June 4, 2007

To: Communications Experts: The Honorable Mike Conaway (R-TX); The Honorable Jim Cooper (D-TN); Mr. Robert L. Bixby, Concord Coalition; Dr. Gary L. Kreps, George Mason University; Dr. Paul Posner, George Mason University; Ms. Sheila Weinberg, Institute for Truth in Accounting


Other: Dr. Patricia Kearney, California State University at Long Beach; Dr. Howell Jackson, Harvard Law School; Dr. Katherine Rowan, George Mason University

Thank you for accepting the Board’s invitation to participate in a Task Force on Fiscal Sustainability Reporting. Your participation will assist the Board in improving reporting to the public about the long-term fiscal outlook of the U.S. Government.

The Issue
The Federal Accounting Standards Advisory Board (FASAB) develops financial reporting standards for the U.S. Government. Readers of the U.S. Government’s annual financial report include the public, public intermediaries such as the press, and members of Congress.¹

We are considering what information might be understandable and meaningful to readers in assessing whether future resources will likely be sufficient to sustain public services and to meet obligations as they come due.

Although the annual Financial Report of the U.S. Government includes forward-looking information about selected major programs, it may not adequately address projected long-term fiscal imbalances. In its audit report on the Fiscal Year (FY) 2006 Financial Report of the U.S. Government, the Government Accountability Office (GAO) noted the following:

¹ For more information on the FASAB’s organization and mission, see http://www.fasab.gov/aboutfasab.html
The Nation’s Fiscal Imbalance

While we are unable to express an opinion on the U.S. government’s consolidated financial statements, the following key items deserve emphasis in order to put the information contained in the financial statements and the Management’s Discussion and Analysis section of the 2006 Financial Report of the United States Government into context. Despite improvement in both the fiscal year 2006 reported net operating cost and the cash-based budget deficit, the U.S. government’s total reported liabilities, net social insurance commitments, and other fiscal exposures continue to grow and now total approximately $50 trillion, representing approximately four times the Nation’s total output (GDP) in fiscal year 2006, up from about $20 trillion, or two times GDP in fiscal year 2000. As this long-term fiscal imbalance continues to grow, the retirement of the “baby boom” generation is closer to becoming a reality with the first wave of boomers eligible for early retirement under Social Security in 2008. Given these and other factors, it seems clear that the nation’s current fiscal path is unsustainable and that tough choices by the President and the Congress are necessary in order to address the nation’s large and growing long-term fiscal imbalance. [Source: Financial Report of the U.S. Government, 2006, Government Accountability Office Report, page 152. This document is available at http://www.fms.treas.gov/fr/index.html ]

The bipartisan Concord Coalition, in partnership with the Heritage Foundation, the Brookings Institution, the American Institute of Certified Public Accountants, the AARP and other organizations, has been conducting a “Fiscal Wake-Up Call Tour” in an attempt to inform the American public of the nation’s long-term fiscal imbalances. (For further information, see http://www.concordcoalition.org/about.html and “Tour Q&A” at http://www.gao.gov/special.pubs/longterm/tourqa.html )

The FASAB is now considering what information about the nation’s fiscal imbalances should be required in the U.S. Government’s annual financial report.

Plan to Address the Issue

The Board requested the recommendations of experts relevant to the challenge of effectively communicating information on fiscal sustainability. The “technical expert” task force members are:

- Joseph Antos, Wilson H. Taylor Scholar in Health Care and Retirement Policy, American Enterprise Institute
- Richard Foster, Chief Actuary, Center for Medicare and Medicaid

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Next Steps
(a) The Financial Statement Users/Communications Experts task force members will meet on June 19, 2007 to discuss communication options. This group will include members of Congress, several of the technical members listed above, and academia.

(b) FASAB staff will draft the tentative recommendations and alternative proposals resulting from both meetings. Members of both the technical and communications groups will be asked to review and comment on this document (tentatively in late July 2007).

(c) After review by task force members, FASAB staff will present recommendations to the FASAB for consideration at the September 2007 Board meeting. The FASAB will review the recommendations of the task force and will deliberate on whether new reporting standards should be proposed. A resulting proposal would be documented in an Exposure Draft and released for public comment.

Enclosed is a briefing package that includes the meeting agenda and the questions that we have for participants. If you have any questions, concerns or comments, please contact Ms. Eileen Parlow, Assistant Director and Project Manager, at 202-512-7356, e-mail ParlowE@fasab.gov or me at 202-512-7357, e-mail ComesW@fasab.gov

I look forward to working with you on this important issue.

Sincerely yours,

Wendy M. Comes
Executive Director
Introduction

This briefing package contains the following:

Results of Technical Experts Group Meeting .......................................................... 1
  Areas of Consensus .................................................................................................. 1
  Areas to be Explored ............................................................................................. 2
Agenda for June 19th Meeting ................................................................................... 4
Sample Formats ......................................................................................................... 5
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Time Horizon ............................................................................................................. 18
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Results of Technical Experts Group Meeting

On April 5, 2007, the technical group met to discuss information on “fiscal sustainability” that might be included in the annual Financial Report of the United States Government. The group discussion produced the following areas of consensus, areas to explore and unresolved issues.

Areas of Consensus

Definition of Sustainability
The group agreed that it would be ideal to have a formal definition and/or specific benchmarks for “fiscal sustainability,” and/or an extensive report on sustainability similar to what is currently done by some other countries such as the U.K. and Australia. However, the group agreed that useful and meaningful reporting can be developed in advance of such a framework, perhaps with explanations in the narrative about benchmarks used by others.

Importance of Narrative
The group strongly emphasized the importance of narrative to accompany any data presented. Among the points that narrative needs to explain are:

- most importantly, that the problems are becoming worse due to inaction in the present (to avoid the assumption that “you don’t have a termite problem until the house falls down”);
- assumptions and uncertainty are inherent in the projections, especially policy assumptions; and
- continuation of current trends will require trade-offs between mandatory and
Briefing Package: Introduction

discretionary spending or much higher taxes.

Importance of Showing Trends
The group agreed that it is critical to show trends (past, present and, when appropriate, future projections).

A majority of the group agreed that the OMB Table, “Long-Run Budget Projections”\(^2\) includes many of the features that fiscal sustainability reporting should have:
- period-by-period data to show trends
- data expressed as a percentage of GDP
- receipts, outlays by category, surplus or deficit, and Federal debt held by the public

Assumptions
The group agreed that policy assumptions inherent in the OMB Table- the 10-year President’s Budget- should NOT be used for fiscal sustainability reporting.

A majority of the members believe that for mandatory spending, a modified version of “current law” (ignoring the trust-fund exhaustion cap), which might also be termed “current services,” represents the most reasonable assumption for social insurance programs. Projections for discretionary spending are more difficult, although there was some agreement that projecting discretionary spending growth at the same rate as GDP would be reasonable.

There was no consensus for economic projections, such as growth in GDP, although none of the members objected strongly to either CBO or OMB economic projections.

Per Capita Information
A majority of the group agreed that some per capita information could be useful and meaningful as an aid to understanding. However, it is important that there be a relationship between the total amount and the entities (for example, individuals or households) to which the amount is assigned.

Areas to be Explored

Summary Measures
Summary measures express information in a single number rather than a trend. For example, the GAO audit report quoted on page 2 uses a single number ($50 trillion) to

\(^2\) Table 13-2, FY 2008 Budget of the U.S. Government, Analytical Perspectives
Briefing Package: Introduction

indicate “the U.S. Government’s total reported liabilities, net social insurance commitments, and other fiscal exposures.” Summary measures are discussed in Attachment 2.

Time Horizon
There was strong disagreement about the time horizon for projections, in particular 75-year versus infinite horizon. One suggestion was to use whatever time period is necessary to reach a leveling-off point. The time horizon issue is discussed in Attachment 3.
Briefing Package: Introduction

Agenda for June 19th Meeting
Room 4N30, 441 G Street, N.W (GAO Building)

8:00- 8:30   Continental breakfast
8:30-8:50   Introductions and opening question*
8:50-10:10  Participants evaluate sample reporting formats (Attachment 1)
10:10-10:30 Discussion of summary measures (Attachment 2)
10:30-10:40 Break
10:40-11:00 Discussion of time horizon issue (Attachment 3)
11:00-11:30 Discussion of narrative (Attachment 4)
11:30-12:30 Luncheon
12:30-1:45  Discussion of open issues from morning session
1:45-2:00   Break
2:00-3:00   Concluding comments/recommendations from members

*Opening question for Communications Experts:

“Based on your experience, what is the most important factor in communicating information to the public?”
Sample Formats

Period by Period Projections with a Reference to the Size of the Economy

The technical group agreed that it is very important to show trends. A majority of the
group recommended showing period by period projections (for example, display
information at 10-year intervals) of receipts and outlays by category. The group
consensus was to display the data in reference to the size of the economy. The table
below was adapted from Table 13-2 of the most recent Analytical Perspectives volume
of the President’s Budget for use as a format sample.

Sample 1- Table

<table>
<thead>
<tr>
<th>The Nation’s Long-Term Fiscal Outlook</th>
<th>(Receipts, outlays, surplus or deficit, and debt as a percent of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts</td>
<td>19.0</td>
</tr>
<tr>
<td>Outlays:</td>
<td></td>
</tr>
<tr>
<td>Discretionary</td>
<td>10.1</td>
</tr>
<tr>
<td>Mandatory:</td>
<td></td>
</tr>
<tr>
<td>Social Security</td>
<td>4.3</td>
</tr>
<tr>
<td>Medicare</td>
<td>1.1</td>
</tr>
<tr>
<td>Medicaid</td>
<td>0.5</td>
</tr>
<tr>
<td>Other</td>
<td>3.7</td>
</tr>
<tr>
<td>Subtotal, mandatory</td>
<td>9.7</td>
</tr>
<tr>
<td>Net Interest</td>
<td>1.9</td>
</tr>
<tr>
<td>Total outlays</td>
<td>21.7</td>
</tr>
<tr>
<td>Surplus or Deficit (-)</td>
<td>-2.7</td>
</tr>
<tr>
<td>Primary Surplus or Deficit (-)</td>
<td>-0.8</td>
</tr>
<tr>
<td>Federal Debt Held by the Public</td>
<td>26.1</td>
</tr>
</tbody>
</table>
Discussion Topics for Sample 1:

The technical group endorsed the above table for the following reasons:

- Projections that relate future federal receipts and spending to GDP (the economy as a whole) are more meaningful than projections of dollars amounts. Dollar amounts, if shown, would be huge (many trillions).
- Readers can understand the nature of the shortfall when it is presented period-by-period rather than as a single amount (summary measure) because the period-by-period presentation shows the trend (for example, things getting worse rather than better) and aligns resources with expenditures by time period.

1. Do you find Sample 1 useful? What conclusions might you draw from the table?
2. The U.K.’s fiscal policy includes a guideline that requires the government’s debt to be maintained at a “stable and prudent level,” which is defined as “below 40 percent of GDP.” Does this information help you to evaluate the information in the last line of the table (Federal Debt Held by the Public)?
3. Sample 1 includes many estimates and assumptions. For example, it assumes that the government’s spending in excess of receipts will be covered by borrowing and various assumptions about existing government programs. What are some options for providing information about the assumptions without making the presentation too complex to hold a reader’s interest? Should there be footnotes, attachments, and/or links to where the numbers came from?

Some members of the group suggested that the information in the above table might be better presented in graphs. Sample graphs are presented on the following page.

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Attachment 1- Sample Formats

Sample 2- Graph: Receipts & Outlays

![Federal Receipts, Outlays and Surplus/Deficits as a % of Total Economic Output](image)

Sample 3- Graph: Federal Debt

![Federal Debt Held by the Public as a % of Total Economic Output](image)

Discussion topics for Samples 2 and 3:

1. Do you find the above graphs more reader-friendly than the table in Sample 1?
2. Do you believe that the combination of Sample 2 and Sample 3 together might be more easily understandable to the general public than the table in Sample 1?
3. Do you believe that graphs, along with a footnote or link to a table of
numerical data might be a more reader-friendly presentation than the table itself?

4. The terms “Gross Domestic Product,” “The Nation’s Total Output” and “Total Economic Output” all mean the same thing. Which term do you believe is most easily understandable to the general public?

Sample 4- Table of Potential Fiscal Outcomes

Discussion topics for Sample 4:

1. Are the title and subtitle of this graph “reader-friendly”?
2. How does this graph compare with Sample 2 in terms of being understandable and meaningful?
Attachment 1 - Sample Formats

Sample 5 - Mandatory/Discretionary Spending

Federal Spending for Mandatory and Discretionary Programs

<table>
<thead>
<tr>
<th>Year</th>
<th>Mandatory</th>
<th>Discretionary</th>
<th>Net Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966</td>
<td>26%</td>
<td>67%</td>
<td>7%</td>
</tr>
<tr>
<td>1986</td>
<td>42%</td>
<td>44%</td>
<td>14%</td>
</tr>
<tr>
<td>2006</td>
<td>53%</td>
<td>38%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: Office of Management and Budget.

GAO-07-496CG
Discussion topics for Samples 5 and 6:

1. What trends can you observe from Sample 5? (Are the terms “mandatory” and “discretionary” familiar to you?)
2. What conclusions can you draw from the trends in Samples 5 and 6?
3. How do Samples 5 and 6 compare with Sample 4 in terms of showing a potential future “squeeze” on spending for government programs other than Social Security and Medicare?
## Major Fiscal Exposures

($ trillions)

<table>
<thead>
<tr>
<th>Category</th>
<th>2000</th>
<th>2006</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Explicit liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Publicly held debt</td>
<td>$6.9</td>
<td>$10.4</td>
<td>52</td>
</tr>
<tr>
<td>Military &amp; civilian pensions &amp; retiree health</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Commitments &amp; contingencies</strong></td>
<td>0.5</td>
<td>1.3</td>
<td>140</td>
</tr>
<tr>
<td>E.g., PBGC, undelivered orders</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Implicit exposures</strong></td>
<td>13.0</td>
<td>38.8</td>
<td>197</td>
</tr>
<tr>
<td>Future Social Security benefits</td>
<td>3.8</td>
<td>6.4</td>
<td></td>
</tr>
<tr>
<td>Future Medicare Part A benefits</td>
<td>2.7</td>
<td>11.3</td>
<td></td>
</tr>
<tr>
<td>Future Medicare Part B benefits</td>
<td>6.5</td>
<td>13.1</td>
<td></td>
</tr>
<tr>
<td>Future Medicare Part D benefits</td>
<td>--</td>
<td>7.9</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$20.4</td>
<td>$50.5</td>
<td>147</td>
</tr>
</tbody>
</table>

Note: Totals and percent increases may not add due to rounding. Estimates for Social Security and Medicare are at present value as of January 1 of each year and all other data are as of September 30.
Sample 8- Table of Per Capita Measures

How Big is Our Growing Fiscal Burden?

This fiscal burden can be translated and compared as follows:

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total major fiscal exposures</td>
<td>$50.5 trillion</td>
</tr>
<tr>
<td>Total household net worth(^1)</td>
<td>$53.3 trillion</td>
</tr>
<tr>
<td>Burden/Net worth ratio</td>
<td>95 percent</td>
</tr>
<tr>
<td>Burden(^2)</td>
<td></td>
</tr>
<tr>
<td>Per person</td>
<td>$170,000</td>
</tr>
<tr>
<td>Per full-time worker</td>
<td>$400,000</td>
</tr>
<tr>
<td>Per household</td>
<td>$440,000</td>
</tr>
<tr>
<td>Income</td>
<td></td>
</tr>
<tr>
<td>Median household income(^3)</td>
<td>$46,326</td>
</tr>
<tr>
<td>Disposable personal income per capita(^4)</td>
<td>$31,519</td>
</tr>
</tbody>
</table>

Source: GAO analysis.

---

Discussion topics for Samples 7 and 8:

1. Do you find the information in Samples 7 and 8 useful in considering whether resources are likely to be sufficient to sustain public services and meet the government’s obligations as they come due? What, if any, conclusions might you draw from these tables?
2. Are some lines more meaningful than other lines?
3. Are there any questions that ran through your mind as you looked at either of the tables? What are they?
4. Of all the samples presented, should any be dropped from consideration?

[Note: Samples 7 and 8 present summary measures and per capita amounts. Summary measures and per capita amounts are discussed in Attachment 2.]
Sample 9- Mock-up Statement of Sustainability

Below is a sample “Statement of Sustainability” that has been proposed by three FASAB Board members in the context of another project.\(^4\)

**Note:** The FASAB has not yet evaluated this proposal and would like comments from this Task Force.

<table>
<thead>
<tr>
<th>Statement of Fiscal Sustainability</th>
<th>as of January 1, 20XX</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>75-Years</td>
</tr>
<tr>
<td></td>
<td>PV Dollars</td>
</tr>
<tr>
<td><strong>Social Security</strong></td>
<td></td>
</tr>
<tr>
<td>Scheduled Benefits</td>
<td>$ XXX</td>
</tr>
<tr>
<td>Earmarked Revenue</td>
<td>$ XXX</td>
</tr>
<tr>
<td>Net</td>
<td>$ XXX</td>
</tr>
<tr>
<td><strong>Medicare</strong></td>
<td></td>
</tr>
<tr>
<td>Part A</td>
<td></td>
</tr>
<tr>
<td>Scheduled Benefits</td>
<td>$ XXX</td>
</tr>
<tr>
<td>Earmarked Revenue</td>
<td>$ XXX</td>
</tr>
<tr>
<td>Net</td>
<td>$ XXX</td>
</tr>
<tr>
<td><strong>Parts B and D</strong></td>
<td></td>
</tr>
<tr>
<td>Scheduled Benefits</td>
<td>$ XXX</td>
</tr>
<tr>
<td>Earmarked Revenue</td>
<td>$ XXX</td>
</tr>
<tr>
<td>Net</td>
<td>$ XXX</td>
</tr>
<tr>
<td><strong>Total Social Security and Medicare</strong></td>
<td>$ XXX</td>
</tr>
<tr>
<td><strong>Rest of Government</strong></td>
<td></td>
</tr>
<tr>
<td>Other Future Outlays</td>
<td>$ XXX</td>
</tr>
<tr>
<td>Earned Revenue</td>
<td>$ XXX</td>
</tr>
<tr>
<td>Net Outlays</td>
<td>$ XXX</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>$ XXX</td>
</tr>
<tr>
<td>Revenues less Outlays</td>
<td>$ XXX</td>
</tr>
<tr>
<td><strong>Total Government (Social Security, Medicare, and Rest of Government)</strong></td>
<td>$ XXX</td>
</tr>
<tr>
<td>Outlays in Excess of Revenues</td>
<td>$ XXX</td>
</tr>
<tr>
<td>Debt Held by Public</td>
<td>$ XXX</td>
</tr>
<tr>
<td>Fiscal Imbalance *</td>
<td>$ XXX</td>
</tr>
<tr>
<td><strong>Other Sustainability Measures</strong></td>
<td></td>
</tr>
<tr>
<td>Total Government Fiscal Gap **</td>
<td>$ XXX</td>
</tr>
</tbody>
</table>

---

### Attachment 1- Sample Formats

<table>
<thead>
<tr>
<th>Summary of Revenues</th>
<th>75-Years PV Dollars</th>
<th>%GDP</th>
<th>Infinite Horizon PV Dollars</th>
<th>%GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security</td>
<td>$ XXX</td>
<td>X.X%</td>
<td>$ XXX</td>
<td>X.X%</td>
</tr>
<tr>
<td>Medicare Part A</td>
<td>$ XXX</td>
<td>X.X%</td>
<td>$ XXX</td>
<td>X.X%</td>
</tr>
<tr>
<td>Medicare Part B and D</td>
<td>$ XXX</td>
<td>X.X%</td>
<td>$ XXX</td>
<td>X.X%</td>
</tr>
<tr>
<td>All Other</td>
<td>$ XXX</td>
<td>X.X%</td>
<td>$ XXX</td>
<td>X.X%</td>
</tr>
<tr>
<td>Total</td>
<td>$ XXX</td>
<td>X.X%</td>
<td>$ XXX</td>
<td>X.X%</td>
</tr>
</tbody>
</table>

Fiscal Imbalance per:
- Citizen $ XXX
- Full-time Worker $ XXX
- Household $ XXX

### Net Outlays by Cohort

**Social Security**
- Current Beneficiaries $ XXX X.X%
- Other Current participants $ XXX X.X%
- Future Participants $ XXX X.X%

**Medicare**
- **Part A**
  - Current Beneficiaries $ XXX X.X%
  - Other Current participants $ XXX X.X%
  - Future Participants $ XXX X.X%
- **Parts B and D**
  - Current Beneficiaries $ XXX X.X%
  - Other Current participants $ XXX X.X%
  - Future Participants $ XXX X.X%

**Total Social Security and Medicare** $ XXX X.X%

* The fiscal imbalance is the present value of net receipts/outlays plus public debt. The fiscal imbalance illustrates the amount of present value dollars that would be necessary to balance future outlays and receipts and repay existing debt. The fiscal imbalance measure places no constraints on the level of debt. However, excessively high levels of debt can have serious negative consequences on the Government through substantial interest cost in relation to receipts and be unsustainable in attracting investors.

** The fiscal gap assumes the public debt is maintained at a constant percentage of GDP. Fiscal gap measures assist in understanding the effect of allowing public debt to increase as a constant percentage of GDP. It illustrates the amount of present value dollars that would be necessary to maintain public debt as a constant percentage of GDP.

### Discussion topics for Sample 9:
1. What information in the above sample do you believe is helpful?
2. Which line items or columns are the most difficult to understand? Which are the easiest line items or columns to understand?
3. How does this sample format compare with the previous samples?
4. Do you have any other comments for the Board about this proposed Statement?
Sample 10- Alternative Statement Format

Sample 10 is adapted from a proposal by one of the technical experts who met on April 5, 2007.

Part 1- Summary of Federal Financial Condition

<table>
<thead>
<tr>
<th>Line</th>
<th>Item</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Gross Operating Costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Less: Earned Program Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Less: Taxes and Other Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Current Net Operating Costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>BALANCE SHEET</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Less: Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Net Position</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

FUTURE IMPLICATIONS OF CURRENT POLICIES

Social Security:
- 8 Net Benefits of Past and Living Generations: \(^3\)
- 9 Future Net Benefits of Living Generations
- 10 Less: Trust Funds
- 11 Net Benefits of Future Generations: \(^2\), \(^4\)

Unfunded Costs: Social Security: \(^2\) (sum of lines 8 and 11)

Medicare: \(^2\)
- 13 Net Benefits of Past and Living Generations: \(^3\)
- 14 Future Net Benefits of Living Generations
- 15 Less: Trust Funds
- 16 Net Benefits of Future Generations: \(^2\), \(^4\)

Unfunded Costs: Medicare: \(^2\) (sum of lines 13 and 16)
### Part 2: Federal Financial Condition – Net Unfunded Obligations by Future Period

<table>
<thead>
<tr>
<th>Line</th>
<th>Item</th>
<th>Time Horizon in Years Including the Current Year (2007)¹</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>1</td>
<td>Total Federal Obligations Under Current Policies¹</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Social Security</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Medicare</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Rest of Federal Government</td>
<td></td>
</tr>
</tbody>
</table>

¹ Explanation of revenue and expense assumptions for “current policies”

### Discussion topics for Sample 10:

1. What information in the above sample do you believe is helpful?
2. Which line items or columns are the most difficult to understand? Which are the easiest line items or columns to understand?
3. How does this sample format compare with the previous samples?
4. Do you have any other comments for the Board about this proposed format?
Attachment 2 - Summary Measures

Summary Measures

Definition of summary measures
Summary measures are the expression of information in a single number rather than a trend. For example, the GAO’s audit report quoted on page 2 uses a single number ($50 trillion) to indicate “the U.S. Government’s total reported liabilities, net social insurance commitments, and other fiscal exposures.”

Other examples of summary measures are in Samples 7, 8, 9 and 10 in Attachment 1.

Advantages of summary measures:
Summary measures are succinct. The use of some summary measures may help by condensing complex information and avoiding the problem of “information overload.”

Disadvantages of summary measures:
Summary measures do not display some important information that is displayed in a period-by-period format. This information needs to be explained in the narrative, and may be difficult to understand. For example, what is the trend—does the situation get better or worse over time?

Summary amounts can be misleading. For example, it could be argued that “per capita” or “per worker” amounts may not be meaningful because they may not relate future shortfalls to those who will bear the effects of those shortfalls. Also, per capita measures do not take into account the wide range of income and ability to pay within the total population.

Discussion topics for Summary Measures:
1. What do you think of the advantages versus the disadvantages of summary measures?
2. Do you believe that the summary measures in Samples 7 and 8 are meaningful and useful? How about the summary measures in Samples 9 and 10?
3. Do you believe that per capita amounts are helpful and/or meaningful?
Attachment 3 – Time Horizon

**Time Horizon**

**Definition**
The time horizon is the cutoff point for projections. For example, a 75-year horizon does not include projections for the 76th year or beyond. In contrast, an infinite horizon has no cutoff point.

There was strong disagreement about the time horizon for projections, in particular 75-year versus infinite horizon. One suggestion was to use whatever time period is necessary to reach a leveling-off point.

**Limited horizon: pros and cons**

Pros:
- A limited horizon projection may be easier to understand and conceptualize than an infinite horizon.
- A limited horizon projection may be more reliable than an infinite horizon, because there is more uncertainty about what is likely to happen in the very distant future than there is about the near future.

Cons:
- The problem called the “moving window” occurs as time passes and time periods that were previously outside the scope, or “window,” of the projection are now included. The “moving window” can cause limited time horizon projections to be misleading because situations that look sustainable within the time period shown may be unsustainable in the longer term.
- A limited horizon projection may be less reliable than an infinite horizon projection, because it assumes zero for all years beyond the cutoff point.

**Infinite horizon: pros and cons**

Pros
- An infinite horizon projection eliminates the “moving window” problem and the potential bias in favor of short-term rather than long-term sustainability.
- An infinite horizon projection does not include an arbitrary cutoff date or the implicit assumption that all future years beyond the cutoff date will net to zero.

Cons:
- An infinite horizon projection has more uncertainty than a limited horizon, because it is more difficult to project what is likely to happen in the distant future.
Attachment 3 – Time Horizon

than in the near future.

- An infinite horizon projection can lead to errors or misinterpretation when using ratios. For example, per capita information must be based upon the total population in the infinite future, which may be difficult to calculate or for readers to conceptualize.

Discussion topic for time horizon:

1. Do you have an opinion about the pros and cons above?
Requirements for Narrative

Among the points that narrative needs to explain are:

(a) Most importantly, that the problems are becoming worse due to inaction in the present (to avoid the assumption that “you don’t have a termite problem until the house falls down”). One option for doing this might be by introducing a concept of the “cost of delay” where alternative scenarios would show the difference between tax increases or benefit cuts that would be necessary to achieve balance if action is taken immediately versus what would be necessary if action is not taken for another five, ten or twenty years.

[Note: Emphasizing this concept in the narrative does not preclude developing illustrative charts, tables or graphs.]

(b) Assumptions and uncertainty are inherent in any projection, and need to be explained.

(c) Continuation of current trends will require trade-offs between mandatory and discretionary spending (or much higher taxes).

(d) Summary measures that are expressed in dollars are “net present value.” This concept needs to be explained.

Discussion Topics for Narrative:

1. Do items (a) through (d) above capture all the areas that you believe should be covered in any narrative?

2. What kind of presentation would you suggest for presenting the alternative scenarios described in item (a)? What do you think are the most important single items (dashboard indicators) that should be included?

3. What advice do you have regarding how to present items (a) through (d)?

4. Are there any other items or issues that are important for the narrative?