Interfund Borrowing Under the Social Security Act *

Until recently, the four Social Security trust funds were, by law, kept completely separate, each having its own sources of revenue and paying benefits to specific groups of entitled persons. The original Social Security Act (Public Law 74-271, enacted on August 14, 1935) created the Old-Age Reserve Account, which was later renamed the Federal Old-Age and Survivors Insurance (OASI) Trust Fund. The Social Security Amendments of 1956 (Public Law 84-880, August 1, 1956) created the Federal Disability Insurance (DI) Trust Fund. The Social Security Amendments of 1965 (Public Law 89-97, July 30, 1965) created the Federal Hospital Insurance (HI) Trust Fund and the Federal Supplementary Medical Insurance (SMI) Trust Fund.

The Social Security Act did not allow transfers or loans among the four funds (although in certain situations, for convenience, one fund would pay relatively small amounts—generally, for administrative expenses—for another fund, with subsequent reimbursements and adjustments for interest). In the event that one of the three trust funds which rely primarily on the payroll tax as a source of income—OASI, DI, and HI—was inadequately financed, while another of these trust funds was more than adequately financed, amendments were passed by the Congress that included a reallocation of the tax rate among the funds in order to put income where it was needed most and to bring all the funds into actuarial balance. This occurred several times over the years, including one instance of a law (Public Law 96-403, October 9, 1980) being enacted with the sole purpose of reallocating the tax rate between the OASI and DI Trust Funds.

In 1981, as the financial problems of the OASI program became very critical, Congress took a different approach and passed the Social Security Amendments of 1981 (Public Law 97-123, December 29, 1981). Section 1 of that law provided immediate, but limited, interfund borrowing authority among the OASI, DI, and HI Trust Funds. Loans could be made to any one of these funds from either of the other funds, at the discretion of the Managing Trustee (the Secretary of the Treasury). Interest was required to be paid on such loans at the rate that would have been earned on the assets of the lending fund in the absence of interfund borrowing.

The law did not permit interfund loans to be made after December 31, 1982, and the Conference Report on the bill limited the amount of interfund borrowing by stating, "In no case shall interfund borrowing make adjustments in the trust funds insuring benefit payments for a period more than six months beyond the date of such determination [that borrowing is necessary]." [1] Thus, in practice, the new interfund borrowing authority could be used only to transfer funds from the DI and HI Trust Funds to the OASI Trust Fund, with the amount of such transfers being no larger than the amount necessary to guarantee benefit payments through June 30, 1983.

Although the interfund borrowing authority was effective immediately upon enactment of the law, the Secretary of the Treasury did not authorize any interfund loans until the OASI Trust Fund reached the point at which benefits could not be paid on time. The dates and amounts of interfund loans are shown in table 1.

Monthly benefit checks are usually sent to beneficiaries on the third day of each month (or the first preceding business day, if the third day is a Saturday, Sunday, or holiday). However, because most beneficiaries do not immediately cash their checks, the Treasury does not withdraw from the trust funds the entire amount of benefits paid until 2 business days after the check delivery date. In any case, the amount that will be withdrawn by the Treasury is always known at the time that the benefit checks are issued.

On November 5, 1982, the OASI Trust Fund balance was insufficient for the Treasury to withdraw the amount required to meet the OASI benefit checks that had been delivered on November 3. The exact amount of the shortfall was met by borrowing from the DI Trust Fund. On December 7, the OASI Trust Fund balance was insufficient for the Treasury to withdraw the amount required to meet the checks that had been delivered on December 3. This time the exact amount of the shortfall was borrowed from the HI Trust Fund. Finally, on December 31, the last day of the interfund borrowing authority granted by the 1981 legislation, loans were made to the OASI Trust Fund from the DI and HI Trust Funds in the amount estimated to be necessary to guarantee payment of benefit checks that would be issued through June 1983. Thus, mid-1983 was the implicit deadline for resolving the short-range OASDI financing problems.

The Social Security Amendments of 1983 (Public Law 98-21, April 20, 1983) reinstated the previously expired interfund borrowing authority and extended it through the end of 1987. The amendments also impose several restrictions on when interfund loans can be made and on when principal and interest payments on such loans have to be made. Differences between the original interfund borrowing legislation and the newly enacted legislation are described below.

As to borrowing provisions, the Conference Report on the 1981 amendments had limited the amount that could be loaned to a particular trust fund but did not

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[1] House Report No. 97-409, December 14, 1981, pages 10-11.

Table 1.—Interfund loans to the OASI Trust Fund

Date of loan	Total amount borrowed	Amount borrowed from— DI Trust Fund	HI Trust Fund
Total	$17,518,523,025.38	$5,081,252,899.48	$12,437,270,125.90
November 5, 1982	581,252,899.48	581,252,899.48	...
December 7, 1982	3,437,270,125.90	...	3,437,270,125.90
December 31, 1982	13,500,000,000.00	4,500,000,000.00	9,000,000,000.00

give direction regarding how much should be borrowed from which fund. The 1983 law prohibits borrowing from the HI Trust Fund whenever its trust fund ratio (defined for any month as the fund balance, not including loans from other funds, at the end of the second preceding month, divided by 12 times the expected outgo in the month) is below 10 percent. It also prohibits borrowing from the OASI or DI Trust Funds whenever the trust fund ratio for the combined OASI and DI Trust Funds is below 10 percent.

Regarding repayment of principal, the 1981 law contained no specific requirements for the repayment of interfund loans, although the Managing Trustee was directed to make appropriate repayments whenever the assets of the borrowing fund were expected to be sufficient to permit repayment. The 1983 law requires the Managing Trustee to determine each year the trust fund ratios (defined in this context as the fund balance, including loans from other funds, at the end of a year, divided by the expected outgo in the following year) for the combined OASI and DI Trust Funds and for the HI Trust Fund. If the ratio for any fund to which loans had previously been made exceeds 15 percent, then the excess over 15 percent must be used to repay any outstanding loan balance. If any loan balance remains outstanding on December 31, 1987, it must be repaid during the subsequent 24 months, with each monthly payment being at least equal to the outstanding balance, plus accrued interest, divided by the number of months remaining before January 1, 1990. Thus, all interfund loans must be completely repaid, including principal and interest, before 1990. It should be noted that, because the OASI and DI Trust Funds are generally considered as one fund in the context of this provision, the only requirement for the repayment of loans between the OASI and DI Trust Funds is that they must be completely repaid before 1990; however, no repayment schedule is specified.

Regarding interest payments, the 1981 law specified that the interest rate on interfund loans would be essentially the rate that would have been earned by the lending fund on the loaned funds if such loans had not taken place. The law did not, however, specify when interest payments should be made, stating only that they should be made "from time to time." [2] The 1983 law requires that interest payments be made on the last day of each month, which interestingly has the effect of speeding up the payment of interest in comparison to the semi-annual frequency of interest payments on the regular special-issue investments of the trust funds.[3] The new law does not change the interest rate on interfund loans.

Because of the limitations on when loans can be made and the improved financial situation of the OASI Trust Fund as a result of the 1983 amendments, it is not likely that new interfund loans will be made before the current authority expires at the end of 1987. The loans to the OASI Trust Fund from the HI Trust Fund are expected to be repaid by the end of 1988, even under pessimistic assumptions, and the loans from the DI Trust Fund are expected to be repaid by the end of 1989.

[2] Public Law 97-123, December 29, 1981, 96 STAT. 1659.

[3] This seemingly incongruous provision was carried over from an early version of the 1983 amendments that would have required all interest payments to be made monthly on trust fund investments. The general provision was dropped in the Conference Committee, but the specific requirement applying to interfund loans remained.