



Federal Accounting Standards Advisory Board

February 1, 2008

Memorandum

To: Members of the Board

From: Eileen W. Parlow, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: **Fiscal Sustainability Reporting – Tab H¹**

MEETING OBJECTIVES

To review the attached draft exposure draft, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*, and provide staff with direction on the issues identified for discussion (see list of issues below). As a result of the meeting, staff will further develop the draft and hopes to reach the pre-ballot stage in April 2008.

Staff is requesting Board discussion and decisions on the following issues:

1. Select proposed format(s) for a primary summary display, including:
 - a. Time horizon for projections
 - b. Disaggregation of inflows and outflows, especially “other”
 - c. Options A, B, C, D and E
2. Approve proposed requirements for additional specific graphics and narrative for:
 - a. Major drivers, such as trends in cost of health care and demographic trends
 - b. Trends in deficit spending/debt
 - c. Additional information necessary to help readers understand the nature and relevance of the primary summary display
3. Address the initial placement and audit status of the proposed summary display and the additional graphics and narrative within the CFR.

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.

4. Approve proposed reporting requirements for significant changes in economic, demographic, or policy assumptions.
5. Approve proposed guidance on the selection of discount rates and/or valuation dates.

BRIEFING MATERIAL

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

1. Project plan milestones
2. History of Board actions
3. Option D for primary summary display
4. Option E for primary summary display
5. Draft ED

BACKGROUND

Project plan milestones

The Board has indicated that one of its top priorities at this time is issuing an ED and subsequently a statement of accounting standards on comprehensive long-term fiscal projections for the U.S. Government. In July 2007, staff drafted aggressive project milestones, which were distributed at the July 2007 Board meeting; a copy is attached at sub-tab 1.

The project milestones reflect the time required for due process. In order to issue a final standard by October 2009, a preballot draft ED would need to be finalized shortly after the April 2008 Board meeting. A standard issued in October 2009 could reasonably be effective for FY 2010, with early implementation encouraged.

Board decisions at the December 2007 Board meeting:

- The Board agreed in substance with the Objectives and Assumptions. Specific editorial comments received from members were incorporated into the draft ED and are shown as proposed changes.
- The Board decided against including per capita measures in the proposed reporting.

Other actions – subsequent to the December 2007 Board meeting:

- Per the Board's request, FASAB staff is working with CBO staff to insert numerical values into the primary summary display options and to update two of the graphics (the previous ED used OMB data, which included Budget assumptions rather than "current levels of benefits, services and

taxation”). CBO staff has indicated that they will supply output that is similar to that presented in CBO’s December 2007 Long-Term Budget Outlook, but with alternative assumptions specified by the Board. Specifically, CBO will provide a single set of projections of outlays and revenues for the next 75 years as a share of GDP, as well as present values of those streams as a share of GDP. CBO has not calculated and will not be providing infinite horizon projections. However, CBO hopes to provide numerical values for much of Options A-D in time for staff to prepare a handout for the February 2008 Board meeting. Staff has also asked CBO to provide a rough estimate of the level of time and effort required for this task.

ISSUES FOR DISCUSSION AND BOARD ACTION

1. Select time horizon and proposed format(s) and title for the primary summary display.

(a) Time horizon for projection period

Regardless of the primary summary display(s) that the Board selects for the ED, a time horizon must be selected for the projection of future inflows and outflows.

There was strong disagreement among the members of the Task Force regarding the selection of a time horizon for projections, in particular a finite horizon (such as 75-year) versus an infinite horizon. One Task Force member believes that only infinite-horizon projections should be displayed but other members believe that infinite-horizon projections should not be shown. Some members suggested that information using both finite and infinite-horizon projections be included.

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

Below are the pros and cons noted for the finite and infinite horizon projection periods for the primary summary display.

Finite Horizon (e.g., 75-year)

Pro:

- Amounts displayed for Social Security and Medicare would correlate to the amounts displayed in the SOSI.

- A finite period would be sufficient to cover essentially all of the working and retirement years for current participants.
- A finite period is subject to less uncertainty than an infinite horizon.
- 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.

Con:

- 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.
- Some have argued that a finite projection period essentially assumes zero for years beyond the projection period.

Infinite Horizon

Pro:

- An infinite horizon would avoid the “moving window” problem. The “moving window” problem occurs when there are significant changes to an estimate from one year to the next that are caused by the passage of time. 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.
- Projections would not assume zero for years beyond the cutoff point for projections.

Con:

- Infinite horizon projections are subject to much greater uncertainty, which could seriously detract from the credibility of the amounts projected.
- Presentation of infinite horizon projections in lieu of 75-year projections would cause readers to question why there is no correlation with corresponding line items in the SOSI.
- The CBO does not calculate projections for an infinite horizon, explaining that they believe that such 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.³

³ *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/wwwtax/ntjrec.nsf/5DC000487120304885256D8E0054C858/\\$FILE/Lee.pdf](http://ntj.tax.org/wwwtax/ntjrec.nsf/5DC000487120304885256D8E0054C858/$FILE/Lee.pdf)

- 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.

Staff analysis and recommendation:

Staff reviewed the treatment of horizons in the Trustees Reports, where a finite (75-year) horizon is used for the primary displays, but extensive narrative explains the limitations of that horizon and provides summary data for an infinite horizon.

Staff recommends that:

- 1) Projections in the primary summary display should incorporate a projection period that is consistent with the Statement of Social Insurance (SOSI). The SOSI projection period is required to be "sufficient to illustrate long-term sustainability" (e.g., traditionally the "Social Security" or OASDI, program has used a projection period of 75 years for long-term projections).⁴
- 2) 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.

Staff recommends that the Appendix to the ED include an illustrative example, such as the following, which is modeled after narrative in the OASDI Trustees Report:

Illustrative narrative:

Consideration of an xx-year period is not enough to provide a complete picture of the government's financial condition. It is important to note whether trends are improving or worsening at the end of the period. Overemphasis on summary measures for a 75-year period can lead to incorrect perceptions and to policy decisions that do not achieve continued solvency. Thus, careful consideration of the trends toward the end of the 75-year period is important. Accordingly, summary measures for a time period that extends to the infinite horizon are presented below. These measures provide an additional indication of the government's very long-run financial outlook, but are subject to far greater uncertainty.

⁴ SFFAS 17, paragraph 27.

Calculations beyond the xx-year projection period indicate an increase(decrease) in shortfalls. Over the infinite horizon, the shortfall is \$XX in present value, or X.X% of future taxable payroll and X.X% of future GDP. These calculations indicate that much larger changes may (may not) be required to achieve solvency beyond the xx-year period projected.

[For the year after initial implementation and all years thereafter:]

The shortfall over the infinite horizon increases (decreases) from \$XX in last year's report to \$XX in this year's report in present value dollars.⁵

Question for the Board:

Does the Board agree with staff recommendations 1 and 2 above?

(b) Disaggregation of line items, especially “other”

All five of the options for a primary summary display require that Social Security and Medicare be disaggregated from all other federal inflows and outflows. Options A, C, D and E also require Medicaid to be disaggregated. The technical experts and staff believe that these three programs are likely to continue to be individually important. Option D requires two additional breakouts of “other” federal spending: Defense, Veterans Benefits.

[Note: For all displays, payment of principal and interest 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.”]

Staff recommendation

Staff agrees that defense and veterans benefits are currently material but that additional disaggregation beyond Social Security, Medicare and Medicaid should be left to the judgment of the preparer.

Question for the Board:

Does the Board agree with staff recommendation that additional disaggregation beyond Social Security, Medicare and Medicaid should be left to the judgment of the preparer?

(c) Options A, B, C, D and E for primary summary display

Overview:

The information common among the displays is:

- a) Each presents summary – or present value - amounts for specified time periods.⁶

⁵ Adapted from narrative in 2007 OASDI Trustees Report, Section II D, page 5.

⁶ Some of the technical experts on the task force object to summary measures because they do not portray the timing of or trend in receipts and outlays. Summarized values also can not convey information beyond the period summarized. The communications experts on the task force

- b) Present value of receipts and outlays with Social Security and Medicare amounts separately displayed (but with varying detail between the displays). “Rest of government” is presented with little or no further disaggregation. Option D has the most disaggregation: Medicare (split into Parts A, B and D), Defense, Veterans Benefits, and Other..
- c) The calculated net present value over the selected time period is the “bottom line.” (One proposal includes net financial assets in the calculation while the others do not.)
- d) Significant required narrative and graphics would accompany each display. The quality and clarity of the narrative is critical to communication.
- e) Each display includes some information as a percent of GDP.

Each display would be accompanied by additional narrative and graphics (see item 2 on page 14 of this memorandum).

The unique features of each display will be discussed and the pros and cons of each will be presented below. Our objective for the meeting is to (1) identify preferences or concerns members have with each option and (2) determine the Board’s preference for one or more options to appear in the ED.

Option A

Option A is based upon the proposed “Statement of Fiscal Sustainability” that was included in the Alternative View of *Preliminary Views – Accounting for Social Insurance, Revised*.⁷ Revisions were made based upon recommendations of the communications members of the Task Force. In addition, staff has added potential sub-lines to “Receipts and Outlays” to clarify that the payment of principal and interest on borrowings from the Social Security and Medicare HI Trust funds represent receipts for Social Security and Medicare and outlays for “rest of government.”

In addition, “per capita” information has been deleted based upon a Board decision at the December 2007 meeting.

Option A is described in paragraphs 42-44 of the ED and illustrated in Appendix B on pages 34-35. In addition to the information common in all displays, Option A provides:

- Data for both finite and infinite projection periods.
- Total receipts and total outlays as subtotals before arriving at the bottom line of “fiscal imbalance.”

supported summary measures and staff believes summary measures supplemented by narrative and graphics that convey the timing and trend information is the optimal approach.

⁷ See *Preliminary Views – Accounting for Social Insurance, Revised. Paragraphs 75-76 and Appendix C, pages 118-119.*

- Present value dollars and percent of GDP are presented for all receipt and outlay components as well as the bottom line.
- The “fiscal gap” is presented as an alternative sustainability measure.

With the exception of the headings and the added current and future population per capita amounts, this display was included in the preliminary views (PV) document regarding social insurance. Respondents to the PV were asked to comment on the proposed statement of fiscal sustainability. Of the 41 respondents answering that question (question 4), 29 supported the statement. (The briefing material at Tab A of the binder for the July 2007 Board meeting provides a summary and staff analysis of the responses.) A few respondents expressed reservations regarding the infinite horizon, the cost of the proposal, and the use of summary (PV) measures. Some respondents indicated that a separate project was needed. Overall, it is difficult to reach conclusions based on the PV results but staff believes the initial reactions received through the PV process should be considered in developing the proposal.

Pro:

- Option A addresses the “moving window” problem¹⁰ by displaying both finite (75-year) and infinite horizon projections. [Staff note: If the infinite horizon column is not used, a second column could show side-by-side comparison with the prior year. FASAB’s Stewardship objective focuses on “the impact on the country of the government’s operations and investment **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.”¹¹]
- Several of the technical Task Force members believe that the “fiscal gap” measure is important and meaningful for readers, including the representative from GAO, which uses fiscal gap as a primary measure. (One technical member disagrees- see “con” second bullet below).

Con:

- Option A presents two new concepts—fiscal imbalance and fiscal gap—which are defined in terms of mathematical formulas. Since Option A

¹⁰ The “moving window” problem occurs when there are significant changes to an estimate from one year to the next that are caused by the passage of time. 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.

¹¹ SFFAC 1, par. 134 (**bold added**)

includes other complex concepts such as “present value,” it may be displaying too much information at once, in contrast to the goal of “simplicity” that was emphasized as being a critical element of effective communication by a majority of the Task Force communications experts.

- One of the technical task force members supported the “fiscal gap” measure at the April 5, 2007 task force meeting but subsequently (November 2007) changed his view and currently does not favor the inclusion of the “fiscal gap” measure. He currently believes that simply specifying the ratio at its current level would generally be inappropriate because a small increase in the ratio may be consistent with fiscal sustainability. He believes that in terms of both technical accuracy and ease of presentation, the fiscal imbalance measure appears to be superior, and he recommends dropping the fiscal gap measure from the ED. (Other technical members disagree; see “pro” #2 above.)
- The CBO does not compute values for an infinite horizon projection because CBO believes that:
 - such projections are no more informative to policymakers than 75-year projections, and
 - the element of uncertainty is too great to contemplate calculating projections for an infinite horizon.

Option B

Option B was developed in consultation with Jagadeesh Gokhale. Dr. Gokhale, a senior fellow at the CATO Institute, is a task force member and responded to the PV on social insurance. Staff worked with him to refine his initial proposal. The title for his display is *Future Implications of Current Policies*.

Option B is described in paragraphs 45-48 of the ED and illustrated in Appendix B on pages 36-38. In addition to the information common in all displays, Option B provides:

- Subtotal net present values for Social Security and Medicare (labeled unfunded costs) as well as disaggregation within each program of amounts related to “past and living generations” and amounts related to “future generations” (those not yet born and under age 15 at the projection date)
- Present value amounts for seven reporting periods – the prior and current years and each of the next five years (these amounts include cash flows occurring from the beginning of the projection year through the end of the time horizon)
- “Unfunded costs” as a percent of GDP are presented for the net present value of Medicare, Social Security, the rest of government, and all of government for each of the two historical and five projection years

- To provide information regarding the timing of flows, a second table is included that presents the cumulative total for years 1-5, 1-10, etc. (The final column labeled “all” is the infinite horizon – which is the horizon preferred by Dr. Gokhale – amount.)
- To show trends in operating cost and net financial assets, a third table presents the total operating cost, revenue, net operating cost, financial assets, liabilities and net financial assets for the current and four past years as well as five projected years.

Pro:

- The title is helpful in communicating what the amounts shown represent. (Note: this title could also be used for Option A or Option C.)
- The format includes side-by-side comparison of current year and prior year, so that the reader can assess changes from year to year. Accordingly, Option B would pass a critical test mentioned by more than one of the outside technical experts: that it should clearly show whether the situation improved or worsened during the fiscal year. FASAB’s Stewardship objective also focuses on “the impact on the country of the government’s operations and investment **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.”¹²
- The breakout of Medicare and Social Security include the effect of any existing balances in the Social Security and Medicare HI Trust Funds.
- Part 1 shows a year-by-year projection for the five years following the current year.
- Part 2 shows cumulative total unfunded costs into the infinite horizon in a concise manner that allows the reader to observe trends.

Con:

- Part 1 disaggregates only two basic cohorts: “living generations” and “future generations,” with “past generations” being grouped with “living generations” and “future generations” defined as individuals under 14 years of age at the reporting date, including unborn. Although this breakout implies generational accounting, staff believes that the two cohorts are too large to be useful in assessing generational fairness. The scope of this project does not currently include an assessment of generational accounting, which would require, for example, an assessment of how to aggregate “generations,” and/or whether 10-year age groups would be more objective. In addition, the generational

¹² *Ibid.* (bold added)

breakout is only applied to social insurance, and not to other government activities. Staff believes that the display of generational accounting that is limited to social insurance programs is more appropriately addressed by the SOSI and not by the summary display for fiscal sustainability reporting.

- “Additional Information” calls for the projection of “Net Financial Assets” for five years into the future, which may be difficult or impractical for the preparer. For example, the projections in the primary summary display may already take into account some or all of the financial assets and liabilities that are reported on the balance sheet. If so, the preparer could not simply add “net financial assets” (which would likely be a negative amount) to the projections if the projections may include dispositions of the net financial assets, because this would result in double counting.
- The CBO will not provide data for most of Option B, due to its concerns about the infinite horizon projection period and uncertainty about how to project Net Financial Assets.
- The table does not explain the changes from the prior year to current year or between the projection periods. The explanation of changes is important to an understanding of the underlying causes for these changes.

Option C

Option C was drafted by staff in response to comments from Task Force members, as noted below. Option C is described in paragraphs 49-50 of the ED and illustrated in Appendix B on pages 39-40.

Option C includes the following modifications to Options A and B, based upon the Pros and Cons discussed above for Options A and B:

1. A temporary title for Option B (Long-Term Implications of Current Policies) has been used for Option C. Staff recommends that Board’s selection of a title for this display should be postponed until after the Board has concurred on its placement within the CFR.
2. The display has been limited to a single projection period (finite horizon) rather than Option A’s two projection periods (finite and infinite horizon) to allow side-by-side presentation of the current year and prior year. Selection of a specific single projection period (for example, 75 years, 100 years, or infinite horizon) will be made based on the Board’s discussion of issue 1a (see page 3). The staff recommendation is that a single projection period, and not two projection periods, should be used for the primary display.
3. The Option B display showing “Projected accumulation of total unfunded costs from the beginning of the current year” to show intervals at 5, 10, 25, 50, 75, 100 and “all” (infinite horizon) has been included in Option C to display the trajectory of the accumulation of

unfunded costs. Based upon the Board's decision on time horizon, the columns for "all" and 100 years could be deleted from this display.

Option D

Option D was proposed by Mr. Dacey at the December 2007 meeting. It is similar to Option A, with the following changes:

1. It provides additional detail by breaking out parts A, B and D of Medicare, and by breaking out projected outflows for Defense, Veterans Benefits and Medicaid from the "other federal programs" section.
2. It provides a subtotal for amounts funded solely by earmarked revenue (i.e., with no general fund resources currently committed). Currently, this category includes Social Security and Medicare Part A. This is intended to highlight those programs which- as currently funded- cannot fully fund benefits under current policies in the future.
3. It adds columns for the prior year, and the change from the prior year.
4. Option D also introduces new terminology for column headings: "Future Resources," "Future Responsibilities" and "Net Change in Fiscal Condition During the Year."

A pro forma Option D is at Attachment 3 on page 22 of this document.

Option D has the same pros and cons as Option A, upon which it is modeled, plus the following pros and cons which are exclusive to Option D.

Pro:

- Option D displays the extent to which Social Security and Medicare have dedicated funding, and highlights those programs that cannot use general revenues.
- The format includes side-by-side comparison of current year and prior year, so that the reader can assess changes from year to year.

Con:

- The breakout of Medicare into three parts dilutes the impact of the total amount of the program, and duplicates information in the SOSI.
- The 10-column layout may be cumbersome for readers.

Option E

Option E is proposed by one of the technical members of the Task Force (Bob Anderson from OMB). Option E is similar to Option C, but Part 1 displays a range (high, low and intermediate estimates) for receipts and outlays. Part 2 displays a comparison of PV dollars and % GDP for the intermediate estimate for

current and prior years. Option E is at Attachment 4 on page 23 of this document.

Pros and Cons

Option E has the same pros and cons as Option C, except for the following that are unique to Option C.

Pro:

- Option E displays ranges rather than point estimates, which emphasizes uncertainty and so does not imply a false precision.
- Option E primarily displays ratios rather than present value dollars, which several of the technical experts believe are less subject to misinterpretation by readers.

Con:

- Developing high, low and intermediate estimates for future inflows and outflows other than social insurance will place an additional time and effort burden on the preparer. This would be different from the sensitivity analysis that is required in the narrative. A sensitivity analysis requires varying several major assumptions and showing the result, but the “high cost” and “low cost” would require development of a comprehensive set of assumptions with many more variables for high and low cost.
- Readers may find it difficult to discern a “bottom line.” A single bottom line was emphasized by the communications Task Force members.

Staff recommendation:

Staff believes that all five options have merit. The Board also may wish to combine some of the elements of Options A, B, C, D or E into a new option.

Staff recommends that Option E should be tentatively selected, unless the Board’s consideration of cost/benefit issues for developing the range of estimates for “rest of government” indicate that Option E would be impractical. If so, staff recommends that the Board tentatively select Option C, subject to modification based upon the Board’s discussion of the “horizon” issue at the February 2008 Board meeting.

Question for the Board:

Which Option (A, B, C, D or E) does the Board prefer for the primary summary display?

2. Approve proposed requirements for additional narrative and graphics (same for Options A, B, C, D and E).

Proposed requirements for additional narrative and graphics are described in paragraphs 51-63 of the draft ED and summarized below. Specific required graphics are illustrated in Appendix B of the ED starting on page 41.

The draft ED proposes that:

1. Narrative and graphics should explain and illustrate the major factors that are expected to have a significant impact upon future inflows and outflows of the federal government. Currently, two major factors are (a) the rising cost of health care and (b) demographic trends.
2. Narrative and graphics should explain and illustrate the historical and projected trends in (a) deficits and (b) Treasury debt as a share of GDP.
3. Narrative should describe policy assumptions for revenues and outlays for: Medicare, Social Security, and rest of federal government.
4. Narrative should include a “plain English” explanation of present value and interest rates used to calculate present value.
5. Narrative should include sensitivity analysis for major assumptions (spending and tax rates, discount rates).
6. 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.
7. Narrative should explain the limitations of this reporting, such as the element of uncertainty and the limited scope (federal government only).
8. The draft ED requires that readers be provided with a mailing address and an e-mail address for comments on the CFR and that a copy of any comments received be provided to the Board.

Staff recommendation:

Staff believes that the above requirements help financial users to understand the nature of forward-looking reporting and why the information is important, and to assist users in providing feedback for the CFR.

Questions for the Board:

Does the Board approve the above additional requirements 1-8 above?
Should there be any additions or revisions?

3. Address the initial placement and audit status of the proposed summary display and the additional graphics and narrative.

A separate project, “Conceptual Framework: Communication Methods,” is addressing guidance factors for the Board to consider regarding the placement of information within a general purpose federal financial report, including the CFR:

FACTORS TO CONSIDER IN DISTINGUISHING BASIC INFORMATION FROM RSI		
Low (implies RSI)	Factor	High (implies Basic)
	<Relevance to fair presentation>	
	<Connection with elements of financial reporting>	
	<Use of various types of financial data or financial transaction data>	
	<Strength of signal Board wishes to be sent in the financial report>	
	<Significance, relevance, or importance of the item in light of <i>Objectives</i> >	
	<Strength of signal the Board wishes to be sent in the auditor's report>	
	<Relevance to measuring financial condition or changes in financial condition>	
	<Extent to which the information interests a wide audience (rather than specialists)>	
	<Extent to which there are not alternative sources of reliable information>	
	<Agreement on criteria that permit comparable and consistent reporting>	
	<Experience among users, preparers, and auditors with the information>	
	<Extent to which the information is aggregated (lacking detail)>	
	<Benefit/cost ratio of using resources to ensure accuracy>	
	<Connection with basic financial statements>	
	<Reliability and/or precision possible>	
	<Reliability and/or precision needed>	

Because the two projects are concurrent, responses to the Concepts ED will likely provide helpful information to the Board in considering the placement and audit status of the proposed summary display and the additional graphics and narrative.

Staff analysis:

Staff believes that two important factors to consider in determining the initial placement of this information within the CFR are the importance of the information in light of objectives and the relative lack of experience with the information among readers of the CFR, financial statement preparers and financial statement auditors.¹³

The importance of the information would suggest that the primary summary display should be a principal financial statement and the accompanying narrative and other required information should be a financial statement note. However, the lack of experience among users, financial statement preparers and auditors with the information would suggest that the initial placement should be in Required Supplementary Information.

For example, information on 75-year inflows and outflows for Medicare and Social Security are currently audited as part of the SOSI, which is a principal financial statement. However, comprehensive projections of government-wide inflows and outflows are not yet currently reported or audited.

Staff is not proposing any changes to the current standards in SFFAC 3 and SFFAS 15, which require reporting of forward-looking information in the MD&A.¹⁴

All of the current MD&A in SFFAS 15 requirements are broad guidelines and do not require the inclusion of specific items. Staff believes that the current level of guidance in SFFAS 15 is appropriate, because

- the “vital few” matters may change over time, and
- specific elements, if reported out of context, may be misleading.

This proposed Statement would provide specific content in the CFR financial statements and/or RSI for the preparer to summarize/highlight in the MD&A of the CFR. Staff believes that SFFAS 15 could be revisited if the Board believes that there is a problem with the coverage of the proposed new reporting in the MD&A of the CFR.

Staff recommendation:

Staff recommends that the ED should propose that the primary summary display and the accompanying narrative and other information should be Required Supplementary Information for the first year of implementation (currently,

¹³ For example, the CFR is currently prepared by compiling information from agency-level audited financial statements.

¹⁴ See SFFAC 3, paragraphs 9, 14 and 30-36 and SFFAS 15, paragraphs 3-6.

FY 2010) and in the second year and thereafter that the primary summary display should be a principal financial statement and the accompanying narrative and other information should be placed in a note to the financial statements.

Question for the Board:

Does the Board agree with the staff recommendation (that the primary summary display and the accompanying narrative and other information should be Required Supplementary Information for the first year of implementation (currently, FY 2010) and in the second year and thereafter that the primary summary display should be a principal financial statement and the accompanying narrative and other information should be placed in a note to the financial statements)?

4. Decide on appropriate reporting for significant changes in economic, demographic or policy assumptions.

The current draft ED requires that:

[35] When year-by-year comparisons are displayed, a table should disaggregate the changes attributable to: 1) valuation period (the end-of-horizon date is one year later), 2) changes in policies (legislation), and 3) changes in assumptions. Narrative should explain the changes attributable to each of the three categories.

Staff recommendation:

Staff believes that the above three categories are important and informative regarding reporting changes in projections from period to period. The standard materiality provision ("The provisions of this statement need not be applied to immaterial items") requires the preparer to provide explanations only for those changes that have a material impact upon the projections.

Question for the Board:

Does the Board agree with the recommended language in [36] and [37] above?

5. Decide whether the scope of this project should be expanded to include guidance on (a) the selection of discount rates and/or (b) valuation dates.

The selection of interest rates used for discounting projections to present value amounts has a significant impact on projections that display summary amounts, such as the summary amounts in the primary summary display.

A current ED, *Reporting the Gains and Losses from Changes in Assumptions, and Selecting Discount Rates and Valuation Dates*, ("Reporting and Selecting")

addresses the selection of discount rates for certain long-term liabilities. Written comments were requested by January 15, 2008.

Staff believes that the current “*Reporting and Selecting*” ED is likely to provide insights into the issue of discount rates. However, the “*Reporting and Selecting*” ED does not apply to social insurance programs, and accordingly would not affect the SOSI.

SFFAS 17, 25 and 26 are silent on the selection of interest rates to be used for discounting to present value amounts displayed in the SOSI.

Staff recommendation: Discount Rates

Staff believes that the issue of whether the Board should provide guidance upon the selection of discount rates for comprehensive long-term projections should be deferred to a future project, which would have the benefit of insights gained from the current “Reporting and Selecting” ED on the selection of discount rates for liabilities. The future project would address both the SOSI and the proposed comprehensive long-term projections in order to provide consistency between the SOSI and the primary summary display for comprehensive long-term projections.

Staff recommendation: Valuation Dates

Staff proposes the inclusion of the following language from paragraph 26 of SFFAS 17, *Accounting for Social Insurance*, regarding valuation dates, to allow consistency of the primary summary display with the Statement of Social Insurance (SOSI):

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.

<p>Questions for the Board:</p>
<p>(a) Does the Board agree that the proposed ED should be consistent with SFFAS 17, 25 and 26 regarding discount rates, and that a future project addressing this issue could be considered?</p> <p>(b) Does the Board agree with the inclusion of guidance on valuation dates that is consistent with the SOSI?</p>

Fiscal Sustainability Reporting: Project Plan Milestones

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 15, 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 Reporti

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: 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: 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: 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: 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

Attachment 2:
History of Board Decisions on Fiscal Sustainability Reporti

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 for fiscal sustainability reporting 	<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 and graphics. 	<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.

Attachment 3: Option D for Primary Summary Display

Option D: Statement of Fiscal Sustainability

	20X1				20X0					
	Future Resources		Future Responsibilities		Net Resources (Responsibilities)		Net Resources (Responsibilities)		Net Change During the Year	
	PV Dollars	% of GDP	PV Dollars	% of GDP	PV Dollars	% of GDP	PV Dollars	% of GDP	PV Dollars	% of GDP
	\$		\$		\$		\$		\$	
Social Security	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%
Medicare - Part A	\$		\$		\$		\$		\$	
	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%
	\$		\$		\$		\$		\$	
Subtotal	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%
Other Programs										
	\$		\$		\$		\$		\$	
Medicare - Part B	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%
	\$		\$		\$		\$		\$	
Medicare - Part D	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%
			\$		\$		\$		\$	
Defense			XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%
			\$		\$		\$		\$	
Veterans Benefits			XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%
			\$		\$		\$		\$	
Medicaid			XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%
Other Federal Programs			\$		\$		\$		\$	
			XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%
Taxes and Other Revenues	\$				\$		\$		\$	
	XXX.X	yy.y%			XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%
	\$		\$		\$		\$		\$	
Subtotal	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%
	\$		\$		\$		\$		\$	
Total	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%	XXX.X	yy.y%

Option E: Ranges

Part 1: Long-Term Implications of Current Policies				
Ratios projected to xx years				
		As of September 30, 20XX (Current Year)		
		High cost Estimate	Intermediate Estimate	Low cost Estimate
Receipts				
	Medicare	X.X%	X.X%	X.X%
	Social Security	X.X%	X.X%	X.X%
	All other revenues	X.X%	X.X%	X.X%
	Total Receipts	X.X%	X.X%	X.X%
Outlays				
	Medicare	X.X%	X.X%	X.X%
	Medicaid	X.X%	X.X%	X.X%
	Social Security	X.X%	X.X%	X.X%
	Rest of Federal government**	X.X%	X.X%	X.X%
	Total Projected Outlays	XX.X%	X.X%	XX.X%
	Fiscal Imbalance***	XX.X	X.X%	XX.X%
Other Sustainability Measures:				
	Fiscal Imbalance as			
	Percentage of Payroll	X.X%	X.X%	X.X%

Part 2: Comparison to Prior Year: Intermediate Estimate

Ratios projected to xx years

	As of September 30, 20XX (Current Year)		As of September 30, 20XX (Prior Year)	
	PV		PV	
	Dollars	% GDP	Dollars	% GDP
Receipts				
Medicare	X.X%	X.X%	X.X%	X.X%
Social Security	X.X%	X.X%	X.X%	X.X%
All other revenues	X.X%	X.X%	X.X%	X.X%
Total Receipts	X.X%	X.X%	X.X%	X.X%
Outlays				
Medicare	X.X%	X.X%	X.X%	X.X%
Medicaid	X.X%	X.X%	X.X%	X.X%
Social Security	X.X%	X.X%	X.X%	X.X%

Attachment 4: Option E for Primary Summary Display

Rest of Federal government**	X.X%	X.X%	X.X%	X.X%
Total Projected Outlays	XX.X%	X.X%	XX.X%	X.X%
Fiscal Imbalance***	XX.X	X.X%	XX.X%	X.X%

Other Sustainability Measures:

Fiscal Imbalance as		
Percentage of Payroll	X.X%	X.X%

Other information required:

The narrative should explain that “high cost” estimate shows the lowest reasonable estimate of inflows and the highest reasonable estimate of outflows; the “low cost” estimate shows the highest reasonable estimate of inflows and the lowest reasonable estimate of outflows. The high, low and intermediate estimates for Social Security and Medicare should use the Social Security and Medicare Trustees Reports. The preparer should use judgment in determining the parameters of high, low and intermediate estimates for all other inflows and outflows. Selection of parameters and the major assumptions that cause the differences between high and low should be explained in the narrative.



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 15, 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 15, 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 6 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 comprehensive summary display as well as specific narrative and graphic displays for the annual consolidated financial report of the U.S. Government (CFR).

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

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

Q2. This exposure draft proposes a summary display, in addition to narrative and graphics. (Descriptions begin at paragraph 20 and illustrations of pro forma summary displays begin on page 35.) Do you believe that this display would be understandable and meaningful for readers of the consolidated financial report of the U.S. Government (CFR)? Please note any changes that you believe should be made to the requirements for a summary display.

Q3. 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: "XXXXX." 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. Do you believe that the summary display should be titled

- a. "Statement of Fiscal Sustainability"
- b. Another title, such as "Summary of Long-Term Financial Position," "Future Implications of Current Policies," "Long-Term Implications of Current Policies, or "Summary of Financial Condition,"
- c. A title not listed above (please specify).

Please explain the reasons for your choice.

Q4. This exposure draft proposes narrative and graphic displays to effectively communicate to the reader to observe historical and projected trends and to help the reader understand the "why" (the driving factors) of the projections. The requirements begin at paragraph 49 and illustrations begin on page 42.

- 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?

⁴ SFFAC 1, par. 139.

- 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.

Q5. 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.

Q6. 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?

Q7. 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 the content 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).

Q8. [Future question about the placement of reporting: principal statement(s), notes, RSI, MD&A, etc.]

Q9. [Future question about effective date.]

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.⁵ 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.⁶
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.⁷
4. While federal financial reporting is not expected by itself to accomplish the stewardship reporting objective, it can contribute to meeting the objective.⁸ 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 adding comprehensive long-term fiscal **projections**⁹ and accompanying narrative and graphics to the consolidated financial report of the U.S. Government (CFR) will contribute to meeting sub-objective 3B of the stewardship objective. The more detailed objectives presented below were developed as one means of

⁵ SFFAC 1, par. 109.

⁶ SFFAC 1, par. 134.

⁷ SFFAC 1, par. 139.

⁸ SFFAC 1, par. 235.

⁹ Terms defined in the Glossary are shown in **bold-face** the first time they appear.

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 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,¹⁰ assuming that current levels of benefits, services and taxation are continued.¹²
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.¹³ Fiscal Sustainability Reporting should assist the reader in understanding these financial, social and political implications.
8. Projections or **simulations** of deficits, or surpluses, and debt are a central feature of Fiscal Sustainability Reporting. Projections and simulations are not forecasts or predictions; they are designed to ask the question “what if” – for example, what if current levels of benefits, services and taxation

¹⁰ SFFAC 1, par. 139.

¹² 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.

¹³ The latter notion is sometimes referred to as “interperiod equity.”

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.

are continued in the future? 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.

9. Fiscal Sustainability Reporting should be understandable to the intended users of the CFR. The primary intended users of this report are citizens and citizen intermediaries (such as the media, public interest and advocacy groups, and others). The CFR should be easily understandable to the “average citizen” who has a reasonable understanding of federal government activities and is willing to study the information with reasonable diligence. Moreover, the CFR is a high-level summary report; it tells users where to find additional information in other reports and publications, such as 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).¹⁵
10. The Frequently Asked Questions (FAQs) at Appendix C provide a “Plain English” explanation of terms and concepts used in this Statement.

Materiality

11. 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

12. The final provisions of this Statement are expected to be effective for fiscal year 2010. Earlier implementation is encouraged.

Accounting Standard

Definitions

13. Fiscal Imbalance

The fiscal imbalance is the total of existing federal debt plus future projected deficits, minus future surpluses. The fiscal imbalance illustrates the amount that would be necessary to balance future outlays and receipts and repay existing debt expressed in **present value** dollars or a share of GDP as of the reporting date. The fiscal imbalance calculation assumes that all debt will eventually be paid.

14. 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.

15. 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 include projected changes in the framework for assessing taxes and fees that will be collected, and projected spending rules (such as current benefit formulas) for both **mandatory** and **discretionary** programs.

16. 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.

17. 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).

18. Demographic Assumptions

Demographic assumptions address projected population trends such as birth rates, mortality rates and net immigration.

Scope

19. 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 agency level. They also do not affect the reporting in the *Budget of the U.S. Government* or any other special purpose type of report.

Recognition and Measurement

Policy, Economic and Demographic Assumptions

20. Fiscal Sustainability Reporting for the U.S. Government should provide information that helps the reader to determine whether current policy¹⁶ is likely to produce future budgetary resources sufficient to sustain 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.
21. Long-term projections [or simulations] 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.
22. Policy assumptions address the level of services provided by the federal government as well as the framework for assessing taxes and fees.
23. Economic assumptions address the economic factors that are not under the direct legislative control of the federal government (for example, inflation and growth in **Gross Domestic Product** (GDP)).

¹⁶ 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. “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 and the general relationship of taxation to the economy (e.g., taxable income, GDP or some other base).

24. Demographic assumptions address projected population trends such as birth rates, mortality rates and net immigration.
25. When combined with policy assumptions, economic and demographic assumptions determine the level of future projected inflows and outflows.
26. 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.

Policy Assumptions

27. With some exceptions, projections of future inflows and outflows should be based upon 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. In these cases, the preparer should use judgment in applying the general guidelines presented below.
28. When a simple assumption of current law does not provide a basis for projections of future inflows and outflows that is consistent with current policies, assumptions should reflect "current policies" as defined in this standard.¹⁷ Following are examples:
- (a) Legislation providing for **discretionary spending**¹⁸ provides funding that extends at most a few years into the future. Therefore,

¹⁷ See note 16.

¹⁸ 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 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>.

assumptions will be required in order to prepare a long-range projection.

- (b) Some provisions of tax law, such as the Alternative Minimum Tax (AMT) that 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 and, depending on the circumstances, it might be reasonable to assume that action will be taken to preserve the current impact of the AMT.
- (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.

29. In those cases where a simple assumptions of current law does not provide a basis for projections that is consistent with “current policies” as defined in this standard the preparer is not required to assume a uniform growth rate for all types of revenues and spending; however, if different growth rates are projected for different types of revenues and spending, the assumptions used should be internally consistent. 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 Gross Domestic Product (GDP)¹⁹
- (b) Grow with inflation²⁰
- (c) Maintain a constant real²¹ per capita level

30. The preparer should use judgment in selecting assumptions and make adjustments when appropriate. When the preparer is unable to determine specific assumptions most consistent with current levels of benefits, services and taxation, the preparer is not always required to select the assumptions representing the worst case scenario. Rather, the preparer should view the assumptions as a whole and make individual selections which result in a reasonable overall projection. The preparer’s objective should be to produce unbiased projections.

¹⁹ Gross Domestic Product (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.

²⁰ Inflation is growth in a general measure of prices, usually expressed as an annual rate of change.

²¹ In economic terms, “real” means adjusted to remove the effects of inflation.

²³ SFFAS 17, paragraph 27.

31. 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.

Economic and Demographic Assumptions

32. The economic and demographic assumptions used in the primary displays for Fiscal Sustainability Reporting should be consistent with the economic and demographic assumptions used for Social Security and Medicare in the preparation of the Statement of Social Insurance.
33. The narrative should include information about the economic and demographic assumptions used and how different economic and demographic assumptions would impact the projections. If an administration’s economic or demographic assumptions differ significantly from that of the Social Security and Medicare Boards of Trustees, the narrative should explain the difference in the assumptions, explain the reason(s) why the different assumptions were selected, and report the impact of the alternative assumption(s) upon the projection(s).

Uncertainty

34. Long-range projections should be accompanied by a narrative that includes:
- (a) a listing of significant assumptions,
 - (b) explanation of why the significant assumptions used were selected,
 - (c) discussion of the effects of uncertainty,
 - (d) how different assumptions would affect the projection (including alternative scenarios where appropriate), and
 - (e) 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.

Changes in Assumptions

35. When year-by-year comparisons are displayed, a table should disaggregate the changes attributable to: 1) valuation period (the end-of-horizon date is one year later), 2) changes in policies (legislation), and

3) changes in assumptions. Narrative should explain the changes attributable to each of the three categories.

Valuation Date

36. 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.

Projection Period

37. Projections in the primary summary display should be consistent with the Statement of Social Insurance (SOSI). The SOSI projection period is required to be "sufficient to illustrate long-term sustainability (e.g., traditionally the "Social Security" or OASDI, program has used a projection period of 75 years for long-term projections).²³

38. 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.

Summary Display

39. This exposure draft presents several potential formats for a summary display. Description of the potential formats 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

40. The summary display, *Summary of Long-Term Fiscal Position*, should display the following projected amounts, as both PV dollars and as a percentage of the present value of GDP as of the period indicated:
- Receipts, disaggregated by Medicare, Social Security, and all other revenues, and total receipts
 - Outlays, disaggregated by Medicare, Medicaid, Social Security, and all other outlays, and total outlays
 - Fiscal Imbalance (Net of receipts and outlays)
 - Fiscal Gap as of the current year-end and prior year-end.
41. 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.
42. Additional requirements for narrative and graphics are provided in the “Requirements for Narrative and Graphics” section of this document, beginning at paragraph 49.

Option B

43. A summary display, *Future Implications of Current Policies*, should present the present value of all projected unfunded costs for Medicare, Social Security, and the rest of the federal government as both present value dollar amounts and a percent of the present value of GDP as of the period indicated: prior year, current year, and each of the five years following the current year. The projected unfunded costs include all costs beginning in the year indicated through the projection period.
44. In addition, a second display should project total cumulative unfunded costs at 5, 10, 25, 50, 75 and 100 years, with a final column for “all” indicating the infinite horizon.

45. A third display should report net financial assets²⁵ for each of the past 4 years, the current year, and projected for each of the following five years.
46. Requirements for narrative and graphics appear in the section “Requirements for Narrative and Graphics” beginning at paragraph 49.

Option C

47. 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. It displays a single projection period, rather than two projection periods, to allow side-by-side display of amounts. It includes only one display of the “per capita” fiscal imbalance, with “current and future population” as the denominator. It adds a “per capita” display of Treasury debt as of the end of the current and prior fiscal years.
48. Requirements for narrative and graphics appear in the section “Requirements for Narrative and Graphics” beginning at paragraph 49.

Required Additional Information: Narrative, Graphics and Supporting Data (same for all primary display options)

49. Narrative and graphics serve a critical role in making economic concepts and projections accessible 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.
50. 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.
51. 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.

²⁵ “Financial assets” are defined as cash and cash equivalents.

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52. 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.)]
53. 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.
54. The narrative should explain policy assumptions for revenues and outlays for: Medicare, Social Security, and rest of federal government. Full payment of principal and interest 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.”
55. The narrative should include a “plain English” explanation of present value and interest rates used to calculate present value.
56. Narrative and sensitivity analysis for alternative scenarios for major assumptions (such as spending and taxation and discount rates) should be provided.
57. 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:
- (a) comparison of the data/trend with that of other developed nations,
 - (b) comparison of the data/trend with everyday life, such as 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, such as the role of rating organizations and/or European Union rules for member nations.
58. 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:

- (a) There are risks involved in ever-increasing Treasury borrowing.
- (b) Changes in tax rates and/or benefits would need to be larger if action is delayed.

Examples should be provided.

59. 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*).²⁸

Limitations of Fiscal Sustainability Reporting

60. The narrative should include an explanation of the following limitations:
- (a) 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;
 - (b) 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.
 - (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.²⁹

Request for Feedback from Readers of the CFR

61. 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.

²⁸ Available at: <http://www.ssa.gov/OACT/TR/>.

²⁹ 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.

Effect on Current Standards

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

Effective Date

63. These standards are effective for periods beginning after September 30, 2009. Earlier implementation is encouraged

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

Appendix A: Basis for Conclusions

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

Project History*The Issue*

- A 1. 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.
- A 2. 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. [Source: Statement of Federal Financial Accounting Concepts (SFFAC) 1, pars. 134-145, available at <http://www.fasab.gov/codifica.html>.]
- A 3. In particular, existing reporting may not adequately address sub-objective 3b above.

Plan to Address the Issue

- A 4. Throughout this project, the Board considered expert comments from a Fiscal Sustainability Reporting Task Force whose members 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.
- A 5. The task force members 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.
- A 6. FASAB staff also researched existing reporting on comprehensive government-wide long-term projections by other developed, English-speaking countries such as the U.K., Australia, New Zealand and Canada, and conferred with staff of the International Public Sector Accounting Standards Board.

Financial Position versus Financial Condition

- A 7. 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 would require 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.³⁰
- A 8. Indicators of financial position, such as 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, a current law budget projection under a range of alternative assumptions³¹ 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

³⁰ SFFAC 1, par. 262.

³¹ SFFAC 1, par. 145.

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.³² 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 and spending • Nonfinancial data, such as demographic trends • Past and projected future federal activity relative to GDP

A 9. 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 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.)³³

³² SFFAC 1, par. 144.

³³ SFFAC 3, par. 14.

- A 10. 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)**.³⁴

Existing Required Sustainability Reporting

Management’s Discussion and Analysis (MD&A)

- A 11. This section would explain concepts in SFFAC 3 and reporting requirements in SFFAS 15.

A 12. xxx

Statement of Social Insurance (SOSI)

What the SOSI reports

- A 13. This section would describe the contents of the SOSI and its audit status.

A 14. xxx

How the SOSI is prepared

- A 15. This section would explain who the Trustees are, and how the SSA and HHS offices prepare the SOSI.

What would this proposal add to existing reporting?

A 16. xxx

A 17.

Assumptions

Limitations of “Current Law” Assumptions

- A 18. Although current law is a reasonable starting point, a simple projection of “current law” would not always reflect current levels of benefits, services or tax rates. For example, current law often does not extend far enough into the future to be used as a basis for long-range projections. In other instances, current law may not provide for future levels of benefits, services or tax rates that are

³⁴ 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.

consistent with current levels.

A 19. 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 18) programs are subject to authorizing legislation that expires in the near future. For example, the legislation authorizing several mandatory programs (such as Food Stamps, student assistance for higher education and agricultural price supports) expires and would require legislative action for the programs to continue past the expiration date.

A 20. Current law may contain a provision that restricts spending on certain social insurance programs, such as 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 legislation does not address what will happen when the trust fund balances are exhausted, although this event may reasonably be expected to occur.³⁵

A 21. Current law also may include tax provisions such as 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.

Comments Provided by the Technical Group, Fiscal Sustainability Task Force

A 22. A majority of the task force technical experts believe that for mandatory spending on social insurance programs, a modified version of “current law”

³⁵ 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.

(ignoring the exhaustion of the Social Security and Medicare Hospital Insurance Trust Funds- see paragraph A 20), which might also be termed “current services” represents the most useful assumption for social insurance programs. However, a minority believe that any deviation from current law requires a subjective judgment that can be biased.

A 23. 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 that projecting discretionary spending growth at the same rate as assumed Gross Domestic Product (GDP) per capita would be an example of a reasonable option.

A 24. A recent report issued by the GAO³⁶ 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.

A 25. 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 members and many of the Technical members of 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.

A 26. Historically, practices have varied. For example, a member of the Fiscal Sustainability Task Force noted that past OMB projections have sometimes included “bracket creep”³⁷ for revenues and sometimes not.

A 27. 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.

A 28. The technical experts were unanimous in agreeing that the

³⁶ *The Nation’s Long-Term Fiscal Outlook* August 2007 Update (GAO-07-1261R).

³⁷ “Bracket creep” occurs because individual income tax brackets are indexed for inflation rather than wage growth. When wages grow faster than inflation, the effective tax rate increases, which can increase revenues as a share of GDP.

administration's proposals are not the most appropriate basis for projections of revenues and outlays.

A 29. 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.³⁸ (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.)

A 30. The Board believes that the details of the baseline for projecting "current level of service" or "current level of taxes" should be left to the judgment of the preparer and auditor. Regardless of which baselines are used for a primary presentation, the narrative should include an explanation of the assumptions used and alternative scenarios.

A 31. 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 outlays 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.

A 32. 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 A 31, the narrative would explain what percentage of Medicare reimbursements could not be paid if legislation does not provide for maintaining current levels).

³⁸ 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>.

Economic and Demographic Assumptions

- A 33. 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.
- A 34. 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).
- A 35. 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 ³⁹	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 ⁴⁰	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

³⁹ 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)

⁴⁰ 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.

- A 36. 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. For the Medicare and Social Security Trustees Reports, the assumptions are all subject to audit.
 - In contrast, the CBO and OMB economic and demographic assumptions are not subject to auditing.
 - 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.
- A 37. 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

- A 38. 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.⁴¹

⁴¹ Australia, Intergenerational Report 2002-3, page 2. Available at: http://www.budget.gov.au/2002-03/bp5/html/02_BP5Overview.html#P23_3643

Recognition and Measurement

Summary Display (Options A, B and C)

- A 39. Option A, *Summary of Long-Term Fiscal Position*, is a simplified version of the “Statement of Sustainability” that was proposed in the Alternative View of *Preliminary Views: Accounting for Social Insurance, Revised* (PV). Adaptations were made to the version proposed in the PV based upon comments from the Communications members of the Fiscal Sustainability Task Force.
- A 40. 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.
- A 41. 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.

Per Capita Measures

- A 42. The Board considered whether to include per capita measures in the summary display. The technical group of 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.
- A 43. A majority of the technical members of the Task Force recommended against per capita measures, for the following reasons:
- a) Several technical members strongly objected to the use of per capita summary numbers using current-year population for the denominator. Such values would imply that the current-year population is solely responsible for funding program shortfalls into the distant future. Those members believe that any changes needed to address the shortfalls projected through, for example, the next 75 years, must be spread across the population throughout that 75-year period, and cannot be handled solely by today's workers.
 - b) Other technical members noted that per capita amounts 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 the “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 Task Force members 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 Task Force member objects to “per capita” amounts because they represent amounts distributed equally among individuals with widely different abilities to pay.

A 44. After a discussion of the above issues, the Board decided not to include per capita measures in the proposed reporting requirements.

Request for Feedback from Readers of the CFR

A 45. 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.

Appendix B: Example Formats and Illustrations

Option A: Summary of Long-Term Fiscal Position

Summary of Long-Term Fiscal Position

As of September 30, 20XX

	75 Years		All Future Years	
	PV Dollars	%GDP*	PV Dollars	%GDP*
Receipts				
Medicare	\$ XX.X	X.X%	\$ XX.X	X.X%
Social Security	XX.X	X.X%	XX.X	X.X%
All other receipts	XX.X	X.X%	XX.X	X.X%
Total Receipts	\$ XX.X	X.X%	\$ XX.X	X.X%
Outlays				
Medicare	\$ XX.X	X.X%	\$ XX.X	X.X%
Medicaid	XX.X	X.X%	XX.X	X.X%
Social Security	XX.X	X.X%	XX.X	X.X%
Rest of Federal Government**	XX.X	X.X%	XX.X	X.X%
Total Outlays	\$ XX.X	X.X%	\$ XX.X	X.X%
Fiscal Imbalance***	\$ XX.X	X.X%	\$ XX.X	X.X%

Other Sustainability Measures

	(in trillions)	(in trillions)
Total Fiscal Gap****	\$ XX.X	\$ XX.X

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

* GDP (Gross Domestic Product) can be roughly defined as all of our nation's income or everything the country produces.

** Rest of government: The repayment of principal and interest on borrowings from the Social Security and Medicare HI 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 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. This amount illustrates the amount of present value dollars that would be necessary to maintain public debt as a constant percentage of GDP.

The “current population” amounts show what amounts would be needed from each person, worker, etc. in the current year to eliminate the fiscal imbalance. (Present value numerator, current population denominator)

The “current and future population” amounts show what amounts would be needed from the total number of persons, workers, or households projected to comprise that population group at any time during the entire 75-year projection period.

Accompanying Narrative and Graphics (same for Options A, B and C)

A) The following should accompany the primary display:

- Policy assumptions for revenues and outlays for: Medicare, Social Security, and rest of federal government. Full payment of principal and interest 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.”
- Explanation in “plain English” of present value.
- Explanation of interest rates used to calculate present value.
- Narrative and sensitivity analysis for major assumptions (spending and tax rates, discount rates).
- Narrative that explains how options for addressing the issue will become more limited and/or the impact of the options more severe if action is delayed.

B) Additional narrative and graphics required: see page 42.

Option B: Future Implications of Current Policies⁴²

Option B is a two-part summary display, with additional supplementary information.

Part 1- Future Implications of Current Policies¹

Present value dollars, in billions:

	Prior Year	Current Year	Projections				
	2006	2007	2008	2009	2010	2011	2012
Medicare							
Future Net Benefits of Living Generations	XX	XX	XX	XX	XX	XX	XX
Less: Trust Funds	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Net Benefits of Past and Living Generations (subtotal)	XX	XX	XX	XX	XX	XX	XX
Net Benefits of Future Generations	XX	XX	XX	XX	XX	XX	XX
Unfunded Costs: Medicare	XX	XX	XX	XX	XX	XX	XX
Social Security							
Future Net Benefits of Living Generations	XX	XX	XX	XX	XX	XX	XX
Less: Trust Funds	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Net Benefits of Past and Living Generations (subtotal)	XX	XX	XX	XX	XX	XX	XX
Net Benefits of Future Generations	XX	XX	XX	XX	XX	XX	XX
Unfunded Costs: Social Security	XX	XX	XX	XX	XX	XX	XX
Rest of Federal Government							
Present Value of Future Expenditures	XX	XX	XX	XX	XX	XX	XX
Plus: Debt held by Medicare and Social Security Trust Funds	XX	XX	XX	XX	XX	XX	XX
Less: Present Value of Receipts	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Less: Net Financial Assets	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Unfunded Costs: Rest of Federal Government	XX	XX	XX	XX	XX	XX	XX
Total Unfunded Costs (Fiscal Imbalance)	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>

⁴² In this standard, “current policies” refers to current levels of federal government services and benefits (for example, current reimbursement rates for Medicare and scheduled benefits for Social Security) “Current levels” is not equivalent to levels measured in dollars. In the broader context, current levels are to be considered with respect to the service or benefit being provided and the general relationship of taxation to the economy (e.g., taxable income, GDP or some other base)

¹. Explanation of revenue and expense assumptions for “current policies.” (See guidance for assumptions in paragraphs 20 - 0 of this document.)

Unfunded Costs as a percent of present value of GDP

	2006	2007	2008	2009	2010	2011	2012
Unfunded Costs: Medicare	XX	XX	XX	XX	XX	XX	XX
Unfunded Costs: Social Security	XX	XX	XX	XX	XX	XX	XX
Unfunded Costs: Rest of Federal Government	XX	XX	XX	XX	XX	XX	XX
Total Unfunded Costs (Fiscal Imbalance)	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>

Part 2: Projected accumulation of total unfunded costs from the beginning of the current year (2007)

	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	XX	XX	XX
Social Security	X	XX	XX	XX	XX	XX	XX
Rest of Federal Government	X	XX	XX	XX	XX	XX	XX
Total- present value dollars	XXX	XXX	XXX	XXX	XXX	XXX	XXX

The following are details for line items in Parts 1 and 2 that should be explained in the narrative.

Living generations include those aged 15 and older in the indicated year (“closed group”). “Net benefits of living generations” is the present value of the one-hundred year closed group liability.

Future generations include those aged 14 and younger and unborn generations as of the indicated year (“open group”). Net benefit of future generations is the open group liability.

Present value of “Future Expenditures for the Rest of Federal Government” excludes net interest.

“Net Financial Assets” are cash and cash equivalents less liabilities (see additional information below).

“All” column (Part 2) is calculated in perpetuity.

The following additional information would be placed in the “narrative” section.

Additional information: Projection of Net Financial Assets

	<i>Past Years</i>				<i>Current Year</i>	<i>Projections</i>				
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
OPERATING COSTS										
Total Operating Costs	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Less: Taxes and All Other Revenues	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Net Operating Costs	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
BALANCE SHEET										
Financial Assets*	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Less: Liabilities	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Net Financial Assets*	X	X	X	X	X	X	X	X	X	X

* Financial assets are cash and cash equivalents.

Accompanying Narrative and Graphics (Same for Options A, B, and C)

A) The following should accompany the primary summary display:

- Policy assumptions for revenues and outlays for: Medicare, Social Security, and rest of federal government. Full payment of principal and interest 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.”
- Explanation in “plain English” of present value.
- Explanation of interest rates used to calculate present value.
- Narrative and sensitivity analysis for major assumptions (spending and tax rates, discount rates).
- Narrative that explains how options for addressing the issue will become more limited and/or the impact of the options more severe if action is delayed.

B) Additional narrative and graphics required: see page 42.

Option C: Long-Term Implications of Current Policies

Part 1: Long-Term Implications of Current Policies

Amounts projected to 100 years

	As of September 30, 20XX (Current Year)		As of September 30, 20XX (Prior Year)	
	PV Dollars	%GDP*	PV Dollars	%GDP*
Receipts				
Medicare	\$ XX.X	X.X%	\$ XX.X	X.X%
Social Security	XX.X	X.X%	XX.X	X.X%
All other revenues	XX.X	X.X%	XX.X	X.X%
Total Receipts	\$ XX.X	X.X%	\$ XX.X	X.X%
Outlays				
Medicare	\$ XX.X	X.X%	\$ XX.X	X.X%
Medicaid	XX.X	X.X%	XX.X	X.X%
Social Security	XX.X	X.X%	XX.X	X.X%
Rest of Federal government**	XX.X	X.X%	XX.X	X.X%
Total Projected Outlays	\$ XX.X	X.X%	\$ XX.X	X.X%
Fiscal Imbalance***	\$ XX.X	X.X%	\$ XX.X	X.X%

Other Sustainability Measures:

Fiscal Imbalance as		
Percentage of Payroll	X.X%	X.X%

Descriptions of the following columns/line items should appear directly below the 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 principal and interest on borrowings from the Social Security and Medicare HI 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 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.

Part 2: Projected accumulation of total unfunded costs from the beginning of the current year (2007)

	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	XX	XX	XX
Social Security	X	XX	XX	XX	XX	XX	XX
Rest of Federal Government	X	XX	XX	XX	XX	XX	XX
Total- present value dollars	XXX	XXX	XXX	XXX	XXX	XXX	XXX

Accompanying Narrative and Graphics (Same for Options A, B and C)

A)The following should accompany the primary summary display:

- Policy assumptions for revenues and outlays for Medicare, Social Security, and rest of federal government. Full payment of principal and interest 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.”
- Explanation in “plain English” of present value.
- Explanation of interest rates used to calculate present value.
- Narrative and sensitivity analysis for major assumptions (spending and tax rates, discount rates).
- Narrative that explains how options for addressing the issue will become more limited and/or the impact of the options more severe if action is delayed.

B) Additional narrative and graphics: see page 42.

Additional Information

The following additional information should supplement the summary display.⁴³

1. Rising cost of health care

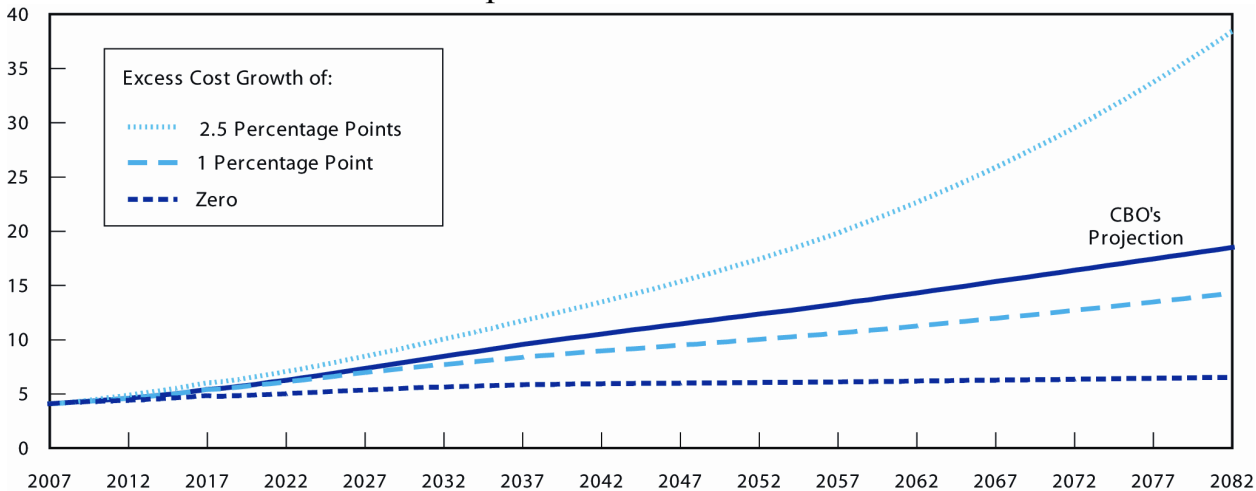
If the rising cost of federal spending on health care is a major factor in the long-term spending projections, it should be reported as follows:

- (a) If the growth in health care costs exceeds the growth in GDP, the narrative should 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,” should be presented in a graphic as a percentage of GDP. The graphic could use the example format in Illustration 1a on the following page.

⁴³ See paragraphs 50-52 of this standard.

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/>.

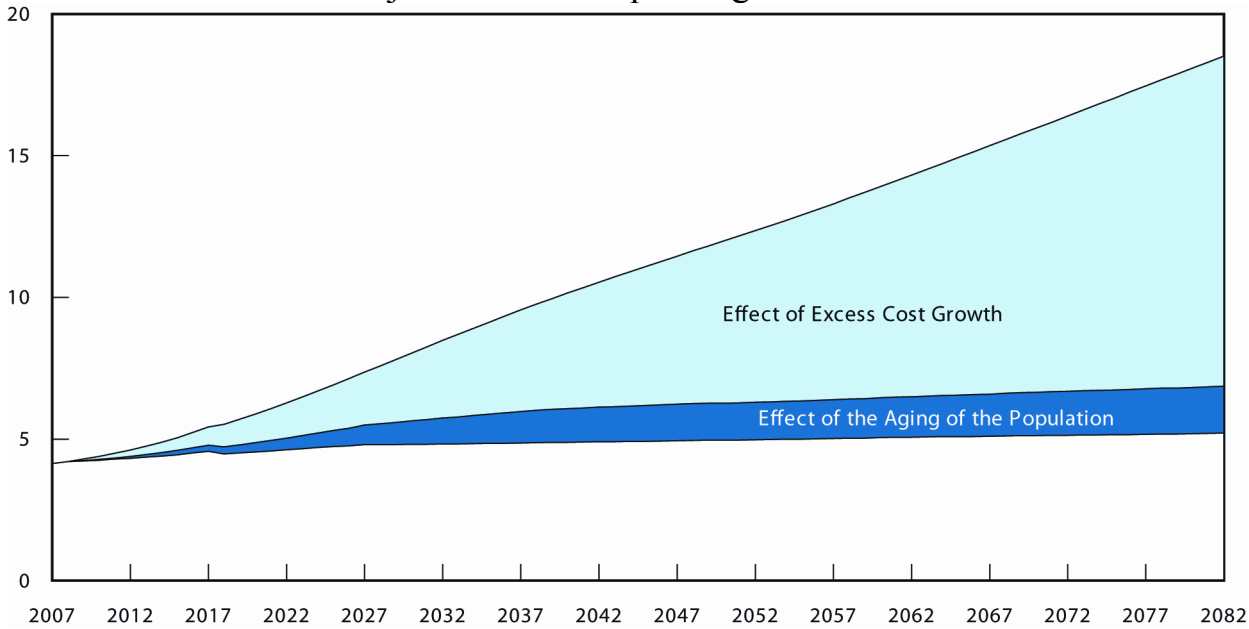
A narrative should describe the assumptions involved in the low, intermediate and high projections, and if applicable a fourth, “most likely” projection.

In addition, a graphic should 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.⁴⁴

⁴⁴ 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.

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.

2. Demographic trends

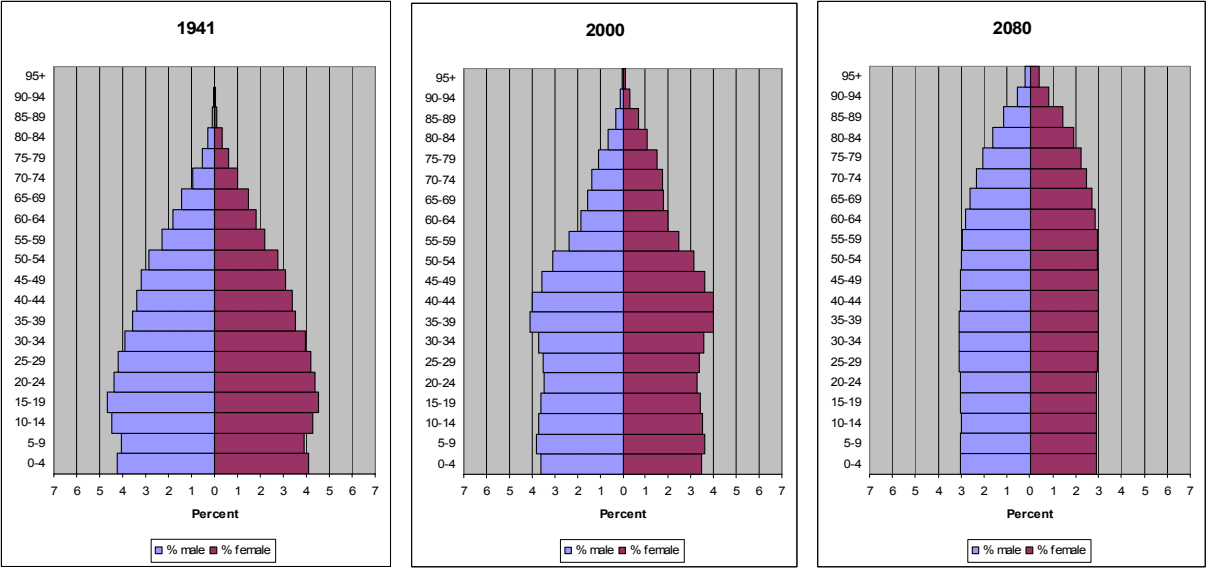
The narrative should describe demographic trends and briefly explain the major drivers of change in demographic trends, such as trends in longevity and birth rates, and refer the reader to more extensive coverage of the topic in other existing reports, such as the Social Security and Medicare Trustees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

Note to Board: Social Security staff prepared the above graphs using population statistics for years that were readily available. If the Board concurs in principle with this requirement, staff will ask Social Security for a similar graph for 1950 and 2050 instead of 1941 and 2080.

Alternatively, simple age demographics rather than workforce participation could be used, (i.e., “over 64 instead of “retired,”) provided that they are used consistently.⁴⁵

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.

3. Trends in deficit spending and Treasury debt

The trends in deficit spending could be graphically displayed as a percentage of GDP. For example, projections for future trends could be based upon the application of the current year’s tax rates, benefit formulas and Medicare reimbursement rates on mid-range demographic trends and GDP growth, with a constant interest rate. Underlying data tables could be shown in accompanying information rather than part of the primary display.

Alternative scenarios may present changes in taxes or spending that are embodied in current law, such as the expiration of tax provisions and/or reductions in Social Security or certain Medicare benefits to the level that could be financed with trust fund resources plus dedicated inflows.

3(a) Deficit spending trends

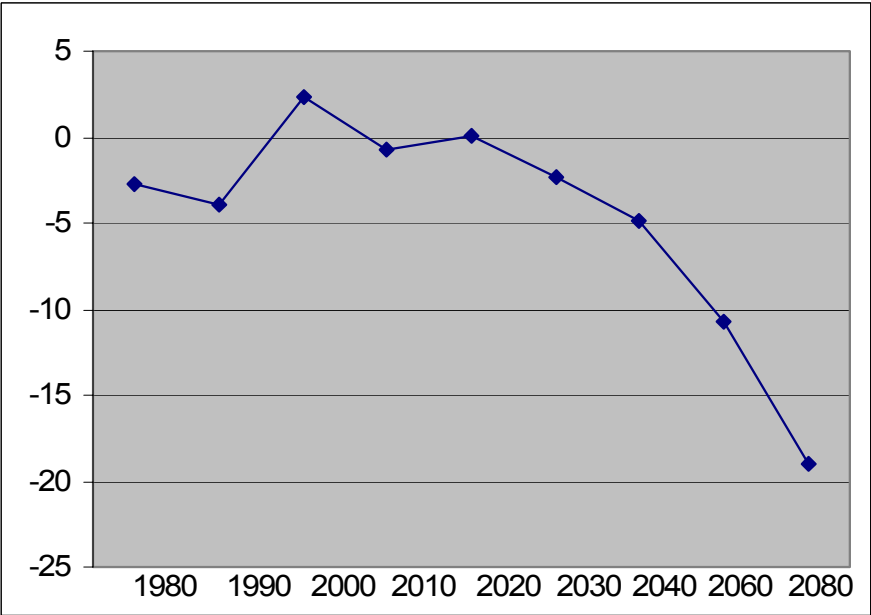
One graphic could display the deficit as a percentage of GDP, showing at a minimum the current year minus 20 years, the current year and the current year plus 75. The narrative should discuss the advantages and disadvantages of displaying projections far into the future, such as increasing uncertainty versus the “moving window” issue.⁴⁶

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

Projected Deficit/Surplus as a Percentage of GDP

⁴⁵ 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.

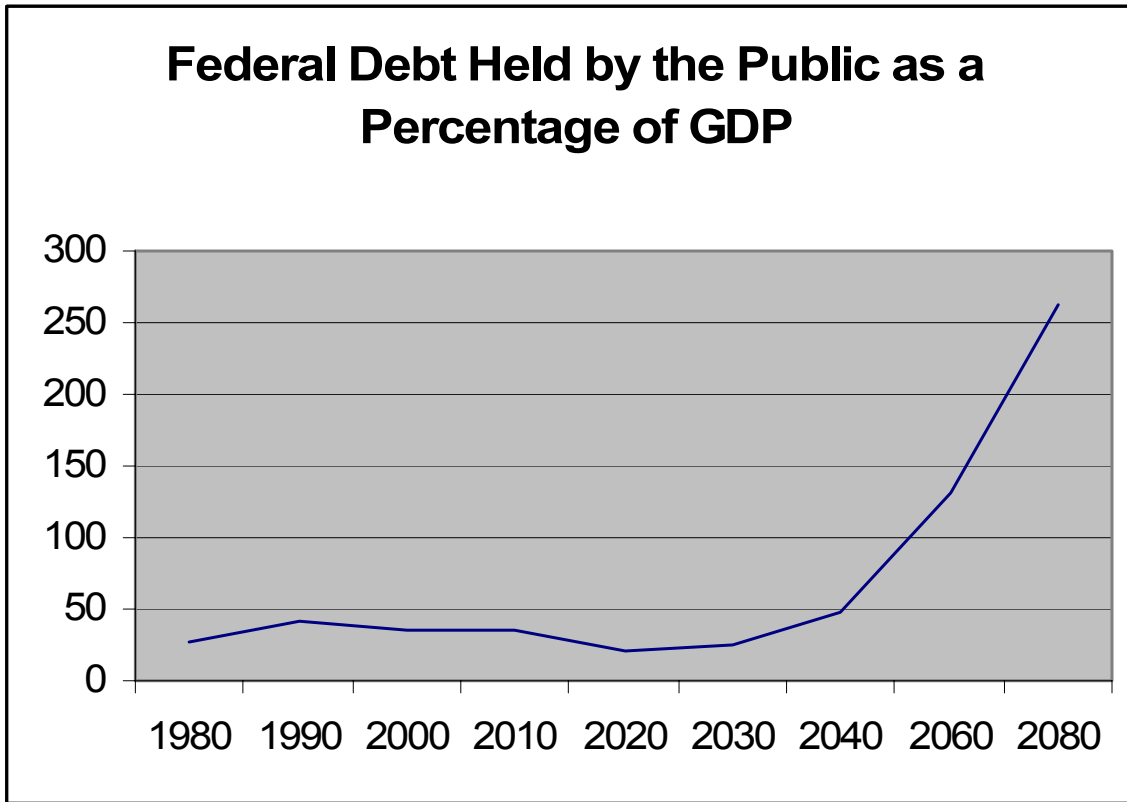
⁴⁶ The “moving window” problem occurs when there are significant changes to an estimate from one year to the next that are caused by the passage of time. For example, if a projection period is 75 years, the activity in “year 76” is outside the projection period for that year, but will be included in the projection period for the following year.



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

3(b) Increase in Treasury debt

A second graphic for this section could display the projected increase in Treasury debt as a percentage of GDP, showing at a minimum the current year minus 25 years, the current year, the current year plus 25 years, and a final column labeled “all” to show the infinite horizon. This graphic should 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.

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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). But 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 outlays and receipts and repay existing debt. .

FAQ 6. 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.

FAQ 7. What are projections and 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.

FAQ 8. 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 (such as 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 such as birth rates, mortality rates and net immigration.

Projections and simulations 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 9. 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.⁴⁷

⁴⁷ 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
GAO	Government Accountability Office (formerly, General Accounting Office)
GDP	Gross Domestic Product
OMB	Office of Management and Budget
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 such as 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 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.

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.⁴⁸

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:

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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.⁴⁹

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.

⁴⁸ SFFAS 27, paragraph 27.

⁴⁹ SFFAS 27, paragraph 27.

Fiscal Imbalance - The fiscal imbalance is the total of existing debt plus future projected deficits, minus future surpluses, expressed in present value dollars. The fiscal imbalance illustrates the amount of present value dollars that would be necessary to balance future outlays and receipts and repay existing debt.

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 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

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

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 - 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.

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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