



April 4, 2008

Memorandum

To: Members of the Board

From: Eileen W. Parlow, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Fiscal Sustainability Reporting – **Tab B¹**

MEETING OBJECTIVES

To review a preballot exposure draft, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government* and staff recommendations for issues identified at the March 31, 2008 Task Force meeting (see page 2 for a list of issues). As a result of the discussion at this meeting, staff will make revisions identified by members and finalize a ballot draft in early May 2008.

BRIEFING MATERIAL

This transmittal memorandum includes a discussion of issues and recommendations beginning on page 2. In addition, the presents following items are attached:

Attachment 1 – Project plan milestones

Attachment 2 – History of Board decisions

Attachment 3 – Preballot draft exposure draft, clean copy

Attachment 4 – Preballot draft, with tracked changes since February 2008 version

Attachment 5 – Summary minutes, March 31, 2008 Task Force meeting and subsequent communications via e-mail: Technical review of draft exposure draft

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

BACKGROUND

At the February 2008 meeting, the Board reached consensus on the following issues:

- time horizons for projection periods
- minimum requirements for level of disaggregation
- primary summary display options
- phased implementation of reporting requirements
- other required information, including addition of “likely impact of delay” item

The Board decisions are briefly recapped in Attachment 2 and discussed in detail in the Minutes of the February 2008 Board meeting.

STAFF PROPOSALS

Introduction

On March 31, 2008, FASAB staff met with the technical experts of the Fiscal Sustainability Reporting Task Force for a final technical review of the draft exposure draft. The comments made indicated several editorial changes that staff believes will enhance the exposure draft. Those changes are summarized in Attachment 5 and discussed below.

Staff recommendations for the following items are based upon the March 31, 2008 Task Force meeting and subsequent communications via e-mail.

Staff believes that none of the items below represents a substantive issue that has not already been addressed by the Board in its deliberations during the development of the draft ED.

1. Factors that drive high/low variance
2. Population characteristics in projecting growth per capita
3. Limitations of showing fiscal imbalance as a ratio of projected receipts or spending
4. Assumptions that depart from current law
5. The concept of “fiscal imbalance”
6. Terminology used for “current levels” and “current policy.”

1. Factors that drive high/low variance

One of the technical experts noted that there is no explicit requirement to name the significant factors that give rise to the variance where high/low ranges are presented. Staff believes that such a requirement would enhance the ED and has drafted the following addition to paragraph 45: “The narrative should list several of the major causes of the variances displayed.”

Question for the Board: Would this additional requirement enhance the ED without placing an additional reporting burden on the preparer that might be disproportionate to its usefulness?

2. Population characteristics in projecting growth per capita

One of the technical experts noted that paragraph 28, which provides examples of how to project spending for “rest of government” may be misinterpreted as requiring oversimplification, in particular regarding example (c), “constant real per capita.” He suggested the following clarifying footnote:

As applicable, the characteristics of the population should be considered for expenditures that benefit identifiable subgroups.

Staff recommends adopting the change.

Question for the Board: Are there any objections to the above clarifying footnote?

3. Limitations of showing fiscal imbalance as a ratio of projected receipts or spending

One of the technical experts believes that displaying the fiscal imbalance as a ratio of projected receipts or spending is acceptable, but that there is a limitation of its usefulness that he would like mentioned in a footnote. He suggested the following footnote to the definition of fiscal imbalance (paragraph 12):

Showing the fiscal imbalance as a ratio of the present values of total projected receipts, alternatively total projected spending, is useful to illustrate by how much projected receipts or spending would have to be changed in order to reduce the fiscal imbalance to zero. However, some policy adjustments may alter both the numerators and denominators of those ratios, thereby compromising the usefulness of ratio comparisons across fiscal projections under different policies.

Staff recommends adopting the change.

Question for the Board: Are there any objections to the above clarifying footnote?

4. Assumptions that depart from current law

With respect to the guidance regarding assumptions, the group felt that it would be ideal to be able to narrow the degree of preparer judgment for assumptions. During discussion, the group noted that many countries have refined their techniques over the years and that that approach may be best here. With experience, more rigorous guidance may be developed.

As a result of the discussion, staff realized that there should be an explicit requirement for the narrative to explain significant departures from current law. Staff proposes the following additional sentence to paragraph 42:

The narrative should explain the most significant departures from current law- for example, if the spending assumptions ignore the statutory limit on Federal debt.

Question for the Board: Are there any objections to the above addition to the proposed requirements for the narrative?

5. The concept of “fiscal imbalance”

Staff has drafted the following proposed addition to the Basis for Conclusions (BfC) section of the ED based on input from the technical experts. The proposed addition explains the discussion by the technical experts within the context of the Board’s deliberations during the past year:

Draft proposed addition to the BfC, new paragraphs A61-A64.

The concept of fiscal imbalance

The Board considered two potential “bottom line” measures for the primary summary display: fiscal imbalance and fiscal gap.

- a. The fiscal imbalance is the net present value of existing federal debt plus projected spending,² minus projected receipts. The fiscal imbalance illustrates the amount that would be necessary to balance projected receipts, projected spending, and repayment of debt for a stated projection period.**
- b. The fiscal gap is the change in spending or revenue that would be necessary to maintain federal debt as a constant percentage of GDP.**

Several of the Task Force technical experts believe 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 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. That is not necessary for continued solvency provided the economy is expected to last longer than 75 years. A positive level of debt is fiscally acceptable at the end of the projection period, provided it is not too big or growing too fast.

A different measure, often called the fiscal gap, allows for a positive level of debt at the end of the forecast horizon, but it generally sets a limit arbitrarily on how big that debt should be relative to the economy, and shows how much more receipts (or spending cuts) would be needed to achieve that target.

Any measure that provides for a positive level of debt at the end of the projection period would also need to state a limit as to the size and growth rate of the debt. In the U.S., 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 historically has been frequently raised. Since the Board has no basis for selecting a debt-to-GDP limit or goal, the Board selected the “fiscal imbalance” concept rather than the fiscal gap concept, for the primary summary display.

Question for the Board: Does the Board agree with staff recommendation above to modify the BfC?

² Since interest is factored into the present value calculation, the fiscal imbalance as a share of spending is expressed as a share of spending excluding interest. See FAQ 4 in Appendix C of the draft ED.

6. Terminology used for “current levels” and “current policy.”

A majority of the technical experts agreed that the primary summary display should present “current levels”³ of spending and taxation, but noted that it is difficult to craft language to refer to this concept without implying something else. Potential alternative terms that were mentioned included “current law baseline” “current law extended,” “current law, modified,” and “the continuation of current law by extension.” “Current services” was also mentioned, but there was no parallel term for taxation. A majority of the technical experts recommended the term “modified current law” although they recommend this term as “least objectionable” rather than “ideal.”

Staff analysis and recommendation:

The ED uses “current policy” as a short term used to refer to the concept of current levels, and not as the title for any display or any line item.

During the development of the ED, staff considered suggesting that the lengthier term “current levels of benefits, services and taxation” be substituted for the term “current policy” throughout the ED. However, upon researching this option staff noted that many of the sentences would become overly lengthy and difficult to understand and that this would likely detract from the overall readability and understandability of the ED. For this reason, the term “current policy” with a clear definition was developed:

[14] Current Policy

In this standard, current policy refers to current levels of federal government services and benefits (for example, current reimbursement rates for Medicare and scheduled benefits for Social Security) combined with current levels of taxation and other receipts.⁴

Staff believes that substituting the term “modified current law” for “current policies” throughout the ED would make many sentences misleading, because the emphasis on continuing current levels would be lost. Accordingly, staff recommends no changes to the ED except for the following discussion of the issue in the BfC:

Draft addition for the BfC, new paragraphs A35- A36:

The term “current policy” as defined in this Statement is not intended to be used as the title for any display, but rather as a short term to assist the overall

³ Several technical experts objected to the phrase “current levels” because it is not specific as to the base that is being continued and may vary in its interpretation- for example, constant dollar levels, relative dollar levels, or some other base. However, all of the technical experts acknowledged that no short term- even their suggested term, “modified current law”- can be used without an explicit definition. The draft ED includes an explicit definition for “current policy” and extensive explanatory language about the concept of “current levels.”

⁴ “Current levels” is not equivalent to levels measured in dollars. In the broader context of current policy, current levels are 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).

readability of this exposure draft. A short term is useful, particularly in sentences where the term “current levels of benefits, services and taxation” would make the sentence difficult to read and understand.

A majority of the technical experts agreed with the substance of the proposed guidance in the ED- that the primary summary display should present current levels of spending and taxation⁵- but noted that it is difficult to coin a term to refer to this concept without implying something else. A majority of the technical experts recommended the term “modified current law” as being preferable to the term “current policy.” However, the Board believes that substituting the term “modified current law” for “current policy” throughout the exposure draft would make many sentences unclear or misleading, because the emphasis on continuing current levels of benefits, services and taxation would be lost.

Question for the Board: Does the Board agree with staff recommendation above to modify the BfC?

Note: Due to the Board’s intent of issuing an Exposure Draft in May 2008, staff respectfully requests Board member feedback on any aspects of this memorandum or the ED in advance via e-mail or telephone. Addressing and potentially resolving issues and questions prior to the April 2008 meeting would greatly enhance the likelihood of reaching Board consensus on the ED at the April 2008 meeting. Please contact me by telephone at 202-512-7356 or by e-mail at ParlowE@fasab.gov.

Attachments:

- 1 – Project plan milestones
- 2 – History of Board decisions
- 3 – Preballot draft exposure draft, clean copy
- 4 – Preballot draft, with tracked changes since February 2008 version
- 5 – Summary minutes, March 31, 2008 Task Force meeting and subsequent communications via e-mail: Technical review of draft exposure draft

⁵ “Current levels” as defined in this proposed Statement is not equivalent to levels measured in dollars. In the broader context of current policy, current levels are 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).

Milestones - Fiscal Sustainability Reporting

April 5, 2007	Task Force Meeting: Technical Experts
May 24, 2007	Board meeting: Recap of results of April 2007 task force meeting
June 19, 2007	Task Force Meeting: Financial Statement Users/Communications Experts
July 25-26, 2007	Board meeting: Survey of international reporting; recap of results of June 2007 task force meeting
September 19-20, 2007	Board meeting: Present options and proposals for reporting
December 4-5, 2007 *	Board meeting: Present draft ED for discussion
February 13-14, 2008 *	Board meeting: Continue discussion of draft ED
April 16-17, 2008	Board meeting: Discuss preballot draft ED
April 30, 2008	Ballot draft ED
May 9, 2008	Issue ED: Comments due August 15, 2008
August 20-21, 2008	Board meeting: Public hearing
October 22-23, 2008	Board meeting: Discuss ED comments and staff proposal(s)
December 17-18, 2008	Board meeting: Continue discussion of comments/proposal(s)
Jan/Feb 2009 TBA	Board meeting: Continue discussion of comments/proposal(s)
Mar/Apr 2009 TBA	Board meeting: Discuss Preballot draft SFFAS
May/June 2009 TBA	Board meeting: Ballot draft SFFAS
June/July 2009	Transmittal to principals; Begin 90-day review period
October 2009	End 90-day review period and issue SFFAS

* If desired, Task Force members may be invited to meet with the Board.

Attachment 2: History of Board Decisions on Fiscal Sustainability Reporting

Board Meeting Date	Question/Item for Discussion	Board View
May 2006	Staff presented a proposal to form a task force to address fiscal sustainability reporting, with technical experts from think tanks, social insurance actuaries, and members of the user community. The Board discussed providing task force representation and/or staff support from the FASAB's sponsoring agencies (OMB, GAO, CBO and Treasury).	Board concurred that staff should begin to form a task force and draft a project plan.
July 2006	Board reviewed: <ol style="list-style-type: none"> 1. Outline of draft briefing package for the "technical experts" task force members, and 2. List and bios for proposed task force members (technical experts and financial statement users/communication experts) 	Board approved, with minor changes: <ol style="list-style-type: none"> 1. Outline for the briefing package for the "technical expert" task force members and 2. List of proposed task force members.
January 2007	Board reviewed: <ol style="list-style-type: none"> 1. Draft briefing package for Task Force technical members, and 2. Updated list of outside technical members who accepted invitations and Federal members who would serve as technical experts for the April 4, 2007 Task Force meeting 	Board approved the briefing package for the task force technical members and asked that a copy of the PV Alternative View document also be sent to them.
March 2007	Board was briefed on: <ol style="list-style-type: none"> 1. Results of the April 5, 2007 meeting with technical members of the task force. 2. Results of February 22, 2007 meeting with Allen Schick, who could not attend April meeting. 3. Staff meeting with OMB, CBO, GAO and Treasury technical representatives. 	N/A
May 2007	Handout for the Board: update on April 2007 Task Force meeting	N/A

Board Meeting Date	Question/Item for Discussion	Board View
July 2007	<ol style="list-style-type: none"> 1. Board was briefed on results of the June 19, 2007 "Communications Group" Task Force meeting. 2. Topics addressed at the July Board meeting: <ol style="list-style-type: none"> (a) Whether to develop reporting objectives versus a definition of "fiscal sustainability", and (b) Need for user feedback. 3. The Board was also provided with an international survey of fiscal sustainability reporting and a draft project plan for this project, including milestone target dates. 	<p>Board concurred that:</p> <ol style="list-style-type: none"> (a) Staff should draft objectives that would be based upon Stewardship objective, and (b) Staff should continue to explore potential avenues for user feedback.
September 2007	<p>Board discussed</p> <ol style="list-style-type: none"> 1. objectives and 2. assumptions <p>for fiscal sustainability reporting</p>	<ol style="list-style-type: none"> 1. Board expressed general agreement on the draft objectives, with some revisions. 2. Board concurred that: <ol style="list-style-type: none"> (a) Staff should develop broad guidelines for assumptions rather than detailed rules, and (b) Assumptions should be based upon current law, except when current law does not provide for continuance of current levels of spending and taxation.
December 2007	<p>Board reviewed draft ED with focus on:</p> <ol style="list-style-type: none"> 1. Revised guidance for objectives and assumptions 2. "Per capita" issue 3. Initial discussion of: <ol style="list-style-type: none"> (a) Draft summary displays (b) Draft requirements for additional narrative 	<ol style="list-style-type: none"> 1. Board approved objections and assumptions in substance; staff will incorporate edits. 2. Board decided against including per capita measures. 3. Board requested that actual data be developed for all pro forma displays.

	and graphics.	
February 2008	<p>Board reviewed draft ED with focus on:</p> <ol style="list-style-type: none"> 1. Time horizon 2. Minimum required level of disaggregation 3. Options for primary summary display 4. Initial placement within the CFR and phased implementation 5. Other required information, especially “impact of delay” 	<p>Board decisions:</p> <ol style="list-style-type: none"> 1. Both finite and infinite projections will be required. Summary data for the time horizon not presented in the primary display will be presented in the narrative section. 2. Minimum disaggregation: <ol style="list-style-type: none"> a. Receipts: Social Security, Medicare and rest of government b. Spending: Social Security, Medicare, Medicaid, rest of government 3. Reached consensus on list of items required to be included in the primary summary display 4. Phased implementation: Primary summary display and required narrative and graphics will be RSI for 3 years starting in FY 2010. Starting in FY 2013, principal financial statement and notes. 5. Added a requirement to address the likely impact of delay (if remedial action is indicated) with illustrative CBO graphic.

April 4, 2008



Federal Accounting Standards Advisory Board

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

Statement of Federal Financial Accounting Standards XX

Exposure Draft

Written comments are requested by **August 15, 2008**

May 9, 2008

Staff draft- Do Not Circulate

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.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an Exposure Draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

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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Federal Accounting Standards Advisory Board

May 9, 2007

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards entitled, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*. Specific questions for your consideration appear on page 7 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by August 15, 2008.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

We have experienced delays in mail delivery due to increased screening procedures. Therefore, please provide your comments in electronic form. Responses in electronic form should be sent by e-mail to fasab@fasab.gov. If you are unable to provide electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow up by mailing your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. A public hearing for this exposure draft has been scheduled at 9:00 AM on August 20, 2007 in Room 7C13 at the GAO Building, 441 G Street, NW, Washington, DC.

Notice of the date and location of this public hearing also will be published in the Federal Register and in the FASAB's newsletter.

Tom L. Allen
Chairman

Executive Summary

What is the Board Proposing?

The Board is proposing a summary display of comprehensive long-term fiscal projections as well as specific narrative and graphic displays for the annual consolidated financial report of the U.S. Government (CFR).

A primary summary display would present fiscal projections for all activities of the federal government and calculate a “bottom line” fiscal imbalance (the amount necessary to balance future spending and repay existing debt).

The narrative and graphics would serve a critical role of making economic concepts and projections accessible to a variety of audience segments, and in helping readers understand long-term projections by illustrating trends graphically and by providing context for the information provided.

The narrative would provide a “plain English” explanation of present value and interest rates used to calculate present value.

Narrative and graphics would explain and illustrate the major factors that are expected to have a significant impact upon future receipts and spending of the federal government. Current examples of major factors are the rising cost of health care and demographic trends.

Narrative and graphics would explain and illustrate historical and projected trends for a progress of years for:

- (a) the relationship between projected receipts and spending
- (b) projected deficits or surpluses, and
- (c) projected Treasury debt as a share of gross domestic product (GDP).

If a fiscal imbalance is indicated by the projections, the narrative section would include a graphic that shows the likely impact of delaying corrective action.

The narrative would explain the significance of the graphics and put the information into context. Examples of context include but are not limited to:

- (a) comparison of the data/trend with that of other developed nations,
- (b) comparison of the data/trend with everyday life, for example, spending in excess of income over a long period of time, and/or
- (c) 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.

How would this proposal contribute to meeting the federal financial reporting objectives?

This proposal supports the Stewardship Objective (Objective 3):

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.¹

In particular, this proposal directly addresses sub-objective 3B:

Federal financial reporting should provide information that helps the reader to assess whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.²

This proposal would provide specific reporting requirements that the Board believes will be useful to readers in assessing the potential future impact of current levels of spending and taxation.

¹ Statement of Federal Financial Accounting Concepts (SFFAC) 1, paragraph 134.

² SFFAC 1, paragraphs 135 and 139.

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Questions for Respondents

The FASAB encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The questions in this section are available in a Word file for your use at www.fasab.gov/exposure.html. Your responses to the Questions for Respondents should be sent by e-mail to fasab@fasab.gov. If you are unable to respond electronically, please fax your responses to (202) 512-7366 and follow up by mailing your responses to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

All responses are requested by **August 15, 2008**.

Q1. This exposure draft proposes reporting that would support FASAB Objective 3, Stewardship, and in particular, Sub-Objective 3B:

Objective 3: 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 SFFAC 1, par. 134.

Sub-Objective 3B: Federal financial reporting should provide information that helps the reader to determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.⁴

More detailed discussion of the reporting objective and the objectives of fiscal sustainability reporting can be found in paragraphs 1 through 8.

Do you believe that the proposed reporting supports the above objectives? If not, please explain why you disagree.

Q2. In this proposed Statement, projections are prepared not to predict the future, but rather to depict results that may occur under various conditions. Accordingly, projections require assumptions to be made about the future. This exposure draft proposes broad and general guidance for selecting policy, economic and demographic assumptions for long-term projections with a primary focus on the future implications of the continuation of current levels of benefits, services and taxation. The guidance begins at paragraph 18.

Do you believe that the guidance for assumptions is appropriate? If not, please suggest alternative guidance. Please provide the rationale for your response.

Q3. Finite and infinite time horizons for fiscal projections are discussed in the Basis for Conclusions, paragraphs A54 through A59. This exposure draft proposes the following requirements regarding time horizon for projections: (a) the projections presented in the primary summary display should be “sufficient to illustrate long-term sustainability” (for example, traditionally the Social Security program has used a projection period of 75 years for long-term projections) (b) projections for both a finite and an infinite horizon should be provided; one in the primary summary display and the other in the narrative⁵ section, and (c) either the primary display or the narrative section should include projections for Social Security and Medicare based on the time horizon used for long-term projections for Social Security and Medicare in the Statement of Social Insurance (SOSI).

a. Do you believe that the above requirements for time horizons are appropriate to meet the reporting objectives of Fiscal Sustainability Reporting? If not, please explain.

⁴ SFFAC 1, par. 139.

⁵ All narrative and graphics will be presented as Required Supplementary Information (RSI) for a period of three years and subsequently as a required disclosure.

- b. Do you believe that there should be a specific time horizon requirement (for example, 75 years) for the primary summary display for Fiscal Sustainability Reporting and/or the SOSI? If so, what time horizon do you believe should be required?

Q4. This exposure draft proposes a primary summary display,⁶ in addition to narrative and graphics. (Description begins at paragraph 35 and an illustrative example of the primary summary display is provided in Appendix B.) The Board has indicated that the primary audiences for the consolidated financial report of the U.S. Government (CFR) are citizens and citizen intermediaries such as journalists and public policy analysts.

Do you believe that this display would be understandable and meaningful for the primary audiences of the consolidated financial report of the CFR? Please note any changes that you believe should be made to the requirements for a primary summary display.

Q5. The Board's mission is to issue reporting requirements for the federal government's general purpose financial statements, and not to recommend budget policy. This exposure draft proposes a title, for the summary display: "Long-Term Fiscal Projections for the U.S. Government." An alternative title, "Statement of Fiscal Sustainability," might imply to some that the Board has established or plans to establish specific rules that define "fiscal sustainability," and/or budget rules that would result in fiscal sustainability. However, others have indicated that the "plain English" meaning of the words "fiscal" and "sustainability" should be adequate, and that the title "Statement of Fiscal Sustainability" might be more appropriate.

The Board's working definition of "fiscal sustainability reporting" is explained in the Basis for Conclusions, paragraph A3. The concept of "Financial Condition" is explained in the Basis for Conclusions, paragraphs A7 and A8.

Do you believe that the summary display should be titled:

- a. "Long-Term Fiscal Projections for the U.S. Government"
- b. "Statement of Fiscal Sustainability"
- c. "Statement of Financial Condition,"
- d. A title not listed above (please specify).

Please explain the reasons for your choice.

Q6. This exposure draft proposes a minimum level of disaggregation for the primary display. For projected receipts, Medicare and Social Security would be

⁶ The primary summary display will be presented as RSI for a period of three years and subsequently as a basic financial statement.

shown separately from the rest of government. For projected spending, Medicare, Social Security and Medicaid would be shown separately from the rest of government.

- a. Do you believe that the above projections should be disaggregated in the primary summary display? Please explain the basis for your views.
- b. Do you believe that additional line items should be disaggregated in the primary summary display? If so, please identify the line items and explain your reasoning.

Q7. This exposure draft proposes that for major factors impacting projected receipts and spending (such as the rising cost of health care), a range (high and low) be reported in the narrative section (see paragraph 45 and illustrative example on page 46).

Do you believe that a range of possible results should also be displayed in the primary summary display? If so, which line item(s) should display a range of results?

Q8. This exposure draft proposes narrative and graphic displays to effectively communicate to the reader historical and projected trends and to help the reader understand the major drivers influencing projected receipts and spending. The requirements begin at paragraph 40 and illustrations begin on page 46.

- a. Do you believe that the required narrative and graphics would be useful in helping the reader to understand the information that is reported in the summary display?
- b. Are there any items that you believe should be added to, or deleted from, the requirements for narrative and graphics? If so, please explain.

Q9. The Frequently Asked Questions (FAQs) at Appendix C provide a “plain English” explanation of terms and concepts used in long-term projections.

- a. Do you find the FAQs helpful?
- b. Should the Treasury Department be encouraged to include any of the FAQs in the CFR to promote understandability of the terms and concepts? If so, please specify the FAQs that should be considered for inclusion (and/or exclusion).

Q10. Effective Date and Phased Implementation: This proposed Statement would be effective for periods beginning after September 30, 2009. This proposed Statement would require that the Primary Summary Display and the additional

required information including graphics and narrative be included in Required Supplementary Information (RSI) for the first three years of implementation, and basic information (i.e., principal financial statement and notes) for all subsequent years.

- a. Do you believe that this implementation date is reasonable and appropriate?
- b. Do you agree with the phased implementation period (3 years)?
- c. Do you believe that some of all of the required information should remain as RSI after the 3-year implementation period? If so, please explain the basis for your view.

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.⁷ 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.⁸
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 and to meet obligations as they come due.⁹
4. While federal financial reporting is not expected by itself to accomplish the stewardship reporting objective, it can contribute to meeting the objective.¹⁰ Sub-objective 3B is concerned with the future and with the resources expected to be consumed through programs of the federal government in the future.
5. The Board believes that including comprehensive long-term fiscal **projections**¹¹ and accompanying narrative and graphics in the consolidated financial report of the U.S. Government (CFR) will

⁷ SFFAC 1, par. 109.

⁸ SFFAC 1, par. 134.

⁹ SFFAC 1, par. 139.

¹⁰ SFFAC 1, par. 235.

¹¹ Terms defined in the Glossary are shown in **bold-face** the first time they appear.

contribute to meeting the stewardship objective and especially sub-objective 3B. The more detailed objectives presented below were developed as one means of guiding the Board in selecting from a variety of possible summary display formats as well as in identifying the most important areas to be addressed in narrative and/or graphic format.

Objectives of Comprehensive Long-Term Fiscal Projections and Accompanying Graphics and Narrative (“Fiscal Sustainability Reporting”)

6. In this Statement, **“Fiscal Sustainability Reporting”** is the short term for the comprehensive long-term fiscal projections and accompanying narrative and graphics required by this Statement to be provided 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,¹² assuming that current levels of benefits, services and taxation are continued.¹³
7. Assessing whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due is important not only because such an assessment has 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 the current level of benefits and services to constituent groups and to assess whether financial burdens were passed on by current-year taxpayers to future-year taxpayers without related benefits.¹⁴ Fiscal Sustainability Reporting should assist the reader in understanding these financial, social and political implications.
8. 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

¹² SFFAC 1, par. 139.

¹³ Note that fiscal sustainability reporting does not extend to supporting a detailed assessment of whether current levels of benefits, services and taxation are optimal; rather, it addresses the fiscal outlook if current levels are continued.

¹⁴ The latter notion is sometimes referred to as “interperiod equity.”

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. Moreover, the CFR is a high-level summary report; it tells users where to find additional information in other reports and publications, for example, reports issued by the Department of the Treasury, the Government Accountability Office (GAO), the Office of Management and Budget (OMB), and the Congressional Budget Office (CBO) and other agencies.¹⁵

9. The Frequently Asked Questions (FAQs) at Appendix C provide a “Plain English” explanation of terms and concepts used in this Statement.

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 proposal provides for a phased-in implementation, but earlier implementation is encouraged. Information would be reported as Required Supplementary Information (RSI) for the first three years of implementation (fiscal years 2010, 2011 and 2012). Beginning in fiscal year 2013, the required information would be presented as a basic financial statement and related disclosures.

¹⁵ See SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*, paragraphs 6-7 and 15-20.

Accounting Standard

Definitions

12. Fiscal Imbalance

The fiscal imbalance is the net **present value** of existing federal debt plus projected spending¹⁶ minus projected receipts. The fiscal imbalance illustrates the amount that would be necessary to balance projected receipts, projected spending, and repayment of debt for a stated projection period. The fiscal imbalance as of a stated valuation date¹⁷ may be expressed as:

- (a) a summary amount in present value dollars,
- (b) a share of the present value of the **Gross Domestic Product (GDP)**¹⁸ for the projection period, and/or
- (c) a share of the present value of projected receipts or projected spending.¹⁹

13. Policy Assumptions

Policy assumptions address the level of services provided by the federal government as well as the framework for assessing taxes and fees. Policy assumptions address projected spending rules for both **mandatory** and **discretionary spending** as well as the framework for assessing taxes and fees.

14. Current Policy

In this standard, current policy refers to current levels of federal government services and benefits (for example, current reimbursement rates for Medicare and scheduled benefits for Social Security) combined with current levels of taxation and other receipts.²⁰

¹⁶ Since interest is factored into the present value calculation, the fiscal imbalance as a share of spending is expressed as a share of spending excluding interest. See FAQ 4 on page 54.

¹⁷ See requirement for valuation date in paragraph 32.

¹⁸ 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.

¹⁹ Showing the fiscal imbalance as a ratio of the present values of total projected receipts, alternatively total projected spending, is useful to illustrate by how much projected receipts or spending would have to be changed in order to reduce the fiscal imbalance to zero. However, some policy adjustments may alter both the numerators and denominators of those ratios, thereby compromising the usefulness of ratio comparisons across fiscal projections under different policies.

²⁰ "Current levels" is not equivalent to levels measured in dollars. In the broader context of current policy, current levels are 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).

15. 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 Gross Domestic Product).

16. Demographic Assumptions

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

Scope

17. The reporting requirements in this Statement apply to the consolidated financial report of the U.S. Government. 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 type of report.

Policy, Economic and Demographic Assumptions

18. Fiscal Sustainability Reporting for the U.S. Government should provide information that helps the reader to determine whether current policy is likely to produce future budgetary resources sufficient to sustain current levels of public services and to meet obligations as they come due. Long-term projections of current levels of federal benefits and services and current levels of taxes and other revenues should help the reader to understand the implications of current levels of benefits, services and taxation and other factors such as demographic trends.
19. 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 levels of benefits, 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.

-
20. 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 making choices among alternative assumptions. The guiding principles address three types of assumptions: policy, economic, and demographic assumptions.
 21. Policy assumptions address the level of services provided by the federal government as well as the framework for assessing taxes and fees.
 22. 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).
 23. Demographic assumptions address projected population trends (for example, birth rates, mortality rates and net immigration).
 24. When combined with policy assumptions, economic and demographic assumptions determine the level of future projected receipts and spending.
 25. To illustrate the distinction between policy, economic and demographic assumptions: the Social Security program provides benefits. Assumptions relating to future Social Security eligibility and benefit formulas represent policy assumptions. Assumptions about productivity growth, inflation and other factors represent economic assumptions. Assumptions about the future population represent demographic assumptions.
 26. The guiding principle for selecting policy assumptions is to base selections on assumptions consistent with current policies (current levels of federal benefits, services and taxation). With some exceptions, projections of future receipts and spending should be based upon policy assumptions consistent with current law. However, in many instances a simple assumption of "current law" will not provide an adequate basis for long-term projections under current policies. For example, in some cases current law may expire almost immediately, or not fully support current levels of benefits or services, or produce levels of taxation that are significantly different from current levels of taxation. In these cases, the preparer should use judgment in applying the general

guidelines presented below for selecting policy assumptions that are consistent with current policies.

27. When a simple assumption of current law does not provide a basis for projections of future receipts and spending that is consistent with current policies, assumptions should reflect “current policies” as defined in this standard.²² Following are examples:

- (a) Legislation providing for **discretionary spending**²³ provides funding that extends at most a few years into the future. Therefore, assumptions will be required in order to prepare a long-range projection. A current-law policy assumption would show discretionary spending falling to zero within a few years. Such a projection would not be meaningful or useful.
- (b) Some provisions of tax law, (for example the Alternative Minimum Tax (AMT), which is not indexed) do not provide for future taxation at current levels. Current law would result in the AMT negatively impacting many more taxpayers in the future. A current-law policy assumption would show large increases in future receipts as the AMT eventually impacts 100% of all taxpayers. Such a projection would not reflect current levels of taxation.
- (c) Current law also 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 assume that Treasury borrowing will never increase beyond the dollar amount of the current statutory limit. Such an assumption would not support a projection of current levels of benefits, services or taxation.

28. In those cases where simple assumptions of current law do not provide a basis for projections that is consistent with “current policies” as defined in this standard, assumption of a uniform

²² See paragraph 14.

²³ 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 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 legislation. For additional information, see *A Glossary of Terms Used in the Federal Budget Process*, GAO-05-734SP. Available at: <http://gaoweb.gao.gov/gaoproducts.php>.

growth rate for all types of revenues and spending is not required. Assumptions may be based on, but are not limited to, the notion that spending or revenues are likely to:

- (a) Maintain a constant share of GDP
- (b) Grow with inflation²⁵
- (c) Maintain a constant real²⁶ per capita level²⁷

29. Judgment should be applied in selecting assumptions. Policy assumptions representing the worst case scenario are not required. Rather, the assumptions should be viewed as a whole and individual selections made which result in a reasonable overall projection. The preparer's objective should be to produce unbiased projections.

30. The same economic and demographic assumptions should be used for the primary summary display for Fiscal Sustainability Reporting and for Social Security and Medicare in the Statement of Social Insurance.

Changes in Assumptions

31. When year-by-year comparisons are displayed, a table presented in the narrative section should disaggregate the changes attributable to:

- (a) valuation period (for example, the beginning of the projection period is one year later),
- (b) changes in policies (legislation), and
- (c) changes in assumptions.

Narrative should explain the changes attributable to each of the three categories.

Valuation Date

32. 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.

²⁵ Inflation is growth in a general measure of prices, usually expressed as an annual rate of change.

²⁶ In economic terms, "real" means adjusted to remove the effects of inflation.

²⁷ As applicable, the characteristics of the population should be considered for expenditures that benefit identifiable subgroups.

Projection Periods

33. Projections in the primary summary display should be for a projection period sufficient to illustrate long-term sustainability.
- (a) If the projection period displayed in the primary summary display is for a finite projection period, the accompanying narrative should display summary totals for an infinite horizon projection period and vice versa.
- (b) If the projection period in the primary summary display is not consistent with the projection period used for Social Security and Medicare in the Statement of Social Insurance (SOSI), the narrative section should display the subtotal and total line items of the primary summary display calculated for the projection period that was used for Social Security and Medicare in the SOSI.²⁸
34. Overemphasis on summary measures for a finite projection period, such as a 75-year period, can lead to incorrect perceptions. The accompanying narrative should explain that the trends projected, particularly near the end of the projection period, are important to consider. This Statement also requires information for a time period that extends to the infinite horizon, which provides additional perspective but is subject to much greater uncertainty.

Primary Summary Display

35. This Statement presents the elements that are required to be included in a primary summary display.
36. An example primary summary display is shown in Appendix B for illustration only.
37. The primary summary display, *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 as of the required valuation date(s) for the projection period indicated:

²⁸ 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.

- (a) Receipts, disaggregated by Medicare, Social Security, and all other revenues, and total receipts;²⁹
- (b) Spending, disaggregated by Medicare, Medicaid, Social Security, and all other spending, subtotal of spending before debt held by the public, and total spending plus repayment of debt;³⁰ and
- (c) Fiscal Imbalance (the net amount needed to balance receipts and total spending plus repayment of debt).³¹

38. The primary summary display should also present

- (a) Fiscal imbalance as a percentage of total projected receipts and as a percentage of total projected spending and
- (b) After the initial year of implementation, comparative amounts for the current year and prior year, and the net change for each of the above line items from the prior year.

39. Additional requirements for narrative and graphics are provided in “Requirements for Narrative, Graphics and Supporting Data,” beginning at paragraph 40.

Requirements for Narrative and Graphics

40. Narrative and graphics serve a critical role in making economic concepts and projections understandable to a variety of audience segments, and in helping readers to understand long-term projections by explaining the significant factors that are driving projected trends, by illustrating trends graphically, and by providing context for the information provided.

41. Narrative should include a “plain English” explanation of present value and interest rates used to calculate present value.

42. The narrative should explain that the projections displayed are not forecasts or predictions; they are designed to depict results that may occur under various conditions. The narrative should disclose significant policy assumptions for all scenarios presented. The narrative should explain the most significant

²⁹ Full payment of amounts due to Social Security and Medicare HI Trust Funds must be shown as revenue for Medicare and Social Security, and outlays for “rest of government.”

³⁰ See note 29.

³¹ A positive fiscal imbalance indicates a shortfall; a negative fiscal imbalance indicates a surplus situation.

departures from current law – for example, if the spending assumptions ignore the statutory limit on federal debt.

43. The narrative 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) Where indicated, 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), for which financial projections may be appropriate; and
- (c) Fiscal Sustainability Reporting is limited to the activity of the federal government, and does not include activities of state and local governments. However, the narrative should direct the reader to any recent reports that address the long-term fiscal outlook for state and local governments.³²

44. The narrative should explain the significance of the graphics and put the information into context. Examples of context include but are not limited to:

- (a) Comparison of the data/trend with that of other developed nations,
- (b) Comparison of the data/trend with everyday life, for example, spending in excess of income over a long period of time, and/or
- (c) 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.

45. Narrative and graphics should explain and illustrate a range of possible results in light of the uncertainty inherent in projections and their sensitivity to assumptions. The range need not be based on the most optimistic and most pessimistic sets of

³² For example, the GAO reports *State and Local Governments: Persistent Fiscal Challenges Will Likely Emerge with the Next Decade*, July 18, 2007 (GAO-07-1080SP) and *The Nation's Long-Term Fiscal Outlook* August 2007 Update (GAO-07-1261R) address the long-term fiscal outlook for state and local governments.

assumptions. Instead, the range may present low and high projections based on optimistic and pessimistic assumptions that might reasonably be expected to occur. The range should present the total projected receipts and spending but may also present projections for individual programs. (See Illustration 1a in Appendix B) The narrative should include a table showing the range for each line item presented on the primary summary display. The narrative should list several of the major causes of the variances displayed.

46. Narrative and graphics should explain and illustrate the major factors that are expected to have a significant impact upon future receipts and spending of the federal government. For example, two such factors may be (a) the rising cost of health care and (b) demographic trends. Information about how these factors have changed and are expected to change over time is necessary to assist the reader in understanding the factors that influence fiscal imbalances. (See Illustration 1b and 2 in Appendix B)
47. Narrative and graphics should explain and illustrate the historical and projected trends for a progression of years beginning at least 20 years before the current year and extending to all projected future years for:
 - (a) projected receipts and spending,
 - (b) projected deficits
 - (c) projected Treasury debt as a share of GDP.(See Illustrations 3, 4, and 5 in Appendix B)
48. If a fiscal imbalance is indicated by the projections, the narrative section should include a graphic that shows the likely impact of delaying action. Two graphics could display the progressive increase in the change that would be needed to close the fiscal imbalance by (a) reducing non-interest spending and alternatively (b) by increasing receipts. Alternatively, either (a) or (b) could be displayed in a graph and the narrative describe the impact of delay on the item not displayed. (See Illustration 6 in Appendix B.)

Supporting Data (Other Accompanying Information)

49. The quantitative data supporting the primary summary display and the additional narrative and graphics may be provided in or referenced as other accompanying information.³⁴

Effective Date

50. 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 Required Supplementary Information (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 a basic financial statement and related disclosures.
 - (d) Earlier implementation is encouraged.

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

³⁴ 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/>.

³⁶ Statement of Federal Financial Accounting Concepts (SFFAC) 1, pars. 134-145, available at <http://www.fasab.gov/codifica.html>.

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. Many believe that federal financial reports currently do not adequately address the federal financial reporting objective, titled “stewardship,” presented 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

- 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.³⁶

- A2. In particular, existing reporting may not adequately address sub-objective 3b above. The FASAB considered what information would be most likely to help readers of the CFR to assess whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due. Ultimately, this may enhance the public’s understanding of long-term fiscal issues.

- A3. Discussion of such long-term fiscal issues has been described in terms such as “fiscal sustainability.” In this proposed Statement, the Board’s working definition of “fiscal sustainability” is the federal government’s ability to continue, both now and in the future, to provide current levels of benefits and services while maintaining current levels of federal taxation without resulting in debt continuously rising as a share of

GDP.³⁷

- 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 communications 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 OMB, the CBO, the Treasury Department, and the GAO; members of Congress; and academics in the areas of public policy and communications.
- A6. FASAB staff also researched existing reporting on comprehensive government-wide long-term projections by other developed, English-speaking countries for example, the U.K., Australia, New Zealand and Canada, and conferred with staff of the International Public Sector Accounting Standards Board (IPSASB). The IPSASB is currently undertaking a project with similar objectives.

Financial Position versus Financial Condition

- A7. Fiscal Sustainability Reporting is focused on the financial condition of the federal government as a whole. Financial condition is forward-looking and multi-dimensional. Assessing financial condition requires financial and non-financial information related to the long-term fiscal outlook for the federal government. Therefore, Fiscal Sustainability Reporting should provide information about the future to help readers assess the magnitude of future spending and revenues and the burden that any resulting deficits might place on future taxpayers.³⁸
- A8. Indicators of financial position, for example, the balance sheet, are the starting point for reporting on financial condition but must be supplemented in a variety of ways. For example, trends in financial position may assist readers in assessing the overall direction of the federal government’s finances. However, readers may find, among other things,

³⁷ Determining precisely 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.

³⁸ SFFAC 1, par. 262.

a budget projection under a range of alternative assumptions³⁹ to be helpful in assessing the financial condition of the U.S. Government. Presenting information about the overall size of the economy relative to the budget projections may assist readers in assessing whether the projected budget amounts are reasonable in comparison to past experience or the experience of other countries. Thus, reporting on financial condition requires financial and nonfinancial information about the national economy and society, as well as about the government itself.⁴⁰ Table 1, “Comparison of Financial Position and Financial Condition,” summarizes the distinguishing characteristics of Financial Position and Financial Condition.

Table 1: Comparison of Financial Position and Financial Condition

Financial Position	Financial Condition
Entity perspective	Broad perspective including reporting on the nation’s economy and other external trends
Accrual based data	Additional, forward-based information
Financial data	Financial and nonfinancial data
Assets, liabilities and net position	Future effects of: <ul style="list-style-type: none"> • current demands, risks and uncertainties, and • anticipated future events, conditions and trends
Example: Balance Sheet	Examples: <ul style="list-style-type: none"> • Projections of revenue, spending and debt <ul style="list-style-type: none"> • in present value dollars • as a share of GP • Nonfinancial data, such as demographic trends

A9. SFFAC 3, *Management’s Discussion and Analysis* (MD&A), addressed many of the elements of financial condition. SFFAC 3 says that the MD&A should answer questions such as the following, to the extent that they are relevant and important for the entity:

What is the potential effect of changed circumstances, and of expected future trends? In other words, to the extent that it is feasible to project

³⁹ SFFAC 1, par. 145.
⁴⁰ SFFAC 1, par. 144.

the effects of these factors, will future financial position, condition, and results, as reflected in future financial statements, probably be different from this year's and, if yes, why? (Any such discussion should acknowledge that the future is unpredictable and will be influenced by factors outside the reporting entity's control, including actions by Congress.)⁴¹

Existing Required Sustainability Reporting

A10. Existing reports provide relevant information regarding fiscal sustainability. Annual financial reports – both from individual agencies and the CFR – provide forward looking information and extensive sustainability information regarding social insurance programs such as Social Security and Medicare. Central agencies such as the GAO, OMB and CBO provide projections of receipts and outlays based on various policy assumptions. However, the Board believes that establishing requirements for a basic financial statement and accompanying narrative and graphics will ensure that the information is included in the annual CFR and that it presents projections based on current policies.

A11. While many of the proposals included in this exposure draft were voluntarily adopted in the fiscal year 2007 CFR and the recent summary report, *The Federal Government's Financial Health: A Citizen's Guide to the 2007 Financial Report of the United States Government*, voluntary adoption is not a guarantee of continued reporting. Some of the existing information sources are described below to aid respondents in evaluating the changes required by this proposal.

Management's Discussion and Analysis (MD&A)

A12. Current reporting requirements for the U.S. Government's long-term fiscal outlook are contained in paragraphs 3 and 6 of Statement of Federal Financial Accounting Standards (SFFAS) 15, *Management's Discussion and Analysis*, as follows:

[3] MD&A should include forward-looking information regarding the possible future effects of the most important existing, currently-known demands, risks, uncertainties, events, conditions and trends.

⁴¹ SFFAC 3, par. 14.

⁴⁴ See SFFAC 3, paragraphs 31-36.

MD&A may also include forward-looking information about the possible effects of anticipated future demands, events, conditions, and trends.³ Forward-looking information may comprise a separate section of MD&A or may be incorporated with the sections listed above.

³The word "anticipated" is used in a broad, generic sense in this document. In this context the term may encompass both "probable" losses arising from events that have occurred, which should be recognized on the face of the basic or "principal" financial statements, as well as "reasonably possible" losses arising from events that have occurred, which should be disclosed in notes to those statements. "Anticipated" may include the effects of future events that are deemed probable, for which a financial forecast would be appropriate. The term may also encompass hypothetical future trends or events that are not necessarily deemed probable, for which financial projections may be appropriate. Such information about the possible effects of anticipated future demands, events, conditions and trends, if presented, should include the term or label "projected" or "projection," and the key hypothetical underlying assumptions should be explained. As with other information presented in MD&A, no examination of this information by the auditor is now routinely included within the scope of an audit of a federal entity's financial statements; however, preparers and auditors may find useful background information in the AICPA's Statements on Standards for Attestation Engagements Nos. 1 and 4, codified as section 200, "Financial Forecasts and Projections," of the AICPA's *Codification of Statements on Standards for Attestation Engagements*.

[6] MD&A should deal with the "vital few" matters; i.e., the most important matters that will probably affect the judgments and decisions of people who rely on the general purpose Federal financial report (GPFFR) as a source of information. (The specific topics mentioned in *Concepts for Management's Discussion and Analysis* are examples of items that might be relevant for MD&A of a given entity.) Matters to be discussed and analyzed are those that management of the reporting entity believes it is reasonable to assume could:

- lead to significant actions or proposals by top management of the reporting unit;
- be significant to the managing, budgeting, and oversight functions of Congress and the Administration; or
- significantly affect the judgment of citizens about the efficiency and effectiveness of their Federal Government.

A13. The FASAB elaborated on the above requirements in its companion concept statement, SFFAC 3, Management's Discussion and Analysis, which explains the Board's expectations regarding the description of future

effects of both existing and anticipated events, conditions and trends.⁴⁴

Statement of Social Insurance (SOSI)

A14. The Statement of Social Insurance is based on projections of future scheduled expenditures and future revenues for the major social insurance programs: Federal Old-Age, Survivors and Disability Insurance (Social Security), Medicare Parts A, B, and D, Railroad Retirement benefits and Black Lung benefits.

A15. For the social insurance programs listed in the preceding paragraph, the SOSI presents the actuarial present value for the projection period of:

- (a) all future contributions and tax income (excluding interest) received from or on behalf of all current and future participants;
- (b) estimated future schedule benefits to be paid to or on behalf of current and future participants, and
- (c) the estimated future excess of future benefit payments over future contributions (or excess of future contributions over future benefit payments).

A16. The SOSI (the information required by paragraphs 27(3) and 32(3) of SFFAS 17) is presented as a basic financial statement, and the underlying significant assumptions are included in notes that are presented as an integral part of the basic financial statements.⁴⁵ The basic (or principal)⁴⁶ financial statements and notes are those on which the auditor expresses an opinion as to whether the information is presented in conformity with generally accepted accounting principles (GAAP). For FY 2007, for the first time, the GAO issued an unqualified or “clean” opinion on the SOSI.

A17. The SOSI is accompanied by RSI that provides the following information:

- (a) the projected annual cash flows – both inflows and outflows – in nominal dollars for at least every fifth year in the projection period,
- (b) the relationship of the total cash outflow and net receipts⁴⁷ to taxable payroll and GDP, and
- (c) sensitivity analysis for the most significant individual assumptions.

⁴⁵ See SFFAS 26, paragraphs 5-6.

⁴⁶ The terms “basic financial statements” and “principal financial statements” have been used synonymously in federal accounting. See SFFAS 25, paragraph 34.

⁴⁷ Net receipts are cash inflows from all sources less net interest on intragovernmental borrowing/lending.

A18. The SOSI, notes and related RSI are program specific. No government-wide projections are provided. While social insurance programs are presently a significant part of an assessment of fiscal sustainability, the Board believes that the context provided by government-wide projections is essential to meeting fiscal sustainability reporting objectives.

The Trustees of the Social Security and Medicare Trust Funds

A19. The two largest programs reported in the SOSI are Social Security and Medicare. Each year, the Trustees of the Social Security and Medicare trust funds report on the current and projected financial status of the two programs. There are six trustees: the Secretaries of the Treasury (managing trustee), Health and Human Services, and Labor; the Commissioner of the Social Security Administration, and two public trustees who are generally appointed by the President and confirmed by the Senate for a 4-year term. By law, the public trustees are members of two different political parties.

A20. The annual Trustees report addresses the trust funds that Congress established in the U.S. Treasury to account for all program income and disbursements. Social Security and Medicare taxes, premiums, and other income are credited to the funds. Disbursements from the funds can be made only to pay benefits and program administrative costs.

A21. The Department of the Treasury invests program revenues not needed in the current year to pay benefits and administrative costs in special non-marketable securities of the U.S. Government on which a market rate of interest is credited. Thus, the trust funds represent the accumulated value, including interest, of all prior program annual surpluses and deficits, and provide automatic authority to pay benefits.

A22. The annual reports provide short-range (10-year) and long-range (75-year) projections for all Social Security and Medicare funds. Estimates are based on current law and assumptions about factors that affect the income and outgo of each trust fund. Assumptions include economic growth, wage growth, inflation, unemployment, fertility, immigration, and mortality, as well as factors relating to disability incidence

⁴⁹ A Summary of the 2007 Annual Reports, Social Security and Medicare Boards of Trustees, pages 3-6. Available at: <http://www.ssa.gov/OACT/TRSUM/trsummary.html>.

and the cost of hospital, medical, and prescription drug services.

A23. Because the future is inherently uncertain, three alternative sets of economic and demographic assumptions are used to show a range of possibilities. The intermediate assumptions reflect the Trustees' best estimate of future experience. The low-cost alternative is more optimistic for trust fund financing, and the high-cost alternative is more pessimistic; they show trust fund projections for more and less favorable economic and demographic conditions for trust fund financing than the best estimate. The assumptions are reexamined each year in light of recent experience and new information about future trends, and are revised as warranted. In general, greater confidence can be placed in the assumptions and estimates for earlier projection years than for later years. The statistics and analysis presented in the Summary of the annual Trustees' Reports for Social Security and Medicare are based on the intermediate assumptions.⁴⁹

What would this proposal add to existing reporting?

A24. This proposal adds to existing reporting in the CFR by proposing requirements for:

- (a) a primary summary display of comprehensive long-term projections for all federal government receipts and spending, and
- (b) narrative and graphics that will help readers to understand the long-term projections, for example, by explaining the significant factors that are driving projected trends, by illustrating trends graphically, and by providing context for the information provided.

Assumptions

Limitations of "Current Law" Assumptions

A25. 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 levels of spending and taxation.

A26. Although current law is a reasonable starting point in selecting policy assumptions, a simple projection of "current law" would not always reflect current levels of benefits, services or taxation. The Board's proposal includes central guidance in selecting policy assumptions but acknowledges the role of judgment in filling voids in current law or departing from current law provisions.

- A27. Major provisions of current law often do not extend far 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 (see note 23) programs are subject to authorizing legislation that expires in the near future. For example, the legislation authorizing several mandatory programs (for example, Food Stamps, student assistance for higher education and agricultural price supports) expires and would require legislative action for the programs to continue past the expiration date.
- A28. Current law may contain a provision that restricts 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 Funds, respectively, plus inflows of **earmarked revenues**. However, current law does not provide for any specific reductions in Social Security scheduled benefits or Medicare reimbursement rates that would occur due to lack of funding. Thus, current law does not address what will happen when the trust fund balances are exhausted, although this event may reasonably be expected to occur.⁵⁰
- A29. Current law also may include tax provisions (for example, tax cuts) that expire within several years, along with a historical trend of extending those tax provisions before they expire — but only for a short period, generally one year. In such situations, “current law” would indicate that the tax provisions will expire on schedule, while a projection based upon current levels of taxation, and reasonable expectations based on recent historical trends may indicate that the tax provisions will be extended.

Fiscal Sustainability Task Force Input Regarding Policy Assumptions

- A30. A majority of the task force technical experts agreed that policy assumptions for the primary summary display that are consistent with current levels of federal benefits, 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

⁵⁰ According to the 2007 Trustees Reports, the Social Security Trust Fund is expected to be exhausted in 2041, and Medicare’s Hospital Insurance Trust Fund is expected to be exhausted in 2019. For the first time, a “Medicare funding warning” was triggered in 2007, signaling that non-dedicated sources of revenues- primarily general revenues- will soon account for more than 45 percent of Medicare’s outlays. By law, this warning requires that the President propose, and the Congress consider, remedial action. However, until remedial action is taken, it is difficult to determine how to project future spending for Medicare. A similar situation exists for Social Security, although the amounts are smaller and the expected date for trust fund exhaustion is much further in the future.

they come due.

- A31. 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 Funds- see paragraph A28), 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.
- A32. 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.
- A33. A recent report issued by the GAO⁵¹ illustrates the tension between choosing current law versus current level of services and taxes. The report primary displays 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.
- A34. The GAO’s approach to show 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 communications 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.

⁵¹ *The Nation’s Long-Term Fiscal Outlook* August 2007 Update (GAO-07-1261R).

⁵³ “Current levels” as defined in this proposed Statement is not equivalent to levels measured in dollars. In

- A35. The term “current policy” as defined in this Statement is not intended to be used as the title for any display, but rather as a short term to assist the overall readability of this exposure draft. A short term is useful, particularly in sentences where the term “current levels of benefits, services and taxation” would make the sentence difficult to read and understand.
- A36. A majority of the technical experts agreed with the substance of the proposed guidance in the ED - that the primary summary display should present current levels of spending and taxation⁵³ - but noted that it is difficult to coin a term to refer to this concept without implying something else. A majority of the technical experts recommended the term “modified current law” as being preferable to the term “current policy.” However, the Board believes that substituting the term “modified current law” for “current policy” throughout the exposure draft would make many sentences unclear or misleading, because the emphasis on continuing current levels of benefits, services and taxation would be lost.

Basis for the Board’s Proposal regarding Policy Assumptions

- A37. The Board believes that the most useful reporting on fiscal sustainability would illustrate the long-term effects of current levels of benefits or services and tax revenues. However, there are numerous ways of projecting current levels 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.⁵⁴ (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 non-linear pattern.)

the broader context of current policy, current levels are 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).

⁵⁴ 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>.

- A38. The Board believes that the details of the assumptions for projecting “current level of service” or “current level of taxation” should be left to the judgment of the preparer and auditor. Regardless of which assumptions are used for a primary presentation, the narrative should include an explanation of the assumptions used and alternative scenarios. Readers will have access to important explanatory material.
- A39. Current law may not address events that may reasonably be expected to occur (for example the exhaustion of the Medicare Hospital Insurance Trust Fund). As noted previously, although current law limits spending to the amounts available in the trust funds and current earmarked revenue, current law does not provide for any specific reductions in benefit payments or reimbursement rates due to lack of funds. Thus, current law is inconsistent and does not provide an answer.
- A40. When current law is inconsistent, the Board believes that in selecting assumptions, the projections should indicate current levels of government benefits, services and taxation, and should answer the question “what if current levels 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 A39, the narrative would explain what percentage of Medicare reimbursements could not be paid if legislation does not provide for maintaining current levels).

Economic and Demographic Assumptions

- A41. Economic and demographic assumptions are somewhat broader in scope than policy assumptions, since they include such factors as population demographics and economic growth. The elements of economic and demographic assumptions are generally influenced more by a variety of external factors than by direct legislative impact.
- A42. There was no consensus from the task force technical experts for economic and demographic projections, although none objected strongly to either CBO, OMB or the economic and demographic assumptions currently used for the Social Security and Medicare portions of the Statement of Social Insurance (SOSI).
- A43. Table 1 displays representative elements of CBO and OMB assumptions, with a comparison with the assumptions currently used for Social Security and Medicare in the Statement of Social Insurance.

Table 1: Major Elements of CBO and OMB Economic and Demographic Assumptions, Compared with Assumptions used in the Statement of Social Insurance (SOSI)

	CBO Baseline (2007-2017)	OMB Stewardship Reporting	SOSI assumptions for Social Security and Medicare
Economic/Demographic Assumptions:			
Consumer Price Index inflation	2.5% in 2007; average 2.2% per year for 2008-2017	2007-2017: Administration projections used for the budget, constant thereafter ⁵⁵	Intermediate Trustees Reports assumption: 2.8%
Population demographics (birth/death/immigration)	Intermediate Trustees reports assumptions	2007-2017: Administration projections used for the budget, Intermediate Trustees Reports assumptions thereafter	Intermediate Trustees Reports assumptions
Real GDP growth ⁵⁶	Average 2009-2012: 2.9% 2013-2017: 2.5%	2007-2017: Administration productivity projections used for the budget period, constant thereafter at 2.3%, with Trustees Intermediate assumptions for labor force growth	Intermediate Trustees Reports assumption: 1.7%

Sources:

CBO Baseline: *The Budget and Economic Outlook: Fiscal Years 2008 to 2017*, January 2007.

Available at:

<http://www.cbo.gov>.

OMB Stewardship Reporting: Chapter 13, "Stewardship" of *Analytical Perspectives*, U.S. Budget, FY 2008

SOSI/FR: FY 2006 Financial Report of the U.S. Government

⁵⁵ After that, projected holding constant inflation, interest rates and unemployment at the levels assessed for 2017.

Details of OMB projections:

Real GDP growth: average 3% for 2008-2012 (3.1% in 2008, declining to 2.9% in 2012)

CPI inflation: average 2.42% for 2008-2012 (2.6% in 2008, declining to 2.3% in 2012)

⁵⁶ There are two major components of projections for real GDP growth: productivity (real GDP per capita) and labor supply. While productivity growth is typically assumed to be constant, labor force growth varies over time with the demographic assumptions.

A44. One of the technical experts noted that there are several advantages to using the economic and demographic assumptions used for Social Security and Medicare in the preparation of the SOSI:

- Since the SOSI is now a basic financial statement, auditors are bound by generally accepted government auditing standards to examine and assess the reasonableness of the assumptions. Since the SOSI is generally derived from the Trustees Report, the result is that the assumptions used in the Medicare and Social Security Trustees Reports are subject to audit.
- In contrast, the CBO and OMB economic and demographic assumptions are not subject to audit.
- If the economic and demographic assumptions used for Social Security and Medicare in the preparation of the SOSI are used, there would be consistency between the economic and demographic assumptions used for the SOSI and for the Fiscal Sustainability Reporting.

A45. Statement of Federal Financial Accounting Standards (SFFAS) 17, *Accounting for Social Insurance*, does not prescribe specific economic or demographic assumptions for Social Security and Medicare in the SOSI. Accordingly, the Board concurred 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. In addition, the narrative should include information about how different assumptions would impact the projections.

International Perspective

A46. Other nations have issued reports addressing “fiscal sustainability.” While a precise definition has not been developed, countries generally describe fiscal sustainability in a manner consistent with the following:
Fiscal sustainability is the government’s ability to manage its finances so it can meet its spending commitments, both now and in the future. It ensures future generations of taxpayers do not face an unmanageable bill for government services provided to the current generation.⁵⁷

⁵⁷ Australia, Intergenerational Report 2002-3, page 2. Available at: http://www.budget.gov.au/2002-03/bp5/html/02_BP5Overview.html#P23_3643

_Primary Summary Display

A47. The primary summary display is a financial statement presenting present value amounts in dollars as well as in relation to the present value of GDP for the projection period. The primary summary display will be resented as RSI for a period of three years and will then become a basic financial statement.

A48. Elements considered for inclusion as mandatory requirements for the primary summary display were:

- (a) Total projected spending and receipts
- (b) The total of all projected receipts and spending (including debt held by the public) presented as the Fiscal Imbalance
- (c) Amounts displayed as both (present value) dollars and percent of GDP
- (d) Fiscal Imbalance as a percent of total projected receipts and total projected spending
- (e) Year-to-Year (for example, Side-by-Side) comparison with prior year
- (f) "Net Change" from year-to-year as a separate column
- (g) Disaggregation of major programs funded by earmarked funds (Social Security and Medicare Part A)
- (h) Range information

A49. A majority of the members decided that (a) through (f) above should be included as minimum requirements for the primary summary display, with the format of the elements left to the discretion of the preparer. An illustrative statement is included in the Appendix.

A50. The Board concluded that disaggregation beyond the categories Social Security and Medicare for receipts and Social Security, Medicare and Medicaid for spending would be left to the discretion of the preparer. In addition, the Board decided to require narrative and graphics regarding the possible range of outcomes but not to require presentation of the range on the face of the primary summary display. Such additional items of information can be added by the preparer but are not required.

Per Capita Measures

A51. 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.

A52. 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 that a narrative 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 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.

A53. After a discussion of the above issues, the Board decided not to include per capita measures in the proposed reporting requirements.

Time Horizon for Projections

A54. 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.

A55. A majority of the communications experts believe that information for both finite and infinite horizon projections should be provided to readers, but not necessarily both within a primary display.

A56. Below are arguments for the finite and infinite horizon projection periods for the primary summary display that the Board discussed.

A57. 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 huge 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.⁵⁸

A58. 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"

⁵⁸ *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](http://ntj.tax.org/wwtax/ntjrec.nsf/5DC000487120304885256D8E0054C858/$FILE/Lee.pdf)

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.

A59. The Board believes that the advantages of both finite and infinite horizons are sufficiently compelling that both finite and infinite horizon information should be provided, although only one projection period should be used for the primary summary display. Whichever type of projection period is selected for the primary display, the other type of projection period should be presented with the required narrative and graphics.

A60. The Board also believes that one of the projection periods used (in either the primary summary display or the narrative section) should be consistent with that used for SOSI. This will 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 primary summary display or the required narrative.

The Concept of Fiscal Imbalance

A61. The Board considered two potential “bottom line” measures for the primary summary display: fiscal imbalance and fiscal gap.

- (a) The fiscal imbalance is the net present value of existing federal debt plus projected spending,⁵⁹ minus projected receipts. The fiscal imbalance illustrates the amount that would be necessary to balance projected receipts, projected spending, and repayment of debt for a stated projection period.

- (b) The fiscal gap is the change in spending or revenue that would be necessary to maintain federal debt as a constant percentage of GDP.

A62. Several of the Task Force technical experts believe 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 spending less projected receipts. If

⁵⁹ Since interest is factored into the present value calculation, the fiscal imbalance as a share of spending is expressed as a share of spending excluding interest. See FAQ 4 in Appendix C of the draft ED.

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. That is not necessary for continued solvency provided the economy is expected to last longer than 75 years. A positive level of debt is fiscally acceptable at the end of the projection period, provided it is not too big or growing too fast.

A63. A different measure, often called the fiscal gap, allows for a positive level of debt at the end of the forecast horizon, but it generally sets a limit arbitrarily on how big that debt should be relative to the economy, and shows how much more receipts (or spending cuts) would be needed to achieve that target.

A64. Any measure that provides for a positive level of debt at the end of the projection period would also need to state a limit as to the size and growth rate of the debt. In the U.S., 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 historically has been frequently raised. Since the Board has no basis for selecting a debt-to-GDP limit or goal, the Board selected the “fiscal imbalance” concept rather than the fiscal gap concept, for the primary summary display.

Appendix B: Example Formats and Illustrations

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

Primary Summary Display
Long-Term Fiscal Projections for the U.S. Government

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

Amounts projected to 75 years

	As of January 1, 2008 (Current Year)		As of January 1, 20XX (Prior Year)		Change from Prior Year	
	PV Dollars (in trillions)	% GDP*	PV Dollars (in trillions)	% GDP*	PV Dollars (in trillions)	% GDP*
Receipts						
Medicare	\$ 10.7	1.5%	\$ XX.X	X.X%	\$ X.X	X.X%
Social Security	36.3	5.1%	XX.X	X.X%	X.X	X.X%
All other receipts	91.0	12.8%	XX.X	X.X%	X.X	X.X%
Total Receipts	\$ 137.9	19.4%	\$ XX.X	X.X%	\$ X.X	X.X%
Spending						
Medicare	\$ 44.8	6.3%	\$ XX.X	X.X%	\$ X.X	X.X%
Medicaid	15.6	2.2%	XX.X	X.X%	X.X	X.X%
Social Security	40.5	5.7%	XX.X	X.X%	X.X	X.X%
Rest of Federal government**	73.9	10.4%	XX.X	X.X%	X.X	X.X%
Sub-total- Spending	\$ 174.9	24.6%	\$ XX.X	X.X%	\$ X.X	X.X%
Add: Debt Held by the Public	5.0	.7%	XX.X	XX.X%	XX.X	XX.X%
Total Projected Spending plus Repayment of Debt	\$ 179.9	25.3%	\$ XX.X	XX.X%	\$ XX.X	XX.X%
Fiscal Imbalance***	\$ 41.9	5.9%	\$ XX.X	X.X%	\$ X.X	X.X%
			As of January 1, 2008 (Current Year)	As of January 1, 20XX (Prior Year)	Change from Prior Year	
Fiscal Imbalance as a percentage of projected receipts			30.9%	XX.X%	X.X%	
Fiscal Imbalance as a percentage of projected spending			23.9%	XX.X%	X.X%	

Note: Amounts are estimated based upon guidance for selecting assumptions provided in this Statement. Receipts and spending include repayment of Social Security Trust Fund (estimated 0.3% of GDP). Fiscal Imbalance is calculated as a percentage of projected receipts and spending net of intragovernmental receipts and spending estimated at 0.3% GDP.

Descriptions of the following columns/line items should appear directly below the primary summary display:

* 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 from the Social Security and Medicare Trust Funds should be included in Receipts for Social Security and Medicare, and Outlays for Rest of government. (If material, these amounts should be displayed on separate sub-lines.)

*** The fiscal imbalance is the amount of present value dollars that would be necessary to balance future outlays and receipts and repay existing debt.

Accompanying Narrative and Graphics

Additional narrative and graphics: see page.46.

Additional Information

The following additional information should supplement the summary display.⁶⁰

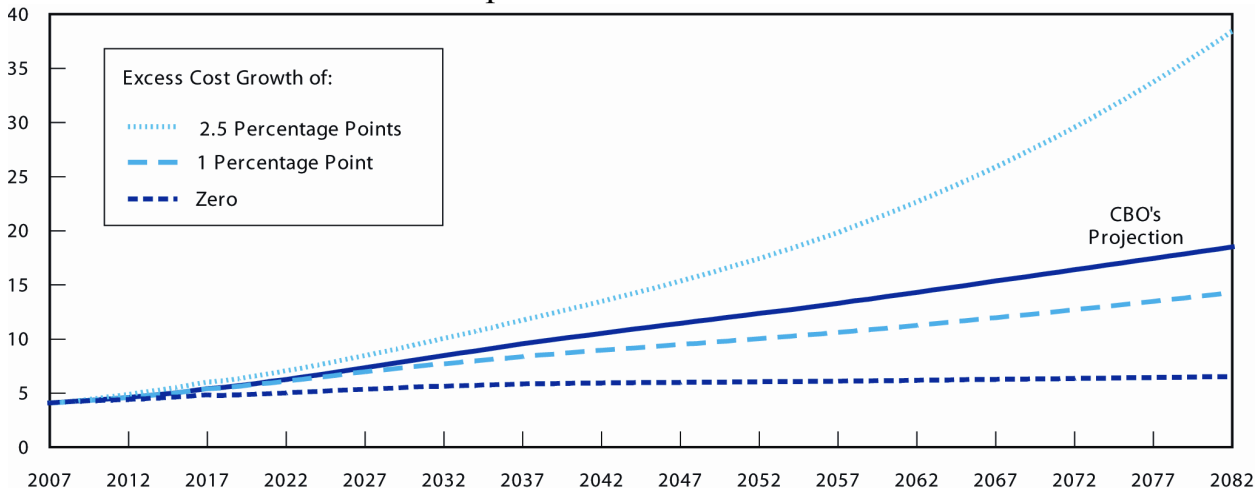
1. Rising Cost of Health Care

If the rising cost of federal spending on health care is a major factor in the long-term spending projections, it may be reported as follows:

- (a) If the growth in health care costs exceeds the growth in GDP, the 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 costs would exceed the resources that can be extracted from the economy.
- (b) A range encompassing three alternative scenarios (baseline, high and low estimates) along with a potential “most likely” trajectory if different from “intermediate,” might be presented in a graphic as a percentage of GDP. The graphic could use the example format in Illustration 1a on the following page.

Illustration 1a: Range of Alternative Assumptions Graphic

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/>.

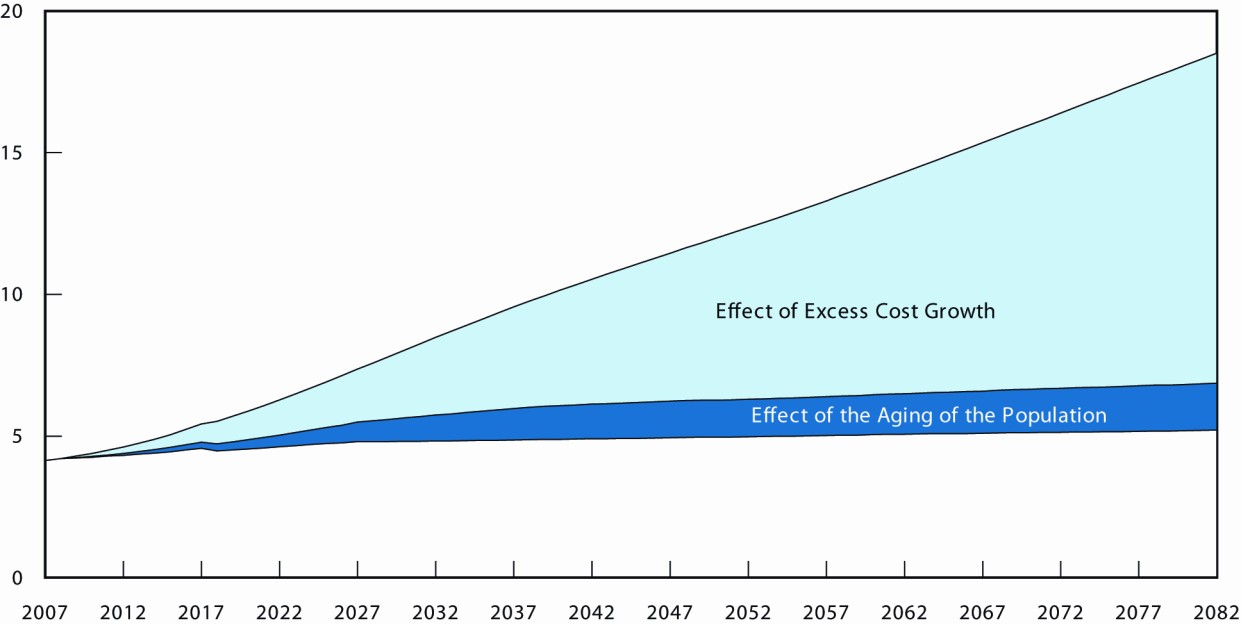
⁶⁰ See paragraphs 40-48 of this standard.

A narrative might describe the assumptions involved in the low, intermediate and high projections, and if applicable a fourth, “most likely” projection.

In addition, a graphic might display the relative contribution of two or more major cost drivers. For example, Illustration 1b on the following page displays the effect of the aging of the population on Federal spending on Medicare and Medicaid versus excess cost growth.⁶¹

Illustration 1b: Relative Contribution of Two Major Cost Drivers

Sources of Growth in Projected Federal Spending on Medicare and Medicaid



Source: Congressional Budget Office, *Op. Cit.*, page 14.

⁶¹ 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.

2. Demographic Trends

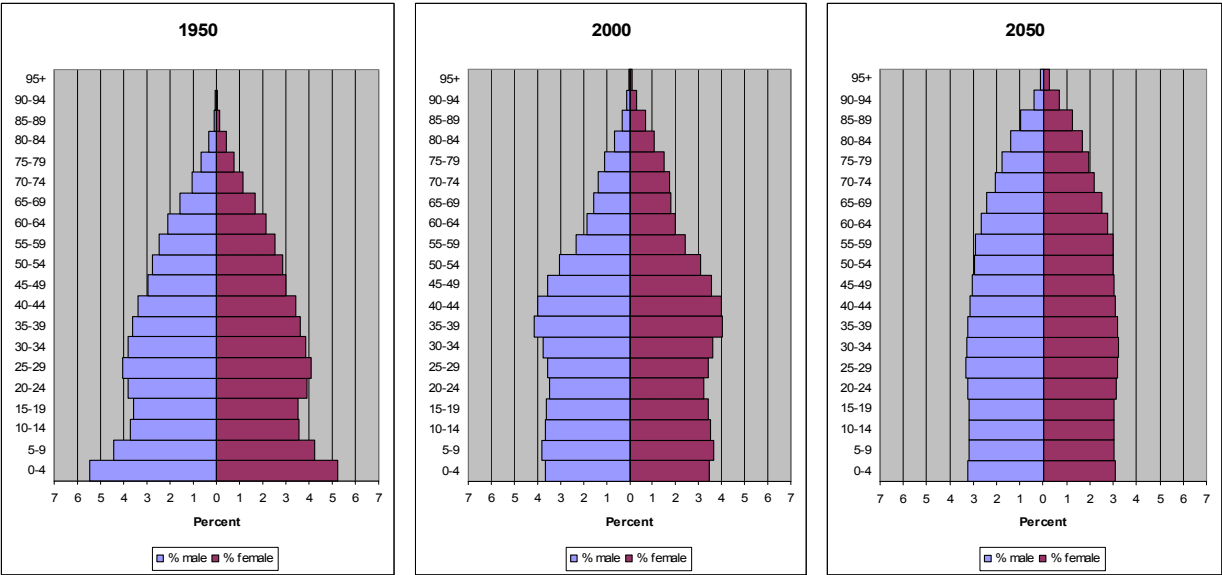
The narrative might describe demographic trends and briefly explain the major drivers of change in demographic trends, for example, trends in longevity and birth rates, and refer the reader to more extensive coverage of the topic in other existing reports, for example, the Social Security and Medicare 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.

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 at least 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 at least 50 years.

Illustration 2: Age-Gender Pyramid

The Changing Shape of the United States’ Population



Source: Social Security Administration, Area Population Statistics.

Alternatively, simple age demographics rather than workforce participation could be used, (i.e., “over 64 instead of “retired,”) provided that they are used consistently.⁶²

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.

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 U.S., and developed nation(s) projected to have fewer retirees per worker.

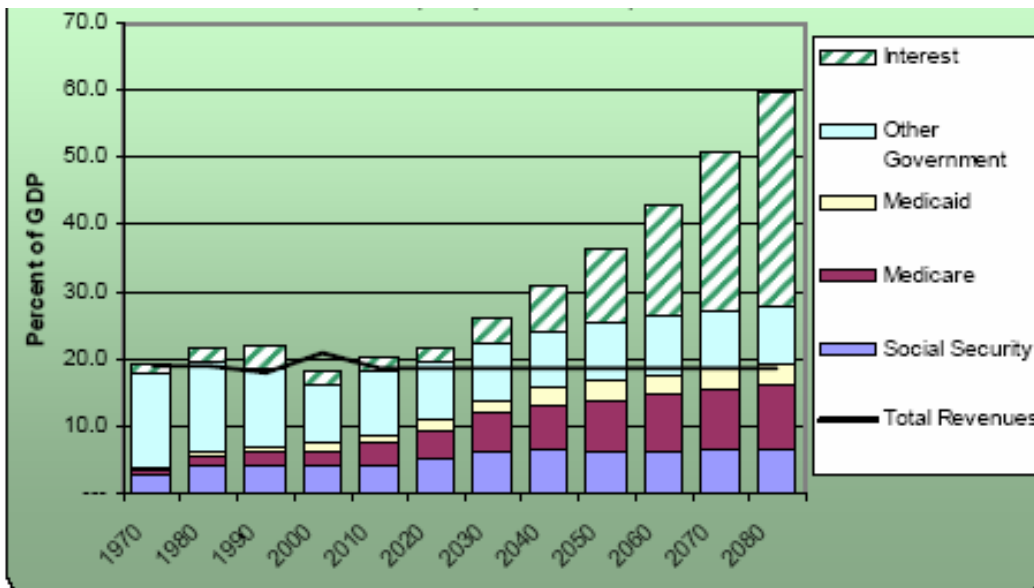
⁶² The European Commission defines the total dependency ratio as the “Population under 15 and over 64 as a percentage of the population aged 15-64.” *European Economy: Special Report 1/2006*, page 313.

3. Relationship of Projected Receipts and Spending

The narrative section could include a graphic of the relationship between projected receipts and spending for a progression of years beginning at least 20 years before the current year and future years projected to at least 75 years after the current year.

Below is an example.

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



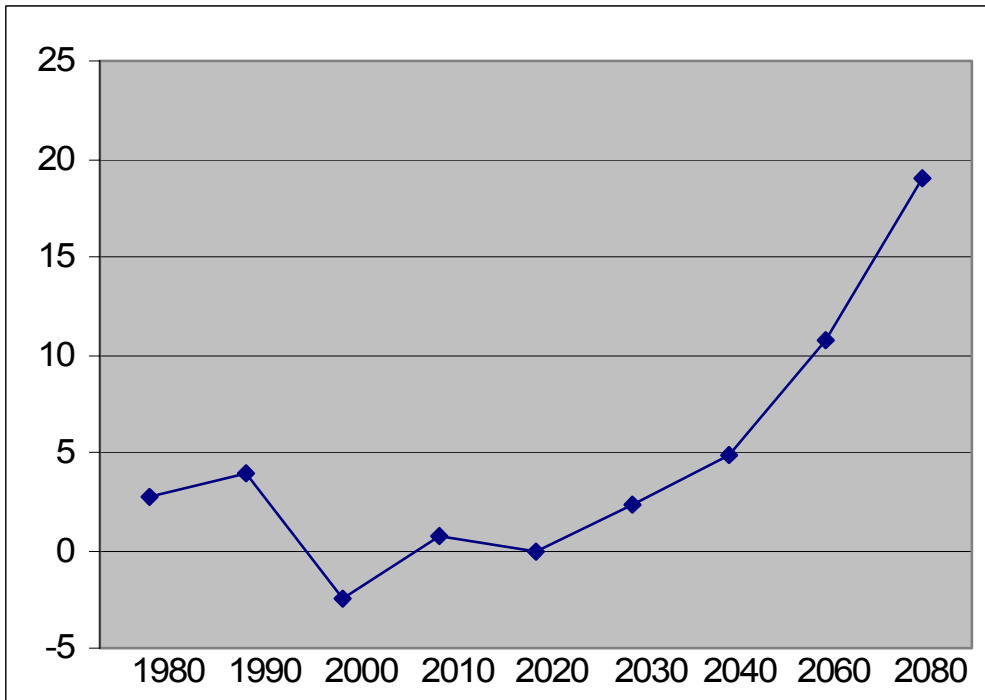
Source: FY 2007 *Financial Report of the U.S. Government*, Chart H, page 18. Available at <http://fms.treas.gov/fr/index.html>.

4. Trends in Deficit Spending

The trends in deficit spending could be graphically displayed as a percentage of GDP for a progression of years beginning at least 20 years before the current year and future years projected to at least 75 years after the current year.

Illustration 3a: Projected Deficit/Surplus as a Percentage of GDP

Projected Deficit (Surplus) as a Percentage of GDP

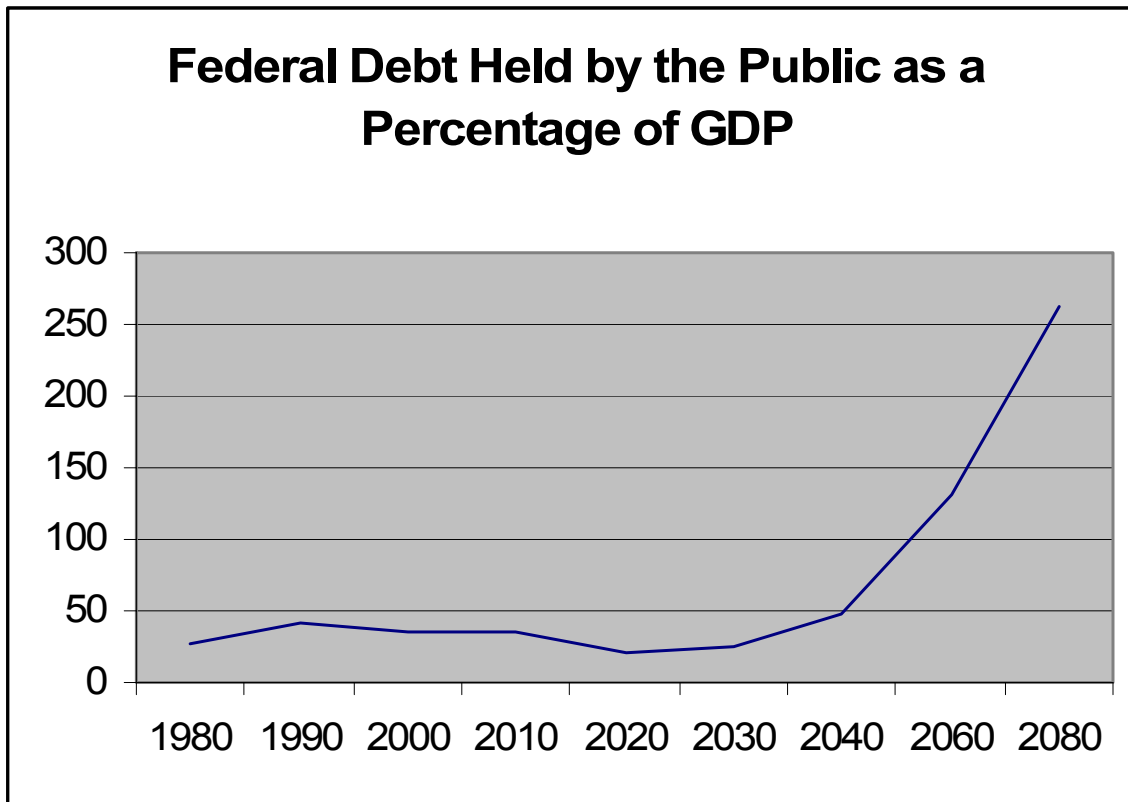


Data source: Office of Management and Budget, Table 13-2, Chapter 13, "Stewardship," *Analytical Perspectives*, FY 2008 Budget.

5. Trends in Treasury Debt

A graphic could display the projected trends in Treasury debt as a percentage of GDP, for a progression of years beginning at least 20 years before the current year and future years projected to at least 75 years after the current year. This graphic could illustrate the assumption that increased borrowing would be substituted for increased taxes and/or reduced spending.

Illustration 3b- Increase in Federal Debt Held by the Public

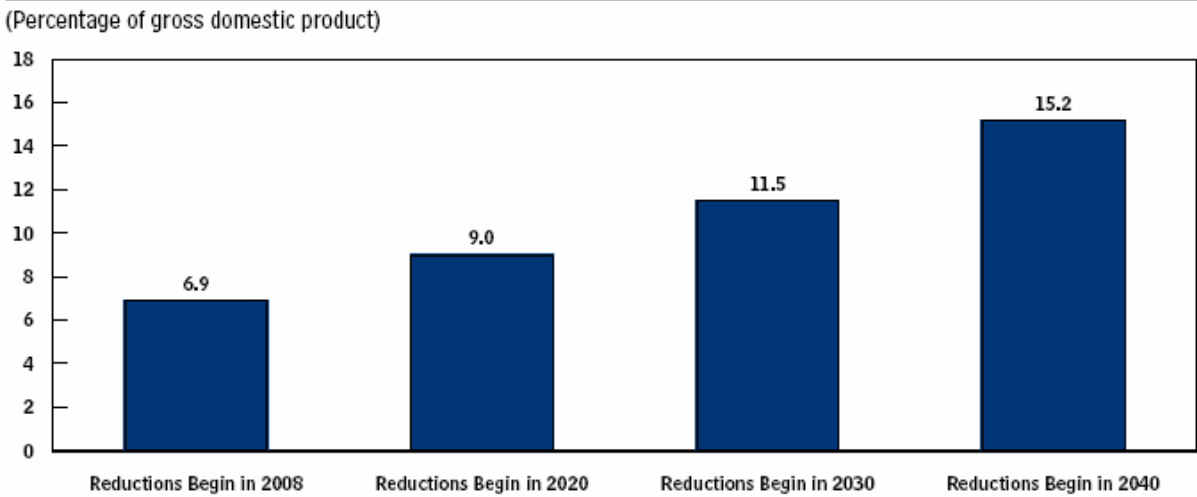


Data source: Office of Management and Budget, Table 13-2, Chapter 13, "Stewardship," *Analytical Perspectives*, FY 2008 Budget.

6. Impact of Delaying Action

If a fiscal imbalance (shortfall) is indicated by the projections, the narrative section would include a graphic that shows the likely impact of delaying action. Two graphics could display the progressive increase in the change that would be needed to close the fiscal imbalance by (a) reducing spending and alternatively (b) by increasing taxes. Alternatively, either (a) or (b) could be displayed in a graph and the narrative describe the impact of delay on the item not displayed. An example of graphic presentation of (a) is shown below.

Reductions in Noninterest Spending Needed to Close the Fiscal Gap in Various Years Under CBO’s Alternative Fiscal Scenario



Source: Congressional Budget Office.

Notes: The fiscal gap is a measure of federal shortfalls over a given period. It represents the extent to which the government would need to immediately and permanently either raise tax revenues or cut spending—or do both, to some degree—to make the government’s debt the same size (in relation to the economy) at the end of that period as it was at the beginning.

The alternative fiscal scenario deviates from CBO’s baseline projections during the next 10 years, incorporating changes in policy that are widely expected to occur and that policymakers have regularly made in the past.

Source: Congressional Budget Office, *The Long-Term Budget Outlook*, December 2007, Table 1-3, page 16.

Appendix C: FAQs

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: $GDP = \text{consumption} + \text{investment} + \text{government spending} + (\text{exports} - \text{imports})$

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.

FAQ 4. What is present value?

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 annual interest, how much do I need to put into the bank today in order to have \$100 one year from today?” Clearly, the amount you would need today would be less than \$100.

In present value calculations, the further out in the future the needed amount, the smaller is the amount that 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 in 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 is the fiscal imbalance measure?

The fiscal imbalance illustrates the amount of present value dollars that would be necessary to balance future spending and receipts and repay existing debt. .

FAQ 6. What are projections?

Projections are not forecasts or predictions; they are designed to ask the question “what if?” For example, possible “what ifs” may include that tax cuts are (a) allowed to expire or (b) be extended. 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 7. What factors affect projections?

Projections are affected by three kinds of assumptions:

policy assumptions, economic assumptions and demographic assumptions.

Policy assumptions address the level of services provided by the federal government as well as the framework for assessing taxes and fees. Policy assumptions include projected changes in the framework for assessing taxes and fees that will be collected, and projected spending rules (for example, benefit formulas) for both mandatory and discretionary programs.

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

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

Projections are also affected by uncertainty. Economic and demographic assumptions are generally expressed in a range of possible results. Policy assumptions are generally expressed by providing alternative scenarios that show more than one possible broad direction in which policy might proceed.

FAQ 8. What is the difference between earmarked revenue and other revenue, and what is the nature of **federal trust funds**?

“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.” Examples include the Social Security Trust Fund, the Medicare Trust Funds, the Unemployment Trust Fund and the Highway Trust Fund. The distinction of whether an earmarked fund is categorized in the budget as a “special fund” or a “trust fund” is 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 use of the term “trust fund” for earmarked funds except when referring to the legal title of the fund, and requires the following note disclosure to explain the nature of federal trust funds:

Investments in Treasury securities for earmarked funds should be accompanied by a note that explains the following issues:

- 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 redeems its Treasury securities to make expenditures, the U.S. Treasury will finance those expenditures in the same manner that it finances all other expenditures.⁶³

⁶³ SFFAS 27, paragraph 27.

Appendix D: Abbreviations

CBO	Congressional Budget Office
CFR	Consolidated Financial Report of the U.S. Government
FAQ	Frequently Asked Question
FASAB	Federal Accounting Standards Advisory Board
FY	Fiscal Year
GAO	Government Accountability Office (formerly, General Accounting Office)
GDP	Gross Domestic Product
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: Glossary

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.

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 for the continuing operation of all federal programs that are not “**mandatory**.” “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 legislation. For additional information, see *A Glossary of Terms Used in the Federal Budget Process*, GAO-05-734SP.

Earmarked Revenue – 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 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 to explain the nature of federal trust funds:

Investments in Treasury securities for earmarked funds should be accompanied by a note that explains the following issues:

- 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 redeems its Treasury securities to make expenditures, the U.S. Treasury will finance those expenditures in the same manner that it finances all other expenditures.⁶⁴

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 Gross Domestic Product).

Federal “trust funds” - Earmarked revenue is generally accounted for in the budget separately, in accounts categorized as “special funds” or “trust funds.” Examples include the Social Security Trust Fund, the Medicare Trust Funds, the Unemployment Trust Fund and the Highway Trust Fund. The distinction of whether an earmarked fund is categorized in the budget as a “special fund” or a “trust fund” is 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 use of the term “trust fund” for earmarked funds except when referring to the legal title of the fund, and requires the following note disclosure to explain the nature of federal trust funds:

Investments in Treasury securities for earmarked funds should be accompanied by a note that explains the following issues:

- 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 redeems its Treasury securities to make expenditures, the U.S. Treasury will finance those expenditures in the same manner that it finances all other expenditures.⁶⁵

Fiscal Gap - The fiscal gap is the change in spending or revenue that would be necessary to maintain public debt as a constant percentage of GDP.

⁶⁴ SFFAS 27, paragraph 27.

⁶⁵ SFFAS 27, paragraph 27.

Fiscal Imbalance -The fiscal imbalance is the net **present value** of existing federal debt plus projected spending⁶⁶ minus projected receipts. The fiscal imbalance illustrates the amount that would be necessary to balance projected receipts, projected spending, and repayment of debt for a stated projection period. The fiscal imbalance as of a stated valuation date⁶⁷ may be expressed as:

- (a) a summary amount in present value dollars,
- (b) a share of the present value of the **Gross Domestic Product (GDP)**⁶⁸ for the projection period, and/or
- (c) a share of the present value of projected receipts or projected spending.⁶⁹

Fiscal Sustainability Reporting – In federal financial reporting, “Fiscal Sustainability Reporting” is the short term for “Comprehensive Long-Term Fiscal Projections and Accompanying Graphics and Narrative in the Financial Report of the U.S. Government.”

Gross Domestic Produce (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:

$$GDP = \text{consumption} + \text{investment} + \text{government spending} + (\text{exports} - \text{imports})$$

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

Policy Assumptions - Policy assumptions address the level of services provided by the federal government for both mandatory and discretionary spending as well as the framework for assessing taxes and fees.

⁶⁶ Since interest is factored into the present value calculation, the fiscal imbalance as a share of spending is expressed as a share of spending excluding interest. See FAQ 4 on page 54.

⁶⁷ See requirement for valuation date in paragraph 32.

⁶⁸ 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.

⁶⁹ Showing the fiscal imbalance as a ratio of the present values of total projected receipts, alternatively total projected spending, is useful to illustrate by how much projected receipts or spending would have to be changed in order to reduce the fiscal imbalance to zero. However, some policy adjustments may alter both the numerators and denominators of those ratios, thereby compromising the usefulness of ratio comparisons across fiscal projections under different policies.

Present Value - 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 annual interest, how much do I need to put into the bank to have \$100 one year from today?” Clearly, the amount you would need today would be less than \$100.

Projections – A projection is the calculation of future data based upon the application of trends to present data. Projections are not forecasts or predictions; they are designed to ask the question “what if?” For example, possible “what ifs” may include that tax cuts are (a) allowed to expire or (b) be extended. Projections are useful in order to display alternative future scenarios, but it is important to clearly explain the nature of the information being presented.

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April 4, 2008



Federal Accounting Standards Advisory Board

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

Statement of Federal Financial Accounting Standards XX

Exposure Draft

Written comments are requested by August 15, 2008

May 9, 2008

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Staff draft- Do Not Circulate

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.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an Exposure Draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

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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Federal Accounting Standards Advisory Board

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May 9, 2007

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards entitled, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*. Specific questions for your consideration appear on page 7 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by August 15, 2008.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

We have experienced delays in mail delivery due to increased screening procedures. Therefore, please provide your comments in electronic form. Responses in electronic form should be sent by e-mail to fasab@fasab.gov. If you are unable to provide electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow up by mailing your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. A public hearing for this exposure draft has been scheduled at 9:00 AM on August 20, 2007 in Room 7C13 at the GAO Building, 441 G Street, NW, Washington, DC.

Notice of the date and location of this public hearing also will be published in the Federal Register and in the FASAB's newsletter.

Tom L. Allen
Chairman

Executive Summary

What is the Board Proposing?

The Board is proposing a summary display of comprehensive long-term fiscal projections as well as specific narrative and graphic displays for the annual consolidated financial report of the U.S. Government (CFR).

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A primary summary display would present fiscal projections for all activities of the federal government and calculate a “bottom line” fiscal imbalance (the amount necessary to balance future spending and repay existing debt).

The narrative and graphics would serve a critical role of making economic concepts and projections accessible to a variety of audience segments, and in helping readers understand long-term projections by illustrating trends graphically and by providing context for the information provided.

The narrative would provide a “plain English” explanation of present value and interest rates used to calculate present value.

Narrative and graphics would explain and illustrate the major factors that are expected to have a significant impact upon future receipts and spending of the federal government. Current examples of major factors are the rising cost of health care and demographic trends.

Narrative and graphics would explain and illustrate historical and projected trends for a progress of years for:

- (a) the relationship between projected receipts and spending
- (b) projected deficits or surpluses, and
- (c) projected Treasury debt as a share of gross domestic product (GDP).

If a fiscal imbalance is indicated by the projections, the narrative section would include a graphic that shows the likely impact of delaying corrective action.

The narrative would explain the significance of the graphics and put the information into context. Examples of context include but are not limited to:

- (a) comparison of the data/trend with that of other developed nations.
- (b) comparison of the data/trend with everyday life, for example, spending in excess of income over a long period of time, and/or
- (c) 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.

How would this proposal contribute to meeting the federal financial reporting objectives?

This proposal supports the Stewardship Objective (Objective 3):

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.¹

In particular, this proposal directly addresses sub-objective 3B:

Federal financial reporting should provide information that helps the reader to assess whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.²

This proposal would provide specific reporting requirements that the Board believes will be useful to readers in assessing the potential future impact of current levels of spending and taxation.

¹ Statement of Federal Financial Accounting Concepts (SFFAC) 1, paragraph 134.
² SFFAC 1, paragraphs 135 and 139.

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Questions for Respondents

The FASAB encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The questions in this section are available in a Word file for your use at www.fasab.gov/exposure.html. Your responses to the Questions for Respondents should be sent by e-mail to fasab@fasab.gov. If you are unable to respond electronically, please fax your responses to (202) 512-7366 and follow up by mailing your responses to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

All responses are requested by **August 15, 2008**.

Q1. This exposure draft proposes reporting that would support FASAB Objective 3, Stewardship, and in particular, Sub-Objective 3B:

Objective 3: 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 SFFAC 1, par. 134.

Sub-Objective 3B: Federal financial reporting should provide information that helps the reader to determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.⁴

More detailed discussion of the reporting objective and the objectives of fiscal sustainability reporting can be found in paragraphs 1 through 8.

Do you believe that the proposed reporting supports the above objectives? If not, please explain why you disagree. Deleted: agree

Q2. In this proposed Statement, projections are prepared not to predict the future, but rather to depict results that may occur under various conditions. Accordingly, projections require assumptions to be made about the future. This exposure draft proposes broad and general guidance for selecting policy, economic and demographic assumptions for long-term projections with a primary focus on the future implications of the continuation of current levels of benefits, services and taxation. The guidance begins at paragraph 18.

Do you believe that the guidance for assumptions is appropriate? If not, please suggest alternative guidance. Please provide the rationale for your response.

Q3. Finite and infinite time horizons for fiscal projections are discussed in the Basis for Conclusions, paragraphs A54 through A59. This exposure draft proposes the following requirements regarding time horizon for projections: (a) the projections presented in the primary summary display should be “sufficient to illustrate long-term sustainability” (for example, traditionally the Social Security program has used a projection period of 75 years for long-term projections) (b) projections for both a finite and an infinite horizon should be provided; one in the primary summary display and the other in the narrative⁵ section, and (c) either the primary display or the narrative section should include projections for Social Security and Medicare based on the time horizon used for long-term projections for Social Security and Medicare in the Statement of Social Insurance (SOSI).

a. Do you believe that the above requirements for time horizons are appropriate to meet the reporting objectives of Fiscal Sustainability Reporting? If not, please explain.

⁴ SFFAC 1, par. 139.
⁵ All narrative and graphics will be presented as Required Supplementary Information (RSI) for a period of three years and subsequently as a required disclosure.

b. Do you believe that there should be a specific time horizon requirement (for example, 75 years) for the primary summary display for Fiscal Sustainability Reporting and/or the SOSI? If so, what time horizon do you believe should be required?

Q4. This exposure draft proposes a primary summary display,⁶ in addition to narrative and graphics. (Description begins at paragraph 35 and an illustrative example of the primary summary display is provided in Appendix B.) The Board has indicated that the primary audiences for the consolidated financial report of the U.S. Government (CFR) are citizens and citizen intermediaries such as journalists and public policy analysts.

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Do you believe that this display would be understandable and meaningful for the primary audiences of the consolidated financial report of the CFR? Please note any changes that you believe should be made to the requirements for a primary summary display.

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Q5. The Board’s mission is to issue reporting requirements for the federal government’s general purpose financial statements, and not to recommend budget policy. This exposure draft proposes a title, for the summary display: “Long-Term Fiscal Projections for the U.S. Government.” An alternative title, “Statement of Fiscal Sustainability,” might imply to some that the Board has established or plans to establish specific rules that define “fiscal sustainability,” and/or budget rules that would result in fiscal sustainability. However, others have indicated that the “plain English” meaning of the words “fiscal” and “sustainability” should be adequate, and that the title “Statement of Fiscal Sustainability” might be more appropriate.

The Board’s working definition of “fiscal sustainability reporting” is explained in the Basis for Conclusions, paragraph A3. The concept of “Financial Condition” is explained in the Basis for Conclusions, paragraphs A7 and A8.

Do you believe that the summary display should be titled:

- a. “Long-Term Fiscal Projections for the U.S. Government”
- b. “Statement of Fiscal Sustainability”
- c. “Statement of Financial Condition.”
- d. A title not listed above (please specify).

Please explain the reasons for your choice.

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Q6. This exposure draft proposes a minimum level of disaggregation for the primary display. For projected receipts, Medicare and Social Security would be

⁶ The primary summary display will be presented as RSI for a period of three years and subsequently as a basic financial statement.

- shown separately from the rest of government. For projected spending, Medicare, Social Security and Medicaid would be shown separately from the rest of government.
- a. Do you believe that the above projections should be disaggregated in the primary summary display? Please explain the basis for your views.

b. Do you believe that additional line items should be disaggregated in the primary summary display? If so, please identify the line items and explain your reasoning.

Q7. This exposure draft proposes that for major factors impacting projected receipts and spending (such as the rising cost of health care), a range (high and low) be reported in the narrative section (see paragraph 45 and illustrative example on page 46).

Do you believe that a range of possible results should also be displayed in the primary summary display? If so, which line item(s) should display a range of results?

Q8. This exposure draft proposes narrative and graphic displays to effectively communicate to the reader historical and projected trends and to help the reader understand the major drivers influencing projected receipts and spending. The requirements begin at paragraph 40 and illustrations begin on page 46.

a. Do you believe that the required narrative and graphics would be useful in helping the reader to understand the information that is reported in the summary display?

b. Are there any items that you believe should be added to, or deleted from, the requirements for narrative and graphics? If so, please explain.

Q9. The Frequently Asked Questions (FAQs) at Appendix C provide a “plain English” explanation of terms and concepts used in long-term projections.

a. Do you find the FAQs helpful?

b. Should the Treasury Department be encouraged to include any of the FAQs in the CFR to promote understandability of the terms and concepts? If so, please specify the FAQs that should be considered for inclusion (and/or exclusion).

Q10. Effective Date and Phased Implementation: This proposed Statement would be effective for periods beginning after September 30, 2009. This proposed Statement would require that the Primary Summary Display and the additional

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Deleted: <#>In this proposed Statement, projections or simulations are prepared not to predict the future, but rather to answer the question “what if.” Accordingly, projections or simulations require assumptions to be made about the future. The Board believes that the most useful projections for assessing the future implications of current levels of benefits, services and taxation are those that are based on current levels, but that alternative projections also would be useful to the reader in assessing the alternatives. This exposure draft proposes broad and general guidance for selecting policy, economic and demographic assumptions for long-term projections with a primary focus on the continuation of current levels of benefits, services and taxation. The guidance begins at paragraph 20. Do you believe that the guidance for assumptions is appropriate? If not, please explain.¶¶<#>Currently, the CFR does not request comments from readers or provide contact information for readers’ comments. The Board expressed an interest in receiving feedback from financial statement users because such comments may be helpful in assessing whether the comprehensive long-term fiscal projections and the accompanying narrative and graphics in the CFR are understandable and meaningful for financial statement users. Do you agree that the CFR should include contact information for readers’ comments, in particular regarding the comprehensive long-term fiscal projections and accompanying narrative and graphics?¶¶
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Federal Accounting Standards Advisory Board
Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government
May 9, 2008
Staff Draft Exposure Draft– Do Not Circulate

required information including graphics and narrative be included in Required Supplementary Information (RSI) for the first three years of implementation, and basic information (i.e., principal financial statement and notes) for all subsequent years.

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- a. ~~Do you believe that this implementation date is reasonable and appropriate?~~
- b. Do you agree with the phased implementation period (3 years)?
- c. Do you believe that some of all of the required information should remain as RSI after the 3-year implementation period? If so, please explain the basis for your view.

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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.⁷ 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.⁸
- 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 and to meet obligations as they come due.⁹
- 4. While federal financial reporting is not expected by itself to accomplish the stewardship reporting objective, it can contribute to meeting the objective.¹⁰ Sub-objective 3B is concerned with the future and with the resources expected to be consumed through programs of the federal government in the future.
- 5. The Board believes that ~~including~~ comprehensive long-term fiscal **projections**¹¹ and accompanying narrative and graphics ~~in~~ the consolidated financial report of the U.S. Government (CFR) will

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⁷ SFFAC 1, par. 109.
⁸ SFFAC 1, par. 134.
⁹ SFFAC 1, par. 139.
¹⁰ SFFAC 1, par. 235.
¹¹ Terms defined in the Glossary are shown in **bold-face** the first time they appear.

contribute to meeting the stewardship objective and especially sub-objective 3B. The more detailed objectives presented below were developed as one means of guiding the Board in selecting from a variety of possible summary display formats as well as in identifying the most important areas to be addressed in narrative and/or graphic format.

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Objectives of Comprehensive Long-Term Fiscal Projections and Accompanying Graphics and Narrative (“Fiscal Sustainability Reporting”)

6. In this Statement, “**Fiscal Sustainability Reporting**” is the short term for the comprehensive long-term fiscal projections and accompanying narrative and graphics required by this Statement to be provided 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,¹² assuming that current levels of benefits, services and taxation are continued.¹³
7. Assessing whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due is important not only because such an assessment has 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 the current level of benefits and services to constituent groups and to assess whether financial burdens were passed on by current-year taxpayers to future-year taxpayers without related benefits.¹⁴ Fiscal Sustainability Reporting should assist the reader in understanding these financial, social and political implications.
8. 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

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¹² SFFAC 1, par. 139.

¹³ Note that fiscal sustainability reporting does not extend to supporting a detailed assessment of whether current levels of benefits, services and taxation are optimal; rather, it addresses the fiscal outlook if current levels are continued.

¹⁴ The latter notion is sometimes referred to as “interperiod equity.”

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. Moreover, the CFR is a high-level summary report; it tells users where to find additional information in other reports and publications, for example, reports issued by the Department of the Treasury, the Government Accountability Office (GAO), the Office of Management and Budget (OMB), and the Congressional Budget Office (CBO) and other agencies.¹⁵

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- 9. The Frequently Asked Questions (FAQs) at Appendix C provide a “Plain English” explanation of terms and concepts used in this Statement.

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 proposal provides for a phased-in implementation, but earlier implementation is encouraged. Information would be reported as Required Supplementary Information (RSI) for the first three years of implementation (fiscal years 2010, 2011 and 2012). Beginning in fiscal year 2013, the required information would be presented as a basic financial statement and related disclosures.

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¹⁵ See SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*, paragraphs 6-7 and 15-20.

Accounting Standard

Definitions

12. Fiscal Imbalance

The fiscal imbalance is the net present value of existing federal debt plus projected spending¹⁶ minus projected receipts. The fiscal imbalance illustrates the amount that would be necessary to balance projected receipts, projected spending, and repayment of debt for a stated projection period. The fiscal imbalance as of a stated valuation date¹⁷ may be expressed as:

- (a) a summary amount in present value dollars.
- (b) a share of the present value of the Gross Domestic Product (GDP)¹⁸ for the projection period, and/or
- (c) a share of the present value of projected receipts or projected spending.¹⁹

13. Policy Assumptions

Policy assumptions address the level of services provided by the federal government as well as the framework for assessing taxes and fees. Policy assumptions address projected spending rules for both mandatory and discretionary spending as well as the framework for assessing taxes and fees.

14. Current Policy

In this standard, current policy refers to current levels of federal government services and benefits (for example, current reimbursement rates for Medicare and scheduled benefits for Social Security) combined with current levels of taxation and other receipts.²⁰

¹⁶ Since interest is factored into the present value calculation, the fiscal imbalance as a share of spending is expressed as a share of spending excluding interest. See FAQ 4 on page 54.

¹⁷ See requirement for valuation date in paragraph 32.

¹⁸ 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.

¹⁹ Showing the fiscal imbalance as a ratio of the present values of total projected receipts, alternatively total projected spending, is useful to illustrate by how much projected receipts or spending would have to be changed in order to reduce the fiscal imbalance to zero. However, some policy adjustments may alter both the numerators and denominators of those ratios, thereby compromising the usefulness of ratio comparisons across fiscal projections under different policies.

²⁰ "Current levels" is not equivalent to levels measured in dollars. In the broader context of current policy, current levels are 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).

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<#>Fiscal Gap ¶

The fiscal gap is the change in spending or revenue that would be necessary to maintain federal debt as a constant percentage of GDP. The fiscal gap can be expressed in present value dollars or a percentage of GDP as of the reporting date, or as a percentage that inflows or outflows would need to change as of the reporting date in order to hold c ... [1]

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15. **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 Gross Domestic Product).

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16. **Demographic Assumptions**

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

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Scope

17. The reporting requirements in this Statement apply to the consolidated financial report of the U.S. Government. 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 type of report.

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Policy, Economic and Demographic Assumptions

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Recognition and Measurement¶

18. Fiscal Sustainability Reporting for the U.S. Government should provide information that helps the reader to determine whether current policy is likely to produce future budgetary resources sufficient to sustain current levels of public services and to meet obligations as they come due. Long-term projections of current levels of federal benefits and services and current levels of taxes and other revenues should help the reader to understand the implications of current levels of benefits, services and taxation and other factors such as demographic trends.

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19. 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 levels of benefits, 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.

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20. 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 making choices among alternative assumptions. The guiding principles address three types of assumptions: policy, economic, and demographic assumptions.

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21. Policy assumptions address the level of services provided by the federal government as well as the framework for assessing taxes and fees.
22. 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).

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

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24. When combined with policy assumptions, economic and demographic assumptions determine the level of future projected receipts and spending.

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25. To illustrate the distinction between policy, economic and demographic assumptions: the Social Security program provides benefits. Assumptions relating to future Social Security eligibility and benefit formulas represent policy assumptions. Assumptions about productivity growth, inflation and other factors represent economic assumptions. Assumptions about the future population represent demographic assumptions.
26. The guiding principle for selecting policy assumptions is to base selections on assumptions consistent with current policies (current levels of federal benefits, services and taxation). With some exceptions, projections of future receipts and spending should be based upon policy assumptions consistent with current law. However, in many instances a simple assumption of "current law" will not provide an adequate basis for long-term projections under current policies. For example, in some cases current law may expire almost immediately, or not fully support current levels of benefits or services, or produce levels of taxation that are significantly different from current levels of taxation. In these cases, the preparer should use judgment in applying the general

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guidelines presented below for selecting policy assumptions that are consistent with current policies.

27. When a simple assumption of current law does not provide a basis for projections of future receipts and spending, that is consistent with current policies, assumptions should reflect “current policies” as defined in this standard.²² Following are examples:

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- (a) Legislation providing for **discretionary spending**²³ provides funding that extends at most a few years into the future. Therefore, assumptions will be required in order to prepare a long-range projection. A current-law policy assumption would show discretionary spending falling to zero within a few years. Such a projection would not be meaningful or useful.
- (b) Some provisions of tax law, (for example the Alternative Minimum Tax (AMT), which is not indexed), do not provide for future taxation at current levels. Current law would result in the AMT negatively impacting many more taxpayers in the future. A current-law policy assumption would show large increases in future receipts as the AMT eventually impacts 100% of all taxpayers. Such a projection would not reflect current levels of taxation.
- (c) Current law also 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 assume that Treasury borrowing will never increase beyond the dollar amount of the current statutory limit. Such an assumption would not support a projection of current levels of benefits, services or taxation.

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28. In those cases where simple assumptions of current law do not provide a basis for projections that is consistent with “current policies” as defined in this standard, assumption of a uniform

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²² See paragraph 14.

²³ 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 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 legislation. For additional information, see *A Glossary of Terms Used in the Federal Budget Process*, GAO-05-734SP. Available at: <http://gaoweb.gao.gov/gaoproducts.php>.

- growth rate for all types of revenues and spending ~~is not required~~. Assumptions may be based on, but are not limited to, the notion that spending or revenues are likely to:
- (a) Maintain a constant share of GDP
 - (b) Grow with inflation²⁵
 - (c) Maintain a constant real²⁶ per capita level²⁷

29. Judgment ~~should be applied~~ in selecting assumptions. ~~Policy~~ assumptions representing the worst case scenario ~~are not required~~. Rather, the assumptions ~~should be viewed~~ as a whole and individual selections ~~made~~ which result in a reasonable overall projection. The preparer's objective should be to produce unbiased projections.

30. The ~~same~~ economic and demographic assumptions ~~should be used for~~ the primary ~~summary~~ display for Fiscal Sustainability Reporting ~~and~~ for Social Security and Medicare in the Statement of Social Insurance.

Changes in Assumptions

31. When year-by-year comparisons are displayed, a table ~~presented in the narrative section~~ should disaggregate the changes attributable to:
- (a) valuation period (~~for example, the beginning of the projection period~~ is one year later),
 - (b) changes in policies (legislation), and
 - (c) changes in assumptions.

Narrative should explain the changes attributable to each of the three categories.

Valuation Date

32. 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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²⁵ Inflation is growth in a general measure of prices, usually expressed as an annual rate of change.
²⁶ In economic terms, "real" means adjusted to remove the effects of inflation.
²⁷ ~~As applicable, the characteristics of the population should be considered for expenditures that benefit identifiable subgroups.~~

Projection Periods

33. Projections in the primary summary display should be for a projection period sufficient to illustrate long-term sustainability.
- (a) If the projection period displayed in the primary summary display is for a finite projection period, the accompanying narrative should display summary totals for an infinite horizon projection period and vice versa.
- (b) If the projection period in the primary summary display is not consistent with the projection period used for Social Security and Medicare in the Statement of Social Insurance (SO_{SI}), the narrative section should display the subtotal and total line items of the primary summary display calculated for the projection period that was used for Social Security and Medicare in the SOSI.²⁸
34. Overemphasis on summary measures for a finite projection period, such as a 75-year period, can lead to incorrect perceptions. The accompanying narrative should explain that the trends projected, particularly near the end of the projection period, are important to consider. This Statement also requires information for a time period that extends to the infinite horizon, which provides additional perspective, but is subject to much greater uncertainty.

Primary Summary Display

35. This Statement presents the elements that are required to be included in a primary summary display.
36. An example primary summary display is shown in Appendix B for illustration only.
37. The primary summary display, 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 as of the required valuation date(s) for the projection period indicated:

²⁸ 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.

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Note to the Board: ¶ Three potential summary formats, Options A, B and C are described below. Options D and E are described in the February 200... [4]

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- (a) Receipts, disaggregated by Medicare, Social Security, and all other revenues, and total receipts.²⁹
- (b) ~~Spending~~, disaggregated by Medicare, Medicaid, Social Security, and all other ~~spending~~, ~~subtotal of spending before debt held by the public~~, and total ~~spending plus repayment of debt~~.³⁰ ~~and~~
- (c) Fiscal Imbalance (~~the net amount needed to balance~~ receipts and ~~total spending plus repayment of debt~~).³¹

38. ~~The primary summary display should also present~~
- (a) ~~Fiscal imbalance as a percentage of total projected receipts and as a percentage of total projected spending and~~
 - (b) ~~After the initial year of implementation, comparative amounts for the current year and prior year, and the net change for each of the above line items from the prior year.~~

39. Additional requirements for narrative and graphics are provided in "Requirements for Narrative ~~and~~ Graphics ~~and Supporting Data~~," beginning at paragraph ~~40~~.

Requirements for Narrative ~~and~~ Graphics

40. Narrative and graphics serve a critical role in making economic concepts and projections ~~understandable~~ to a variety of audience segments, and in helping readers to understand long-term projections by explaining the significant factors that are driving projected trends, by illustrating trends graphically, and by providing context for the information provided.

41. Narrative should include a "plain English" explanation of present value and interest rates used to calculate present value.

42. The narrative should explain that the projections displayed are not forecasts or predictions; they are designed to ~~depict results that may occur under various conditions~~. The narrative should ~~disclose significant policy assumptions for all scenarios presented~~. ~~The narrative should explain the most significant~~

²⁹ Full payment of amounts due to Social Security and Medicare HI Trust Funds must be shown as revenue for Medicare and Social Security, and outlays for "rest of government."

³⁰ See note 29.

³¹ A positive fiscal imbalance indicates a shortfall; a negative fiscal imbalance indicates a surplus situation.

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departures from current law – for example, if the spending assumptions ignore the statutory limit on federal debt.

43. The narrative should include an explanation of the following limitations:

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- (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) Where indicated, 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), for which financial projections may be appropriate; and
- (c) Fiscal Sustainability Reporting is limited to the activity of the federal government, and does not include activities of state and local governments. However, the narrative should direct the reader to any recent reports that address the long-term fiscal outlook for state and local governments.³²

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44. The narrative should explain the significance of the graphics and put the information into context. Examples of context include but are not limited to:

- (a) Comparison of the data/trend with that of other developed nations,
- (b) Comparison of the data/trend with everyday life, for example, spending in excess of income over a long period of time, and/or
- (c) 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.

45. Narrative and graphics should explain and illustrate a range of possible results in light of the uncertainty inherent in projections and their sensitivity to assumptions. The range need not be based on the most optimistic and most pessimistic sets of

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Deleted: For major factors that have a significant element of uncertainty, projections should be shown as a range: graphic presentation(s) should illustrate low, intermediate and high estimates.

³² For example, the GAO reports *State and Local Governments: Persistent Fiscal Challenges Will Likely Emerge with the Next Decade*, July 18, 2007 (GAO-07-1080SP) and *The Nation's Long-Term Fiscal Outlook* August 2007 Update (GAO-07-1261R) address the long-term fiscal outlook for state and local governments.

assumptions. Instead, the range may present low and high projections based on optimistic and pessimistic assumptions that might reasonably be expected to occur. The range should present the total projected receipts and spending but may also present projections for individual programs. (See Illustration 1a in Appendix B) The narrative should include a table showing the range for each line item presented on the primary summary display. The narrative should list several of the major causes of the variances displayed.

46. Narrative and graphics should explain and illustrate the major factors that are expected to have a significant impact upon future receipts and spending of the federal government. For example, two such factors may be (a) the rising cost of health care and (b) demographic trends. Information about how these factors have changed and are expected to change over time is necessary to assist the reader in understanding the factors that influence fiscal imbalances. (See Illustration 1b and 2 in Appendix B)

47. Narrative and graphics should explain and illustrate the historical and projected trends for a progression of years beginning at least 20 years before the current year and extending to all projected future years for:

(a) projected receipts and spending,

(b) projected deficits

(c) projected Treasury debt as a share of GDP.

(See Illustrations 3, 4, and 5 in Appendix B)

48. If a fiscal imbalance is indicated by the projections, the narrative section should include a graphic that shows the likely impact of delaying action. Two graphics could display the progressive increase in the change that would be needed to close the fiscal imbalance by (a) reducing non-interest spending and alternatively (b) by increasing receipts. Alternatively, either (a) or (b) could be displayed in a graph and the narrative describe the impact of delay on the item not displayed. (See Illustration 6 in Appendix B.)

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Supporting Data (Other Accompanying Information)

49. The quantitative data supporting the primary summary display and the additional narrative and graphics may be provided in or referenced as other accompanying information.³⁴

Effective Date

50. 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 Required Supplementary Information (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 a basic financial statement and related disclosures.
 - (d) Earlier implementation is encouraged.

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

³⁴ 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/>.

³⁶ Statement of Federal Financial Accounting Concepts (SFFAC) 1, pars. 134-145, available at <http://www.fasab.gov/codifica.html>.

Deleted: In addition, the narrative should explain that the projections displayed are not forecasts or predictions; they are designed to ask the question “what if?” and the narrative should describe the major “what ifs” that are being projected. Long-range projections should be accompanied by (... [10])

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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.

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Project History

A1. Many believe that federal financial reports currently do not adequately address the federal financial reporting objective, titled “stewardship,” presented 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

- 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.

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The FASAB considered what information would be most likely to help readers of the CFR to assess whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due. Ultimately, this may enhance the public’s understanding of long-term fiscal issues.¶¶

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A2. In particular, existing reporting may not adequately address sub-objective 3b above. The FASAB considered what information would be most likely to help readers of the CFR to assess whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due. Ultimately, this may enhance the public’s understanding of long-term fiscal issues.

Deleted: [Source: Statement of Federal Financial Accounting Concepts (SFFAC) 1, pars. 134-145, available at <http://www.fasab.gov/codifica.html>.]

A3. Discussion of such long-term fiscal issues has been described in terms such as “fiscal sustainability.” In this proposed Statement, the Board’s working definition of “fiscal sustainability” is the federal government’s ability to continue, both now and in the future, to provide current levels of benefits and services while maintaining current levels of federal taxation without resulting in debt continuously rising as a share of

GDP.³⁷

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 communications 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 OMB, the CBO, the Treasury Department, and the GAO; members of Congress; and academics in the areas of public policy and communications.

A6. FASAB staff also researched existing reporting on comprehensive government-wide long-term projections by other developed, English-speaking countries for example, the U.K., Australia, New Zealand and Canada, and conferred with staff of the International Public Sector Accounting Standards Board (IPSASB). The IPSASB is currently undertaking a project with similar objectives.

Financial Position versus Financial Condition

A7. Fiscal Sustainability Reporting is focused on the financial condition of the federal government as a whole. Financial condition is forward-looking and multi-dimensional. Assessing financial condition requires financial and non-financial information related to the long-term fiscal outlook for the federal government. Therefore, Fiscal Sustainability Reporting should provide information about the future to help readers assess the magnitude of future spending and revenues and the burden that any resulting deficits might place on future taxpayers.³⁸

A8. Indicators of financial position, for example, the balance sheet, are the starting point for reporting on financial condition but must be supplemented in a variety of ways. For example, trends in financial position may assist readers in assessing the overall direction of the federal government’s finances. However, readers may find, among other things,

³⁷ Determining precisely 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.
³⁸ SFFAC 1, par. 262.

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Plan to Address the Issue¶

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a budget projection under a range of alternative assumptions³⁹ to be helpful in assessing the financial condition of the U.S. Government. Presenting information about the overall size of the economy relative to the budget projections may assist readers in assessing whether the projected budget amounts are reasonable in comparison to past experience or the experience of other countries. Thus, reporting on financial condition requires financial and nonfinancial information about the national economy and society, as well as about the government itself.⁴⁰ Table 1, “Comparison of Financial Position and Financial Condition,” summarizes the distinguishing characteristics of Financial Position and Financial Condition.

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Table 1: Comparison of Financial Position and Financial Condition

Financial Position	Financial Condition
Entity perspective	Broad perspective including reporting on the nation’s economy and other external trends
Accrual based data	Additional, forward-based information
Financial data	Financial and nonfinancial data
Assets, liabilities and net position	Future effects of: <ul style="list-style-type: none"> current demands, risks and uncertainties, and anticipated future events, conditions and trends
Example: Balance Sheet	Examples: <ul style="list-style-type: none"> Projections of revenue, spending and debt <ul style="list-style-type: none"> in present value dollars as a share of GP Nonfinancial data, such as demographic trends

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A9. SFFAC 3, *Management’s Discussion and Analysis* (MD&A), addressed many of the elements of financial condition. SFFAC 3 says that the MD&A should answer questions such as the following, to the extent that they are relevant and important for the entity:

What is the potential effect of changed circumstances, and of expected future trends? In other words, to the extent that it is feasible to project

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³⁹ SFFAC 1, par. 145.

⁴⁰ SFFAC 1, par. 144.

the effects of these factors, will future financial position, condition, and results, as reflected in future financial statements, probably be different from this year's and, if yes, why? (Any such discussion should acknowledge that the future is unpredictable and will be influenced by factors outside the reporting entity's control, including actions by Congress.)⁴¹

Existing Required Sustainability Reporting

- A10. Existing reports provide relevant information regarding fiscal sustainability. Annual financial reports – both from individual agencies and the CFR – provide forward looking information and extensive sustainability information regarding social insurance programs such as Social Security and Medicare. Central agencies such as the GAO, OMB and CBO provide projections of receipts and outlays based on various policy assumptions. However, the Board believes that establishing requirements for a basic financial statement and accompanying narrative and graphics will ensure that the information is included in the annual CFR and that it presents projections based on current policies.
- A11. While many of the proposals included in this exposure draft were voluntarily adopted in the fiscal year 2007 CFR and the recent summary report, *The Federal Government's Financial Health: A Citizen's Guide to the 2007 Financial Report of the United States Government*, voluntary adoption is not a guarantee of continued reporting. Some of the existing information sources are described below to aid respondents in evaluating the changes required by this proposal.

Management's Discussion and Analysis (MD&A)

- A12. Current reporting requirements for the U.S. Government's long-term fiscal outlook are contained in paragraphs 3 and 6 of Statement of Federal Financial Accounting Standards (SFFAS) 15, *Management's Discussion and Analysis*, as follows:
- [3] MD&A should include forward-looking information regarding the possible future effects of the most important existing, currently-known demands, risks, uncertainties, events, conditions and trends.

⁴¹ SFFAC 3, par. 14.
⁴⁴ See SFFAC 3, paragraphs 31-36.

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What is the potential effect of changed circumstances, and of expected future trends? In other words, to the extent that it is feasible to project the effects of these factors, will future financial position, condition, and results, as reflected in future financial statements, probably be different from this year's and, if yes, why? (Any such discussion should acknowledge that the future is unpredictable and will be influenced by factors outside the reporting entity's control, including actions by Congress.)⁴²¶

¶
Objectives of Fiscal Sustainability Reporting versus Definition of Fiscal Sustainability¶

¶
<#>In this proposed Statement, the Board's working definition of "fiscal sustainability" is the federal government's ability to continue, both now and in the future, to provide current levels of benefits and services while maintaining current levels of federal taxation without resulting in debt continuously rising as a share of Gross Domestic Product (GDP).⁴³¶

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Existing Required Sustainability Reporting¶

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MD&A may also include forward-looking information about the possible effects of anticipated future demands, events, conditions, and trends.³ Forward-looking information may comprise a separate section of MD&A or may be incorporated with the sections listed above.

³The word "anticipated" is used in a broad, generic sense in this document. In this context the term may encompass both "probable" losses arising from events that have occurred, which should be recognized on the face of the basic or "principal" financial statements, as well as "reasonably possible" losses arising from events that have occurred, which should be disclosed in notes to those statements. "Anticipated" may include the effects of future events that are deemed probable, for which a financial forecast would be appropriate. The term may also encompass hypothetical future trends or events that are not necessarily deemed probable, for which financial projections may be appropriate. Such information about the possible effects of anticipated future demands, events, conditions and trends, if presented, should include the term or label "projected" or "projection," and the key hypothetical underlying assumptions should be explained. As with other information presented in MD&A, no examination of this information by the auditor is now routinely included within the scope of an audit of a federal entity's financial statements; however, preparers and auditors may find useful background information in the AICPA's Statements on Standards for Attestation Engagements Nos. 1 and 4, codified as section 200, "Financial Forecasts and Projections," of the AICPA's *Codification of Statements on Standards for Attestation Engagements*.

[6] MD&A should deal with the "vital few" matters; i.e., the most important matters that will probably affect the judgments and decisions of people who rely on the general purpose Federal financial report (GPFFR) as a source of information. (The specific topics mentioned in *Concepts for Management's Discussion and Analysis* are examples of items that might be relevant for MD&A of a given entity.) Matters to be discussed and analyzed are those that management of the reporting entity believes it is reasonable to assume could:

- lead to significant actions or proposals by top management of the reporting unit;
- be significant to the managing, budgeting, and oversight functions of Congress and the Administration; or
- significantly affect the judgment of citizens about the efficiency and effectiveness of their Federal Government.

A13. The FASAB elaborated on the above requirements in its companion concept statement, SFFAC 3, Management's Discussion and Analysis, which explains the Board's expectations regarding the description of future

effects of both existing and anticipated events, conditions and trends.⁴⁴

Statement of Social Insurance (SOSI)

A14. The Statement of Social Insurance is based on projections of future scheduled expenditures and future revenues for the major social insurance programs: Federal Old-Age, Survivors and Disability Insurance (Social Security), Medicare Parts A, B, and D, Railroad Retirement benefits and Black Lung benefits.

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A15. For the social insurance programs listed in the preceding paragraph, the SOSI presents the actuarial present value for the projection period of:

- (a) all future contributions and tax income (excluding interest) received from or on behalf of all current and future participants;
- (b) estimated future schedule benefits to be paid to or on behalf of current and future participants, and
- (c) the estimated future excess of future benefit payments over future contributions (or excess of future contributions over future benefit payments).

A16. The SOSI (the information required by paragraphs 27(3) and 32(3) of SFFAS 17) is presented as a basic financial statement, and the underlying significant assumptions are included in notes that are presented as an integral part of the basic financial statements.⁴⁵ The basic (or principal)⁴⁶ financial statements and notes are those on which the auditor expresses an opinion as to whether the information is presented in conformity with generally accepted accounting principles (GAAP). For FY 2007, for the first time, the GAO issued an unqualified or “clean” opinion on the SOSI.

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A17. The SOSI is accompanied by RSI that provides the following information:

- (a) the projected annual cash flows – both inflows and outflows – in nominal dollars for at least every fifth year in the projection period,
- (b) the relationship of the total cash outflow and net receipts⁴⁷ to taxable payroll and GDP, and
- (c) sensitivity analysis for the most significant individual assumptions.

⁴⁵ See SFFAS 26, paragraphs 5-6.
⁴⁶ The terms “basic financial statements” and “principal financial statements” have been used synonymously in federal accounting. See SFFAS 25, paragraph 34.
⁴⁷ Net receipts are cash inflows from all sources less net interest on intragovernmental borrowing/lending.

A18. The SOSI, notes and related RSI are program specific. No government-wide projections are provided. While social insurance programs are presently a significant part of an assessment of fiscal sustainability, the Board believes that the context provided by government-wide projections is essential to meeting fiscal sustainability reporting objectives.

The Trustees of the Social Security and Medicare Trust Funds

A19. The two largest programs reported in the SOSI are Social Security and Medicare. Each year, the Trustees of the Social Security and Medicare trust funds report on the current and projected financial status of the two programs. There are six trustees: the Secretaries of the Treasury (managing trustee), Health and Human Services, and Labor; the Commissioner of the Social Security Administration, and two public trustees who are generally appointed by the President and confirmed by the Senate for a 4-year term. By law, the public trustees are members of two different political parties.

A20. The annual Trustees report addresses the trust funds that Congress established in the U.S. Treasury to account for all program income and disbursements. Social Security and Medicare taxes, premiums, and other income are credited to the funds. Disbursements from the funds can be made only to pay benefits and program administrative costs.

A21. The Department of the Treasury invests program revenues not needed in the current year to pay benefits and administrative costs in special non-marketable securities of the U.S. Government on which a market rate of interest is credited. Thus, the trust funds represent the accumulated value, including interest, of all prior program annual surpluses and deficits, and provide automatic authority to pay benefits.

A22. The annual reports provide short-range (10-year) and long-range (75-year) projections for all Social Security and Medicare funds. Estimates are based on current law and assumptions about factors that affect the income and outgo of each trust fund. Assumptions include economic growth, wage growth, inflation, unemployment, fertility, immigration, and mortality, as well as factors relating to disability incidence

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⁴⁹ A Summary of the 2007 Annual Reports, Social Security and Medicare Boards of Trustees, pages 3-6. Available at: <http://www.ssa.gov/OACT/TRSUM/trsummary.html>.

and the cost of hospital, medical, and prescription drug services.

A23. Because the future is inherently uncertain, three alternative sets of economic and demographic assumptions are used to show a range of possibilities. The intermediate assumptions reflect the Trustees' best estimate of future experience. The low-cost alternative is more optimistic for trust fund financing, and the high-cost alternative is more pessimistic; they show trust fund projections for more and less favorable economic and demographic conditions for trust fund financing than the best estimate. The assumptions are reexamined each year in light of recent experience and new information about future trends, and are revised as warranted. In general, greater confidence can be placed in the assumptions and estimates for earlier projection years than for later years. The statistics and analysis presented in the Summary of the annual Trustees' Reports for Social Security and Medicare are based on the intermediate assumptions.⁴⁹

What would this proposal add to existing reporting?

A24. This proposal adds to existing reporting in the CFR by proposing requirements for:

- (a) a primary summary display of comprehensive long-term projections for all federal government receipts and spending, and
- (b) narrative and graphics that will help readers to understand the long-term projections, for example, by explaining the significant factors that are driving projected trends, by illustrating trends graphically, and by providing context for the information provided.

Assumptions

Limitations of “Current Law” Assumptions

A25. 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 levels of spending and taxation.

A26. Although current law is a reasonable starting point in selecting policy assumptions, a simple projection of “current law” would not always reflect current levels of benefits, services or taxation. The Board's proposal includes central guidance in selecting policy assumptions but acknowledges the role of judgment in filling voids in current law or departing from current law provisions.

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A27. Major provisions of current law often do not extend far 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 (see note 23) programs are subject to authorizing legislation that expires in the near future. For example, the legislation authorizing several mandatory programs (for example, Food Stamps, student assistance for higher education and agricultural price supports) expires and would require legislative action for the programs to continue past the expiration date.

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A28. Current law may contain a provision that restricts 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 Funds, respectively, plus inflows of earmarked revenues. However, current law does not provide for any specific reductions in Social Security scheduled benefits or Medicare reimbursement rates that would occur due to lack of funding. Thus, current law does not address what will happen when the trust fund balances are exhausted, although this event may reasonably be expected to occur.⁵⁰

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A29. Current law also may include tax provisions (for example, tax cuts) that expire within several years, along with a historical trend of extending those tax provisions before they expire — but only for a short period, generally one year. In such situations, “current law” would indicate that the tax provisions will expire on schedule, while a projection based upon current levels of taxation, and reasonable expectations based on recent historical trends may indicate that the tax provisions will be extended.

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Fiscal Sustainability Task Force [Input Regarding Policy Assumptions](#)

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A30. A majority of the task force technical experts agreed that policy assumptions for the primary summary display that are consistent with current levels of federal benefits, 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

⁵⁰ According to the 2007 Trustees Reports, the Social Security Trust Fund is expected to be exhausted in 2041, and Medicare's Hospital Insurance Trust Fund is expected to be exhausted in 2019. For the first time, a "Medicare funding warning" was triggered in 2007, signaling that non-dedicated sources of revenues- primarily general revenues- will soon account for more than 45 percent of Medicare's outlays. By law, this warning requires that the President propose, and the Congress consider, remedial action. However, until remedial action is taken, it is difficult to determine how to project future spending for Medicare. A similar situation exists for Social Security, although the amounts are smaller and the expected date for trust fund exhaustion is much further in the future.

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A31. 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 Funds- see paragraph A28), 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.

A32. 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.

A33. A recent report issued by the GAO⁵¹ illustrates the tension between choosing current law versus current level of services and taxes. The report primary displays 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.

A34. The GAO’s approach to show 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 communications 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.

⁵¹ The Nation’s Long-Term Fiscal Outlook August 2007 Update (GAO-07-1261R).
⁵³ “Current levels” as defined in this proposed Statement is not equivalent to levels measured in dollars. In

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<#>Historically, practices have varied. For example, a member of the Fiscal Sustainability Task Force noted that past OMB projections have sometimes included “bracket creep”⁵² for revenues and sometimes not. ¶
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<#>Among the options for discretionary spending are to use the Budget or the Budget Enforcement Act baseline, followed by some trend growth rate, or to assume that the level of benefits or services in the current year and recent past will continue. ¶
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- A35. The term “current policy” as defined in this Statement is not intended to be used as the title for any display, but rather as a short term to assist the overall readability of this exposure draft. A short term is useful, particularly in sentences where the term “current levels of benefits, services and taxation” would make the sentence difficult to read and understand.
- A36. A majority of the technical experts agreed with the substance of the proposed guidance in the ED - that the primary summary display should present current levels of spending and taxation⁵³ - but noted that it is difficult to coin a term to refer to this concept without implying something else. A majority of the technical experts recommended the term “modified current law” as being preferable to the term “current policy.” However, the Board believes that substituting the term “modified current law” for “current policy” throughout the exposure draft would make many sentences unclear or misleading, because the emphasis on continuing current levels of benefits, services and taxation would be lost.

Basis for the Board’s Proposal regarding Policy Assumptions

- A37. The Board believes that the most useful reporting on fiscal sustainability would illustrate the long-term effects of current levels of benefits or services and tax revenues. However, there are numerous ways of projecting current levels 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.⁵⁴ (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 non-linear pattern.)

the broader context of current policy, current levels are 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).

⁵⁴ 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>.

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- A38. The Board believes that the details of the assumptions for projecting “current level of service” or “current level of taxation” should be left to the judgment of the preparer and auditor. Regardless of which assumptions, are used for a primary presentation, the narrative should include an explanation of the assumptions used and alternative scenarios. Readers will have access to important explanatory material.

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- A39. Current law may not address events that may reasonably be expected to occur (for example the exhaustion of the Medicare Hospital Insurance Trust Fund). As noted previously, although current law limits spending to the amounts available in the trust funds and current earmarked revenue, current law does not provide for any specific reductions in benefit payments or reimbursement rates due to lack of funds. Thus, current law is inconsistent and does not provide an answer.

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- A40. When current law is inconsistent, the Board believes that in selecting assumptions, the projections should indicate current levels of government benefits, services and taxation, and should answer the question “what if current levels 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 A39, the narrative would explain what percentage of Medicare reimbursements could not be paid if legislation does not provide for maintaining current levels).

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Economic and Demographic Assumptions

- A41. Economic and demographic assumptions are somewhat broader in scope than policy assumptions, since they include such factors as population demographics and economic growth. The elements of economic and demographic assumptions are generally influenced more by a variety of external factors than by direct legislative impact.
- A42. There was no consensus from the task force technical experts for economic and demographic projections, although none objected strongly to either CBO, OMB or the economic and demographic assumptions currently used for the Social Security and Medicare portions of the Statement of Social Insurance (SOSI).
- A43. Table 1 displays representative elements of CBO and OMB assumptions, with a comparison with the assumptions currently used for Social Security and Medicare in the Statement of Social Insurance.

Table 1: Major Elements of CBO and OMB Economic and Demographic Assumptions, Compared with Assumptions used in the Statement of Social Insurance (SOSI)

	CBO Baseline (2007-2017)	OMB Stewardship Reporting	SOSI assumptions for Social Security and Medicare
Economic/Demographic Assumptions:			
Consumer Price Index inflation	2.5% in 2007; average 2.2% per year for 2008-2017	2007-2017: Administration projections used for the budget, constant thereafter ⁵⁵	Intermediate Trustees Reports assumption: 2.8%
Population demographics (birth/death/immigration)	Intermediate Trustees reports assumptions	2007-2017: Administration projections used for the budget, Intermediate Trustees Reports assumptions thereafter	Intermediate Trustees Reports assumptions
Real GDP growth ⁵⁶	Average 2009-2012: 2.9% 2013-2017: 2.5%	2007-2017: Administration productivity projections used for the budget period, constant thereafter at 2.3%, with Trustees Intermediate assumptions for labor force growth	Intermediate Trustees Reports assumption: 1.7%

Sources:
CBO Baseline: *The Budget and Economic Outlook: Fiscal Years 2008 to 2017*, January 2007.
Available at:
<http://www.cbo.gov>.
OMB Stewardship Reporting: Chapter 13, “Stewardship” of *Analytical Perspectives*, U.S. Budget, FY 2008
SOSI/FR: FY 2006 Financial Report of the U.S. Government

⁵⁵ After that, projected holding constant inflation, interest rates and unemployment at the levels assessed for 2017.
Details of OMB projections:
Real GDP growth: average 3% for 2008-2012 (3.1% in 2008, declining to 2.9% in 2012)
CPI inflation: average 2.42% for 2008-2012 (2.6% in 2008, declining to 2.3% in 2012)
⁵⁶ There are two major components of projections for real GDP growth: productivity (real GDP per capita) and labor supply. While productivity growth is typically assumed to be constant, labor force growth varies over time with the demographic assumptions.

A44. One of the technical experts noted that there are several advantages to using the economic and demographic assumptions used for Social Security and Medicare in the preparation of the SOSI:

- Since the SOSI is now a basic financial statement, auditors are bound by generally accepted government auditing standards to examine and assess the reasonableness of the assumptions. Since the SOSI is generally derived from the Trustees Report, the result is that the assumptions used in the Medicare and Social Security Trustees Reports are subject to audit.
- In contrast, the CBO and OMB economic and demographic assumptions are not subject to audit.
- If the economic and demographic assumptions used for Social Security and Medicare in the preparation of the SOSI are used, there would be consistency between the economic and demographic assumptions used for the SOSI and for the Fiscal Sustainability Reporting.

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A45. Statement of Federal Financial Accounting Standards (SFFAS) 17, *Accounting for Social Insurance*, does not prescribe specific economic or demographic assumptions for Social Security and Medicare in the SOSI. Accordingly, the Board concurred 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. In addition, the narrative should include information about how different assumptions would impact the projections.

International Perspective

A46. Other nations have issued reports addressing “fiscal sustainability.” While a precise definition has not been developed, countries generally describe fiscal sustainability in a manner consistent with the following:

Fiscal sustainability is the government’s ability to manage its finances so it can meet its spending commitments, both now and in the future. It ensures future generations of taxpayers do not face an unmanageable bill for government services provided to the current generation.⁵⁷

⁵⁷ Australia, Intergenerational Report 2002-3, page 2. Available at: http://www.budget.gov.au/2002-03/bp5/html/02_BP5Overview.html#P23_3643

Primary Summary Display

- A47. The primary summary display is a financial statement presenting present value amounts in dollars as well as in relation to the present value of GDP for the projection period. The primary summary display will be resented as RSI for a period of three years and will then become a basic financial statement.
- A48. Elements considered for inclusion as mandatory requirements for the primary summary display were:
- (a) Total projected spending and receipts
 - (b) The total of all projected receipts and spending (including debt held by the public) presented as the Fiscal Imbalance
 - (c) Amounts displayed as both (present value) dollars and percent of GDP
 - (d) Fiscal Imbalance as a percent of total projected receipts and total projected spending
 - (e) Year-to-Year (for example, Side-by-Side) comparison with prior year
 - (f) "Net Change" from year-to-year as a separate column
 - (g) Disaggregation of major programs funded by earmarked funds (Social Security and Medicare Part A)
 - (h) Range information

A49. A majority of the members decided that (a) through (f) above should be included as minimum requirements for the primary summary display, with the format of the elements left to the discretion of the preparer. An illustrative statement is included in the Appendix.

A50. The Board concluded that disaggregation beyond the categories Social Security and Medicare for receipts and Social Security, Medicare and Medicaid for spending would be left to the discretion of the preparer. In addition, the Board decided to require narrative and graphics regarding the possible range of outcomes but not to require presentation of the range on the face of the primary summary display. Such additional items of information can be added by the preparer but are not required.

Per Capita Measures

A51. 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

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basis.

- A52. 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.

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(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 that a narrative explains present value and the nature of the numerator and denominator.

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(c) Per capita measures for infinite-horizon projection periods present special problems. It is uncertain how a reasonable per capita 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.

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(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.

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

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A53. After a discussion of the above issues, the Board decided not to include per capita measures in the proposed reporting requirements.

Time Horizon for Projections

- A54. 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

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shown. Some participants suggested that information using both finite and infinite-horizon projections be included.

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A55. A majority of the communications experts believe that information for both finite and infinite horizon projections should be provided to readers, but not necessarily both within a primary display.

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A56. Below are arguments for the finite and infinite horizon projection periods for the primary summary display that the Board discussed.

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- A57. 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 huge 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.⁵⁸

- A58. 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"

⁵⁸ *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](http://ntj.tax.org/wwtax/ntjrec.nsf/5DC000487120304885256D8E0054C858/$FILE/Lee.pdf)

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.

A59. The Board believes that the advantages of both finite and infinite horizons are sufficiently compelling that both finite and infinite horizon information should be provided, although only one projection period should be used for the primary summary display. Whichever type of projection period is selected for the primary display, the other type of projection period should be presented with the required narrative and graphics.

A60. The Board also believes that one of the projection periods used (in either the primary summary display or the narrative section) should be consistent with that used for SOSI. This will 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 primary summary display or the required narrative.

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 The Board believes that the advantages of both finite and infinite horizons are sufficiently compelling that both finite and infinite horizon information should be provided, although only one projection period should be used for the primary summary display.

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 The Concept of Fiscal Imbalance¶¶
 The Board considered two potential "bottom line" measures for the primary summary display: fiscal imbalance and fiscal gap.¶¶
 The fiscal imbalance is the net present value of existing federal debt plus projected spending,⁵⁹ minus projected receipts. The fiscal imbalance illustrates the amount that would be necessary to balance projected receipts, projected spending, and repayment of debt for a stated projection period. ¶¶
 The fiscal gap is the change in spending or revenue that would be necessary to maintain federal debt as a constant percentage of GDP.¶¶
 Several of the Task Force technical experts believe 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 spending less projected receipts. If

The Concept of Fiscal Imbalance

- A61. The Board considered two potential "bottom line" measures for the primary summary display: fiscal imbalance and fiscal gap.
- (a) The fiscal imbalance is the net present value of existing federal debt plus projected spending,⁵⁹ minus projected receipts. The fiscal imbalance illustrates the amount that would be necessary to balance projected receipts, projected spending, and repayment of debt for a stated projection period.
- (b) The fiscal gap is the change in spending or revenue that would be necessary to maintain federal debt as a constant percentage of GDP.

A62. Several of the Task Force technical experts believe 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 spending less projected receipts. If

⁵⁹ Since interest is factored into the present value calculation, the fiscal imbalance as a share of spending is expressed as a share of spending excluding interest. See FAQ 4 in Appendix C of the draft ED.

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. That is not necessary for continued solvency provided the economy is expected to last longer than 75 years. A positive level of debt is fiscally acceptable at the end of the projection period, provided it is not too big or growing too fast.

A63. A different measure, often called the fiscal gap, allows for a positive level of debt at the end of the forecast horizon, but it generally sets a limit arbitrarily on how big that debt should be relative to the economy, and shows how much more receipts (or spending cuts) would be needed to achieve that target.

A64. Any measure that that provides for a positive level of debt at the end of the projection period would also need to state a limit as to the size and growth rate of the debt. In the U.S., 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 historically has been frequently raised. Since the Board has no basis for selecting a debt-to-GDP limit or goal, the Board selected the “fiscal imbalance” concept rather than the fiscal gap concept, for the primary summary display.

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Request for Feedback from Readers of the CFR¶
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<#>Currently, the CFR does not request comments from readers or provide contact information for readers' comments. The Board expressed an interest in receiving feedback from financial statement users because such comments may be helpful in assessing whether the comprehensive long-term fiscal projections and accompanying narrative and graphics in the CFR are understandable and meaningful for readers.¶
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Appendix B: Example Formats and Illustrations

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

Primary Summary Display

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

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

Amounts projected to 75 years

	As of January 1, 2008 (Current Year)		As of January 1, 20XX (Prior Year)		Change from Prior Year	
	PV Dollars (in trillions)	% GDP*	PV Dollars (in trillions)	% GDP*	PV Dollars (in trillions)	% GDP*
Receipts						
Medicare	\$ 10.7	1.5%	\$ XX.X	X.X%	\$ X.X	X.X%
Social Security	36.3	5.1%	XX.X	X.X%	X.X	X.X%
All other receipts	91.0	12.8%	XX.X	X.X%	X.X	X.X%
Total Receipts	\$ 137.9	19.4%	\$ XX.X	X.X%	\$ X.X	X.X%
Spending						
Medicare	\$ 44.8	6.3%	\$ XX.X	X.X%	\$ X.X	X.X%
Medicaid	15.6	2.2%	XX.X	X.X%	X.X	X.X%
Social Security	40.5	5.7%	XX.X	X.X%	X.X	X.X%
Rest of Federal government**	73.9	10.4%	XX.X	X.X%	X.X	X.X%
Sub-total- Spending	\$ 174.9	24.6%	\$ XX.X	X.X%	\$ X.X	X.X%
Add: Debt Held by the Public	5.0	.7%	XX.X	XX.X%	XX.X	XX.X%
Total Projected Spending plus Repayment of Debt	\$ 179.9	25.3%	\$ XX.X	XX.X%	\$ XX.X	XX.X%
Fiscal Imbalance***	\$ 41.9	5.9%	\$ XX.X	X.X%	\$ X.X	X.X%
			As of January 1, 2008 (Current Year)	As of January 1, 20XX (Prior Year)	Change from Prior Year	
Fiscal Imbalance as a percentage of projected receipts			30.9%	XX.X%	X.X%	
Fiscal Imbalance as a percentage of projected spending			23.9%	XX.X%	X.X%	

Note: Amounts are estimated based upon guidance for selecting assumptions provided in this Statement. Receipts and spending include repayment of Social Security Trust Fund (estimated 0.3% of GDP). Fiscal Imbalance is calculated as a percentage of projected receipts and spending net of intragovernmental receipts and spending estimated at 0.3% GDP.

Descriptions of the following columns/line items should appear directly below the primary summary display:

* 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 from the Social Security and Medicare Trust Funds should be included in Receipts for Social Security and Medicare, and Outlays for Rest of government. (If material, these amounts should be displayed on separate sub-lines.)

*** The fiscal imbalance is the amount of present value dollars that would be necessary to balance future outlays and receipts and repay existing debt.

Accompanying Narrative and Graphics

Additional narrative and graphics: see page 46.

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% GDP

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Additional Information

The following additional information should supplement the summary display.⁶⁰

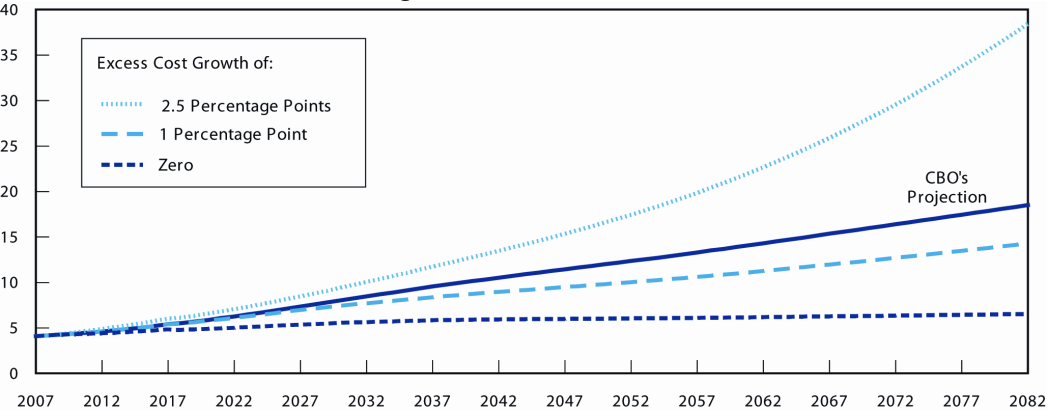
1. Rising Cost of Health Care

If the rising cost of federal spending on health care is a major factor in the long-term spending projections, it **may** be reported as follows:

- (a) If the growth in health care costs exceeds the growth in GDP, the 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 costs would exceed the resources that can be extracted from the economy.
- (b) A range encompassing three alternative scenarios (baseline, high and low estimates) along with a potential “most likely” trajectory if different from “intermediate,” **might** be presented in a graphic as a percentage of GDP. The graphic could use the example format in Illustration1a on the following page.

Illustration 1a: Range of Alternative Assumptions Graphic

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/>.

⁶⁰ See paragraphs 40-48 of this standard.

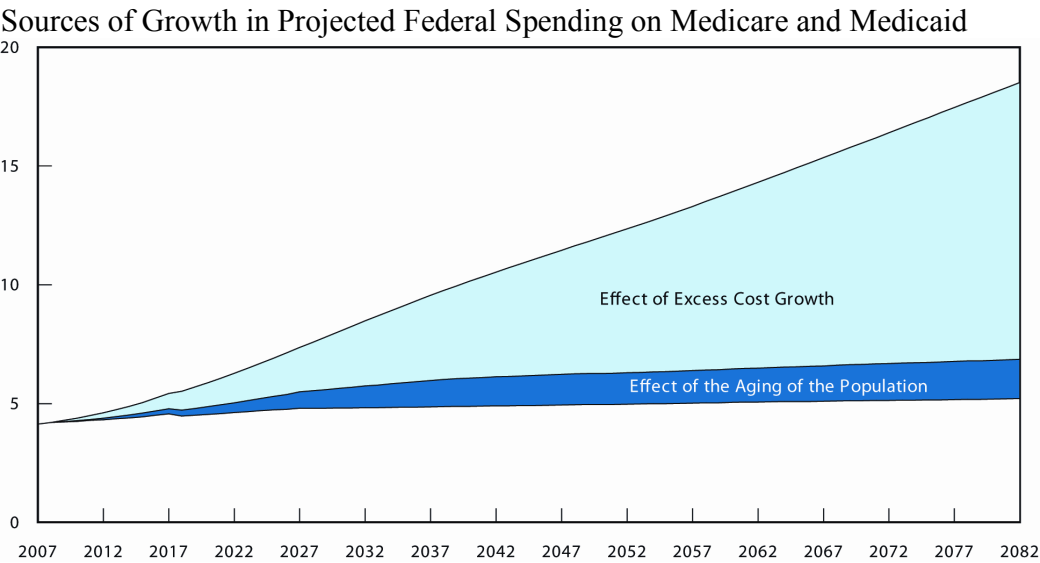
A narrative **might** describe the assumptions involved in the low, intermediate and high projections, and if applicable a fourth, “most likely” projection.

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In addition, a graphic **might** display the relative contribution of two or more major cost drivers. For example, Illustration 1b on the following page displays the effect of the aging of the population on Federal spending on Medicare and Medicaid versus excess cost growth.⁶¹

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Illustration 1b: Relative Contribution of Two Major Cost Drivers



Source: Congressional Budget Office, *Op. Cit*, page 14.

⁶¹ 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.

2. Demographic Trends

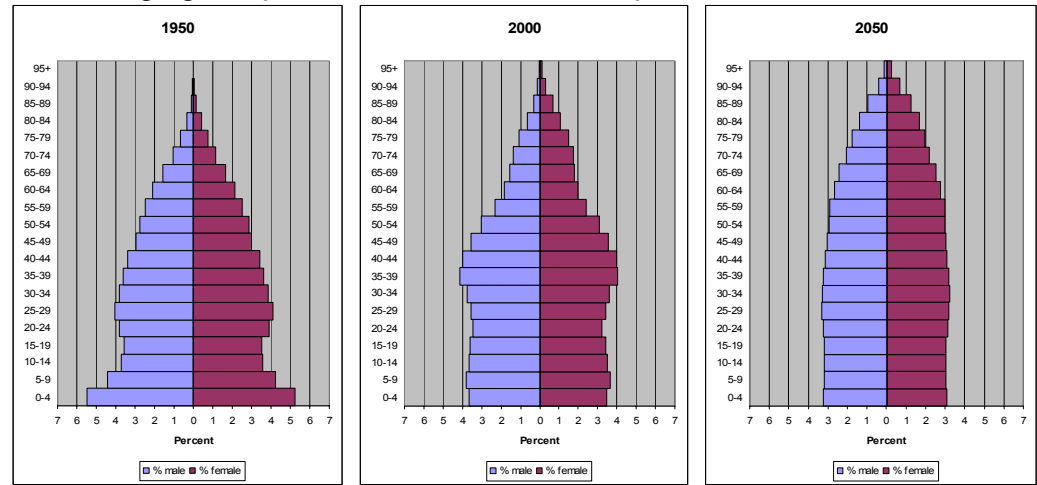
The narrative might describe demographic trends and briefly explain the major drivers of change in demographic trends, for example, trends in longevity and birth rates, and refer the reader to more extensive coverage of the topic in other existing reports, for example, the Social Security and Medicare 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.

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 at least 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 at least 50 years.

Illustration 2: Age-Gender Pyramid

The Changing Shape of the United States’ Population



Source: Social Security Administration, Area Population Statistics.

Alternatively, simple age demographics rather than workforce participation could be used, (i.e., “over 64 instead of “retired,”) provided that they are used consistently.⁶²

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.

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 U.S., and developed nation(s) projected to have fewer retirees per worker.

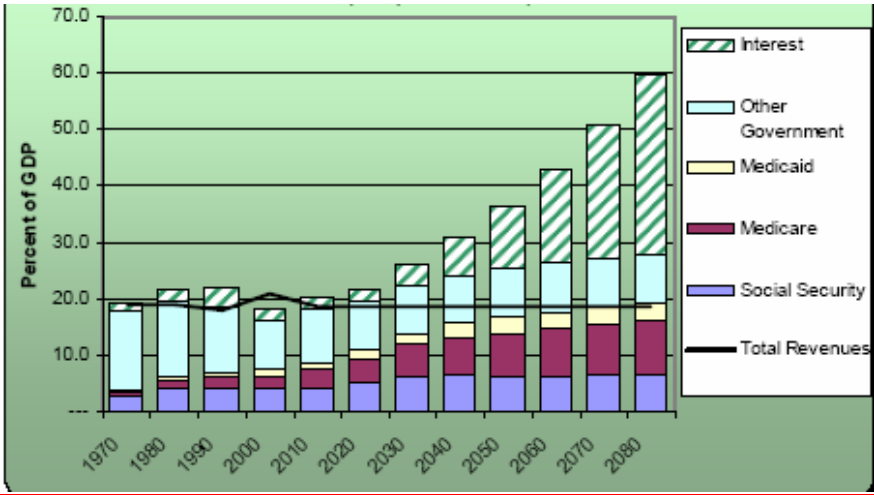
⁶² The European Commission defines the total dependency ratio as the “Population under 15 and over 64 as a percentage of the population aged 15-64.” *European Economy: Special Report 1/2006*, page 313.

3. Relationship of Projected Receipts and Spending

The narrative section could include a graphic of the relationship between projected receipts and spending for a progression of years beginning at least 20 years before the current year and future years projected to at least 75 years after the current year.

Below is an example.

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>.

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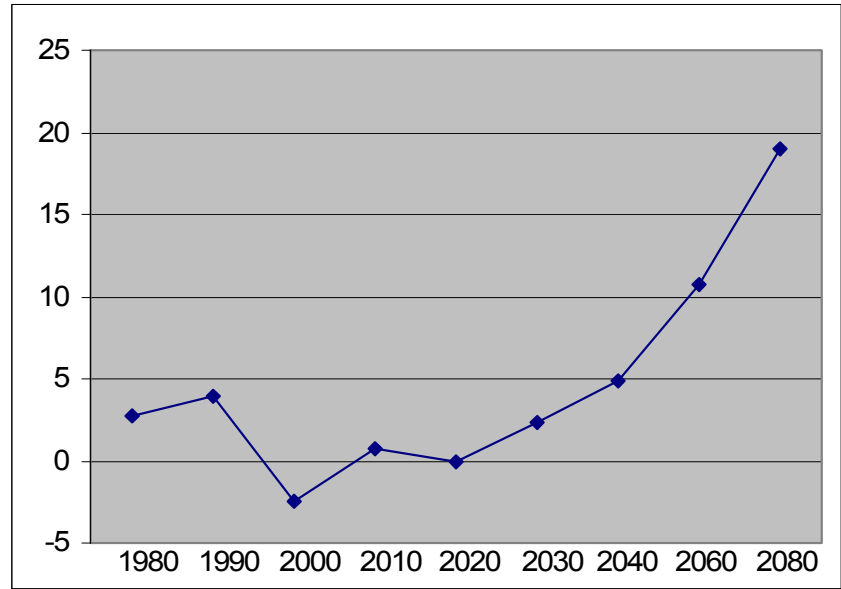
4. Trends in Deficit Spending

The trends in deficit spending could be graphically displayed as a percentage of GDP for a progression of years beginning at least 20 years before the current year and future years projected to at least 75 years after the current year.

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Illustration 3a: Projected Deficit/Surplus as a Percentage of GDP

Projected Deficit (Surplus) as a Percentage of GDP



Data source: Office of Management and Budget, Table 13-2, Chapter 13, "Stewardship," *Analytical Perspectives*, FY 2008 Budget.

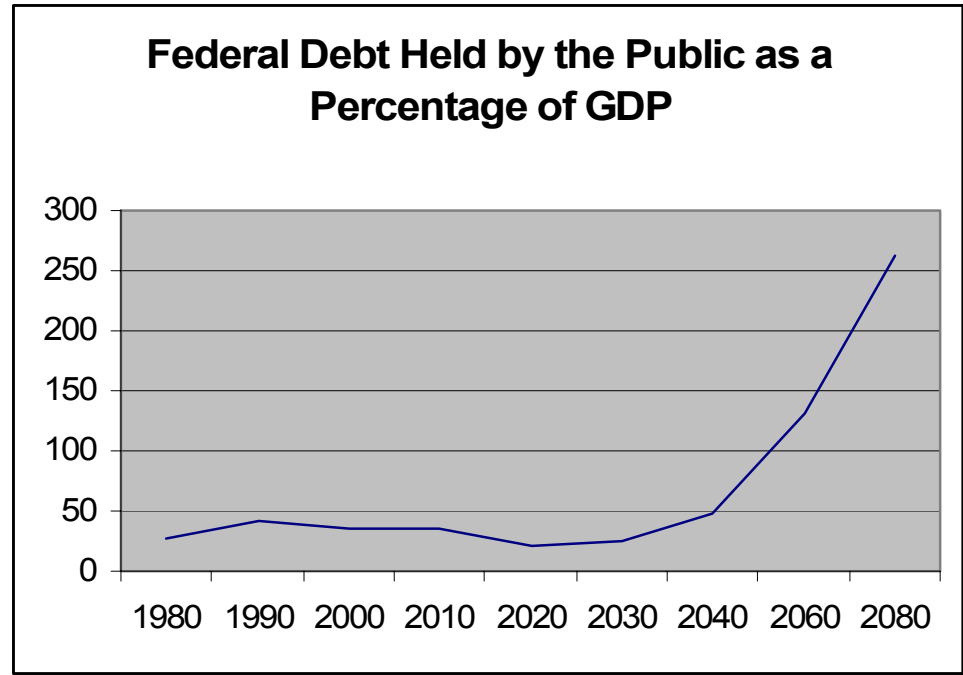
5. Trends in Treasury Debt

A graphic could display the projected trends in Treasury debt as a percentage of GDP, for a progression of years beginning at least 20 years before the current year and future years projected to at least 75 years after the current year. This graphic could illustrate the assumption that increased borrowing would be substituted for increased taxes and/or reduced spending.

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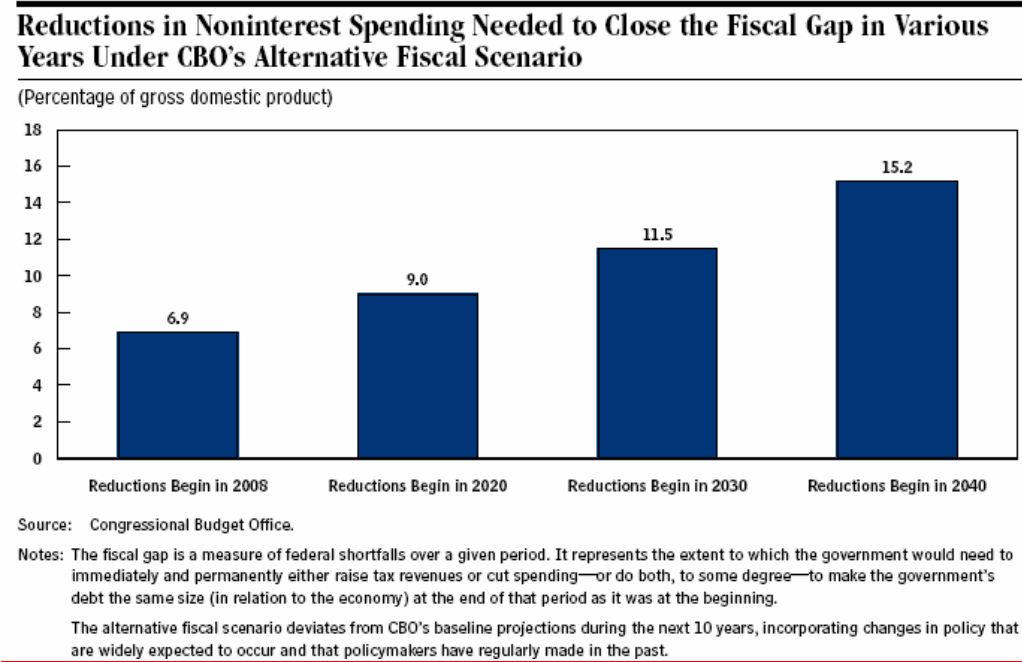
Illustration 3b- Increase in Federal Debt Held by the Public



Data source: Office of Management and Budget, Table 13-2, Chapter 13, “Stewardship,” *Analytical Perspectives*, FY 2008 Budget.

6. Impact of Delaying Action

If a fiscal imbalance (shortfall) is indicated by the projections, the narrative section would include a graphic that shows the likely impact of delaying action. Two graphics could display the progressive increase in the change that would be needed to close the fiscal imbalance by (a) reducing spending and alternatively (b) by increasing taxes. Alternatively, either (a) or (b) could be displayed in a graph and the narrative describe the impact of delay on the item not displayed. An example of graphic presentation of (a) is shown below.



Source: Congressional Budget Office, *The Long-Term Budget Outlook*, December 2007, Table 1-3, page 16.

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Appendix C: FAQs

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: $GDP = \text{consumption} + \text{investment} + \text{government spending} + (\text{exports} - \text{imports})$

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.

FAQ 4. What is present value?
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 annual interest, how much do I need to put into the bank today in order to have \$100 one year from today?” Clearly, the amount you would need today would be less than \$100.

In present value calculations, the further out in the future the needed amount, the smaller is the amount that 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,

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• the interest earned in year two on the principal amount, and

• the interest earned in year two in 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 is the fiscal imbalance measure?

The fiscal imbalance illustrates the amount of present value dollars that would be necessary to balance future spending and receipts and repay existing debt.

FAQ 6. What are projections?

Projections are not forecasts or predictions; they are designed to ask the question “what if?” For example, possible “what ifs” may include that tax cuts are (a) allowed to expire or (b) be extended. 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 7. What factors affect projections?

Projections are affected by three kinds of assumptions: policy assumptions, economic assumptions and demographic assumptions.

Policy assumptions address the level of services provided by the federal government as well as the framework for assessing taxes and fees. Policy assumptions include projected changes in the framework for assessing taxes and fees that will be collected, and projected spending rules (for example, benefit formulas) for both mandatory and discretionary programs.

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

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

Projections are also affected by uncertainty. Economic and demographic assumptions are generally expressed in a range of possible results. Policy assumptions are generally expressed by providing alternative scenarios that show more than one possible broad direction in which policy might proceed.

FAQ 8. What is the difference between earmarked revenue and other revenue, and what is the nature of **federal trust funds**?

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<#>What is the fiscal gap measure? ¶
The fiscal gap is the change in spending or revenue that would be necessary to maintain public debt as a constant percentage of GDP.¶

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“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.” Examples include the Social Security Trust Fund, the Medicare Trust Funds, the Unemployment Trust Fund and the Highway Trust Fund. The distinction of whether an earmarked fund is categorized in the budget as a “special fund” or a “trust fund” is 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 use of the term “trust fund” for earmarked funds except when referring to the legal title of the fund, and requires the following note disclosure to explain the nature of federal trust funds:

Investments in Treasury securities for earmarked funds should be accompanied by a note that explains the following issues:

- 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 redeems its Treasury securities to make expenditures, the U.S. Treasury will finance those expenditures in the same manner that it finances all other expenditures.⁶³

⁶³ SFFAS 27, paragraph 27.

Appendix D: Abbreviations

CBO	Congressional Budget Office
CFR	Consolidated Financial Report of the U.S. Government
FAQ	Frequently Asked Question
FASAB	Federal Accounting Standards Advisory Board
<u>FY</u>	<u>Fiscal Year</u>
GAO	Government Accountability Office (formerly, General Accounting Office)
GDP	Gross Domestic Product
OMB	Office of Management and Budget
<u>RSI</u>	<u>Required Supplementary Information</u>
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: Glossary

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.

Demographic Assumptions - Demographic assumptions address projected population trends (for example, birth rates, mortality rates and net immigration). Deleted: such as

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 for the continuing operation of all federal programs that are not “mandatory.” “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 legislation. For additional information, see *A Glossary of Terms Used in the Federal Budget Process*, GAO-05-734SP. Deleted: such as

Earmarked Revenue – 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 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 to explain the nature of federal trust funds:

Investments in Treasury securities for earmarked funds should be accompanied by a note that explains the following issues:

- 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 redeems its Treasury securities to make expenditures, the U.S. Treasury will finance those expenditures in the same manner that it finances all other expenditures.⁶⁴

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 Gross Domestic Product).

Federal “trust funds” - Earmarked revenue is generally accounted for in the budget separately, in accounts categorized as “special funds” or “trust funds.” Examples include the Social Security Trust Fund, the Medicare Trust Funds, the Unemployment Trust Fund and the Highway Trust Fund. The distinction of whether an earmarked fund is categorized in the budget as a “special fund” or a “trust fund” is 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 use of the term “trust fund” for earmarked funds except when referring to the legal title of the fund, and requires the following note disclosure to explain the nature of federal trust funds:

Investments in Treasury securities for earmarked funds should be accompanied by a note that explains the following issues:

- 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 redeems its Treasury securities to make expenditures, the U.S. Treasury will finance those expenditures in the same manner that it finances all other expenditures.⁶⁵

Fiscal Gap - The fiscal gap is the change in spending or revenue that would be necessary to maintain public debt as a constant percentage of GDP.

⁶⁴ SFFAS 27, paragraph 27.

⁶⁵ SFFAS 27, paragraph 27.

Fiscal Imbalance -The fiscal imbalance is the net **present value** of existing federal debt plus projected ⁶⁶ spending minus projected receipts. The fiscal imbalance illustrates the amount that would be necessary to balance projected receipts, projected spending, and repayment of debt for a stated projection period. The fiscal imbalance as of a stated valuation date⁶⁷ may be expressed as:

- (a) a summary amount in present value dollars.
- (b) a share of the present value of the **Gross Domestic Product (GDP)**⁶⁸ for the projection period, and/or
- (c) a share of the present value of projected receipts or projected spending.⁶⁹

Fiscal Sustainability Reporting – In federal financial reporting, “Fiscal Sustainability Reporting” is the short term for “Comprehensive Long-Term Fiscal Projections and Accompanying Graphics and Narrative in the Financial Report of the U.S. Government.”

Gross Domestic Produce (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)

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

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Policy Assumptions - Policy assumptions address the level of services provided by the federal government for both mandatory and discretionary spending as well as the framework for assessing taxes and fees.

⁶⁶ Since interest is factored into the present value calculation, the fiscal imbalance as a share of spending is expressed as a share of spending excluding interest. See FAQ 4 on page 54.

⁶⁷ See requirement for valuation date in paragraph 32.

⁶⁸ 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.

⁶⁹ Showing the fiscal imbalance as a ratio of the present values of total projected receipts, alternatively total projected spending, is useful to illustrate by how much projected receipts or spending would have to be changed in order to reduce the fiscal imbalance to zero. However, some policy adjustments may alter both the numerators and denominators of those ratios, thereby compromising the usefulness of ratio comparisons across fiscal projections under different policies.

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Present Value - 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 annual interest, how much do I need to put into the bank to have \$100 one year from today?” Clearly, the amount you would need today would be less than \$100.

Deleted: Policy assumptions address the level of services provided by the federal government as well as the framework for assessing taxes and fees.¶

Projections – A projection is the calculation of future data based upon the application of trends to present data. Projections are not forecasts or predictions; they are designed to ask the question “what if?” For example, possible “what ifs” may include that tax cuts are (a) allowed to expire or (b) be extended. Projections are useful in order to display alternative future scenarios, but it is important to clearly explain the nature of the information being presented.

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Deleted: Simulations Projections and simulations are not forecasts or predictions; they are designed to ask the question “what if?” For example, possible “what ifs” may include that tax cuts are (a) allowed to expire or (b) be extended. Projections and simulations are useful in order to display alternative future scenarios, but it is important to clearly explain the nature of the information being presented.¶

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Fiscal Gap

The fiscal gap is the change in spending or revenue that would be necessary to maintain federal debt as a constant percentage of GDP. The fiscal gap can be expressed in present value dollars or a percentage of GDP as of the reporting date, or as a percentage that inflows or outflows would need to change as of the reporting date in order to hold debt constant as a percentage of GDP. The fiscal gap calculation assumes that debt will be held constant as a percentage of GDP.

Policy assumptions include projected changes in the framework for assessing taxes and fees that will be collected, and projected spending rules (

for example, current benefit formulas) for both **mandatory** and **discretionary** programs.

appear below, and pro forma illustrations appear in Appendix B.

Note to the Board:

Three potential summary formats, Options A, B and C are described below. Options D and E are described in the February 2008 briefing memo.

Pro forma illustrations for Options A, B and C appear in Appendix B, page 35; the pro forma illustrations for Options D and E are attached to the February 2008 briefing memo.

Option A

The preparer may decide to provide additional detail should also strive to preserve the intended simplicity of the primary summary display by limiting the amount of detail in the primary summary display.

ask the question “what if?” and the narrative should describe the major “what ifs” that are being projected

ask the question “what if?” and the narrative should describe the major “what ifs” that are being projected. T

To accompany the graphic for (c) above, the narrative should provide international perspective by reporting target debt levels established by selected other nations, for example the U.K.,

Canada, New Zealand, and the European Commission, and explain how the projected U.S. debt levels compare. Selected nations should include both the lowest and highest debt level targets.
(See Illustrations 3, 4, and 5 in Appendix B)

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taxes. Alternatively, either (a) or (b) could be displayed in a graph and the narrative describe the impact of delay on the item not displayed. (See Illustration 6 in Appendix B.)

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In addition, the narrative should explain that the projections displayed are not forecasts or predictions; they are designed to ask the question “what if?” and the narrative should describe the major “what ifs” that are being projected. Long-range projections should be accompanied by a narrative that includes:

a listing of significant assumptions,

explanation of why the significant assumptions used were selected,

discussion of the effects of uncertainty,

how different assumptions would affect the projection (including alternative scenarios where appropriate), and

specific citations of sources (such as the Annual Trustees Reports for Social Security and Medicare, specific CBO and GAO reports, and the Budget of the U.S. Government) where the reader will find more detailed information about significant assumptions or alternative scenarios.

The narrative should explain the concepts of present value dollars, GDP, time horizons and other terms used in the summary display, such as fiscal imbalance and fiscal gap. The explanation of present value should include the interest rates used to calculate present value.

The narrative should explain and illustrate the major factors that are expected to have a significant impact upon future inflows or outflows of the U.S. Government. The preparer should present separate graphic displays and narrative for the most significant factors. Examples of major factors that are currently expected to have a significant impact upon the future inflows and outflows of the U.S. Government include but are not limited to (a) rising costs of health care and (b) demographic trends.

For major factors that have a significant element of uncertainty, projections should be shown as a range: graphic presentation(s) should illustrate low, intermediate and high estimates.

Narrative and graphics should also show trends of annual deficit or surplus as a % of GDP, at intervals beginning at least 20 years before the current year and future years projected to at least 75 years after the current year. [Example: 1980, 1990, 2000, 2010, 2020, 2040, 2060, 2080 and 2100 or “All” (“All” indicates infinite horizon.)]

For international perspective, the narrative should include target debt levels established by selected other nations, such as the U.K., Canada, New Zealand, and the European Commission, and explain how the projected U.S. debt levels compare. Selected nations should include both the lowest and highest debt level targets.

The narrative should explain the significance of the graphic(s) and put the information into context. Examples of context include but are not limited to:

comparison of the data/trend with that of other developed nations,

comparison of the data/trend with everyday life, such as spending in excess of income over a long period of time, and/or

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

If projections indicate a fiscal gap, the narrative should explain how options for addressing the issue will become more limited and/or the impact of the options more severe if action is delayed, and discuss the disadvantages of delaying action, including:

There are risks involved in ever-increasing Treasury borrowing.

Changes in tax rates and/or benefits would need to be larger if action is delayed.

Examples should be provided.

The accompanying narrative should include the following information:

Narrative explanation that trends projected, particularly near the end of the projection period, are important to consider, but that projections beyond the projection period are subject to increasing uncertainty.

The total projected shortfall (surplus) for the infinite horizon should be reported in present value dollars, % of taxable payroll, and % of future GDP.

For periods after the initial implementation period, the change in the previous year's infinite-horizon shortfall (surplus) should be reported in present value dollars for comparison with the above. The quantitative data supporting the primary summary display and the additional narrative and graphics may be provided in an appendix or other secondary display, or cross-referenced (and/or hyperlinked) 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).¹

¹ Available at: <http://www.ssa.gov/OACT/TR/>.

other secondary display, or cross-referenced (and/or hyperlinked) to a more detailed report, for example, the President's Budget, a Congressional Budget Office report, or the Trustees Report (*Status of the Social Security and Medicare Program*)

The narrative should include

examples of sources (for example, the Annual Trustees Reports for Social Security and Medicare, specific CBO and GAO reports, and the Budget of the U.S. Government) where the reader will find more detailed information about significant assumptions or alternative scenarios.

The narrative should include an explanation of the following limitations:

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

Where indicated, forward-looking projections and simulations may also encompass hypothetical future trends or events that are not necessarily deemed probable (such as the assumed ability to continue issuing new public debt indefinitely), for which financial projections may be appropriate.

Fiscal Sustainability Reporting is limited to the activity of the federal government, and does not include activities of state and local governments. However, the narrative should direct the reader to any recent reports that address the long-term fiscal outlook for state and local governments.²

Request for Feedback from Readers of the CFR

The CFR should request feedback from readers of the CFR, in particular regarding the comprehensive long-term fiscal projections and accompanying narrative and graphics. Readers should be provided with a mailing address and an e-mail address for comments. A copy of comments received should be forwarded to the Board.

Effect on Current Standards

² For example, the GAO reports *State and Local Governments: Persistent Fiscal Challenges Will Likely Emerge with the Next Decade*, July 18, 2007 (GAO-07-1080SP) and *The Nation's Long-Term Fiscal Outlook* August 2007 Update (GAO-07-1261R) address the long-term fiscal outlook for state and local governments.

[To be developed, based on future Board decisions about placement of information (principal statements/notes, MD&A, etc.)]

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

Beginning in fiscal year 2013, the required information should be presented as a basic financial statement and related disclosures.

Earlier implementation is encouraged.

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

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

Information may be reported as Required Supplementary Information (RSI) for the first three years of implementation (i.e., for Fiscal Years 2010, 2011 and 2012).

Earlier implementation is encouraged.

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

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Information may be reported as Required Supplementary Information (RSI) for the first three years of implementation (i.e.,

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Fiscal Years 2010, 2011 and 2012).

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The terms “basic financial statements” and “principal financial statements” have been used synonymously in federal accounting.³

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Congress established the trust funds in the U.S. Treasury to account for all program income and disbursements. Social Security and Medicare taxes, premiums, and other income are credited to the funds. Disbursements from the funds can be made only to pay benefits and program administrative costs.

The Department of the Treasury invests program revenues not needed in the current year to pay benefits and administrative costs in special non-marketable securities of the U.S. Government on which a market rate of interest is credited. Thus, the trust funds represent the accumulated value, including interest, of all prior program annual surpluses

³ See SFFAS 25, paragraph 34.

and deficits, and provide automatic authority to pay benefits.

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There are four separate trust funds. For Social Security, the Old-Age and Survivors Insurance (OASI) Trust Fund pays retirement and survivors benefits, and the Disability Insurance (DI) Trust Fund pays disability benefits. (The two trust funds are jointly designated as OASDI.) For Medicare, the Hospital Insurance (HI) Trust Fund pays for inpatient hospital and related care. The Supplementary Medical Insurance (SMI) Trust Fund comprises two separate accounts: Part B, which pays for physician and outpatient services, and Part D, which covers the prescription drug benefit that began in 2006. Medicare benefits are provided to most people age 65 and over and to most individuals who receive Social Security disability benefits.		

Projections for Social Security and Medicare

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There are four separate trust funds. For Social Security, the Old-Age and Survivors Insurance (OASI) Trust Fund pays retirement and survivors benefits, and the Disability Insurance (DI) Trust Fund pays disability benefits. (The two trust funds are jointly designated as OASDI.) For Medicare, the Hospital Insurance (HI) Trust Fund pays for inpatient hospital and related care. The Supplementary Medical Insurance (SMI) Trust Fund comprises two separate accounts: Part B, which pays for physician and outpatient services, and Part D, which covers the prescription drug benefit that began in 2006. Medicare benefits are provided to most people age 65 and over and to most individuals who receive Social Security disability benefits.		

Projections for Social Security and Medicare

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Costs/Outflows/Responsibilities		
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Costs/Outflows/Responsibilities		
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outlays (including debt held by the public) presented as the Fiscal Imbalance		
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"Bottom Line" Amounts		
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Displayed as both (present value) dollars and percent of Gross Domestic Product (GDP) Fiscal Imbalance as a percent of		
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Gross Domestic Product (
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Year
“Net Change”

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Column
Disaggregation of

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Funds (Social Security and Medicare Part A)
Range

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(high, low, medium) (for “Bottom Line” or some other summary
total—not for all line items)

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(high, low, medium) (for “Bottom Line” or some other summary
total—not for all line items)

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A majority of the members decided that (a) through (f) above should be
included as minimum requirements for the primary summary display, with
the format of the elements left to the discretion of the preparer. An
illustrative

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pro forma could be included in the Appendix.

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Option B, Future Implications of Current Policies, is based upon a
recommendation from one of the technical group members of the Fiscal
Sustainability Task Force.

Option C, Long-Term Implications of Current Policies, Option C is a
modified version of Option A, developed by staff based upon the “pros-and-
cons” for Options A and B discussed in the December briefing memo.

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provide for 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 primary summary display or the required narrative.

The Concept of Fiscal Imbalance

The Board considered two potential “bottom line” measures for the primary summary display: fiscal imbalance and fiscal gap.

The fiscal imbalance is the net present value of existing federal debt plus projected spending,⁴ minus projected receipts. The fiscal imbalance illustrates the amount that would be necessary to balance projected receipts, projected spending, and repayment of debt for a stated projection period.

The fiscal gap is the change in spending or revenue that would be necessary to maintain federal debt as a constant percentage of GDP.

Several of the Task Force technical experts believe 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 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. That is not necessary for continued solvency provided the economy is expected to last longer than 75 years. A positive level of debt is fiscally acceptable at the end of the projection period, provided it is not too big or growing too fast.

A different measure, often called the fiscal gap, allows for a positive level of debt at the end of the forecast horizon, but it generally sets a limit arbitrarily on how big that debt should be relative to the economy, and shows how much more receipts (or spending cuts) would be needed to achieve that target.

Any measure that provides for a positive level of debt at the end of the projection period would also need to state a limit as to the size and growth rate of the debt. In the U.S., 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 historically has been frequently

⁴ Since interest is factored into the present value calculation, the fiscal imbalance as a share of spending is expressed as a share of spending excluding interest. See FAQ 4 in Appendix C of the draft ED.

raised. Since the Board has no basis for selecting a debt-to-GDP limit or goal, the Board selected the “fiscal imbalance” concept rather than the fiscal gap concept, for the primary summary display.

rejected accumulation of total unfunded costs from the beginning of the current year (2007)

% GDP	Cumulative Total in Years Including the Current Year						
	1-5	1-10	1-25	1-50	1-75	1-100	All
Total Federal Obligations Under Current Policies							
Medicare	XX	XX	XX	XX	4.8	XX	XX
Social Security	X	XX	XX	XX	0.9	XX	XX
Rest of Federal Government	X	XX	XX	XX	(0.5)	XX	XX
Total- present value dollars	XXX	XXX	XXX	XXX	5.2	XXX	XX X

**Summary of March 31, 2008 Fiscal Sustainability Task Force Meeting
and subsequent communications via e-mail:
Technical Review of Draft Exposure Draft, *Reporting Comprehensive
Long-Term Fiscal Projections for the U.S. Government***

Attendees:

Task Force Participants:

Robert Anderson, Office of Management and Budget

Jagadeesh Gokhale, Cato Institute

Thomas McCool, Government Accountability Office

Benjamin Page, Congressional Budget Office

Paul Posner, George Mason University

Allen Schick, Brookings Institute

Eugene Steuerle, Urban Institute

FASAB Staff:

Wendy Payne

Eileen Parlow

Comments Resulting in Proposed Edits

1. Factors that drive high/low variance

The requirement for displaying a range (paragraph 44) should include a requirement to list the major causes of the variances, at least to the extent known (for example, uncertainty in expectations regarding life expectancy or net immigration for Social Security).

Draft addition to par. 44: The narrative should list several of the major causes of the variances displayed.

2. Population characteristics in projecting growth per capita

The example of “constant real per capita” as a notion used for projecting spending (in paragraph 28c) is too simplistic. Reference should be made to the characteristics of program recipients to the extent applicable.

Draft footnote to 28(c): As applicable, the characteristics of the population should be considered for expenditures that benefit identifiable subgroups.

3. Limitations of showing fiscal imbalance as a ratio of projected inflows or outflows

Fiscal imbalance definition: if the fiscal imbalance is shown as a ratio of total projected inflows or outflows, this is of limited usefulness because some policy adjustments may alter both the numerator and the denominator.

Draft footnote to definition of fiscal imbalance in paragraph 12:
Showing the fiscal imbalance as a ratio of the present values of total projected receipts, alternatively total projected outlays, is useful to illustrate by how much those receipts or outlays would have to be changed in order to reduce the fiscal imbalance to zero. However, some policy adjustments may alter both the numerators and denominators of those ratios, thereby compromising the usefulness of ratio comparisons across fiscal projections under different policies.

4. Assumptions that depart from current law

With respect to the guidance regarding assumptions, the group felt that it would be ideal to be able to narrow the degree of preparer judgment for assumptions. During discussion, the group noted that many countries have refined their techniques over the years and that that approach may be best here. With experience, more rigorous guidance may be developed.

Other comments regarding assumptions and projections included:

- a) The limited disaggregation for display is not meant to imply a limited disaggregation in the projection calculations. For example, trends in health care costs impact not only Medicare and Medicaid, but other programs as well.
- b) One of the technical experts suggested that explicit limits be placed on digressions from current law. He suggested that: First, have a current law line on the statement followed by "modifications" to current law on separate lines. This would come closest to the CBO practice of showing both the baseline required by the rules and an adjusted baseline. Second, limit these adjustments to instances where law has habitually been changed in the past, for example, the AMT patch, adjustments in physician payments under Medicare, and the debt limit. Require the preparer to state the amount of adjustment and why they were made. This can be "below the line" or in a supporting schedule. Other task force participants noted that this suggestion would not be as practical as it sounds to implement.

Staff note: Staff does not recommend any changes to the guidance for selecting assumptions or the primary summary display. However, staff does recommend including an additional narrative requirement in paragraph 41 of the ED.

Draft additional sentence, paragraph 41:
The narrative should explain the most significant departures from current law- for example, if the spending assumptions ignore the statutory limit on Federal debt.

5. The concept of “fiscal imbalance”

One of the technical experts raised a concern regarding the fiscal imbalance measure under a finite horizon. This limitation is explained in the following text. Staff proposes that the text be included in the Basis for Conclusions section of the ED.

The concept of fiscal imbalance

The Board considered two potential “bottom line” measures for the primary summary display: fiscal imbalance and fiscal gap.

- a. The fiscal imbalance is the net present value of existing federal debt plus projected spending,¹ minus projected receipts. The fiscal imbalance illustrates the amount that would be necessary to balance projected receipts, projected spending, and repayment of debt for a stated projection period.**
- b. The fiscal gap is the change in spending or revenue that would be necessary to maintain federal debt as a constant percentage of GDP.**

Several of the Task Force technical experts believe 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 net present value of existing federal debt plus projected 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. That is not necessary for continued solvency provided the economy is expected to last longer than 75 years. A positive level of debt is fiscally acceptable at the end of the projection period, provided it is not too big or growing too fast.

A different measure, often called the fiscal gap, allows for a positive level of debt at the end of the forecast horizon, but it generally sets a limit arbitrarily on how big that debt should be relative to the economy, and shows how much more receipts (or spending cuts) would be needed to achieve that target.

Any measure that provides for a positive level of debt at the end of the projection period would also need to state a limit as to the size and growth rate of the debt. In the U.S., 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 historically has been frequently raised. Since the Board has no basis for selecting a debt-to-GDP limit or goal, the Board selected the “fiscal imbalance” concept rather than the fiscal gap concept, for the primary summary display.

6. Terminology for “current levels” and “current policy”

The term “current policy” may imply a relationship to the current administration/President’s budget. Other potential terms discussed at the meeting

¹ Since interest is factored into the present value calculation, the fiscal imbalance as a share of spending is expressed as a share of spending excluding interest. See FAQ 4 in Appendix C of the draft ED.

included “current law baseline,” “current law extended,” “current law, modified,” “current services” and “the continuation of current law by extension.” There was a consensus that the term “modified current law” is preferable to the terms “current policy.” Participants noted that even “modified current law” is not ideal. Also, several participants believe the term “current levels” used as a short form may imply constant dollar levels or constant relative dollar levels.

Staff has drafted the following for inclusion in the Basis for Conclusions section of the ED:

The term “current policy” as defined in this Statement is not intended to be used as the title for any display, but rather as a short term to assist the overall readability of this exposure draft, in particular in sentences where the term “current levels of benefits, services and taxation” would make the sentence difficult to read and understand.

A majority of the technical experts agreed with the substance of the proposed guidance in the ED- that the primary summary display should present current levels of spending and taxation- but noted that it is difficult to coin a term to refer to this concept without implying something else. A majority of the technical experts recommended the term “modified current law” as being preferable to the term “current policy.” However, the Board believes that substituting the term “modified current law” for “current policy” throughout the exposure draft would make many sentences unclear or misleading, because the emphasis on continuing current levels of benefits, services and taxation would be lost.

Comments not resulting in specific edits

- (a) The reporting should avoid any impression of labeling a scenario as being fiscally sustainable simply because it appears to show a long-term balance. Other task force members noted that the proposed reporting does not appear to label scenarios as being sustainable or unsustainable.
- (b) OMB will probably want to make sure that the President's Budget proposals are adequately covered.
[Staff note: As drafted, the ED does not prohibit coverage of the President's Budget. However, the ED does require that the primary summary display should present projections based on current levels. Current levels would serve as the baseline from which the advantages of the budget or other proposals could be illustrated, either in the CFR or elsewhere.]
- (c) Focusing on a single number is likely to erode credibility because a single number is easier to dismiss by challenging even a single assumption. Focusing on a range would be preferable. There could be several displays based upon different sets of assumptions- for example, the President's Budget and various proposed changes in spending or taxation.
- (d) The reporting should "identify the highest-growing programs." Although this is already implied in paragraph 44: "Narrative and graphics should explain and illustrate the major factors that are expected to have a significant impact upon future receipts and outlays of the federal government...." a sentence could be added: "The narrative should list the federal programs with the highest automatic built-in growth rates," in a way that indicates that the ultimate goal should be to account for liabilities associated with mandatory programs, starting with those that are largest in terms of size of future growth. The narrative should list mandatory federal programs with the highest automatic built-in growth as a way to identify future priorities for more complete budget accounting.
- (e) Present value dollars are too complicated for readers to understand and should not be presented.
[Staff note: A plain English explanation of present value in FAQ 4 may help explain the concept of present value and the draft ED asks respondents if the FAQs are helpful.]
- (f) Comparisons with other nations are not relevant.
[Staff note: Context is required, but comparisons with other nations are encouraged (not required) by paragraph 43. Paragraph 43 is pasted below for reference.]
[43] The narrative should explain the significance of the graphics and put the information into context. Examples of context include but are not limited to:
 - a. Comparison of the data/trend with that of other developed nations,

- b. Comparison of the data/trend with everyday life, for example, spending in excess of income over a long period of time, and/or
 - c. 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.
- (g) The preparer should provide some perspective in the MD&A about the significance of sustainability. Why does it matter and what are its limitations as a guide to fiscal policy. Long term sustainability is not the only thing we should care about in budgeting and fiscal policy. If we achieved sustainability by doing little more than paying the elderly and their doctors, we would have a budget that would not respond to the needs of a growing nation. The budget should not only be sustainable but have sufficient flexibility to respond to emerging needs. The discussion and analysis could point to likely shifts in the agenda facing future federal policy makers. For instance, we will continue to grow in population, we will face new challenges in congestion and infrastructure that will come home to roost in the federal budget, the state and local sector will also struggle with similar fiscal problems which will constrain policymakers actions in shifting costs downward, we will face shortages in energy and challenges in global warming that may also prompt budgetary demands.