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The Outlook for Major Federal Trust Funds: 2020 to 2030

The federal government uses several accounting mechanisms to link earmarked receipts (that is, money designated for a specific purpose) with corresponding expenditures. One of those mechanisms is trust funds.[1] When the receipts designated for trust funds exceed the amounts needed for expenditures, the funds are credited with nonmarketable debt instruments known as Government Account Series (GAS) securities, which are issued by the Treasury. At the end of fiscal year 2019, trust funds held $5.2 trillion in such securities.[2]

The federal budget has numerous trust funds, although most of the money credited to them goes to fewer than a dozen. By far the largest trust funds are Social Security's Old-Age and Survivors Insurance (OASI) Trust Fund and the funds dedicated to the government's retirement programs for its military and civilian personnel (see Table 1).

1. Other mechanisms serving that purpose are special funds (such as the fund that the Department of Defense uses to finance its health care program for military retirees) and revolving funds (such as the Federal Employees' Group Life Insurance fund).

2. Debt issued in the form of GAS securities is included in a measure of federal debt called gross debt—but because it is intragovernmental in nature, it is not included in the measure called debt held by the public. For a discussion of different measures of federal debt, see Congressional Budget Office, *Federal Debt: A Primer* (March 2020), www.cbo.gov/publication/56165.

According to the Congressional Budget Office's current baseline budget projections, the balances held by federal trust funds will fall by $43 billion in fiscal year 2020.[3] That amount is $100 billion lower than the $57 billion surplus that the agency estimated in January, when it last published its baseline budget projections for the major trust funds.[4] The change in CBO's estimate was largely driven by an increase in payments made by the Unemployment Trust Fund as the number of beneficiaries increased.

Spending from the trust funds is projected to exceed income by $18 billion in 2021, a deficit that grows to $502 billion by 2030 (see Table 2). Over the

3. Typically, the change in trust funds' balances in a given year equals their deficit or surplus in that year. However, the trust funds' estimated total deficit for 2020 is $76 billion, not $43 billion. The reason is that the Unemployment Trust Fund's balances are not large enough to cover its deficit this year. That fund receives repayable advances from the Treasury to make up for any shortfalls when its balance is exhausted. For more information about CBO's most recent baseline projections, see Congressional Budget Office, *An Update to the Budget Outlook: 2020 to 2030* (September 2020), www.cbo.gov/publication/56517.

4. See Congressional Budget Office, "10-Year Trust Fund Projections" (supplemental material for *The Budget and Economic Outlook: 2020 to 2030*, January 2020), www.cbo.gov/data/budget-economic-data#5.

Notes: Unless this report indicates otherwise, all years referred to are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end. Numbers in the text and tables may not add up to totals because of rounding.

Table 1.

CBO's Baseline Projections of Trust Fund Balances

Billions of Dollars

	Actual, 2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Social Security												
Old-Age and Survivors Insurance	2,804	2,811	2,707	2,572	2,430	2,256	2,049	1,817	1,556	1,257	917	533
Disability Insurance[a]	97	95	80	63	48	29	10	0	0	0	0	0
Subtotal	2,901	2,907	2,787	2,636	2,477	2,285	2,059	1,817	1,556	1,257	917	533
Medicare												
Hospital Insurance (Part A)[a]	199	153	155	88	28	0	0	0	0	0	0	0
Supplementary Medical Insurance (Parts B and D)	105	115	128	109	114	152	173	194	211	182	240	240
Subtotal	303	268	283	197	142	152	173	194	211	182	240	240
Military Retirement	827	905	1,005	1,106	1,212	1,323	1,436	1,553	1,559	1,564	1,567	1,567
Civilian Retirement[b]	960	976	996	1,015	1,034	1,054	1,073	1,093	1,114	1,135	1,157	1,179
Unemployment Insurance	84	0	0	70	69	67	53	49	44	56	66	71
Highway and Mass Transit[a]	28	11	0	0	0	0	0	0	0	0	0	0
Airport and Airway	15	9	*	*	1	2	3	5	6	8	10	12
Railroad Retirement (Treasury holdings)[c]	3	2	2	2	2	2	2	1	1	1	1	1
Other[d]	124	124	126	128	130	132	134	137	140	142	145	149
Total Trust Fund Balance	**5,246**	**5,203**	**5,200**	**5,153**	**5,068**	**5,017**	**4,933**	**4,849**	**4,632**	**4,346**	**4,103**	**3,752**
Memorandum:												
Railroad Retirement (Non-Treasury holdings)[c]	24	23	22	20	19	18	17	15	14	14	13	13

Source: Congressional Budget Office.

These balances are for the end of the fiscal year and include securities invested in Treasury holdings.

* = between zero and $500 million.

a. In keeping with the rules in section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985, CBO's baseline incorporates the assumption that scheduled payments will continue to be made in full after the trust fund has been exhausted, although there is no legal authority to make such payments. Because the manner in which those payments continued would depend on future legislation, the table shows zero rather than a cumulative negative balance in the trust fund after the exhaustion date.

b. Includes Civil Service Retirement, Foreign Service Retirement, and several smaller retirement funds.

c. The Railroad Retirement and Survivors' Improvement Act of 2001 established an entity, the National Railroad Retirement Investment Trust, that is allowed to invest in non-Treasury securities, such as stocks and corporate bonds.

d. Consists mainly of trust funds for federal employees' health and life insurance, the Superfund program, and various insurance programs for veterans.

2021–2030 period, CBO projects a cumulative trust fund deficit of $2.3 trillion, on net.[5] That amount is $130 billion (or 6 percent) larger than the $2.2 trillion deficit that the agency estimated in January 2020. The projections for deficits were revised upward in part because of the economic disruption stemming from the 2020 coronavirus pandemic, which reduced CBO's estimates of payroll tax revenues.

If the Congress did not take action to address the shortfalls, CBO projects, the balances in three trust funds would be exhausted within the next 10 years: the Highway Trust Fund (in fiscal year 2021), Medicare's Hospital Insurance (HI) Trust Fund (in fiscal year 2024), and Social Security's Disability Insurance (DI) Trust Fund (in fiscal year 2026).[6] No provisions in law dictate the funds' procedures once their balances are depleted. However, if that happened, excise and payroll taxes designated for the funds would continue to be collected,

5. The baseline projections described in this report incorporate legislation enacted through August 4, 2020. They do not reflect the budgetary effects of the four administrative actions announced by the President on August 8, 2020.

6. CBO also projects that the Unemployment Trust Fund would be exhausted (in fiscal year 2020), but again, it receives repayable advances from the Treasury to make up for any shortfalls.

Table 2.

CBO's Baseline Projections of Trust Fund Deficits and Surpluses

Billions of Dollars

	Actual, 2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Social Security														
Old-Age and Survivors Insurance	3	7	-104	-135	-142	-174	-207	-232	-260	-300	-340	-384	-762	-2,278
Disability Insurance[a]	3	-1	-15	-17	-16	-18	-19	-20	-21	-16	-13	-11	-86	-167
Subtotal	6	6	-119	-152	-158	-192	-226	-253	-281	-315	-353	-395	-848	-2,445
Medicare														
Hospital Insurance (Part A)[a]	-4	-46	2	-67	-60	-54	-78	-83	-88	-119	-84	-113	-257	-745
Supplementary Medical Insurance (Parts B and D)	7	10	13	-19	5	38	21	21	18	-29	58	*	58	126
Subtotal	2	-36	16	-86	-54	-16	-57	-63	-70	-148	-26	-113	-198	-619
Military Retirement	84	78	100	101	106	111	113	117	6	5	2	1	531	662
Civilian Retirement[b]	17	16	19	19	19	19	20	20	20	21	22	22	97	203
Unemployment Insurance	12	-118	-10	70	-1	-2	-14	-4	-5	12	10	5	42	61
Highway and Mass Transit[a]	-13	-17	-16	-14	-15	-17	-20	-22	-23	-24	-25	-27	-82	-203
Airport and Airway	1	-6	-9	*	1	1	1	1	2	2	2	2	-6	3
Other[c]	4	1	1	2	2	2	2	2	3	3	3	3	9	23
Total Trust Fund Deficit (-) or Surplus	**113**	**-76**	**-18**	**-60**	**-100**	**-94**	**-182**	**-201**	**-348**	**-444**	**-366**	**-502**	**-455**	**-2,316**
Intragovernmental Transfers to Trust Funds[d]	770	847	802	818	944	982	1,018	1,074	1,023	1,052	1,115	1,153	4,564	9,981
Net Budgetary Impact of Trust Fund Programs	**-657**	**-923**	**-820**	**-878**	**-1,044**	**-1,077**	**-1,200**	**-1,275**	**-1,371**	**-1,496**	**-1,482**	**-1,655**	**-5,018**	**-12,297**

Source: Congressional Budget Office.

Negative numbers indicate that the trust fund transactions add to total budget deficits.

* = between -$500 million and $500 million.

a. CBO projects that this trust fund will be exhausted during the 2020–2030 period. However, in keeping with the rules in section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985, CBO's baseline incorporates the assumption that scheduled payments will continue to be made in full after the trust fund has been exhausted, although there is no legal authority to make such payments. The manner in which those payments would continue would depend on future legislation.

b. Includes Civil Service Retirement, Foreign Service Retirement, and several smaller retirement funds.

c. Consists mainly of trust funds for railroad workers' retirement, federal employees' health and life insurance, the Superfund program, and various insurance programs for veterans.

d. Includes interest paid to trust funds, payments from the Treasury's general fund to the Supplementary Medical Insurance Trust Fund, the government's share of payments for federal employees' retirement, lump-sum payments to the Civil Service and Military Retirement Trust Funds, taxes on Social Security benefits, and smaller miscellaneous payments.

and the funds would continue to make payments, but they would not have the authority to make payments in excess of receipts. Thus they would no longer be able to pay amounts as projected under current law.[7]

How Trust Funds Work

Ordinarily, when a trust fund receives income that is not needed immediately to pay benefits or cover other

7. The balances of the trust funds represent the total amount that the government is legally authorized to spend. For more information about the legal issues related to exhaustion of a trust fund, see William R. Morton and Barry F. Huston, *Social Security: What Would Happen If the Trust Funds Ran Out?* Report RL33514, version 31 (Congressional Research Service, July 29, 2020), https://go.usa.gov/xEtaw. See also Congressional Budget Office, *The 2019 Long-Term Budget Outlook* (June 2019), www.cbo.gov/publication/55331.

expenses, the Treasury issues GAS securities in that amount to the fund and then uses the extra cash to finance the government's activities, just as it uses other revenues. As a result, the government borrows less from the public than it would without that extra net income. The reverse happens when a trust fund's income falls short of its expenses; the fund returns the GAS securities to the Treasury, which then must borrow from the public in order to make the necessary payments from the fund.

The balance of a trust fund at any given time is a measure of the historical relationship between the related program's receipts and expenditures. That balance (in the form of GAS securities) is an asset for the individual program, such as Social Security, but a liability for the rest of the government. The resources to redeem a trust fund's securities—and thereby pay for benefits or other spending—in some future year must be generated through taxes, income from other governmental sources, or borrowing from the public in that future year. Trust funds have legal meaning in that their balances are a measure of the amounts that the government has the legal authority to spend for certain purposes under current law, but they have little relevance in an economic or budgetary sense unless the limits of that authority are reached.

To assess how all federal activities, taken together, affect the economy and financial markets, it is useful to include the cash receipts and expenditures of trust funds in the budget totals, along with the receipts and expenditures of other federal programs. CBO, the Office of Management and Budget, and other fiscal analysts generally follow that practice.

Effects on the Budget

Some of the trust funds' income is in the form of intragovernmental transfers. Those transfers include interest credited to the trust funds; payments from the Treasury's general fund to cover most of the costs of payments for outpatient medical services (including payments to physicians) and for prescription drugs under Parts B and D of Medicare; and the government's share of payments for federal employees' retirement programs. Transfers have also been made to protect trust funds from the financial effects of certain policies, most notably to offset a reduction in Social Security payroll taxes during calendar years 2011 and 2012.[8] Intragovernmental transfers shift resources from one category of the budget to another, but they do not directly change the total deficit or the government's borrowing needs. Intragovernmental transfers are projected to total $847 billion in 2020 and to reach $1.2 trillion in 2030.

Excluding those transfers and counting only income from sources outside the government (such as payroll taxes and Medicare premiums), CBO estimates that the trust fund programs' spending will exceed designated receipts by $923 billion in 2020. That excess—the amount that the programs add to federal deficits—is projected to be $820 billion in 2021 and to grow to $1.7 trillion in 2030.

Those estimates follow procedures specified in section 257(b) of the Balanced Budget and Emergency Deficit Control Act of 1985. Specifically, CBO must make the assumption that the federal government will make required payments in full, regardless of the status of the trust funds.

Social Security's Trust Funds

Social Security provides benefits to retired workers, their families, and some survivors of deceased workers through the OASI program; it also provides benefits to some people with disabilities and their families through the DI program. Those benefits are financed mainly through payroll taxes that are collected on workers' earnings at a rate of 12.4 percent—6.2 percentage points of which are paid by the worker and 6.2 percentage points by the employer. Since January 2000, of that 12.4 percent tax, 10.6 percentage points have been credited to the OASI trust fund and the remaining 1.8 percentage points to the DI trust fund.[9]

Old-Age and Survivors Insurance

The OASI trust fund, which held $2.8 trillion in GAS securities at the end of 2019, is by far the largest of all federal trust funds. CBO projects that the fund's annual income, excluding interest on those securities, will fall from $879 billion in 2020 to $823 billion next year (see Table 3).[10] If current laws generally did not change,

8. Similarly, the deferral of the employer portion of payroll taxes enacted in the Coronavirus Aid, Relief, and Economic Security (CARES) Act (Public Law 116-136) will not affect the amounts credited to trust funds.

9. The Bipartisan Budget Act of 2015 (P.L. 114-74) temporarily increased the payroll tax allocated to the DI trust fund to 2.37 percent for calendar years 2016 through 2018. In those years, 10.03 percentage points of the 12.4 percent tax were credited to the OASI trust fund.

10. Although the federal government is an employer, it does not pay taxes. Instead, to cover the employer's share of the Social Security payroll tax for federal workers, it makes an intragovernmental transfer from the general fund of the Treasury to the OASI and DI trust funds. That transfer is included in the income line in Table 3.

noninterest income received by the fund would increase over the remainder of the period, growing to $1.2 trillion by 2030, CBO estimates. Expenditures from the fund are projected to be $949 billion in 2020—exceeding noninterest income by $70 billion—and to grow more quickly than noninterest income over the next 10 years, rising to $1.6 trillion in 2030.

With expenditures growing by an average of about 6 percent a year and noninterest income (mostly from payroll taxes) increasing by an average of about 3 percent a year, the annual cash flows of the OASI program, excluding interest credited to the trust fund, would add to federal deficits in every year of the coming decade by amounts reaching $398 billion in 2030, CBO estimates (see Figure 1). Even with interest receipts included, the OASI trust fund is projected to record deficits that, in CBO's baseline projections, reach $384 billion in 2030. CBO projects that under current law, the balance of the OASI trust fund would be exhausted during calendar year 2031.[11]

Disability Insurance

The DI trust fund is much smaller than the OASI trust fund; its balance at the end of 2019 was $97 billion. In CBO's current baseline projections, the annual income of the DI fund, excluding interest, declines from $144 billion in 2020 to $134 billion in 2021 (see Table 3). After 2021, the fund's income is projected to grow gradually, reaching $198 billion in 2030. As with the OASI fund, expenditures from the DI fund are projected to increase steadily over the next decade—but at a slower rate, about 4 percent a year—rising from $148 billion in 2020 to $209 billion in 2030. Noninterest income credited to the DI fund roughly matched expenditures in 2019, in part because of a temporary reallocation of payroll taxes, but the DI trust fund is projected to add to the federal deficit in each of the next 10 years, CBO estimates. Even with interest receipts included, the trust fund is projected to run an annual deficit, starting this year.

If current laws generally did not change, the balance of the DI fund would be exhausted in 2026, CBO projects. If the outlays were limited thereafter to income credited to the trust fund, during 2027 they would be 11 percent below the amounts scheduled under current law. The gap between revenues and outlays would shrink after that because receipts would grow more quickly than costs; by 2030, the reduction in benefits would amount to 5 percent.

CBO had previously projected that the DI trust fund would be solvent through the end of the 10-year projection period.[12] The earlier exhaustion date currently projected is largely the result of CBO's projections of lower payroll tax revenues and higher spending on benefits in the next few years.

Trust Funds for Federal Employees' Retirement Programs

After Social Security, the largest trust fund balances at the end of 2019 were held by the Military Retirement Trust Fund ($827 billion) and by various civilian employee retirement funds (a total of $960 billion).[13] Those accounts are mainly funded through transfers from federal agencies, payroll deductions from workers, and supplemental payments from the Treasury. Unlike Social Security's and Medicare's trust funds, those retirement funds are projected to run surpluses throughout the coming decade. In CBO's baseline projections, the annual surpluses grow from a combined total of $93 billion in 2020 to $137 billion in 2026 and then decline to $23 billion in 2030.

Of the cumulative growth in the funds' projected balances over the 10-year period, about three-quarters is attributable to the Military Retirement Trust Fund (see Table 1). In CBO's current baseline projections, the balance of the Military Retirement Trust Fund increases by 6 percent annually over the coming decade, reaching nearly $1.6 trillion in 2030. That fund's rapid growth, particularly through 2026, is because of additional payments that the Treasury is required to make in those years to increase the size of the fund so that it aligns better with projected liabilities. By contrast, balances

11. CBO's current estimate of the fund's exhaustion date is one year earlier than the estimate of calendar year 2032 published in *The 2019 Long-Term Budget Outlook* (June 2019), www.cbo.gov/publication/55331. The earlier exhaustion date largely results from downward revisions to projected income received by the trust fund, which more than offset the reductions in projected expenditures from the fund. For more details, see Congressional Budget Office, *The 2020 Long-Term Budget Outlook* (forthcoming).

12. See Congressional Budget Office, "Details About Baseline Projections for Selected Programs: Social Security Trust Funds" (March 2020), www.cbo.gov/publication/51309.

13. Those civilian retirement funds include the Civil Service Retirement Trust Fund, the Foreign Service Retirement Trust Fund, and several smaller retirement funds.

Table 3.

CBO's Baseline Projections of Balances in the OASI, DI, HI, and SMI Trust Funds

Billions of Dollars

	Actual, 2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
OASI Trust Fund														
Beginning-of-Year Balance	2,801	2,804	2,811	2,707	2,572	2,430	2,256	2,049	1,817	1,556	1,257	917	n.a.	n.a.
Income (Excluding interest)	820	879	823	853	913	954	996	1,047	1,096	1,143	1,190	1,235	4,539	10,250
Expenditures	-897	-949	-996	-1,049	-1,108	-1,173	-1,242	-1,313	-1,385	-1,468	-1,549	-1,633	-5,568	-12,916
Noninterest Deficit (-)	-76	-70	-173	-196	-195	-219	-246	-266	-289	-324	-360	-398	-1,028	-2,666
Interest Received	80	77	69	62	52	45	39	34	29	25	20	14	266	388
Total Deficit (-) or Surplus	3	7	-104	-135	-142	-174	-207	-232	-260	-300	-340	-384	-762	-2,278
End-of-Year Balance	**2,804**	**2,811**	**2,707**	**2,572**	**2,430**	**2,256**	**2,049**	**1,817**	**1,556**	**1,257**	**917**	**533**	**n.a.**	**n.a.**
DI Trust Fund[a]														
Beginning-of-Year Balance	93	97	95	80	63	48	29	10	0	0	0	0	n.a.	n.a.
Income (Excluding interest)	148	144	134	139	149	155	162	169	177	184	191	198	740	1,659
Expenditures	-148	-148	-152	-159	-167	-175	-182	-190	-197	-200	-204	-209	-835	-1,836
Noninterest Deficit (-) or Surplus	*	-4	-18	-20	-18	-20	-20	-21	-21	-16	-13	-11	-95	-177
Interest Received	3	3	3	3	2	1	1	1	0	0	0	0	9	10
Total Deficit (-) or Surplus	3	-1	-15	-17	-16	-18	-19	-20	-21	-16	-13	-11	-86	-167
End-of-Year Balance	**97**	**95**	**80**	**63**	**48**	**29**	**10**	**0**	**0**	**0**	**0**	**0**	**n.a.**	**n.a.**
HI Trust Fund[a]														
Beginning-of-Year Balance	203	199	153	155	88	28	0	0	0	0	0	0	n.a.	n.a.
Income (Excluding interest)	319	336	319	332	355	372	390	412	436	457	478	499	1,768	4,050
Expenditures	-330	-388	-322	-404	-418	-426	-468	-495	-524	-576	-563	-612	-2,038	-4,808
Noninterest Deficit (-)	-11	-52	-3	-72	-62	-55	-78	-83	-88	-119	-84	-113	-271	-758
Interest Received	7	7	6	5	3	1	0	0	0	0	0	0	14	14
Total Deficit (-) or Surplus	-4	-46	2	-67	-60	-54	-78	-83	-88	-119	-84	-113	-257	-745
End-of-Year Balance	**199**	**153**	**155**	**88**	**28**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**n.a.**	**n.a.**
SMI Trust Fund														
Beginning-of-Year Balance	98	105	115	128	109	114	152	173	194	211	182	240	n.a.	n.a.
Income (Excluding interest)	452	489	506	555	607	654	716	771	827	891	951	1,004	3,038	7,482
Expenditures	-453	-481	-495	-577	-604	-619	-699	-754	-814	-925	-898	-1,010	-2,994	-7,395
Noninterest Deficit (-) or Surplus	-1	8	11	-22	3	36	17	17	13	-34	53	-6	45	88
Interest Received	3	2	3	3	3	3	3	4	5	5	5	6	14	38
Total Deficit (-) or Surplus	7	10	13	-19	5	38	21	21	18	-29	58	*	58	126
End-of-Year Balance	**105**	**115**	**128**	**109**	**114**	**152**	**173**	**194**	**211**	**182**	**240**	**240**	**n.a.**	**n.a.**

Source: Congressional Budget Office.

Balances shown are invested in Government Account Series securities issued by the Treasury.

DI = Disability Insurance; HI = Hospital Insurance; OASI = Old-Age and Survivors Insurance; SMI = Supplementary Medical Insurance; n.a. = not applicable; * = between zero and $500 million.

a. In keeping with the rules in section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985, CBO's baseline incorporates the assumption that scheduled payments will continue to be made in full after the trust fund has been exhausted, although there is no legal authority to make such payments. Because the manner in which those payments continued would depend on future legislation, the table shows zero rather than a cumulative negative balance in the trust fund after the exhaustion date. For the same reason, the table shows zero interest received rather than an interest payment, which implicitly reflects the assumption that future legislation would not require the funds to pay financing costs.

in the civilian retirement funds are projected to grow gradually, increasing by about 2 percent annually over the next decade and totaling roughly $1.2 trillion at the end of 2030.

Medicare's Trust Funds

Payments for Medicare benefits are made from two trust funds. The HI trust fund is used to make payments to hospitals and providers of postacute-care services under Part A of the Medicare program, and the Supplementary Medical Insurance (SMI) Trust Fund is used to make payments for outpatient services (including physicians' services) and prescription drugs under Parts B and D of Medicare.[14]

Hospital Insurance Trust Fund

The HI trust fund, which had a balance of $199 billion at the end of 2019, is the larger of Medicare's two trust funds. The fund's income is derived primarily from the Medicare payroll tax (which amounts to 2.9 percent of workers' earnings, divided equally between the worker and the employer, or 3.8 percent for certain high-income earners). In 2019, that tax accounted for 87 percent of the $319 billion in noninterest income credited to the HI trust fund. An additional 7 percent came from part of the income taxes on Social Security benefits collected from beneficiaries. The remaining 6 percent of the HI trust fund's noninterest income consisted of premiums paid by beneficiaries; amounts recovered from overpayments to providers; fines, penalties, and other amounts collected by the Health Care Fraud and Abuse Control program; and other transfers and appropriations. In addition, the trust fund is credited with interest on its balances; that interest amounted to $7 billion in 2019.

The HI trust fund's noninterest income is projected to increase from $336 billion in 2020 to $499 billion in 2030—an average annual increase of about 4 percent (see Table 3 on page 6). But annual expenditures from the fund are projected to grow more rapidly—at an average annual rate of 5 percent—rising from $388 billion in 2020 to $612 billion in 2030.[15] If current laws

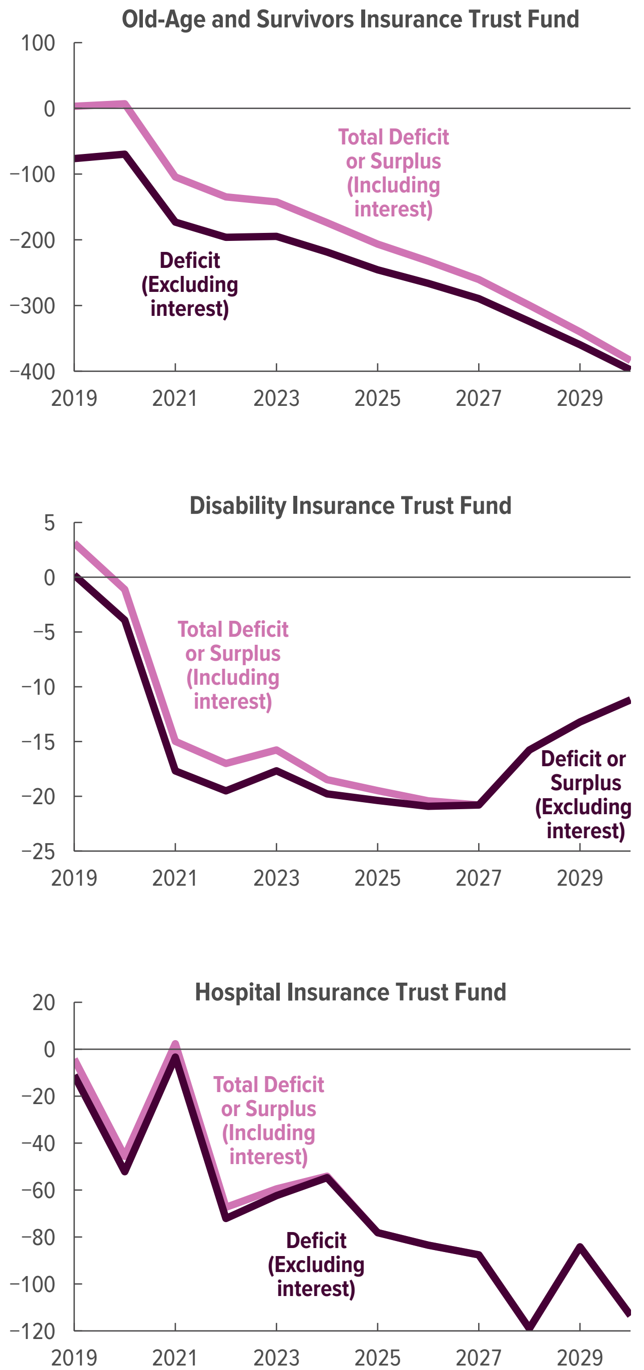
14. Part C of Medicare (known as Medicare Advantage) specifies the rules under which private health care plans can assume responsibility for, and be paid for, providing benefits covered under Parts A and B.

15. When October 1 (the first day of the fiscal year) falls on a weekend, as it will in calendar years 2022, 2023, and 2028, some Medicare payments that would ordinarily have been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. In addition, the CARES Act includes a provision that allows hospitals more time before repaying accelerated payments made by Medicare on the basis of expected future claims. That provision will increase outlays from the HI Trust Fund in 2020 and lower them in 2021.

Figure 1.

CBO's Baseline Projections of Annual Deficits and Surpluses in the OASI, DI, and HI Trust Funds

Billions of Dollars



Source: Congressional Budget Office.

DI = Disability Insurance; HI = Hospital Insurance; OASI = Old-Age and Survivors Insurance.

governing the program remained in place and full benefits continued to be paid, expenditures would outstrip noninterest income in all years through 2030, CBO estimates. That imbalance would produce deficits of $72 billion in 2022 and $62 billion in 2023, the years immediately before the trust fund's exhaustion.[16] Including interest receipts, the trust fund is projected to run deficits in all years from 2022 through 2030 (see Figure 1 on page 7).

The HI trust fund is projected to become exhausted in 2024, two years sooner than CBO estimated this past March.[17] After the date of exhaustion, the Centers for Medicare & Medicaid Services (CMS) could not make payments in excess of the available receipts. However, because CBO's baseline projections must incorporate the assumption that CMS would continue to pay HI benefits in full, CBO projects that outlays would exceed receipts by $78 billion in 2025, an amount that would increase to $113 billion in 2030.

Following its exhaustion, if the trust fund's outlays were limited to its income, expenditures in 2025 would be 17 percent below the amounts scheduled under current law, and they would be 19 percent below those amounts in 2030, CBO estimates. It is unclear what changes CMS could make in order to operate the Part A program under those circumstances.

Supplementary Medical Insurance Trust Fund

The SMI trust fund contains two separate accounts. One pays for physicians' services and other health care provided on an outpatient basis under Part B of Medicare (Medical Insurance), and the other pays for prescription drug benefits under Part D.

The SMI trust fund differs from the HI trust fund in that most of its income does not come from a specified set of revenues collected from the public. Rather, most of the SMI fund's income is in the form of transfers from the general fund of the Treasury, which are automatically adjusted to cover the differences between the program's spending and specified revenues. (In 2019, for example, $332 billion was transferred from the general fund to the SMI fund, accounting for about three-quarters of its income.) Thus, the balance in the SMI fund cannot be exhausted.

The funding mechanisms used for the two accounts differ slightly:

- The Part B portion of the SMI fund is financed mainly through transfers from the general fund of the Treasury and through monthly premium payments from Medicare beneficiaries. The basic monthly premium for Part B is set to cover approximately 25 percent of the program's expected spending (and is adjusted to maintain a contingency reserve to cover unexpected spikes in spending). Beneficiaries with relatively high income pay a larger premium. The amount transferred from the general fund equals about three times the amount expected to be collected from basic premiums minus the amount collected from the income-related premiums, fees from drug manufacturers, and interest income.

- The Part D portion of the SMI fund is financed mainly through transfers from the general fund, monthly premium payments from beneficiaries, and transfers from states (which are based on the number of people in a state who would have received prescription drug coverage under Medicaid in the absence of Part D). The basic monthly premium for Part D is set to cover 25.5 percent of the program's estimated spending if all participants paid it. But low-income people who receive subsidies available under Part D are not required to pay Part D premiums, and most other beneficiaries pay their premiums directly to their Part D plan. As a result, receipts are projected to cover less than 25.5 percent of the government's costs even though higher-income participants in Part D pay the government a larger premium. The amount transferred from the general fund is set to cover total expected spending for benefits and administrative costs net of the amounts transferred from states and collected from basic and income-related premiums.

At the end of 2019, the SMI fund held $105 billion in GAS securities. Those holdings are projected to more than double, reaching $240 billion in 2030.

16. Under current law, the deficit, excluding interest, produced by the HI trust fund in 2021 would be only $3 billion, CBO estimates, because payments to some providers that were made in 2020 in advance of expected future claims are scheduled to be recouped by the fund through 2021.

17. See Congressional Budget Office, "Details About Baseline Projections for Selected Programs: Medicare" (March 2020), www.cbo.gov/publication/51302. The earlier exhaustion date in CBO's current baseline projections results primarily from the agency's expectation that the recent economic disruption will reduce payroll tax revenues.

Highway Trust Fund

The Highway Trust Fund comprises two accounts: the highway account, which funds the construction of highways and highway safety programs, and the transit account, which funds mass transit programs. Revenues credited to the Highway Trust Fund are derived primarily from excise taxes on gasoline and certain other motor fuels.[18] Most of those taxes are scheduled to expire after 2022. Almost all spending from the fund is controlled by limitations on obligations set in appropriation acts.

From 2008 through 2019, the fund's spending exceeded its revenues by a total of $127 billion. As a result, lawmakers authorized a series of transfers to the Highway Trust Fund to avoid delaying payments to state and local governments. Most recently, in December 2015, the Fixing America's Surface Transportation Act (also called the FAST Act, Public Law 114-94) transferred $70 billion to the Highway Trust Fund, mostly from the general fund of the Treasury, as the fund's balance neared exhaustion. Including that amount, the transfers have totaled almost $144 billion.

In CBO's baseline projections, the obligation limitations that control most of the spending from the trust fund are assumed to increase each year at the rate of inflation. Under that assumption, both the highway account and the transit account would be exhausted in 2021.[19]

The baseline projections are also required by law to reflect the assumption that expiring excise taxes dedicated to a trust fund will be extended—in this case, beyond 2022. If the fund was exhausted, its spending would then be limited to no more than it collected in receipts. In 2022, the first year after the fund's projected exhaustion, its spending would be 25 percent below the amounts in the baseline projections, CBO estimates. The gap between the fund's revenues and spending would increase after that; by 2030, the reduction in spending would amount to 38 percent.

18. The other revenues credited to the Highway Trust Fund come from excise taxes on trucks and trailers, on truck tires, and on the use of certain kinds of vehicles.

19. In January 2020, CBO projected that the transit account would be exhausted in 2021 and the highway account in 2022. However, receipts from excise taxes are now expected to be lower, and trust fund spending in 2020 is estimated to be higher, than previously anticipated, resulting in an earlier exhaustion date for the highway account.

This volume is one of a series of reports on the state of the budget and the economy that the Congressional Budget Office issues each year. It satisfies the requirement of section 202(e) of the Congressional Budget Act of 1974 for CBO to submit to the Committees on the Budget periodic reports about fiscal policy and to provide baseline projections of the federal budget. The report is typically published as an appendix in the winter edition of *The Budget and Economic Outlook*; this year, it is being published to provide information underlying *An Update to the Budget Outlook: 2020 to 2030* (September 2020), www.cbo.gov/publication/56517.

In keeping with CBO's mandate to provide objective, impartial analysis, the report makes no recommendations.

Avi Lerner prepared the report with guidance from Christina Hawley Anthony, Theresa Gullo, and Sam Papenfuss. Robert Sunshine reviewed the report. Benjamin Plotinsky was the editor, and Casey Labrack and Robert Rebach were the graphics editors. An electronic version is available on CBO's website (www.cbo.gov/publication/56523).

CBO continually seeks feedback to make its work as useful as possible. Please send any comments to communications@cbo.gov.

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