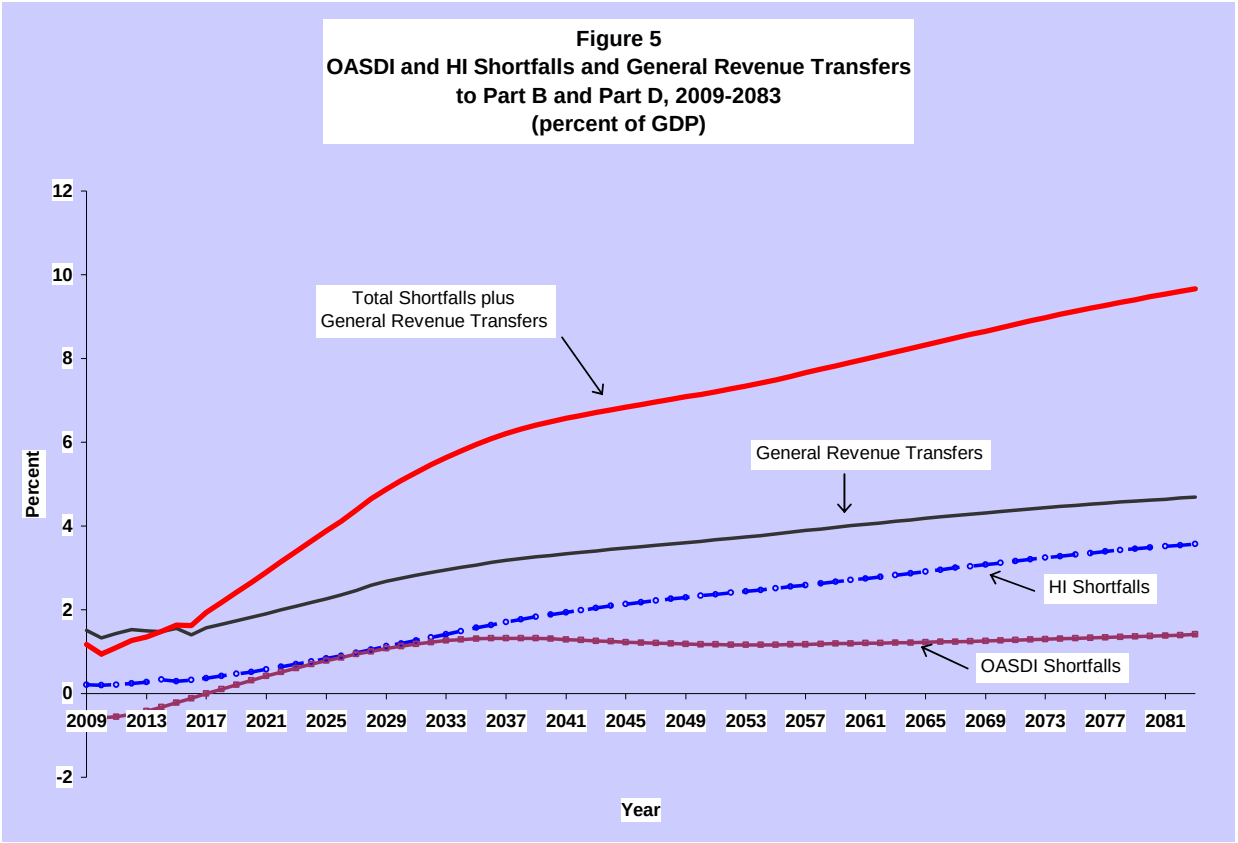
Figure 4
SMI Income and Expenditures, 2009-2083
(percent of GDP)



B. Combined Funds

The budget perspective can also show the net effect of the *combined* trust funds on the unified budget. As described in section III, what matters for the unified budget is the difference between income received from the public and expenditures paid to the public. Figure 5 brings together those differences (relative to full scheduled benefits) for all three funds as they are projected to develop over the next seventy-five years. The figure shows projected shortfalls (tax income less expenditures, shown as positive numbers) for OASDI and HI as well as general revenue transfers to SMI for the period 2009-2083, each as a percent of GDP. The GDP scale provides an indication of the capacity of the national economy to sustain the three programs. The 'Total' line shows that the sum of the three components is projected to exceed 9 percent of GDP by 2083.

Figure 5
OASDI and HI Shortfalls and General Revenue Transfers to Part B and Part D, 2009-2083 (percent of GDP)



Clearly, the pressure on the general fund to honor scheduled Social Security and Medicare benefits will grow dramatically and rapidly. Over the next twenty-five years total shortfalls plus general revenue transfers are projected to grow nearly five percentage points of GDP. In order to pay for these scheduled costs either taxes will have to increase sharply, other government

programs will have to be cut to a fraction of their current levels, or increased borrowing will have to take place. Note that from the budget perspective the combined funds already have a net draw on the unified budget.

C. Present Values of Revenue and Cost Components

1. 75-Year Horizon. Table 3 shows discounted present values of the 75-year financial projections discussed above. Present values recognize that a dollar next year is worth less than a dollar today, because a dollar today could be saved and earn a year's-worth of interest. To create a present value, future amounts are thus reduced using an assumed interest rate, and those reduced amounts are summed. The resulting present value is the amount that would have to be put in the bank today at the assumed interest rate to fund the future cash flows.

For HI, scheduled revenues over 75 years from payroll and benefit taxes are estimated to be $12.0 trillion in present value and scheduled expenditures to the public (primarily benefit payments) amount to $25.8 trillion.[6] From a budget perspective, the net unfunded obligation is $13.8 trillion in present value. From the trust fund perspective, the existing trust fund is added to give net obligations of $13.4 trillion in present value.

For SMI, revenues from the public are projected to be $8.2 trillion and expenditures to the public $32.5 trillion in present value. From the budget perspective, the unfunded obligation is $24.3 trillion in present value. From the trust fund perspective, the $24.3 trillion is a statutory revenue source that leaves the trust fund with a *de minimis* unfunded obligation.

For OASDI, over the next seventy-five years revenues from payroll and benefit taxes are estimated at $37.2 trillion in present value and expenditures to the public at $44.9 trillion in present value, resulting in net obligations of $7.7 trillion. From the trust fund perspective, the net obligation is reduced by the $2.4 trillion trust fund for an unfunded obligation of $5.3 trillion.

Table 3 shows that, for the three programs combined, scheduled revenues from the public less scheduled expenditures to the public amounts to -$45.8 trillion in present value.[7] From the

[6] When referring to unfunded obligations for HI and OASDI, it is important to recognize that there is no provision under current law to address the projected financial deficits, and thus pay full benefits, once trust fund assets are depleted (2017 for HI and 2037 for OASDI). For this reason we refer to "scheduled" receipts and costs.

[7] To put the size of this shortfall in perspective, $45.8 trillion is equivalent to about 5.8 percent of the present value of GDP over the same 75-year period, or over three times the size of the entire U.S. economy in 2008.

budget perspective this is the amount of additional resources, beyond the $57.4 trillion in payroll and benefit taxes and premiums from the public, that would be needed to pay all scheduled costs over 75 years. From a trust fund perspective, the value of existing trust fund assets for OASDI and HI ($2.7 trillion) and the value of the general revenue transfer for SMI ($24.2 trillion) are viewed as assets of or income to the programs. From the trust fund perspective, the picture is only modestly different from the budget perspective for OASDI and HI when the existing trust fund assets are accounted for but markedly different for SMI. For the latter, general revenue transfers are a dedicated source of income that ensures the program is in continuous financial balance.

Table 3
Present Values of Revenue and Cost Components of 75-year Open Group Obligations
HI, SMI, and OASDI
(trillions of dollars, as of January 1, 2009)

	HI	SMI	OASDI	Combined
Revenues from public:				
Payroll and benefit taxes	$12.0	--	$37.2	$49.2
Premiums	0.0	$7.2	--	7.2
Other taxes and fees[1]	--	1.0	--	1.0
Total	12.0	8.2	37.2	57.4
Total expenditures to public	25.8	32.5	44.9	103.2
Net Results for Budget Perspective (Revenues from public less expenditures to public)	**-13.8**	**-24.3**	**-7.7**	**-45.8**
Transfers from general fund	0.0	24.2	0.0	24.2
Trust fund assets on January 1, 2009	0.3	0.0	2.4	2.7
Net Results for Trust Fund Perspective (Revenues form public less expenditures to public plus general fund transfers plus trust fund assets)	**-13.4**	**-0.1**	**-5.3**	**-18.8**

[1] Includes Part D state transfers.

Notes: 1. "0.0" indicates an amount of less than $50 billion.
2. Totals do not necessarily equal the sums of rounded components.

Source: 2009 Medicare Trustees Report, Table V.D2

2. Infinite Horizon. The 75-year horizon represented in Table 3 is consistent with the predominant focus of the Social Security and Medicare Trustees Reports. Yet, a 75-year projection is incomplete. For example, when calculating unfunded obligations, a 75-year horizon includes revenue from some future workers but only a fraction of their future scheduled benefits. Therefore, the Trustees Reports also provide an additional perspective that provides estimates of net obligations over the infinite horizon. The estimates are shown in Table 4 for the three major programs represented in Table 3. Note that only the net obligations (income less expenditures) are shown as the separate revenue and cost components are not available.

Table 4
Present Values of Income less Expenditures through the Infinite Horizon for HI, SMI, and OASDI (trillions of dollars, as of January 1, 2009)

	HI	SMI	OASDI	Total
Net Results for Budget Perspective				
Revenues from public less expenditures to public through the infinite future	-$36.8	-$52.5	-$17.5	-$106.8
Net Results for Trust Fund Perspective				
Transfers from general fund	0.0	52.5	0.0	52.5
Trust fund on 1/1/2009	0.3	0.0	2.4	2.7
Revenues from public less expenditures to public plus general fund transfers plus trust fund assets	-36.4	0.0	-15.1	-51.5

Note: Totals do not necessarily equal the sums of rounded components.

Source: Social Security and Medicare Trustees Reports

From the budget perspective, the first line of Table 4 represents the value of resources needed to finance each of the programs into the infinite future. The total resources needed for all the programs sums to $106.8 trillion in present value terms. This need can be satisfied only through increased borrowing, higher taxes, reduced program spending, or some combination thereof.

The second line shows the present value of general revenue transfers to the SMI program (Part B + Part D) as of January 1, 2009 and is equal (but opposite in sign) to the gap between premium income and expenditures shown in the first line. From the trust fund perspective, because general revenues are a source of income to the SMI program, there is no funding gap.

The third line shows the value of the trust funds at the beginning of 2009. For the HI and OASDI programs this represents, from the trust fund perspective, the extent to which the programs are prefunded. From that perspective, when the trust fund is subtracted, an additional $36.4 trillion and $15.1 trillion, respectively, are needed to sustain the two programs into the infinite future.

In comparison to the analogous 75-year number in Table 3, extending the calculations beyond 2083 captures the full lifetime benefits and taxes and premiums of all past, current, and future participants. The shorter horizon understates financial needs by capturing relatively more of the revenues from current and future workers and not capturing all of the benefits that are scheduled to be paid to them.

V. Conclusion

The trust fund perspective relates to an evaluation of the financial status of each individual trust fund, that is, a determination of whether the fund has sufficient revenues and assets to pay promised benefits and administrative expenses. Trust fund assets provide the statutory authority to make such payments without the need for an appropriation from Congress. In the case of OASDI, for example, the 2009 Trustees Report projects that this authority would allow full benefit payments until 2037.

The budget or government-wide perspective is a comprehensive presentation of all federal financial activities, of which Social Security and Medicare are crucial components. Financial flows between the public and the federal government are what matters, as flows between accounts within the budget cancel out in the final balance. Trust funds are merely accounting devices from this perspective. The budget evaluates the relationship between dedicated revenues (payroll and benefit taxes and premiums) from the public and the benefits promised to the public under current Social Security and Medicare program rules. In the case of OASDI, for example,

dedicated revenues fall short of benefit expenditures beginning in 2016 and the difference between those revenues and expenditures begins to decline in 2013.

Both perspectives highlight concerns over impending demographic changes and continued rapid growth in health care costs that will place increasing stress on finances for the Social Security and Medicare programs. But it is important to recognize that the signals of financial stress that emanate from a trust fund analysis are substantially milder than those faced by the federal budget as a whole. The difference between the two perspectives is most dramatic in the case of the SMI program.