Federal Accounting Standards Advisory Board

Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government

Statement of Federal Financial Accounting Standards 36

September 28, 2009

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or "the Board) in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

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Additional background information is available from the FASAB or its website:

- "Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board."

- "Mission Statement: Federal Accounting Standards Advisory Board", Exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB's website at: www.fasab.gov.

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Summary

This standard requires:

1. A basic financial statement in the consolidated financial report of the U.S. Government (CFR) presenting for all the activities of the federal government:
    a. the present value of projected receipts and non-interest spending under current policy without change,
    b. the relationship of these amounts to projected Gross Domestic Product (GDP), and
    c. changes in the present value of projected receipts and non-interest spending from the prior year.
2. Required Supplementary Information (RSI) that explains and illustrates
    a. the projected trends in:
        (1) the relationship between receipts and spending,
        (2) deficits or surpluses,
        (3) Treasury debt held by the public as a share of GDP,
    b. possible results using alternative scenarios, and
    c. the likely impact of delaying corrective action when a fiscal gap exists.
3. Disclosures that explain and illustrate:
    a. the assumptions underlying the projections,
    b. factors influencing trends, and
    c. significant changes in the projections from period to period.

These requirements will be implemented following a three-year transition period beginning in fiscal year (FY) 2010 during which all information may be presented as RSI. Beginning in FY 2013, the required information will be presented as a basic financial statement, disclosures and RSI as designated within the standards.

The required information will help readers of the CFR assess "whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due."[1] Such an assessment is an important objective of federal financial reporting requiring prospective information about receipts and spending, the resulting debt, and how these amounts relate to the economy.

[1] Statement of Federal Financial Accounting Concepts (SFFAC) 1, paragraphs 135 and 139.

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Introduction

Purpose

1. In Statement of Federal Financial Accounting Concepts (SFFAC) 1, the Board established four objectives of federal financial reporting. These objectives provide a framework for assessing the existing accountability and financial reporting systems of the federal government and for considering new accounting standards.[2] The objectives address (1) Budgetary Integrity, (2) Operating Performance, (3) Stewardship, and (4) Systems and Controls.

2. Objective 3, Stewardship, is the primary focus for this Statement. Objective 3 states that:

   > Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future.[3]

3. Sub-objective 3B states that:

   > Federal financial reporting should provide information that helps the reader to determine whether future budgetary resources will likely be sufficient to sustain public services[4] and to meet obligations as they come due.[5]

4. While federal financial reporting is not expected by itself to accomplish the stewardship reporting objective, it can contribute to meeting the objective.[6] This Statement's contribution relates primarily to the federal government's operations and financial condition; it does not extend to an assessment of the nation's financial condition.

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[2] SFFAC 1, par. 109.
[3] SFFAC 1, par. 134.
[4] In this standard, "public services" refers to all goods, benefits and services provided by the government. Federal public services include but are not limited to the provision of goods, transfer payments (such as Social Security benefits) or other financial benefits (such as loan guarantees), as well as national defense, transportation safety and national parks.
[5] SFFAC 1, par. 139.
[6] SFFAC 1, par. 235.

5. The Board believes that comprehensive long-term fiscal **projections**[7] make an essential contribution to meeting the stewardship objective and especially sub-objective 3B because it is concerned with the future and the resources needed in the future.

6. Long-term fiscal projections serve as the basis for key measures presented in the basic financial statement as well as narrative and illustrations required in the consolidated financial report of the U.S. Government (CFR). The more detailed objectives presented below were developed as one means of guiding the Board in developing the basic financial statement and in identifying the most important areas to be addressed through narrative, tables and/or graphics.

Objectives of Basic Financial Statement (Comprehensive Long-Term Fiscal Projections for the U.S. Government) and Accompanying Disclosures and Required Supplementary Information

7. In this Statement, "**Fiscal Sustainability Reporting**" is the short term for the basic financial statement, disclosures, and **Required Supplementary Information** (RSI) required in the CFR. Fiscal Sustainability Reporting should provide information to assist readers of the CFR in assessing whether future budgetary resources of the U.S. Government will likely be sufficient to sustain public services and to meet obligations as they come due,[8] assuming that current policy for federal government public services and taxation is continued without change (hereafter referred to as "**current policy without change**").[9]

8. Such an assessment is important not only because of its financial implications but also because it has social and political implications. For example, users of financial reports should be provided with information that is helpful in assessing the likelihood that the government will continue to provide public services to constituent groups and to assess whether financial burdens without related benefits were passed on by current-year taxpayers to future-year taxpayers.[10] Fiscal Sustainability Reporting should assist the reader in understanding these financial, social and political implications.

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[7] Terms defined in the Glossary are shown in **bold-face** the first time they appear.
[8] SFFAC 1, par. 139.
[9] Note that fiscal sustainability reporting does not extend to supporting a detailed assessment of whether current policy without change regarding federal public services and taxation is optimal; rather, it addresses the fiscal outlook if current policy is continued without change.
[10] The latter notion is sometimes referred to as "interperiod equity."

9. Fiscal Sustainability Reporting should be understandable to the intended users of the CFR. The primary intended users of this report are citizens and citizen intermediaries (for example, the media, public interest and advocacy groups, and others). The CFR should be easily understandable to the "average citizen" who has a reasonable understanding of federal government activities and is willing to study the information with reasonable diligence.

Materiality

10. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

Effective Date

11. This Statement provides for a phased-in implementation, but earlier implementation is encouraged. All information will be reported as RSI for the first three years of implementation (fiscal years 2010, 2011, and 2012). Beginning in fiscal year 2013, the required information will be presented as a basic financial statement, disclosures, and RSI as designated within the standard.

Accounting Standards

Scope

12. The reporting requirements in this Statement apply to the consolidated financial report of the U.S. Government (CFR). They do not apply to financial statements prepared at the component entity level. They also do not affect the reporting in the *Budget of the U.S. Government* or any other special purpose report.

Definitions

13. Fiscal Gap

The **fiscal gap** is the change in non-interest spending and/or receipts that would be necessary to maintain public debt at or below a target percentage of **gross domestic product** (GDP).[11] More specifically, the fiscal gap is the net **present value** of projected spending[12] minus projected receipts, adjusted by the decrease (or increase) in public debt required to maintain public debt at or below the target percentage of GDP for the stated projection period. The fiscal gap may be expressed as:

a. a summary amount in present value dollars,
b. a share of the present value of the GDP for the projection period, and/or
c. a share of the present value of projected receipts or projected non-interest spending.

14. Policy Assumptions

Policy assumptions address the factors under the direct control of the federal government concerning the taxes and other receipts to be received by the federal government and the public services to be provided by the federal government. Policy assumptions address projected spending rules for both **mandatory** and **discretionary spending**[13] as well as the framework for assessing taxes and fees.

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[11] GDP is the total market value of all final goods and services produced domestically during a given period of time. The components of GDP are: private sector consumption and investment, government consumption and investment, and net exports (exports-imports).

[12] Since interest is factored into the present value calculation, the fiscal gap as a share of spending is expressed as a share of spending excluding interest ("non-interest spending").

[13] In the federal budget process, "discretionary spending" refers to outlays from budget authority that is controlled by annual appropriation acts. Annual appropriation acts are required to fund the continuing operation of all federal programs that are not "mandatory." "Mandatory spending" includes entitlement

15. Current Policy Without Change

    In this standard, "current policy without change" refers to the continuation of policies in place as of the valuation date (in other words, no policy change).

16. Economic Assumptions

    Economic assumptions address the economic factors that are not under the direct legislative control of the federal government (for example, inflation and growth in GDP).

17. Demographic Assumptions

    Demographic assumptions address projected population trends (for example, birth rates, mortality rates, and net immigration).

18. Public Services

    In federal financial reporting, "**public services**" refers to all goods, benefits and services provided by the government. Federal public services include but are not limited to the provision of goods, cash (such as Social Security benefits) or other financial benefits (such as loan guarantees), or services such as national defense, transportation safety, and the operation of national parks.

Policy, Economic, and Demographic Assumptions

19. Fiscal Sustainability Reporting for the U.S. Government should provide information that helps the reader to determine whether current policy without change is likely to produce future budgetary resources sufficient to sustain public services and to meet obligations as they come due. Long-term projections should help the reader to understand the fiscal implications of continuing current policy without change regarding public services and taxation along with other factors such as projected economic and demographic trends.

20. Projections of deficits, surpluses, and debt are a central feature of Fiscal Sustainability Reporting. Projections are not forecasts or predictions; they are designed to depict results that may occur under

authority such as Social Security and Medicare and payment of interest on the national debt. Congress controls mandatory spending by controlling eligibility and setting benefit and payment rules, rather than by annual appropriation acts. For additional information, see *A Glossary of Terms Used in the Federal Budget Process,* GAO-05-734SP. Available at: http://gaoweb.gao.gov (accessed May 7, 2009) various conditions–for example, what if current policy without change regarding federal government public services and taxation are continued in the future? Projections are useful to display alternative future scenarios, but it is important to clearly explain the nature of the information being presented.

21. Long-term projections are derived from models that rely heavily on assumptions. There is an expectation that such models will evolve over time. Therefore, this Statement provides guiding principles for selecting assumptions. The guiding principles address three types of assumptions: policy, economic, and demographic.

22. Policy assumptions address the factors under the direct control of the federal government concerning the taxes and other receipts to be received by the federal government and the public services to be provided by the federal government.

23. Economic assumptions address the economic factors that are not under the direct legislative control of the federal government (for example, inflation and growth in GDP).

24. Demographic assumptions address projected population trends (for example, birth rates, mortality rates, and net immigration).

25. When combined, policy, economic, and demographic assumptions determine the future projected receipts and spending.

26. To illustrate the distinction between policy, economic and demographic assumptions: consider the application of policy, economic and demographic assumptions to the Social Security program. Assumptions relating to future Social Security eligibility and benefit formulas represent policy assumptions. Assumptions about productivity growth and inflation represent economic assumptions. Assumptions about the future population represent demographic assumptions.

27. Policy assumptions should reflect reasonable assumptions about the future course of receipts and spending assuming the continuation of current policy without change. The guiding principle for selecting policy assumptions is to base selections on assumptions consistent with the continuation of policies in place as of the valuation date.

28. Current law is the best place to start when identifying "current policy without change." However, a simple projection of "current law" would not always reflect current policy without change.

    a. Cases where a departure from current law may be appropriate include but are not limited to those in which current law

        (1) expires almost immediately,

        (2) contains provisions that are internally inconsistent, or

        (3) has been changed in a consistent direction over time (i.e., there is a recurring history of change).

    b. The following examples demonstrate how a simple projection of current law may be inconsistent with the guiding principle:

        (1) Legislation providing for discretionary spending provides funding that extends at most a few years into the future. A current-law policy assumption would show discretionary spending falling to zero within a few years. In this situation a simple projection of "current law" would not reflect the implicit "current policy without change."

        (2) Current law may contain inconsistent provisions in certain situations. For example, current law may contain provisions for scheduled social insurance benefit payments as well as provisions that restrict spending on certain social insurance programs, for example, Social Security and Part A of Medicare, to the amounts available in the Social Security or Medicare **trust fund accounts**, respectively, plus inflows of **earmarked revenues**. A current law policy assumption would not be feasible in this case since both requirements can not be met simultaneously. Thus, an interpretation of "current policy without change" will be necessary.

        (3) Current law may include provisions that have been changed in a consistent direction over a period of time. For example, the statutory limit on federal debt has been consistently raised. A current-law policy assumption would be that Treasury borrowing will never increase beyond the dollar amount of the current statutory limit. In such situations a simple projection of current law would not reflect the implicit "current policy without change."

29. Assumption of a uniform growth rate for all types of receipts and spending is not required. Assumptions may be based on, but are not limited to, the notion that non-interest spending or receipts are likely to:

    a. maintain a constant share of GDP,

    b. grow with inflation,[14] or

    c. maintain a constant real[15] per capita level.[16]

30. Judgment should be applied in selecting assumptions. Policy assumptions representing the worst case scenario are not required. The preparer's objective should be to produce unbiased projections.

31. The same economic and demographic assumptions generally should be used for the basic financial statement for Fiscal Sustainability Reporting and for Social Security and/or Medicare in the Statement of Social Insurance (SOSI) although exceptions may be necessary when considering all projected receipts and spending. For example, an appropriate unified discount rate for all projected receipts and spending in the basic financial statement may differ from either the Social Security or Medicare discount rate. (See paragraph 40.c.)

32. The projection of current policy without change is intended to show the long-term results of current policy without change. The projection of current policy without change is not a forecast or prediction. This distinction must be clearly explained in the narrative accompanying the principal financial statement, the disclosures and the RSI.

Valuation Date

33. All projections and estimates required in this Statement should be made as of a date (the valuation date) as close to the end of the fiscal year being reported on ("current year") as possible and no more than one year prior to the end of the current year. This valuation date should be consistently followed from year to year.

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[14] Inflation is growth in a general measure of prices, usually expressed as an annual rate of change.
[15] In economic terms, "real" means adjusted to remove the effects of inflation.
[16] As applicable, the characteristics of the population should be considered for expenditures that benefit identifiable subgroups.

34. If, after the valuation date, but prior to the end of the fiscal year, policy changes are enacted that could materially affect the basic statement, the projections should be adjusted, if feasible,[17] as if the policy changes took place as of the valuation date. If not feasible, the entity should disclose an estimate of the magnitude of the effect of the policy change on the projection or, if not possible, disclose that it was not possible to reasonably estimate the effect. In any case, the nature of the policy change should be disclosed. If policy changes are enacted after the end of the fiscal year, but prior to the issuance of the financial statements, the financial statements should disclose the nature of the policy change and, if known, the estimated effect on the projections.

Projection Periods

35. Projections in the basic financial statement should be for a finite projection period sufficient to illustrate long-term sustainability.

    If the projection period in the basic financial statement is not consistent with the projection period used for Social Security and Medicare in the SOSI, the disclosures should display the subtotal and total line items of the basic financial statement calculated for the projection period that was used for Social Security and Medicare in the SOSI.[18]

Basic Financial Statement

36. The basic financial statement, *Long-Term Fiscal Projections for the U.S. Government,* should state the projection period and display the following projected amounts as both present value dollars and as a percentage of the present value of GDP for the projection period indicated:

    a. receipts, disaggregated by major programs such as Medicare, Social Security, and all other receipts, and total receipts;[19]

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[17] Factors affecting feasibility include but are not limited to the timing of the enactment of legislation and the ability of the preparers to revise the financial statements and/or the ability of the auditors to audit the revised information prior to the issuance of the financial statements and/or the audit opinion.
[18] The SOSI projection period is required to be "sufficient to illustrate long-term sustainability (for example, traditionally the "Social Security" or OASDI, program has used a projection period of 75 years for long-term projections)." See SFFAS 17, paragraph 27.
[19] Full payment of amounts due to Social Security and Medicare HI Trust Funds must be included as receipts for Medicare and Social Security, and outlays for "rest of government."

b. non-interest spending, disaggregated by major programs such as Medicare, Medicaid, Social Security, and all other non-interest spending, total non-interest spending; and

c. the difference between projected receipts and projected non-interest spending.

37. After the initial year of implementation, the basic financial statement should also present comparative amounts for the current year and prior year, and the net change for each line item from the prior year as both present value dollars and as a percentage of the present value of GDP for the projection period indicated.

38. Fiscal gap information should be provided, either on the face of the financial statement or in the disclosures.

Disclosures

39. Disclosures should include an explanation of the following limitations:

a. Forward-looking projections require assumptions and estimates relating to future events, conditions, and trends; actual results may differ materially from those that are projected.

b. Forward-looking projections focus on future cash flows, and do not reflect either the accrual or modified-cash basis of accounting.

c. Projections are <u>not</u> forecasts or predictions; they are designed to answer the question “what if?” – for example, what would be the impact on federal borrowing if current policies without change were continued for a long period of time?

d. Forward-looking projections may also encompass hypothetical future trends or events that are not necessarily deemed probable (for example, the assumed ability to continue issuing new public debt indefinitely).

e. Fiscal Sustainability Reporting is limited to the activity of the federal government, and does not include activities of state and local governments or the activities of the private sector.

f. The summary measures cover a finite period and consideration should be given to trends following the end of the projection period.

Disclosures should refer the readers to the RSI for a further discussion of this limitation.[20]

40. Disclosures should also include:

a. a "plain English" explanation of present value and interest rates used to calculate present value.

b. significant policy assumptions used in making the projections.

c. any significant differences in economic and demographic assumptions from those used for Social Security and/or Medicare in the preparation of the SOSI and a reference to the note presenting assumptions used in the SOSI.

d. an explanation of the most significant departures from current law–for example, allowing for exceeding the statutory limit on federal debt.

e. the significant reasons for the changes when year-by-year comparisons are displayed. For example, significant changes may be attributable to the following broad causes:

(1) valuation period (for example, the beginning of the projection period is one year later);

(2) changes in policies (legislation); and

(3) changes in assumptions or estimates.

f. The net excess of non-interest spending over receipts disaggregated between (1) programs funded by the government's general revenues (which would currently[21] include Federal Supplementary Medical Insurance (Medicare Parts B and D), as well as other programs), and (2) major programs that are funded by payroll and self-employment taxes and that are not financed in any material respect by the government's general revenues (which would currently consist of Social Security (Old Age, Survivors and Disability Insurance (OASDI)) and Medicare Part A), accompanied by a discussion of the different funding mechanisms for the two types of programs.

Required Supplementary Information

[20] See paragraph 42.
[21] "Currently" means as of the date of Board approval of this SFFAS in June 2009.

41. RSI should explain and illustrate:

a. trends in:

(1) historical and projected Treasury debt held by the public as a share of GDP,

(2) historical and projected receipts and spending, and

(3) historical and projected deficits and surpluses

for a progression of years beginning at least 20 years before the current year and, at a minimum, extending to the end of the projection period used in the basic financial statement. These amounts should be presented at regular time intervals (for example, every five years or ten years).

b. the major factors that are expected to have a significant impact upon projected receipts and spending, and how such factors are expected to change over time. For example, two such factors may be (1) the rising cost of health care and (2) demographic trends. Information about how such factors have changed and are expected to change over time is necessary to assist the reader in understanding the factors that influence fiscal projections.

c. if an excess of projected non-interest spending over projected receipts is indicated by the projections, the likely impact of delaying action. For example, graphics could illustrate the progressive increase in the change that would be needed to close the fiscal gap by (1) reducing non-interest spending, or (2) increasing receipts.

d. the results of alternative scenarios that are consistent with current policy without change. Alternative scenarios are projections in which one or more significant assumptions is varied from the assumptions used in the projections presented in the basic financial statement. The choice of alternative scenarios presented should consider both those that result in larger as well as those that result in smaller net differences between the present value of projected receipts and non-interest spending. Projections for alternative scenarios may be displayed in a table format. The major causes of the differences between the results of the alternative scenarios and the basic financial statement should be explained.

42. RSI should also include an explanation of the significance of the data presented or other information that puts the data into context. Options for context may include but are not limited to:

a. comparison of the data/trend with past U.S. trends and trends in other developed nations,

b. where to find information about outside organizations that use similar data to assess the long-term implications for an entity or sovereign government, for example, the role of rating organizations and/or European Union rules for member nations, and/or

c. information that may be helpful to readers in assessing whether financial burdens without related benefits were passed on by current-year taxpayers to future-year taxpayers.

43. RSI should discuss the implications of the trends in receipts and spending for periods following the end of the projection period. This requirement may be met by providing projections for an infinite horizon or a narrative discussion.

Supporting Data (Other Accompanying Information)

44. The quantitative data supporting the basic financial statement, disclosures and RSI may be provided in or referenced as other accompanying information.[22]

Effective Date

45. The following phase-in of reporting requirements as basic information provides for full implementation for reporting periods beginning after September 30, 2012.

a. These standards are effective for periods beginning after September 30, 2009.

b. Information should be reported as RSI for the first three years of implementation (fiscal years 2010, 2011, and 2012).

c. Beginning in fiscal year 2013, the required information should be presented as specified in paragraphs 12 - 42.

d. Earlier implementation is encouraged.

The provisions of this Statement need not be applied to immaterial items.

[22] For example, a link to a more detailed report such as the President's Budget, a Congressional Budget Office report, or the Trustees Report (*Status of the Social Security and Medicare Program)* may be provided. Note that the Trustees Report is available at: http://www.ssa.gov/OACT/TR/ (accessed May 7, 2009).

Appendix A: Basis for Conclusions

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement–not the material in this appendix–should govern the accounting for specific transactions, events, or conditions.

Project History

A1. This project was initiated to address the Board's Reporting Objective 3, in particular sub-objective 3b, below:

> ***Objective 3: Stewardship***
> Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future. Federal financial reporting should provide information that helps the reader to determine whether
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> a. the government's financial position improved or deteriorated over the period,
> b. future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, and
> c. government operations have contributed to the nation's current and future well-being.[23]

A2. The FASAB considered what information would most likely help readers of the consolidated financial report of the U.S. Government (CFR) assess whether future budgetary resources will likely be sufficient to sustain public services and meet obligations as they come due.

A3. Discussion of such long-term fiscal issues has been described in terms such as "fiscal sustainability." In the exposure draft (ED), the Board's working definition of "fiscal sustainability" was the federal government's ability to continue, both now and in the future, current policy without

[23] *Statement of Federal Financial Accounting Concepts* (SFFAC) 1, pars. 134-145, available at http://www.fasab.gov/codifica.html (accessed May 7, 2009).

change regarding public services and taxation without causing debt to rise continuously as a share of GDP.[24]

A4. Throughout this project, the Board considered expert comments from a Fiscal Sustainability Reporting Task Force ("task force") whose participants have technical knowledge relevant to the issues and/or communication expertise relevant to the challenge of how to effectively communicate complex information on long-term fiscal issues.

A5. The task force participants included representatives from the American Enterprise Institute, the Cato Institute, the Brookings Institution, and the Urban Institute; the Chief Actuaries for Social Security and Medicare; technical experts from the Treasury Department, the Office of Management and Budget (OMB), the Government Accountability Office (GAO), and the Congressional Budget Office (CBO); members of Congress; and academics in the areas of public policy and communication.

A6. FASAB staff also researched existing reporting on comprehensive government-wide long-term projections published in English by other countries (for example, the United Kingdom, Australia, New Zealand, and Canada) and studies by the European Commission, and conferred with staff of the International Public Sector Accounting Standards Board (IPSASB).

A7. The ED, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*, was issued on September 5, 2008 with comments requested by January 5, 2009. The ED proposed standards for reporting comprehensive long-term fiscal projections for the U.S. Government via a basic financial statement and disclosures. The ED proposed that the reporting requirements would be subject to a phased implementation as Required Supplementary Information (RSI) for fiscal years 2010, 2011 and 2012, and as a basic financial statement and related disclosures beginning in fiscal year 2013. Based upon public comments and Board deliberations, the final Statement provides for all information to be reported as RSI for the first three years (FY 2010, 2011, and 2012). Beginning in fiscal year 2013, the required information will be presented as a basic financial statement,

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[24] Determining how much a government can depart–in magnitude and/or duration–from this general notion of fiscal sustainability is beyond the scope of the Board's efforts.

disclosures and RSI as designated within the accounting standards (paragraphs 12 - 42).[25]

A8. Upon release of the ED, notices and press releases were provided to:

a. the Federal Register;
b. *FASAB News;*
c. the *Journal of Accountancy, AGA Today,* the *CPA Journal, Government Executive,* the *CPA Letter,* and *Government Accounting and Auditing Update;*
d. the CFO Council, the Presidents Council on Integrity and Efficiency, Financial Statement Audit Network, and the Federal Financial Managers Council; and
e. committees of professional associations generally commenting on exposure drafts in the past.

A9. This broad announcement was followed by direct mailings of the ED to majority and minority staff directors of relevant congressional committees, over 300 think tanks and public interest groups, and past respondents on similar issues, such as the FASAB's *Preliminary Views: Accounting for Social Insurance* (issued in October 2006).

A10. There were 22 responses from the following sources:

	FEDERAL (Internal)	NON-FEDERAL (External)
Users, academics, others		14
Auditors	3	
Preparers and financial managers	5	

A11. The Board did not rely on the number in favor of or opposed to a given position. Information about the respondents' majority view is provided only as a means of summarizing the comments. The Board considered the arguments in each response and weighed the merits of the points raised. The respondents' comments are summarized for each major issue addressed below.

A12. In addition, a public hearing was held on February 25, 2009. The public hearing addressed two EDs: this ED and another ED,

[25] See paragraph A38 for a discussion of the effective date for basic information.

Accounting for Social Insurance, Revised. Seven speakers addressed this ED:

	FEDERAL (Internal)	NON-FEDERAL (External)
Users, academics, others		5
Auditors	1	
Preparers and financial managers	1	

Assumptions: Limitations of "Current Law" Assumptions

A13. Projections are the central feature of Fiscal Sustainability Reporting and require that assumptions be made. The Board believes that the most useful projections will reflect current policy without change regarding federal public services and taxation.

A14. Although current law is a reasonable starting point in selecting policy assumptions, a simple projection of "current law" would not always reflect current policy without change regarding public services or taxation. The Board's proposal includes a guiding principle for selecting policy assumptions but acknowledges the role of judgment in filling voids in current law (for example, when current law expires almost immediately) or departing from current law provisions.

A15. Major provisions of current law often do not extend far enough into the future to be used as a basis for a long-range projection. Discretionary spending is primarily based upon annual appropriation acts, and even some mandatory spending programs are subject to authorizing legislation that expires in the near future. For example, the legislation authorizing several mandatory programs (such as Food Stamps, student assistance for higher education, and agricultural price supports) expires and legislative action would be required for the programs to continue past the expiration date.

A16. Current law may contain provisions for scheduled social insurance benefit payments as well as provisions that restrict spending on certain social insurance programs, for example, Social Security and Part A of Medicare, to the amounts available in the Social Security or Medicare trust fund accounts, respectively, plus inflows of earmarked receipts. A current law policy assumption would not be feasible in this case since both requirements can not be met simultaneously. Thus, an interpretation of "current policy without change" will be necessary. .

A17. Current law also may include tax provisions that expire within several years, along with a historical trend of extending those tax provisions before they expire—but only for a short period, such as one year. In such situations, current law would indicate that the tax provisions will expire on schedule, while a projection based upon current policy without change for taxation together with reasonable expectations based on recent historical trends may indicate that the tax provisions will be extended.

Fiscal Sustainability Task Force Input Regarding Policy Assumptions

A18. A majority of the task force technical experts agreed that policy assumptions for the basic financial statement that are consistent with current policy without change[26] regarding federal public services and taxation would be useful for readers of the CFR in assessing whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.

A19. A majority of the task force technical experts believe that for mandatory spending on social insurance programs, a modified version of current law (ignoring the exhaustion of the Social Security and Medicare Hospital Insurance trust fund accounts — see paragraph A16), which might also be termed "current services," represents the most useful assumption for projecting spending for social insurance programs. However, a minority believe that any deviation from current law requires a subjective judgment that can be biased.

A20. The technical experts also acknowledged that projections for discretionary spending are more uncertain than projections for mandatory spending, since current law often only addresses the next one or two years. However, there was some agreement among the group that projecting discretionary spending growth at the same rate as assumed GDP per capita would be an example of a reasonable option for some programs.

[26] "Current policy without change" as defined in this Statement is not equivalent to constant dollar amounts. Current policy without change is to be considered with respect to the service or benefit being provided (or scheduled to be provided) and the general relationship of taxation to the economy (for example, taxable income, GDP, or some other base).

A21. A report issued by the GAO[27] illustrates the tension between choosing current law versus current policy without change regarding federal public services and taxes. The report's primary display contains two different projections in a single graphic presentation: the 10-year CBO baseline, which is then projected into the future (called "baseline extended") and a different projection (called an "alternative simulation"), which includes modifications that are described in the narrative. The "baseline extended" projection is based on assumptions that focus on current law. Those assumptions are changed in the GAO's "alternative simulation" to reflect historical trends and recent policy preferences.

A22. The GAO's approach of showing two different sets of numbers provides a more complete picture than selecting one or the other. However, this approach does not achieve one of the most important characteristics of effective communication. All of the communication experts and many of the technical experts on the task force strongly emphasized the importance of simplicity of presentation. The Board noted that one of the greatest challenges inherent in Fiscal Sustainability Reporting is the tension between technical rigor and simplicity of presentation.

Policy Assumptions

A23. The Board believes that the most useful reporting on fiscal sustainability would illustrate the long-term effects of current policy without change regarding public services and taxation. However, there are numerous ways of projecting current policy into the future. For example, it could be assumed that discretionary spending will continue as a constant share of GDP. Another alternative would be to assume constant real spending per capita (which could give a different result from assuming growth at a constant share of GDP). Yet another alternative would be to assume constant growth at the rate of inflation, which may be different than the growth of GDP.[28] (Historically, nondefense discretionary spending has grown roughly with GDP while defense discretionary spending has grown slightly faster than inflation but less than GDP, often in a nonlinear pattern.)

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[27] The Nation's Long-Term Fiscal Outlook, August 2007 Update (GAO-07-1261R).
[28] For example, the CBO projects that the rate of inflation will be lower than the rate of GDP growth for 2007-2017. See page xi, *The Budget and Economic Outlook: Fiscal Years 2008 to 2017* (January 2007). Available at: http://www.cbo.gov (accessed May 7, 2009).

A24. The Board believes that the details of the assumptions for projecting current policy without change should be left to the judgment of the preparer, subject to review by the auditor. Regardless of which assumptions are used for the basic financial statement, the disclosures should include an explanation of the assumptions used and alternative scenarios, as well as the reasons for and the effect of changes in assumptions that result in significant changes from amounts reported in the prior period financial statement. Readers will have access to important explanatory material.

A25. Current law may contain inconsistent provisions in certain situations (for example, regarding the impact on benefit payments upon the exhaustion of the balances in the Medicare Hospital Insurance trust fund account). As noted previously, although current law limits spending to the amounts available in the trust fund account and current earmarked revenue, current law provides for benefits that would exceed such a limit. Thus, current law contains inconsistent provisions and does not provide an answer.

A26. When current law contains inconsistent provisions, the Board believes that in selecting assumptions, the projections should reflect current policy regarding federal government public services and taxation, and should answer the question “what if current policy without change were continued over time?” The resulting projection should be accompanied by a narrative that explains what would happen if an alternative event occurs (in the example in paragraph A25, the narrative could explain what percentage of Medicare reimbursements could not be paid if legislation does not provide for maintaining current reimbursement rates).

A27. In drafting the final Statement, the Board also improved the clarity of the requirements for policy assumptions by re-ordering the content of this section. The guiding principles for when a departure from current law may be appropriate are stated first, followed by specific examples.

Economic and Demographic Assumptions

A28. Economic and demographic assumptions are different in scope from policy assumptions. Economic and demographic assumptions include such factors as economic growth, inflation, birth rates, net immigration, and longevity. The elements of economic and demographic assumptions are generally influenced more by a variety of external factors than by direct legislative impact.

A29. The ED proposed that the reporting requirements for Fiscal Sustainability Reporting should not dictate specific economic and demographic assumptions, but should require that the primary displays for Fiscal Sustainability Reporting should use economic and demographic assumptions that are consistent with the economic and demographic assumptions for Social Security and Medicare in the SOSI.

A30. Although a majority of respondents concurred with the ED's proposed broad and general guidance on economic and demographic assumptions, the GAO noted that in some cases, the assumptions, particularly the economic assumptions, may need to differ. For example, an appropriate unified discount rate for all projected receipts and non-interest spending in the basic financial statement may differ from either the Social Security or Medicare discount rates. Increasing the flexibility in the requirement would allow the use of the most appropriate discount rate and permit changes to other assumptions as appropriate. The GAO noted that such differences in assumptions used in the basic financial statement and those in the SOSI for Social Security and Medicare should be appropriately disclosed.

A31. The Board decided to allow the flexibility recommended by the GAO and to require disclosure for significant differences. (See paragraphs 31 and 40.c.)

Basic Financial Statement

A32. The basic financial statement will report amounts in (a) present value dollars and (b) as a percentage of the present value of GDP for the projection period. The basic financial statement will be presented as RSI for a period of three years and will then become a basic financial statement.

A33. Elements considered for inclusion as mandatory requirements for the basic financial statement were:

a. total projected non-interest spending and receipts, disaggregated by major programs such as Medicare and Social Security
b. the net total of all projected receipts and non-interest spending
c. amounts displayed as both (present value) dollars and percent of GDP
d. year-to-year (for example, side-by-side) comparison with prior year
e. net change from year-to-year as a separate column
f. alternative scenario information

A34. A majority of the members decided that (a) through (e) above should be included as minimum requirements for the basic financial statement, with the format of the elements left to the discretion of the preparer. An illustrative statement is included in Appendix B. In addition, the Board concluded that the concept of fiscal gap should be explained and reported, either on the face of the financial statement or in the disclosures. An illustrative example is shown in Appendix B on the face of the illustrative basic financial statement.

A35. The Board concluded that disaggregation of specific major programs would be left to the discretion of the preparer.

A36. A majority of respondents agreed with the general guidance proposed in the ED: that major programs should be shown separately. However, respondents' suggestions that named specific examples of major programs indicated that many respondents interpreted the illustrative financial statement in Appendix B as authoritative and inferred that social insurance programs are the federal government's only "major programs."

A37. The Board decided to edit the illustrative basic financial statement in Appendix B by adding two additional lines, "Major Program A" and "Major Program B" to clarify the fact that social insurance programs are not the only major programs of the federal government.

Effective Date for Basic Information

A38. The ED proposed that the financial statement and disclosures be designated as basic information rather than continue as RSI beginning in fiscal year 2013. For three years prior to fiscal year 2013, the information in the basic financial statement and disclosures would be presented as RSI. A majority of respondents addressing this issue, including the GAO, which will have the responsibility of auditing the basic information, agreed that the proposed implementation schedule is reasonable and appropriate. The GAO did identify several requirements that should remain RSI permanently, and the Board incorporated that recommendation into the requirements of the final Statement.

A39. Given the potential for flexibility (within and between years) of policy assumptions underlying the projections, one member believes that significant disagreements between preparer and auditor are likely when the information becomes basic in fiscal year 2013. For example, paragraph 28.b(3) provides an example of a situation where departure from current law may be appropriate if historically consistent changes have been made. That member notes that it remains to be seen how historically consistent the changes must be to qualify and how departures from previously consistent patterns in policy will be addressed. In addition, based on its "but not limited to" language, paragraph 28 allows for an open-ended set of exceptions which have yet to be specified and defended. He believes, therefore, that the projection information should remain RSI until such time as preparation and audit procedures concerning exceptions to the "current law" approach to "current policy without change" can be developed and agreed upon.

A40. The majority Board member view is that the preparer and auditor will resolve such disagreements by reference to the guiding principle – current policy without change. The Board is aware that significant judgment will be required. If any irreconcilable issues arise during the three-year transition period, the Board would be called upon to (1) offer implementation guidance or (2) defer the transition from RSI to basic information.

Summary Measures

A41. The Fiscal Sustainability Task Force technical experts did not agree on the usefulness of summary measures such as the present value amounts intended to be presented on the basic financial statement. Although some of the technical experts believe that summary measures convey important information, others believe that due to the inherent weakness of summary measures, they should be de-emphasized.

A42. The inherent weaknesses of summary measures that were identified by the Fiscal Sustainability Task Force and considered by the Board include but are not limited to the following:

a. A specific time horizon must be used in order to calculate any summary measure. There are no potential time horizons that do not have inherent weaknesses. Those weaknesses are discussed in paragraphs A50 - A57 below.
b. Summary measures for long-term fiscal projections for the U.S. government are likely to produce very large numbers that readers find difficult to relate to. One potential remedy for this would be to report the numbers on a per capita basis, but that approach has weaknesses. Those weaknesses are discussed in paragraphs A46- A49 below.
c. Potential "bottom-line" summary measures include fiscal imbalance and fiscal gap, both of which have inherent weaknesses. Those weaknesses are discussed in paragraphs A58 - A61 below.

A43. In spite of the inherent weaknesses of summary measures, many of the technical experts and all of the communication experts recommended that summary measures, including a "bottom line" summary measure, are important and should be required. Among other reasons, summary measures are valuable for evaluating proposals and also for comparison of the prior reporting year to the current reporting year. For example, one technical expert said that highlighting changes resulting from such actions as the passage of new entitlement programs should be the "acid test" for any proposed reporting on fiscal sustainability. Such reporting (on whether a projected shortfall increased or decreased during the reporting period) can best be accomplished through the use of summary measures. Furthermore, a study by the Organisation for Economic Co-Operation and Development (OECD) found that 10 of 12 nations producing fiscal sustainability analyses included summary measures.[29]

A44. In order to address the difficulty that some readers may have with summary amounts that are expressed as very large present-value dollar amounts, the Board decided that each line item in the basic financial statement that is displayed in present-value dollar amounts

[29] OECD draft report, *Fiscal Futures, Institutional Budget Reforms, and Their Effects: What Can Be Learned?*, to be published in *OECD Journal on Budgeting in 2009.*

should also be displayed as a percentage of the present value of GDP for the projection period.

A45. A majority of respondents agreed that the Board's proposed basic financial statement, which requires summary measures, would be understandable and meaningful to readers. However, some respondents expressed the view that trend information is more understandable than summary measures. The Board decided to retain the basic financial statement as proposed in the exposure draft.[30] While users' preferences among individual items in the fiscal sustainability reporting package will vary, the Board believes that each requirement in the Statement is meaningful and necessary.

Per Capita Measures

A46. The Board considered whether to include per capita measures in the summary display. The technical experts serving on the Fiscal Sustainability Task Force did not come to agreement regarding the display of summary numbers on a per capita, per worker, and/or per household basis.

A47. A majority of the technical experts on the task force recommended against per capita measures, for the following reasons:

a. Several technical experts strongly objected to the use of per capita summary numbers using current-year population for the denominator. They said that such measures would imply that the current-year population is solely responsible for funding program shortfalls into the distant future. They believe that any changes needed to address the shortfalls projected through, for example, the next 75 years, should be spread across the population throughout that 75-year period.
b. Other technical experts noted that per capita measures may be useful in conveying the magnitude of projected fiscal imbalances and could be displayed if summary amounts are divided by the population that parallels the horizon indicated and a narrative is included that explains present value and the nature of the numerator and denominator.
c. Per capita measures for infinite-horizon projection periods present special problems. It is uncertain how a reasonable per capita

[30] See additional discussion of the basic financial statement in paragraphs A32 through A37.

denominator for an infinite horizon ratio would be selected and explained, especially if the denominator includes an estimate of all individuals that enter the population during the projection period.

d. Two technical experts believe that even present value per capita amounts can be misinterpreted, because the reader will compare the amount with current salary levels and not understand the role of potential future productivity increases.

e. One technical expert objects to per capita amounts because they represent amounts distributed equally among individuals with widely different abilities to pay.

A48. After a discussion of the above issues, the Board decided not to include per capita measures in the proposed reporting requirements. Several of the respondents to the ED indicated strong support for per capita amounts. Three respondents recommended per capita amounts on the face of the financial statement. One respondent specifically recommended a detailed per capita format titled "U.S. Taxpayer Personal Credit Card Statement."

A49. The Board decided that the technical arguments described in paragraph A47 were compelling and that the standard should not require per capita information.

Time Horizon for Projections

A50. There was strong disagreement among the task force participants regarding the selection of a time horizon for projections, in particular a finite horizon (for example, 75-year) versus an infinite horizon. One task force participant believes that only infinite-horizon projections should be displayed but others believe that infinite-horizon projections should not be shown. Some participants suggested that information using both finite and infinite-horizon projections be included.

A51. A majority of the communication experts believe that information for both finite and infinite-horizon projections should be provided to readers, but not necessarily both within a primary display.

A52. Arguments in favor of a finite horizon:

a. A finite period would be sufficient to cover essentially all of the working and retirement years for current participants.

b. A finite period is subject to less uncertainty than an infinite horizon.

c. A finite period is meaningful to readers. For example, readers can relate to a time period that will include the retirement of the youngest members of the current workforce. An infinite horizon is less meaningful to readers. Readers are less likely to relate to or be concerned about the U.S. Government's fiscal condition in 200, 500, or 1,000 years in the future.

d. Infinite-horizon projections are no more informative to policymakers than 75-year projections, in part because projections beyond the 75-year horizon are subject to significant uncertainty. A more detailed version of this argument is made in an article in the National Tax Journal:

> …many people already believe that the 75–year horizon is too distant to be meaningful, and that detailed projections over longer horizons suggest a false precision. A simpler projection assumption is that after 75 years (or some other interval, T), the system will have settled into a steady state in which rates of growth of costs and tax revenues are thereafter constant, although not necessarily equal.[31]

A53. Arguments in favor of an infinite horizon:

a. Unless trends are level towards the end of the period, projections may be subject to the "moving window" effect, where shortfalls (or surpluses) increase significantly from one reporting year to the next due to the change in the projection period. For example, if a projection period is 75 years, the activity in "year 76" is outside the projection period for that year, but will be included in the projection period for the following year. An infinite horizon would avoid the "moving window" effect that occurs when there are significant changes to an estimate from one year to the next that are caused by the passage of time.

b. Some have argued that a finite projection period essentially assumes zero for years beyond the projection period. Infinite-horizon projections would not assume zero for years beyond the cutoff point for projections.

A54. The Board believed that the advantages of both finite and infinite horizons were sufficiently compelling to propose in the ED that both finite and infinite-horizon information should be provided, although only one projection period should be used for the basic financial statement. The ED proposed that whichever type of projection period is selected

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[31] *Sustainable Social Security- What Would It Cost?* National Tax Journal, Vol. LVI, No. 1, Part 1, March 2003, page 34. Available at http://ntj.tax.org /wwtax/ntjrec.nsf/5DC000487120304885256D8E0054C858/$FILE/Lee.pdf (accessed May 7, 2009).

for the primary display, the other type of projection period would have been presented with the disclosures.

A55. The Board also believed that one of the projection periods used (in either the basic financial statement or the narrative section) should be consistent with that used for the SOSI. This would ensure consistency between major line items in the SOSI (for example, projected earmarked receipts and spending for Social Security and Medicare) and corresponding line items in the basic financial statement or the disclosures.

A56. A majority of respondents disagreed with the Board's proposal to require reporting projected data for both finite and infinite time horizons. Respondents said that requiring projected data for an infinite time horizon would be: too much information, irrelevant, and unacceptably uncertain due to many major events that are very difficult or impossible to predict, such as depressions, natural disasters, and wars. A majority of respondents disagreed with the Board's proposal not to specify a time horizon for projected data. Several respondents recommended a specific time horizon of 75 years.

A57. The Board decided not to require reporting on the infinite horizon and to explicitly require a finite horizon for the basic financial statement. The Board addressed the issue of trends beyond the end of the projection horizon by adding a requirement that the RSI should discuss the implications of the sustainability information, particularly the information in the basic financial statement, after the end of the projection period. This requirement may be met by providing projections for an infinite horizon. (See paragraph 42.)

The Concepts of Fiscal Gap and Fiscal Imbalance

A58. The Board considered two potential summary measures for presentation below the other required elements on the basic financial statement or separate disclosure: fiscal gap and fiscal imbalance.

a. The fiscal gap is the change in non-interest spending or receipts that would be necessary to maintain public debt at or below a target percentage of GDP.

b. The fiscal imbalance is the net present value of existing federal debt plus projected non-interest spending,[32] minus projected receipts. In other words, it is the fiscal gap when the target level of federal debt at the end of the projection period is zero. The fiscal imbalance illustrates the amount that would be necessary to balance projected receipts, projected non-interest spending, and repayment of debt for a stated projection period.

A59. Several of the Task Force technical experts indicated that the fiscal imbalance, as defined above, overstates the size of the problem over any finite time period such as 75 years. The fiscal imbalance is defined as the existing federal debt plus projected non-interest spending less projected receipts. If projected receipts are large enough to set the fiscal imbalance to zero after 75 years (or any other fixed time period), this would imply the debt was paid off at the end of the period. Many of the technical experts argued that this is not necessary for continued solvency provided the economy is expected to last longer than 75 years. A positive level of debt is viewed by many to be fiscally acceptable at the end of the projection period, provided it is not too large or growing too fast.

A60. The fiscal gap measure does not require a target debt level of zero; instead, it allows for a positive level of debt at the end of the forecast horizon. In order to report the fiscal gap as a single amount (in present value dollars or as a percentage of GDP, projected receipts or projected non-interest spending), a target debt level relative to GDP must be selected. Such a measure would show the magnitude of increases in receipts or cuts in non-interest spending that would be needed to achieve that target. However, any specific limit selected may be considered arbitrary. In the United States, there is currently no legislated goal for debt as a share of GDP or a legislated limit on borrowing other than the statutory debt limit, which has been frequently raised.

A61. Since the Board has no objective basis for selecting a debt-to-GDP limit or goal, the requirements for information about the fiscal gap do not include a specific debt-to-GDP limit or goal. Fiscal gap should be explained and reported, either on the face of the financial statement or in the disclosures.

[32] Since interest is factored into the present value calculation, the fiscal gap as a share of spending is expressed as a share of spending excluding interest.

Foreign Holdings of U.S. Treasury Debt

A62. A significant minority of members supported a proposal that the proportion of U.S. Treasury debt held by foreign investors is also important information and should be reported as RSI. They point out that while it is important to report the large and growing gap between receipts and spending, the extent to which deficits are being financed by foreign lenders is also significant information, particularly in light of the large and growing increase in that proportion.

A63. The members supporting this additional requirement pointed out that foreign lenders cannot be counted on to be always willing to finance the government's deficits; that the magnitude of this indebtedness to foreign lenders has national security implications, including threatening our international standing and influence and limiting our foreign policy options; and it results in the interest payments on the debt going abroad instead of providing income to U. S. residents and feeding into our economy.

A64. The members supporting this additional requirement therefore proposed that RSI should include an illustration and/or explanation of the trend in foreign holdings of U.S. Treasury debt for a minimum of 15 years through the most recent date for which data are available.

A65. A majority of members believed that there should not be a requirement to report foreign holdings of U.S. Treasury debt, for reasons that included the following:

a. It is unclear how the information relates to the fiscal sustainability of current policy without change.
b. Information on foreign holdings of U.S. Treasury debt is based upon unaudited, unverifiable surveys rather than transaction records and is not available on a timely basis.
c. A reporting requirement for existing foreign holdings would repeat information readily available in other places.

A66. A majority of respondents agreed with the minority proposal to require reporting of foreign holdings of U.S. Treasury debt. Among the reasons given were:

a. This information would show the reader the impact foreign countries could have on the U.S. economy.

b. Trends in the proportion of U.S. Treasury debt held by foreign investors are a fundamental user consideration.
c. This is a very important financial issue that can have significant economic, fiscal, foreign relations and even national security implications over time.
d. Graphic information (like the pie chart in #10, Appendix B of the ED) regarding trends in the proportion of U.S. Treasury debt held by foreign investors (especially foreign countries) should be made part of RSI *and* be subject to the phased-in implementation. The respondent feels strongly about this because of our increasing reliance on foreign countries to fund our operating deficits at a time when the global economy is under great strain and these funds may not be available to us in the future as countries like China, Japan, and Germany are forced to shore up their own economies, especially with further global economic deterioration.

A67. The Board decided not to include a requirement to report on foreign holdings of U.S. Treasury debt for reasons described in paragraph A65.

Alternative Policy Proposals

A68. A minority of members supported a proposal for additional RSI (not subject to the phased-in implementation in paragraph 45) that they believed would increase the likelihood that the financial statement and disclosures will result in important and necessary decisions. These members proposed that if the Comprehensive Long-Term Fiscal Projections for the U.S. Government indicate a significant imbalance, the basic financial statement should be accompanied by an identification of one or more policy alternatives that would close the fiscal gap. The identification, explanation, and fiscal impact of the policy alternative(s) would be presented as RSI.

A69. A majority of members believed that there should not be a requirement to describe policy alternatives because a statement of accounting standards is not the proper venue for requiring policy proposals.

A70. A majority of respondents agreed with the Board majority view.

Inter-period or Inter-generational Equity

A71. The Board also considered information that may be helpful to readers in assessing whether financial burdens without related benefits were passed on by current year taxpayers to future year taxpayers (sometimes referred to as “inter-generational equity” or “inter-period equity”).

A72. In addition to measuring whether projected future receipts are sufficient to support projected future spending, it is important to understand how the financing of future spending affects current and future-year taxpayers. For example, even if projected receipts equal projected spending over the time horizon of the projections, policy may be such that future-year taxpayers assume a higher burden of taxes or lesser public services than current-year taxpayers.

A73. To present such information, a narrative could explain how measures such as debt to GDP over the time horizon of the projection indicate the extent that current deficits are left to be financed by future-year taxpayers either through increased taxes or decreased benefits.

A74. While a minority of the Board believed that such disclosures should be required, the majority of the Board decided to provide that such information is an optional way to meet the disclosure requirement to provide information that puts the data into context (see paragraph 42).

A75. A majority of respondents agreed with the Board majority view.

Other comments

A76. Several respondents raised fundamental questions regarding the project. One respondent said that unlike private entities, the government is sovereign; it has the power to tax and issue money; accordingly, the federal government is unlikely to lack sufficient budgetary resources to sustain public services and to meet obligations as they come due. However, even that respondent noted that government spending can indeed become excessive.

A77. Another respondent said that the concept of sustainability should not require assumptions about what the American people want to do. For example, if 40 years from now citizens decide that 30 percent of GDP may be appropriate to address a large elderly and/or disabled population, the Board should not assume that this would be impossible or unsustainable. That respondent also said that to show income taxes as a flat percentage of GDP while we show the cost of entitlements rising with the law is inconsistent and shows an unintended bias. That respondent indicated that even a very small adjustment would put Social Security into balance.

A78. The Board decided that the proposed standard may not have made it sufficiently clear that the reporting consists of projections and not predictions and that the final Statement of Federal Financial Accounting Standards (SFFAS) should explicitly explain the difference between projections and predictions. The following language was added to paragraph 39.c:

[39] Disclosures should include an explanation of the following limitations:

[c] Projections are <u>not</u> forecasts or predictions; they are designed to answer the question “what if?” – for example, what would be the impact on federal borrowing if current policies without change were continued for a long period of time?

Board Approval

A79. This statement was approved for issuance by all members of the Board. The written ballots are available for public inspection at the FASAB office.

Appendix B: Example Formats and Illustrations

The examples in this Appendix are illustrative only; they do not represent authoritative guidance.

Basic Financial Statement
Long-Term Fiscal Projections for the U.S. Government

Amounts projected to 75 years	As of XXXX XX , 20XX (Current Year)		As of XXXX XX, 20XX (Prior Year)		Change from Prior Year	
	PV Dollars *in trillions*	% of the PV of GDP*	PV Dollars *in trillions*	% of the PV of GDP*	PV Dollars *in trillions*	% of the PV of GDP*
Receipts						
Medicare	$ XX.X	X.X%	$ XX.X	X.X%	$ X.X	X.X%
Social Security	XX.X	X.X%	XX.X	X.X%	X.X	X.X%
All Other Receipts	XX.X	X.X%	XX.X	X.X%	X.X	X.X%
Total Receipts	$ XXX.X	X.X%	$ XX.X	X.X%	$ X.X	X.X%
Non-Interest Spending						
Medicare	$ XX.X	X.X%	$ XX.X	X.X%	$ X.X	X.X%
Medicaid	XX.X	X.X%	XX.X	X.X%	X.X	X.X%
Social Security	XX.X	X.X%	XX.X	X.X%	X.X	X.X%
Major Program A	X.X	X.X%	XX.X	X.X%	X.X	X.X%
Major Program B	X.X	X.X%	XX.X	X.X%	X.X	X.X%
Rest of Federal Government**	XX.X	X.X%	XX.X	X.X%	X.X	X.X%
Total Non-Interest Spending	$ XXX.X	X.X.%	$ XX.X	X.X%	$ X.X	X.X%
Non-Interest Spending in Excess of Receipts	$ XX.X	X.X%	$ XX.X	X.X%	$ X.X	X.X%

To maintain the current [or date] level of U.S. Treasury debt held by the public to GDP, actions would need to be taken to increase receipts or decrease non-interest spending by a net present value of $XX.X trillion or X% of GDP. To accomplish this reduction, annual receipts would need to increase by XX.X% or annual non-interest spending would have to decrease by XX.X% (or some combination of these two options).

Note: Amounts are estimated based upon guidance for selecting assumptions provided in this Statement. Receipts and non-interest spending include repayment of borrowings from the trust fund accounts for Social Security and Medicare (estimated as 0.X percent of GDP).

* GDP (Gross domestic product) can be roughly defined as all of the nation's income or everything the country produces.
** Rest of government: The repayment of borrowings by the general fund from the trust fund accounts for Social Security and Medicare are included in Receipts for Social Security and Medicare, and Non-Interest Spending for Rest of government.

Examples of Selected Narrative and Graphics

The following examples display and/or describe narrative and graphics that might supplement the basic financial statement in a manner consistent with the standard.

These illustrations are illustrative only and do not represent authoritative guidance. Illustrations are not provided for all requirements.

Examples are provided in this appendix for the following:

1. Rising Cost of Health Care

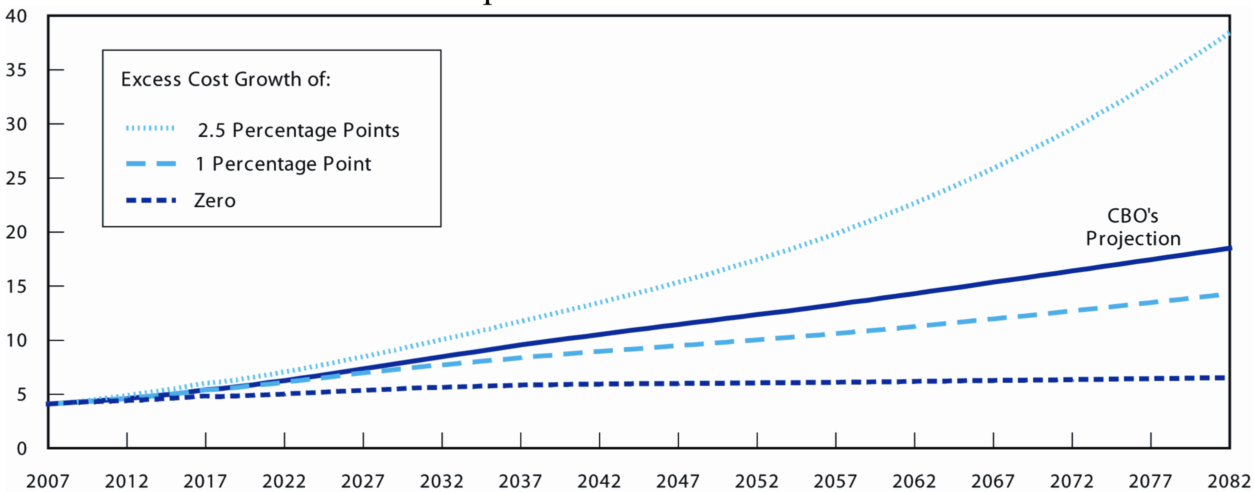
Paragraph 41.b provides that RSI should explain and illustrate major factors that are expected to have a significant impact upon future receipts and spending. For example, if rising federal spending on health care is a major factor in the long-term spending projections, the disclosure might include the following:

a. If the growth in health care spending exceeds the growth in GDP, a narrative might explain that the growth in any spending program cannot continue indefinitely to exceed the growth in the economy, because at some point, the spending would exceed the resources that can be extracted from the economy.

b. A range encompassing projections for major factors affecting future spending such as the rising cost of health care might be presented in a graphic as a percentage of GDP. The graphic could use the example format in Illustration 1a or other formats

Illustration 1a: Major Cost Drivers for Federal Spending

Federal Spending for Medicare and Medicaid as a Percentage of Gross Domestic Product Under Different Assumptions About Excess Cost Growth



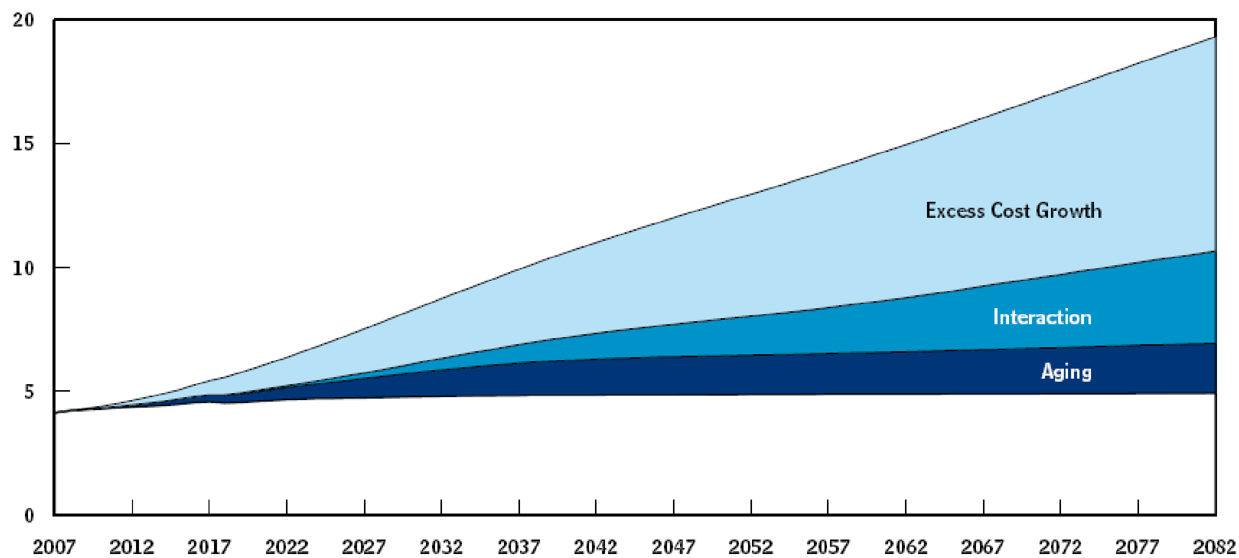
Source: Congressional Budget Office, *The Long-Term Outlook for Health Care Spending* (November 2007) Figure 5, page 15. Available at: http://www.cbo.gov/ (accessed May 7, 2009)

"Excess Cost Growth" refers to the number of percentage points by which the growth of annual health care spending per beneficiary is assumed to exceed the growth of nominal gross domestic product per capita.

In addition, a graphic might display the relative contribution of two or more major cost drivers. For example, Illustration 1b displays the effect of the aging of the population, excess cost growth, and the interaction of those two factors on federal spending on Medicare and Medicaid.

Illustration 1b: Relative Contribution of Two Major Cost Drivers

Allocation of Projected Growth in Federal Spending on Medicare and Medicaid, by Source
(Percentage of gross domestic product)



"Excess Cost Growth" refers to the number of percentage points by which the growth of annual health care spending per beneficiary is assumed to exceed the growth of nominal gross domestic product per capita.

"Interaction" is the interaction of the aging of the population combined with projected excess cost growth. In other words, both conditions (excess cost growth and aging of the population) are necessary for the cost growth labeled "Interaction" to occur.

"Aging" is the projected increase in federal spending on Medicare and Medicaid that is attributable solely to the aging of the population.

Source: Adapted from Figure 1 of "Accounting for Sources of Projected Growth in Federal Spending on Medicare and Medicaid," Economic and Policy Issue Brief, May 28, 2008. Available at: http://www.cbo.gov (accessed June 1, 2009).

2. Demographic Trends

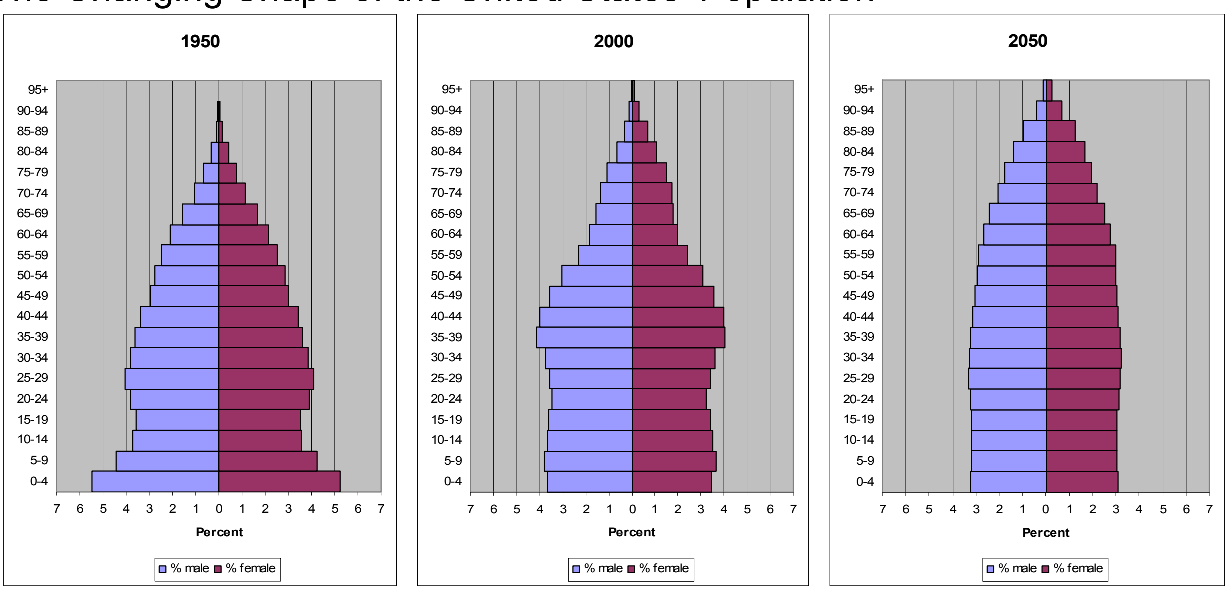
Paragraph 41.b requires that RSI explain and illustrate the major factors that are expected to have a significant impact upon future receipts and spending of the federal government, one example of which may be demographic trends. The narrative might describe demographic trends and briefly explain the major drivers of change in demographic trends, for example, trends in longevity and birth rates, and refer the reader to more extensive coverage of the topic in other existing reports, for example, the Social Security and Medicare Trustees Reports. The narrative could describe the change in the ratio of workers to retirees and how this change relates to long-term fiscal outlook for social insurance programs. Alternatively, simple age demographics rather than workforce participation could be used (in other words, “over 64” instead of “retired”) provided that they are used consistently.

A simple graphic to accompany and illustrate the narrative may follow the format of the example shown below. The illustrative sample format below is called an “age/gender pyramid.” The graphic could display two or three age/gender pyramids side-by-side, for example:

1 the current (or other baseline) year minus 50 years;
2 the current year (or other baseline year, for example, 2000); and
3 a projection of the current (or other baseline) year plus 50 years.

Illustration 2: Age-Gender Pyramid

The Changing Shape of the United States’ Population



Source: *Social Security Administration, Area Population Statistics.*

The narrative could also discuss the "total dependency" ratio (dependent children plus retirees per worker) for each "worker-to-retiree" ratio that is provided in the narrative.[33]

The narrative also could provide perspective by explaining that similar demographic trends are occurring in other developed countries, and provide examples of developed nation(s) projected to have a greater number of retirees per worker than the United States, and developed nation(s) projected to have fewer retirees per worker.

[33] The European Commission defines the total dependency ratio as the "Population under 15 and over 64 as a percentage of the population aged 15-64." *European Economy: Special Report 1/2006*, page 313.

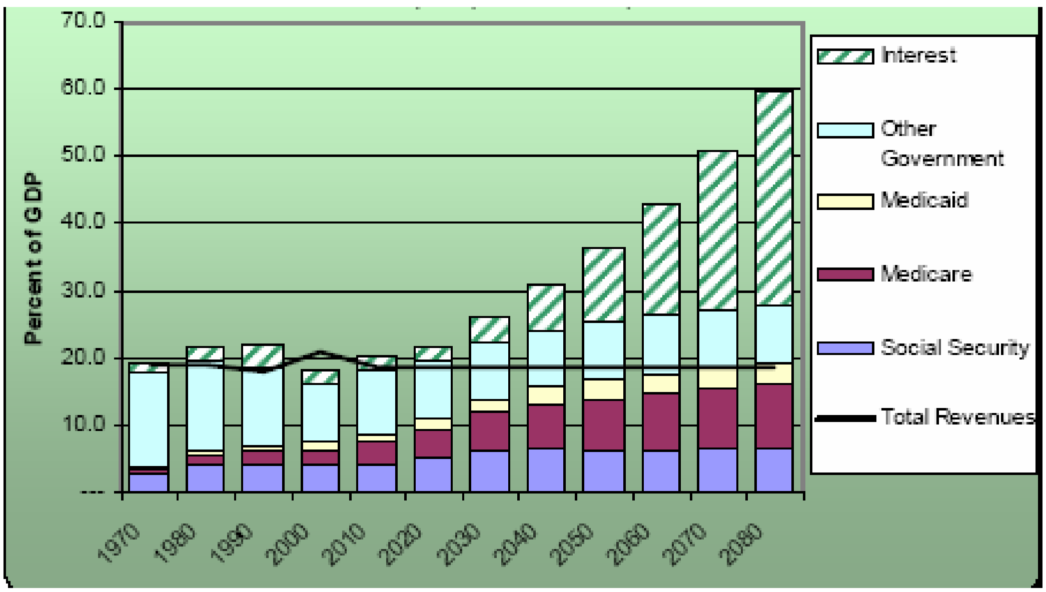
Paragraph 41.a requires that RSI explain and illustrate the historical and projected trends for a progression of years. Illustrations 3, 4 and 5 display how this might be accomplished.

3. Relationship of Projected Receipts and Spending

The RSI section could include a graphic of the relationship between projected receipts and spending for a progression of years, for example beginning 20 years before the current year and extending to all future years projected in the basic financial statements. Below is an example.

Illustration 3: Projected U.S. Government Receipts and Spending

Projected U.S. Government Receipts and Spending
(As a percent of GDP)

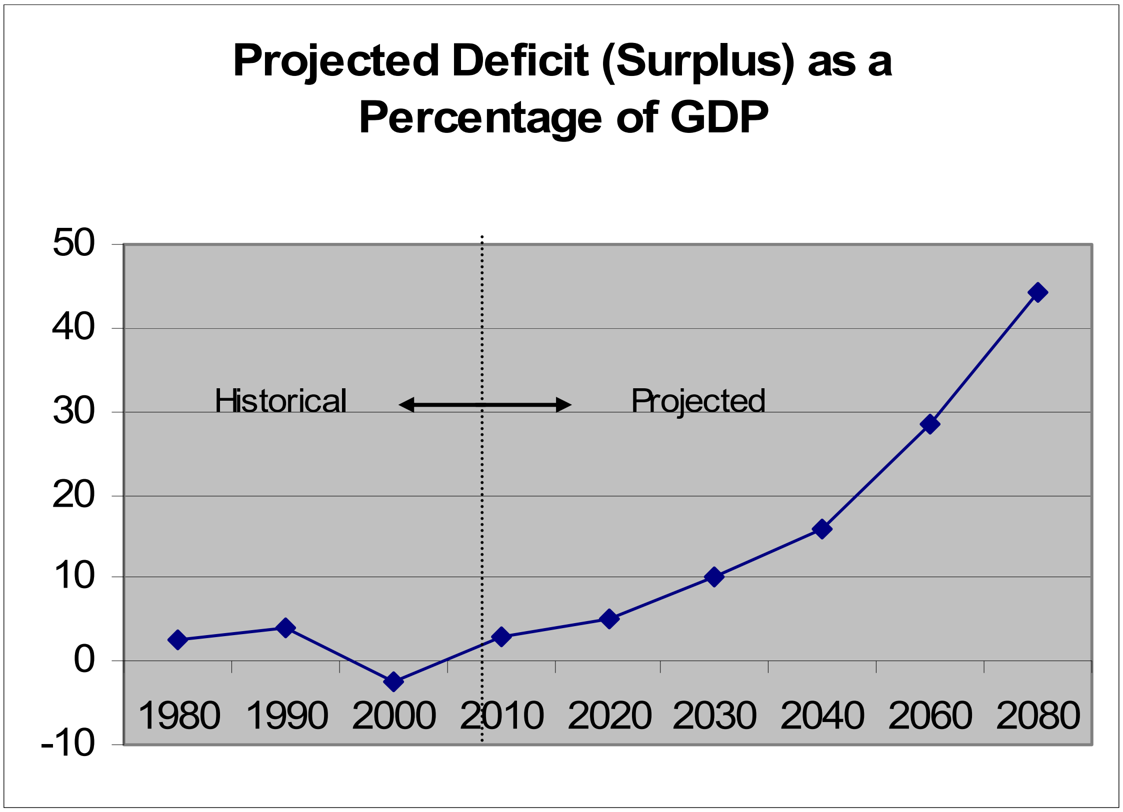


Source: FY 2007 *Financial Report of the U.S. Government*, Chart H, page 18. Available at http://fms.treas.gov/fr/index.html (accessed May 7, 2009).

4. Trends in Deficit Spending

The trends in deficit spending could be graphically displayed as a percentage of GDP for a progression of years, for example beginning at least 20 years before the current year and extending to all future years projected in the basic financial statement.

Illustration 4: Projected Deficit/Surplus as a Percentage of GDP

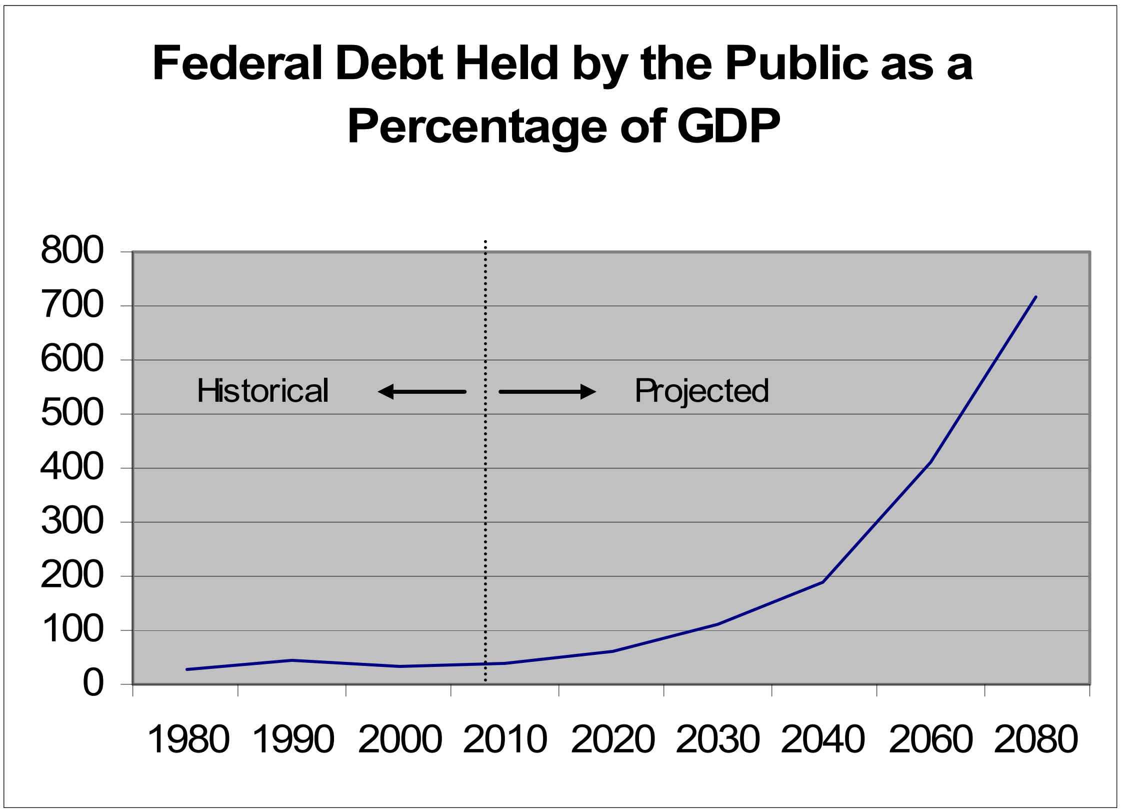


Data sources:
Historical: Office of Management and Budget, Table 13-2, Chapter 13, "Stewardship," *Analytical Perspectives*, FY 2008 Budget
Projections: Government Accountability Office, Long-Term Fiscal Simulation Data, Alternative Scenario. Available at: http://www.gao.gov/special.pubs/longterm/data.html (accessed May 7, 2009)

5. Trends in Treasury Debt Held by the Public

A graphic could display the projected trends in Treasury debt held by the public as a percentage of GDP, for a progression of years beginning at least 20 years before the current year and extending to all future years projected in the basic financial statement. This graphic could illustrate the assumption that increased borrowing would occur to finance the difference between projected receipts and spending.

Illustration 5: Increase in Federal Debt Held by the Public



Data sources:
Historical: Office of Management and Budget, Table 13-2, Chapter 13, “Stewardship,” *Analytical Perspectives*, FY 2008 Budget
Projections: Government Accountability Office, Long-Term Fiscal Simulation Data, Alternative Scenario. Available at: http://www.gao.gov/special.pubs/longterm/data.html (accessed May 7, 2009).

6. Impact of Delaying Action

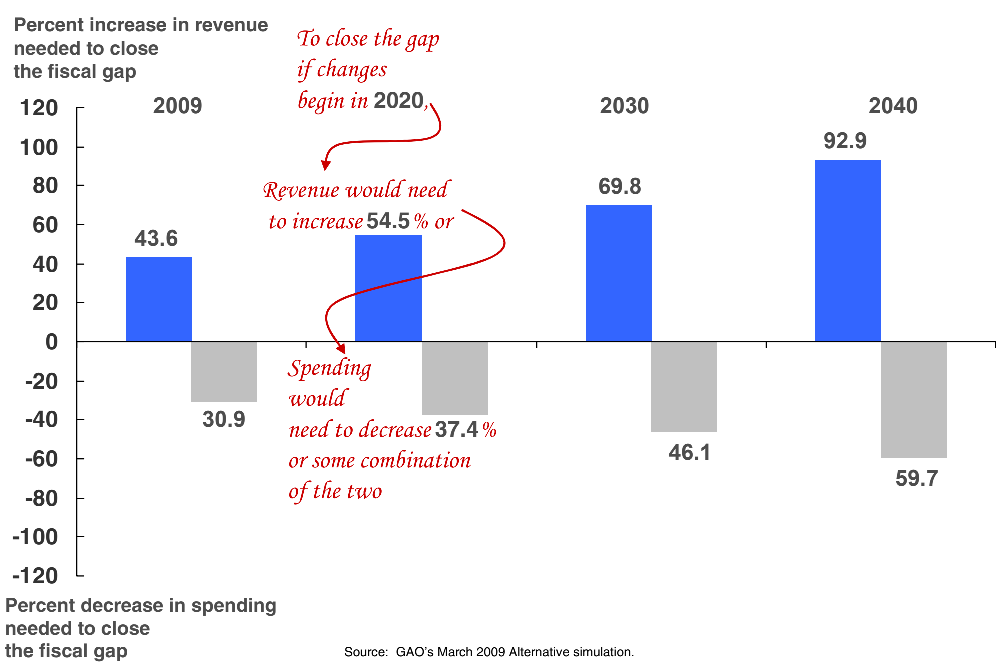
Paragraph 41.c provides that if the projections indicate an excess of projected non-interest spending over projected receipts, RSI should explain and illustrate the likely impact of delaying action. A graphic could display the progressive increase in the change that would be needed to close the fiscal gap by (a) reducing non-interest spending or alternatively (b) by increasing taxes.

Illustration 6: Impact of Delaying Action

What are the Costs of Delaying Action?

How soon action is taken will affect how much the government would have available to spend on various priorities. The measures below show, for each of the years presented, how much the government would have to immediately and permanently either raise receipts or cut non-interest spending – or some combination of the two – to close the fiscal gap* if action begins in that year. For example, if action does not begin until 2040, non-interest spending would have to be permanently reduced by 59.7% or receipts increased by 92.9% (or some combination of the two) relative to 2009 levels of spending and receipts.

*In this projection, "closing the fiscal gap" means to maintain the government's debt at the same size (in relation to the economy) as it was at the beginning of the projection period.



7. Alternative Scenarios (Range Information)

Paragraph 41.d provides for the explanation and illustration of alternative scenarios consistent with current policy without change. It indicates that a table may be used to display alternative scenarios. The following illustration is an example of how such a table might be displayed.

Illustration 7: Alternative Scenarios

	Statement	Alternative 1	Alternative 2
Receipts:			
Medicare			
Social Security			
All Other			
Total Receipts			
Spending:			
Medicare			
Medicaid			
Social Security			
Major Program A			
Major Program B			
Rest of Government			
Total Non-Interest Spending			
Non-Interest Spending in Excess of Receipts			

8. Fiscal Gap

Paragraph 38 requires that information about fiscal gap be included on the face of the basic financial statement or in the disclosures. The fiscal gap is the change in non-interest spending or receipts that would be necessary to maintain public debt at or below a target percentage of GDP. An illustrative narrative disclosure on the face of the basic financial statement for the change in non-interest spending or receipts necessary is shown on page 38.

The following is an example of an explanation of the concept of fiscal gap that may be useful in putting the information required by paragraph 38 into context:

> How much public debt is sustainable? While many experts agree that some level of public debt is reasonable and acceptable, there is no universally agreed-upon "sustainable" percentage of debt to GDP. However, all experts agree that a continually increasing level of debt to

GDP is not sustainable. The chart in Note X[34] displays how the debt as a percentage of GDP has varied over time. Debt was 36.8% of GDP as of September 30, 2007, but has risen as high as 109% of GDP (during World War II). Many economists believe that persistent debt-to-GDP levels over 100% are unhealthy.

9. Disclosure on Funding Mechanisms

Paragraph 40.f requires a discussion of the different funding mechanisms for major programs that are not primarily funded by the government's general revenues. Below is an illustrative disclosure.

Of the $XX of the net excess of non-interest spending over receipts, $YY relates to programs funded by the government's general revenues and $ZZ relates to Social Security (OASDI) and Medicare Part A programs, which are funded by payroll taxes and which are not funded in any material respects by the government's general revenues. If payroll and self-employment taxes and related assets in the Federal Old-Age and Survivors and Disability Insurance (OASDI) Trust Funds or Federal Hospital Insurance Trust Fund (Medicare Part A) become insufficient to cover related benefits, as indicated by projections, additional funding for each of these two programs would be necessary or scheduled benefits would need to be reduced. If the government's general revenues are insufficient to cover both mandated transfers to Medicare Parts B and D and spending for other general government programs funded by the government's general revenues, as indicated by the projections, either the government's general revenues or Medicare Parts B and D revenues (premiums and state transfers) would need to be increased, spending for Medicare Parts B and D and/or other general government spending would need to be reduced, and/or additional amounts borrowed from the public.

10. Other Required Information

The illustrations in the appendix are not all-inclusive. Additional information is required by paragraphs 39 - 42 but is not explicitly described or illustrated in this appendix. For example, paragraph 39 requires an explanation of the nature and limitations of projections. Paragraph 42 requires that the narrative should explain the significance of the data presented and put the information into context.

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[34] See *Illustration 5: Trends in Treasury Debt Held by the Public* on page 46.

Appendix C: Frequently Asked Questions (FAQs)

These FAQs were included in the exposure draft to aid respondents. They are not required in the CFR.

FAQ 1. What is “Fiscal Sustainability Reporting”?
“Fiscal Sustainability Reporting” is the short term for “Comprehensive Long-Term Fiscal Projections and Accompanying Narrative and Graphics in the Financial Report of the U.S. Government.”

FAQ 2. What is GDP?
A nation’s gross domestic product, or GDP, is one of the ways for measuring the size of its economy. The GDP of a nation is defined as the market value of all final goods and services produced within a country in a given period of time. The most common approach to measuring and understanding GDP is the expenditure method:
GDP = consumption + investment + government spending + (exports − imports)

FAQ 3. a. What is the debt-to-GDP ratio? b. Why does the debt-to-GDP ratio matter?

a. The debt-to-GDP ratio, for the purposes of federal financial reporting, is the amount of federal (Treasury) debt held by the public divided by GDP. [An alternative ratio would be the amount of total public debt (federal, state, and local) divided by GDP.]

b. The debt-to-GDP ratio provides an indication of a nation’s ability to repay its public debt by comparing the size of its debt to the size of its economy. For example, during the formation of the European Union (EU), one of the conditions for initial membership in the EU, which included eligibility to convert its currency to the Euro, was that each nation had to meet certain conditions, including debt-to-GDP ratio. Generally, higher debt-to-GDP ratios are believed to result in lower economic growth and private investment as well as higher interest costs. Many economists believe that persistent debt-to-GDP levels over 100% are unhealthy. In addition, the debt-to-GDP ratio cannot continue to rise indefinitely, because at some point (although the precise point at which this would occur is unknown) the world’s financial markets would likely cease lending to the U.S. government.

FAQ 4. What is present value?
Present value represents the amount of money that if invested today would grow to a specified amount in the future. Present value is an adjusted amount that takes the “time value of money” into consideration. The “time value of money” is illustrated by a question such as: “At ten percent interest (compounded annually), how much do I need to put into the bank today in order to have $110 one year from today?” The

amount you would need today would be $100. Therefore, the present value of $110 in this example would be $100.

In present value calculations, the further out in the future the needed amount, the smaller the amount you would need today. In the first year, you earn interest on the amount that you deposit (the “principal” amount). In the second year, you earn interest on both the original principal amount and the amount of interest that was earned in year one. In year three, you would earn interest on:

- the original principal amount, plus
- the interest earned in year one on the principal amount,
- the interest earned in year two on the principal amount, and
- the interest earned in year two on year one’s interest earnings.

This is colloquially called “the magic of compounding.” If inflation is less than the rate of interest earned (in this example, ten percent per year), the “magic of compounding” is an advantage to the party that is earning the interest.

FAQ 5. What are projections?
A projection is the calculation of future data based upon the application of trends to present data. Projections of deficits, or surpluses, and debt are a central feature of Fiscal Sustainability Reporting. Projections are not forecasts or predictions; they are designed to depict results that may occur under various conditions–for example, what if current policy without change regarding federal government public services and taxation are continued in the future? Projections are useful in order to display alternative future scenarios, but it is important to clearly explain the nature of the information being presented.

FAQ 6. What factors affect projections?
Projections are affected by three kinds of assumptions: policy assumptions, economic assumptions, and demographic assumptions.

- Policy assumptions address the factors under the direct control of the federal government concerning the taxes and other receipts to be received by the federal government and the public services to be provided by the federal government. Policy assumptions address projected spending rules for both mandatory and discretionary spending as well as the framework for assessing taxes and fees.
- Economic assumptions address the economic factors that are not under the direct legislative control of the federal government (for example, inflation and growth in GDP).
- Demographic assumptions address projected population trends (for example, birth rates, mortality rates, and net immigration).

Projections are also affected by uncertainty. The uncertainty may be demonstrated by providing alternative scenarios consistent with current policy without change.

FAQ 7. What is the nature of accounts designated as **"**trust funds" in the budget of the federal government?

A trust fund account, as the term is used in the budget of the federal government, is a type of account designated by law as a trust fund, for receipts earmarked for specific purposes and the expenditure of those receipts. Hence the meaning of the term differs significantly from its meaning in the private sector. For example, a trust in the private sector necessarily involves a fiduciary relationship. In the Federal government, despite the legislative requirement that the funds be earmarked, earmarked funds (often titled "trust funds" in the federal budget) are distinct from fiduciary activities.[35]

Moreover, in order to reduce confusion between accounts designated as "trust funds" in the budget of the federal government (such as the trust fund accounts for Social Security and Medicare) and private-sector trust funds, FASAB's Statement of Federal Financial Accounting Standards (SFFAS) 27, *Identifying and Reporting Earmarked Funds*, prohibits the use of the term "trust fund" for earmarked funds (federal "trust funds") except when referring to the legal title of the fund. SFFAS 27 also requires the following note disclosure when accounts designated as "trust funds" in the budget of the federal government use their excess funds to buy Treasury securities:

- The U.S. Treasury does not set aside assets to pay future expenditures associated with earmarked funds. Instead, the cash generated from earmarked funds is used by the U.S. Treasury for general government purposes.
- Treasury securities are issued to the earmarked fund as evidence of earmarked receipts and provide the fund with the authority to draw upon the U.S. Treasury for future authorized expenditures. (For some funds, the drawdown is subject to future appropriation).
- Treasury securities held by an earmarked fund are an asset of the fund and a liability of the U.S. Treasury, so they are eliminated in consolidation for the U.S. government-wide financial statements.
- When the earmarked fund's Treasury securities are redeemed to make expenditures, the U.S. Treasury will finance those expenditures in the same manner that it finances all other expenditures.[36]

[35] Fiduciary Activities are defined in SFFAS 31, *Accounting for Fiduciary Activities*.
[36] See SFFAS 27, *Identifying and Reporting Earmarked Funds*, paragraphs 16 and 27.

Appendix D: Abbreviations

CBO	Congressional Budget Office
CFR	Consolidated Financial Report of the U.S. Government
ED	Exposure Draft
FAQ	Frequently Asked Question
FASAB	Federal Accounting Standards Advisory Board
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office (formerly, General Accounting Office)
GDP	Gross Domestic Product
IPSASB	International Public Sector Accounting Standards Board
OASDI	Old Age, Survivors and Disability Insurance (Social Security)
OECD	Organisation for Economic Co-Operation and Development
OMB	Office of Management and Budget
RSI	Required Supplementary Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
SOSI	Statement of Social Insurance
U.S.	United States

Appendix E: Fiscal Sustainability Reporting Task Force

The FASAB acknowledges with gratitude the invaluable expertise and support of the Fiscal Sustainability Reporting Task Force participants.

The views expressed in this standard represent the views of the FASAB members and should not be attributed to the Task Force participants or to their organizations.

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The Honorable James Cooper, D-TN

The Honorable K. Michael Conaway, R-TX

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Appendix F: Glossary

Current Policy Without Change – In federal financial reporting, “current policy without change” refers to the continuation of policies in place as of the valuation date (in other words, no policy change).

Debt-to-GDP Ratio – The debt-to-GDP ratio, for the purposes of federal financial reporting, is the amount of federal (Treasury) debt held by the public divided by gross domestic product. [An alternative ratio would be the amount of total public debt (federal, state, and local) divided by GDP.]

Demographic Assumptions – Demographic assumptions address projected population trends (for example, birth rates, mortality rates, and net immigration).

Discretionary Spending – In the federal budget process, “discretionary spending” refers to outlays from budget authority that is controlled by annual appropriation acts. Annual appropriation acts are required to fund the continuing operation of all federal programs that are not “mandatory.” For additional information, see *A Glossary of Terms Used in the Federal Budget Process,* GAO-05-734SP.

Earmarked Revenue (or Earmarked Funding) – Earmarked revenue is revenue that comes from a source that is distinct from general tax revenues and may be used only for the purpose for which it is collected. Examples of earmarked revenue are: Social Security taxes, Medicare taxes, Federal Unemployment taxes, and federal excise taxes on gasoline.

Earmarked revenue is generally accounted for in the budget separately, in accounts categorized as “special funds” or “trust funds.” The distinction of whether an earmarked fund is categorized in the budget as a “special fund” or a “trust fund” is determined by the applicable legislation. In order to reduce confusion between accounts designated as “trust funds” in the budget and private-sector trust funds, FASAB’s Statement of Federal Financial Accounting Standards (SFFAS) 27, *Identifying and Reporting Earmarked Funds,* prohibits the term “trust fund” for earmarked funds except when referring to the legal title of the fund, and requires the following note disclosure for investments in Treasury securities for earmarked funds to explain the nature of funds that are designated as “trust funds” in the budget of the federal government:

- The U.S. Treasury does not set aside assets to pay future expenditures associated with earmarked funds. Instead, the cash generated from earmarked funds is used by the U.S. Treasury for general government purposes.
- Treasury securities are issued to the earmarked fund as evidence of earmarked receipts and provide the fund with the authority to draw upon the U.S. Treasury for future authorized expenditures (although for some funds, this is subject to future appropriation).

- Treasury securities held by an earmarked fund are an asset of the fund and a liability of the U.S. Treasury, so they are eliminated in consolidation for the U.S. Government-wide financial statements.
- When the earmarked fund's Treasury securities are redeemed to make expenditures, the U.S. Treasury will finance those expenditures in the same manner that it finances all other expenditures.[37]

Economic Assumptions – Economic assumptions address the economic factors that are not under the direct legislative control of the federal government (for example, inflation and growth in GDP).

Fiscal Gap – The fiscal gap is the change in non-interest spending and/or receipts that would be necessary to maintain public debt at or below a target percentage of GDP. The fiscal gap is the net present value of projected non-interest spending[38] minus projected receipts, adjusted by the decrease (or increase) in public debt required to maintain public debt at the target level for the stated projection period. The fiscal gap may be expressed as:

(a) a summary amount in present value dollars,
(b) a share of the present value of the GDP[39] for the projection period, and/or
(c) a share of the present value of projected receipts or projected non-interest spending.

Fiscal Sustainability Reporting – In federal financial reporting, "Fiscal Sustainability Reporting" is the short term for the basic financial statement, disclosures and Required Supplementary Information required in the Financial Report of the U.S. Government.

Gross Domestic Product (GDP) – A nation's gross domestic product is one of the ways for measuring the size of its economy. The GDP of a nation is defined as the total market value of all final goods and services produced domestically during a given period of time. The components of GDP are:
GDP = private sector consumption and investment + government consumption and investment + net exports (exports − imports).

Mandatory Spending – "Mandatory spending" includes entitlement authority (for example, Social Security and Medicare and payment of interest on the national debt). Congress controls mandatory spending by controlling eligibility and setting benefit and payment rules, rather than by annual appropriation acts. For additional

[37] SFFAS 27, paragraph 27.
[38] Since interest is factored into the present value calculation, the fiscal gap as a share of spending is expressed as a share of spending excluding interest.
[39] GDP is the total market value of goods and services produced domestically during a given period. The components of GDP are consumption (both household and government), gross investment (both private and government), and net exports.

information, see *A Glossary of Terms Used in the Federal Budget Process,* GAO-05-734SP.

Policy Assumptions – Policy assumptions address the factors under the direct control of the federal government concerning the taxes and other receipts to be received by the federal government and the public services to be provided by the federal government. Policy assumptions address projected spending rules for both mandatory and discretionary spending as well as the framework for assessing taxes and fees.

Present Value – Present value represents the amount of money that if invested today would grow to a specified amount in the future. Present value is an adjusted amount that takes the “time value of money” into consideration. The “time value of money” is illustrated by a question such as: “At ten percent interest (compounded annually), how much do I need to put into the bank today in order to have $110 one year from today?” The amount you would need today would be $100. Therefore, the present value of $110 in this example would be $100

Projections – A projection is the calculation of future data based upon the application of trends to present data. Projections of deficits, or surpluses, and debt are a central feature of Fiscal Sustainability Reporting. Projections are not forecasts or predictions; they are designed to depict results that may occur under various conditions–for example, what if current policy without change regarding federal government public services and taxation are continued in the future? Projections are useful in order to display alternative future scenarios, but it is important to clearly explain the nature of the information being presented.

Public Services – In federal financial reporting, “public services” refers to all goods, benefits and services provided by the government. Federal public services include but are not limited to the provision of goods, cash (such as Social Security benefits) or other financial benefits (such as loan guarantees), as well as national defense, national security, transportation safety and the operation of national parks.

Required Supplementary Information (RSI) – Information that a body that establishes generally accepted accounting principles (GAAP) requires to accompany basic information. When an auditor is engaged to audit an entity’s financial statements, basic information is subject to testing for fair presentation in conformity with GAAP. However, RSI for federal entities is unaudited but subject to certain procedures.

Trust Fund Accounts – In the federal government, trust fund accounts are accounts that are designated by law as “trust funds,” for receipts earmarked for specific purposes and the associated expenditure of those receipts. Collections may come from the public (e.g., earmarked taxes or user charges) or from intrabudgetary transfers. More than 150 federal government trust fund accounts exist, of which the largest and best known finance several major benefit programs (including Social Security and Medicare) and certain infrastructure spending (the Highway and the Airport and Airway Trust Funds).

In Memory of Robert Paul Murphy

Robert Paul Murphy, who passed away on August 12, 2008, was the Congressional Budget Office's General Counsel and served as the CBO's representative on FASAB.

Mr. Murphy was an active participant in the FASAB's deliberations during his tenure on the Board. He provided helpful insight regarding the CBO's long-term projections that advanced the Board's work on this Statement. Even more importantly, Mr. Murphy exhibited a quality of leadership that brought people together, a spirit of caring for others, and a commitment to the service rendered by the Board to the American people. He is greatly missed by the members and staff of the Board.

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