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UNITED STATES GENERAL ACCOUNTING OFFICE

REPORT TO THE CONGRESS

Need For A Uniform Method For Paying Interest On Government Trust Funds

B-154394

Department of Treasury

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

JAN. 10, 1975

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the Speaker of the House of Representatives
and the President pro tempore of the Senate

This is our report on the need for a uniform method for paying interest on Government trust funds.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of the report to the Secretary of the Treasury; the Secretary of Health, Education, and Welfare; the Secretary of Labor; the Secretary of Transportation; the Secretary of State; the Administrator of Veterans Affairs; the Chairman of the Civil Service Commission; the Chairman of the Railroad Retirement Board; and the Director of the Office of Management and Budget.

Elmer B. Staats

Comptroller General
of the United States

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ABBREVIATIONS

GAO General Accounting Office

HEW Department of Health, Education, and Welfare

VA Veterans Administration

COMPTROLLER GENERAL'S
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D I G E S T

WHY THE REVIEW WAS MADE

Large sums are invested for the major trust funds in Government securities at varying interest rates. At the same time, the financial status of the trust funds could affect future decisions on taxes, expenditures, and insurance rates.

GAO wanted to know whether a more uniform system for paying interest on funds borrowed from the trust funds would be feasible.

FINDINGS AND CONCLUSIONS

Trust fund receipts are deposited in the general account of the Treasurer of the U.S. and are commingled with Government receipts from other sources.

To the extent trust fund balances are not needed for trust fund purposes, such balances are available for general Government purposes and reduce the amount of funds that Treasury would otherwise have to borrow from the public. (See pp. 1 and 7.)

A main purpose underlying statutory requirements for investing trust funds is to provide a system for Treasury to pay interest to the trust funds when they are used for general Government purposes. (See p. 7.)

The bases for the interest rates which Treasury pays on funds borrowed from the trust funds by issuing special obligations are prescribed by statute for 11 major funds and are established administratively for the remaining 6 major trust funds included in GAO's review. (See p. 7.)

In recent years the existing system for paying interest on trust fund investments has not been equitable to the trust funds and the appropriation for interest on the public debt. GAO's review showed that:

--Treasury borrowed from the trust funds at June 30, 1970, 1971, 1972, 1973, and 1974 by issuing special issues which, in nearly all instances, bore lower interest rates than the estimated rates which Treasury would have had to pay if it had issued marketable securities with comparable maturities on the same dates. (See p. 12.)

--There were differences in the interest earnings of various trust funds because the special issues acquired by some trust funds bore higher interest rates than the special issues with the same maturity acquired on the same date by other trust funds. (See p. 13.)

--The maturities assigned by Treasury do not affect the interest rates assigned to the special issues. However, the maturities can substantially affect trust fund earnings because maturities often determine how long trust funds' investments are "locked into" the interest rates originally assigned to those issues. (See p. 15.)

--Special issues are redeemed at par when redeemed before maturity. This practice distorts the interest earnings of trust funds compared with the amounts trust funds would have earned if redemptions had been made in the open market. (See p. 18.)

--There are wide variations in the percentages of the various trust funds invested in open-market Government obligations and agency obligations which earn higher interest rates than special issues. (See p. 21.)

--Some trust funds are charged a fee for a guaranteed minimum rate of return on special issues whereas the special issues sold to other trust funds are guaranteed a minimum rate of return without any fee. (See p. 22.)

A more equitable system would be to pay interest to each fund at stated intervals on average balances at rates determined by the Secretary of the Treasury, considering the market yields of Treasury securities.

This would eliminate issuing special issues or purchasing Government or agency securities for these trust funds and provide that trust funds used for nontrust purposes by Treasury be compensated at interest rates in line with Treasury's current cost of borrowing from the public.

RECOMMENDATIONS

GAO's recommendations, which are directed to the Congress, are set forth under the caption "Matters for Consideration by the Congress."

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Treasury did not agree with GAO's conclusions or proposals for changes in the system. GAO does not consider the Department's comments responsive to the basic issue of inequities in the present system or as presenting valid reasons for rejecting its proposals.

The Treasury said that undoubtedly improvements can be made in the system developed for investing trust funds and it will continue to work toward improvements and recommend changes as they appear to be warranted.

The Department's comments are included as appendix I. GAO's evaluation of those comments is included as appendix II. Most of the other agencies responsible for the trust funds' program activities included in the GAO review deferred to the views of Treasury.

MATTERS FOR CONSIDERATION BY THE CONGRESS

GAO recommends that the Congress consider enacting one law for the investment of major trust funds. GAO recommends that consideration be given to enacting legislation which would provide that:

--Trust funds not be invested in specific Government securities but instead be paid interest on a basis similar to savings accounts in banks.

The interest rate assigned to each fund on any given day should be the same and be in line with the cost of borrowing by Treasury from the public.

--The Secretary of the Treasury be responsible for computing the interest rates.

--The interest rates be computed on a basis of market yields on all outstanding marketable securities or another appropriate measure of Treasury's cost to borrow funds and be adjusted periodically.

Adjustments might be made on June 30 and on December 31 on the basis of the average yield on marketable U.S. securities during the preceding 6 months.

The June 30 and the December 31 rates would apply to the average account balances of the trust funds during the preceding 6 months. Interest would be paid on June 30 and December 31.

--Funds invested in open-market securities be redeemed as they mature and special issues be redeemed at par when the new system is put into effect.

--The Second Liberty Bond Act (31 U.S.C. 757b) be amended to require that the balance of the trust fund accounts be subject to the statutory debt limitation.

--If GAO's preceding recommendations are implemented, the amounts Treasury borrows from the trust funds would not be governed by the limitation, whereas special issues and most of the marketable Government obligations presently held by the trust funds are subject to it.

The amounts Treasury borrows from the trust funds should be subject to the limitation in a similar manner as it presently applies to special issues and marketable obligations issued to trust funds.

GAO reviewed only 17 major trust funds. But there are other trust and special funds under the control of Treasury or other Federal agencies, the District of Columbia government, and quasi-Government agencies which are invested in Government securities. (See app. IV.)

There are as well some funds on deposit with the Treasury which are not invested but are paid interest at fixed rates on their balances. (See app. V.)

GAO recommends that the Congress consider whether any of these other trust and special funds should be included in the legislation recommended above for the 17 major trust funds. (See p. 26.)

CHAPTER 1

INTRODUCTION

Government trust funds are accounts maintained to record the receipts, expenditures, and balances of funds held in trust by the Government for use in carrying out specific purposes or programs in accordance with authorizing legislation. Appendix III briefly describes the 17 major Government trust funds.

The principal sources of trust fund receipts are payroll taxes, insurance premiums, Government employees' retirement contributions, fuel taxes, and interest income. Trust fund expenditures are for such purposes as old-age and survivors benefits, unemployment benefits, veterans life insurance, employees retirement and health benefits, and highway construction.

Trust fund receipts are deposited in the general account of the Treasurer of the United States and are commingled with Government receipts from other sources. The Treasurer's general account is the checking account maintained by the Treasurer with each Federal Reserve bank. Payments for trust fund purposes, as well as for most other governmental purposes, are made from the general account of the Treasurer. Treasury maintains separate accounting records for each trust fund showing the receipts, expenditures, and fund balances on deposit with the Treasury. The accounts also show how much of each fund's balance has been invested in interest-bearing Treasury or Government agency securities.

That portion of the trust funds not needed for current expenditures is invested from time to time in Government obligations or in Government agency obligations. By law, these funds can be invested only in Government or Government agency obligations. Some funds can be invested only in Government obligations, including nonmarketable special Government obligations designed for direct issuance to trust funds by the Treasury (special issues). Other funds may also be invested in Government agency marketable obligations which are guaranteed as to principal and interest by the United States, and some may be invested only in special issues. The Treasury does not actually issue the special issues in the form of certificates, notes, or bonds but maintains records showing for each trust fund, by classification of obligation, the amounts issued, redeemed, and outstanding.

As of June 30, 1974, there were 17 major trust funds holding special issues which had invested about $124 billion in special issues and marketable Government securities, as follows:

Trust fund	Government obligations held on June 30, 1974 Total	Special issues Amount	Marketable obligations Amount
	(000 omitted)		
Civil service retirement and disability	$ 34,331	$ 31,097	$ 3,234
Employees health benefits	246	80	166
Employees life insurance	1,397	124	1,273
Federal disability insurance	8,195	7,880	315
Federal hospital insurance	7,864	7,814	50
Federal old-age and survivors insurance	37,717	33,640	4,077
Federal supplementary medical insurance	1,231	1,231	-
Foreign service retirement	103	103	-
Government life insurance	651	651	-
Highway	7,599	7,599	-
National service life insurance	6,915	6,605	310
Railroad retirement account	4,501	3,659	842
Railroad retirement holding account	4	4	-
Railroad retirement supplemental account	44	44	-
Unemployment	12,121	9,495	2,626
Veterans reopened insurance	284	284	-
Veterans special life insurance	391	391	-
Total	$123,594	$110,701	$12,893

Also, as of June 30, 1973, there were about 50 smaller trust and other funds which had about $15.6 billion invested in marketable Government securities and special issues. (See app. IV.) In addition as of June 30, 1973, seven trust funds, one special fund, and one deposit fund on deposit with the Treasury were not invested in Government obligations but were credited with interest on their fund balances with the Treasury. (See app. V.)

SCOPE OF REVIEW

We directed most of our effort toward a review of the investment of the 17 major trust funds holding special issues at June 30, 1973, and 1974. We examined the legislation pertaining to the investment of these trust funds and reviewed the investment policies and practices of the Department of the Treasury, particularly those pertaining to the investment of funds in special issues during fiscal years 1973 and 1974.

We did not examine other aspects of trust fund administration, such as the expenditures made from trust funds or the actuarial status of the funds. Our review was made primarily at Treasury headquarters.

CHAPTER 2

MANAGING TRUST FUNDS

The Secretary of the Treasury is responsible for investing Government trust funds in accordance with the terms of the governing statutes or agreements between Treasury and other Government agencies. He has delegated this responsibility to the Fiscal Assistant Secretary. The statutes creating the trust funds prescribe the type of Government obligations in which the funds may be invested and, in many cases, prescribe the basis on which the interest rate on the investments in special issues is determined. But the Fiscal Assistant Secretary is responsible for many decisions affecting the investment of many of the funds, such as maturities of the special issues, interest rates on those issues that are prescribed by statute, and the redemption of the issues.

The responsibility for making investment decisions relating to the amount to invest, when to invest, and when to redeem securities varies among the trust funds. For six trust funds for which the Secretary of the Treasury serves as the managing trustee, Treasury determines the amount to invest and when to invest. For one of these funds, Treasury determines when securities are to be redeemed. But, for the remaining five funds, the agencies responsible for the activities of the funds determine when to redeem securities to obtain funds for current program payments and they request Treasury to redeem sufficient securities to provide the needed funds.

For four trust funds administered by the Veterans Administration (VA), VA notifies Treasury when to invest or redeem trust fund securities. When VA determines that a trust fund has balances exceeding current program needs, VA notifies Treasury to invest the excess. Similarly, when funds are needed to finance current program payments, VA notifies Treasury that it needs a certain amount of funds on a particular date and Treasury redeems enough securities to provide the needed funds.

Seven major trust funds are managed, to some extent, by both Treasury and other agencies responsible for the trust fund activities. Treasury and the agencies usually determine how much to invest and when to invest. The agencies are responsible for determining when it is necessary for Treasury to redeem securities to cover current program disbursements.

Treasury policy is to keep the trust funds it manages or manages jointly with other Government agencies as fully invested as possible. Also, Treasury policy is to invest the major trust funds in special issues rather than in marketable Government obligations or Government agency securities because (1) this practice avoids the disruption of the Government securities market that would result from purchasing and selling large dollar amounts of Government obligations and (2) the trust funds do not incur any loss or make any profit on the redemption of the special issues which, by law in some instances and by practice in other instances, are redeemable at or before maturity at par.

According to Treasury, marketable Government obligations or Government agency securities are generally purchased for the major trust funds only when it is necessary to stabilize the Government securities market. During fiscal year 1973 there were net purchases of marketable Government obligations totaling $174 million for only 2 of the 17 major trust funds. These purchases were not made to stablize the market but were made pursuant to an agreement between Treasury and the Civil Service Commission concerning the investment of the employees health benefits and employees life insurance funds. (See p. 20.) There were no purchases of marketable Government agency obligations during fiscal year 1973.

Treasury invests the trust funds in special issues and redeems such investments during each fiscal year and also at the end of each fiscal year. During the year the trust funds are invested on various bases, such as daily, twice a month, or periodically on the basis of agency advice on the amount of funds available for investment. These investments are usually made in special issues that mature at the end of the year. On June 30 of each fiscal year, the outstanding investments in special issues made during the year are redeemed, and, if the proceeds of the redeemed investments are not needed for current trust fund purposes, they are reinvested in special issues that in most instances have longer maturities. (See p. 13.)

When a trust fund needs cash for current purposes, Treasury policy is to redeem special issues which mature in the current fiscal year, including those purchased during the current year, at par in the ascending order of interest rates. If additional funds are needed, special issues which mature in the next fiscal year, and if necessary in following years, are to be redeemed at par in the same order.

An exception to this policy relates to special issues whose maturities were shortened because the statutory ceiling of 4-1/4 percent on long-term bond rates restricted their length of maturity. (See p. 15.) Treasury policy provides that these special issues not be redeemed before maturity until all previously issued special issues of 4-1/4 percent or less which were on hand when the shortened-maturity securities were purchased have been redeemed. This exception is based on Treasury's reasoning that the funds invested in special issues with shortened maturities would have usually been invested in 15-year special issues if it were not for the 4-1/4-percent interest ceiling.

CHAPTER 3

NEED FOR A UNIFORM METHOD FOR

PAYING INTEREST ON GOVERNMENT TRUST FUNDS

Government trust fund receipts are deposited in the general account of the Treasurer of the United States. To the extent trust fund receipts are not currently needed for trust fund purposes, such receipts are available for general Government purposes, regardless of whether they are invested in securities. The major trust funds are intended to be either fully or partially self-supporting. The financial status of these funds, which is affected by the interest received from trust fund investments, could have an important bearing on future legislation affecting taxes, levels of expenditure, insurance premium rates, etc. For example, the financial status of the highway trust fund could have an important bearing on whether new or increased taxes are imposed or on the level of expenditures authorized for Federal support of highway construction.

A main purpose underlying the statutory requirement for investing trust funds is to provide a system for Treasury to pay interest to the trust funds when they are used for general Government purposes. We believe that the basis for paying such interest should be equitable to both the trust funds and the appropriation for interest on the public debt from which such payments are made. We do not believe that in recent years the present system has accomplished this.

TRUST FUND INVESTMENTS IN SPECIAL ISSUES

The bases for the interest rates on the 17 major trust funds' investments of about $110 billion in special issues at June 30, 1974, were prescribed for 11 funds by statute and were established for 6 funds either by the Secretary of the Treasury or jointly by the Secretary and representatives of the agencies administering the funds.

Inequitable interest rates

The following tables show the prescribed bases for assigning interest rates to the 17 trust funds' investments in special issues, the rates assigned to those special issues acquired on June 30, 1974, by 15 funds, and the rates which would have been assigned to special issues of the other 2 funds if any had been acquired on that date. The rates assignable as of June 30 each year are the average market yield rates on, or the average interest rates borne by, certain types of U.S. obligations with specified maturities as of the last day of the preceding month.

Interest Rate Formulas Set by Statute

	Statute	Interest rate assigned to acquisitions on June 30, 1974
Average market yield on all marketable interest-bearing U.S. obligations not due or callable until after 4 years:		
Civil service retirement and disability fund	5 U.S.C. 8348(d)	7-5/8%
Federal disability insurance trust fund	42 U.S.C. 401	7-5/8
Federal hospital insurance trust fund	42 U.S.C. 1395i(c)	7-5/8
Federal old-age and survivors insurance trust fund	42 U.S.C. 401	7-5/8
Federal supplementary medical insurance trust fund	42 U.S.C. 1395t(c)	7-5/8
Veterans reopened insurance fund	38 U.S.C. 725(d)	7-5/8
Average market yield on all marketable interest-bearing U.S. notes not due or callable until after 3 years, but not less than 3 percent:		
Railroad retirement account	45 U.S.C. 228o(c)	8
Railroad retirement supplemental account	45 U.S.C. 228o(c)	8
Average rate of interest borne by all marketable interest-bearing U.S. obligations rounded to the next lower one-eighth of 1 percent:		
Highway trust fund	23 U.S.C. 120	7

	Statute	Interest rate assigned to acquisitions on June 30, 1974
Average rate of interest borne by all interest-bearing U.S. obligations rounded to the next lower one-eighth of 1 percent:		
Unemployment trust fund	42 U.S.C. 1104(b)	6-1/2
Average interest rate borne by all marketable interest-bearing U.S. obligations not due or callable until 5 years after the date of issue:		
Veterans special life insurance fund	38 U.S.C. 723(c)	5-7/8

Interest Rate Formulas Set by The Secretary of the Treasury

	Interest rate assigned to acquisitions on June 30, 1974
Average bank discount rate (market yield) for 91- or 92-day Treasury bills last auctioned in the preceding month:	
Employees health benefits fund (note a)	7.98%
Employees life insurance fund (note a)	7.98
Average market yield on all marketable interest-bearing U.S. obligations not due or callable until after 4 years:	
Foreign service retirement and disability fund	7-5/8
Average market yield on all marketable interest-bearing U.S. obligations not due or callable until after 3 years, reduced by one-half of 1 percent, but not less than 3-1/2 percent:	
Government life insurance fund	7-1/4
Average market yield on all marketable interest-bearing U.S. obligations not due or callable until after 3 years, reduced by one-fourth of 1 percent, but not less than 3 percent:	
National service life insurance fund	7-1/2
Average market yield on all marketable interest-bearing U.S. notes not due or callable until after 3 years, but not less than 3 percent:	
Railroad retirement holding account	8

a/ No acquisitions on June 30, 1974--rate shown is that which would have been assigned if special issues had been purchased on that date.

The interest rate formulas specified by statute for special issues were enacted at different times over many years. For example, the law governing the Federal old-age and survivors insurance trust fund specified that beginning in 1940 the rates assigned to special issues would be based on the rates borne by certain U.S. obligations; i.e., the effective interest rate as of the date of issue. The law pertaining to the civil service retirement fund did not specify a formula for determining the rate to be assigned to special issues until 1956 when a formula also based on the rates borne by certain U.S. obligations was prescribed. Until about 1960, a similar formula concerning the rate to be assigned to special issues was adopted for other trust funds.

In the 1960s it was determined that the use of the rate borne by certain obligations, including as it did the rate borne by some securities issued many years ago, was not a good measure of the Government's current cost to borrow. In 1960 and 1961 the laws pertaining to the civil service retirement and disability fund and the Federal old-age and survivors insurance trust fund were amended to substitute formulas based on market yields for formulas based on rates borne. As amended, the interest rates assigned to the special issues of these trust funds are determined on the basis of the market yield on the last day of the preceding month on all marketable interest-bearing U.S. obligations not due or callable until after 4 years. Market yields are determined on the basis of the prices paid in private money markets for outstanding Government obligations.

Several major trust funds, established before 1960, however, such as the highway trust fund and the unemployment trust fund, have not been changed and still provide for assigning rates to special issues on the basis of rates borne by certain obligations.

Legislation establishing trust funds after 1960, which provided formulas for assigning rates to special issues, generally specified that the rates would be based on market yields.

Trust fund receipts not needed for current trust fund disbursements are available to Treasury for disbursement for other purposes, and reduce the funds that Treasury would otherwise have to borrow from the public. Although there is no way of determining precisely what interest rate Treasury would have to pay if it had to borrow from the public the funds which it now borrows from the trust funds, daily market quotations are available on the yields of outstanding Treasury securities.

Private money market interest rates are constantly changing, and, because Treasury notes and bonds pay interest at fixed rates, outstanding obligations are usually traded at a discount or premium. The market yield on outstanding Treasury obligations expresses as a percentage the average effective rate to be earned by purchasers (interest plus or minus the discount or premium) of Government obligations in the open market on a specific date.

Yield rates are generally used to estimate the interest rate which Treasury would have to pay if it were to borrow funds from the public. Treasury also uses the yield rates to determine the interest rates assigned to new issues of Treasury notes and bonds. According to Treasury officials, however, judgment must be used in evaluating whether the yield rate on a specific security accurately reflects the interest rate which Treasury would have to pay on new issues of comparable maturity.

For example, if there is a small amount of a particular issue outstanding or if an issue is not being freely traded, Treasury may determine that the yield rates on these issues do not accurately reflect the interest rate it would have to pay on a new issue of comparable maturity. The starting point, however, in assigning interest rates on new issues is the yield rates on outstanding obligations of comparable maturity.

We have compared the actual interest rates assigned to trust fund investments as of June 30, 1970, 1971, 1972, 1973, and 1974 with the yields on outstanding marketable securities having maturities comparable to the trust fund investments. In nearly all instances, the interest rates assigned to trust fund investments were less than the yield rates of outstanding marketable securities of comparable maturity.

The following schedule compares the interest earnings of the 17 major trust funds on the special issues issued at the end of each of these 5 fiscal years with the interest they would receive if yield rates on outstanding marketable Government securities having comparable maturities had been assigned to these investments.

Issue date June 30	Interest to maturity based on Assigned rate	Open-market yield	Difference
	(000 omitted)		
1974	$10,266,050	$10,556,276	a/$ 290,226
1973	7,178,739	7,867,651	688,912
1972	4,743,266	5,108,094	364,828
1971	6,533,305	7,482,836	949,531
1970	7,048,027	7,498,202	450,175
	$35,769,387	$38,513,059	$2,743,672

a/ At June 30, 1974, some funds were issued special issues with maturities in fiscal years 1987, 1988, and 1989. There were no outstanding marketable bonds due in those years. The above comparison therefore excludes the special issues issued on June 30, 1974, with maturities at June 30, 1987, 1988, and 1989.

As shown, the 17 trust funds will earn about $2.7 billion less, if the special issues issued at the end of these 5 fiscal years are, except as noted, held to maturity, than the interest it would earn if yield rates on outstanding marketable securities having comparable maturities had been assigned to these issues. More detailed information on these comparisons are included as appendix VI.

The interest rate assigned to special issues issued to a particular fund on any given date is the same regardless of the maturity assigned to the issue. Appendix VI shows the interest rates and maturity dates assigned to the special issues issued at the end of fiscal years 1970 through 1974 to the 17 major trust funds.

As shown in appendix VI the trust funds earn interest at varying rates on investments made on the same date in special issues of the same maturity. On June 30, 1974, for example, three different interest rates, 6.5 percent, 7 percent, and 8 percent, were assigned to the 1-year special issues maturing in 1975 issued to four trust funds and four different interest rates (5.875 percent, 7.25 percent, 7.625, and 8 percent) were assigned to the special issues maturing in 1981 acquired by nine trust funds.

As shown on page 8 and appendix VI, the special issues assigned the lowest rates at June 30, 1974, were the highway, unemployment, and the veterans special life insurance trust funds. The interest rates for these trust funds are based on the average interest rate borne by certain outstanding U.S. securities (effective rate at which security was originally issued). This means that interest rates borne by certain U.S. securities, many of them issued when interest rates were much lower than current prevailing interest rates, were averaged to compute the interest rate that will be paid to these trust funds for funds invested on June 30, 1974.

The above comparisons were made when current interest rates generally were high. If similar comparisons were made during a period of low interest rates, the actual rates assigned to the trust funds' special issues under formulas based on rates borne would probably result in greater trust fund earnings and increased Treasury borrowing costs. Similar results for special issues with rates based on market yields might occur, if market yields at the end of May (which determines the rates assigned to special issues during June) were generally higher than at the end of June, which is the date we used to determine the estimated Government's cost to borrow.

Also, the average market yields which determined the rates assigned to many special issues were usually less than the market yield on securities with maturities comparable to those assigned to the special issues. For example, at the end of fiscal years 1970 through 1973 the rates assigned to the special issues issued on June 30 of each of those years to the two largest trust funds (civil service retirement and disability and the Federal old-age and survivors insurance) were based on the average yield on all marketable obligations not due or callable until after 4 years. Only 7-year maturities were assigned to the special issues of these two funds at June 30 of each of these 4 years and in all instances the yield on a security with a comparable 7-year maturity exceeded the average rate which was based on average yields.

We did note that during some prior years the special issues of the Civil Service Retirement and Disability Fund were assigned interest rates which exceeded the then current Treasury borrowing rates. At hearings before the House Post Office and Civil Service Committee in 1961 on the Interest Earnings of the Civil Service Retirement Fund it was noted that before fiscal year 1955 most of the fund invested in special issues was assigned a 4-percent rate. It was also noted in these hearings that the 4-percent rate in effect before fiscal year 1955 had been more than the level of interest rates prevailing for Government securities for a long period and had in effect constituted a subsidy from Treasury to the fund.

However, a bias in the formulas currently used to determine average market yields for the purpose of assigning interest rates to special issues works to the disadvantage of the trust funds. Some of the obligations included in the formulas offer tax advantages (such as capital gains on low interest rate obligations, or obligations redeemable at par before maturity in payment of estate taxes) which tend to increase the bid price and lower the yield on such issues below the interest rate the Government would have to pay on new issues.

Assignment of maturities

As the tables on page 8 and appendix VI indicate, the interest rates assigned to special issues are the average market yield rates on, or the average interest rates borne by, certain types of U.S. obligations. The maturities assigned to special issues by Treasury do not affect the assigned interest rates, but the maturities can substantially affect trust fund earnings.

Treasury invests the trust funds in three types of special issues--certificates, notes, and bonds. Certificates mature within 1 year or less from the date of issue and notes mature within from 1 to 7 years from the date of issue. (Before June 30, 1967, the maturity of notes could not exceed 5 years.)

No time limit is prescribed for the maturity of bonds, but for many years before 1971, the law prohibited the interest rate borne by bonds from exceeding 4-1/4 percent. Legislation enacted in March 1971 permitted the issuance of up to $10 billion in bonds without regard to the 4-1/4-percent interest rate ceiling. The legislation was amended by Public Law 93-53, approved on July 1, 1973, to provide that bonds bearing interest in excess of 4-1/4 percent may be issued to the public and to Government accounts, except that such bonds bearing interest in excess of 4-1/4 percent which are held by the public cannot exceed $10 billion. In effect, this now permits (1) the issuance of special issues with maturities in excess of 7 years at rates in excess of 4-1/4 percent and (2) the exclusion of Government obligations purchased by the trust funds and other Government entities from the $10 billion ceiling.

The statutes pertaining to many of the major trust funds provide that Government obligations purchased for investment by the funds shall have maturities fixed with due regard for the needs of the funds. Treasury, before fiscal year 1966, invested trust funds available at the end of each fiscal year in special Government issues; maturities ranged from 1 to 15 years. The maturities were assigned to the funds' various issues so as to have for most funds, as nearly as practicable, an equal amount of special issues in each of the following 15 years.

At the end of fiscal year 1966, Treasury could not invest trust funds in special issues with maturities in excess of 5 years, because the interest rates assignable to them would have exceeded the statutory interest rate ceiling of 4-1/4 percent on bonds. To give the trust funds the advantage of a higher interest rate that could be assigned to notes but not to bonds, Treasury at June 30, 1966, invested trust funds totaling about $4.4 billion in 5-year special issue notes. Except for the interest rate ceiling, about $1.5 billion of these funds would have been invested in special obligations with maturities ranging from 6 to 14 years and about $2.9 billion would have been invested in special obligations with 15-year maturities.

In 1967 the law pertaining to issuing notes was amended to increase their maturity to 7 years. Treasury, beginning June 30, 1967, assigned either 1-year or 7-year maturities to nearly all the trust funds' yearend investments in special issues. Exceptions to this practice were made for the veterans reopened insurance and the veterans special life insurance funds which, pursuant to a VA-Treasury agreement, were invested in special issue notes with maturities ranging from 1 to 7 years.

The assigning of short-term maturities to trust funds investments in special issues which are not expected to be used for trust purposes at maturity but which are expected to be reinvested in new special issues can increase fund earnings and increase Treasury borrowing costs during periods of rising interest rates.

For example, in fiscal year 1971 five trust funds redeemed $3.4 billion of 4-3/8- and 4-7/8-percent 5-year special issue notes issued on June 30, 1966, which, if not for the interest rate ceiling, would have been assigned maturity dates of from 6 to 15 years. On June 30, 1971, when these issues matured the five funds invested $11.8 billion in 7-year special issue notes at interest rates ranging from 5-1/2 to 6-1/8 percent. We estimate that, if these notes are held to maturity, trust fund earnings and the Treasury's interest costs will be about $270 million greater than such earnings and costs would have been if there were no ceiling on Treasury bond interest rates and if maturities of from 6 to 15 years had originally been assigned to the special obligations.

Treasury practice from 1967 through 1973 was to assign 7-year maturities to most trust funds' yearend investments, regardless of the anticipated need for funds to meet disbursement requirements in the following fiscal years. In recent years, this practice has increased trust fund interest income and Treasury interest expense above the income and expense which would have occurred if the maturities of trust fund investments were based on the needs of the trust funds for funds to meet future disbursement requirements.

For example, three trust funds that acquired 7-year special issue notes on June 30, 1970, did not have sufficient special obligations maturing in fiscal year 1971 to meet their current needs and therefore redeemed several low-interest special obligations before maturity. The funds' special issues acquired on June 30, 1970, and the special issues redeemed before maturity during fiscal year 1971 are shown below.

Trust fund	7-year special issues acquired on June 30, 1970		Special issues redeemed before maturity during fiscal year 1971		
	Amount	Interest	Amount	Interest	Maturity date
	(000 omitted)		(000 omitted)		
Federal hospital insurance	$ 919,358	7-5/8%	$ 439,235	4-3/4%	6/30/73 and 74
			95,413	5-5/8	6/30/75
Federal supplementary medical insurance	2,855	7-5/8	10,562	6-1/2	6/30/76
Railroad retirement	847,447	7-3/4	631,654	4	6/30/74-78
			92,440	4-1/8	6/30/74-77
Total	$1,769,660		$1,269,304		

If shorter maturities had been assigned to the special issues on June 30, 1970, in view of the short-term needs of the trust funds, the low-interest special issues may not have been redeemed before maturity. We estimate that, if the 7-year special issues acquired by the three funds shown in the above table at June 30, 1970, are held to maturity, the funds' earnings and the Treasury's interest costs will increase by about $201 million during what would have been the remaining life of the redeemed special issues.

Several other funds which held low-interest, special-issue bonds at June 30, 1970, such as the Federal old-age and survivors insurance trust fund and the national service life insurance fund, have not benefited from the assignment of only 7-year maturities to their investments in special issues on June 30, 1970, because they had sufficient special issues maturing in fiscal year 1971 to meet their expenditures and therefore had no need to redeem any low-interest, special-issue bonds before maturity.

Treasury's practice of assigning maturities to special obligations has increased trust fund income and Treasury interest expense in recent years because interest rates have generally increased during this period and new issues of special obligations have yielded a higher interest rate than the special obligations issued in prior years. In periods of falling interest rates, the opposite effect would likely occur; i.e., trust funds would likely purchase special obligations at June 30 and subsequently would redeem special obligations which had higher interest rates than the obligations purchased on June 30. Thus trust fund interest income and Treasury interest expense would be less than the income and expense which would occur if the maturities of trust fund investments were based on the needs of the trust funds for funds to meet future disbursement requirements.

Because Public Law 93-53 approved on July 1, 1973, excludes Government obligations purchased by the trust funds from the $10 billion limitation on bonds bearing interest in excess of 4-1/4 percent (see p. 15), Treasury on June 30, 1974, began assigning some maturities in excess of 7 years. As shown on the schedule in appendix VI, 11 of the 15 trust funds invested in special issues at June 30, 1974, were assigned various maturities ranging from 7 to 15 years. We were told by Treasury officials that it is their intention, in assigning maturities for most funds, to eventually have approximately equal amounts maturing over a 15-year period. The four funds assigned 1-year maturities only are considered to be relatively short-term funds.

Redemption of special issues

The laws pertaining to eight trust funds require the redemption of special issues at par and Treasury has adopted this policy for all special issues redeemed before maturity. This practice distorts the amounts paid to the trust funds for using their money compared with what the trust funds would have earned if redemptions were made at a premium or discount, like redemptions of open-market securities.

If the funds were invested in marketable Government obligations and if the need arose to redeem securities before maturity to meet program needs, the redeemed securities would have to be sold in the open market at more (a premium) or less (a discount) than their face value, depending on the interest rate borne by the security sold and the prevailing market rates at the time of the sale. The net earnings to the fund would be the interest earned to the date of sale plus the premium or minus the discount on the sale. The interest on the public debt would not be affected since Treasury would continue to pay interest to the new purchaser at the rate borne by the security.

The practice of redeeming special issues at par, however, insulates the trust funds from the penalty or benefit which would normally result from redeeming securities before maturity.

The agencies which manage the programs financed by the major trust funds have no voice in determining which special issues are to be redeemed when funds are needed for program payments. If the agencies were permitted to select the securities to be redeemed they would naturally select those with the lowest interest rate. Treasury has therefore adopted a policy which governs the selection of securities to be redeemed.

The policy generally provides that, when a trust fund needs funds for current purposes, its special obligations which mature in the current fiscal year are to be redeemed at par in the ascending order of their interest rates. If additional funds are needed, special issues which mature in the next fiscal year and if necessary in following years, are to be redeemed at par in the same order

During fiscal year 1971, Treasury changed this policy by redeeming the railroad retirement account's investments in low-interest, special-issue bonds which mature in subsequent years rather than redeeming its investments in high-interest, special-issue notes which had earlier maturities than the bonds. The notes which were retained had maturities which were shortened because of the 4-1/4-percent interest limitation.

This change was adopted to dissuade the Congress from approving a more generous interest provision that was included in a proposed bill. The provision was subsequently deleted from the bill. Treasury estimated that the change in the policy would increase the railroad retirement accounts interest earnings and Treasury's interest costs by $168 million by the end of fiscal year 1978.

Subsequent to the adoption of the changed policy for the railraod retirement account, the Fiscal Assistant Secretary made the new policy applicable to all trust funds. In essence, it provides that special issues with shortened maturities will not be redeemed before maturity until all previously issued special issues of 4-1/4 percent or less on hand when the shortened-maturity securities were purchased have been redeemed. This new policy is based on Treasury's reasoning that the funds invested in special issues with shortened maturities usually would have been invested in 15-year special issues if it were not for the 4-1/4-percent interest ceiling.

INEQUITABLE TRUST FUND INCOME CAUSED BY TREASURY'S POLICY FOR INVESTING IN MARKETABLE SECURITIES

According to Treasury, if the large trust funds regularly purchased and sold marketable Government securities instead of special issues, the Government securities market would probably be disrupted, because the large dollar value of the securities being purchased and sold would tend to cause extreme fluctuations in the prices of Government securities. Treasury policy provides generally for investing trust funds in marketable Government obligations only when the open-market purchase of such obligations is needed to help stabilize the Government securities market. According to the Fiscal Assistant Secretary, the need usually occurs between the announcement of a new offering of notes or bonds and the date of the sale. If the bid prices on outstanding Government obligations decline too sharply during this period, the sale of the new issues could be adversely affected. Treasury tries to stabilize the prices on outstanding Government obligations by using trust funds to purchase Government obligations. Either the Secretary or the Under Secretary for Monetary Affairs makes decisions to use trust funds for this purpose.

The Fiscal Assistant Secretary said that, in selecting the trust fund for the purchase of marketable Government obligations, Treasury considers two policies. First, a trust fund will be invested in marketable obligations only when it is expected that they will be held to maturity or be exchanged when eligible for other marketable obligations and not be sold in the open market. Second, the yield rate on a trust fund's investments in marketable obligations must be at least as high as the interest rate which would have been assigned to a special Government issue on the date of purchase.

Transactions involving marketable securities during fiscal years 1973 and 1974 for the 17 major trust funds were as follows:

1. During fiscal year 1973, seven trust funds had purchases, redemptions, or exchanges of marketable

Government obligations. Five funds had only exchanges of marketable Government obligations totaling about $947 million. Two funds had exchanges of marketable Government obligations totaling about $209 million and net purchases of marketable Government obligations totaling about $174 million. During fiscal year 1974 three funds had exchanges of marketable Government obligations of about $319 million, two other funds had exchanges of about $350 million and net purchases of about $304 million.

2. Some funds are also authorized to purchase Government agency obligations. There were no purchases, redemptions, or exchanges of such obligations in fiscal years 1973 or 1974. Five trust funds held about $1.3 billion of marketable Government agency obligations at June 30, 1973, and 1974.

The net purchases of $174 million mentioned above during fiscal year 1973 were made for the employees life insurance fund ($100 million) and the employees health benefits fund ($74 million). The purchases of Government obligations for these two funds on the open market were not for stabilizing the market. By agreement with Treasury, these funds are temporarily invested in special issues at an interest rate determined by the latest sale of 91- or 92-day Treasury bills until the required payments from the fund to the insurance carriers are made. Any funds not needed for such payments were used to purchase Government obligations in the open market. The net purchases in fiscal year 1974 were for the employees life insurance fund ($107 million) and the civil service retirement and disability fund ($197 million).

Treasury's policy concerning the purchase of marketable obligations by trust funds has resulted in differences in the earnings of various trust funds because (1) the interest rates on marketable securities are generally higher than the interest rates which have been assigned to special issues and (2) some trust funds have a greater portion of their funds invested in marketable securities than other trust funds. As of June 30, 1974, the 17 trust funds had from zero to 91 percent of their funds invested in open-market obligations. Those trust funds whose holdings of marketable securities represented a substantial portion of the trust funds' total investments were in an advantageous position with respect to interest earnings, because marketable securities generally yield a higher rate of return than special issues.

INEQUITIES IN FEES CHARGED FOR GUARANTEED INTEREST RATES

Five trust funds are guaranteed minimum interest rates on investments in special Government issues. Only two funds are charged a fee for the guarantee.

The railroad retirement account and the railroad retirement supplemental account are by law guaranteed 3-percent interest on their investments in special Government issues without any charge for the guarantee. Although not prescribed by law, the same guarantee applies to the railroad retirement holding account. Also, pursuant to an agreement with VA, the Secretary of the Treasury guarantees the Government life insurance fund earnings of 3-1/2 percent and the national service life insurance fund earnings of 3 percent on investments in special Government issues. The present charge for these guarantees is a reduction in the interest rates assigned to the special issues of one-half of 1 percent for the Government life insurance fund and one-quarter of 1 percent for the national service life insurance fund.

Because of these inconsistencies, there are inequities among the trust funds which are guaranteed a minimum rate of return on special Government obligations. For example, we estimate that (1) during fiscal year 1974 the national service life insurance fund's interest earnings would have been increased by about $23.3 million if the fee had not been charged for the interest guarantee and (2) the railroad retirement accounts' interest earnings in fiscal year 1974 would have been reduced by about $8.3 million if the fee of one-quarter of 1 percent had been charged for the interest guarantee in the same manner as the charge to the national service life insurance fund.

CHAPTER 4

CONCLUSIONS, AGENCY COMMENTS, AND RECOMMENDATIONS

CONCLUSIONS

Trust funds should receive the same interest rate for using their funds for nontrust purposes as Treasury would have to pay for similar borrowings from the public. The present system, which gives the appearance of conventional trust fund management--namely, purchasing and redeeming specific securities--does not accomplish this.

The funds are not managed so as to achieve the maximum income to the funds. The numerous deviations from conventional trust fund management as to interest rates, maturity dates, interest rate guarantees, and redemption policies for special issues results in inequities among the funds and between the funds and the appropriation for payment of interest on the public debt.

A more equitable system would be one which provides for paying the same interest rate to each fund at stated intervals on average fund balances at rates determined by the Secretary of the Treasury, considering the market yields of Treasury securities. This would eliminate the necessity of issuing special issues or purchasing Government or agency securities and the many inequities in the present system.

Furthermore, the concept of having the interest rate that is applied to the entire trust fund balance change along with the current yield rates would consider inflation. Because of inflation in recent years, trust fund investments, even though they may have been made on a sound actuarial basis, might not provide sufficient funds to meet future program obligations. Interest rates are influenced by inflationary expectations, and current yield rates tend to increase as the dollars which will be required to meet future obligations increase.

Currently, special issue securities are invested at maturities up to 15 years. Funds thus invested will be "locked into" an interest rate that might prove to be significantly higher or lower than the yield rates on Government obligations of similar maturities during the life of the security. The impact of inflation on trust fund earnings can be lessened by using interest rates which are reviewed periodically (e.g., every 6 months) and revised accordingly.

The special issue securities and most of the open-market obligations of the United States held by the trust funds are subject to the debt limitation established by the Second Liberty Bond Act (31 U.S.C. 757b). Consequently, if these securities are redeemed under the procedures we recommend, Treasury could sell additional securities to the public, unless action is taken to provide that trust fund balances be included as part of the national debt subject to the limitation.

AGENCY COMMMENTS

In commenting on our report, Treasury stated that undoubtedly improvements can be made in the present system for investing trust funds but that they did not believe that the system recommended by us was supported by adequate analysis. They stated that they would continue to work toward improvements and to recommend changes as they appear to be warranted. The Department did not comment on any of our specific findings and conclusions. The Department's comments are included as appendix I and our evaluation of those comments as appendix II.

In a subsequent discussion, the Fiscal Assistant Secretary told us that the Department had certain changes in mind but that he did not want to reveal them to us for inclusion in this report. He stated that the Department did not agree with GAO's conclusion and would make its own recommendations to the Congress for changes in the system.

The laws pertaining to the investment of the major trust funds have been enacted over many years. We believe that our report adequately demonstrates that the present system results in numerous inequities in interest earnings between the trust funds and the appropriation for interest on the public debt. We believe there is a need to replace the present system, which results in the major trust funds being paid interest at various rates, with one law which would provide that all the major trust funds be treated equally and paid interest at rates comparable to the Treasury's current cost of borrowing from the public.

Most of the program agencies either did not comment on our proposed report or deferred to the Treasury. The Department of Labor, however, said that the disparity in the assigned interest rates and the comparable yield rates between other trust funds and the Unemployment Trust Fund is of concern to the Department. They believe that the system we recommended provides a more equitable method of paying interest but they deferred comment on the recommended legislation until Treasury has the opportunity to evaluate and assess the impact on fiscal operations and the public debt.

The Department of Health, Education, and Welfare (HEW) stated that while they appreciate our desire that the interest rates be fair and equitable to all of the trust funds, they believe the suggested changes in investment procedures could create problems of public misunderstanding and loss of confidence in the security and integrity of the Social Security trust funds. They refer to recent newspaper and magazine articles which charge that the Social Security trust funds consist merely of Government IOUs. They believe that to discontinue the investment of these funds in interest-bearing securities which contain specific conditions governing maturity and redemption, could only add to the misunderstandings that these press articles may have created.

We believe that our proposed system would foster rather than hinder public understanding of the nature of the trust funds. Current social security collections not needed for benefit payments are used for nontrust fund purposes. Whether the amounts so used are recorded as investments in Government securities with specific maturities or merely as a book balance without any defined due date neither adds to or diminishes the security of the trust funds.

MATTERS FOR CONSIDERATION BY THE CONGRESS

We recommend that the Congress consider enacting one law for the investment of the major trust funds. We recommend that consideration be given to enacting legislation which would provide that:

--Trust funds not be invested in specific Government securities but instead be paid interest on a basis similar to a savings account, for the use of these funds for nontrust purposes. The interest rate assigned to each fund should be the same and should be in line with the cost of borrowing by Treasury from the public.

--The Secretary be responsible for computing the interest rates.

--The interest rates be computed on a basis of market yields on all outstanding marketable securities or other appropriate measure of Treasury's cost to borrow funds and be adjusted periodically; e.g., adjustments might be made on the last day of June and on the last day of December on the basis of the average yield of marketable U.S. securities during the preceding 6 months. The June 30 rate would apply to the average account balances of the trust funds during the preceding 6 months (January through June) and the December 31 rate would apply to the average balance during the preceding 6 months (July through December). Interest would be paid on June 30 and December 31.

--Funds invested in open-market securities would be redeemed as they mature, and special issues would be redeemed at par when the new system is put into effect.

--The Second Liberty Bond Act (31 U.S.C. 757b) be amended to require that the balance of the trust fund accounts be subject to the statutory debt limitation. If our preceding recommendations are implemented, the amounts Treasury borrows from the trust funds would not be governed by this limitation, whereas the special issues and most of the marketable Government obligations presently held by the trust funds are subject to it. The amounts Treasury borrows from the trust funds should be subject to the limitation in a similar manner as it applies to special issues and marketable obligations issued to trust funds.

We reviewed only 17 major trust funds. But there are other trust and special funds under the control of Treasury or other Federal agencies, the District of Columbia government, and quasi-Government agencies which are invested in Government securities (see app. IV), as well as some funds on deposit with the Treasury which are not invested but are paid interest at fixed rates on their fund balances (see app. V). We recommend that the Congress consider whether any of these other trust and special funds should be included in the legislation proposed above for the 17 major trust funds.

THE DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

FISCAL ASSISTANT SECRETARY

Dear Mr. Staats:

We have received for comment a proposed report to the Congress, prepared by staff of your agency, relating to the investment of Government trust funds.

The larger trust funds are currently invested almost exclusively in special Treasury obligations issued in accordance with specific provisions of law enacted by the Congress after consideration of the nature of the particular funds. Those smaller funds for which the Congress has not been specific in providing investment procedures are invested in marketable Government securities if their transactions are not so large that they would be a disturbing force in the market, or in accordance with procedures patterned after those developed by the Congress for similar funds if their operations are large enough that the transactions would be a disturbing influence in the market.

The proposed report does not indicate that analyses were made of the basic principles that have affected the decisions of the Congress, the Treasury, and the program agencies regarding trust fund investments. Such fundamental differences between funds as their actuarial positions and their maturity needs are not mentioned. The possibility that a smooth level of income may be more desirable than a gyrating level of income is not discussed. Nor is there any analysis of either the effect of the interest rate cycle, or the portion of the debt used as a measure, in judging the equity of any system that depends on rates geared to market yields.

In some instances a basic principle is mentioned, but the discussion of it seems to suggest misunderstanding which results in misleading statements. For example, in the references to investments in marketable issues, the difference between the market effects of transactions for a fund which may need to liquidate over $5 billion of securities on a single day and transactions for a fund which may need to invest only a few million dollars over several days is ignored. The subject of purchase of marketable issues as a way of stabilizing a disorderly market appears to be particularly misunderstood, since it is not made clear that that tool is used only on occasions when the interest of the funds coincides with the public interest, and operations which in normal circumstances would be a disturbing factor in the market have just the reverse effect and become indeed a stabilizing force.

The proposed report would recommend that the systems worked out by the Congress and the Treasury over the years be replaced by a single system under which the moneys of all of the funds would be deposited in the Treasury to earn interest at a rate geared to market yields on marketable Treasury securities. Such a system has often been proposed in the past, but has not been thought to take proper account of some of the basic principles which should govern trust-fund investment. While the proposal is not outlined in detail, one of the recommendations is that the rates be determined by using the market yields on all marketable securities. This recommendation suggests the risk of making changes without complete analysis: while such a formula would produce higher rates for the funds at this particular time (when the yield curve is abnormal, with short-term rates higher than long-term rates), it would during periods of normal yield curves. produce lower rates for the funds than the existing statutory formulas.

There are undoubtedly improvements that can be made in the procedures that have been developed for investing the trust fund. We do not believe, however, that the system recommended in the proposed report is supported by adequate analysis. We will continue to work toward improvements and to recommend changes as they appear to be warranted.

Sincerely yours,

John K. Carlock

The Honorable
Elmer B. Staats
Comptroller General of the U. S.
Washington, D. C. 20548

GAO'S EVALUATION OF TREASURY COMMENTS

In commenting on matters discussed in this report the Fiscal Assistant Secretary stated that:

> "The larger trust funds are currently invested almost exclusively in special Treasury obligations issued in accordance with specific provisions of law enacted by the Congress after consideration of the nature of the particular funds. Those smaller funds for which the Congress has not been specific in providing investment procedures are invested in marketable Government securities if their transactions are not so large that they would be a disturbing force in the market, or in accordance with procedures patterned after those developed by the Congress for similar funds if their operations are large enough that the transactions would be a disturbing influence in the market."

Our report did not criticize Treasury's policy of currently investing the larger trust funds almost exclusively in special issues. We did point out that the reason for this policy was principally to avoid disturbing the market with large purchases and sales. We also described Treasury's policy for the purchase of marketable Government obligations and pointed out that Treasury will not invest trust funds in marketable obligations unless the rate is at least as high as that which would be assigned to special issues.

As far as interest income is concerned trust funds are therefore usually better off if their funds are invested in marketable obligations than special issues. We did not suggest that the trust funds switch to marketable issues but pointed out the wide variations in the percentages of the funds invested in marketable issues to illustrate one of the inequities in the present system.

Except for the purchases of marketable obligations for the Employees Life and Health Insurance funds there were no new purchases for the other major funds during fiscal years 1972 and 1973. During fiscal year 1974 new purchases were made for the employees life insurance fund and the civil service retirement and disability fund. Most of the activity in Government obligations involved the exchange of old issues for new issues. Contrary to the implication of the statement by Treasury, however, some of the smaller trust funds included in our review own no marketable obligations while some of the larger trust funds have holdings of marketable issues.

Treasury also stated that:

> "The proposed report does not indicate that analyses were made of the basic principles that have affected the decisions of the Congress, the Treasury, and the program agencies regarding trust fund investments. Such fundamental differences between funds as their actuarial positions and their maturity needs are not mentioned. The possibility that a smooth level of income may be more desirable than a gyrating level of income is not discussed. Nor is there any analysis of either the effect of the interest rate cycle, or the portion of the debt used as a measure, in judging the equity of any system that depends on rates geared to market yields."

Our report is concerned principally with the interest earnings of the funds and we describe the trends in establishing the rates assigned to special issues. Some of the older funds have had their rates for special issues changed to rates based on market yields in the 1960s while some of the other funds established before 1960 have not been changed. Treasury offers no reasons as to why the bases for determining the rates should be different.

Our report does mention Treasury's procedures for considering the maturity needs of the funds before 1966 and the difficulties they have had since that date through fiscal year 1973 because of the interest ceiling on bonds.

We did not consider the actuarial positions of the funds and in our view neither the maturity needs or actuarial position of the funds should have any bearing on the interest earned by the fund. In our view each fund should be paid a fair rate for the use of its money for the period that it is used for nontrust fund purposes. The actuarial position and maturity needs are matters which must concern the Congress and the program agency but in our view should have no bearing on the interest rate assigned to the funds investment.

Similarly, we did not consider whether a smooth level of income may be more desirable then a gyrating level of income because we do not believe it is a factor which is germane to a determination of the proper interest rate. The present system results in interest rates that gyrate, within each fund and among the funds, during the year and at June 30th of each year. We do not consider these gyrations to be either desirable or undesirable factors in determining whether the rates are equitable. Granted that our proposal would result in the establishment of rates which would apply to the average balance of the entire fund; not just the new funds available during and at the end of the fiscal year as under the present system. We suggested that the rates be determined each 6 months and that one rate be established for all the major funds. Treasury presented no alternative system to correct the inequities in the present system.

We discuss in our report some of the problems involved in using market yields as a measure of the current cost to borrow. This is one of the principal reasons why we recommend that the rates, although based on market yields, be established by Treasury. This would give Treasury the opportunity to eliminate the yields on those securities which it does not believe represent the current cost to borrow.

We do not believe that there can be any serious disagreement that market yield rates are a better gauge of current interest rates than rates borne which include the interest rates paid on securities issued many years ago. In all instances where Treasury established the interest rates on special issues the rates are based on market yields.

As noted in Treasury's comments, our report did not discuss the interest rate cycle. As noted later in Treasury's comments, short-term yield rates are usually lower than long-term rates but in the past year this has been reversed and is considered to be abnormal. Treasury offered no alternative proposal, such as only considering the yield rates on notes or notes and bonds. The availability of trust funds balances for other than trust fund purposes enables the Treasury to avoid both short-term and long-term borrowing from the public. We therefore continue to believe that a rate based on all outstanding marketable obligations recomputed frequently, such as each 6 months, would be the best measure of the interest to be paid the trust funds.

Treasury also stated in its comments:

"In some instances a basic principle is mentioned, but the discussion of it seems to suggest misunderstanding which results in misleading statements. For example, in references to investments in marketable issues, the difference between the market effects of transactions for a fund which may need to liquidate over $5 billion of securities on a single day and transactions for a fund which may need to invest only a few million dollars over several days is ignored. The subject of purchase of marketable issues as a way of stabilizing a disorderly market appears to be particularly misunderstood, since it is not made clear that that tool is used only on occasions when the interest of the funds coincides with the public interest, and operations which in normal circumstances would be a disturbing factor in the market have just the reverse effect and become indeed a stabilizing force."

The discussion in our report points out clearly that the use of the major trust funds to purchase marketable obligations is usually avoided because the size of the purchases and sales could disrupt the market. We also describe the circumstances under which open-market purchases are made as described to us by the Fiscal Assistant Secretary. We see nothing in our report which is contrary to the above comment from Treasury. As noted in our report there were relatively few purchases of marketable securities in fiscal years 1973 and 1974.

In those years, however, the dollar amount of exchanges for new marketable obligations by trust funds holding old marketable obligations that matured or were otherwise eligible for exchange exceeded the new purchases.

We accept Treasury's explanation as to why some trust funds were originally used to acquire marketable obligations and nothing in our report disputes this explanation.

In commenting on our proposed recommendation for changes in legislation, Treasury stated:

"The proposed report would recommend that the systems worked out by the Congress and the Treasury over the years be replaced by a single system under which the moneys of all of the funds would be deposited in the Treasury to earn interest at a rate geared to market yields on marketable Treasury securities. Such a system has often been proposed in the past, but has not been thought to take proper account of some of the basic principles which should govern trust-fund investment. While the proposal is not outlined in detail, one of the recommendations is that the rates be determined by using the market yields on all marketable securities.

This recommendation suggests the risk of making changes without complete analysis. While such a formula would produce higher rates for the funds at this particular time (when the yield curve is abnormal, with short-term rates higher than long-term rates), it would during periods of normal yield curves produce lower rates for the funds than the existing statutory formulas."

In a subsequent discussion with the Fiscal Assistant Secretary, he said he knew of no prior proposal to the Congress for one law which would be applicable to the payment of interest on all the major trust funds but that such a system had been discussed informally among Treasury officials. The purpose of our recommendation was not to achieve higher interest rates for the trust funds as suggested in the Treasury comments. Our report does show that the present system results in a variety of rates for funds invested with the same assigned maturities and that at the end of fiscal year 1970 through 1974 the rates assigned were in nearly all instances less than the yields on marketable obligations with comparable maturities. The report recognizes that the results could be just the opposite. For example, if in a few years interest rates decline--after some of the low interest rate securities which are now included in the rates assigned to trust fund investments computed on the basis of rates borne have been redeemed--the assigned rates for the special issues of these funds would then exceed the comparable yield rates. In neither case, however, would the rate--whether too high or too low--be representative of the Government's cost to borrow at the time the investment is made.

The Fiscal Assistant Secretary also stated in his comments:

"There are undoubtedly improvements that can be made in the procedures that have been developed for investing the trust fund. We do not believe, however, that the system recommended in the proposed report is supported by adequate analysis. We will continue to work toward improvements and to recommend changes as they appear to be warranted."

Treasury did not indicate what improvements it intended to make or whether the improvements would require changes in legislation. In a subsequent discussion with the Fiscal Assistant Secretary, he stated that Treasury had some changes in mind but would not reveal them to us for inclusion in this report. He stated that Treasury did not agree with our conclusions and would therefore make their own recommendations directly to the Congress. There is very little that Treasury can do to improve the present system without changes in legislation. It could drop the interest rate reductions because of the interest rate guarantees to two VA trust funds because these guarantees are not required by law, and the Fiscal Assistant Secretary stated that they would probably do something in this area. It could change the interest rate formulas for the special issues of those trust funds where the formula is not prescribed by law but this would probably only increase the inequities in the present system.

We therefore continue to believe that there is a need for one law which would govern the investment of all the major trust funds and have recommended consideration of legislation which would do this. We realize that there are numerous other alternatives which would overcome the inequities of the present system but believe the system proposed by us would accomplish this in a simple and fair way.

We did not include in our recommendation all of the details necessary for the operation of a new system because we believe Treasury should have some flexibility in operating the system. We do recommend a method for computing the interest rate, the frequency with which it should be computed, and that the rate be applied to the average balances in each fund. There are numerous variations in the ways this could be done but we believe this should be left to Treasury, the operating agency. Any system adopted, however, should result in all of the major trust funds earning the same rate for the use of their funds for the same period.

BACKGROUND ON SELECTED TRUST FUNDS

CIVIL SERVICE RETIREMENT AND DISABILITY FUND

The fund was created to pay annuities to retired Federal employees or their survivors. The fund is also used (1) to make refunds to former employees for amounts withheld and to beneficiaries of employees who died before retirement or before annuities equaled the amount withheld and (2) to pay the expenses incurred by the Civil Service Commission in administering the civil service retirement and disability program. The fund receives revenue from deductions from employees' salaries and matching contributions by employing agencies, interest earned on investments, and appropriations to cover certain costs.

EMPLOYEES LIFE INSURANCE FUND

The fund was created to finance life insurance premiums paid to private insurance companies for Federal employees group life insurance. Revenues are received from deductions made from Federal employees' salaries, contributions by employing agencies, and interest earned on investments. The fund also pays expenses incurred by the Civil Service Commission in administering the employees life insurance program.

EMPLOYEES HEALTH BENEFITS FUND

The fund was created to finance health benefits for Federal employees. It receives revenue from contributions made by Federal employees and the Federal Government and from interest earned on investments. The fund pays insurance companies for approved health benefits plans and pays expenses incurred by the Civil Service Commission in administering the employees' health benefits program.

FEDERAL OLD-AGE SURVIVORS INSURANCE TRUST FUND

The fund was established to pay monthly income benefits to retired workers and their dependents, dependent survivors of deceased workers, and certain uninsured persons aged 72 and over. The old-age and survivors insurance program protects individuals and families from the risk of economic loss resulting from old age and death. Revenues are received from deductions from employees' salaries and matching contributions by employers, contributions of self-employed individuals, and interest earned on investments. The fund pays old-age and survivors insurance benefits and the expenses incurred by HEW and Treasury in administering the program.

FEDERAL DISABILITY INSURANCE TRUST FUND

The fund was created to pay monthly disability benefits to severely disabled workers and their dependents. It also pays the expenses incurred by HEW and Treasury in administering the Federal disability insurance program. Revenues are received from deductions from employees' salaries and matching contributions by employers, contributions by self-employed individuals, and interest earned on investments.

FEDERAL HOSPITAL INSURANCE TRUST FUND

The fund was created to pay the cost of inpatient hospital services, posthospital home health services, and posthospital extended care services of individuals aged 65 and older. Revenues are received from deductions made from employees' salaries and matching contributions by employers, contributions of self-employed individuals, interest earned on investments, and periodic transfers of funds from the railroad retirement account. The fund also pays the expenses incurred by HEW and Treasury in administering the Federal hospital insurance program.

FEDERAL SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND

The fund was established to pay for physicians' services and certain other medical and health services of individuals aged 65 and over who elect this coverage. The costs of the services covered by the supplementary medical insurance program and the related administrative expenses incurred by HEW, Treasury, Civil Service Commission, and the Railroad Retirement Board are financed by premium payments from participants and matching contributions from the general revenues of the Treasury and interest earned on investments.

FOREIGN SERVICE RETIREMENT AND DISABILITY FUND

The fund was established to pay retirement and disability benefits. Revenues are received from deductions from employees' salaries and matching contributions by employing agencies, interest earned on investments, and periodic appropriations. The fund pays foreign service retirement and disability benefits.

HIGHWAY TRUST FUND

The fund was established to insure that taxes levied to finance the Federal highway program were used only for that purpose. Amounts equivalent to the excise taxes collected on gasoline; diesel fuel; tires; and accessories for trucks, buses, etc., are transferred to the fund. It also earns interest on investments in Government securities. As provided by appropriation acts, amounts required to meet expenditures to carry out the Federal highway program and other programs specified by law are made available to the Department of Transportation from the fund.

UNEMPLOYMENT TRUST FUND

The fund was established to devise a method of accumulating reserves during employment from which partial compensation may be paid to workers who become unemployed and cannot find other work.

Fund receipts consist of moneys deposited by a State agency from a State unemployment fund, moneys collected under the Federal Unemployment Tax Act, and any other moneys otherwise deposited in or credited to the fund. Receipts are earmarked for the benefit of the States from which the moneys were collected. The benefits payable to unemployed individuals are established by the individual States and vary from State to State.

VETERANS REOPENED INSURANCE FUND

The fund was established to provide life insurance to veterans of World War II and the Korean conflict who could not obtain life insurance at all, or only at high rates, because of their disability and who did not apply for Government life insurance for which they were previously eligible. This program was closed to applications in May 1966. Premiums and other collections made under the veterans reopened insurance program are deposited into the fund, and payments to beneficiaries for death, disability, and cash surrender claims and administrative costs are made from the fund.

GOVERNMENT LIFE INSURANCE FUND

The fund was established to pay claims on veterans' insurance policies under the War Risk Insurance Act. The fund, administered by VA, was closed to all but World War I veterans in 1940, and to all new issues in 1951. Revenues are received from premium receipts, interest on investments, and payments from the veterans insurance and indemnities appropriation. The fund pays losses, dividends, refunds, and other benefits provided for under the Government life insurance program.

VETERANS SPECIAL LIFE INSURANCE FUND

The fund was established to provide 5-year renewable term life insurance to veterans of the Korean conflict separated from service after April 24, 1951, and before January 1, 1957. VA administers the program. Premium receipts and interest on U.S. securities are deposited in the veterans special life insurance fund. Death, disability, and cash surrender claims are paid from the fund. Payments to the veterans insurance and indemnities appropriation and to the veterans reopened insurance fund are also made.

NATIONAL SERVICE LIFE INSURANCE FUND

The fund was established to handle the life insurance needs of World War II veterans, generally, and was closed to new participants in April 1951. VA administers the program financed by the fund. Revenues are derived from premium receipts, interest on investments, and payments from the veterans insurance and indemnities appropriation. The fund pays disability and death benefits, matured endowments, and dividends to policyholders and beneficiaries. The program is self-supporting except for administrative expenses and for claim losses traceable to the extra occupational hazard of service in the Armed Forces, which are financed by annual appropriations. Policyholders receive annual dividends based on the experience of the fund.

RAILROAD RETIREMENT ACCOUNTS

The railroad retirement account was established to pay all annuities, pensions, and death benefits of employees of the Nation's railroads. Under the railroad retirement system, railroad workers and employers pay taxes on wages to finance annuities for old age and disability and benefits for survivors and to finance hospital insurance benefits. These taxes are deposited in the railroad retirement account. The portion of these taxes which finances hospital insurance benefits is transferred to the Federal hospital insurance trust fund.

The railroad retirement supplemental account was established to pay supplemental annuities to certain employees in addition to the regular annuities. This program is financed by a tax paid by employers on each man-hour of paid employment. These taxes are deposited in the railroad retirement supplemental account.

Deposits of railroad retirement taxes in the railroad retirement account and railroad retirement supplemental account are based on estimates. A portion of the estimated railroad retirement tax receipts is deposited in the railroad retirement holding account until the actual tax receipts are known. These deposits are then transferred either to the railroad retirement account or the railroad retirement supplemental account.

INVESTMENTS OF SMALLER GOVERNMENT TRUST FUNDS
AND OTHER ACCOUNTS IN FEDERAL SECURITIES
AT JUNE 30, 1973

Name of account	Marketable issues	Special issues	Total
		(000 omitted)	
Legislative branch:			
U.S. Tax Court judges survivors annuity fund	$ 348	$ -	$ 348
The judiciary:			
Judicial survivors annuity fund	8,148	-	8,148
Funds appropriated to the President			
Overseas Private Investment Corporation	127,590	-	127,590
Agriculture Department:			
Commodity Credit Corporation--defense family housing mortgages	53,215	-	53,215
Consumer and Marketing Service--milk market orders assessment fund	1,033	-	1,033
Rural Electrification Administration--Rural Telephone Bank	6,969	-	6,969
Commerce Department:			
Federal ship financing fund, revolving fund	42,580	-	42,580
War risk insurance revolving fund	5,531	-	5,531
Gifts and bequests	125		125
Defense Department:			
Army Department:			
Bequest of Maj. Gen. Fred C. Ainsworth	11	-	11
General gift fund	256	-	256
Navy Department:			
Office of Naval Records and History fund	274	-	274
U.S. Naval Academy museum fund	28	-	28
U.S Naval Academy general gift fund	366	-	366
Navy general gift fund	78	-	78
Air Force Department:			
General gift fund	6	-	6
Health, Education, and Welfare Department:			
Public Health Service conditional gift fund	30	-	30
St. Elizabeths Hospital unconditional gift fund	48	-	48
Patients' benefit fund, Public Health Service hospitals	4	-	4
Housing and Urban Development Department:			
New communities guarantee fund	8,338	-	8,338
Federal Housing Administration:			
Revolving fund	1,333,875	1,500	1,335,375
Community disposal operations fund	388	-	388
Rental housing assistance fund	5,955	2,616	8,571
Government National Mortagage Association:			
Participation sales fund	997,241	-	997,241
Guarantees of mortgage-backed securities fund	8,082	-	8,082
Management and liquidating functions	48,036	-	48,036
Special assistance functions	90,533	-	90,533
Federal Insurance Administration:			
National insurance development fund	80,986	-	80,986
Interior Department:			
Indian tribal funds	745	-	745
Preservation of Abraham Lincoln's birthplace	64	-	64
Bequest of George C. Edgeter, relief of indigent American Indians	31	-	31
Alaska native fund	55	-	55
Bureau of Indian Affairs--funds contributed for the advancement of the Indian Race	20	-	20
Labor Department:			
Relief and rehabilitation, Workmen's Compensation Act within the District of Columbia	31	-	31
State Department:			
Conditional gift fund	190	-	190
Transportation Department:			
Coast Guard general gift fund	10	-	10
Coast Guard cadet fund	13	-	13
Treasury Department:			
Exchange stabilization fund	-	2,934,101	2,934,101
Pershing Hall Memorial fund	211	-	211
Office of the Comptroller of the Currency	33,431	-	33,431
Esther Cattell Schmitt gift fund	414	-	414
General Services Administration:			
National Archives gift fund	704	-	704
National Archives trust fund	1,777	-	1,777
Veterans Administration			
General post fund, national homes	1,429	-	1,429
Civil Service Commission:			
Retired employees health benefits fund	36,381	-	36,381
Emergency Loan Guarantee Board:			
Emergency loan guarantee fund	4,315	-	4,315
Federal Deposit Insurance Corporation	5,373,253	262,575	5,635,828
Federal Home Loan Bank Board:			
Federal Savings and Loan Insurance Corporation	2,967,337	81,189	3,048,526
National Credit Union Administration:			
National credit union share insurance fund	27,089	-	27,089
United States Postal Service	269,912	820,000	1,089,912
Small Business Administration			
Lease and surety bond guarantees revolving fund	5,630	-	5,630
Total	$11,543,116	$4,101,981	$15,645,097

FUNDS WHICH EARN INTEREST ON

BALANCES IN THE U.S. TREASURY

Fund	Interest rate	Interest earned during fiscal year 1973	Balance at June 30, 1973
Trust:			
Request of Gertrude M. Hubbard	4.0%	$ 800	$ 20,000
Library of Congress trust fund	4.0	210,000	5,248,300
Expenses of Smithsonian Institution	6.0	60,000	1,000,000
National Gallery of Art trust fund	4.0	200,000	5,000,000
Education of the blind	4.0	10,000	250,000
Soldiers' Home permanent fund	3.0	3,101,000	101,200,000
Indian tribal funds	4.0	2,702,000	38,831,800
Special:			
Oliver Wendell Holmes devise fund	3.5	4,500	126,500
Deposit:			
Immigration bonds deposit fund	3.0	173,600	11,390,200
Total		$6,461,900	$163,067,300

EFFECT OF NOT ASSIGNING CURRENT

YIELD RATES ON MARKETABLE GOVERNMENT OBLIGATIONS

TO TRUST FUND SPECIAL GOVERNMENT ISSUES

ACQUIRED ON JUNE 30, 1970

Trust fund	Maturity date--June 30		Amount	Assigned interest rate
			(000 omitted)	
Highway	1971		$ 2,601,737	6%
Railroad retirement holding account	1971		1,923	7.75
Railroad retirement supplemental account	1971		17,671	7.75
Unemployment	1971		10,519,939	5.5
Veterans reopened insurance	1971	$ 4,960		7.625
	1972	4,960		7.625
	1973	4,960		7.625
	1974	4,960		7.625
	1975	4,960		7.625
	1976	4,960		7.625
	1977	22,346	52,106	7.625
Veterans special life insurance	1971	3,477		4.75
	1972	3,473		4.75
	1973	3,473		4.75
	1974	3,473		4.75
	1975	3,473		4.75
	1976	3,473		4.75
	1977	38,124	58,966	4.75
Civil service retirement and disability	1977		2,951,729	7.625
Federal disability insurance	1977		1,394,466	7.625
Federal hospital insurance	1977		919,358	7.625
Federal old-age and survivors insurance	1977		5,033,296	7.625
Federal supplemental medical insurance	1977		2,855	7.625
Foreign service retirement and disability	1977		6,721	7.625
Railroad retirement account	1977		847,447	7.75
Government life insurance	1977		29,964	7.25
National service life insurance	1977		569,007	7.5
Total			$25,007,185	

[a]Based on a Treasury bill maturing on June 30, 1971, with a bank discount bid rate of 6.88% converted to a yield rate of 7.36%.

[b]Based on the yield of a 4-3/4% Treasury note maturing on May 15, 1972.

[c]Based on the yield of a 7-3/4% Treasury note maturing on May 15, 1973.

[d]Based on the yield of a 5-5/8% Treasury note maturing on August 15, 1974.

[e]Based on the yield of a 6% Treasury note maturing on May 15, 1975.

[f]Based on the yield of a 6-1/2% Treasury note maturing on May 15, 1976.

[g]Based on the yield of an 8% Treasury note maturing on February 15, 1977.

Comparable open-market yield rate at June 30, 1970	Interest to maturity — Based on — Assigned rate		Open-market yield		Difference	
	(000 omitted)					
a/7.36		$ 156,104		$ 191,488		$ 35,384
a/7.36		149		142		- 7
a/7.36		1,370		1,301		-69
a/7.36		578,597		774,268		195,671
a/7.36	$ 378		$ 365		$ -13	
b/7.63	756		757		1	
c/7.74	1,135		1,152		17	
d/7.81	1,513		1,550		37	
e/7.71	1,891		1,912		21	
f/7.76	2,269		2,309		40	
g/7.88	11,827	19,869	12,326	20,371	399	502
a/7.36	165		256		91	
b/7.63	330		530		200	
c/7.74	495		806		311	
d/7.81	660		1,085		425	
e/7.71	825		1,339		514	
f/7.76	990		1,617		627	
g/7.88	12,676	16,141	21,029	26,662	8,353	10,521
g/7.88		1,575,485		1,628,174		52,689
g/7.88		744,296		769,187		24,891
g/7.88		490,707		507,118		16,411
g/7.88		2,686,522		2,776,366		89,844
g/7.88		1,524		1,575		51
g/7.88		3,587		3,707		120
g/7.88		459,740		467,451		7,711
g/7.88		15,207		16,528		1,321
g/7.88		298,729		313,864		15,135
		$7,068,027		$7,498,202		$450,175

EFFECT OF NOT ASSIGNING CURRENT

YIELD RATES ON MARKETABLE GOVERNMENT OBLIGATIONS

TO TRUST FUND SPECIAL GOVERNMENT ISSUES

ACQUIRED ON JUNE 30, 1971

Trust fund	Maturity date-- June 30		Amount	Assigned interest rate
	(000 omitted)			
Highway	1972		$ 3,634,868	5.13%
Railroad retirement holding account	1972		3,401	6.13
Railroad retirement supplemental account	1972		21,609	6.13
Unemployment	1972		8,514,256	5.00
Veterans reopened insurance	1972	$ 4,653		6.13
	1973	4,654		6.13
	1974	4,654		6.13
	1975	4,654		6.13
	1976	4,654		6.13
	1977	4,654		6.13
	1978	27,000	54,923	
Veterans special life insurance	1972	3,740		5.00
	1973	3,737		5.00
	1974	3,737		5.00
	1975	3,737		5.00
	1976	3,737		5.00
	1977	3,737		5.00
	1978	41,861	64,286	
Civil service retirement and disability	1978		5,835,123	6.13
Federal disability insurance	1978		1,284,249	6.13
Federal hospital insurance	1978		931,182	6.13
Federal old-age and survivors insurance	1978		3,468,850	6.13
Federal supplementary medical insurance	1978		254,641	6.13
Foreign service retirement and disability	1978		4,454	6.13
Railroad retirement account	1978		819,501	6.13
Government life insurance	1978		111,949	5.50
National service life insurance	1978		1,091,044	5.75
Total			$26,094,336	

[a]Based on a Treasury bill maturing on June 30, 1972, with a bank discount bid rate of 5.84% converted to a yield rate of 6.18%.

[b]Based on the yield of a 7-3/4% Treasury note maturing on May 15, 1973.

[c]Based on the yield of a 7-1/4% Treasury note maturing on May 15, 1974.

[d]Based on the yield of a 6% Treasury note maturing on May 15, 1975.

[e]Based on the yield of a 6-1/2% Treasury note maturing May 15, 1976.

[f]Based on the yield of a 7-3/4% Treasury note maturing on August 15, 1977.

[g]Based on the yield of a 6-1/4% Treasury note maturing on February 15, 1978.

Comparable open-market yield rate at June 30, 1971	Interest to maturity: Based on Assigned rate		Interest to maturity: Based on Open-market yield		Difference	
	(000 omitted)					
a/6.18		$ 186,287		$ 224,634		$ 38,347
a/6.18		208		210		2
a/6.18		1,324		1,335		11
a/6.18		425,713		526,181		100,468
a/6.18	$ 285		$ 288		$ 3	
b.6.31	570		587		17	
c/6.76	855		944		89	
d/6.65	1,140		1,238		98	
e/6.82	1,425		1,587		162	
f/7.04	1,710		1,966		256	
g/6.92	11,576	17,561	13,079	19,689	1,503	2,128
a/6.18	187		231		44	
b/6.31	374		472		98	
c/6.76	561		758		197	
d/6.65	747		994		247	
e/6.82	934		1,274		340	
f/7.04	1,121		1,579		458	
g/6.92	14,651	18,575	20,277	25,585	5,626	7,010
g/6.92		2,501,809		2,826,534		324,725
g/6.92		550,622		622,090		71,468
g/6.92		399,244		451,065		51,821
g/6.92		1,487,269		1,680,311		193,042
g/6.92		109,177		123,348		14,171
g/6.92		1,910		2,158		248
g/6.92		351,361		396,966		45,605
g/6.92		43,100		54,228		11,128
g/6.92		439,145		528,502		89,357
		$6,533,305		$7,482,836		$949,531

EFFECT OF NOT ASSIGNING CURRENT

YIELD RATES ON MARKETABLE GOVERNMENT OBLIGATIONS

TO TRUST FUND SPECIAL GOVERNMENT ISSUES

ACQUIRED ON JUNE 30, 1972

Trust fund	Maturity date--June 30	Amount (000 omitted)		Assigned interest rate
Highway	1973		$4,456,381	5.00%
Railroad retirement holding account	1973		3,134	5.75
Railroad retirement supplemental account	1973		22,318	5.75
Unemployment	1973		7,185,886	5.00
Veterans reopened insurance	1973	$ 4,458		5.75
	1974	4,458		5.75
	1975	4,458		5.75
	1976	4,458		5.75
	1977	4,458		5.75
	1978	4,458		5.75
	1979	31,458	58,206	5.75
Veterans special life insurance	1973	4,000		5.25
	1974	4,000		5.25
	1975	4,000		5.25
	1976	4,000		5.25
	1977	4,000		5.25
	1978	4,000		5.25
	1979	45,862	69,862	5.25
Civil service retirement and disability	1979		4,009,870	5.75
Federal disability insurance	1979		1,058,617	5.75
Federal hospital insurance	1979		537,999	5.75
Federal old-age and survivors insurance	1979		3,102,896	5.75
Federal supplementary medical insurance	1979		232,150	5.75
Foreign service retirement and disability	1979		9,125	5.75
Railroad retirement account	1979		796,856	5.75
Government life insurance	1979		32,152	5.25
National service life insurance	1979		481,013	5.50
Total			$22,056,465	

[a]Based on a Treasury bill maturing on June 30, 1973, with a bank discount bid rate of 5.09% converted to a yield rate of 5.36%.

[b]Based on the yield of a 7-1/4% Treasury note maturing on May 15, 1974.

[c]Based on the yield of a 5-7/8% Treasury note maturing on May 15, 1975.

[d]Based on the yield of a 5-3/4% Treasury note maturing on May 15, 1976.

[e]Based on the yield of a 7-3/4% Treasury note maturing on August 15, 1977.

[f]Based on the yield of a 6% Treasury note maturing on November 15, 1978.

[g]Based on the yield of a 4% Treasury bond maturing on February 15, 1980.

Comparable open-market yield rate at June 30, 1972	Interest to maturity: Based on: Assigned rate		Open-market yield		Difference	
	(000 omitted)					
a/5.36		$ 222,819		$ 238,862		$ 16,043
a/5.36		180		168		-12
a/5.36		1,283		1,196		-87
a/5.36		359,294		385,163		25,869
a/5.36	$ 256		$ 239		$ -17	
b/5.52	513		492		-21	
c/5.78	769		773		4	
d/5.92	1,025		1,056		31	
e/5.98	1,282		1,333		51	
f/6.11	1,538		1,634		96	
g/6.18	12,662	18,045	13,609	19,136	947	1,091
a/5.36	210		214		4	
b/5.52	420		442		22	
c/5.78	630		694		64	
d/5.92	840		947		107	
e/5.98	1,050		1,196		146	
f/6.11	1,260		1,466		206	
g/6.18	16,854	21,264	19,840	24,799	2,986	3,535
g/6.18		1,613,973		1,734,670		120,697
g/6.18		426,093		457,958		31,864
g/6.18		216,545		232,738		16,194
g/6.18		1,248,916		1,342,313		93,397
g/6.18		93,440		100,428		6,988
g/6.18		3,673		3,947		275
g/6.18		320,735		344,720		23,985
g/6.18		11,816		13,909		2,093
g/6.18		185,190		208,086		22,896
		$4,743,266		$5,108,094		$364,828

Effect of Not Assigning Current

Yield Rates on Marketable Government Obligations

to Trust Fund Special Government Issues

Acquired on June 30, 1973

Trust fund	Maturity date-- June 30	Amount		Assigned interest rate
		(000 omitted)		
Highway	1974		$ 5,550,051	6.000%
Railroad retirement holding account	1974		3,785	6.750
Railroad retirement supplemental account	1974		38,531	6.750
Unemployment	1974		8,330,098	5.750
Veterans reopened insurance	1974	$ 4,684		6.625
	1975	4,684		6.625
	1976	4,684		6,625
	1977	4,684		6.625
	1978	4,684		6.625
	1979	4,684		6.625
	1980	36,141	64,245	6.625
Veterans special life insurance	1974	4,516		5.625
	1975	4,516		5.625
	1976	4,516		5.625
	1977	4,516		5.625
	1978	4,516		5.625
	1979	4,515		5.625
	1980	50,376	77,471	5.625
Civil service retirement and disability	1980		3,951,273	6.625
Federal disability insurance	1980		943,266	6.625
Federal hospital insurance	1980		2,159,064	6.625
Federal old-age and surviors insurance	1980		4,547,285	6.625
Federal supplementary medical insurance	1980		281,762	6,625
Foreign service retirement and disability	1980		11,192	6.625
Railroad retirement account	1980		1,007,618	6.750
Government life insurance	1980		46,875	6.250
National service life insurance	1980		666,100	6.500
Total			$27,678,616	

[a]Based on the yield of a 7-1/4% Treasury note maturing on May 15, 1974.

[b]Based on the yield of a 5-7/8% Treasury note maturing on May 15, 1975.

[c]Based on the yield of a 5-3/4% Treasury note maturing on May 15, 1976.

[d]Based on the yield of a 7-3/4% Treasury note maturing on August 15, 1977.

[e]Based on the yield of a 6% Treasury note maturing on November 15, 1978.

[f]Based on the yield of a 6-1/4% Treasury note maturing on August 15, 1979.

[g]Based on the yield of a 6-7/8% Treasury note maturing on May 15, 1980.

Comparable open-market yield rate at June 30, 1973	Interest to maturity — Based on — Assigned rate		Open market yield		Difference	
	(000 omitted)					
a/7.78		$ 333,003		$ 431,794		$ 98,791
a/7.78		255		294		39
a/7.78		2,601		2,998		397
a/7.78		478,981		648,082		169,101
a/7.78	$ 310		$ 365		$ 55	
b/7.26	621		680		59	
c/7.13	931		1,002		71	
d/6.88	1,241		1,289		48	
e/6.90	1,552		1,616		64	
f/6.79	1,862		1,908		46	
g/7.06	16,760	23,277	17,861	24,721	1,101	1,444
a/7.78	254		351		97	
b/7.26	508		656		148	
c/7.13	762		966		204	
d/6.88	1,016		1,243		227	
e/6.90	1,270		1,558		288	
f/6.79	1,524		1,839		315	
g/7.06	19,836	25,170	24,896	31,509	5,060	6,339
g/7.06		1,832,403		1,952,719		120,316
g/7.06		437,440		466,162		28,722
g/7.06		1,001,266		1,067,009		65,743
g/7.06		2,108,803		2,247,268		138,465
g/7.06		130,667		139,247		8,580
g/7.06		5,190		5,531		341
g/7.06		476,100		497,965		21,865
g/7.06		20,508		23,165		2,657
g/7.06		303,075		329,187		26,112
		$7,178,739		$7,867,651		$688,912

EFFECT OF NOT ASSIGNING CURRENT YIELD RATES

ON MARKETABLE GOVERNMENT OBLIGATIONS TO TRUST

FUND SPECIAL ISSUES ACQUIRED ON JUNE 30, 1974

Trust fund	Maturity date--June 30	Total amount	Assigned interest rate	Comparable open-market yield rate at June 30, 1974 (note a)	Interest to maturity (note b) Based on Assigned rate	Open-market yield	Difference
		(000 omitted)			(000 omitted)		
Highway	1975	$ 7,599,203	7.000%	8.92%	$ 531,944	$ 677,849	$145,905
Railroad retirement holding account	1975	3,799	8.000	8.92	304	339	35
Railroad retirement supplemental account	1975	43,913	8.000	8.92	3,513	3,917	404
Unemployment	1975	9,494,741	6.500	8.92	617,158	846,931	229,773
Railroad retirement account	1981	1,143,758	8.000	7.81	640,504	625,292	15,212
Veterans reopened insurance	b/1981-89	67,464	7.625	6.97-8.00	32,580	32,257	323
Veterans special life insurance	b/1981-89	88,314	5.875	6.97-8.00	32,861	42,227	9,366
Civil service retirement and disability	b/1981-89	5,379,691	7.625	6.97-8.00	2,597,943	2,572,210	25,733
Federal disability insurance	b/1981-89	1,094,967	7.625	6.97-8.00	528,778	523,540	5,238
Federal hospital insurance	b/1981-89	3,651,163	7.625	6.97-8.00	1,763,209	1,745,744	17,465
Federal old-age and survivors insurance	b/1981-89	6,101,188	7.625	6.97-8.00	2,946,360	2,917,182	29,184
Federal supplementary medical insurance	b/1981-89	557,672	7.625	6.97-8.00	269,310	266,642	2,668
Government life insurance	b/1981-89	34,910	7.250	6.97-8.00	16,030	16,692	662
National service life insurance	b/1982-89	571,642	7.500	6.97-8.00	267,957	268,421	464
Foreign service retirement and disability	b/1984-89	41,951	7.625	6.97-7.67	17,593	17,033	560
Total		$35,874,376			$10,266,050	$10,556,276	$290,226

a/Comparable open-market yield rates at June 30 were based on the yields of the following securities:

Maturity year	Treasury security	Maturity date	Yield at June 30, 1974
1975	5-7/8% note	May 15, 1975	8.92%
1981	7% bond	Aug. 15, 1981	7.81
1982	6-3/8% bond	Feb. 15, 1982	8.00
1983	3-1/4% bond	June 15, 1978-83	7.56
1984	6-3/8% bond	Aug. 15, 1984	7.67
1985	3-1/4% bond	May 15, 1985	6.97
1986	6-1/8% bond	Nov. 15, 1986	7.52
1987	-	-	-
1988	-	-	-
1989	-	-	-

b/Approximately equal amounts invested with maturities at June 30 of each year for the period shown.

GAO note: Because no Treasury securities of comparable maturity were outstanding, earnings and differences not estimated for 1987 through 1989.