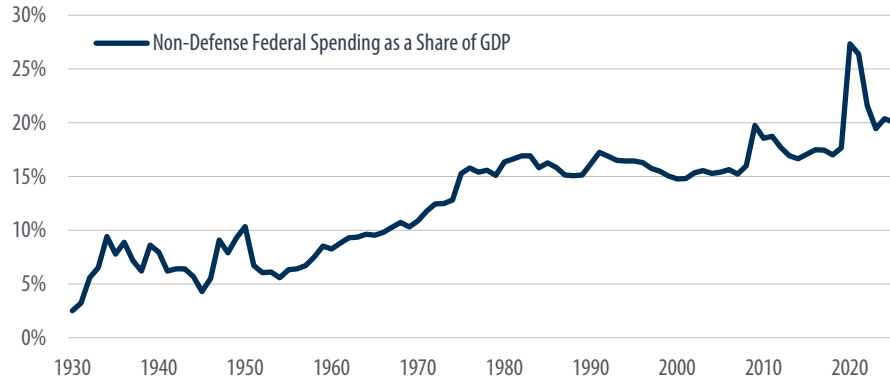


### America's Transfer Society

In this week's edition of "Three on Thursday" we look at the composition and evolution of federal spending over history. In conjunction with the Office of Management and Budget ("OMB"), the White House releases the "Historical Tables" – a comprehensive array of data on Federal Government finances spanning as far back as 1789 and extending to the most recent data available for Fiscal Year 2025, with projections included for the President's Budget for 2026–2031. An examination of this data unveils remarkable findings: in Fiscal Year 2025, a staggering 69% of federal spending was allocated to payments to individuals, just under the highest share ever recorded. The Federal Government has become not much more than the world's largest money transferring machine. So much spending going directly to individuals makes cutting the budget very difficult politically. For deeper insights into this matter, explore the three charts below.

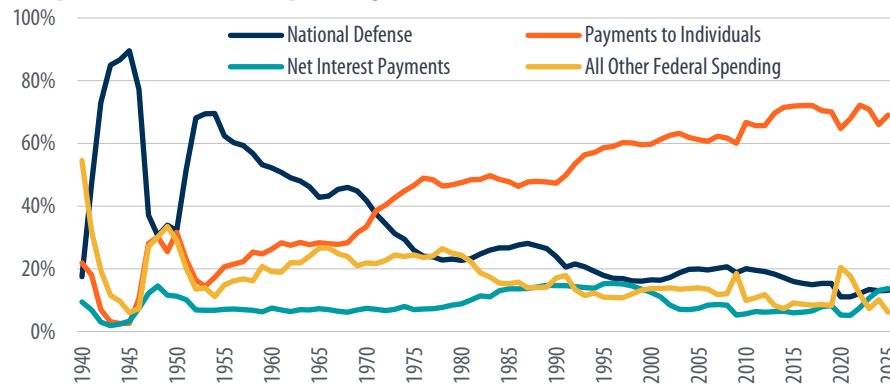
### The Federal Government's Growing Share of the Economy



Source: Office of Management and Budget, First Trust Advisors. Fiscal year data 1930-2025.

Since 1930, nominal GDP has surged 309-fold, while federal spending has skyrocketed 2,111-fold. Stripping out defense spending provides a clearer view of the government's expanding role in the economy. In 1930, non-defense federal spending stood at just 2.5% of GDP and would stay below 10% for the next three decades, with only a brief breach in 1950. That changed with the introduction of President Lyndon B. Johnson's Great Society programs in 1964: spending broke above 10% of GDP three years later and never looked back, growing rapidly in the next two decades before leveling off under Reagan and Clinton. However, this fiscal constraint ultimately proved temporary, as the Financial Crisis and COVID pushed spending sharply higher. As of 2025, non-defense federal spending sits at 20.1% of GDP, driven in large part by a massive increase in direct payments to individuals.

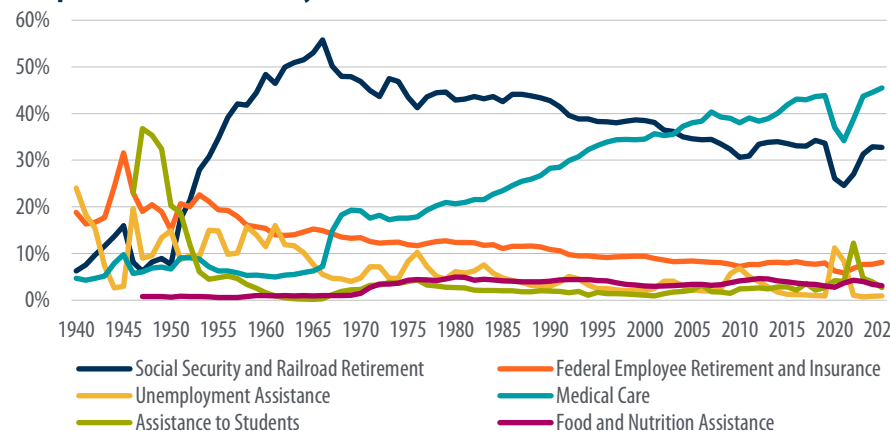
### Composition of Federal Spending



Source: Office of Management and Budget, First Trust Advisors. Fiscal year data 1940-2025.

The U.S. Federal Government has turned the U.S. into a transfer society, with an incredible \$4.8 trillion or 69.0% of spending in 2025 allocated towards payments for individuals. These payments encompass various government programs aimed at providing income support to individuals and families, whether in the form of cash or other benefits. This trend has notably impacted National Defense spending, which has dwindled to a mere 13.1% share of federal spending, marking a steady decline since the mid-1950s. Federal Net Interest Payments comprise a similar share, making up 13.8% of federal spending in 2025 and are projected to climb to 14.7% of spending by 2031. Finally, All Other Federal Spending accounted for a modest 6.2% of the federal budget.

### Composition of Federal Payments for Individuals



Source: Office of Management and Budget, First Trust Advisors. Fiscal year data 1940-2025.

So what is causing the massively higher trend in payments for individuals? Medical Care takes the number one spot, accounting for \$2.20 trillion of federal spending in 2025. In 1940, Medical Care made up around 5% of payments for individuals, but that has now ballooned to 45.5% as of 2025. Next in line is Social Security and Railroad Retirement, which accounted for \$1.58 trillion of federal spending in 2025, or 32.7% of federal payments for individuals. Just these two alone make up over three-quarters of federal payments for individuals! Rounding out the top three is Federal Employee Retirement and Insurance, accounting for \$392 billion in 2025.

This report was prepared by First Trust Advisors L.P. and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.