United States Government Accountability Office

Report to Congressional Requesters

January 2020

FEDERAL TRUST FUNDS AND OTHER DEDICATED FUNDS

Fiscal Sustainability Is a Growing Concern for Some Key Funds

GAO-20-156

GAO Highlights

Highlights of GAO-20-156, a report to congressional requesters

January 2020

FEDERAL TRUST FUNDS AND OTHER DEDICATED FUNDS

Fiscal Sustainability Is a Growing Concern for Some Key Funds

Why GAO Did This Study

Some of the largest federal programs, including Medicare, Social Security, and postal services, are funded through trust funds and other dedicated funds, which link collections that have been dedicated to a specific purpose with the expenditures of those collections. While these funds have the ability to retain accumulated balances, these collections do not necessarily fund the full current or future cost of the government's commitments to the designated beneficiaries.

GAO was asked to review issues related to federal trust funds and other dedicated funds. This report examines (1) how the size and scope of federal trust funds and other dedicated funds in the federal budget have changed over time, (2) the extent to which these funds are supported by their dedicated collections, and (3) the extent to which these funds support mandatory programs, including major entitlement programs.

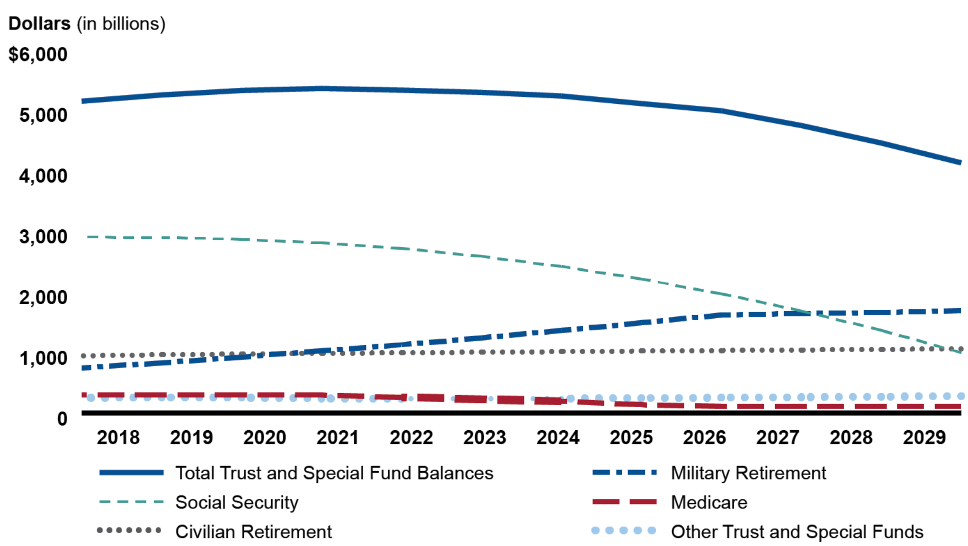
GAO analyzed OMB data on trust funds and other dedicated funds for fiscal year 2014 through 2018 and the Department of the Treasury's (Treasury) Fiscal Year 2018 *Combined Statement of Receipts, Outlays, and Balances*. GAO also examined 13 case study accounts in nine agencies, selected to include the largest of each type of these funds and a variety of program designs. GAO reviewed agency reports, CBO trust fund estimates for 2018 and projections for 2019 to 2029, and prior GAO reports, and interviewed OMB staff and officials from Treasury and each of the case study agencies. GAO also is providing an online dataset of these funds at https://www.gao.gov/products/GAO-20-156.

View GAO-20-156. For more information, contact Tranchau (Kris) T. Nguyen at (202) 512-6806 or nguyentt@gao.gov.

What GAO Found

Every major federal department has at least two trust funds or other dedicated funds. According to GAO analysis of Office of Management and Budget (OMB) data, balances in these funds, which can be used to support covered programs, grew 13 percent in nominal terms from fiscal year 2014 through 2018. Fund balances are affected by complex interactions of factors, but the total increase was driven largely by military and civilian retirement fund balances. The Congressional Budget Office (CBO) projects the total balance to start declining in fiscal year 2022 as decreases in Medicare and Social Security will exceed increases in military and civilian retirement balances. To offset the overall decrease, the federal government is projected to borrow more from the public.

CBO Projects Total Trust and Special Fund Balance Will Decline Starting in 2022



Source: GAO presentation of Congressional Budget Office (CBO) estimates. | GAO-20-156

GAO found that 11 of 13 case studies recently received general revenue—collections that are not dedicated by law for a specific purpose. For example, medical insurance premiums for Medicare Part B are set to cover 25 percent of expected costs; the remaining 75 percent are covered by general revenues. Even funds that rely primarily on their dedicated collections may not be fiscally sustainable. For example, the Social Security Old-Age and Survivors Insurance Trust Fund only uses dedicated collections for benefit payments, but its balances are projected to be depleted by 2034.

Nearly 98 percent of outlays and transfers from trust funds and other dedicated funds was through mandatory authority, which allows agencies to make payments without further congressional action. Most of the 23 largest funds also have entitlement authority, which generally requires payments to eligible parties based on legal requirements. Status as a trust fund, mandatory program, or entitlement does not prevent Congress and the President from changing related laws to alter future collections or payments.

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Abbreviations

AATF	Airport and Airway Trust Fund
BBEDCA	Balanced Budget and Emergency Deficit Control Act of 1985
BCA	Budget Control Act of 2011
CBO	Congressional Budget Office
Combined Statement	*Combined Statement of Receipts, Outlays, and Balances of the United States Government*
CSRDF	Civil Service Retirement and Disability Fund
CSRS	Civil Service Retirement System
DI	Disability Insurance
DOT	Department of Transportation
FAA	Federal Aviation Administration
FAST Act	Fixing America's Surface Transportation Act

FCC	Federal Communications Commission
FEHB	Federal Employees and Retired Employees Health Benefits
FEMA	Federal Emergency Management Agency
FERS	Federal Employees Retirement System
GDP	gross domestic product
General Fund	General Fund of the U.S. Government
HFIAA	Homeowners Flood Insurance Affordability Act
HI	Hospital Insurance
HMTF	Harbor Maintenance Trust Fund
HTF	Highway Trust Fund
Medicare Trustees	Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds
NFIP	National Flood Insurance Program
OASI	Old-Age and Survivors Insurance Trust Fund
OASDI	Old-Age, Survivors, and Disability Insurance
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PAYGO	Statutory Pay-As-You-Go Act of 2010
PBGC	Pension Benefit Guaranty Corporation
REHB	Retired Employees Health Benefits
SMI	Supplementary Medical Insurance
Social Security Trustees	Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds
SSA	Social Security Administration
Treasury	Department of the Treasury
TVA	Tennessee Valley Authority
TVA Act	Tennessee Valley Authority Act of 1933
USF	Universal Service Fund
USPS	U.S. Postal Service

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January 16, 2020

Congressional Requesters:

Some of the largest federal programs, including Medicare, Social Security, and postal services, are funded through trust funds and other dedicated funds, which link collections that have been dedicated to a specific purpose with the expenditures of those collections. For example, collections from federal fuel taxes are credited to the Highway Trust Fund and used to build and maintain the nation's highways and bridges. Trust funds and other dedicated funds may receive income from general revenues—collections that are not dedicated by law for a specific purpose—in addition to their dedicated collections.

We previously reported that, in fiscal year 1999, trust fund collections represented nearly half of all federal budget collections and that most trust funds and other dedicated funds had mandatory budget authority, which, in general provides authority to spend collections without further appropriation.[1] Mandatory spending is a large and growing part of the federal budget. We recently reported that between fiscal years 2007 and 2017, mandatory spending grew from 53 percent to 63 percent of all federal spending.[2]

Although trust funds and other dedicated funds have their own dedicated collections and the ability to retain accumulated balances, these collections do not necessarily fund the full current or future cost of the government's commitments to the designated beneficiaries. Trends and projections in the inflows, outflows, and balances of these funds can provide signals about the financial health of individual funds and the impact of these funds as a group on the overall federal fiscal condition.

You asked us to review issues related to federal trust funds and other dedicated funds. This report examines (1) how the size and scope of federal trust funds and other dedicated funds in the federal budget have changed over time, (2) the extent to which federal trust funds and other

[1]GAO, *Federal Trust and Other Earmarked Funds: Answers to Frequently Asked Questions,* GAO-01-199SP (Washington, D.C.: January 2001).

[2]GAO, *Federal Budget: Government-Wide Inventory of Accounts with Spending Authority and Permanent Appropriations, Fiscal Years 1995 to 2015,* GAO-19-36 (Washington, D.C.: Nov. 29, 2018).

dedicated funds are supported by their dedicated collections, and (3) the extent to which federal trust funds and other dedicated funds support mandatory programs, including major entitlement programs. In addition to this report, we are providing an online dataset of accounts that are classified as trust and other dedicated funds by the Office of Management and Budget (OMB), which can be accessed on our public website at https://www.gao.gov/products/GAO-20-156.

To examine trends in the size and scope of federal trust funds and other dedicated funds, we used OMB budget data to identify the income, outgo (i.e., outlays and transfers to another government account), and balances for all trust funds and other dedicated funds reported in OMB's budget database for fiscal years 2014 to 2018 in nominal terms. To provide a complete count of these funds, including accounts with small balances that fall below OMB's $1 million reporting threshold, we used data from the Department of the Treasury (Treasury) Fiscal Year 2018 *Combined Statement of Receipts, Outlays, and Balances of the United States Government* (*Combined Statement*).[3] To assess the reliability of these data for our purposes, we reviewed relevant documentation and interviewed OMB staff and Treasury officials. We found the data to be reliable for our purposes.

To examine the extent to which federal trust funds and other dedicated funds are supported by their dedicated collections, we also examined 13 case study accounts in nine agencies selected to include the largest funds and a variety of program designs (see table 1). We reviewed agency reports, including agency performance, financial, and budget reports, Congressional Budget Office (CBO) trust fund projections, the 2019 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds (Social Security Trustees), the 2019 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds (Medicare Trustees), and our prior reports and interviewed officials from each of the case study agencies.

[3]The federal budget rounds reported amounts to millions of dollars; it does not show funds with amounts less than $500,000. Accordingly, OMB instructs agencies to consolidate small trust fund accounts with larger general fund accounts. In addition, OMB will sometimes report trust fund groups rather than individual trust funds. Groups may include two or more trust funds with similar purposes. Treasury, on the other hand, tracks monies for each discrete account to the penny to fulfill its government wide accounting and cash management responsibilities. Thus, Treasury's count of funds represents the actual number of separate accounts designated as trust funds or other dedicated funds.

Table 1: Case Study Accounts Selected for Our Review

Agency	Account Name
Centers for Medicare & Medicaid Services	Federal Hospital Insurance Trust Fund
	Federal Supplementary Medical Insurance Trust Fund
Federal Aviation Administration	Airport and Airway Trust Fund
Federal Communications Commission	Universal Service Fund
Federal Emergency Management Agency	National Flood Insurance Fund
	National Flood Insurance Reserve Fund
Federal Highway Administration[a]	Highway Trust Fund
Office of Personnel Management	Civil Service Retirement and Disability Fund
	Employees and Retired Employees Health Benefits Funds
Social Security Administration	Federal Old-Age and Survivors Insurance Trust Fund
	Federal Disability Insurance Trust Fund
Tennessee Valley Authority	Tennessee Valley Authority Fund
U.S. Postal Service	Postal Service Fund

Source: GAO. | GAO-20-156

[a]The Highway Trust Fund is reported under Federal Highway Administration in the budget but also supports transportation programs of other agencies, including the Federal Transit Administration.

Entitlement Authority

Authority to make payments (including loans and grants) for which budget authority is not provided in advance by appropriation acts to any person or government if, under the provisions of the law containing such authority, the U.S. government is legally required to make the payments to persons or governments that meet the requirements established by law.

Source: GAO and 2 U.S.C. § 622(9). | GAO-20-156

To examine the extent to which federal trust funds and other dedicated funds support mandatory programs, including major entitlement programs, we used OMB budget data to calculate the prevalence of discretionary budget authority, which refers to budget authority provided in and controlled through appropriations acts, and mandatory budget authority, which generally refers to budget authority provided through laws other than appropriations acts, in federal trust funds and other dedicated funds. OMB budget data does not systematically identify entitlement authority. Entitlement authority is a provision of law that requires payments to any person or unit of government that meets the eligibility criteria established by law (see textbox). To determine which of the largest trust funds and other dedicated funds have entitlement authority, we analyzed the authorizing statutes for our case study accounts and ten additional large accounts. We also reviewed budget enforcement mechanisms, such as sequestration, that apply to these types of budget authority through review of relevant laws, our prior work, and OMB documents. See appendix I for additional details about our scope and methodology.

We conducted this performance audit from October 2018 to January 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Federal trust funds are an accounting mechanism used to link dedicated collections with their expenditure for a specific purpose or program (see textbox).

Earmarked or Dedicated Collections

Our budget glossary (GAO-05-734SP) includes two definitions of earmarking:

1. Dedicating collections by law for a specific purpose or program, including intragovernmental payments.
2. Designating any portion of a lump-sum amount for particular purposes by means of legislative language.

Our 2001 report on trust funds (GAO-01-199SP) used the term "earmarked receipts" in accordance with the first definition. We use the term "dedicated collections" instead to avoid confusion between the two definitions.

Source: GAO. | GAO-20-156

One of the earliest trust funds established was the Civil Service Retirement and Disability Fund, set up in 1920. In the federal budget, the meaning of the term "trust fund" differs significantly from its private sector usage.[4] In the case of federal trust funds, the federal government owns the assets of federal trust funds, does not have a fiduciary responsibility to trust beneficiaries, and can raise or lower future trust fund collections and payments or change the purposes for which the collections are used by changing existing laws.[5] Designation as a trust fund does not in and of itself impose a greater commitment on the government to carry out program activities than it has to carry out other government activities. It can, however, indicate the government's intent to restrict the use of those funds to the specified purpose and—especially for a program funded in whole or in part by its beneficiaries—may influence debates about program changes.

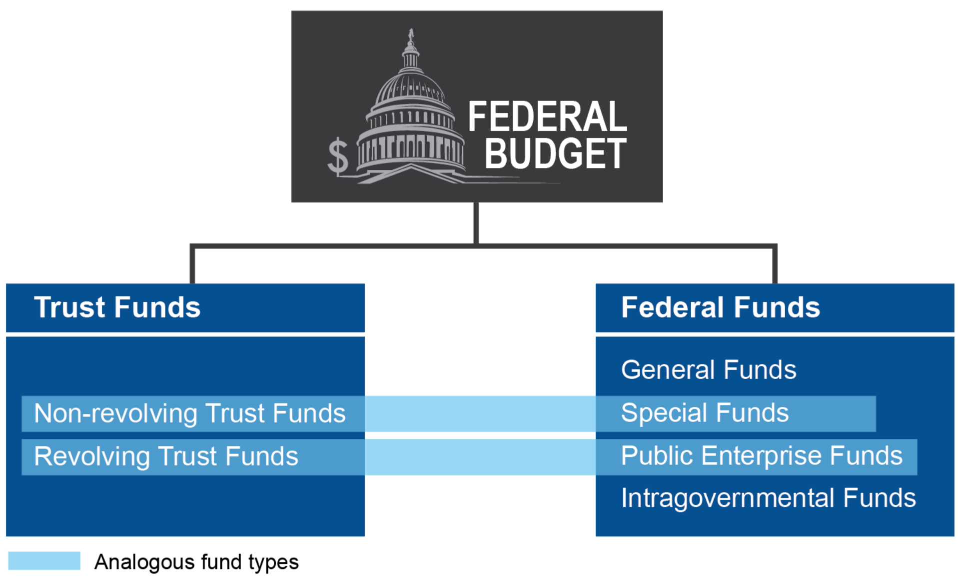
OMB and Treasury determine budgetary designation as a trust fund when a law both dedicates collections to a program and identifies the account as a "trust fund." Trust funds, however, are not the only way dedicated collections are accounted for in the federal budget. Special funds and

[4]In the private sector, a person creates a private trust fund using his or her own assets to benefit a stated individual(s). The creator of the trust names a trustee who has a fiduciary responsibility to manage the designated assets in accordance with the stipulations of the trust.

[5]There are cases—such as the federal employees' Thrift Savings Fund—in which the federal government holds nonfederal monies in trust as a custodian on behalf of some entity outside the government. Because the government makes no decisions about the amount of these deposits or how they are spent, they are not considered federal trust funds.

public enterprise funds also link dedicated collections with their expenditure for a specific purpose or program and are analogous to non-revolving and revolving trust funds, respectively (see figure 1). For the purpose of this report, we examine budget accounts designated as “trust funds” by OMB and Treasury and those that link dedicated collections with their expenditure. There are two other fund types in the federal budget that we did not include: general fund accounts, which hold all federal money not allocated by law to any other fund account, and intragovernmental fund accounts, which facilitate financing transactions primarily within and between federal agencies.[6]

Figure 1: Fund Types in the Federal Budget



Source: GAO. | GAO-20-156

The four fund types included in our definition of trust funds and other dedicated funds are:

- **Non-revolving Trust Fund.** An account designated as a “trust fund” by law that is credited with dedicated collections, which can often, but

[6]Some general fund accounts also receive dedicated collections in the form of offsetting collections that are credited directly to the account and are available for use, often without further legislative action.

not always, be used without further appropriation action. For example, the Federal Hospital Insurance (HI) Trust Fund, also known as Part A of Medicare, is financed primarily through payroll taxes levied on workers and their employers and finances health care services related to stays in hospitals, skilled nursing facilities, and hospices for eligible beneficiaries.

- **Special Fund.** Analogous to a non-revolving trust fund but not classified as a trust fund in name. For example, the Universal Service Fund subsidizes telecommunication carriers that provide telecommunications services to all consumers, including low-income consumers, schools and libraries, and those who live in rural or high-cost areas.
- **Revolving Trust Fund.** An account designated as a "trust fund" by law that is credited with collections that are generally available for obligation without further appropriation action to carry out a cycle of businesslike operations in accordance with statute. For example, the Employees Health Benefits Fund collects health insurance premiums from federal employees, annuitants, and their employing agencies and disburses payments to private insurers who participate in the Federal Employees Health Benefits program.[7]
- **Public Enterprise Fund.** Analogous to a revolving trust fund but not classified as a trust fund in name. A public enterprise fund is a type of revolving fund that carries out a cycle of businesslike operations, mainly with the public, in which it charges for the sale of products or services and uses the proceeds to finance its spending, usually without requirement for annual appropriations. The Postal Service Fund of the United States Postal Service is an example of this type of fund.

Fund Balances

Trust funds and dedicated funds have their own dedicated collections and the ability to retain accumulated balances. From the perspective of the trust fund or other dedicated fund, the accumulated balances represent the value of past taxes, fees, and the other income received by the fund in excess of past spending by the fund.[8] The accumulated balances are

[7]This fund is statutorily named the "Employees Health Benefits Fund," but it is referenced as the Federal Employees Health Benefits Fund to avoid confusion with the Retired Employees Health Benefits Fund since it funds benefits for both current employees and retirees.

[8]Other sources of income could include fines, penalties, gifts, and interest earnings on investments.

not cash. Most money collected and disbursed by the federal government is held in the General Fund of the U.S. Government (General Fund).[9] The dedicated taxes and fees collected from the public are deposited in the General Fund and the General Fund disburses the fund's benefit and other payments to the public. When the General Fund receives the cash, the trust fund or other dedicated fund records an asset for these collections and the General Fund records a liability to the fund, which essentially means the trust fund has "lent" money to the General Fund. As cash is disbursed, these asset and liability accounts are reduced. From the government-wide perspective, the trust fund or dedicated fund asset and General Fund liability accounts eliminate with each other in consolidation.

Some trust funds and other dedicated funds have the legal authority to invest their balances, most of which are held in U.S. Treasury securities. The value of the securities held is recorded as "debt held by government accounts" and represents debt owed by one part of the government to another (i.e., intragovernmental debt). In many ways, the special U.S. Treasury securities held by government accounts are indistinguishable from the marketable government debt sold to the public. A maturity date is set, interest is accrued at established market rates, and the securities count as part of the total federal debt.[10] Generally, these securities are not traded in the financial markets and are able to be redeemed on demand by the government account. The interest they earn is credited to the fund accounts in the form of additional Treasury securities or is used to pay current expenses or benefits. Interest earned by government accounts on their Treasury securities is an internal transaction, made between two accounts within the federal government, and constitutes an expense for Treasury. Treasury must pay back the debt held by government accounts when these accounts need to redeem their securities to be able to make their expenditures. When this happens, Treasury must obtain cash to finance the government's spending either through increasing taxes, cutting spending, or increasing borrowing from the public.

[9]The General Fund is a component of Treasury's central accounting function. It is a stand-alone reporting entity that comprises the activities fundamental to funding the federal government (e.g., issued budget authority, cash activity, and debt financing activities).

[10]Total federal debt includes debt held by the public and intragovernmental debt. Total federal debt, except a small amount, is subject to the statutory debt limit. However, only debt held by the public is recorded on the U.S. Government's consolidated financial statements because intragovernmental debt eliminates in consolidation.

Types of Budget Authority

Entitlement authority is another way to classify budget authority, but OMB's budget data do not include that classification. Discretionary spending refers to budget authority that is provided in and controlled by appropriations acts. Mandatory spending, also known as direct spending, refers to budget authority provided in laws other than appropriations acts and the outlays that result from such budget authority.[11] Entitlement authority is the authority to make payments to any person or government if, under the provisions of the law, the U.S. government is legally required to make the payments to persons or governments that meet the requirements. Generally, entitlement authority is a type of mandatory spending.

Applicability of Budget Control Mechanisms

The classification of the budget authority within a trust fund or other dedicated fund as mandatory or discretionary determines how budget control mechanisms apply. By itself, designation as a trust fund does not determine whether spending is controlled through the annual appropriations process or what limitations apply. Trust funds and dedicated funds are subject to various enforcement mechanisms intended to control revenues, spending, and deficits.

The Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) first established sequestration, which is the cancellation of budgetary resources under a presidential order.[12] The act set deficit reduction targets for the federal government and established sequestration procedures to enforce those targets. The Budget Control Act of 2011 amended BBEDCA and revived this budgetary enforcement mechanism by reinstating budget limits (also known as "caps") to encourage agreement on deficit reduction legislation or, in the event that such agreement was not reached, to automatically reduce spending so that an equivalent budgetary goal would be achieved. Appropriations from trust funds and other dedicated funds designated as discretionary count toward these limits.

The Statutory Pay-As-You-Go Act of 2010 (PAYGO) specifies a second type of sequestration triggered under certain conditions. The act

[11]Permanent appropriations are made available through an annual appropriations act or through laws other than the annual appropriations acts.

[12]In some circumstances current law allows for budget authority sequestered in one fiscal year to become available to the agencies again in a subsequent fiscal year. OMB refers to these amounts as "pop ups."

establishes a permanent budget enforcement mechanism intended to prevent enactment of mandatory spending and revenue legislation that would increase the federal deficit. The act requires OMB to track costs and savings associated with enacted legislation and to determine at the end of each congressional session if net total costs exceed net total savings. If the costs exceed the savings, a separate sequestration will be triggered. Consequently, the same mandatory accounts that are subject to sequestration under BBEDCA could incur further reductions if a secondary PAYGO sequestration is triggered.[13] PAYGO does not control the growth in spending that results from previously enacted laws, nor does it control discretionary spending.

Federal Trust Funds and Other Dedicated Funds Were a Large and Growing Part of the Budget from Fiscal Year 2014 to 2018

Every Major Department Has At Least Two Trust Funds or Other Dedicated Funds

Hundreds of programs across the federal government are supported in whole or in part by a trust fund or other dedicated fund. Our analysis of OMB's budget data shows 398 active federal trust funds and other dedicated funds in fiscal year 2018. Non-revolving trust funds and special funds make up the greatest number of these types of accounts and also hold the greatest total balances. See table 2.

[13]Some mandatory accounts are exempt from sequestration. Congress first established exemptions to sequestration in the 1980s when BBEDCA was enacted and has amended them since then. BBEDCA directs OMB to calculate a sequestration consistent with special rules and exemptions described by law.

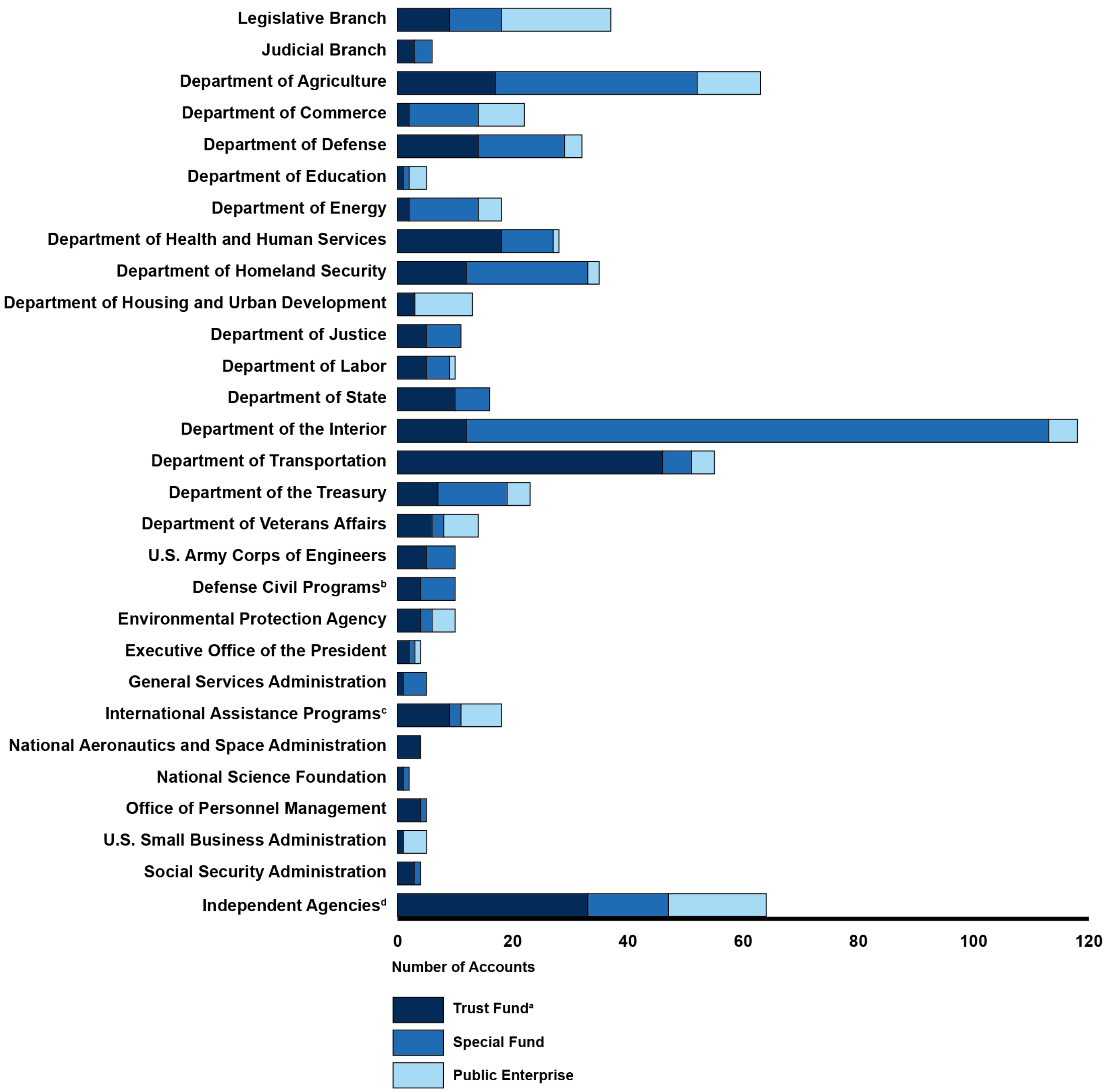
Table 2: Trust Fund and Other Dedicated Fund Accounts and Balances by Fund Type

Fund type	Number of OMB accounts in fiscal year 2018	2018 end of year balances (dollars in millions)
Non-revolving trust fund	136	5,110,304
Special fund	171	471,069
Revolving trust fund	9	77,754
Public enterprise fund	82	223,448
Total	**398**	**5,882,575**

Source: GAO analysis of Office of Management and Budget (OMB) data. | GAO-20-156

Our analysis of another government-wide source, Treasury's *Combined Statement*, records 647 trust and other dedicated fund accounts in fiscal year 2018. This count is higher because Treasury includes accounts with smaller balances and does not combine groups of related accounts. Of the accounts in Treasury's *Combined Statement*, 150 have balances that are below $500,000 and would fall below OMB's rounding threshold of $1 million. The trust funds and other dedicated funds in Treasury's *Combined Statement* are spread across all 29 major departments that are reported separately in the statement (see figure 2). Each department has at least two such accounts.

Figure 2: Every Major Department Had At Least Two Trust Funds or Other Dedicated Funds in Fiscal Year 2018



Source: GAO analysis of Treasury *Combined Statement of Receipts, Outlays, and Balances* data. | GAO-20-156

[a]In Treasury data, revolving trust funds and non-revolving trust funds are combined in a single trust fund category.

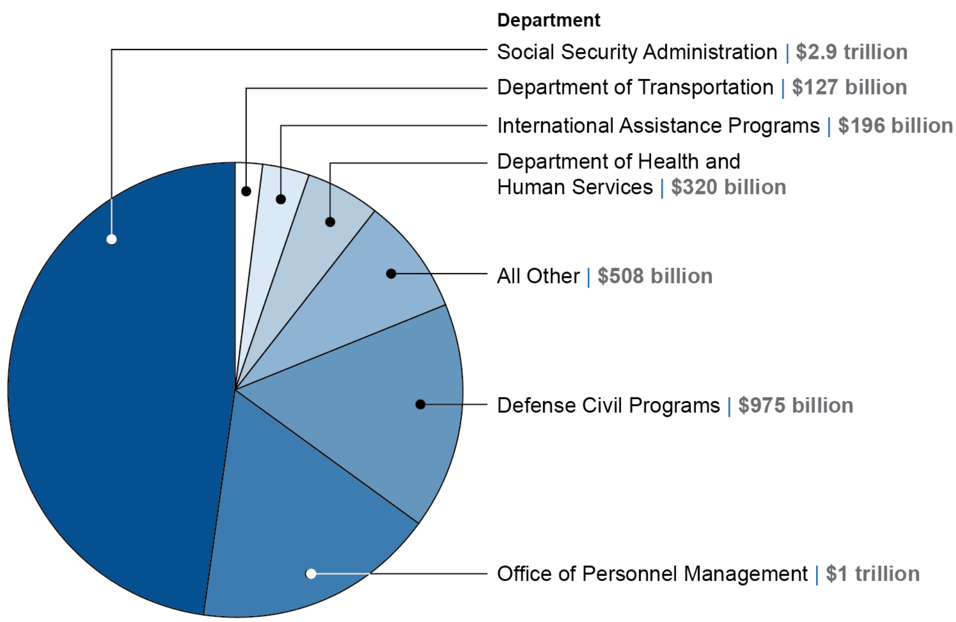
[b]Defense civil programs include programs such as military retirement, retiree health benefits, and educational benefits.

[c]International Assistance Programs include a number of organizations and programs such as the Military Sales Program, the Overseas Private Investment Corporation, the Agency for International Development, and the Peace Corps.

[d]Independent agencies include a number of organizations and programs including the Railroad Retirement Board, the National Credit Union Administration, the Postal Service, and the Universal Service Fund.

The distribution of the number of trust fund or other dedicated fund accounts across federal agencies does not correspond with the balances held by these accounts. For example, the Social Security Administration has only four such accounts, but those four funds together held $2.9 trillion—more than double the balances of any other agency at the end of fiscal year 2018 (see figure 3). In contrast, the Department of the Interior had the greatest number of trust funds and other dedicated funds, but these 118 funds together held $14.9 billion, which is less than 1 percent of the total balances held in these types of accounts at the end of fiscal year 2018.

Figure 3: The Social Security Administration Had the Greatest Trust Fund and Other Dedicated Fund Balances in Fiscal Year 2018



Source: GAO analysis of Treasury *Combined Statement of Receipts, Outlays, and Balances* data. | GAO-20-156

Note: Defense civil programs include programs such as military retirement, retiree health benefits, and educational benefits. International Assistance Programs includes a number of organizations and programs such as the Military Sales Program, the Overseas Private Investment Corporation, the Agency for International Development, and the Peace Corps, among others.

Total Trust Fund and Other Dedicated Fund Balances Grew 13 Percent from Fiscal Year 2014 to Fiscal Year 2018

The total balance in federal trust funds and other dedicated funds grew about 13 percent in nominal terms from fiscal year 2014 to fiscal year 2018. The five accounts that contributed the most to this overall growth are listed in table 3.

Table 3: Largest Trust Fund and Other Dedicated Fund Balance Increases from Fiscal Year 2014 to 2018

Agency	Account Name	Balance Increase (dollars in billions)
Defense Civil Programs	Military Retirement Fund	257.1
Social Security Administration	Federal Old-Age and Survivors Insurance Trust Fund	88.4
Office of Personnel Management	Civil Service Retirement and Disability Fund	65.8
Department of Labor	Unemployment Trust Fund	57.9
Defense Civil Programs	Department of Defense Medicare-Eligible Retiree Health Care Fund	39.8

Source: GAO analysis of Office of Management and Budget (OMB) data. | GAO-20-156

Fund balances are affected by complex interactions of various economic, demographic, and programmatic factors, but these changes are reflective of some overarching trends. For example, the balances of civilian and military pension and benefit programs increased, in part reflecting agency and employee contributions to fund the ongoing accrual of benefits by civilian and military personnel. Treasury has also contributed to these accounts to help fund some of the benefits accrued in the past. Some of the other increases were a result of economic changes experienced during this time period such as declines in the unemployment rate, among other things. For example, both Social Security's Federal Old-Age and Survivors Insurance Trust Fund (OASI) and the Unemployment Trust Fund are funded primarily by payroll taxes, which tend to gather more revenue during periods when employment goes up and wage growth increases.

While the net change in total trust fund and other dedicated fund balances was positive from fiscal year 2014 to 2018, not all trust fund and other dedicated fund balances grew over the time period. The five accounts that experienced the largest balance decreases are listed in table 4.

Table 4: Largest Trust Fund and Other Dedicated Fund Balance Decreases from Fiscal Year 2014 to 2018

Agency	Account Name	Balance Decrease (dollars in billions)
Social Security Administration	State Supplemental Fees	-4.9
Department of the Treasury	Exchange Stabilization Fund	-4.0
National Credit Union Administration	Temporary Corporate Credit Union Stabilization Fund	-3.7
Department of Veterans Affairs	National Service Life Insurance Fund	-2.6
Department of Justice	Assets Forfeiture Fund	-2.2

Source: GAO analysis of Office of Management and Budget (OMB) data. | GAO-20-156

From fiscal year 2014 to 2018, the average trust fund and other dedicated fund balance decrease was less than the average balance increase, and a greater number of accounts increased than decreased over the period. About 28 percent of the 398 accounts in our scope had individual balances that changed less than $5 million over the time period (see table 5).

Table 5: Most Trust Fund and Other Dedicated Fund Balances Grew or Stayed the Same from Fiscal Year (FY) 2014 to 2018 (Dollars in Millions)

	Number of OMB accounts	Percent of Accounts	Total Difference, FY 2014-2018	Average Difference, FY 2014-2018
Accounts that increased more than $5 million	158	39.7	726,094	4,596
Accounts that changed less than +/- $5 million	113	28.4	36	0
Accounts that decreased more than $5 million	127	31.9	-29,465	-460
Total	**398**	**100.0**	**696,665**	**2,080**

Source: GAO analysis of Office of Management and Budget (OMB) data. | GAO-20-156

The higher total balance in trust funds and other dedicated funds indicates an overall surplus—income exceeding outgo—from fiscal year 2014 to 2018, which could suggest that the federal government intends to dedicate more resources to these specified purposes. Neither the increased total balance nor an individual fund's balance increase is a signal that any individual fund is on sound financial footing. Similarly, a decreasing balance does not necessarily signal that any individual fund is not on sound financial footing. Assessing the future outlook for some of these funds and programs requires actuarial or other projections and can be subject to various degrees of inherent uncertainty.

Not All Federal Trust Funds and Other Dedicated Funds Are Fully Supported by Dedicated Collections

Dedicated Collections Are Not the Sole Source of Income for Trust Funds and Dedicated Funds

Of our 13 case study accounts, 11 received income from general revenues in addition to their dedicated collections, either through a permanent appropriation or in an annual appropriation.[14] The form, size, and purpose of income from general revenues that our case study accounts received varied greatly based on the design of the program. These accounts fall in to three basic types: those that received regular income from general revenues as a part of their program design, those that received intermittent general revenue income, and those that received income solely from their own dedicated collections. See appendix II for more detailed information about the income, outgo, investments, and current issues for each of these accounts.

Regular Income from General Revenues as a Part of Program Design

Eight of the case study accounts we examined regularly receive income from general revenues in addition to their dedicated collections. These general revenues are often for specific purposes that have been deemed public goods and are provided annually as a part of the program's design.

- The Medicare Supplementary Medical Insurance trust fund sets medical insurance premium rates for Medicare Part B to cover 25 percent of expected costs for the year. The roughly 75 percent remaining expected program cost is funded through general revenue.

[14]This is not necessarily true across all trust funds and dedicated funds. We could not provide government-wide trends because OMB data do not consistently differentiate between income from general revenues and income from dedicated collections.

- The Medicare HI Trust Fund also regularly receives general revenues to reimburse the fund for the cost for certain uninsured beneficiaries, program management activities, and other miscellaneous activities. In fiscal year 2018, $1.6 billion in general revenue was transferred into the trust fund.
- Both the Civil Service Retirement and Disability Fund (CSRDF) program and the Federal Employees Health Benefits Fund receive contributions from both current employees and their employing agencies as their primary sources of income, but these accounts also receive some general revenue in addition to these dedicated collections.
    - Treasury is required by law to transfer an amount annually to the CSRDF from the General Fund to subsidize in part the under-funding of the Civil Service Retirement System. The Civil Service Retirement System is closed to new participants but covers most federal employees who first entered a covered position prior to 1984.
    - According to OPM officials, the Federal Employees Health Benefits program is funded about 30 percent by contributions from participants and about 70 percent by contributions from their employing agencies. OPM contributes the employer share of the premiums for most annuitants via an appropriation from general revenues.
- The U.S. Postal Service (USPS) receives annual appropriations from general revenues to fund mail for the blind and overseas absentee voting. These appropriations account for less than 0.1 percent of the total cash outlays of the Postal Service Fund. USPS received $58 million in appropriations for these activities in fiscal year 2018, when total outlays were $69 billion.
- The Social Security Trust Funds, both OASI and DI, receive reimbursements from general revenue for several distinct purposes, such as employee union expenses and the payroll tax holiday, among other things.[15] The total appropriations for these two activities were about $23 million in fiscal year 2018.

[15]The payroll tax holiday was in place during 2011 and 2012 as a result of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. While the reduced levels of payroll taxes are no longer in effect, reimbursements were still made in fiscal year 2018.

- While the Airport and Airway Trust Fund primarily receives dedicated collections, it has received some appropriations from general revenue in recent years, and some of the programs it funds also receive regular appropriations from general revenue. The most prominent example is the operations and management account within the Federal Aviation Administration. While this account is funded mostly by transfers from the Airport and Airway Trust Fund, it also typically receives an annual appropriation from general revenues. In fiscal year 2018, the appropriation to the operations account was $1.36 billion, which was about 13 percent of the total budget authority in the account.

Intermittent General Revenue Income

Three of the case study accounts we examined were supported in part by general revenue income on an intermittent basis in recent years. These general revenues helped temporarily restore solvency to programs that were not designed to be fiscally sustainable.

- The Highway Trust Fund has received appropriations from general revenues as a part of its reauthorization process in recent years. The most recent reauthorization, provided $70 billion in general revenue to the Highway Trust Fund from fiscal year 2016 through fiscal year 2020.[16] The appropriations have allowed outlays to exceed dedicated collections in most years without exhausting assets in the fund.
- The National Flood Insurance Fund had $16 billion of its debt canceled by the Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2017. This cancellation converted a $16 billion liability of the fund to a cost borne by general revenues. However, the National Flood Insurance Program (NFIP) still owes $20.5 billion to Treasury. As we recently reported, NFIP likely will not generate sufficient revenues to cover its expenses and repay its outstanding debt because its premium rates do not reflect the full risk of loss.[17] The Flood Insurance Reserve Fund did not directly benefit from the debt cancellation, but it did receive an indirect benefit since it was established as a reserve fund to help meet expected future obligations and repay debt.

[16]Fixing America's Surface Transportation Act, Pub. L. No. 114-94, 129 Stat. 1312 (2015).

[17]GAO, *Fiscal Exposures: Federal Insurance and Other Activities That Transfer Risk or Losses to the Government,* GAO-19-353 (Washington, D.C.: Mar. 27, 2019).

Income Solely from Dedicated Collections

Two of our case study accounts did not receive income from general revenue in recent years. For both of these accounts, the agencies have some authority to adjust their dedicated collections to cover their projected costs. The flexibility to adjust income levels based on projections can help contribute to the sustainability of the funds.

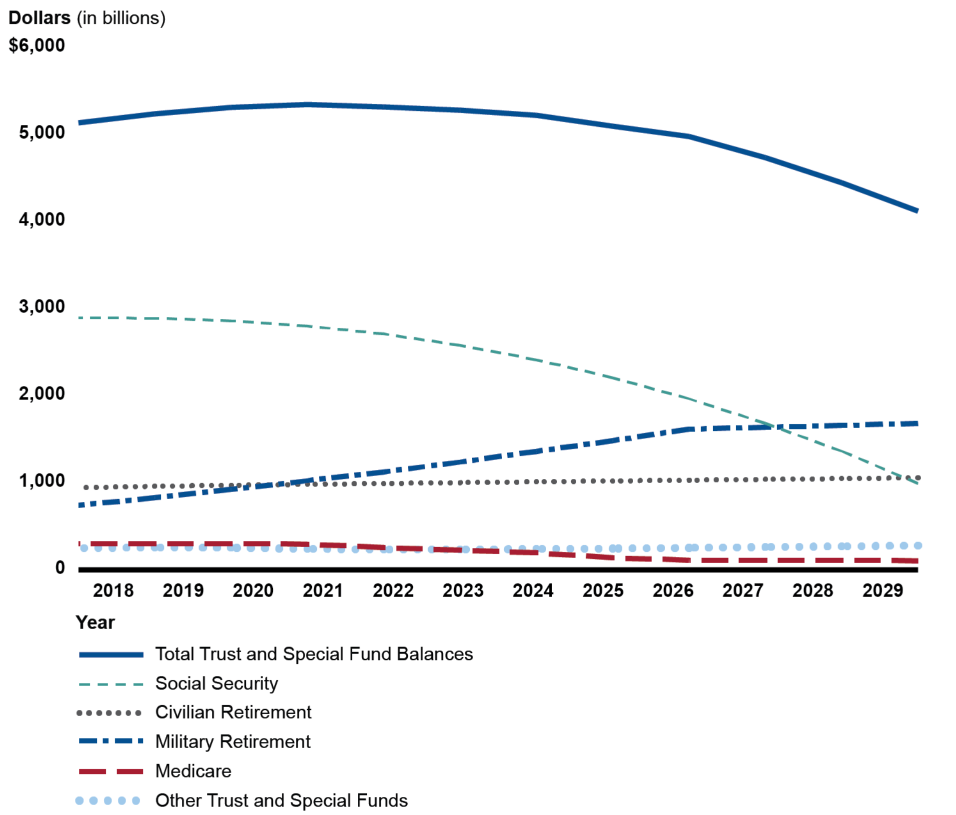
- Although the Tennessee Valley Authority (TVA) was originally funded primarily by appropriations from Congress when it was established in 1933, TVA fulfilled its requirement to repay this investment in 2014 and currently collects enough revenue to cover its operating expenses. The TVA Board has the authority to determine rates for its electric power and the Tennessee Valley Authority Act of 1933 mandates that TVA keep rates as low as feasible while still collecting sufficient revenue.
- The Universal Service Fund (USF) does not receive income from general revenue. The Federal Communications Commission (FCC) has some flexibility to set the contribution factor, which determines the payments telecommunications carriers are required to make into the fund. FCC officials told us that they must set the rates at levels so that they collect enough in dedicated collections to cover the projected demand for the programs they have adopted. FCC sets the contribution factor quarterly to cover the projected cost of the USF programs for the upcoming quarter, up to the authorized level of spending for each program.

Even funds that rely primarily on their dedicated collections may not be fiscally sustainable. For example, the Social Security OASI and DI, and Medicare HI trust funds do not receive income from general revenues to support benefit payments. However, projections show that their dedicated collections are expected to be insufficient to fully cover scheduled outlays in the next 7 to 33 years. Conversely, some accounts supported by the Airport and Airway Trust Fund received appropriations from general revenue in recent years. However, the Airport and Airway Trust Fund has received more in dedicated collections than are made available to outlay through appropriations. As such, the fund carries a balance that is unavailable without further appropriations action. At the end of fiscal year 2018, the total cash balance in the Airport and Airway Trust Fund was about $17 billion. CBO projects this balance to grow more than threefold over the next 10 years.

Total Trust Fund and Special Fund Balances Are Projected to Start Decreasing in Fiscal Year 2022

Although overall federal trust and other dedicated fund balances grew over the past 5 fiscal years, this trend is not projected to continue. In CBO's most recent trust fund projections, overall federal trust fund and special fund balances are projected to start declining in fiscal year 2022.[18] CBO does not estimate projected balances for public enterprise funds. As shown in figure 4, the projected decline is largely explained by declines in the Social Security and Medicare fund balances.

Figure 4: CBO Projects Total Trust and Special Fund Balance Will Decline Starting in 2022



Source: GAO presentation of Congressional Budget Office (CBO) estimates. | GAO-20-156

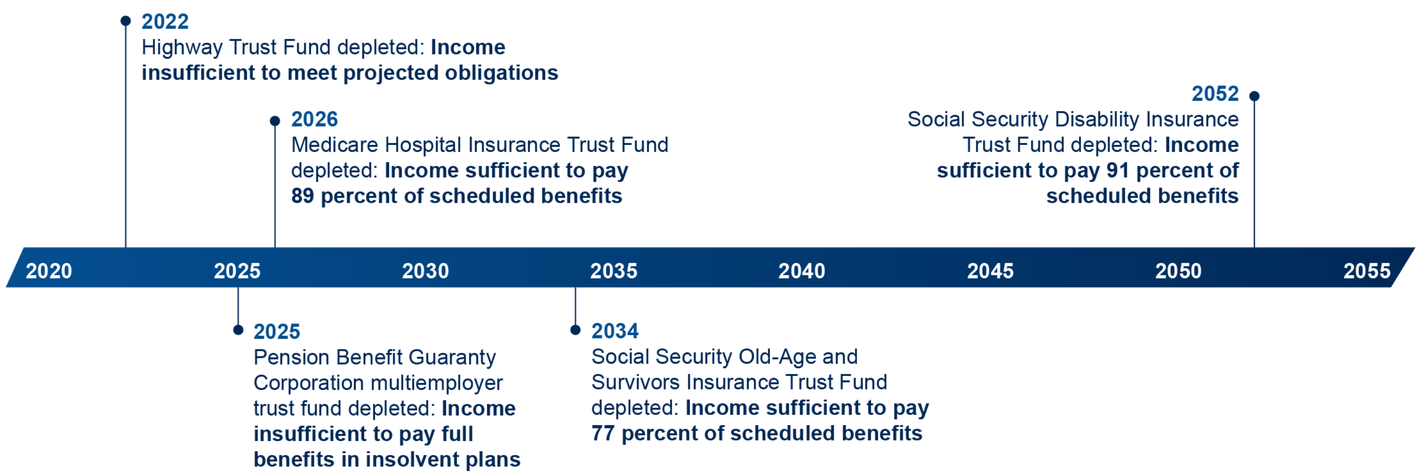
Note: Public enterprise funds are not included in CBO's projections. The Social Security projections include both The Federal Old Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund and the Medicare projections include both the Federal Hospital Insurance Fund and the Federal Supplementary Medical Insurance Fund, all four of which are non-revolving trust

[18] CBO, *The Budget and Economic Outlook: 2019 to 2029* (Washington, D.C.: Jan. 28, 2019).

funds. The remaining three categories include a number of funds that are mix of non-revolving trust funds, special funds, and revolving trust funds.

We have previously reported that demographic factors, such as an aging population and slower labor force growth, are contributing to a gap between Social Security program costs and revenues.[19] According to the most recent Social Security Trustees Report, Social Security's costs, on a combined OASI and DI basis, have exceeded its non-interest income since 2010 and are projected to exceed total income, including interest, starting in 2020. The Medicare and Social Security Trustees and CBO projections show that several major trust funds will deplete their assets in the next 3 to 33 years (see figure 5). If no action is taken, these trust funds are projected to be unable to fully support paying their projected obligations.

Figure 5: Projected Depletion Milestones for Selected Major Trust Funds



Source: GAO analysis of estimates in CBO, Pension Benefit Guaranty Corporation, and Medicare and Social Security Trustees reports. | GAO-20-156

Projected trust fund balances can provide a vital signaling function for policymakers about underlying fiscal imbalances in covered programs. However, program sustainability is ultimately determined by whether the government as a whole has the economic capacity to finance the claims on the trust funds at the cost of other competing priorities. The economic

[19]GAO, *The Nation's Fiscal Health: Action Is Needed to Address the Federal Government's Fiscal Future,* GAO-19-314SP (Washington, D.C.: Apr. 10, 2019).

flexibility of the federal government may be limited as debt held by the public grows as a percentage of gross domestic product (GDP). Debt held by the public was $15.8 trillion—or 78 percent of GDP—at the end of fiscal year 2018. It is projected to surpass its historical high of 106 percent of GDP within 13 to 20 years, and climb to between about 250 to 500 percent by 2092.[20]

Further, neither the long-term projections of federal debt nor CBO's trust fund balance projections include certain fiscal risks that could affect the federal government's financial condition in the future. Fiscal risks, or fiscal exposures, are responsibilities, programs, and activities that may legally commit or create expectations for future federal spending.[21] Many of the largest trust funds and other dedicated funds face fiscal risks that are highlighted in our High-Risk List due to the financial uncertainty they face.[22] For example,

- USPS—USPS financial viability continues to be high-risk because USPS cannot fund its current level of services and financial obligations from its revenues.
- Pension Benefit Guaranty Corporation (PBGC)—PBGC's liabilities exceeded its assets by about $51 billion as of the end of fiscal year 2018. PBGC's financial future remains uncertain, due in part to a long-term decline in the number of traditional defined benefit plans and the collective financial risk of the many underfunded pension plans PBGC insures.
- NFIP—Emphasizing affordability has led to premium rates that in many cases do not reflect the full risk of loss and produce insufficient premiums to pay for claims.
- Highway Trust Fund (HTF)—The nation's surface transportation system is under growing strain and the cost to repair and upgrade the system to meet current and future demand is estimated in the hundreds of billions of dollars. A sustainable solution would balance revenues to and spending from the HTF. Ultimately, major changes in

[20]See GAO-19-314SP and GAO, *The Nation's Fiscal Health: Actions Needed to Achieve Long-Term Fiscal Sustainability,* GAO-19-611T (Washington, D.C.: June 26, 2019).

[21]GAO, *Fiscal Exposures: Federal Insurance and Other Activities That Transfer Risk or Losses to the Government,* GAO-19-353 (Washington, D.C.: Mar. 27, 2019).

[22]GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas,* GAO-19-157SP (Washington, D.C.: Mar. 6, 2019).

transportation spending or in revenues, or in both, will be needed to bring the two into balance.

- The Medicare Program—Medicare continues to challenge the federal government because of its outsized impact on the federal budget and the health care sector as a whole, the large number of beneficiaries it serves, and the complexity of its administration. Federal spending for Medicare programs is expected to significantly increase in the coming years.

As overall trust and special fund balances are projected to decrease, our projections and those from the *Fiscal Year 2018 Financial Report of the United States Government*, and CBO show that the federal government will have to borrow more from the public to offset the decrease in intragovernmental debt.[23] We have reported that existing federal debt held by the public is already large by historical norms, and CBO has noted that large and growing amounts of federal debt held by the public would have negative long-term consequences for the economy and constrain future budget policy. To change the long-term fiscal path, policymakers will likely need to consider policy changes to the entire range of federal activities, both revenue and spending.

[23]When trust fund and other dedicated funds redeem their special U.S. Treasury securities (intragovernmental debt) to make expenditures, Treasury finances those expenditures in the same manner that it finances all other expenditures (e.g., using available cash or borrowing from the public). See GAO-19-314SP.

Most Large Trust Funds and Other Dedicated Funds Have Mandatory Budget Authority and Support Entitlement Programs

Nearly All Outgo from Trust Funds and Other Dedicated Funds Was Mandatory, Thus Available to Be Spent without Further Appropriation

During fiscal year 2018, almost 98 percent of outgo (i.e., outlays and transfers to another government account) from trust funds and other dedicated funds was mandatory budget authority. This is greater than the proportion of total federal spending that is mandatory. According to OMB, during fiscal year 2018, mandatory spending made up 69.3 percent of all federal outlays while discretionary spending accounted for the remaining 30.7 percent. Seventy-six percent of trust funds and other dedicated funds had some mandatory budget authority (see table 6). Some funds have a mix of mandatory and discretionary budget authority.

Table 6: Mandatory Budget Authority by Fund Type, Fiscal Year 2018

Fund type	Number of accounts	Number of accounts with mandatory authority	Percentage of accounts with mandatory authority	Mandatory outgo (dollars in millions)	Mandatory percentage of total outgo
Non-revolving trust fund	136	106	77.9	1,694,508	97.5
Special fund	171	125	73.1	32,541	93.1
Revolving trust fund	9	9	100	48,659	99.9
Public enterprise fund	82	63	76.8	223,583	97.7
Total	**398**	**303**	**76.1**	**1,999,291**	**97.5**

Source: GAO analysis of Office of Management and Budget data. | GAO-20-156

Note: Some accounts include both discretionary and mandatory budget authority, but the total outgo reported above only includes the mandatory portion.

In general, the collections and balances of accounts with mandatory spending authority are available for obligation. Mandatory authority provides some flexibility for agencies because they do not have to await congressional action to incur obligations and make payments. For example, the Social Security Trust Funds have mandatory budget authority, which authorizes the program to continue to make payments to beneficiaries during lapses in appropriations.[24] Although programs with mandatory authority need not go through the annual appropriations process, they are still subject to congressional oversight. In some cases Congress has set obligation limits in annual appropriations acts. For example, although the Crime Victims Fund has mandatory budget authority to obligate funds from its available balances, limits in annual appropriations acts have often capped the amount that may be obligated in each fiscal year. As a result, annual income has exceeded outgo and the balance of the fund had grown to $16.6 billion at the end of fiscal year 2018.

Designation as mandatory or discretionary budget authority determines how budget control mechanisms are applied to the funds. Sequestration applies annually to mandatory spending, but certain budget authority is exempt or subject to special rules.[25] Of the 13 case studies we reviewed, nine are exempt from cancellation under budget enforcement sequestration procedures and four—Medicare Supplementary Medical Insurance, Medicare Hospital Insurance, the HTF, and the Airport and Airway Trust Fund—are partially sequestrable (i.e., certain budgetary resources specified by law within the accounts are not subject to cancellation under budget enforcement sequestration procedures). For example, Social Security, Medicaid, and veterans' compensation are completely exempt, and Medicare reductions are limited to 2 percent. Exemptions and special rules lead sequestration to affect some areas of the federal government more than others. For example, programs without exempt status, such as the Commodity Credit Corporation Fund, bear a greater reduction than they would if cuts were applied evenly to all programs.[26]

Outgo from those trust funds and other dedicated funds that do not have mandatory budget authority are controlled in the annual appropriations process and count toward the annual discretionary spending limits laid

[24]During a lapse in appropriations, agencies do not have legal authority to incur obligations.

[25]GAO, *2014 Sequestration: Opportunities Exist to Improve Transparency of Progress Toward Deficit Reduction Goals,* GAO-16-263 (Washington, D.C.: Apr. 14, 2016).

[26]The Commodity Credit Corporation Fund is a public enterprise fund of the Commodity Credit Corporation, a government owned and operated entity that aims to stabilize, support, and protect farm incomes and prices.

out in the Budget Control Act of 2011 (BCA). For example, outlays from the Airport and Airway Trust Fund are discretionary. This means that the outlays for capital improvements and operations of the nation's airport and airway system, except for airport grants, count toward government-wide discretionary spending limits.[27]

Some trust funds and other dedicated funds have a combination of budget authorities, which can affect balances. For example, the Harbor Maintenance Trust Fund (HMTF), which is supported through collections of the harbor maintenance fee, has mandatory income and discretionary outlays. Historically, HMTF income has exceeded outgo and by the end of fiscal year 2018, the balance in the fund had grown to $9.3 billion. Any proposed legislation to lower the fee revenues would require an offset so as not to increase the deficit. Conversely, since the spending is subject to the discretionary caps, any increase in spending to align with program revenues would count toward the discretionary spending limits.

Most spending from trust funds and other dedicated funds is mandatory and not controlled by the annual appropriations process. We have previously reported that the increase in mandatory spending has long-term implications for the nation's fiscal outlook overall, including the growing federal debt. The federal government has previously enacted fiscal rules in the form of laws that constrain fiscal policy decisions, including BCA and PAYGO. These fiscal rules apply the same way regardless of status as a trust fund or other dedicated fund. However, in practice, fiscal rules that apply to mandatory budget authority are more relevant to these types of accounts, because mandatory budget authority is more concentrated in trust funds and other dedicated funds than it is in the federal budget as a whole.

The Majority of the Largest Trust Funds and Other Dedicated Funds Are Entitlements—Legal Commitments

Of the 23 largest trust funds and other dedicated funds we reviewed, 13 have entitlement authority, which legally requires payments to individuals or governments that meet the requirements of the programs (see table 7). For example, OASI beneficiaries are legally entitled to benefits based on a formula that takes into account the time they spent working and their earnings, among other factors.

[27]The Budget Control Act specifically exempts the Airport Improvement Program from the annual discretionary spending limits. See appendix II for additional information on airport grants.

Table 7: Types of Budget Authority of Selected Trust Fund and Other Dedicated Funds in Fiscal Year 2018

Account name	Mandatory budget authority?	Entitlement authority?
Non-revolving Trust Funds		
Federal Old-Age and Survivors Insurance Trust Fund	Yes	Yes
Federal Disability Insurance Trust Fund	Yes	Yes
Federal Supplementary Medical Insurance Trust Fund	Yes	Yes
Federal Hospital Insurance Trust Fund	Yes	Yes
Federal-Aid Highways	Yes	No
Trust Fund Share of Federal Aviation Administration Activities (Airport and Airway Trust Fund)	No	No
Civil Service Retirement and Disability Fund	Yes	Yes
Military Retirement Fund	Yes	Yes
Unemployment Trust Fund	Yes	Yes
Foreign Military Sales Trust Fund	Yes	No
Social Security Administration Limitation on Administrative Expenses	Yes	No
Railroad Social Security Equivalent Benefit Account	Yes	Yes
Special funds		
Universal Service Fund	Yes	No
National Flood Insurance Reserve Fund	Yes	No
Department of Defense Medicare-Eligible Retiree Health Care Fund	Yes	Yes
Revolving Trust Fund		
Employees and Retired Employees Health Benefits Funds	Yes	Yes
Public Enterprise Funds		
National Flood Insurance Fund	Yes	No
Postal Service Fund	Yes	No
Tennessee Valley Authority Fund	Yes	No
Commodity Credit Corporation Fund	Yes	Yes
Federal Crop Insurance Corporation Fund	Yes	Yes
Federal Student Loan Reserve Fund	Yes	No
Pension Benefit Guaranty	Yes	Yes

Source: GAO analysis of OMB data and applicable laws. | GAO-20-156

Some trust funds have mandatory budget authority, but not entitlement authority. For example, the USF, the National Flood Insurance Reserve Fund, and the Tennessee Valley Authority Fund all have mandatory budget authority, but have no entitlement authority. These programs have the most flexibility because their income is available without further appropriations action and their outgo is not driven by legal requirements to individuals or governments. For example, Federal Communication Commission officials told us that they manage the size of each program funded by the USF, to stay within an approved budget.

Although entitlements represent a current legal commitment and trust funds and other dedicated funds demonstrate the government's intent to restrict the use of those funds to a specific purpose, the government can change the terms of entitlement programs, including those financed through trust funds or other dedicated funds, by changing the substantive law. Congress and the President can raise or lower future trust fund collections or payments or change the purposes for which the collections can be used. For example, in 1983 a number of changes were made to the Social Security program, including an increase in the full retirement age and a new tax on a portion of Social Security benefits, which increased collections and lowered future outgo.

Agency Comments and Our Evaluation

We provided a draft of this report and the online dataset to the Director of OMB and the Secretary of the Treasury for review and comment. We also provided a draft of this report and the online dataset to our case study agencies: the Centers for Medicare & Medicaid Services, the Federal Communications Commission, the Federal Emergency Management Agency, the Department of Transportation (for the Federal Aviation Administration and the Federal Highway Administration), the Office of Personnel Management, the Social Security Administration, the Tennessee Valley Authority, and the U.S. Postal Service for review and comment.

The Social Security Administration and the U.S. Postal Service provided written responses thanking us for providing the opportunity to review the report, which are published in appendixes III and IV. The Centers for Medicare & Medicaid Services, the Federal Communications Commission, the Department of Transportation, the Office of Personnel Management, the Tennessee Valley Authority, and the U.S. Postal Service provided technical comments, which we incorporated as appropriate. OMB, Treasury, and the Federal Emergency Management Agency reviewed our draft report and had no comments.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 7 days from the report date. At that time, we will send copies to interested congressional committees, the Director of the Office of Management and Budget, the secretaries and agency heads of the departments and agencies in our review, and other interested parties. In addition, the report is available at no charge on GAO's website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact Tranchau (Kris) T. Nguyen at (202) 512-6806 or nguyentt@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix V.

Tranchau (Kris) T. Nguyen
Director
Strategic Issues

List of Requesters

The Honorable Mike Enzi
Chairman
Committee on the Budget
United States Senate

The Honorable Mike Braun
United States Senate

Appendix I: Objectives, Scope, and Methodology

This report examines: (1) how the size and scope of federal trust funds and other dedicated funds in the federal budget have changed over time, (2) the extent to which federal trust funds and other dedicated funds are supported by their dedicated collections, and (3) the extent to which federal trust funds and other dedicated funds support mandatory programs, including major entitlement programs.

To examine trends in the size and scope of federal trust funds and other dedicated funds, we used Office of Management and Budget (OMB) budget data to identify the income, outgo (i.e., outlays and transfers to another government account), and end of year balances for all revolving trust funds, special funds, non-revolving trust funds, and public enterprise funds reported in OMB's budget database, OMB MAX, for fiscal years 2014 to 2018 in nominal terms. We excluded financing and credit accounts because they are non-budgetary. For the majority of these data we used the amounts reported in OMB MAX schedule J, which is used to produce the Status of Funds tables in the President's Budget Appendix. While the list of accounts that report Status of Funds tables publicly in the budget is limited to 21 accounts, a schedule J is created in OMB MAX for all non-revolving trust funds and special funds and, for the years in our review, for all revolving trust funds. Schedule J data are not available for public enterprise funds, so we used guidance from OMB Circular No. A-11 to approximate similar income, outgo, and balance data using data fields that are reported in the Program and Financing table. The public enterprise fund data are slightly different than the other fund types because borrowing authority as it is reported in OMB MAX only includes information on repayable advances and excludes information on outstanding debt and borrowing. We asked OMB staff to review our methodology to calculate these numbers and they agreed our approach was methodologically sound. To assess the reliability of OMB MAX data related to the income, outgo, and balances of trust fund and other dedicated fund accounts, we reviewed related documentation, interviewed knowledgeable OMB staff, and conducted electronic data testing. We found these data reliable for our purposes.

OMB budget data are rounded to the nearest million and do not show funds with amounts less than $500,000. Accordingly, OMB instructs agencies to consolidate small trust fund accounts with larger general fund accounts so the total government-wide amounts will be complete. In addition, OMB sometimes reports trust fund groups under a single account rather than each individual trust fund account. Groups may include two or more trust funds with similar purposes. The Department of the Treasury (Treasury), on the other hand, tracks monies for each discrete account to the penny in order to fulfill its government wide accounting and cash management responsibilities. As such, we used data from the Treasury Fiscal Year 2018 *Combined Statement of Receipts, Outlays, and Balances of the United States Government* to provide a complete count of these funds, including accounts with small balances and accounts that are a part of groups. We interviewed Treasury officials, reviewed relevant documentation, and conducted electronic and manual testing to ensure the data were reliable for our purposes and concluded that they were.

To examine the extent to which federal trust funds and other dedicated funds are supported by their dedicated collections, in addition to the data described above, we examined thirteen case study accounts in nine agencies. We selected a set of accounts to include the largest of each of the four types of trust funds and other dedicated funds and a variety of program designs (see table 8).

Table 8: Case Study Accounts Included In Our Review

Agency	Account Name
Centers for Medicare & Medicaid Services	Federal Hospital Insurance Trust Fund
	Federal Supplementary Medical Insurance Trust Fund
Federal Aviation Administration	Airport and Airway Trust Fund
Federal Communications Commission	Universal Service Fund
Federal Emergency Management Agency	National Flood Insurance Fund
	National Flood Insurance Reserve Fund
Federal Highway Administration	Highway Trust Fund
Office of Personnel Management	Civil Service Retirement and Disability Fund
	Employees and Retired Employees Health Benefits Funds
Social Security Administration	Federal Old Age and Survivors Insurance Trust Fund
	Federal Disability Insurance Trust Fund
Tennessee Valley Authority	Tennessee Valley Authority Fund
U.S. Postal Service	Postal Service Fund

Source: GAO. | GAO-20-156

We used gross outlays from fiscal year 2017 to identify the largest accounts, since that was the most recently available data at the time of the account selection. Overall, our selected accounts covered 88 percent of the total gross outlays among these types of accounts in fiscal year 2017. We also ensured that our set of case study accounts included: at least one account from each of the four fund types in our scope, a range of programs from different goals (e.g., infrastructure, insurance, federal employee benefits), and budget authority with different characteristics. The budget authority included in our case study selection represented examples of both mandatory and discretionary budget authority. We also ensured that budget authority from appropriations, borrowing authority, contract authority, and offsetting collections were represented in at least one case study. While the case studies were selected to capture the largest funds and a diversity of programs and funding characteristics, findings from the case studies cannot be generalized to all trust funds and other dedicated funds.

We also reviewed agency financial, budget, and performance reports, Congressional Budget Office trust fund projections, the 2019 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds (Social Security Trustees), the 2019 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds (Medicare Trustees), and our prior reports, and interviewed officials from each of the case study agencies.

To examine the extent to which federal trust funds and other dedicated funds support mandatory programs, including major entitlement programs, we used OMB budget data to calculate the prevalence of discretionary budget authority, which is controlled through appropriations acts, and mandatory budget authority, which generally refers to budget authority provided through laws other than appropriations acts, in federal trust funds and other dedicated funds. OMB budget data do not systematically identify entitlement authority. To determine which of the largest trust funds and other dedicated funds have entitlement authority, we analyzed the authorizing statutes for our case study accounts and 10 additional accounts with the next largest gross outlays. While the entitlement analysis was designed to cover nearly all of the total outlays from these types of accounts, the findings from this analysis are not representative of all trust funds and other dedicated funds and cannot be generalized to the other 375 accounts in our scope. We also reviewed budget enforcement mechanisms, such as sequestration, that apply to these types of budget authority through review of relevant laws, our prior work, and OMB documents.

We conducted this performance audit from October 2018 to January 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Selected Case Study Profiles

To illustrate the variety of federal trust funds and other dedicated funds, and examine the extent to which they are supported by their dedicated collections, we examined 13 case study accounts in nine agencies. We selected accounts listed in table 9 to include the largest of each of the four types of trust funds and other dedicated funds and a variety of program designs.

Table 9: Case Study Accounts Included In Our Review

Agency	Account Name
Centers for Medicare & Medicaid Services	Federal Hospital Insurance Trust Fund
	Federal Supplementary Medical Insurance Trust Fund
Federal Aviation Administration	Airport and Airway Trust Fund
Federal Communications Commission	Universal Service Fund
Federal Emergency Management Agency	National Flood Insurance Fund
	National Flood Insurance Reserve Fund
Federal Highway Administration	Highway Trust Fund
Office of Personnel Management	Civil Service Retirement and Disability Fund
	Employees and Retired Employees Health Benefits Funds
Social Security Administration	Federal Old Age and Survivors Insurance Trust Fund
	Federal Disability Insurance Trust Fund
Tennessee Valley Authority	Tennessee Valley Authority Fund
U.S. Postal Service	Postal Service Fund

Source: GAO. | GAO-20-156

Each case study profile in this appendix includes income, outgo, investments, and current issues related to the account, as well as the following account information:

Fund types. OMB and Treasury designate budget accounts as “trust funds” and other fund types that link dedicated collections with their expenditure based on legislation. The fund types in this appendix include:

Non-revolving trust fund. An account designated as a “trust fund” by law that is credited with dedicated collections, which can often, but not always, be used without further appropriation action.

Special fund. Analogous to a non-revolving trust fund but not classified as a trust fund in name.

Revolving trust fund. An account designated as a “trust fund” by law that is credited with collections that are generally available for obligation without further appropriation action, to carry out a cycle of businesslike operations in accordance with statute.

Public enterprise fund. Analogous to a revolving trust fund but not classified as a trust fund in name. A public enterprise fund is a type of revolving fund that carries out a cycle of businesslike operations, mainly with the public, in which it charges for the sale of products or services and uses the proceeds to finance its spending, usually without requirement for annual appropriations.

Entitlement authority. Whether or not outgo from the fund is controlled by an entitlement authority, which is the authority to make payments to any person or government if the U.S. government is legally required to make the payments to persons or governments that meet the requirements established by law.

The Budget Enforcement Act category. OMB’s designation as to whether the funds in the account are classified as discretionary or mandatory depending on the nature of the substantive legislation creating the fund.

Discretionary. Budget authority provided in and controlled through appropriations acts.

Mandatory. Budget authority provided through laws other than appropriations acts, and the outlays that result from such budget authority.

Sequestration status. OMB’s designation of the authority for purposes of sequestration, which is the cancellation of budgetary resources under a presidential order. We defined the status categories as follows:

Exempt. Accounts for which budgetary resources are exempt from cancellation under budget enforcement sequestration procedures.

Sequestrable. Accounts for which budgetary resources are subject to cancellation under budget enforcement sequestration procedures.

Partially Sequestrable. Accounts for which certain budgetary resources specified by law within the account are not subject to cancellation under budget enforcement sequestration procedures.

Case Study: Medicare Trust Funds

Agency: Centers for Medicare and Medicaid Services
Fund Type: Non-Revolving Trust Fund
Entitlement Authority: Yes

Deficit Control Act Category: Both mandatory and discretionary
Sequestration Status: Partially sequestrable

The Medicare program helps pay for health care services for the aged, disabled, and individuals with end-stage renal disease. The program was created in the Social Security Amendments of 1965 and prescription drug coverage was added in 2003 by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003.[1] In 2018, Medicare covered 59.9 million people: 51.2 million people aged 65 and older, and 8.8 million disabled individuals. Medicare has two separate trust funds, with different sources of income and categories of expenditures.

Income

Total income in 2018 was $755.7 billion, which consisted of $745.9 billion in non-interest income and $9.8 billion in interest earnings.

Hospital Insurance

Hospital Insurance (HI), also known as Medicare Part A, received $309 billion in income in fiscal year 2018 (see figure below). Part A is mainly funded by a dedicated payroll tax of 2.9 percent, shared equally between employers and workers. Other sources of income for the HI Trust Fund include interest earned on the Treasury securities held by the fund, a portion of the federal income taxes that individuals pay on their Social Security benefits, and premiums paid by individuals who would otherwise not qualify for Medicare Part A.

Supplementary Medical Insurance

Supplementary Medical Insurance (SMI), which consists of Medicare Part B and Part D, is financed primarily by the General Fund of the federal government and by monthly premiums paid by beneficiaries. Transfers into the SMI fund from the General Fund of the Treasury are automatically adjusted annually to cover the difference between the program's spending and revenues. The SMI fund also receives income from interest earned on the Treasury securities held by the fund.

- Medicare Part B is funded through monthly premiums, which are set to cover 25 percent of program costs, and general revenues, which cover the remaining 75 percent.
- Part D has three main funding sources: transfers from the General Fund, monthly premium payments from beneficiaries, and transfers from states for beneficiaries eligible for both Medicare and Medicaid. In 2018, Part D received $95.4 billion total in income, of which 71 percent was from general revenue, 17 percent was from premiums, and 12 percent was transfers from the states.

Outgo

According to the 2019 Medicare Trustees Report, in calendar year 2018, total Medicare expenditures were $740.6 billion.

Hospital Insurance

According to the 2019 Medicare Trustees Report, in calendar year 2018, HI Part A paid $303 billion in benefits, with approximately 48 percent for hospitals, 34 percent for private plans (Medicare Part C), 9 percent for skilled nursing, 7 percent for miscellaneous, and 2 percent for home health care.

[1]Pub. L. No. 108-173, § 101, 117 Stat. 2066, 2071 (codified as amended at 42 U.S.C. § 1395w-101 *et. seq.*).

Supplementary Medical Insurance

According to the 2019 Medicare Trustees Report, in calendar year 2018, Part B paid $333 billion in benefits, with approximately 39 percent going to private plans (Medicare Part C), 21 percent to physician services, 19 percent to miscellaneous, 17 percent to hospitals, and 3 percent to home health care. Part D paid $94.7 billion of benefits, all for prescription drugs.

Investments

As of September 30, 2018, the HI and SMI trust funds held approximately $203 billion and $98 billion, respectively, of U.S. Treasury securities.

Current Issues

Spending for the major health programs are projected to increase more rapidly than gross domestic product in coming decades, in part due to an aging population and projected continued increases in health care costs per beneficiary. As we recently reported, increased health care spending for major health care programs, including Medicare, will continue to place a strain on the federal budget in the near and long term.[2]

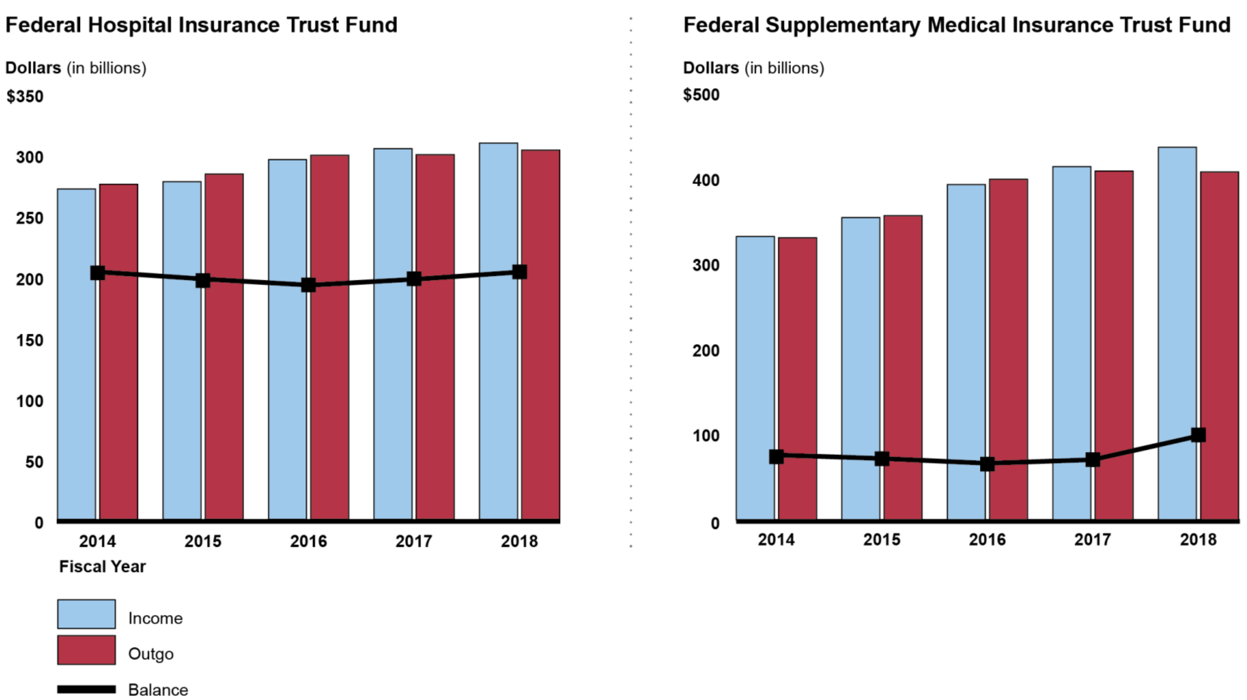
Hospital Insurance

According to the 2019 Medicare Trustees Report, the balance of the HI fund is projected to be depleted in 2026, at which point projected income is estimated to cover only 89 percent of program costs.

Supplementary Medical Insurance

The SMI trust fund is expected to be adequately financed over the next 10 years and beyond because beneficiary premiums and general revenue contributions are established annually to cover the expected costs for the upcoming year.

Medicare Trust Funds: 2014-2018 Income, Outgo, and Balances



Source: GAO analysis of Office of Management and Budget data. | GAO-20-156

[2] GAO, *The Nation's Fiscal Health: Action Is Needed to Address the Federal Government's Fiscal Future,* GAO-19-314SP (Washington, D.C.: Apr. 10, 2019).

Case Study: Airport and Airway Trust Fund

Agency: Federal Aviation Administration
Fund type: Non-Revolving Trust Fund
Entitlement Program: No

Deficit Control Act Category: Both mandatory and discretionary
Sequestration Status: Partially sequestrable

The Airport and Airway Trust Fund (AATF) was established by the Airport and Airway Revenue Act of 1970 (Pub. L. No. 91-258) to help the development of a nationwide airport and airway system and to fund Federal Aviation Administration (FAA) investments in air traffic control facilities such as capital investments, construction and safety improvements at airports, and technological upgrades to the air traffic control system. The AATF's authority to collect aviation excise taxes as well as spend from the trust fund is periodically reauthorized by Congress. The most recent reauthorization was signed into law on October 5, 2018 and extended FAA's funding and authorities through fiscal year 2023.[3]

Income

Total income into the AATF was $17.2 billion in fiscal year 2018 (see figure below).The trust fund receives income from a variety of excise taxes paid by users of the national airport and airway system. Income sources for the trust fund include taxes on airline passenger ticket sales, segment fees, air cargo fees, and aviation fuel taxes paid by both commercial and general aviation aircraft. The largest source of tax income is generated through the transportation of passengers.

Income deposited in the trust fund is subject to congressional appropriations; therefore while the AATF can collect its own income, it cannot be spent without congressional approval. Excise taxes collected are initially deposited to the General Fund of the Treasury, where the trust fund also accrues interest on its invested balance.

Outgo

Total outgo from the AATF was $15.3 billion in fiscal year 2018. Disbursement of income deposited in the trust fund is subject to congressional appropriations, and monies are then moved into FAA's four primary accounts. Approximately 80 percent of FAA's total outgo is discretionary appropriations and the remaining 20 percent is contract authority.

The AATF is typically the sole source of funding for three of the four major accounts of the FAA:

- Grants in Aid for Airports: This account provides federal grants for projects such as new runways and taxiways; runway lengthening, rehabilitation, and repair; and noise mitigation near airports. This account is usually funded solely by the AATF, but received $1 billion in appropriations from the General Fund in fiscal year 2018. The Grants in Aid for Airports account has contract authority to obligate funds for long-term capital improvement projects in advance of appropriations.
- Facilities and Equipment: This account provides discretionary appropriations from the AATF for the acquisition and maintenance of air traffic facilities and equipment, and for the engineering, development, testing, and evaluation of technologies related to the federal air traffic system.
- Research, Engineering, and Development: This account provides discretionary appropriations from the AATF for research on issues related to aviation safety, mobility, and technologies, including research on improving aviation safety and operational efficiency and reducing environmental impacts of aviation operations.

The AATF also pays for the majority of spending from FAA's Operations account, which funds the operation of the air traffic control system and safety inspections. The Operations account is

[3]FAA Reauthorization Act of 2018, Pub. L. No. 115-254, 132 Stat. 3186 (2018).

also supplemented with money from general revenues. The AATF provided about 87 percent of the funding for the Operations account in fiscal year 2018. The remainder of the Operations account was funded by the General Fund.

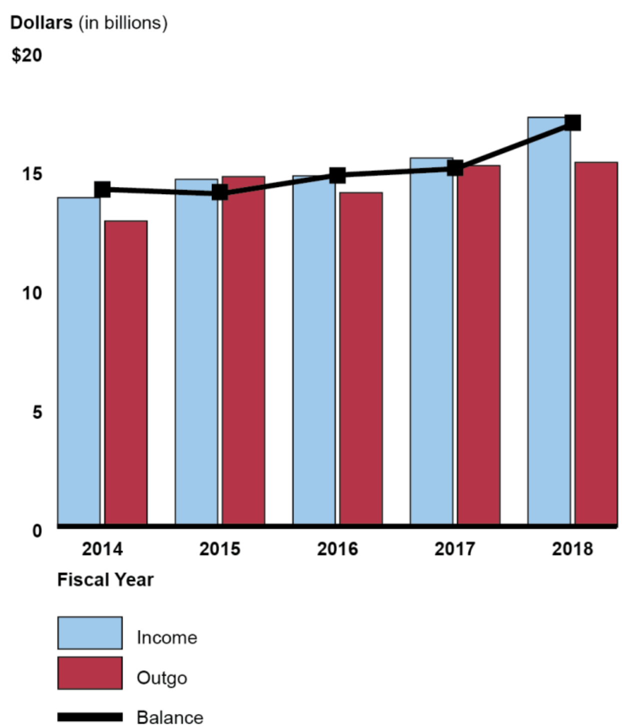
Investments

As of September 2018, the AATF held approximately $14.2 billion in U.S. Treasury securities

Current Issues

AATF income tends to reflect general economic conditions, which affect the number of tickets purchased, the fares paid by passengers, the amount of fuel purchased, and the value of air cargo shipped. Treasury estimates AATF income levels based on these factors, which inform how much is appropriated to FAA to spend. Since AATF's creation in 1970, income has in the aggregate generally exceeded spending commitments from FAA's appropriations, resulting in a surplus. This surplus is referred to as the trust fund's uncommitted balance—the balance in the trust fund that remains after funds have been appropriated from the trust fund and contract authority has been authorized. The inherent uncertainty of income projections and the timing of annual appropriations could lead to imbalances between income and outgo for the fund. There is a risk of overcommitting available resources from the AATF if the uncommitted balance is nearly depleted and actual trust fund income continues to fall below forecasted levels. However, FAA officials reported that their current uncommitted balance has remained relatively stable over the last 5 years and is forecasted to grow. Changes in the airline industry could pose new challenges for the fund. For example, the increasing airline practice of unbundling fees from ticket prices by charging for things like baggage and seat assignments separately could negatively affect trust fund income since income is tied to passenger ticket taxes. New users of the airport and airspace system, such as drones and commercial space launches, could also affect future income and outgo levels, subject to congressional authority.[4]

Airport and Airway Trust Fund: 2014-2018 Income, Outgo, and Balances



Source: GAO analysis of Office of Management and Budget data. | GAO-20-156

[4]GAO, *Unmanned Aircraft Systems: FAA Should Improve Drone-Related Cost Information and Consider Options to Recover Costs*, GAO-20-136 (Washington, D.C.: Dec. 17, 2019).

Case Study: Universal Service Fund

Agency: Federal Communications Commission
Fund Type: Special Fund
Entitlement Authority: No

Deficit Control Act Category: Mandatory
Sequestration Status: Exempt

The Universal Service Fund (USF) was established as a result of the Telecommunications Act of 1996 and provides support through four programs: (1) *High Cost Program* - provides subsidies to telecommunications carriers that serve rural and other remote areas with high costs of providing telephone and broadband services; (2) *Lifeline* - provides support to eligible telecommunications carriers, that, in turn, offer discounts to eligible low-income households for telephone and broadband service; (3) *Schools and Libraries* (commonly known as the E-rate Program) - assists eligible schools and libraries through discounted broadband and telecommunications services; and (4) *Rural Health Care* - provides funding to eligible health care facilities to subsidize broadband and telecommunications services, making telehealth services affordable in rural areas.[5]

Income

Total income into the USF was $9.5 billion in fiscal year 2018.[6] Telecommunications providers must contribute a percentage of their interstate and international end-user revenues to the USF, also known as the contribution factor. The Federal Communications Commission (FCC) sets the contribution factor quarterly to cover the cost of the projected demand for the USF programs, up to annual program funding caps, as applicable.[7] In 2018, over 3,300 companies contributed to the fund.

Outgo

Total outgo from the USF was $9.9 billion in fiscal year 2018 (see figure below). According to the *2018 Annual Report* of the Universal Service Administrative Company, which administers the USF, calendar year 2018 authorized funding for each program was as follows: (1) High Cost Program: Approximately $4.7 billion; (2) Lifeline Program: Approximately $1.1 billion; (3) Schools and Libraries Program: Approximately $2.2 billion; and (4) Rural Health Care Program: Approximately $299 million.

Investments

As of the end of fiscal year 2018, the USF had a balance of $6.8 billion including holdings of $2.9 billion in U.S. Treasury securities. According to FCC officials, the USF maintains a balance to fund obligations that have already been made but not yet disbursed. Prior to 2018, USF monies were held in both cash and Treasury securities in a private bank. In response to recommendations we made in 2017, FCC finalized and implemented plans to transfer USF monies to Treasury.[8] As of August 2019, all USF monies were held by the U.S. Treasury and the funds no longer invested.[9]

[5]Pub. L. No. 104-104, 110 Stat. 56(1996). Codified at 47 U.S.C. § 251 et seq.

[6]The income and outgo amounts reported here also include the Telecommunications Relay Service. FCC officials reported that as of December 1, 2019, these amounts are excluded from USF reporting.

[7]The annual funding caps are set by FCC regulation. 47 C.F.R. § 54.

[8]GAO, *Telecommunications: Additional Action Needed to Address Significant Risks in FCC's Lifeline Program*, GAO-17-538 (Washington, D.C.: May 30, 2017).

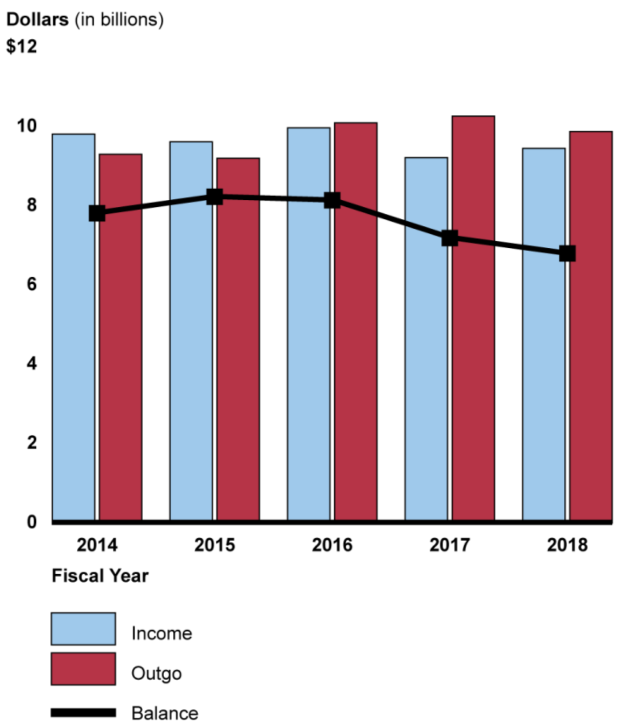
[9]The Miscellaneous Receipts Statute, 31 U.S.C. § 3302, requires that money received for the use of the United States be deposited in the Treasury unless otherwise authorized by law.

Current Issues

Although the USF does not face sustainability challenges, due to FCC's authority to adjust the contribution factor and program costs, we have previously reported on program integrity risks affecting the Lifeline program and the High Cost program. For example, in 2017, we found that FCC had not evaluated the Lifeline program's performance towards increasing telephone and broadband subscribership among low-income households by providing financial support. Although FCC officials had taken steps to begin to evaluate the performance of the Lifeline program, FCC did not know how many of the 12.3 million households that were receiving Lifeline were using it as a secondary phone service. We made seven recommendations to FCC in 2017. As of December 2019, the agency had taken action to address three of these recommendations.

We also reported in October 2019 that although FCC had some policies and processes in place to manage fraud risks for the High Cost program, FCC's efforts do not fully align with elements of our fraud risk framework. We found that the traditional cost-accounting mechanism that FCC uses to provide support to a substantial number of telecommunications carriers is complex, prone to fraud risks, and presents auditing challenges. We made five recommendations, including that FCC follow the leading practices from our fraud risk framework. Implementing these recommendations will better ensure that FCC is addressing the most significant fraud risks facing the High Cost program. FCC stated it would take steps to implement these recommendations.[10]

Universal Service Fund: 2014-2018 Income, Outgo, and Balances



Source: GAO analysis of Office of Management and Budget data. | GAO-20-156

Note: These amounts include income and outgo from the Telecommunications Relay Service. Federal Communications Commission officials reported that as of December 1, 2019, these amounts are excluded from Universal Service Fund reporting.

[10]GAO, *Telecommunications: FCC Should Take Additional Action to Manage Fraud Risks in Its Program to Support Broadband Service in High-Cost Areas*, GAO-20-27 (Washington, D.C.: Oct. 23, 2019).

Case Study: National Flood Insurance Funds

Agency: Federal Emergency Management Agency
Fund type: Public Enterprise Fund and Special Fund
Entitlement Program: No

Deficit Control Act Category: Both mandatory and discretionary
Sequestration Status: Exempt

In 1968, Congress created the National Flood Insurance Program (NFIP) to help reduce escalating costs of providing federal flood assistance to repair damaged homes and businesses. NFIP has four key components: identifying and mapping flood risk, managing floodplains, providing flood insurance, and incentivizing risk reduction through grants and premium discounts. In addition to collecting premiums from NFIP policyholders, Congress authorized the Federal Emergency Management Agency (FEMA) to borrow from Treasury, within limits, as needed.

The Biggert-Waters Flood Insurance Reform Act of 2012 established a Reserve Fund to help NFIP meet expected future obligations including payment of claims, claims adjustment expenses, and the repayment of debt. To fund the Reserve Fund, FEMA implemented surcharges and assessments on NFIP policyholders.

Income

National Flood Insurance Fund: Total income into the fund was $10.9 billion in fiscal year 2018 (see figure below), which included $6.1 billion in borrowing. Typically, FEMA funds NFIP primarily through insurance premiums and fees paid by policyholders that are collected in this Public Enterprise Fund. FEMA also has authority to borrow money from Treasury to pay losses that exceed premium revenue and any accumulated surplus, up to the $30.425 billion statutory limit. The flood insurance program was about $21 billion in debt to the Treasury as of fiscal year 2018, which means the fund had about $9 billion of available borrowing authority remaining.

National Flood Insurance Reserve Fund: FEMA is required to create and maintain a reserve in this Special Fund equal to at least 1 percent of the total potential loss exposure of all outstanding flood insurance policies in force at the end of the prior fiscal year (reserve ratio).[11] Total income into the Reserve Fund was $879 million in fiscal year 2018. The Homeowners Flood Insurance Affordability Act of 2014 (HFIAA) requires FEMA to add an annual surcharge of $25 for all NFIP policies covering primary residences and $250 for policies for all other buildings, the proceeds of which are deposited in the Reserve Fund. In addition to these surcharges, FEMA uses assessments to help build the Reserve Fund. The Reserve Fund assessments are based on the underlying premium rates and are therefore subject to annual rate increase caps. HFIAA establishes the cap for yearly premium rate increases and FEMA is not permitted to exceed this annual rate increase.

Outgo

National Flood Insurance Fund: Total outgo from the fund was $11.6 billion in fiscal year 2018. Because of the extreme variability of flood risk, claims can vary greatly from year to year. NFIP makes federally-backed flood insurance available to residents in participating communities. NFIP pays insurance claims and all program costs, including outreach, research, and operating expenses from the National Flood Insurance Fund.

National Flood Insurance Reserve Fund: Total outgo from the Reserve Fund was $745 million in fiscal year 2018.

[11]GAO, *Overview of GAO's Past Work on the National Flood Insurance Program,* GAO-14-297R (Washington, D.C.: Apr. 9, 2014).

Investments and Liabilities

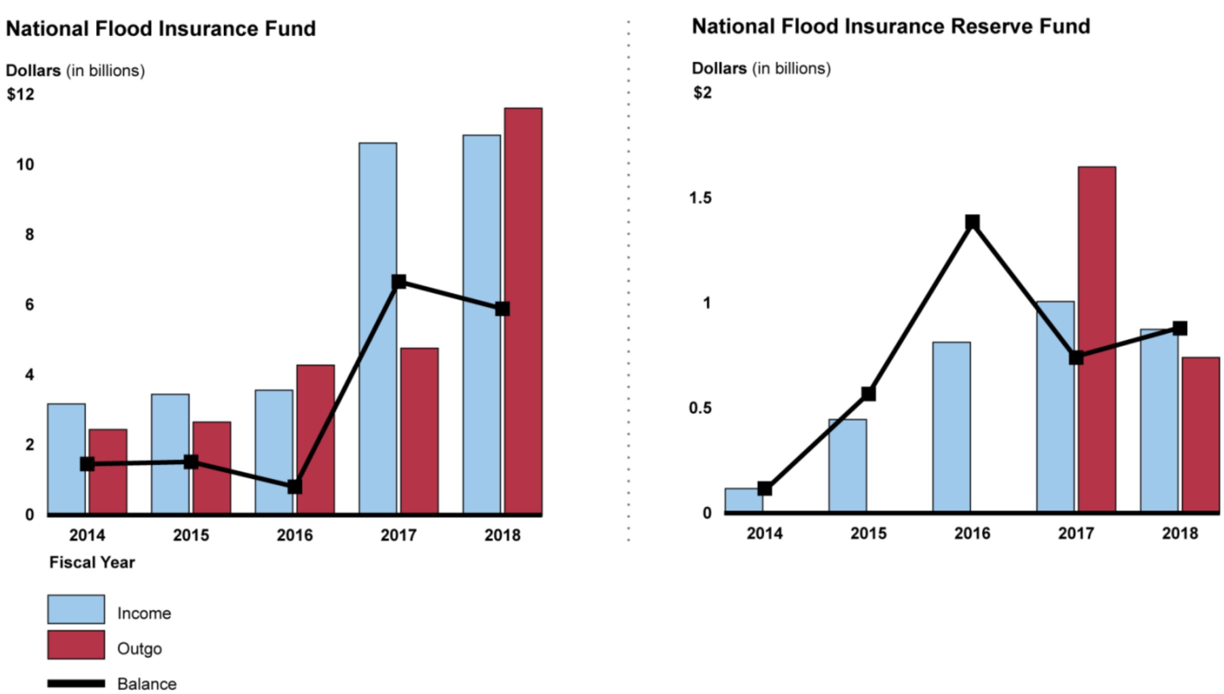
As of September 30, 2018, the Reserve Fund held approximately $732 million in U.S. Treasury securities. The National Flood Insurance Fund balances are not invested. Consistent with Treasury policy, FEMA officials told us that the fund cannot make investments while it holds debt. According to the Congressional Research Service, NFIP has made six repayments on the principal of the Treasury loan, totaling $2.82 billion, and has also paid $4.2 billion in interest. NFIP is currently paying around $400 million a year in interest.

Current issues

NFIP is not actuarially sound because Congress has historically required FEMA to offer subsidized premium rates to encourage prospective customers to join the program. As a result, NFIP has not generated sufficient premiums to cover claims and other program costs, and FEMA has needed to borrow from Treasury to pay for claims in some years with catastrophic flooding. Congress canceled $16 billion in debt in October 2017. However NFIP owes about $21 billion to Treasury. NFIP likely will not generate sufficient revenues to cover its expenses and repay its outstanding debt because its premium rates do not reflect the full risk of loss.

We have included NFIP on our High-Risk List since 2006. As of December 2018, 13 recommendations related to this high-risk area remained unaddressed, including that FEMA ensure that premium rates accurately reflect flood risk and evaluate approaches to obtain flood risk information needed to determine full-risk rates for properties with previously subsidized rates. In April 2017, we also reported that Congress should consider comprehensive reform to the flood insurance program to improve its solvency and enhance the nation's resilience to floods.[12]

National Flood Insurance Funds: 2014-2018 Income, Outgo, and Balances



Source: GAO analysis of Office of Management and Budget data. | GAO-20-156

[12]GAO, *Flood Insurance: Comprehensive Reform Could Improve Solvency and Enhance Resilience,* GAO-17-425 (Washington, D.C.: Apr. 27, 2017).

Case Study: Highway Trust Fund

Agency: Department of Transportation
Fund type: Non-Revolving Trust Fund
Entitlement Program: No

Deficit Control Act Category: Both mandatory and discretionary
Sequestration status: Partially sequestrable

Congress established the Highway Trust Fund (HTF) through Title II of Public Law 84-627 in 1956 to hold and distribute highway user excise taxes to fund various surface transportation programs and capital construction. In 1983, the HTF was divided into two accounts: the Highway Account and the Mass Transit Account. The Highway Account is the principal mechanism for funding federal highway programs and is administered by the Federal Highway Administration within the Department of Transportation (DOT). The Highway Account also funds the Federal Motor Carrier Safety Administration and the National Highway Traffic Safety Administration. The Mass Transit Account was created to provide a consistent federal funding source for capital spending for public transportation infrastructure and for other purposes and is administered by the Federal Transit Administration. A large share of capital investment for public transportation systems is provided through the Capital Investment Grant Program, a discretionary grant program funded from the General Fund, as well. The most recent reauthorization act, the Fixing America's Surface Transportation (FAST) Act, authorized budget authority from the HTF for federal highway and public transportation programs through September 30, 2020.

Income

Total income into the HTF was $43.8 billion in fiscal year 2018 (see figure below). Dedicated receipts for the HTF are primarily derived from an 18.3-cent-per-gallon federal tax on gasoline and a 24.3-cent-per-gallon federal tax on diesel fuel. In most years the fuel taxes provide 85 to 90 percent of the amounts paid into the fund by highway users. The transit account receives 2.86 cents per gallon of fuel taxes, the Leaking Underground Storage Tank Trust Fund receives about 0.1 cent per gallon of the fuel tax, with the remainder of the tax revenue flowing into the highway account. The HTF is also credited with interest earned on the investment of fund balances in U.S. Treasury securities.

Congress last increased federal motor fuel taxes in 1993, and revenue has generally lagged inflation since 2007. Further, slower growth in annual vehicle miles traveled and increasing vehicle fuel efficiency have contributed to lagging trust fund revenue. Over the past 12 years, a number of laws have transferred amounts to the HTF, the majority coming from the General Fund. Most recently, the FAST Act provided $70 billion in General Fund transfers and $200 million in Leaking Underground Storage Tank Trust Fund transfers to the HTF.

Outgo

Total outgo from the HTF was $55.6 billion in fiscal year 2018.The HTF primarily provides grants to state and local governments for highway and mass transit projects. Funds from the two HTF accounts are either apportioned by formula or allocated to the states or other recipients; subsequently funds from the Highway Account are obligated to states for construction, reconstruction, and improvement of highways and bridges, and funds from the Mass Transit Account are obligated for public transportation systems capital and capital-related expenditures, as well as for other purposes. Most obligations for the HTF involve capital projects that take several years to complete, so Congress has granted the fund a form of budget authority called contract authority that authorizes DOT to make obligations in advance of appropriations. Congress subsequently appropriates a liquidating appropriation to pay the obligations. These obligations of contract authority represent current and potential commitments against the account's balance and future income.

Investments

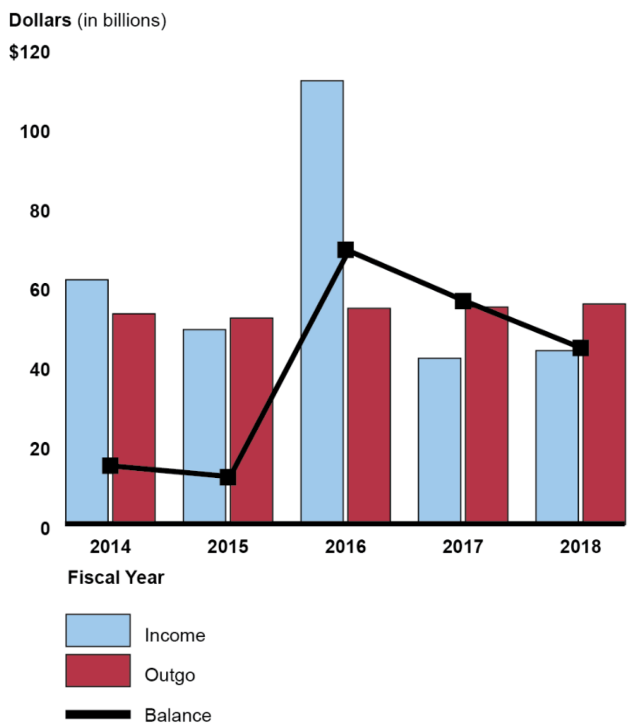
As of September 30, 2018, the HTF held approximately $41 billion in U.S. Treasury securities.

Current Issues

Major changes in transportation spending or in revenues, or in both, will be needed to bring the two into balance. In 2008, we reported that Congress should consider addressing the imbalance between federal surface transportation revenues and spending.[13] This issue has been on our High-Risk List since 2007. The pivotal action needed to remove this issue from our High-Risk list is the passage of a long-term sustainable plan by Congress.[14]

Motor fuel taxes and additional truck-related taxes that support the HTF—the major source of federal surface transportation funding—are eroding. Because of inflation the federal tax on gasoline has about one-third less purchasing power than it did when the tax was last raised in 1993. Further, HTF revenues have eroded due to improvements in vehicle fuel efficiency.[15] To maintain spending levels for highway and transit programs, Congress transferred a total of about $141 billion in general revenues to the HTF on eight occasions from 2008 through 2015. This funding approach effectively ended the long-standing principle of “users pay” in highway finance, breaking the link between the taxes paid and the benefits received by highway users. The Congressional Budget Office (CBO) reported in its April 2018 Budget and Economic Outlook baseline that the Highway Account is able to meet all obligations through 2021 but becomes exhausted in 2022. In January 2019, CBO estimated that $159 billion in additional funding would be required to maintain current spending levels plus inflation from 2022 through 2029.

Highway Trust Fund: 2014-2018 Income, Outgo, and Balances



Source: GAO analysis of Office of Management and Budget data. | GAO-20-156

[13]GAO, *Surface Transportation: Restructured Federal Approach Needed for More Focused, Performance-Based, and Sustainable Programs,* GAO-08-400 (Washington, D.C.: Mar. 6, 2008).

[14]GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas,* GAO-19-157SP (Washington, D.C.: Mar. 6, 2019).

[15]GAO, *Highway Trust Fund: Pilot Program Could Help Determine the Viability of Mileage Fees for Certain Vehicles,* GAO-13-77 (Washington, D.C.: Dec. 13, 2012).

Case Study: Federal Civilian Employees Pension and Health Benefit Funds

Agency: Office of Personnel Management
Fund type: Non-Revolving Trust Fund and Revolving Trust Fund
Entitlement Authority: Yes

Deficit Control Act Category: Both discretionary and mandatory
Sequestration Status: Exempt

The Office of Personnel Management (OPM) administers the Civil Service Retirement and Disability Fund (CSRDF) and the Federal Employees and Retired Employees Health Benefits (FEHB) program.

The CSRDF account is a non-revolving trust fund and is composed of two federal civilian retirement systems, the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). The CSRS was established by the Civil Service Retirement Act of 1920. The CSRS is closed to new participants but covers most federal employees who first entered a covered position prior to 1984. The FERS was established by the Federal Employees' Retirement System Act of 1986. FERS covers most employees hired after 1983 and formerly CSRS-covered employees who elected to join FERS.

The FEHB account is a revolving trust fund composed of two trust funds—the Federal Employees Health Benefits Fund and the Retired Employees Health Benefits (REHB) Fund—which are reported jointly in the federal budget. The Federal Employees Health Benefits Fund collects health insurance premiums from employees, annuitants, and agencies, disburses payments to health insurance carriers who participate in the FEHB program, and maintains program reserves. The REHB fund is closed to new enrollees; the enrolled population is dwindling, and is estimated to be fewer than 100 for fiscal year 2020.

Income

During fiscal year 2018, the CSRDF received $103.9 billion in income.

CSRS: Participants and their employing agencies are required by statute to make contributions to CSRS coverage.[16] During fiscal year 2018, most CSRS participants and their employers each contributed 7 percent of their pay. The combined 14 percent of pay does not cover the whole service cost of a CSRS benefit, so to lessen the shortfall, a general revenue transfer is made to the CSRDF.

FERS: Participants and their employing agencies are required by law to make contributions for FERS coverage. Employee contribution rates vary depending on when the employee was hired. Agency contributions are required by law to be equal to the full actuarial cost of the program minus employee contributions and vary depending on the employee hire date and job category. Regular employees contribute between 0.8 and 4.4 percent depending whether they were hired before, during, or after 2013. Employers contribute between 11.9 and 13.7 percent, also depending on when the employee was hired. The fund also receives general revenue transfers to cover FERS supplemental unfunded liabilities, which occur when actuaries determine that the projected liabilities of the fund have increased due to demographic, economic, or other changes.

FEHB: During fiscal year 2018, the FEHB account received $54.5 billion dollars in income (see figure below). According to OPM's fiscal year 2018 Agency Financial Report, the program is funded from approximately 25 percent contributions from participants and about 75 percent contributions from their employing agencies. OPM contributes the employer share for annuitants via an appropriation from general revenues.

[16]The U.S. Postal Service (USPS) is not required to make payroll contributions for its CSRS employees and instead makes annual payments to reduce its unfunded CSRS liability. As noted in the USPS case study profile, USPS has missed some of these payments.

Outgo

Total outgo from the CSRDF was $86 billion in fiscal year 2018. OPM reported the CSRDF had 2.6 million annuitants, 1.8 million in CSRS and 837,000 in FERS.

Total outgo from the FEHB account was $53.2 billion in fiscal year 2018. As of March 18, 2019, OPM reported the FEHB program financed health insurance coverage for over 8 million participants.

Investments

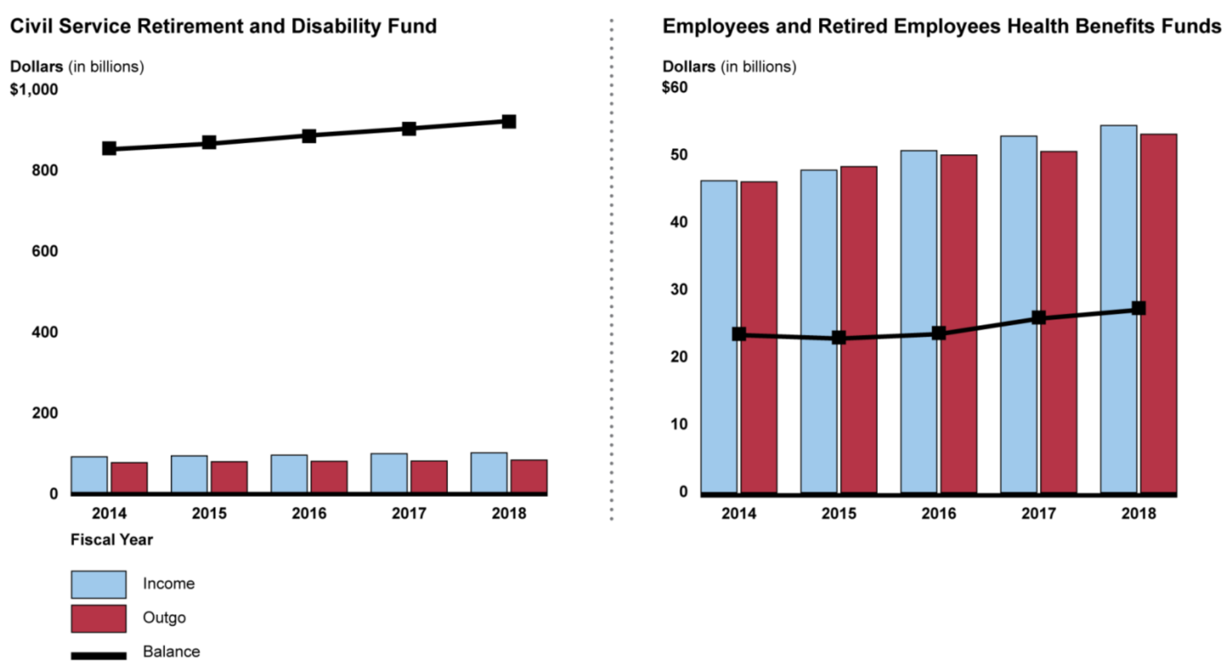
As of September 30, 2018, the CSRDF held $923 billion in U.S. Treasury securities, and the Employees and Retired Employees Health Benefits Funds held $27.4 billion.

Current Issues

CSRDF: OPM reported that the unfunded actuarial liability of the CSRDF totaled $968 billion as of the end of fiscal year 2017. In particular, significant unfunded actuarial liabilities exist for the closed CSRS plan because agencies are not required to set aside adequate funds for CSRS every year. However, because both the funded and unfunded liabilities are obligations of the federal government, the benefit security for participants is not necessarily affected by this approach.

FEHB: By design, FEHB account balances are expected to remain stable, as contributions from employees and employing agencies are set to cover costs. However, growth in FEHB spending could add to overall federal fiscal pressures. From fiscal year 2014 to 2018, outgo from the fund increased about 15 percent. Although OPM reported that the increase in premiums for 2019 was relatively modest, OPM projects continued growth in the cost of health insurance and the OPM Office of the Inspector General identified keeping premium rate in check as an ongoing challenge for OPM. We have reported that the rising cost of health care is one key driver of projected growth in total federal spending.[17]

Federal Civilian Employees Pension and Health Benefit Funds: 2014-2018 Income, Outgo, and Balances



Source: GAO analysis of Office of Management and Budget data. | GAO-20-156

[17]GAO, *The Nation's Fiscal Health: Action Is Needed to Address the Federal Government's Fiscal Future,* GAO-18-299SP (Washington, D.C.: June 21, 2018).

Case Study: Social Security Trust Funds

Agency: Social Security Administration
Fund Type: Non-Revolving Trust Fund
Entitlement Authority: Yes

Deficit Control Act Category: Mandatory
Sequestration Status: Exempt

In 1935, in response to the Great Depression, the Social Security Act was enacted, in part, to help ensure that older Americans would have adequate retirement incomes. In 1939, coverage was extended to dependents and survivors, and the program became known as the Old-Age and Survivors Insurance (OASI) program. In 1956, Congress established the Disability Insurance (DI) program. Together OASI and DI are known as Social Security, or the Old-Age, Survivors, and Disability Insurance (OASDI) program. At the end of calendar year 2018, the OASDI program was providing benefit payments to about 63 million beneficiaries, including 47 million retired workers and dependents of retired workers, 6 million survivors of deceased workers, and 10 million disabled workers and dependents of disabled workers. The benefits are provided through two trust funds, the OASI Trust Fund and the DI Trust Fund, which are legally distinct and do not have authority to borrow from each other.[18]

Income

The Social Security program is financed primarily by revenues from Federal Insurance Contributions Act and Self-Employment Contributions Act payroll taxes. Total income in 2018 was $1,003 billion, which consisted of $920 billion in non-interest income and $83 billion in interest earnings.

Old-Age and Survivors Insurance

According to the 2019 Social Security Trustees Report, in calendar year 2018, OASI received $831 billion total in income, with 86 percent from payroll taxes, 10 percent from interest earned from invested trust fund assets, and 4 percent from federal taxation of benefits from beneficiaries with income exceeding specified levels, and less than 1 percent from reimbursements from the General Fund of the Treasury.

Disability Insurance

According to the 2019 Social Security Trustees Report, in calendar year 2018, DI received $172 billion total in income, with 98 percent from payroll taxes, 1.5 percent from interest earned from invested trust fund assets, 0.29 percent from federal taxation of benefits from beneficiaries with income exceeding specified levels, and the remaining 0.21 percent from reimbursements from the General Fund of the Treasury.

Outgo

Social Security benefits are paid after an eligible individual's retirement, disability, or death. Benefits accounted for 98.8 percent of OASDI trust fund costs in calendar year 2018. The expenses for administering the Social Security program were 0.7 percent of total OASDI costs in calendar year 2018. The net payment to the Railroad Social Security Equivalent Benefit Account, which pays the portion of railroad retirement benefits equivalent to a social security benefit, accounted for 0.5 percent of total OASDI costs.

Investments

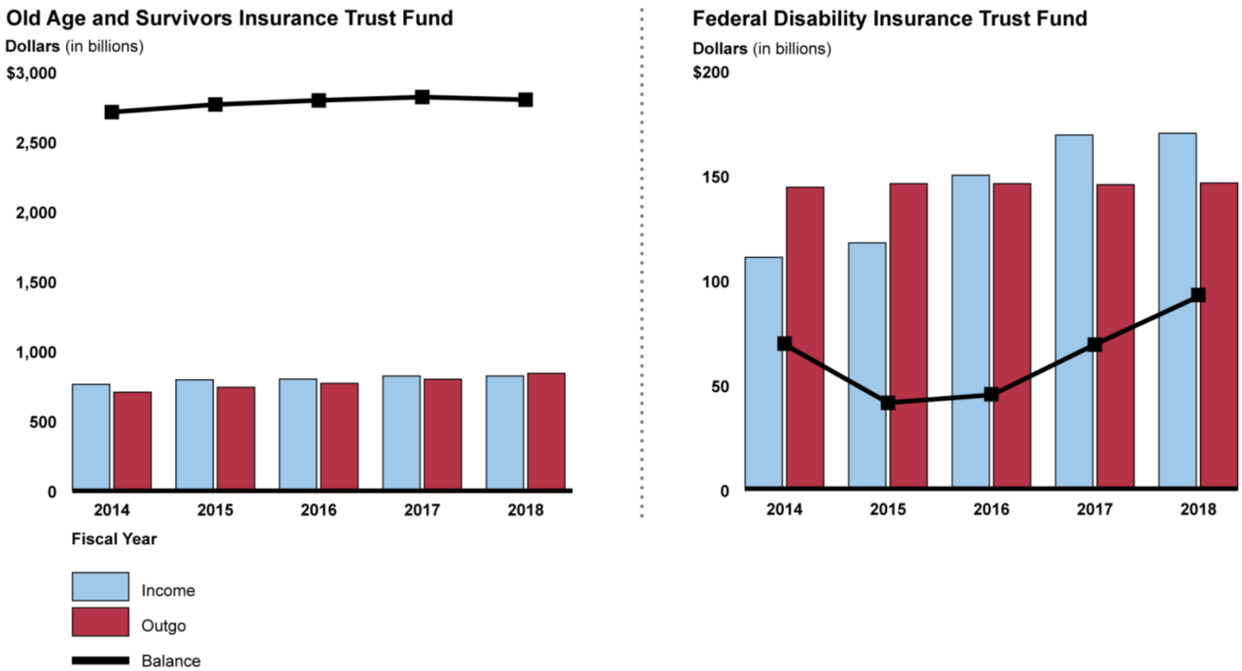
As of September 30, 2018, the OASI and DI trust funds held approximately $2.8 trillion and $93.4 billion, respectively, in non-marketable U.S. Treasury securities.

[18]The Social Security Administration (SSA) also includes the Limitation on Administrative Expenses (LAE) fund and the State Supplemental Fees fund. The LAE fund provides the SSA with the funds needed to administer the OASI and DI programs, Supplemental Security Income program, certain health insurance and Medicare prescription drug functions, and the Special Benefits for Certain World War II Veterans program. The State Supplemental Fees fund supports administrative cost associated to both State Supplementary Payments and the SSA.

Current Issues

Social Security is financed largely on a pay-as-you-go basis, which means that contributions that workers make in a given year are used primarily to pay beneficiaries in that same year. Any surplus collections are credited to the trust funds and invested in U.S. Treasury securities. The 2019 Social Security Trustees Report projects that, under their intermediate assumptions, the OASI Trust Fund reserves will be depleted in 2034 and the DI Trust Fund reserves become depleted in 2052. Title II of the Social Security Act, which governs the program, does not specify what would happen to the payment of benefits in the event that the trust funds' asset reserves are depleted and incoming receipts to the trust funds are not sufficient to pay scheduled benefits in full and on time.

Social Security Trust Funds: 2014-2018 Income, Outgo, and Balances



Source: GAO analysis of Office of Management and Budget data. | GAO-20-156

Case Study: Tennessee Valley Authority Fund

TVA

Agency: Tennessee Valley Authority
Fund Type: Public Enterprise Fund
Entitlement Authority: No

Deficit Control Act Category: Mandatory
Sequestration Status: Exempt

The Tennessee Valley Authority (TVA) is an independent federal corporation created by the Tennessee Valley Authority Act of 1933 (TVA Act).[19] TVA provides electricity to nearly 10 million customers in Tennessee and parts of Alabama, Georgia, Kentucky, Mississippi, North Carolina, and Virginia.

Income

Initially, all TVA operations were funded by appropriations of general revenues. Since 1999, TVA has not received any appropriations of general revenue and has funded its activities primarily with power revenues. Under the TVA Act, TVA must set its power rates to cover all costs but also keep rates as low as is feasible. Total income for the TVA fund was $48.3 billion in fiscal year 2018 (see figure below), of which, $11.2 billion was operating revenue, $15.4 billion from redemption of investments, $20.4 billion from excess cash transfers, and $1.1 billion from other miscellaneous collections.[20]

Outgo

Total outgo from the TVA fund was $46.4 billion in fiscal year 2018 of which $6.4 billion was operating expenses, $36.9 billion from investments purchased, $1.2 billion from interest expenses, and $1.9 billion from capital and other expenses.[21] TVA operating costs consist of operations and maintenance cost, fuel cost, purchased power, payments to states and counties in lieu of taxes, and depreciation and amortization cost.

Investments and Liabilities

As of September 30, 2018, TVA held approximately $25 million invested in marketable U.S. Treasury securities and $254 million invested in non-federal securities.

The TVA Act authorizes TVA to issue debt in an amount not to exceed $30 billion outstanding at any time. TVA bonds are not obligations of the U.S. government, and the U.S. government does not guarantee the payments of principal or interest on TVA bonds. As of September 30, 2018, TVA had $22.7 billion of bonds and notes outstanding. According to TVA's FY 2020 *Budget Proposal & Management Agenda and FY 2018 Performance Report*, TVA generally uses debt financing for capital investments in new generation capacity and environmental controls.[22]

TVA reported that, as of September 30, 2018, TVA's pension plan was about 68 percent funded with a funding shortfall of about $3.7 billion (plan assets totaled $8 billion and liabilities were $11.7 billion). The plan has approximately 33,000 participants, of which approximately 24,000

[19] 16 U.S.C §§ 831 *et seq*.

[20] TVA reported significantly less revenue in its fiscal year 2018 annual financial report than is reported in the budget data. According to TVA's 2018 10-K financial report, revenue from electricity sales was $11.1 billion and accounted for virtually all of TVA revenue. In accordance with Generally Accepted Accounting Principles, the revenue reported in the financial report does not include cash provided by financing activities. According to TVA officials, OMB instructed TVA to report proceeds from borrowing as income in its annual budget submission.

[21] TVA's fiscal year 2018 annual financial report reported total operating expenses of $8.9 billion, significantly less than the total outlays reported in the budget data. The $6.4 billion in operating expenses listed above excludes non-cash items, predominantly depreciation and amortization expense so the reduction in the value of tangible and intangible assets is not included. The expenses reported in the financial report do not include cash used in financing activities. According to TVA officials, OMB instructed TVA to include repayment of borrowing as outlays in its annual budget submission.

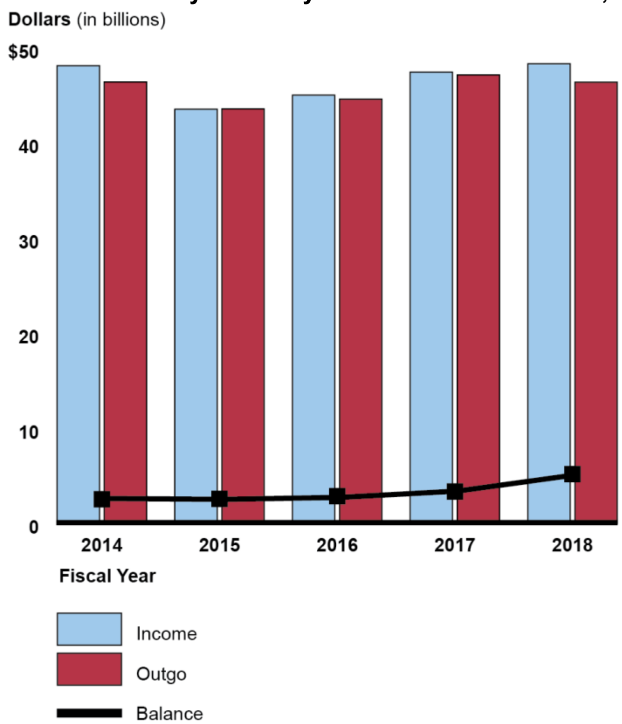
[22] TVA, *FY2020 Budget Proposal & Management Agency and FY2018 Performance Report* (Washington, D.C: Mar.18, 2019).

are retirees or beneficiaries currently receiving benefits. According to TVA, it has committed to annual contributions of at least $300 million to the defined benefit plan until 2036 or until the plan is fully funded, whichever occurs first.

Current Issues

TVA aims to reduce its debt, which will increase its financial flexibility to ensure sufficient room under its debt ceiling and give it better access to capital for future investments. In 2017, we reported on TVA's goals to reduce debt to $21.8 billion by fiscal year 2023 and eliminate unfunded pension liabilities by 2036.[23] Market conditions or other factors could affect TVA's financial position, and TVA had no mechanism in place to ensure its pension plan is fully funded. We found that TVA planned to contribute the minimum amount toward its pension liability and defer funding the remaining amount. We recommended that TVA better document and communicate its goal to reduce its debt and take actions to reduce its unfunded liabilities, which would help reduce the risk that future ratepayers will have to fund the pension plan even further to pay for services provided to prior generations.[24] In 2017 TVA made a one-time contribution of $500 million, in addition to its required contribution. The one-time contribution helped the pension funding status, but a mechanism that adjusts TVA's contributions to ensure adequate funding regardless of future plan experience is needed.

Tennessee Valley Authority Fund: 2014-2018 Income, Outgo, and Balances



Source: GAO analysis of Office of Management and Budget data. | GAO-20-156

Note: In this account, income includes proceeds from borrowing and outgo includes repayment of borrowing.

[23]GAO, *Tennessee Valley Authority: Actions Needed to Better Communicate Debt Reduction Plans and Address Billions in Unfunded Pension Liabilities.* GAO-17-343 (Washington, D.C.: March 23, 2017).

[24]GAO-17-343.

Case Study: Postal Service Fund

Agency: United States Postal Service
Fund type: Public Enterprise Fund
Entitlement Program: No

Deficit Control Act Category: Mandatory
Sequestration Status: Exempt

The United States Postal Service (USPS) roots date back to 1775 when the Continental Congress appointed Benjamin Franklin as Postmaster General. Throughout the years, the mode and price of mail delivery changed. In 1970, President Nixon signed into law the Postal Reorganization Act (Pub. L. No. 91-375). The 1970 act removed the Post Office Department from the President's cabinet, retained the postal mail monopoly, and gave the USPS more latitude to set employee wages and postage rates. Congress has long provided USPS with revenue protection in the form of statutory monopolies to deliver letter mail and access mailboxes. These monopolies help protect USPS's revenues, which helps USPS fulfill its universal service mission. The letter delivery monopoly has prevented private competitors from offering service on low-cost routes at rates below USPS's while leaving USPS with high-cost routes. The mailbox monopoly gives USPS exclusive access to mailboxes. However, according to USPS officials, letter mail now faces robust competition from electronic sources.[25]

Income

Total income into the Postal Service Fund was $71.1 billion in fiscal year 2018 (see figure below).[26] Domestic First-Class Mail is USPS's most profitable class of mail and comprises about 35 percent of its annual revenue according to USPS reports. Other sources of revenue for USPS include marketing mail, shipping and packages, international mail, and periodicals. USPS also receives a small portion of annual appropriations from general revenues to fund free mail for the blind and overseas absentee voting. These appropriations account for less than a tenth of a percent of the total cash outlays of the Postal Service Fund. USPS received $58 million in appropriations for these activities in fiscal year 2018, when total outlays were $69 billion. The long-term decline of First-Class Mail volume, which USPS expects to continue for the foreseeable future, has fundamental implications for USPS.

Outgo

Total outgo from the Postal Service Fund was $69.4 billion in fiscal year 2018. Compensation and benefits comprised approximately 76 percent of total new USPS obligations in fiscal year 2018. USPS reported that compensation and benefits for active employees increased by $0.9 billion in fiscal year 2018, in part because of wage adjustments and additional work hours associated with growth in the more labor-intensive Shipping and Packages business.[27]

Investments

As of September 30, 2018, the USPS held approximately $10.5 billion in U.S. Treasury securities.

[25]GAO, *U.S. Postal Service: Key Considerations* for Potential Changes to USPS's Monopolies, GAO-17-543 (Washington, D.C.: June 22, 2017).

[26]OMB data reports income and outgo for USPS on a cash basis. USPS also reports financial data on an accrual basis in their annual 10K report.

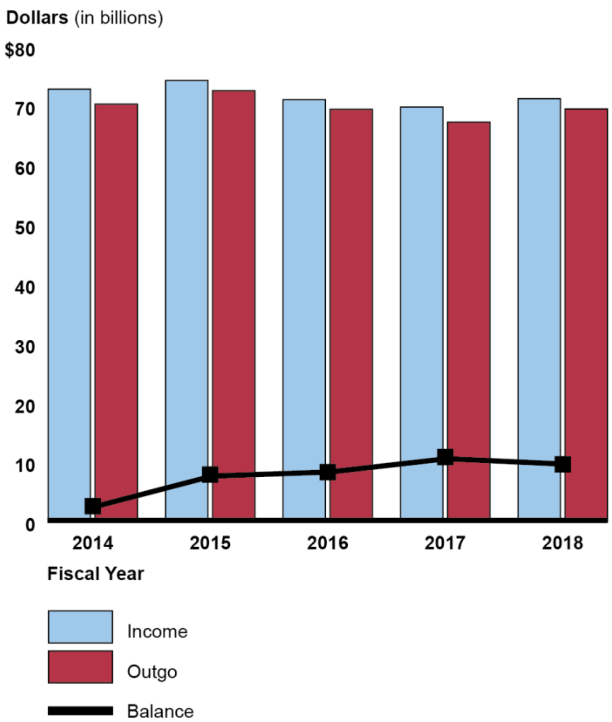
[27]The Shipping and Packages category includes Priority Mail, Priority Mail Express, Parcel Select, Parcel Return, First-Class Package Service, and certain other package delivery classes.

Current Issues

In July 2009, we added USPS's financial condition to our list of high-risk areas needing attention by Congress and the executive branch.[28] USPS's financial condition continues to decline and the issue remains on our High-Risk List. After about 30 years of relatively steady growth, USPS's expenses began consistently exceeding revenues in fiscal year 2007. We have found that the continued deterioration in USPS's financial condition is due primarily to two factors: declining First-Class Mail volumes and expenses growing faster than revenues. Because USPS actions under its existing authority will be insufficient to restore its financial viability, we have reported a balanced package of legislative reform continues to be needed.[29]

In addition, USPS has missed $48.2 billion in required payments for funding postal retiree health and pension benefits through fiscal year 2018, including $42.6 billion in missed funding payments for retiree health benefits since fiscal year 2010, and $5.6 billion for funding pension benefits since fiscal year 2014. USPS has stated that it missed these payments to minimize the risk of running out of cash, citing its precarious financial condition and that it lacks sufficient liquidity to make these payments while meeting their mission requirements.

Postal Service Fund: 2014-2018 Income, Outgo, and Balances



Source: GAO analysis of Office of Management and Budget data. | GAO-20-156

[28]GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas,* GAO-19-157SP (Washington, D.C.: Mar. 6, 2019).

[29]GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas,* GAO-19-393T (Washington, D.C.: Mar. 6, 2019).

Appendix III: Comments from the Social Security Administration

SOCIAL SECURITY
Office of the Commissioner

December 10, 2019

Ms. Tranchau (Kris) T. Nguyen
Director, Education, Workforce, and Income Security Team
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Director Nguyen:

Thank you for the opportunity to review the draft report, "Federal Trust Funds and Other Dedicated Funds: Fiscal Sustainability Is a Growing Concern for Some Key Funds" (GAO-20-156). We appreciate GAO's analysis of the solvency and sustainability challenges facing the Social Security trust funds.

If you have any questions, please contact me at (410) 965-9704. Your staff may contact Trae Sommer, Director of the Audit Liaison Staff, at (410) 965-9102.

Sincerely,

Stephanie Hall

Stephanie Hall
Chief of Staff

SOCIAL SECURITY ADMINISTRATION BALTIMORE, MD 21235-0001

Appendix IV: Comments from the U.S. Postal Service

LUKE T. GROSSMANN
SENIOR VICE PRESIDENT, FINANCE AND STRATEGY

UNITED STATES POSTAL SERVICE

December 10, 2019

Tranchau T. Nguyen
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548-0001

SUBJECT: Draft report review of *Federal Trust Funds and Other Dedicated Funds: Fiscal Sustainability is a Growing Concern for Some Key Funds (GAO-20-156) – January 2020*

Dear Ms. Nguyen:

Thank you for the opportunity to review and comment on the draft United States Government Accountability Office (GAO) report to Congressional Requesters titled *Federal Trust Funds and Other Dedicated Funds: Fiscal Sustainability is a Growing Concern for Some Key Funds (GAO-20-156).*

We have reviewed the draft report and have no additional comments to add beyond those shared within the review process.

Sincerely,

Luke T. Grossmann

475 L'Enfant Plaza SW Room 8011
Washington, DC 20260-0004

WWW.USPS.COM

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

Tranchau (Kris) T. Nguyen, (202) 512-6806 or nguyentt@gao.gov

Staff Acknowledgments

In addition to the contact named above, Susan E. Murphy (Assistant Director), Katherine D. Morris (Analyst in Charge), Alicia Cackley, Janice Ceperich, Jacqueline Chapin, Steven Cohen, Michael Collins, James Cosgrove, Robert Dacey, Karin Fangman, Paul Foderaro, Carol Henn, James A. Howard, Susan J. Irving, Charles Jeszeck, Kenneth John, Heather Krause, Natalie Logan, Scott McNulty, John Mingus, Sally Moino, Tracie Sanchez, Lori Rectanus, Frank Rusco, Dawn Simpson, Frank Todisco, Peter Verchinski, and Alicia White made key contributions to this report.

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