Federal Accounting Standards Advisory Board

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

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by January 5, 2009

September 2, 2008

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

September 2, 2008

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 8 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 January 5, 2009.

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 February 25, 2009, in Room 7C13 at the GAO Building, 441 G Street, NW, Washington, D.C.

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 to require that the consolidated financial report of the United States Government (CFR) present information addressing the fundamental question of whether the government can sustain public services and meet its obligations as they come due.[1] Answering this question requires analyzing current and projected federal spending, federal receipts and federal debt in relation to the economy. Such an analysis is complex and the result is challenging to communicate. Nonetheless, it is the most significant fiscal question regarding the U.S. Government and of concern to all citizens.

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 the consolidated financial report of the U.S. Government should be provided with information that is helpful in assessing the likelihood that the government will continue to provide public services to constituent groups and to assess whether financial burdens without related benefits were passed on by current-year taxpayers to future-year taxpayers.[2]

The Board believes that a comprehensive package is needed, consisting of a narrative that integrates and explains the information that is provided through a basic financial statement and disclosures.[3] The overall package should:

1. convey key projected fiscal measures such as projected receipts, spending, deficits or surpluses, and debt;
2. present the net change from the prior year for certain key projected fiscal measures and the significant reasons for the changes;
3. provide context for the measures such as how they relate to the overall economy;
4. highlight the major factors contributing to trends;
5. help readers understand the projections and their inherent uncertainty as well as possible alternative projections;
6. include information regarding the implications of political/legislative inaction; and

[1] Note that the fiscal year 2007 CFR included certain voluntary presentations of information relevant to this question. The due process relied upon by the Board would ensure the general acceptance of the underlying principles and the continued reporting of this type of important information.
[2] The latter notion is sometimes referred to as "interperiod equity."
[3] The narrative and illustrations would be presented as disclosures to the basic financial statement upon fully phased-in implementation (see paragraph 44). Additional information addressing inter-period equity would be one way to meet a disclosure requirement for providing context (see paragraph 41(e)).

7. provide users with information that is helpful in assessing whether financial burdens without related benefits were passed on by current-year taxpayers to future-year taxpayers (inter-period equity).

Clear communication of such a complex analysis is critical. The Board recognizes that accounting standards alone will not guarantee success and that the standards must be flexible to facilitate alternative approaches. However, certain information is consistently found in reports published by U.S. entities and many other countries, and supports an understanding of the underlying issue. For example,

1. Projections are based on maintaining current policy without change regarding federal public services and taxation. This supports an understanding of where the government is headed if it maintains its current course.
2. Information on the present value of receipts and spending conveys the magnitude of policy changes that would be required to sustain delivery of goods and services if projections indicate a fiscal gap. Information on the change in non-interest spending and/or revenue that would be necessary to maintain public debt at or below a target percentage of gross domestic product (GDP) (referred to in this ED as "fiscal gap") conveys the magnitude of policy changes that would be required to maintain a given level of public debt. Presenting information on fiscal gap in relation to a meaningful base (for example, the present value of total projected non-interest spending or of total projected receipts or the GDP) assists in understanding large dollar amounts.
3. The trajectory of spending and receipts shows the timing of the government's need for financing and allows for comparison to historic financing needs on an annual basis.
4. Presenting the trend in debt-to-GDP ratios in graphic form facilitates an understanding of if and when the rising drain on financial markets might constrain borrowing. If the debt-to-GDP ratio is rising uncontrollably then there will come a time when the Government cannot pay its bills because it is unable to finance deficit spending.

The proposed standards would require:

1. A basic financial statement presenting the present value of projected receipts and spending for all activities of the federal government and how those amounts relate to projected GDP as well as the changes in such projected receipts and spending from the prior year.
2. Either the basic financial statement or the disclosures would explain and report the summary measure of fiscal gap, including fiscal gap in relation to meaningful bases.
3. Disclosures would explain and illustrate the projected trends in:

   a. the relationship between receipts and spending,
   b. deficits or surpluses, and
   c. Treasury debt held by the public as a share of GDP.
4. Disclosures also would explain and illustrate:
   a. the assumptions underlying the projections,
   b. factors influencing trends,
   c. significant changes in the projections from period to period,
   d. possible results using alternative scenarios, and
   e. the likely impact of delaying corrective action when a fiscal gap exists.

These requirements would be implemented following a three-year transition period during which the information would be presented as Required Supplementary Information. The Board believes that these projections—although inherently uncertain—will provide meaningful information essential to assessing whether—absent policy changes—future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.

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. [4]

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.[5]

This proposal would provide specific reporting requirements that the Board believes will be useful to readers in assessing the potential future impact of current policies without change for federal public services and taxation.

[4] Statement of Federal Financial Accounting Concepts (SFFAC) 1, paragraph 134.
[5] 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 January 5, 2009.

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.[6]
>
> Sub-Objective 3B: Federal financial reporting should provide information that helps the reader to determine whether future budgetary resources will likely

[6] SFFAC 1, par. 134.

be sufficient to sustain public services and to meet obligations as they come due.[7]

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

Do you believe that the proposed reporting adequately supports the above objectives? Are there different reporting requirements that might better support the above objectives or that you believe should be added to the proposed requirements in this exposure draft? If so, please explain.

Q2. In this proposed Statement, projections are prepared not to predict the future, but rather to depict results that may occur under various conditions. Accordingly, projections require assumptions to be made about the future. This exposure draft proposes broad and general guidance for selecting policy, economic, and demographic assumptions for long-term projections with a primary focus on the future implications of the continuation of current policy without change for federal government public services and taxation. The guidance begins at paragraph 19. Paragraph 28 explains that although current law is a reasonable starting point in selecting policy assumptions, a simple projection of "current law" would not always reflect current policy without change. Examples are provided.

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

Q3. This exposure draft proposes a basic financial statement[8] and disclosures. (Description begins at paragraph 35 and an illustrative example of the basic financial statement is provided in Appendix B.) The Board has indicated that the primary audiences for the consolidated financial report of the U.S. Government (CFR) are citizens and citizen intermediaries such as journalists and public policy analysts.

Do you believe that the basic financial statement and disclosures would be understandable and meaningful for the primary audiences of the CFR? Please note any changes that you believe should be made to the proposed requirements for the basic financial statement and/or the disclosures.

Q4. The Board is proposing that the basic financial statement display the difference between projected revenue and projected spending, and that the fiscal gap (the change in non-interest spending and/or revenue that would be necessary to

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[7] SFFAC 1, par. 139.

[8] The basic financial statement will be presented as Required Supplementary Information for a period of three years and subsequently as a basic financial statement.

maintain public debt at or below a target percentage of gross domestic product (GDP)) must be reported either on the face of the basic financial statement or in a disclosure. Also, the fiscal gap may be reported for a specific debt level or over a range of debt levels (see paragraph 38). Both options for reporting fiscal gap are illustrated in Appendix B (see pages 51 (narrative on the face of the financial statement) and 61 (disclosure)). See paragraphs A60- A63 in the Basis for Conclusions for an explanation of the pros and cons of the options.

a. Do you agree with the flexible requirements for reporting fiscal gap?

b. Do you believe that the illustrative disclosure (Illustration 8 in Appendix B) is clear and understandable?

Q5. Finite and infinite time horizons for fiscal projections are discussed in the Basis for Conclusions, paragraphs A53 throughA59. This exposure draft proposes the following requirements regarding time horizons for projections: (a) the projections presented in the basic financial statement should be "sufficient to illustrate long-term sustainability" (for example, traditionally the Social Security program has used a projection period of 75 years for long-term projections); (b) projections for both a finite and an infinite horizon should be provided, one in the basic financial statement and the other in the disclosures; and (c) either the basic financial statement or the disclosures should include projections for Social Security and Medicare based on the time horizon used for long-term projections for Social Security and Medicare in the Statement of Social Insurance (SOSI).

a. Do you believe that the above requirements for time horizons are appropriate to meet the reporting objectives of Fiscal Sustainability Reporting? Specifically, do you believe that data for both finite and infinite horizon projection periods should be reported? If not, please explain.

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

Q6. 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 basic financial statement: "Long-Term Fiscal Projections for the U.S. Government." An alternative title, "Statement of Fiscal Sustainability," might imply to some that the Board has established or plans to establish specific rules that define "fiscal sustainability" and/or budget rules that would result in fiscal sustainability. However, others have indicated that the "plain English" meaning of the words "fiscal" and "sustainability" should be adequate, and that the title "Statement of Fiscal Sustainability" might be more appropriate.

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

Which of the following do you believe that the basic financial statement should be titled?

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

Please explain the reasons for your choice.

Q7. This exposure draft proposes a minimum level of disaggregation for the basic financial statement. For projected receipts, major programs such as Medicare and Social Security would be shown separately from the rest of government. For projected spending, major programs such as Medicare, Social Security, and Medicaid would be shown separately from the rest of government. (See paragraphs 36 and A46-A49.)

a. Do you believe that the above general guidance provides for an appropriate level of disaggregation in the basic financial statement? Please explain the basis for your view.

b. Do you believe that specific line items (instead of or in addition to the "major programs" required by paragraph 36 of the ED) should be disaggregated in the basic financial statement? If so, please identify the line items and explain your reasoning.

Q8. This exposure draft proposes that disclosures should explain and illustrate the major factors impacting projected receipts and spending (such as the rising cost of health care) (see paragraph 42(a)). Illustrative examples in Appendix B begin on page 52.

a. Do you believe that an explanation and illustration of the major factors impacting projected receipts and spending will be helpful to readers? Please explain the basis for your view and note any recommended changes in the requirements.

b. Do you believe that the display of a range for major cost drivers and/or major programs, as shown in Illustrations 1a and 1b in Appendix B should be optional or mandatory? Please explain the basis for your view.

Q9. This exposure draft proposes that the results of alternative scenarios be provided. Paragraph 42(d) provides that the present value of projected receipts, spending and the net of receipts and spending be presented for each alternative scenario. Optionally, projections for alternative scenarios may be displayed in a table format (see Illustration 7 in Appendix B).

a. Do you believe that the proposed requirement for alternative scenarios is appropriate? Please explain the basis for your view.

b. Do you believe that the requirements for additional information regarding alternative scenarios are sufficient? If not, please explain the basis for your view and what additional information you propose.

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Q10. This exposure draft proposes disclosures consisting of narrative and graphic displays to effectively communicate to the reader historical and projected trends and to help the reader understand the major drivers influencing projected receipts and spending. The requirements begin at paragraph 39 and illustrations begin on page 52.

a. Do you believe that the disclosures would help the reader understand the basic financial statement?

b. Are there any items that you believe should be added to, or deleted from, the disclosures? If so, please explain.

c. Do you believe that the final accounting standard should include an appendix that displays illustrative disclosures (see Appendix B)? Why or why not?

Q11. The Frequently Asked Questions (FAQs) at Appendix C provide a “plain English” explanation of terms and concepts used in long-term projections.

a. Do you find the FAQs helpful?

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

Q12. Effective Date and Phased Implementation: This proposed Statement would be effective for periods beginning after September 30, 2009 with earlier implementation encouraged. This proposed Statement would require that the financial statement and the disclosures be included in Required Supplementary Information (RSI) for the first three years of implementation, and basic information (for example, basic financial statement and disclosures) for all subsequent years.

a. Do you believe that this implementation date is reasonable and appropriate?

b. Do you agree with the phased implementation period (3 years)?

c. Do you believe that some or all of the required information should remain as RSI after the 3-year implementation period? If so, please explain the basis for your view.

Q13. A significant minority of members supported a proposal that there should be RSI regarding trends in the proportion of U.S. Treasury debt held by foreign investors. This information would remain as RSI and would not be subject to the phased-in implementation in paragraph 44. (See paragraphs A64 – A68 in the Basis for Conclusions for a discussion of this proposal and Illustration 10 in Appendix B.)

a. Do you believe that including RSI regarding the foreign holdings of U.S. Treasury debt would be relevant and useful in meeting the objectives of fiscal sustainability reporting? Please explain why or why not.

b. Do you believe that the illustrative example provided in Appendix B is clear and understandable?

Q14. A minority of members supported a proposal that if the proposed Comprehensive Long-Term Fiscal Projections for the U.S. Government indicate a significant fiscal gap, RSI (not subject to the phased-in implementation in paragraph 44) should include the identification, explanation, and fiscal impact of one or more policy alternatives that would reduce the fiscal gap. (See paragraphs A68–A74 in the Basis for Conclusions for a discussion of this proposal.)

Do you believe that if the proposed Comprehensive Long-Term Fiscal Projections for the U.S. Government indicate a significant fiscal gap, the statement and disclosures be accompanied by RSI that includes identification, explanation, and fiscal impact of one or more policy alternatives that would reduce the fiscal gap? Please explain why or why not.

Q15. This exposure draft proposes that additional information that may be helpful to readers in assessing whether financial burdens without associated benefits were passed on by current-year taxpayers to future-year taxpayers (sometimes referred to as “inter-period equity” or “inter-generational equity”) be included as one way to meet a disclosure requirement for providing context for the data in paragraph 41(e). (See paragraphs A75 - A78 in the Basis for Conclusions for a discussion of this proposal.)

a. Do you believe that such information should be optional (as proposed in the exposure draft) or required?

b. Do you believe that further research and analysis should be performed by FASAB to improve the disclosure of such information? Please explain the basis for your views and note any recommended changes for the presentation of inter-period or inter-generational equity.

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.[9] 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.[10]

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[11] and to meet obligations as they come due.[12]

4. While federal financial reporting is not expected by itself to accomplish the stewardship reporting objective, it can contribute to meeting the objective.[13] Sub-objective 3B is concerned with the future and with the resources expected to be consumed through programs of the federal government in the future.

5. The Board believes that including comprehensive long-term fiscal

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

projections[14] and accompanying disclosures including narrative and graphics in the consolidated financial report of the U.S. Government (CFR) will contribute to meeting the stewardship objective and especially sub-objective 3B. The more detailed objectives presented below were developed as one means of guiding the Board in selecting from a variety of possible financial statement formats as well as in identifying the most important areas to be addressed in disclosures.

Objectives of Comprehensive Long-Term Fiscal Projections and Accompanying Disclosures

6. In this Statement, "**Fiscal Sustainability Reporting**" is the short term for the basic financial statement and accompanying disclosures required by this Statement to be provided in the CFR. Fiscal Sustainability Reporting should provide information to assist readers of the CFR in assessing whether future budgetary resources of the U.S. Government will likely be sufficient to sustain public services and to meet obligations as they come due,[15] assuming that current policy without change for federal government public services and taxation is continued.[16]

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 public services to constituent groups and to assess whether financial burdens without related benefits were passed on by current-year taxpayers to future-year taxpayers.[17] Fiscal Sustainability Reporting should assist the reader in understanding these financial, social and political implications.

8. Fiscal Sustainability Reporting should be understandable to the intended users of the CFR. The primary intended users of this report are citizens and citizen intermediaries (for example, the media, public

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

interest and advocacy groups, and others). The CFR should be easily understandable to the "average citizen" who has a reasonable understanding of federal government activities and is willing to study the information with reasonable diligence. Moreover, the CFR is a high-level summary report; it tells users where to find additional information in other reports and publications, for example, reports issued by the Department of the Treasury, the Office of Management and Budget (OMB), the Government Accountability Office (GAO), the Congressional Budget Office (CBO), and other agencies.[18]

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

Materiality

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

Effective Date

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

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

Accounting Standard

Definitions

12. Fiscal Gap
The **fiscal gap** is the change in spending and/or revenue that would be necessary to maintain public debt at or below a target percentage of **gross domestic product** (GDP).[19] The fiscal gap is the net **present value** of projected spending[20] minus projected receipts, adjusted by the decrease (or increase) in public debt required to maintain public debt at or below the target percentage of GDP for the stated projection period. The fiscal gap may be expressed as:
    (a) a summary amount in present value dollars,
    (b) a share of the present value of the GDP for the projection period, and/or
    (c) a share of the present value of projected receipts or projected non-interest spending.

13. Policy Assumptions
Policy **assumptions** address the factors under the direct control of the federal government concerning the taxes and other revenues to be received by the federal government and the public services to be provided by the federal government. Policy assumptions address projected spending rules for both **mandatory** and **discretionary spending**[21] as well as the framework for assessing taxes and fees.

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

15. Economic Assumptions
Economic **assumptions** address the economic factors that are not

[19] 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] Since interest is factored into the present value calculation, the fiscal gap as a share of spending is expressed as a share of spending excluding interest ("noninterest spending"). See FAQ 4 on page 66.
[21] In the federal budget process, "discretionary spending" refers to outlays from budget authority that is controlled by annual appropriation acts. Annual appropriation acts are required to fund the continuing operation of all federal programs that are not "mandatory." "Mandatory spending" includes entitlement authority such as Social Security and Medicare and payment of interest on the national debt. Congress controls mandatory spending by controlling eligibility and setting benefit and payment rules, rather than by annual appropriation acts. 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.

under the direct legislative control of the federal government (for example, inflation and growth in GDP).

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

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

Scope

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

Policy, Economic, and Demographic Assumptions

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

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

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

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

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

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

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

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

27. Policy assumptions should reflect reasonable assumptions about the future course of receipts and spending assuming the continuation of current policy without change. The guiding principle for selecting policy assumptions is to base selections on assumptions consistent with the continuation of policies in place as of the valuation date (in other words, no policy change) while appropriately considering recent trends. Such assumptions should be neutral; that is, they should ignore policy changes. For example, for formula-based benefits, it may be appropriate to apply currently scheduled benefit formulas to projections based on appropriate economic and/or demographic assumptions. For other public services, it may be appropriate to assume a growth in spending based on growth in GDP or inflation, or based on per-capita amounts.

28. Although current law is a reasonable starting point in selecting policy assumptions, a simple projection of "current law" would not always reflect current policy without change. For example, in some cases current law may expire almost immediately, or not fully support current policies regarding public services, or produce levels of taxation that are significantly different from current policy without change regarding taxation. In such cases, the preparer should use judgment in selecting policy assumptions that are consistent with current policy without change as defined in this standard. The following examples demonstrate how a simple projection of current law may be inconsistent with the guiding principle:
    (a) Legislation providing for discretionary spending provides funding that extends at most a few years into the future. Therefore, assumptions will be required in order to prepare a long-range projection. A current-law policy assumption would show discretionary spending falling to zero within a few years.
    (b) Some provisions of tax law do not provide for future taxation consistent with current policy without change. A current-law policy assumption might show large increases or decreases in future receipts rather than maintaining a consistent level of taxation, for example in relation to GDP or some other ratio.
    (c) Current law also may include provisions that have been changed in a consistent direction over a period of time. For example, the statutory limit on federal debt has been consistently raised. A current-law policy assumption would assume that Treasury borrowing will never increase beyond the dollar amount of the current statutory limit.

29. Assumption of a uniform growth rate for all types of revenues and spending is not required. Assumptions may be based on, but are not limited to, the notion that spending or revenues are likely to:
    (a) maintain a constant share of GDP,
    (b) grow with inflation,22 or
    (c) maintain a constant real[23] per capita level.[24]

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

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

31. The same economic and demographic assumptions should be used for the basic financial statement for Fiscal Sustainability Reporting and for Social Security and Medicare in the Statement of Social Insurance.

Valuation Date

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

33. If, after the valuation date, but prior to the end of the fiscal year, policy changes are enacted that could materially affect the basic statement, the projections should be adjusted, if feasible,[25] as if the policy changes took place as of the valuation date. If not feasible, the entity should disclose an estimate of the magnitude of the effect of the policy change on the projection or, if not possible, disclose that it was not possible to reasonably estimate the effect. In any case, the nature of the policy change should be disclosed. If policy changes are enacted after the end of the fiscal year, but prior to the issuance of the financial statements, the financial statements should disclose the nature of the policy change and, if known, the estimated effect on the projections.

Projection Periods

34. Projections in the basic financial statement should be for a projection period sufficient to illustrate long-term sustainability.
    (a) If the projection period displayed in the basic financial statement is for a finite projection period, disclosures should display summary totals for an infinite horizon projection period. If the projection period displayed in the basic financial statement is for an infinite projection period, disclosures should display summary totals for a finite horizon projection period.
    (b) If the projection period in the basic financial statement is not consistent with the projection period used for Social Security and Medicare in the Statement of Social Insurance (SOSI), the disclosures should display the subtotal and total line items of

[25] Factors affecting feasibility include but are not limited to the timing of the enactment of legislation and the ability of the preparers to revise the financial statements and/or the ability of the auditors to audit the revised information prior to the issuance of the financial statements and/or the audit opinion.

the basic financial statement calculated for the projection period that was used for Social Security and Medicare in the SOSI.[26]

Basic Financial Statement

35. This Statement presents the elements that are required to be included in a basic financial statement.[27] An example basic financial statement is shown in Appendix B for illustration only.

36. The basic financial statement, *Long-Term Fiscal Projections for the U.S. Government,* should state the projection period and display the following projected amounts as both present value dollars and as a percentage of the present value of GDP for the projection period indicated:
    (a) receipts, disaggregated by major programs such as Medicare, Social Security, and all other revenues, and total receipts;28
    (b) spending, disaggregated by major programs such as Medicare, Medicaid, Social Security, and all other non-interest spending, total non-interest spending;29 and
    (c) the difference between projected receipts and projected non-interest spending.

37. After the initial year of implementation, the basic financial statement should also present comparative amounts for the current year and prior year, and the net change for each line item from the prior year.

38. Fiscal gap should be explained and reported, either on the face of the financial statement or in the disclosures. Fiscal gap should be presented in present value dollars and as a percentage of the net present value of (a) GDP, (b) receipts, and (c) non-interest spending during the projection period. Information may be provided for a single target debt to GDP ratio, multiple ratios or over a continuum of ratios (for example, in the form of a graph or graphs). Illustrative examples are shown in Appendix B for both options: (a) narrative on the face of the illustrative basic financial statement and (b) in the disclosures, as Illustration 8.

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[26] The SOSI projection period is required to be "sufficient to illustrate long-term sustainability (for example, traditionally the "Social Security" or OASDI, program has used a projection period of 75 years for long-term projections)." See SFFAS 17, paragraph 27.

[27] The financial statement will be basic information upon fully phased-in implementation of this Statement. See paragraph 44 for phased implementation requirements.

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

[29] See footnote 20.

Disclosures

39. Disclosures[30] serve a critical role in making economic concepts and projections understandable to a variety of audience segments, and in helping readers to understand long-term projections by explaining the significant factors that are driving projected trends, by illustrating trends graphically, and by providing context for the information provided.

40. Disclosures should include an explanation of the following limitations.
    (a) Forward-looking projections require assumptions and estimates relating to future events, conditions, and trends; actual results may differ materially from those that are projected.
    (b) Forward-looking projections focus on future cash flows, and do not reflect either the accrual or modified-cash basis of accounting.
    (c) Where indicated, forward-looking projections may also encompass hypothetical future trends or events that are not necessarily deemed probable (for example, the assumed ability to continue issuing new public debt indefinitely), for which financial projections may be appropriate.
    (d) Fiscal Sustainability Reporting is limited to the activity of the federal government, and does not include activities of state and local governments.
    (e) Overemphasis on summary measures for a finite projection period, such as a 75-year period, can lead to incorrect perceptions. Disclosures should explain that the trends projected, particularly near the end of the projection period, are important to consider (for example, the disclosures could note the trend at the end of the period in Illustration 3b).

41. Disclosures should include:
    (a) a “plain English” explanation of present value and interest rates used to calculate present value.
    (b) significant policy assumptions for all scenarios presented.
    (c) an explanation of the most significant departures from current law–for example, allowing for exceeding the statutory limit on federal debt.

[30] Prior to fully phased-in implementation of this Statement, the requirements in paragraphs 39 - 42 will be presented as RSI. See paragraph 44.

(d) when year-by-year comparisons are displayed, the significant reasons for the changes. For example, significant changes may be attributable to:
   1. valuation period (for example, the beginning of the projection period is one year later);
   2. changes in policies (legislation); and
   3. changes in assumptions or estimates.

(e) an explanation of the significance of the data presented or other information that puts the data into context. Options for context may include but are not limited to:
   1. comparison of the data/trend with past U.S. trends and trends in other developed nations,
   2. where to find information about outside organizations that use similar data to assess the long-term implications for an entity or sovereign government, for example, the role of rating organizations and/or European Union rules for member nations, and/or
   3. information that may be helpful to readers in assessing whether financial burdens without related benefits were passed on by current-year taxpayers to future-year taxpayers.

42. Disclosures should explain and illustrate:

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

(b) historical and projected trends for a progression of years beginning at least 20 years before the current year and extending to all projected future years for:
   1. historical and projected receipts and spending,
   2. historical and projected deficits, and
   3. historical and projected Treasury debt as a share of GDP. (See illustrations 3, 4 and 5 in Appendix B.)

(c) if a fiscal gap is indicated by the projections, the likely impact of delaying action. For example, graphics could illustrate the progressive increase in the change that would be needed to close the fiscal gap by (1) reducing non-interest spending or alternatively (2) increasing receipts. (See Illustration 6 in appendix B.)

(d) the results of alternative scenarios that are consistent with current policy without change. Alternative scenarios are projections in which one or more significant assumptions are varied from the assumptions used in the projections presented in the basic financial statement. The choice of alternative scenarios presented should consider both those that result in larger as well as those that result in smaller net differences between the present value of projected receipts and spending. For each alternative scenario, the net present value of projected receipts, spending, and of the difference between projected spending and receipts should be presented. Projections for individual programs may be presented. (See (a) above.) Projections for alternative scenarios may be displayed in a table format. (See illustration 7 in Appendix B.) The major causes of the differences between the results of the alternative scenarios and the basic financial statement should be disclosed.

Supporting Data (Other Accompanying Information)

43. The quantitative data supporting the basic financial statement and the disclosures may be provided in or referenced as other accompanying information.[31]

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

Effective Date

44. The following phase-in of reporting requirements as basic information provides for full implementation for reporting periods beginning after September 30, 2012.
    (a) These standards are effective for periods beginning after September 30, 2009.
    (b) Information should be reported as RSI for the first three years of implementation (fiscal years 2010, 2011, and 2012).
    (c) Beginning in fiscal year 2013, the required information should be presented as a basic financial statement and related disclosures.
    (d) 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 Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement–not the material in this appendix–should govern the accounting for specific transactions, events, or conditions.

Project History

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

> ***Objective 3: Stewardship***
> Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future. Federal financial reporting should provide information that helps the reader to determine whether
>
> a) the government's financial position improved or deteriorated over the period,
> b) future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, and
> c) government operations have contributed to the nation's current and future well-being.[32]

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

A3. Discussion of such long-term fiscal issues has been described in terms such as "fiscal sustainability." In this proposed Statement, the Board's working definition of "fiscal sustainability" is the federal government's ability to continue, both now and in the future, current policy without change regarding public services and taxation without causing debt to rise

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

continuously as a share of GDP.[33]

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

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

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

Financial Position versus Financial Condition

A7. Fiscal Sustainability Reporting is focused on the financial condition of the federal government as a whole. Financial condition is forward-looking and multi-dimensional. Assessing financial condition requires financial and non-financial information related to the long-term fiscal outlook for the federal government. Therefore, Fiscal Sustainability Reporting should provide information about the future to help readers assess the magnitude of future spending and receipts and the burden that any resulting deficits might place on future taxpayers.[34]

A8. Indicators of financial position, for example, the balance sheet, are the starting point for reporting on financial condition but must be supplemented in a variety of ways. For example, trends in financial position may assist readers in assessing the overall direction of the federal government's finances. However, readers may find, among other things, a budget projection under a range of alternative assumptions[35] to be

[33] 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.
[34] SFFAC 1, par. 262.
[35] SFFAC 1, par. 145.

helpful in assessing the financial condition of the U.S. Government. Presenting information about the overall size of the economy relative to the budget projections may assist readers in assessing whether the projected budget amounts are reasonable in comparison to past experience or the experience of other countries. Thus, reporting on financial condition requires financial and nonfinancial information about the national economy and society, as well as about the government itself.[36] Table 1 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 impact on the entity of the nation's economy and other external trends
Accrual-based or modified cash basis data	Additional, forward-based information
Financial data	Financial and nonfinancial data
Assets, liabilities, and net position	Future effects of: • current demands, risks, and uncertainties; and • anticipated future events, conditions, and trends

Example:
Balance Sheet
	Examples:
	• Projections of receipts, spending, and debt
	  • in present value dollars
	  • as a share of GP
	• Nonfinancial data, such as demographic trends

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

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

[36] SFFAC 1, par. 144.

acknowledge that the future is unpredictable and will be influenced by factors outside the reporting entity's control, including actions by Congress.)[37]

Existing Sustainability Reporting

A10. Existing reports provide relevant information regarding fiscal sustainability. Annual financial reports–both from individual agencies and the CFR–provide forward-looking information and extensive sustainability information regarding social insurance programs such as Social Security and Medicare. Central agencies such as the Treasury, OMB, GAO, and CBO provide projections of receipts and outlays based on various policy assumptions. However, the Board believes that establishing requirements for a basic financial statement and accompanying narrative and graphics will ensure that the information is included in the annual CFR and that it presents projections based on current policy without change regarding federal public services and taxation.

A11. While many of the proposals included in this exposure draft were voluntarily adopted in the fiscal year 2007 CFR and the recent summary report, The *Federal Government's Financial Health: A Citizen's Guide to the 2007 Financial Report of the United States Government*, voluntary adoption is not a guarantee of continued reporting; nor is voluntary reporting an adequate substitute for reporting that is developed through due process. Some of the existing information sources are described below to aid respondents in evaluating the changes required by this proposal.

Management's Discussion and Analysis (MD&A)

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

> [3] MD&A should include forward-looking information regarding the possible future effects of the most important existing, currently-known demands, risks, uncertainties, events, conditions and trends. MD&A may also include forward-looking information about the possible effects of anticipated future demands, events, conditions, and trends.[3] Forward-looking information may comprise a separate

[37] SFFAC 3, par. 14.

section of MD&A or may be incorporated with the sections listed above.

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

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

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

A13. The FASAB elaborated on the above requirements in its companion concept statement, SFFAC 3, *Management's Discussion and Analysis*, which explains the Board's expectations regarding the description of future effects of both existing and anticipated events, conditions, and trends.[38]

[38] See SFFAC 3, paragraphs 31-36.

Statement of Social Insurance (SOSI)

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

A15. For the social insurance programs listed in the preceding paragraph, the SOSI presents the actuarial present value for the projection period of:
(a) all future contributions and tax income (excluding interest) received from or on behalf of all current and future participants,
(b) estimated future scheduled benefits to be paid to or on behalf of current and future participants, and
(c) the estimated future excess of future benefit payments over future contributions (or excess of future contributions over future benefit payments).

A16. The SOSI (the information required by paragraphs 27(3) and 32(3) of SFFAS 17) is presented as a basic financial statement, and the underlying significant assumptions are included in notes that are presented as an integral part of the basic financial statements.[39] The basic (or principal)[40] financial statements and notes are those on which the auditor expresses an opinion as to whether the information is presented in conformity with generally accepted accounting principles (GAAP). For fiscal year (FY) 2007, for the first time, the GAO issued an unqualified or "clean" opinion on the SOSI that was presented in the FY 2007 CFR.

A17. The SOSI is accompanied by RSI that provides the following information:
(a) the projected annual cash flows–both inflows and outflows–in nominal dollars for at least every fifth year in the projection period,
(b) the relationship of the total cash outflow and net receipts[41] to taxable payroll and GDP, and
(c) sensitivity analysis for the most significant individual assumptions.

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

[39] See SFFAS 26, paragraphs 5-6.
[40] The terms "basic financial statements" and "principal financial statements" have been used synonymously in federal accounting. See SFFAS 25, paragraph 34.
[41] Net receipts are cash inflows from all sources less net interest on intragovernmental borrowing/lending.

The Trustees of the Social Security and Medicare Trust Funds

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

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

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

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

A23. Because the future is inherently uncertain, three alternative sets of economic and demographic assumptions are used to show a range of possibilities. The intermediate assumptions reflect the Trustees' best estimate of future experience. The low-cost alternative is more optimistic for trust fund financing, and the high-cost alternative is more pessimistic; they show trust fund projections for more and less favorable economic and demographic conditions for trust fund financing than the best estimate. The assumptions are reexamined each year in light of recent experience and new information about future trends, and are revised as warranted. In general, greater confidence can be placed in the assumptions and estimates for earlier projection years than for later years. The statistics and analysis presented in the Summary of the annual Trustees' Reports for Social Security and Medicare are based on the intermediate assumptions.[42]

What would this proposal add to existing reporting?

A24. This proposal adds to existing reporting in the CFR by proposing requirements for:
(a) a basic financial statement of comprehensive long-term projections for all federal government receipts and spending, and
(b) disclosures that will help readers to understand the long-term projections, for example, by explaining the significant factors that are driving projected trends, illustrating trends graphically, and providing context for the information provided.

Assumptions

Limitations of “Current Law” Assumptions

A25. Projections are the central feature of Fiscal Sustainability Reporting and require that assumptions be made. The Board believes that the most useful projections will reflect current policy without change regarding federal public services and taxation.

A26. Although current law is a reasonable starting point in selecting policy assumptions, a simple projection of “current law” would not always reflect current policy without change regarding public services or taxation. The Board’s proposal includes a guiding principle for selecting policy assumptions but acknowledges the role of judgment in filling voids in current law or departing from current law provisions.

A27. Major provisions of current law often do not extend far into the future to be used as a basis for a long-range projection. Discretionary spending is primarily based upon annual appropriation acts, and even some mandatory spending 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.

A28. Current law may contain a provision that restricts spending on certain social insurance programs, for example, Social Security and Part A of

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

Medicare, to the amounts available in the Social Security or Medicare Trust Funds, respectively, plus inflows of **earmarked revenues**. However, current law does not provide for any specific reductions in Social Security scheduled benefits or Medicare reimbursement rates that would occur due to lack of funding. Thus, current law does not address what will happen when the trust fund balances are exhausted, although this event may reasonably be expected to occur.[43]

A29. Current law also may include tax provisions that expire within several years, along with a historical trend of extending those tax provisions before they expire—but only for a short period, such as one year. In such situations, current law would indicate that the tax provisions will expire on schedule, while a projection based upon current policy without change for taxation together with reasonable expectations based on recent historical trends may indicate that the tax provisions will be extended.

Fiscal Sustainability Task Force Input Regarding Policy Assumptions

A30. A majority of the task force technical experts agreed that policy assumptions for the basic financial statement that are consistent with current policy without change regarding federal public services and taxation would be useful for readers of the CFR in assessing whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.

A31. A majority of the task force technical experts believe that for mandatory spending on social insurance programs, a modified version of current law (ignoring the exhaustion of the Social Security and Medicare Hospital Insurance Trust Funds—see paragraph A28), which might also be termed “current services,” represents the most useful assumption for projecting spending for social insurance programs. However, a minority believe that any deviation from current law requires a subjective judgment that can be biased.

A32. The technical experts also acknowledged that projections for discretionary spending are more uncertain than projections for mandatory spending, since current law often only addresses the next one or two years.

[43]According to the 2008 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 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.

However, there was some agreement among the group that projecting discretionary spending growth at the same rate as assumed GDP per capita would be an example of a reasonable option for some programs.

A33. A recent report issued by the GAO[44] illustrates the tension between choosing current law versus current policy without change regarding federal public services and taxes. The report's primary display contains two different projections in a single graphic presentation: the 10-year CBO baseline, which is then projected into the future (called "baseline extended") and a different projection (called an "alternative simulation"), which includes modifications that are described in the narrative. The "baseline extended" projection is based on assumptions that focus on current law. Those assumptions are changed in the GAO's "alternative simulation" to reflect historical trends and recent policy preferences.

A34. The GAO's approach of showing two different sets of numbers provides a more complete picture than selecting one or the other. However, this approach does not achieve one of the most important characteristics of effective communication. All of the communication experts and many of the technical experts on the task force strongly emphasized the importance of simplicity of presentation. The Board noted that one of the greatest challenges inherent in Fiscal Sustainability Reporting is the tension between technical rigor and simplicity of presentation.

A35. A majority of the technical experts agreed with the substance of the proposed guidance in the ED—that the basic financial statement should present current policy without change regarding public services and taxation[45]—but noted that it is difficult to coin a term to refer to this concept without implying something else. A majority of the technical experts recommended the term "modified current law." However, the Board believes that using the term "modified current law" throughout the exposure draft would make many sentences unclear or misleading, because the emphasis on continuing current policy regarding federal public services and taxation would be unclear. A compromise phrase, "current policy without change" was selected as a short term for the policy assumptions in the ED.

[44] *The Nation's Long-Term Fiscal Outlook,* August 2007 Update (GAO-07-1261R).

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

Basis for the Board's Proposal Regarding Policy Assumptions

A36. The Board believes that the most useful reporting on fiscal sustainability would illustrate the long-term effects of current policy without change regarding public services and taxation. However, there are numerous ways of projecting current policy into the future. For example, it could be assumed that discretionary spending will continue as a constant share of GDP. Another alternative would be to assume constant real spending per capita (which could give a different result from assuming growth at a constant share of GDP). Yet another alternative would be to assume constant growth at the rate of inflation, which may be different than the growth of GDP.[46] (Historically, nondefense discretionary spending has grown roughly with GDP while defense discretionary spending has grown slightly faster than inflation but less than GDP, often in a nonlinear pattern.)

A37. The Board believes that the details of the assumptions for projecting current policy without change should be left to the judgment of the preparer, subject to review by the auditor. Regardless of which assumptions are used for the basic financial statement, the disclosures should include an explanation of the assumptions used and alternative scenarios. Readers will have access to important explanatory material.

A38. Current law may not address events that may reasonably be expected to occur (for example, the exhaustion of the Medicare Hospital Insurance Trust Fund). As noted previously, although current law limits spending to the amounts available in the trust funds and current earmarked revenue, current law does not provide for any specific reductions in benefit payments or reimbursement rates due to lack of funds. Thus, current law is inconsistent and does not provide an answer.

A39. When current law is inconsistent, the Board believes that in selecting assumptions, the projections should indicate current policy regarding federal government public services and taxation, and should answer the question "what if current policy without change were continued over time?" The resulting projection should be accompanied by a narrative that explains what would happen if an alternative event occurs (in the example in paragraph A38, the narrative would explain what percentage of Medicare reimbursements could not be paid if legislation does not provide for maintaining current benefit formulas).

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[46] 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

A40. Economic and demographic assumptions are different in scope from policy assumptions. Economic and demographic assumptions include such factors as economic growth, inflation, birth rates, net immigration, and longevity. The elements of economic and demographic assumptions are generally influenced more by a variety of external factors than by direct legislative impact.

A41. There was no consensus guidance from the task force technical experts for economic and demographic projections, although none objected strongly to either OMB, CBO, or the economic and demographic assumptions currently used for the Social Security and Medicare portions of the SOSI.

A42. Table 2 displays representative elements of OMB and CBO assumptions, with a comparison with the assumptions currently used for Social Security and Medicare in the SOSI.

Table 2: Major Elements of OMB and CBO Economic and Demographic Assumptions, Compared with Assumptions used in the Statement of Social Insurance (SOSI)

	OMB Current Forecast Extended for Stewardship Reporting	CBO Baseline (2008-2018)	SOSI assumptions for Social Security and Medicare
Economic/Demographic Assumptions:			
Consumer Price Index inflation	3.8% in 2008; average 2.3% in 2009-2018 and beyond	2.8% in 2008; average 2.1% per year for 2009-2018	Trustees Report intermediate assumption: 2.8%
Population demographics (birth/death/immigration)	Administration budget assumptions used for 2008-2018; Trustees Report intermediate assumptions thereafter	Intermediate Trustees Report assumptions	Trustees Report intermediate assumptions
Real GDP growth[47]	Average 1.9% in 2008-2009; average 3.2% in 2010-2013; average 2.6% in 2014-2018; average 2.6% thereafter	Average 2.1% in 2008-2009: average 3.2% in 2010-2013; average 2.5% 2014-2018	Trustees Report intermediate assumption: 2.2%

Sources:
OMB 2009 Mid-Session Review and Chapter 13, "Stewardship" of *Analytical Perspectives*, U.S. Budget, FY 2009.
CBO's most recent economic projections were released on February 15, 2008. Available at: http://www.cbo.gov.
SOSI FY 2007 Financial Report of the U.S. Government.

[47] 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.

A43. 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:

(a) Since the SOSI is now a basic financial statement, auditors are bound by generally accepted government auditing standards to examine and assess the reasonableness of the assumptions. Since the SOSI is generally derived from the Trustees Report, the result is that the assumptions used in the Medicare and Social Security Trustees Report are subject to audit.

(b) In contrast, the OMB and CBO economic and demographic assumptions are not subject to audit.

(c) 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.

A44. 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

A45. 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.[48]

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

Basic Financial Statement

A46. The basic financial statement reports present value amounts in dollars as well as in relation to the present value of GDP for the projection period. The basic financial statement will be presented as RSI for a period of three years and will then become a basic financial statement.

A47. Elements considered for inclusion as mandatory requirements for the basic financial statement were:
- (a) total projected spending and receipts, disaggregated by major programs such as Medicare and Social Security
- (b) the net total of all projected receipts and spending
- (c) amounts displayed as both (present value) dollars and percent of GDP
- (d) year-to-year (for example, side-by-side) comparison with prior year
- (e) net change from year-to-year as a separate column
- (f) alternative scenario information

A48. A majority of the members decided that (a) through (e) above should be included as minimum requirements for the basic financial statement, with the format of the elements left to the discretion of the preparer. An illustrative statement is included in Appendix B. In addition, the Board concluded that fiscal gap should be explained and reported, either on the face of the financial statement or in the disclosures. Fiscal gap should be presented in dollars and as a percentage of the net present value of (a) GDP, (b) receipts, and (c) non-interest spending during the projection period. Information may be provided for a single target debt to GDP ratio, multiple ratios or over a continuum of ratios (for example, in the form of a graph or graphs). Illustrative examples are shown in Appendix B for both options: (a) on the face of the illustrative basic financial statement and (b) in the disclosures, as Illustration 8.

A49. The Board concluded that disaggregation of specific major programs would be left to the discretion of the preparer. In addition, the Board decided to require disclosure regarding the possible alternative scenarios but not to require presentation of the range on the face of the basic financial statement.

Per Capita Measures

A50. The Board considered whether to include per capita measures in the summary display. The technical experts serving on the Fiscal Sustainability Task Force did not come to agreement regarding the display of summary numbers on a per capita, per worker, and/or per household basis.

A51. A majority of the technical experts on the task force recommended against per capita measures, for the following reasons:
(a) Several technical experts strongly objected to the use of per capita summary numbers using current-year population for the denominator. They said that such measures would imply that the current-year population is solely responsible for funding program shortfalls into the distant future. They believe that any changes needed to address the shortfalls projected through, for example, the next 75 years, should be spread across the population throughout that 75-year period.
(b) Other technical experts noted that per capita measures may be useful in conveying the magnitude of projected fiscal imbalances and could be displayed if summary amounts are divided by the population that parallels the horizon indicated and a narrative is included that explains present value and the nature of the numerator and denominator.
(c) Per capita measures for infinite-horizon projection periods present special problems. It is uncertain how a reasonable per capita denominator for an infinite horizon ratio would be selected and explained, especially if the denominator includes an estimate of all individuals that enter the population during the projection period.
(d) Two technical experts believe that even present value per capita amounts can be misinterpreted, because the reader will compare the amount with current salary levels and not understand the role of potential future productivity increases.
(e) One technical expert objects to per capita amounts because they represent amounts distributed equally among individuals with widely different abilities to pay.

A52. After a discussion of the above issues, the Board decided not to include per capita measures in the proposed reporting requirements.

Time Horizon for Projections

A53. There was strong disagreement among the task force participants regarding the selection of a time horizon for projections, in particular a finite horizon (for example, 75-year) versus an infinite horizon. One task force participant believes that only infinite-horizon projections should be displayed but others believe that infinite-horizon projections should not be shown. Some participants suggested that information using both finite and infinite-horizon projections be included.

A54. A majority of the communication experts believe that information for both finite and infinite-horizon projections should be provided to readers, but not necessarily both within a primary display.

A55. Below are arguments for the finite and infinite-horizon projection periods for the basic financial statement that the Board discussed.

A56. Arguments in favor of a finite horizon:

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

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

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

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

> …many people already believe that the 75–year horizon is too distant to be meaningful, and that detailed projections over longer horizons suggest a false precision. A simpler projection assumption is that after 75 years (or some other interval, T), the system will have settled into a steady state in which rates of growth of costs and tax revenues are thereafter constant, although not necessarily equal.[49]

A57. Arguments in favor of an infinite horizon:

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

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

A58. The Board believes that the advantages of both finite and infinite horizons

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[49] *Sustainable Social Security- What Would It Cost?* National Tax Journal, Vol. LVI, No. 1, Part 1, March 2003, page 34. Available at http://ntj.tax.org/wwtax/ntjrec.nsf/5DC0004871203048852 56D8E0054C858/$FILE/Lee.pdf

are sufficiently compelling that both finite and infinite-horizon information should be provided, although only one projection period should be used for the basic financial statement. Whichever type of projection period is selected for the primary display, the other type of projection period should be presented with the disclosures.

A59. The Board also believes that one of the projection periods used (in either the basic financial statement or the narrative section) should be consistent with that used for the SOSI. This will ensure consistency between major line items in the SOSI (for example, projected earmarked receipts and spending for Social Security and Medicare) and corresponding line items in the basic financial statement or the disclosures.

The Concepts of Fiscal Gap and Fiscal Imbalance

A60. The Board considered two potential summary measures for presentation below the other required elements on the basic financial statement or separate disclosure: fiscal gap and fiscal imbalance.

(a) The fiscal gap is the change in spending or revenue that would be necessary to maintain public debt at or below a target percentage of GDP.

(b) The fiscal imbalance is the net present value of existing federal debt plus projected spending,[50] minus projected receipts. In other words, it is the fiscal gap when the target level of federal debt at the end of the projection period is zero. The fiscal imbalance illustrates the amount that would be necessary to balance projected receipts, projected spending, and repayment of debt for a stated projection period.

A61. Several of the Task Force technical experts believe that the fiscal imbalance, as defined above, overstates the size of the problem over any finite time period such as 75 years. The fiscal imbalance is defined as the existing federal debt plus projected spending less projected receipts. If projected receipts are large enough to set the fiscal imbalance to zero after 75 years (or any other fixed time period), this would imply the debt was paid off at the end of the period. Many of the technical experts argued that this is not necessary for continued solvency provided the economy is expected to last longer than 75 years. A positive level of debt is viewed by many to be fiscally acceptable at the end of the projection period, provided it is not too large or growing too fast.

A62. The fiscal gap measure does not require a target debt level of zero; instead, it allows for a positive level of debt at the end of the forecast

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

horizon. In order to report the fiscal gap as a single amount (in present value dollars or as a percentage of GDP, projected receipts or projected spending), a target debt level relative to GDP must be selected. Such a measure would show the magnitude of increases in receipts or cuts in non-interest spending that would be needed to achieve that target. However, any specific limit selected may be considered arbitrary. In the United States, there is currently no legislated goal for debt as a share of GDP or a legislated limit on borrowing other than the statutory debt limit, which historically has been frequently raised.

A63. Since the Board has no objective basis for selecting a debt-to-GDP limit or goal, the proposed requirements for information about the fiscal gap do not include a specific debt-to-GDP limit or goal. Fiscal gap should be explained and reported, either on the face of the financial statement or in the disclosures. Fiscal gap should be presented in dollars and as a percentage of the net present value of (a) GDP, (b) receipts, and (c) non-interest spending during the projection period. Information may be provided for a single target debt to GDP ratio, multiple ratios or over a continuum of ratios (for example, in the form of a graph or graphs). This requirement is illustrated both ways in Appendix B: as a continuation of the basic financial statement and as Illustration 8. Alternative approaches may be used.

Foreign Holdings of U.S. Treasury Debt

A64. A significant minority of members supported a proposal that the proportion of U.S. Treasury debt held by foreign investors is also important information and should be reported as RSI. They point out that while it is important to report the large and growing gap between revenues and spending, the extent to which deficits are being financed by foreign lenders is also significant information, particularly in light of the large and growing increase in that proportion.

A65. The members supporting this additional requirement point out that foreign lenders cannot be counted on to be always willing to finance the government’s deficits; that the magnitude of this indebtedness to foreign lenders has national security implications, including threatening our international standing and influence and limiting our foreign policy options; and it results in the interest payments on the debt going abroad instead of providing income to U. S. residents and feeding into our economy.

A66. The members supporting this additional requirement therefore propose that, included as RSI,[51] should be an illustration and/or explanation of the trend in foreign holdings of U.S. Treasury debt for a minimum of 15 years through the most recent date for which data are available. Appendix B, Illustration 10 provides an illustration of how the required supplemental information might be presented.

A67. A majority of members believe that there should not be a requirement to disclose foreign holdings of U.S. Treasury debt, for reasons that included the following:
(a) It is unclear how the information relates to the fiscal sustainability of current policy without change.
(b) Information on foreign holdings of U.S. Treasury debt, which is based upon unaudited, unverifiable surveys rather than transaction records and is not available on a timely basis, may cause disclosure and/or audit issues.
(c) The proposed reporting requirement could not extend to long-run projections since the capability to project future foreign holdings does not exist with current models.
(d) A reporting requirement for existing foreign holdings would repeat information readily available in other places.

Alternative Policy Proposals

A68. A minority of members supported a proposal for additional RSI (not subject to the phased-in implementation in paragraph 44) that they believe would increase the likelihood that the financial statement and disclosures will result in important and necessary decisions. These members propose that if the Comprehensive Long-Term Projections for the U.S. Government indicate a significant imbalance, the basic financial statement be accompanied by an identification of one or more policy alternatives that would close the fiscal gap. The identification, explanation, and fiscal impact of the policy alternative(s) would be presented as RSI.

A69. The projections of revenues, spending, and borrowing reviewed during the development of the exposure draft indicate the following:
(a) Although the debt held by the public as a share of GDP has been approximately 33-38% since 2000; under current policy without change, the percentage is projected to rise rapidly. In only 22 years, the debt is projected to reach the previous highest level of debt to GDP (i. e., 109%, reached in 1946);

[51] This information would remain as RSI and would not be subject to the phased-in implementation in paragraph 44.

(b) Maintaining the current policy without change is projected to result in an excess of non-interest spending over revenues over a 75 year time horizon of $37 trillion.
(c) If the current policy without change is continued, in 2030, i. e., in just 22 years, receipts are projected to be sufficient to cover interest, Social Security, and Medicare and Medicaid; and nothing else.
(d) Projections indicate that a 27% decrease in annual non-interest spending, a 36% increase in annual revenue, or some combination thereof is necessary to maintain the level of debt held by the public to the current 36.8% percent of GDP.
(e) Alternatively, the debt held by the public can be allowed to rise to the previous highest level of 109% of GDP, but this would require a 24% reduction in non-interest spending, a 32% increase in annual revenue, or some combination thereof.
(f) Changes of this magnitude are not much different than changes required to maintain debt in relation to GDP at the lower level. Furthermore, some undesirable things occur with the higher levels of debt to GDP, e. g., lower economic growth, lower private investment, higher interest costs, greater burden placed on future generations.

A70. The minority members supporting the RSI regarding policy alternatives to close the fiscal gap further believe that the results indicated by the GAO projections and summarized above will have the following consequences:
(a) The magnitude of these changes in annual revenue and non-interest spending induces policy makers to postpone making the required changes.
(b) Postponing the changes equates to a need to make changes in future years equal to a substantially greater percentage of GDP.
(c) The above becomes a vicious cycle. Decisions are difficult, so they are avoided; which makes the future decisions even more difficult, and they are avoided even more.

A71. The members supporting this additional requirement believe that the identification and presentation of the fiscal impact of policy alternatives that would reduce the imbalance would not constitute endorsement of any of the proposals but would bring important attention to the vicious cycle they describe. The sole purpose for inclusion of policy alternatives would be to stimulate debate and indicate actions that could close the fiscal gap. The number of policy alternatives for which the information should be presented is expected to be limited.

A72. The members supporting this additional requirement believe that presenting the information as RSI would eliminate the need for an audit opinion on the data. The Department of the Treasury and OMB regularly prepare projections of policy alternatives. Those projections would provide the systems of records for which auditors can make inquiries of management regarding the methods of measurement and presentation—the audit procedures applied to RSI.

A73. The members supporting this additional requirement believe that current policy without change, which the Comprehensive Long-Term Fiscal Projections for the U. S. Government is based on, is a policy alternative. They believe that it is also a policy alternative that is most likely unsustainable.

A74. A majority of members believe that there should not be a requirement to describe policy alternatives for reasons that included the following:
(a) There are almost unlimited potential policy alternatives, most of which could not be included in the reporting. The Board is unaware of how guidelines could be drafted that would result in objective, complete, and concise politically neutral policy alternatives or proposals.
(b) The inclusion of policy alternatives may be interpreted to be an endorsement of the policy alternatives or proposals described.
(c) The inclusion of policy alternative would create the appearance that the consolidated financial report of the U.S. Government is a political document. Such a perception would detract from its value as a neutral report on the U.S. Government's financial condition.
(d) There may be audit issues in determining the fiscal impact of various policy alternatives.
(e) Policy assumptions included in the fiscal sustainability reporting that are based on the continuation of current policy without change are fundamentally different from the presentation of selected policy alternatives, which are not based on current policy without change.
(f) A statement of accounting standards is not the proper venue for requiring policy proposals.

Inter-period or Inter-generational Equity

A75. The Board also considered information that may be helpful to readers in assessing whether financial burdens without related benefits were passed on by current year taxpayers to future year taxpayers (sometimes referred to as "inter-generational equity" or "inter-period equity").

A76. In addition to measuring whether projected future receipts are sufficient to support projected future spending, it is important to understand how the financing of future spending affects current and future-year taxpayers. For example, even if projected receipts equal projected spending over the time horizon of the projections, policy may be such that future-year taxpayers assume a higher burden of taxes or lesser public services than current-year taxpayers.

A77. For example, narrative could explain how indicators such as debt to GDP over the time horizon of the projection indicate the extent that current deficits are left to be financed by future-year taxpayers either through increased taxes or decreased benefits.

A78. While a minority of the Board believe that such disclosures should be required, the majority of the Board decided to provide such information as an optional way to meet a disclosure requirement to provide information that puts the data into context (see paragraph 41(e)).

Appendix B: Example Formats and Illustrations

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

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

Long-Term Fiscal Projections for the U.S. Government
Amounts projected to 75 years

	As of January 1, 20XX (Current Year)		As of January 1, 20XX (Prior Year)		Change from Prior Year	
	PV Dollars *in trillions*	% GDP*	PV Dollars *in trillions*	% GDP*	PV Dollars *in trillions*	% GDP *
Receipts						
Medicare	$ 10.7	1.5%	$ XX.X	X.X%	$ X.X	X.X%
Social Security	36.3	5.1%	XX.X	X.X%	X.X	X.X%
All Other Receipts	91.0	12.8%	XX.X	X.X%	X.X	X.X%
Total Receipts	$ 137.9	19.4%	$ XX.X	X.X%	$ X.X	X.X%
Spending						
Medicare	$ 44.8	6.3%	$ XX.X	X.X%	$ X.X	X.X%
Medicaid	15.6	2.2%	XX.X	X.X%	X.X	X.X%
Social Security	40.5	5.7%	XX.X	X.X%	X.X	X.X%
Rest of Federal Government**	73.9	10.4%	XX.X	X.X%	X.X	X.X%
Total Spending	$ 174.9	24.6%	$ XX.X	X.X%	$ X.X	X.X%
Spending in excess of receipts	$ 37.0	5.2%	$ XX.X	X.X%	$ X.X	X.X%

To avoid the unsustainable levels of federal debt that would result from these large projected deficits, actions would need to be taken to increase revenues or decrease non-interest spending by a net present value of $XX.X trillion or X% of GDP. To accomplish this reduction, annual revenues would need to increase by XX.X% or annual non-interest spending would have to decrease by XX.X% (or some combination of these two options).

Note: Amounts are estimated based upon guidance for selecting assumptions provided in this Statement. Receipts and spending include repayment of Social Security Trust Fund (estimated 0.3 percent of GDP).

* GDP (Gross domestic product) can be roughly defined as all of the nation's income or everything the country produces.
** Rest of government: The repayment of borrowings from the Social Security and Medicare Trust Funds are included in Receipts for Social Security and Medicare, and Outlays for Rest of government. (If material, these amounts should be displayed on separate sublines.)

Examples of Selected Disclosures

The following examples display and/or describe narrative and graphics that might supplement the basic financial statement in a manner consistent with the standard.[52]

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

Examples are provided in this appendix for the following selected disclosures:

1. Rising Cost of Health Care

Paragraph 42(a) provides that ranges may optionally be displayed for major cost factors. For example, if the rising cost of federal spending on health care is a major factor in the long-term spending projections, the disclosure might include the following:

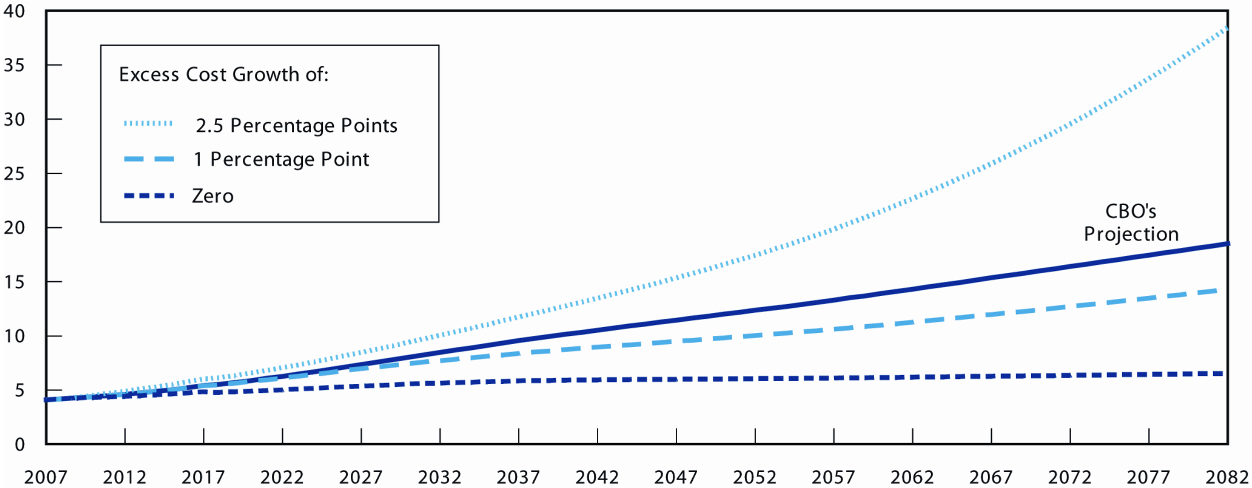
(a) If the growth in health care costs exceeds the growth in GDP, a narrative might explain that the growth in any spending program cannot continue indefinitely to exceed the growth in the economy, because at some point, the costs would exceed the resources that can be extracted from the economy.

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

[52] See paragraphs 39-42 of this standard.

Illustration 1a: Major Cost Drivers for Federal Spending

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



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

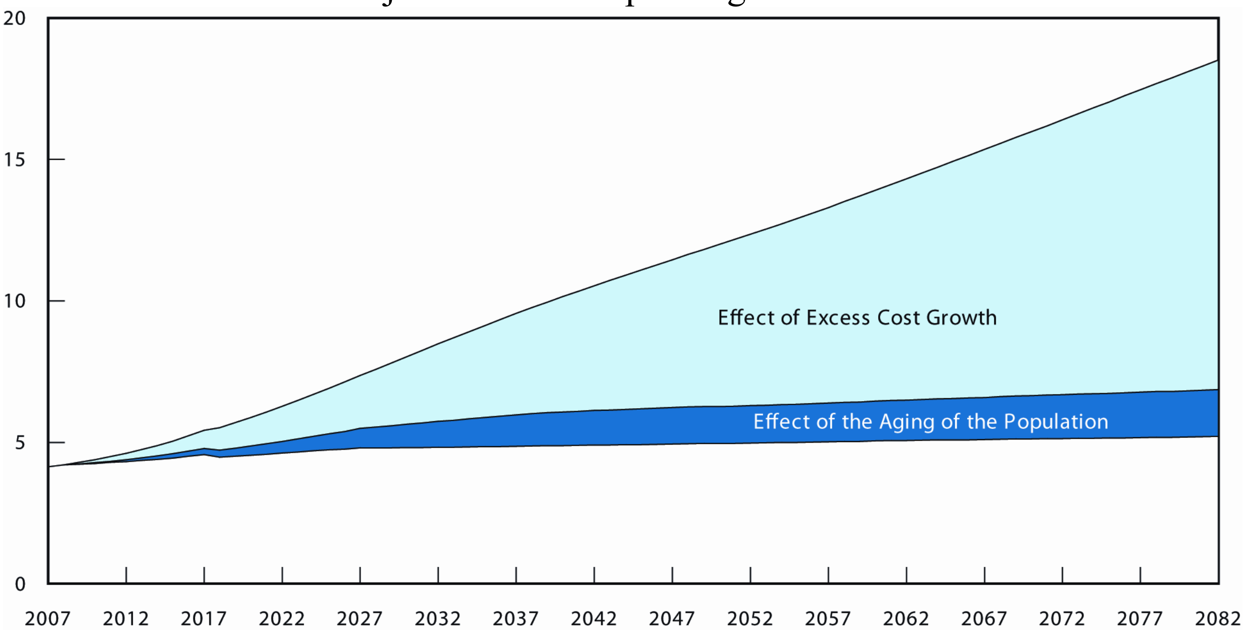
A narrative would describe the assumptions involved in the basic statement and in the alternative scenarios.

In addition, a graphic might display the relative contribution of two or more major cost drivers. For example, Illustration 1b displays the effect of the aging of the population on federal spending on Medicare and Medicaid versus excess cost growth.[53]

[53] 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

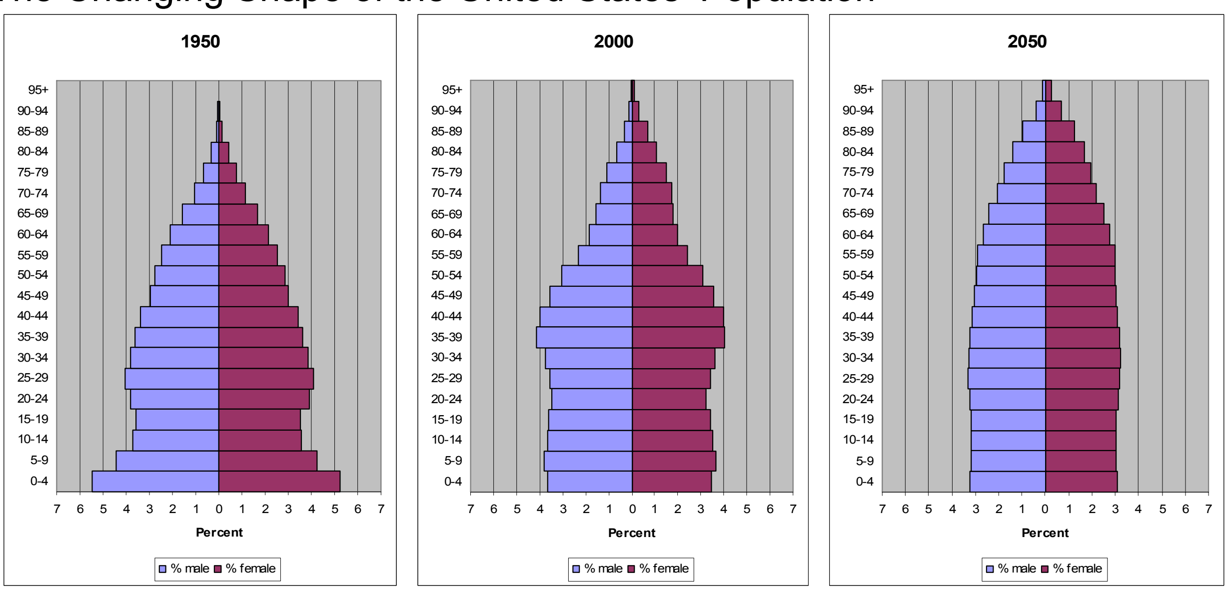
Paragraph 42(a) requires that disclosures explain and illustrate the major factors that are expected to have a significant impact upon future receipts and spending of the federal government. The narrative might describe demographic trends and briefly explain the major drivers of change in demographic trends, for example, trends in longevity and birth rates, and refer the reader to more extensive coverage of the topic in other existing reports, for example, the Social Security and Medicare Trustees Reports. The narrative could describe the change in the ratio of workers to retirees and how this change relates to long-term fiscal outlook for social insurance programs.

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

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

Illustration 2: Age-Gender Pyramid

The Changing Shape of the United States' Population



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

Alternatively, simple age demographics rather than workforce participation could be used (in other words, "over 64" instead of "retired") provided that they are used consistently.

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.[54]

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

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

Paragraph 42(b) requires that disclosures explain and illustrate the historical and projected trends for a progression of years. Illustrations 3, 4 and 5 display how this might be accomplished.

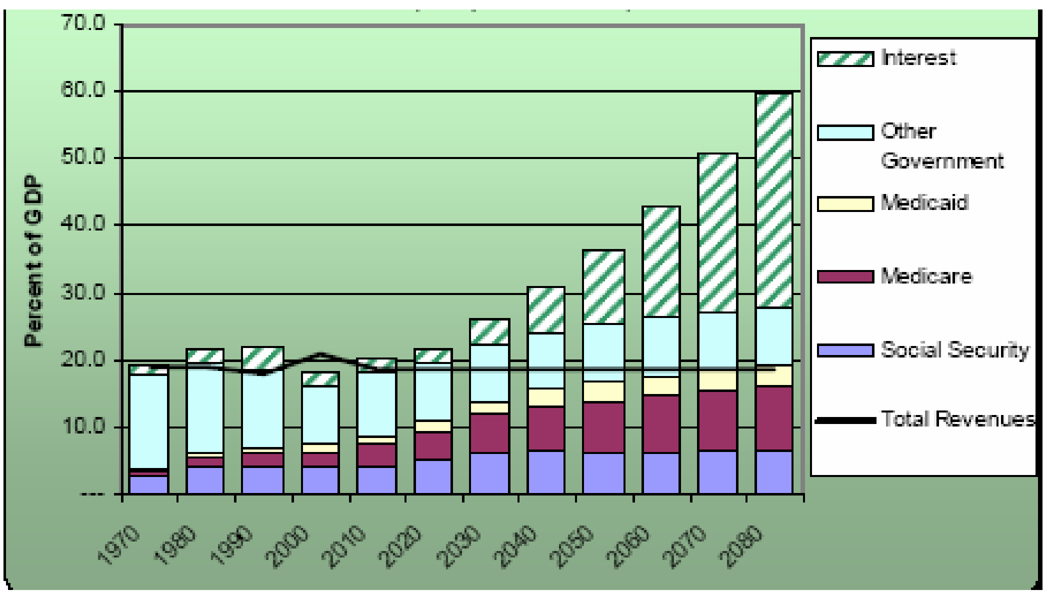
3. Relationship of Projected Receipts and Spending

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

Below is an example.

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

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

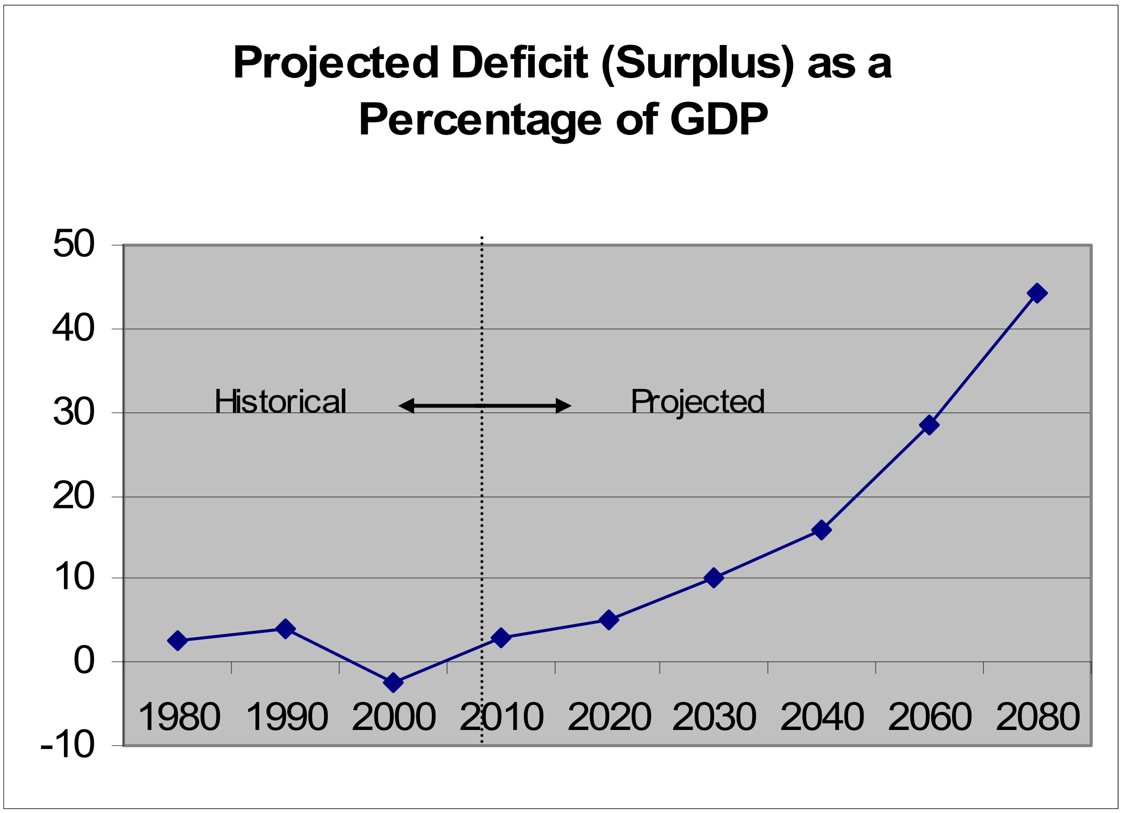


Source: FY 2007 *Financial Report of the U.S. Government*, Chart H, page 18. Available at http://fms.treas.gov/fr/index.html.

4. Trends in Deficit Spending

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

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

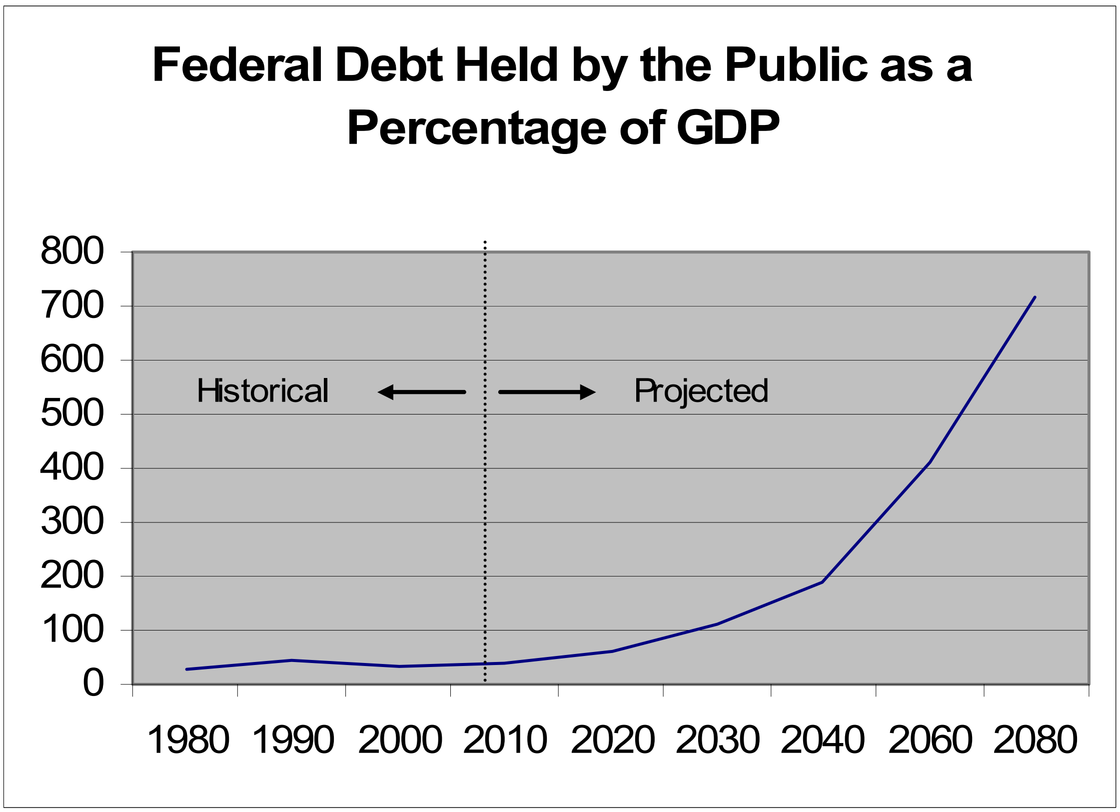


Data sources:
Historical: Office of Management and Budget, Table 13-2, Chapter 13, "Stewardship," *Analytical Perspectives*, FY 2008 Budget
Projections: Government Accountability Office, Long-Term Fiscal Simulation Data, Alternative Scenario. Available at: http://www.gao.gov/special.pubs/longterm/data.html

5. Trends in Treasury Debt Held by the Public

A graphic could display the projected trends in Treasury debt held by the public as a percentage of GDP, for a progression of years beginning at least 20 years before the current year and future years projected to at 75 years after the current year. This graphic could illustrate the assumption that increased borrowing would occur to finance the difference between projected receipts and spending.

Illustration 5: Increase in Federal Debt Held by the Public

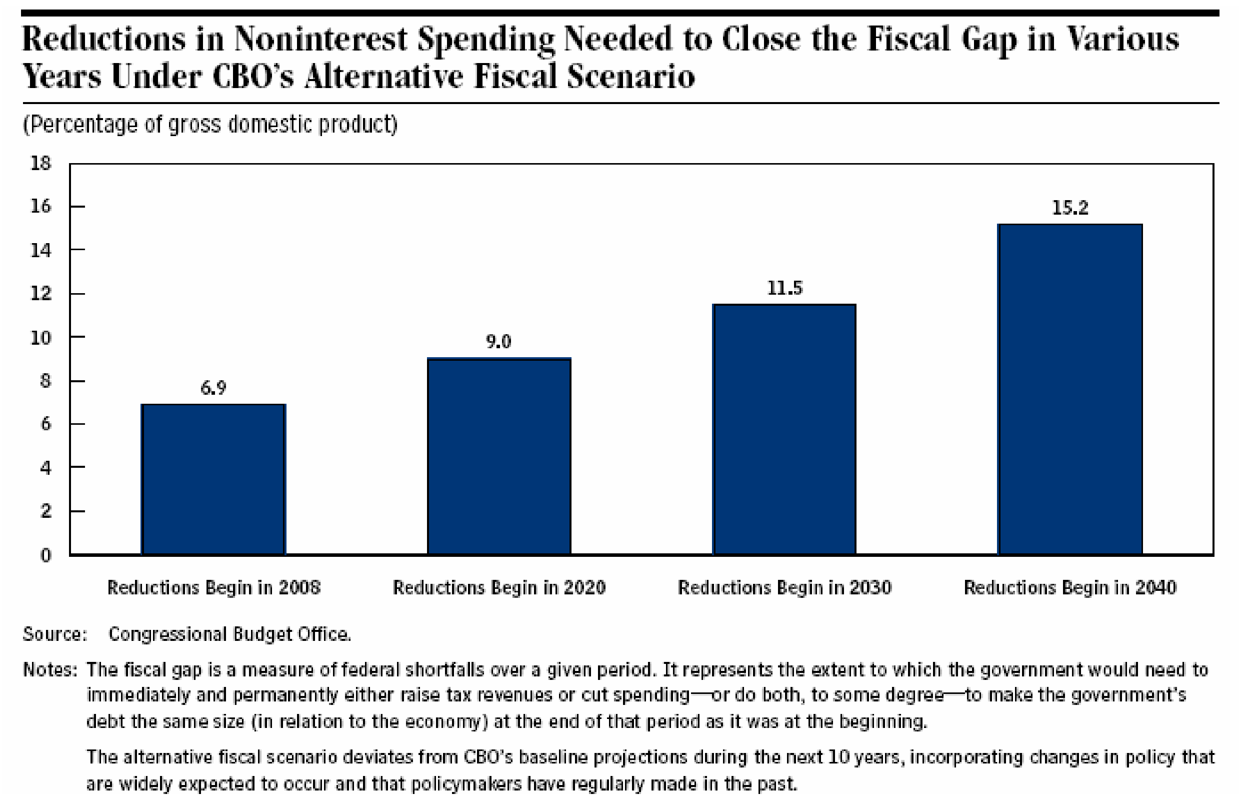


Data sources:
Historical: Office of Management and Budget, Table 13-2, Chapter 13, "Stewardship," *Analytical Perspectives*, FY 2008 Budget
Projections: Government Accountability Office, Long-Term Fiscal Simulation Data, Alternative Scenario. Available at: http://www.gao.gov/special.pubs/longterm/data.html.

6. Impact of Delaying Action

Paragraph 42(c) provides that if a fiscal gap is indicated by the projections, a disclosure should explain and illustrate the likely impact of delaying action. Two graphics could display the progressive increase in the change that would be needed to close the fiscal gap by (a) reducing spending or alternatively (b) by increasing taxes. Alternatively, either (a) or (b) could be displayed in a graph while the narrative describes the impact of delay on the item not displayed. An example of graphic presentation of (a) is shown below.

Illustration 6: Impact of Delaying Action



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

7. Alternative Scenarios

Paragraph 42(d) provides for the explanation and illustration of alternative scenarios. It indicates that a table might be used to display alternative scenarios. The following illustration is an example of how such a table might be displayed.

Illustration 7: Alternative Scenarios

	Statement	Alternative 1	Alternative 2
Receipts:			
Medicare			
Social Security			
All Other			
Total Receipts			
Spending			
Medicare			
Medicaid			
Social Security			
Rest of Government			
Total Spending			
Spending in excess of receipts			

8. Fiscal Gap

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

How much public debt is sustainable? While many experts agree that some level of public debt is reasonable and acceptable, there is no universally agreed-upon "sustainable" percentage of debt to GDP. However, all experts agree that a continually increasing level of debt to GDP is not sustainable. The chart in Note X[55] displays how the debt as a percentage of GDP has varied over time. Debt was 36.8% of GDP as of September 30, 2007, but has risen as high as 109% of GDP (during World War II). Many economists believe that persistent debt-to-GDP levels over 100% are unhealthy.

Since the fiscal gap varies based on the level of debt that is to be maintained, the graph below illustrates the fiscal gap over a continuum of target ratios of debt to GDP. The

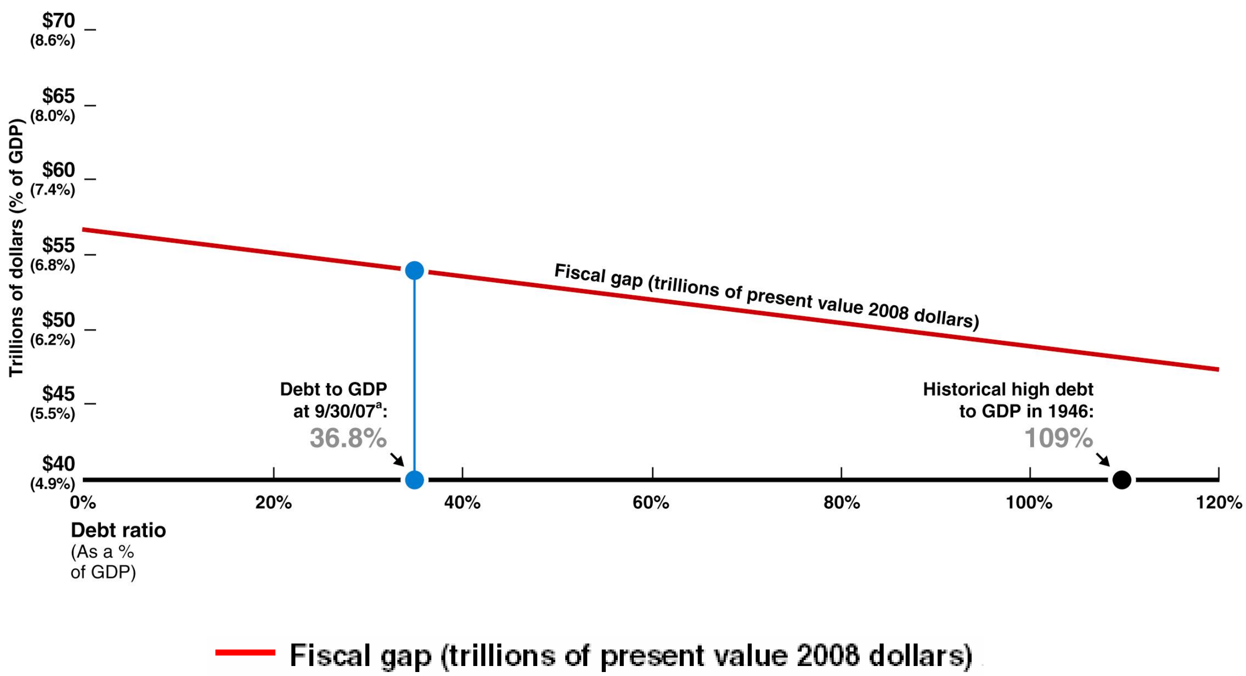
[55] See Illustration 5 on page 59 of this exposure draft.

fiscal gap is shown in both present value dollars (see Note X for an explanation of present value) and as a percentage of GDP on the vertical axis. Note that the graph is truncated at debt of 120% of GDP, based on a range of debt-to-GDP levels from zero to 120%. While the line continues in theory and could be graphed, going beyond the 120% level did not seem reasonable since the highest level of debt to GDP was 109%.

Illustration 8a: Fiscal Gap

Fiscal Gap

in $ trillions
(% of GDP)

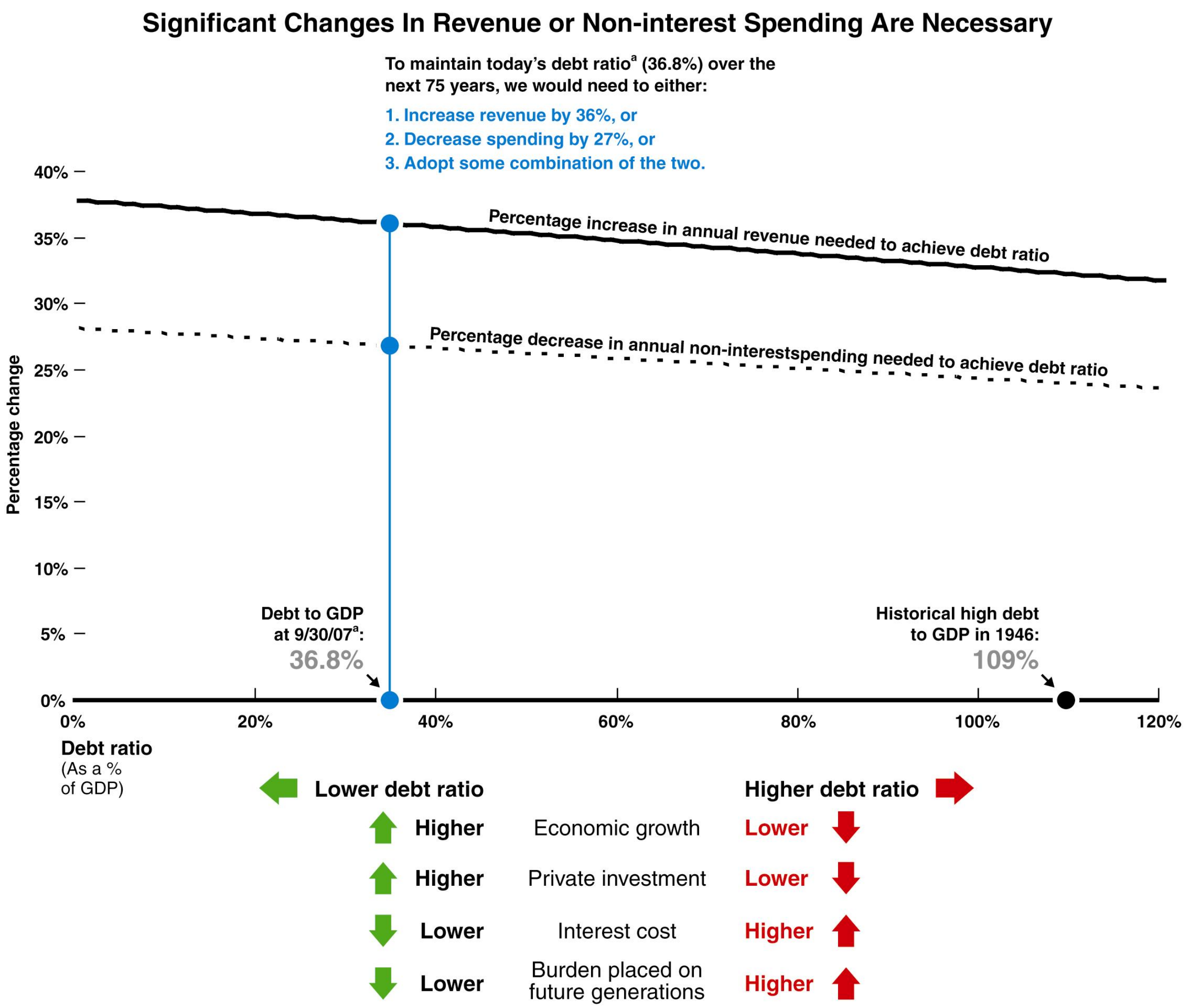


Source: GAO's April 2008 Alternative simulation. Fiscal gap expressed in present value 2008 dollars.

In addition, the percentage increase in revenue and decrease in non-interest spending necessary to close the fiscal gap can be displayed over the continuum of debt as a percentage of GDP that might be targeted. The graph below presents the percentage increase in revenue and decrease in non-interest spending to close a fiscal gap over these different debt levels. An alternative not presented is to resolve the fiscal gap through some combination of these two options.

For example, to achieve a debt level of zero, revenue would have to increase by 38% or non-interest spending would have to decrease by 28%. Also, for example, to maintain debt at the level as of September 30, 2007 (36.8%), revenue would have to increase by 36% or non-interest spending would have to decrease by 27%. Similar to the above graph, this graph also illustrates that, across a range of debt levels, the changes in revenue and/or spending remains significant.

Illustration 8b: Changes in Revenue or Non-Interest Spending Required for Different Levels of Debt to GDP



Source: GAO.

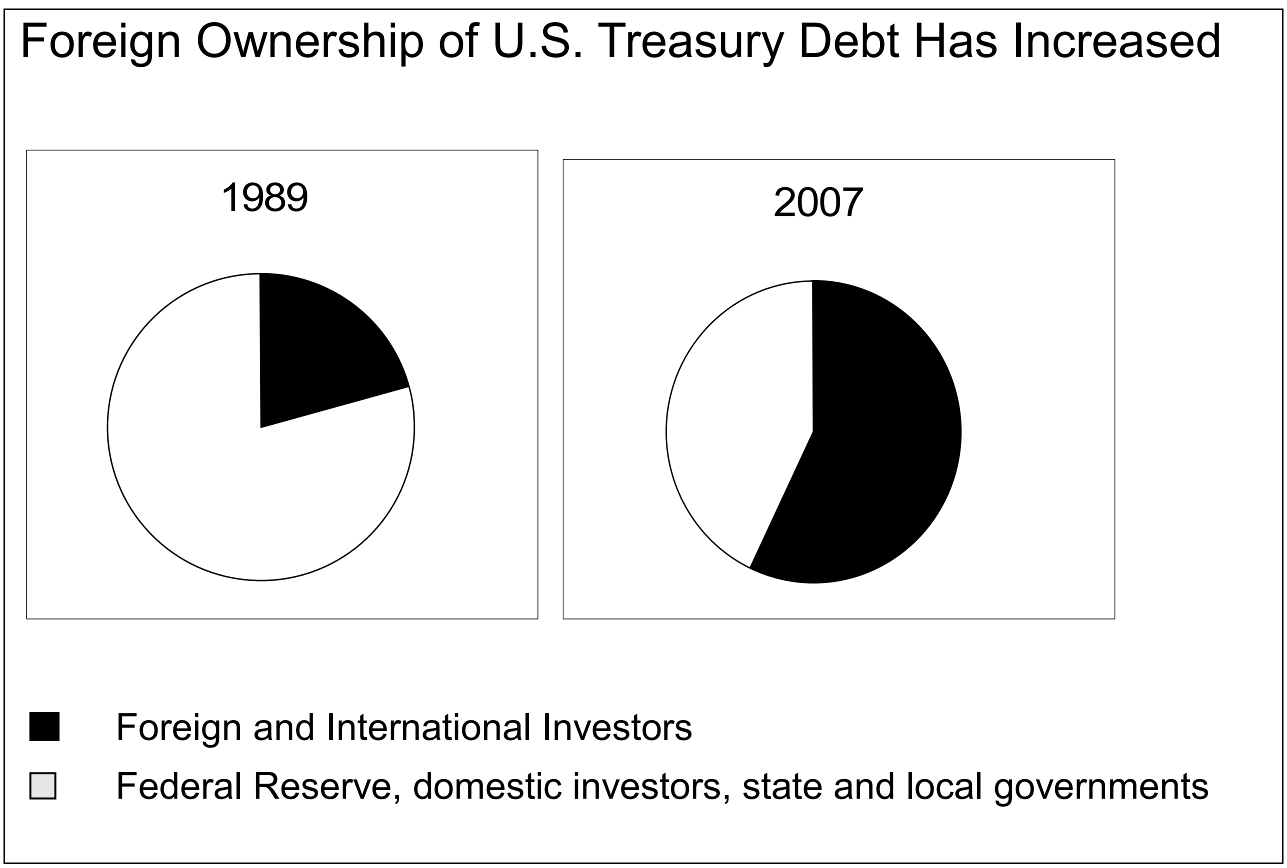
9. Other Required Information

The illustrations in the appendix are not all-inclusive. Additional information is required by paragraphs 39 - 42 but is not explicitly described or illustrated in this appendix. For example, paragraph 40 requires an explanation of the nature and limitations of projections. Paragraph 41(e) requires that the narrative should explain the significance of the data presented and put the information into context.

10. Foreign Holdings of U.S. Treasury Debt

A significant minority of members supported a proposal that the proportion of U.S. Treasury debt held by foreign investors is also important information and should be reported as Required Supplemental Information. See the Basis for Conclusions, paragraphs A64- A67 for a discussion of this proposal.

Below is an illustration of how the required supplementary information might be presented.



Adapted from: GAO-08-217CG, October 30, 2007, chart 18.
Data source: *Report on Foreign Portfolio Holdings of U.S. Securities as of June 30, 2007 and 2006,* issued April 2008 and May 2007 by the Department of the Treasury, Federal Reserve

Bank of New York, Board of Governors of the Federal Reserve System, Table 1. Available at: http://www.treas.gov/tic/fpis.html.

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 = consumption + investment + government spending + (exports − imports)

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

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

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

FAQ 4. What is present value?
Present value represents the amount of money that if invested today would grow to a specified amount in the future. Present value is an adjusted amount that takes the "time value of money" into consideration. The "time value of money" is illustrated by a question such as: "At ten percent interest (compounded annually), how much do I need to put into the bank today in order to have $110 one year from today?" The amount you would need today would be $100. Therefore, the present value of $110 in this example would be $100.

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

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

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

FAQ 5. What are projections?

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

FAQ 6. What factors affect projections?

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

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

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

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

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

FAQ 7. What is the nature of federal **trust funds**?

In order to reduce confusion between accounts designated as "trust funds" in the budget of the federal government (such as the Social Security Trust Fund, the Medicare Trust Funds, the Unemployment Trust Fund and the Highway Trust Fund) and private-sector trust funds, FASAB's Statement of Federal Financial Accounting Standards (SFFAS) 27, *Identifying and Reporting Earmarked Funds*, prohibits the use of the term "trust fund" for earmarked funds (federal "trust funds") except when referring to the legal title of the fund, and requires the following note disclosure to explain the nature of federal trust funds:

- The U.S. Treasury does not set aside assets to pay future expenditures associated with earmarked funds (federal "trust funds"). Instead, the cash generated from earmarked funds (federal "trust funds") is used by the U.S. Treasury for general government purposes.
- Treasury securities are issued to the earmarked fund (federal "trust 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 (federal "trust fund") are an asset of the fund and a liability of the U.S. Treasury, so they are eliminated in consolidation for the U.S. Government-wide financial statements.
- When the earmarked fund's (federal "trust fund") Treasury securities are redeemed to make expenditures, the U.S. Treasury will finance those expenditures in the same manner that it finances all other expenditures.[56]

[56] See SFFAS 27, paragraph 27.

Appendix D: Abbreviations

CBO	Congressional Budget Office
CFR	Consolidated Financial Report of the U.S. Government
FAQ	Frequently Asked Question
FASAB	Federal Accounting Standards Advisory Board
FY	Fiscal Year
GAO	Government Accountability Office (formerly, General Accounting Office)
GDP	Gross Domestic Product
IPSASB	International Public Sector Accounting Standards Board
OMB	Office of Management and Budget
RSI	Required Supplementary Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
SOSI	Statement of Social Insurance
U.S.	United States

Appendix E: Glossary

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

Debt-to-GDP Ratio - The debt-to-GDP ratio, for the purposes of federal financial reporting, is the amount of federal (Treasury) debt held by the public divided by gross domestic product.

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

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

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

Earmarked revenue is generally accounted for in the budget separately, in accounts categorized as "special funds" or "trust funds." The distinction of whether an earmarked fund is categorized in the budget as a "special fund" or a "trust fund" is determined by the applicable legislation. In order to reduce confusion between accounts designated as "trust funds" in the budget and private-sector trust funds, FASAB's Statement of Federal Financial Accounting Standards (SFFAS) 27, *Identifying and Reporting Earmarked Funds,* prohibits the term "trust fund" for earmarked funds except when referring to the legal title of the fund, and requires the following note disclosure 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's Treasury securities are redeemed to make expenditures, the U.S. Treasury will finance those expenditures in the same manner that it finances all other expenditures.[57]

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

Fiscal Gap - The fiscal gap is the change in spending and/or revenue that would be necessary to maintain public debt at or below a target percentage of GDP. The fiscal gap is the net present value of projected spending[58] minus projected receipts, adjusted by the decrease (or increase) in public debt required to maintain public debt at the target level for the stated projection period. The fiscal gap may be expressed as:

(a) a summary amount in present value dollars,
(b) a share of the present value of the GDP[59] for the projection period, and/or
(c) a share of the present value of projected receipts or projected spending.

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

Mandatory Spending - "Mandatory spending" includes entitlement authority (for example, Social Security and Medicare and payment of interest on the national debt). Congress controls mandatory spending by controlling eligibility and setting benefit and payment rules, rather than by annual appropriation acts. For additional information, see *A Glossary of Terms Used in the Federal Budget Process,* GAO-05-734SP.

Policy Assumptions - Policy assumptions address the factors under the direct

[57] SFFAS 27, paragraph 27.
[58] Since interest is factored into the present value calculation, the fiscal gap as a share of spending is expressed as a share of spending excluding interest. See FAQ 4 on page 66.
[59] 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.

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

Present Value - Present value represents the amount of money that if invested today would grow to a specified amount in the future. Present value is an adjusted amount that takes the "time value of money" into consideration. The "time value of money" is illustrated by a question such as: "At ten percent annual interest, how much do I need to put into the bank to have $100 one year from today?" Clearly, the amount you would need today would be less than $100.

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

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

Required Supplementary Information (RSI): Information that a body that establishes Generally Accepted Accounting Principles requires to accompany basic information. When an auditor is engaged to audit an entity's financial statements, basic information is subject to testing for fair presentation in conformity with GAAP. However, RSI for federal entities is unaudited but subject to certain procedures specified by Generally Accepted Government Auditing Standards for RSI.

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 determined by the applicable legislation. In order to reduce confusion between accounts designated as "trust funds" in the budget and private-sector trust funds, FASAB's Statement of Federal Financial Accounting Standards (SFFAS) 27, *Identifying and Reporting Earmarked Funds*, prohibits the 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:

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> - Treasury securities held by an earmarked fund are an asset of the fund and a liability of the U.S. Treasury, so they are eliminated in consolidation for the U.S. Government-wide financial statements.
>
> When the earmarked fund's Treasury securities are redeemed to make expenditures, the U.S. Treasury will finance those expenditures in the same manner that it finances all other expenditures.[60]

[60] SFFAS 27, paragraph 27.

Fiscal Sustainability Reporting Task Force

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

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

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