United States Government Stewardship Information for the Year Ended September 30, 2000 (Unaudited)

Stewardship Assets

The Federal Government holds "Stewardship Assets" for the benefit of the Nation. Because the Government has been entrusted with, and made accountable for, these resources and responsibilities, they are recognized in the *Financial Report of the United States Government*.

When acquired, stewardship assets are treated as expenses in the financial statements. This section provides more detailed stewardship information on these resources to highlight their long-term benefit and to demonstrate accountability. This information facilitates the understanding of the operations and financial condition of the Government.

National Defense Assets

"National Defense Assets" consist of the following types of property, plant, and equipment: Department of Defense (DOD) assets used to perform military missions, such as combat operations, peacekeeping, and support of civilian authorities during civil emergencies, and vessels held in a preservation status by the Maritime Administration's National Defense Reserve Fleet. National defense assets are defined in terms of four categories:

- Weapons systems—equipment that launches, releases, carries, or fires a particular piece of ordnance and/or equipment that carries weapons systems-related equipment, materials, or personnel. Examples include aircraft, ships, tracked combat vehicles, and missiles.
- Weapons systems support principal end items—items acquired to support weapons systems that may ultimately be incorporated in weapons systems. Examples include aircraft engines, tank engines, aircraft radar, ship sonar, uninstalled missile motors, gun mounts, and guidance systems.
- Mission support equipment—deployable equipment that: (1) is essential to the effective operation of a weapons system or is used by the military departments to effectively perform their military missions; (2) has an indeterminate or unpredictable useful life due to the manner in which it is used; and (3) is at a very high risk of being destroyed during use or of premature obsolescence. Examples include: surveillance unmanned air vehicles, non-tactical vehicles (e.g., fuel tankers, combat centers, mess vehicles), field meteorological systems, cryptography systems, and field security systems.
- Weapons systems support real property—facilities and structures affixed to the land integral to a weapons system. Examples include ammunition bunkers in active use and missile silos in active use.

The accompanying national defense asset information does not report quantities of weapons systems support real property or mission support property, plant, and equipment although the annual investments in these items are reported.

National Defense Assets as of September 30

(In number of systems or items)	Restated Balance as of September 30, 1999	Additions	Deletions	Balance as of September 30, 2000
Aircraft:				
Combat	7,453	121	130	7,444
Airlift	6,033	81	144	5,970
Other aircraft	2,281	78	67	2,292
Ships:				
Submarines	80	-	6	74
Aircraft carriers	12	-	-	12
Surface combatants	163	3	37	129
Amphibious warfare ships	52	-	5	47
Mine warfare ships	27	-	-	27
Support ships	145	6	12	139
Other ships	994	13	80	927
Small boats	2,327	44	107	2,264
Combat Vehicles:				
Tracked	46,490	183	785	45,888
Wheeled	140,136	3,461	2,794	140,803
Towed	8,584	-	322	8,262
Guided, Self-propelled Ordnance:				
Missiles	431,941	6,100	27,315	410,726
Torpedoes	18,352	-	95	18,257
Space Systems:				
Satellites	89	9	6	92
Reserve fleet vessels	144	1	2	143

The national defense property, plant, and equipment quantities reported above include only items in an "active status." Inactive national defense property, plant, and equipment items (e.g., items awaiting disposal, mothballed ships, and aircraft stored at Davis-Monthan, AFB) are not included in the amounts reported. The amounts reported in the fiscal 1999 national defense property, plant, and equipment report included some items in an "inactive" status. As a result, certain beginning balances have been restated and differ from the balances reported in the fiscal 1999 *Financial Report of the United States Government*. Additionally, the military departments continued to refine the categorization in fiscal 2000 and have included items not reported in the prior year.

DOD does not report the balances of national defense assets as required by Statement of Federal Financial Accounting Standards (SFFAS) No.8. Instead, the investment amounts in national defense assets presented in this report reflect the sum of annual investment amounts reported by each military department. DOD does not currently have cost accounting systems that capture the full costs, as required by SFFAS No. 4, associated with national defense assets. Therefore, the annual investments shown in this report represent annual disbursements for each category of national defense assets.

Mission support property, plant, and equipment includes ordnance support equipment such as ordnance stands; electronics equipment such as test sets, air compressors, and generators; communications equipment such as field communications systems and signal jammers; and other various types of support equipment essential to the conduct of military missions.

Variances between investments reported in fiscal 2000 and prior years are attributable to revised methodologies used in compiling the report. Additionally, some fiscal 1999 amounts have been changed to correct erroneous amounts previously reported.

See the Supplemental Information section for deferred maintenance related to national defense assets.

Investments in National Defense Assets for the Fiscal Years Ended September 30

(In millions of dollars)	Restated Fiscal 1999	Fiscal 2000
Aircraft:		
Combat	6,901	7,889
Airlift	4,354	4,951
Other aircraft	2,662	2,889
Aircraft support principal end items	1,387	1,320
Other aircraft support property, plant, and equipment	1,418	1,030
Ships:		
Surface combatants	3,074	2,920
Submarines	1,409	1,598
Ship support principal end items	852	2,100
Aircraft carriers	1,340	1,465
Amphibious warfare ships	581	571
Support ships	371	249
Mine warfare ships	73	16
Other ships	30	35
Other ship support property, plant, and equipment	7	210
Combat Vehicles:		
Tracked	354	1,491
Wheeled	261	735
Towed	-	28
Combat vehicle support principal end items	1,199	61
Other combat vehicles support property, plant, and equipment	73	78
Guided, Self-propelled Ordnance:		
Missiles	1,374	2,583
Torpedoes	70	47
Guided, self-propelled support principal end items	807	45
Guided, self-propelled ordnance support property, plant, and equipment	222	123
Space Systems:		
Satellites	1,501	1,120
Space systems support principal end items	443	660
Weapons Systems Support Real Property:		
Active ammunition bunkers	19	31
Other:		
Other weapons systems	115	151
Other weapons systems support principal end items	61	87
Other weapons support property, plant, and equipment	42	4
Mission support property, plant, and equipment	5,432	3,945
Reserve fleet vessels	1,905	1,697
Total investments in national defense property, plant, and equipment for fiscal years ended September 30	38,337	40,129

Stewardship Land

"Stewardship Land" refers to federally owned land that is set aside for the use and enjoyment of present and future generations and land on which military bases are located. Except for military bases, this land is not used or held for use in "General Government" operations. Stewardship land is land that the Federal Government does not expect to use to meet its obligations, unlike the assets listed in the Balance Sheet. Stewardship land is measured in non-financial units such as acres of land and lakes, miles of parkways, and miles of wild and scenic rivers. Examples of stewardship land include national parks, national forests, wilderness areas, and land used to enhance ecosystems to encourage animal and plant species and to conserve nature. This category excludes lands administered by the Bureau of Indian Affairs and held in trust.

Most stewardship land managed by the Government was once part of the 1.8 billion acres of public domain land acquired by the public between 1781 and 1867. Stewardship land accounts for 28 percent of the current U.S. land mass.

Stewardship land acquired during fiscal 2000 amounted to $306.5 million.

United States Government Stewardship Land as of September 30

Agency	Predominate Use	Millions of Acres	Percent-age
Bureau of Land Management	Public land	264.4	40.9
U.S. Forest Service	National Forest system	192.2	29.8
U.S. Fish and Wildlife Service	National wildlife refuge system	88.7	13.7
National Park Service	National park system	78.2	12.1
Department of Defense.....	Defense facilities	16.8	2.6
Bureau of Reclamation	Water, power, and recreation	5.8	0.9
Total acres.....		646.1	100.0

Bureau of Land Management

Department of Interior's (DOI) Bureau of Land Management (BLM) manages 264.4 million acres of federally owned land. Congress has charged the BLM with maintaining this land and its resources to best serve the present and future needs of the American people. Toward this end, BLM manages these lands to allow for a combination of uses, including mineral development, outdoor recreation, and natural habitat. Some BLM lands are protected and used for their scenic, scientific, or historical value. The following table describes those holdings.

Bureau of Land Management Public Lands as of September 30

	Number	Acreage (In thousands)	Miles
National wild and scenic river segments	35	1,002	2,048
National wilderness areas	138	5,280	-
Wilderness study areas	618	18,017	-
National conservation areas	9	11,796	-
National scenic areas	1	101	-
Headwaters forest reserve	1	7	-
National recreation areas	1	1,000	-
National historic trails	8	-	3,533
National scenic trails	2	-	568
National recreation trails	26	-	429
Outstanding natural areas	1	-	-
Herd management areas	200	36,070	-
National monuments	7	3,096	-
Areas of critical environmental concern	838	14,045	-
Research natural areas	152	347	-
Lake Todatonten Special Management Area	1	38	-
National natural landmarks	43	599	-
National back-country byways	55	-	2,972
Globally important bird areas	2	-	-
National "multiple use" lands	-	173,000	-
Bureau of Land Management total	2,138	264,398	9,550

U.S. Forest Service

The U.S. Forest Service manages 192.2 million acres of federally owned lands for the sustained use of outdoor recreation, range, timber, watershed, wildlife, and fish.

Forest land contains 155 named National Forests totaling 187.8 million acres.

The U.S. Forest Service reforested 217,125 acres primarily with genetically improved seedlings in fiscal 2000.

Wilderness land contains 34.8 million acres in 38 States and is served by 133,087 miles of trails.

The U.S. Forest Service also manages 20 units of named grasslands on 3.8 million acres and about 4,418 miles of the wild and scenic river system.

U.S. Fish and Wildlife Service

The U.S. Fish and Wildlife Service manages 88.7 million acres of federally owned lands held primarily for wildlife conservation. It has five goals:

- Preserve, restore, and enhance in their natural ecosystems all species of animals and plants endangered or threatened.
- Perpetuate the migratory bird resource.
- Preserve a natural diversity and abundance of fauna and flora.
- Provide an understanding and appreciation of fish and wildlife ecology.

- Provide refuge visitors a safe, wholesome, and enjoyable recreational experience oriented toward wildlife.

The U.S. Fish and Wildlife Service subdivides its management responsibility into the following categories:

- National Wildlife Refuges (530 sites on 87.8 million acres).
- Refuge Coordination areas (50 sites on 197,000 acres).
- Waterfowl Production areas (201 sites on 725,000 acres).
- Fisheries Research Centers (83 sites on 12,000 acres).

National Park Service

The National Park Service manages 78.2 million acres of federally owned lands. These lands are set aside to conserve scenery, nature, historic objects, and wildlife so that current and future generations of Americans can enjoy them.

Other types of park areas include: national rivers, parkways, national lake shores, historic parks, scenic trails, wild and scenic rivers, military parks, reserves, and battlefields.

Summary of Acreage

(In millions of acres)	Acreage
Type of Park Area:	
National parks	50.0
National preserves	21.5
National recreation areas	3.4
National monuments	1.9
National seashores	0.5
Other park areas	0.9
Total acres	78.2

Department of Defense

DOD uses 16.8 million acres of federally owned land for mission essential purposes, including military bases, installations, and training ranges. All land, regardless of its use, provided to DOD from the public domain, or at no cost, is classified as stewardship land.

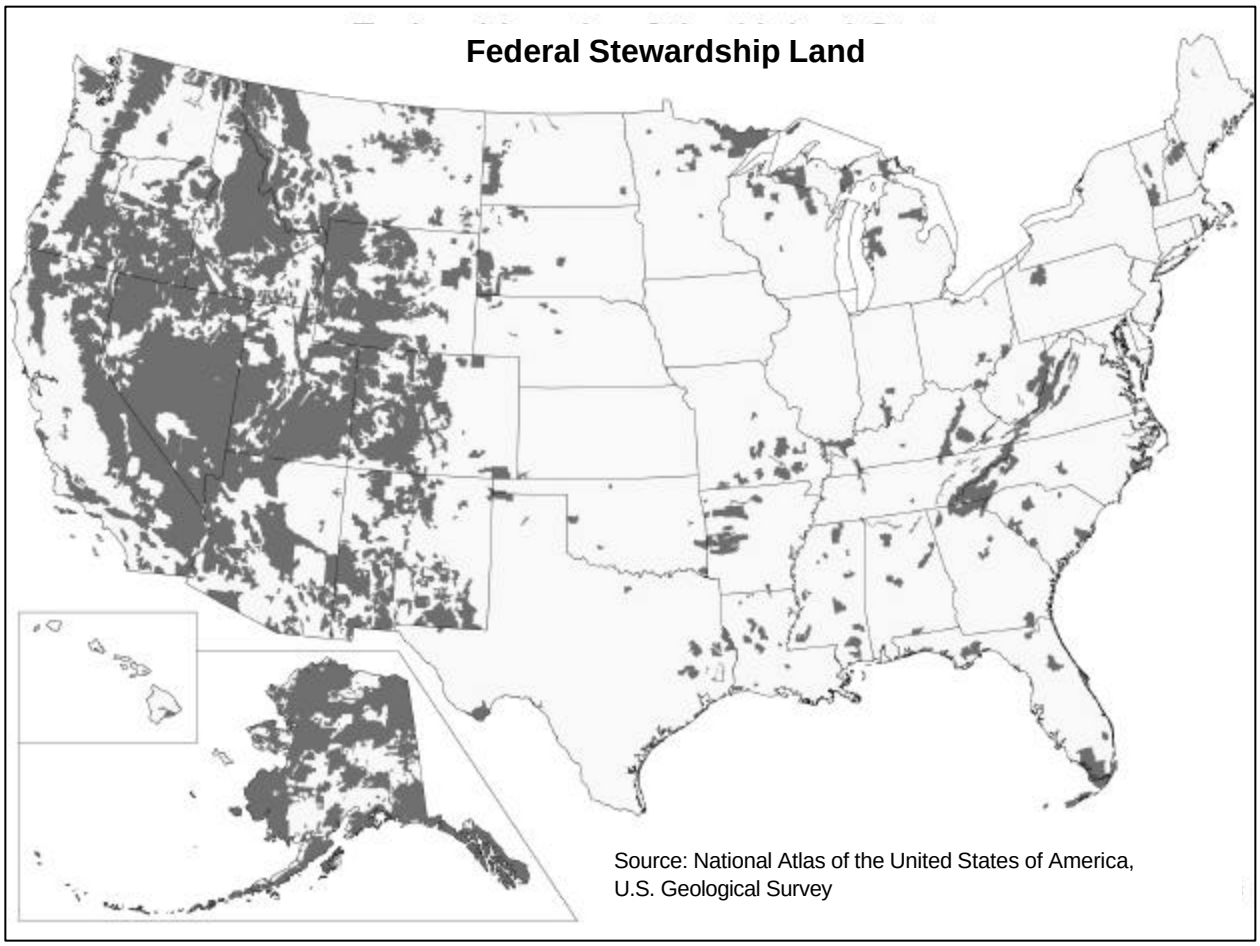
Stewardship land transactions during the year consisted of minor acquisitions and disposals.

Summary of Acreage

(In thousands of acres)	Acreage
Land Use:	
Mission essential purposes	16,818
Parks and historic sites	1
Totals	16,819

Bureau of Reclamation

DOI's Bureau of Reclamation (BOR) manages 5.8 million acres of stewardship land. These lands were withdrawn from the public domain in support of BOR's mandate to provide irrigation water, industrial water, flood control, and power. However, if they do not interfere with project purposes, activities such as boating and camping, fish and wildlife management, or the grazing of livestock may be authorized.



Heritage Assets

"Heritage Assets" are Government-owned assets that have one or more of the following characteristics:

- Historical or natural significance.
- Cultural, educational, or artistic importance.
- Significant architectural characteristics.

The cost of heritage assets often is not determinable or relevant to their significance. Like stewardship land, the Government does not expect to use these assets to meet its obligations. The most relevant information about heritage assets is non-financial. The public entrusts the Government with these assets and holds it accountable for their preservation. Examples of heritage assets include Mount Rushmore National Memorial, Yosemite National Park, and museum objects on display at the Smithsonian Institution. Examples of heritage assets other than land include: the Declaration of Independence, the U.S. Constitution, and the Bill of Rights preserved by the National Archives. Also included are national monuments/structures such as the Vietnam Veterans Memorial, the Jefferson Memorial, and

the Washington Monument, as well as art and cultural treasures at the Smithsonian Institution and the Library of Congress (LC).

Many other sites such as the battlefields, historic structures, and national historic landmarks also are placed in this category.

Some heritage assets are used to remind us of our heritage, and also for day-to-day operations. These assets are referred to as "Multi-use Heritage Assets." One typical example is the White House. The cost of acquisition, betterment or reconstruction of all multi-use heritage assets is capitalized as general property, plant, and equipment and depreciated.

The following discussion of the Government's heritage assets is not all inclusive. Rather, it highlights significant heritage assets reported by Federal agencies.

The Government classifies heritage assets into three broad categories:

- Collection-type.
- Natural.
- Cultural.

"Collection-type Heritage Assets" include objects gathered and maintained for museum and library collections. "Natural Heritage Assets" include national wilderness areas, wild and scenic rivers, natural landmarks, forests, and grasslands. "Cultural Heritage Assets" include historic places and structures, memorials and monuments, national cemeteries, and archeological sites.

Collection-Type Heritage Assets

The Smithsonian Institution holds some of the most prominent Federal museum collections. The Smithsonian acquires, protects, and preserves approximately 140 million individual objects for public exhibition, education, and research.

Similarly, the LC holds the world's largest library collection. That collection comprises more than 115 million items. The LC receives two copies of every book, pamphlet, map, print, photograph, and piece of music registered for copyright in the United States.

The National Archives holds more than 2 million cubic feet of records. These records ensure ready access to essential information documenting the rights of citizens, actions of Federal officials, and the effects of those actions on the national experience. These records include text and legislative records; cartographic and architectural records; motion picture, sound, and video records; and still pictures and graphics. The National Archives also maintains historically important documents such as the U.S. Constitution and the Louisiana Purchase Treaty.

Collection-type heritage assets acquired in fiscal 2000 amounted to $61.4 million.

Natural Heritage Assets

Congress has designated several "wilderness areas" to preserve their natural conditions. DOI manages approximately 70 million acres of these wilderness areas comprising almost 68 percent of the Nation's 104.7 million wilderness acres. The Cebolla Wilderness in New Mexico is one such area.

The "national wild and scenic rivers system" includes protected free-flowing rivers. The Government protects these areas because of their fish and wildlife, or for their scenic, recreational, geologic, historic, or cultural value. DOI manages 56 percent of these 11,292 river miles, including the Bluestone National Scenic River in West Virginia.

The Government also sets aside natural landmarks that exemplify a region's natural characteristics. The National Park Service manages 18 national natural landmarks, such as the Garden of the Gods in Colorado.

The U.S. Forest Service manages 155 National Forests and 20 national grasslands covering over 191.7 million acres. These areas encompass significant heritage resources. Examples include the White Mountain National Forest in New Hampshire and the Thunder Basin National Grassland in Wyoming.

Natural heritage assets acquired in fiscal 2000 amounted to $106.8 million.

See the Stewardship Land section for the total acreage of some natural heritage assets such as National Forests.

Cultural Heritage Assets

The National Register of Historic Places lists historic sites and structures. This is America's official list of cultural resources worthy of preservation. Official properties include districts, sites, buildings, structures, and objects significant to American history. It also includes significant architectural, archaeological engineering, and cultural properties. Forest Service land encompasses 887 such properties.

The Nation's monuments and memorials include the Washington Monument, the Vietnam Veterans Memorial, and the Jefferson Memorial in Washington, D.C. The National Park Service manages these. Also, the American Battle Monuments Commission administers, operates, and maintains 24 permanent American Military Cemeteries on foreign soil and 27 stand alone memorials, monuments, and markers around the world. This includes the Belleau Wood Marine Monument in France.

Archeological sites contain the remains of human activity. DOI manages numerous archaeological sites. The National Park Service manages 63,000 archeological sites, the Bureau of Land Management, the U.S. Fish and Wildlife Service and the Bureau of Reclamation manages approximately 258,000 archaeological and historical properties. The ancient earthen mounds at the Hopewell Culture National Historic Site in Ohio are a notable example.

National cemeteries include the Arlington National Cemetery in Virginia and the Fort Logan National Cemetery in Colorado. The Department of the Army (Army) manages the Arlington National Cemetery. The Department of Veterans Affairs (VA) manages Fort Logan National Cemetery and other cemeteries.

Stewardship Responsibilities

"Stewardship Responsibilities" provides information on the social insurance programs: Social Security, Medicare, Railroad Retirement, Black Lung and Unemployment Insurance. Its purpose is to assist the American people in evaluating the financial condition and sustainability of these programs.

Social Insurance Update

The following table gives financial report users updated information on selected financial aspects of the Social Security and Medicare programs that became available subsequent to the preparation of the related data presented in the detailed social insurance disclosures on pages 55 to 76.

Specifically, the social insurance programs detailed analysis and assumptions that are included on pages 76 to 78 were prepared based on estimates as of January 1, 2000. On March 19, 2001, the board of trustees for the Social Security and Medicare trust funds published annual reports that present information for these programs as of January 1, 2001. The table below compares selected key data elements from these sources.

Comparison of Trustees' Reports Updated Estimates with the Financial Report Estimates

	Trustees' Report Estimates as of January 1, 2001	Financial Report Estimates as of January 1, 2000
First Year Expenditures Exceed Tax Revenue:		
Social Security (OASI and DI)	2016	2015
Federal Old-Age and Survivors Insurance (OASI)	2016	2016
Federal Disability Insurance (DI)	2008	2007
Federal Hospital Insurance (Medicare Part A)	2016	2010
Year Trust Fund Assets Are Exhausted:*		
Social Security	2038	2037
Federal Old-Age and Survivors Insurance	2040	2039
Federal Disability Insurance	2026	2023
Federal Hospital Insurance	2029	2025
Actuarial Deficit as a Percentage of Taxable Payroll Over the 75-Year Projection Period:		
Social Security	1.86%	1.89%
Federal Old-Age and Survivors Insurance	1.53%	1.53%
Federal Disability Insurance	0.33%	0.37%
Federal Hospital Insurance	1.97%	1.21%
Annual Deficit as a Percentage of Taxable Payroll for 2075:		
Social Security	6.05%	6.18%
Federal Old-Age and Survivors Insurance	5.33%	5.40%
Federal Disability Insurance	0.72%	0.78%
Federal Hospital Insurance	7.35%	3.28%
Present Value of Resources Needed Over the 75-Year Projection Period:		
Social Security	Not Reported	$3,845 billion
Federal Hospital Insurance	Not Reported	$2,699 billion

***** See page 59 for more information on how trust funds are financed.

The table above presents several key data elements that are indicators of the financial status of the Social Security and Medicare programs. The First Year Expenditures Exceed Tax Revenue represents the point at which the trust funds would have to start using interest income to make payments. Interest income is paid in the form of Treasury securities. In order to use the interest, the trust funds would have to redeem the securities. To finance redemption, the Government must raise taxes, borrow from the public, cut spending for other programs, or some combination thereof. The Year Trust Fund Assets Are Exhausted represents the point at which all trust fund assets (Treasury securities) have been redeemed. After this date, these respective programs will not have adequate resources to pay promised benefits or obligations in a timely manner. At these points in time, 2038 for Social Security (OASDI) and 2029 for Medicare HI, tax income is estimated to cover 73 percent and 68 percent of these programs' expenditures, respectively. The Actuarial Deficit as a Percentage of Taxable Payroll Over the 75-Year Projection period and the Annual Deficit for 2075 can be interpreted as the percentage that, if added to the current scheduled tax rates, would cover projected trust fund shortfalls for the respective period. The table presents the increases that would be needed in the payroll tax rates (1) over the 75-year period to keep the trust fund in balance, and (2) in year 2075 to cover projected cash shortfalls for that 1-year period. The Present Value of Resources

Needed Over the 75-Year Projection Period represents the discounted excess of projected cash expenditures (outflow) over cash income (inflow) during the 75-year projection period. This is the current amount of funds needed to cover projected shortfalls, excluding trust fund balances, over the 75-year period.

In the 2001 Trustees' Reports, the Trustees for the Social Security (OASDI) and Federal Hospital Insurance (Medicare Part A) programs reported near-term improvements in the financial status of these programs, yet they also cautioned that long-term sustainability issues need to be addressed. The updated projections have resulted in improved estimates for when the trust funds' expenditures are expected to exceed tax revenue and when the trust funds are projected to be exhausted. In particular, the Federal Hospital Insurance is projected to remain solvent until 2029, an improvement of 4 years over last year's report, reflecting both stronger-than-expected economic growth and lower-than-expected program costs due to several factors such as low increases in health care costs generally, and reduced utilization of skilled nursing facility services in 2000.

The overall improvement in the Social Security Trustees' estimates of the financial status of the Social Security program presented in the table above resulted primarily from changes in the demographic assumptions. The improvement resulting from these demographic changes was partially offset by the inclusion of year 2075 in the 75-year valuation period, because of the relatively large negative annual balance in that year. The demographic assumptions used in the Trustees' projections as of January 1, 2001, were based on more recent data. They included the following changes for early years of the projection period, each of which improved the long-range projections: (1) a higher birth rate, (2) a higher initial death rate that declines less in years through 2026 than previously estimated, and (3) a somewhat higher average age for emigrants from the United States.

The projections for the long-range sustainability of the Federal Hospital Insurance program both over the 75-year projection period and in year 2075 worsened dramatically since last year's report. Changes to the Federal Hospital Insurance actuarial estimates are primarily attributable to two factors: an increase in the long-term health care cost growth rate and changes in the hospital assumptions. Based on recommendations of the 2000 Medicare Technical Review Panel, the Medicare Trustees adopted a health care cost growth rate that assumes future per-beneficiary costs will grow at a rate 1 percentage point above per capita GDP growth for the last 50 years of the 75-year projection period. Previously, the projections were based on an assumption that in the long run, average per-beneficiary costs would increase at about the same rate as average hourly earnings. This change results in a substantially higher expenditure level in the later years of the projection period. The 2000 Medicare Technical Panel also recommended changes in the hospital assumptions, that would reflect an increase in the average complexity – and associated cost – of cases admitted to hospital – referred to as case mix. This change prompted an increase in the actuarial deficit that affects the first 25 years of the period.

Social Insurance

The social insurance programs were developed to carry out the responsibilities of the Government to its citizens. Because taxpayers rely on social insurance in their long term planning, social insurance programs should show their sustainability as currently constructed, and what their effect will be on the Government's financial condition. The resources needed to run these programs are raised through taxes and fees collections. Eligibility for benefits rest in part on earnings and time worked by the individuals. Social insurance programs sometimes are intentionally redistributed toward lower-wage workers. Finally social insurance programs have uniform sets of entitling events, and schedules that are applied to all participants.

United States Statement of Social Insurance

The table below presents several key data elements that are indicators of the status of the Social Security and Medicare programs. The present value of long-range actuarial projections are based on estimates of the range of persons who are participants or eventually will participate in the programs as contributors or beneficiaries during a projection period of time sufficient to illustrate the sustainability of the program. The projection includes, current workers, retirees, survivors, disabled persons not having attained retirement age, as well as the participants that have attained retirement age, and those expected to become new participants in the future.

United States Government Statement of Social Insurance
Present Value of Long-Range Actuarial Projections[1]

(In billions of dollars)	Contributions and Earmarked Taxes[2]	Benefit Payments[3]	Benefit Payments in Excess of Contributions and Earmarked Taxes
Participants Who Are Currently Receiving Benefits:			
Federal Old-Age, Survivors and Disability Insurance (Social Security)	266	4,020	3,754
Federal Hospital Insurance (Medicare Part A)	97	1,681	1,584
Federal Supplementary Medical Insurance (Medicare Part B)	234	1,051	817
Railroad retirement	2	27	25
Black Lung (Part C)[4]	8	4	(4)
Participants Who Are Not Currently Receiving Benefits:			
Federal Old-Age, Survivors and Disability Insurance (Social Security)	11,335	17,217	5,882
Federal Hospital Insurance (Medicare Part A)	3,757	6,702	2,945
Federal Supplementary Medical Insurance (Medicare Part B)	1,527	6,094	4,567
Railroad retirement	26	39	13
Future Participants: [5]			
Federal Old-Age, Survivors and Disability Insurance (Social Security)	10,088	4,297	(5,791)
Federal Hospital Insurance (Medicare Part A)	3,179	1,349	(1,830)
Federal Supplementary Medical Insurance (Medicare Part B)	404	1,514	1,110
Railroad retirement	40	10	(30)

	Valuation Period	Valuation Date	Net Present Value of Negative Cashflow [6]
Federal Old-Age, Survivors and Disability Insurance (Social Security)	1/1/2000 – 12/31/2074	1/1/2000	3,845
Federal Hospital Insurance (Medicare Part A)	1/1/2000 – 12/31/2074	1/1/2000	2,699
Federal Supplementary Medical Insurance (Medicare Part B)	1/1/2000 – 12/31/2074	1/1/2000	6,494
Railroad retirement	9/30/2000 – 12/31/2073	12/31/1998	8
Black Lung (Part C)	9/30/2000 – 9/30/2040	6/30/2000	(4)

The following notes are an integral part of this financial statement.

Notes to the Statement of Social Insurance

[1] Present values are computed on the basis of the economic and demographic assumptions believed most likely to occur (the intermediate assumptions) as set forth in the related trustees' reports.

[2] Contributions and earmarked taxes consist of payroll taxes from employers, employees, and self-employed persons; revenue from Federal income taxation of OASDI and railroad retirement benefits; monthly Medicare Part B premiums paid by, or on behalf of, beneficiaries; railroad work-hour tax; and excise tax on coal (Black Lung). Contributions and earmarked taxes for the Medicare Part B program presented in this report are presented on a consolidated perspective (interest payments and other intra-governmental transfers have been eliminated). HCFA's 2000 Annual Report presents income from the trust fund's perspective, not a Governmentwide perspective. Therefore, HCFA's Annual Report includes $6,494 billion for the present value of transfers from the general fund of the Treasury to the Medicare Part B Trust Fund that have been eliminated in this *Financial Report of the United States Government*.

[3] Benefit payments include administrative expenses.

[4] Black Lung disability benefits for current and future miners are not expected to be material.

[5] Includes births during the period.

[6] The net present value of negative cashflow is the current amount of funds needed to cover projected shortfalls, excluding trust fund balances, over the 75-year period. The trust fund balances at the beginning of the valuation period that were eliminated for this consolidation were: $896 billion - Social Security, $141 billion - Medicare Part A, $45 billion Medicare Part B, $17 billion – Railroad Retirement and Black Lung Trust Fund had a negative balance of $6.7 billion.

The projection period for new entrants covers the next 75 years for the Social Security and Medicare programs. The projection period for current participants (or "closed group") would theoretically cover all of their working and retirement years, a period that could be greater than 75 years in a few instances. As a practical matter, the present values of future payments and contributions for/from current participants beyond 75 years are not material.

The actuarial present value of the excess of future benefit payments to current participants (that is, to the "closed group" of participants) over future contributions and tax income from them or paid on their behalf is calculated by subtracting the actuarial present value of future contributions and tax income by and on behalf of current participants from the actuarial present value of the future benefit payments to them or on their behalf.

Program Sustainability

Social Security (OASDI)

The OASDI program does not meet the test of close actuarial balance over the full 75-year projection period. Under the intermediate assumptions (best estimates) of the Board of Trustees of the Federal OASDI trust funds, OASDI income from contributions on taxable earnings and from income taxes on benefits is expected to exceed total expenditures for this year and each of the next 14 calendar years. Starting in about 2010, however, OASDI costs, relative to taxable earnings, are expected to begin increasing rapidly as the "baby-boom" generation reaches retirement age. In contrast, the program's income from contributions payable on taxable earnings and income taxes on benefits will remain a relatively constant percentage of taxable payroll.

In view of the size of the financial shortfall in the OASDI program over the next 74 years, the Board of Trustees of the Federal OASDI Trust Funds urges that the long-range deficits of both the OASI and DI Trust Funds be addressed in a timely way.

Medicare

Medicare has generally been viewed as a program in greater financial difficulty than Social Security because it will combine the rising costs of health care over time with the increase in beneficiaries as baby boomers become eligible. The approach of the last two decades, seeking improvements in the efficiency and effectiveness of health care delivery, will continue to be an important contributor to Medicare's future. The challenge facing the future financing of this program is how we will as a society share the costs of health care for a much larger aging population.

The Medicare Part A program is substantially out of financial balance in the long range. Under the intermediate assumptions of the Board of Trustees of the Medicare Part A Trust Fund, income is projected to continue to moderately exceed expenditures for the next 17 years but to fall short by steadily increasing amounts in 2017 and later. The Medicare Part A program could be brought into actuarial balance over the next 25 years with relatively minor changes, such as either reducing outlays or increasing income by 4 percent immediately (or some combination of the two) throughout this 25-year period.

The long-range outlook, however, remains unfavorable, in large part as a result of the impending retirement of the baby boom generation. Over the full 75-year projection period, substantially greater changes in income and/or outlays are needed to bring the program into actuarial balance.

These projections indicate that without additional legislation, the fund would be exhausted in the future—initially producing payment delays, but very quickly leading to a curtailment of health care services to beneficiaries. In its 2000 annual report to Congress, the Board of Trustees of the Medicare Part A Trust Fund urges the Nation's policy makers to address the remaining financial imbalance facing the Medicare Part A Trust Fund by taking "further effective and decisive action, building on the strong steps taken in recent reforms." They also state "Consideration of further reforms should occur in the relatively near future."

The recent improvements in projected expenditures for Medicare Part B, while welcome, are not sufficiently large to diminish serious concerns with expenditure growth. The Board of Trustees of the Medicare Part B Trust Fund note that program costs have generally grown faster than the GDP and that this trend is expected to continue under present law. The projected increases are initially attributable in part to assumed continuing growth in the volume and intensity of services provided per beneficiary. Starting in 2010, the retirement of the post-World War II baby boom generation will also have a major influence on the growth in program costs.

Prior to the Balanced Budget Act of 1997, Medicare Part A Trust Fund assets were projected to be exhausted in the very near future. The urgency of this situation prompted considerable attention and led directly to the provisions in the Act to slow Medicare Part A expenditure growth. In contrast, the financing provisions for Medicare Part B prevent such crises. As a result, there has been substantially less attention directed toward the financial status of the Medicare Part B program than to the Medicare Part A program, even though Medicare Part B expenditures have increased faster than Medicare Part A expenditures in most years and are expected to continue to do so in the future.

Given the past and projected cost of the Medicare Part B program, the Board of Trustees of the Medicare Part B Trust Fund urges the Nation's policy makers to consider effective means of controlling Medicare Part B costs in the near term. For the longer term, legislative proposals need to be developed to address the large increases in Medicare Part B costs associated with the baby boom's retirement in partnership with Medicare Part A cost increases.

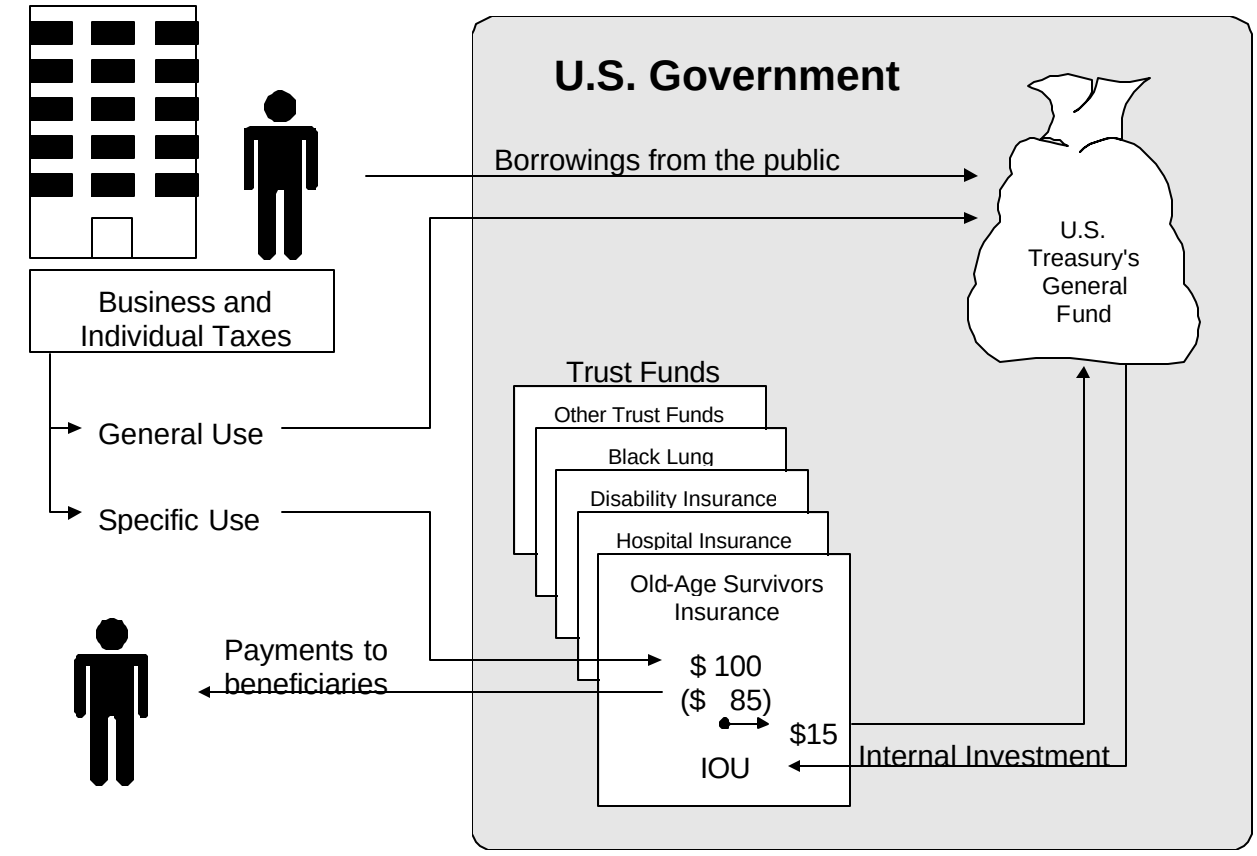
Railroad Retirement

The Railroad Retirement program is projected to have a slight negative cashflow on a consolidated basis that is expected to balance by 2065. This negative cash flow will be financed through the redemption of Treasury securities that resulted from past program surpluses. The long-term stability of the program, however, is still questionable. Under the current financing structure, actual levels of railroad employment over the coming years will largely determine whether corrective action is necessary.

Black Lung

The Black Lung Part C disability program's net present value of future benefit payments for the 40-year period ending September 30, 2040, is $3.5 billion. The net present value of future excise taxes for the 40-year period is $8.2 billion, which results in a $4.7 billion excess of excise taxes over benefit payments. These projections, made over the 40-year period ending September 30, 2040, indicate that cash inflows from excise taxes will exceed cash outflows for benefit payments and administrative expenses (excluding interest and principal payments on intra-governmental debt) for each period projected.

Trust Fund Financing



The Government collects taxes from business and individuals. Each type of tax collected is classified for "General use" or for "Specific use." The taxes collected for general use are included in the general fund and are used to fund the Government's operations.

The taxes collected for specific use are credited to the corresponding trust fund, which will use these funds to meet a particular Government purpose. The beneficiaries from these earmarked trust funds are paid directly from the balance of each of the corresponding trust funds. If the collections from taxes and other sources exceed outlays to the beneficiaries, the excess collections are invested, generally in Treasury securities, which means that the excess collections are "loaned" to the Treasury's general fund. The reason for this is that the trust funds generally are not permitted to hold the excess cash collected. Generally, all excess collections as well as interest earning must be invested by the trust funds in Treasury securities or Government-guaranteed securities. Therefore, the trust fund balances do not represent cash. These balances are the sum of all specific use collections plus interest and other receipts, less payments to beneficiaries over the life of the fund.

When payments to beneficiaries exceed receipts, the trust funds redeem a commensurate amount of their Federal debt securities holdings.

In addition to earmarked taxes, trust funds receive income from the interest earned on investments in Federal debt securities and, in some cases, from other sources as well.

Social Security

Congress passed the Social Security Act in 1935. The Act, as subsequently amended, includes programs that provide retirement and disability benefits. Congress established two trust funds for Social Security: The Federal Old-Age and Survivors Insurance (OASI) and the Federal Disability Insurance (DI) Trust Funds (combined as

OASDI). OASI pays retirement and survivors benefits and DI pays benefits to disabled workers. At the end of calendar year 1999, OASDI benefits were paid to approximately 45 million beneficiaries. Revenue to the combined OASDI funds consists primarily of taxes on earnings paid by employees, their employers, and the self-employed. OASDI also receives revenue from the income taxes on some Social Security benefits and interest on its investments in Treasury securities. Social Security revenues not needed to pay current benefits or administrative expenses are invested in special-issue Treasury securities. Eligibility and benefit amounts are determined under the laws applicable for the period. Current law bases the amount of the monthly benefit payments for workers, or their eligible dependents or survivors, on the workers' lifetime earnings histories.

The Board of Trustees of the OASI and DI Trust Funds provides in its annual report to the President and Congress short-range (10 year) and long-range (75 year) actuarial estimates of each trust fund. Because of the inherent uncertainty in estimates for 75 years into the future, the Board of Trustees uses three alternative sets of economic and demographic assumptions to show the range of possibilities. Assumptions are made about many economic and demographic factors, including gross domestic product, earnings, the CPI, the unemployment rate, the fertility rate, immigration, mortality, and disability incidence and terminations. The assumptions used in the accompanying tables, generally referred to as the "intermediate assumption," reflect the best estimate of expected future experience, under current law.

Cashflow Projections

The present values of actuarial estimates as shown in the following sections were computed as of January 1, 2000, the beginning of the valuation period. The actuarial estimated contributions equal the sum of the present value of all estimated non-interest income during the period. The actuarial estimated expenditures equal the sum of the present value of all estimated payments during the valuation period. These estimates were prepared using the financing method deemed the most appropriate by the Congress and the Board of Trustees. Estimates assume the program will cover future workers as they enter the labor force.

The primary receipts of OASDI are funds appropriated under permanent authority based on contributions payable by workers, their employers, and individuals with self-employment income. All contributions, or taxes, are collected by the IRS and deposited to the trust fund. Another source of income is interest received on the investments held by the trust funds, which is eliminated in this consolidated report. The primary expenditures are for OASDI benefit payments and for expenses related to administration of the OASDI programs.

Under current legislation and using intermediate assumptions, the DI and OASI Trust Funds are projected to be exhausted in 2023 and 2039, respectively. Combined OASDI expenditures will exceed current tax income beginning in 2015 and will exceed total current income (including current interest income) for calendar years 2025 and later. Thus, current tax income plus a portion of annual interest income will be needed to meet expenditures for the years 2015 through 2024. Thereafter, in addition to current tax income and current interest income, a portion of the principal (combined OASDI assets) will be needed each year until the trust fund assets are totally exhausted in 2037. At that point, current tax income will be sufficient to pay only approximately 72 percent of the benefits due.

Chart 1 shows actuarial estimates of combined OASDI annual income, income excluding interest, and expenditures for 1960-2074 in nominal dollars. The estimates are for the open group population, all persons projected to participate in the OASDI program as covered workers or beneficiaries, or both, during that period. Thus, the estimates include payments from, and on behalf of, workers who will enter covered employment during the period as well as those already in covered employment at the beginning of that period. These estimates also include expenditures made to, and on behalf of, such workers during that period.

Beginning in 2015, estimated expenditures start to exceed income, (excluding interest). This occurs because of a variety of factors, including the retirement of the baby boom generation, the relatively small number of people born during the subsequent period of low birth rates, and the projected increases in life expectancy, which increase the average number of years of receiving benefits relative to the average number of years of paying taxes. At that time, to meet all OASDI expenditures on a timely basis, the trust funds would begin to redeem assets (Treasury securities). To finance the expenditures that led to this redemption, the Government will need to raise taxes, borrow from the public, cut spending for other programs, change the laws under which the Social Security program provides benefits, or some combination thereof.

Chart 1—Estimated OASDI Income (Excluding Interest) and Expenditures 1960-2074

(In billions of dollars)

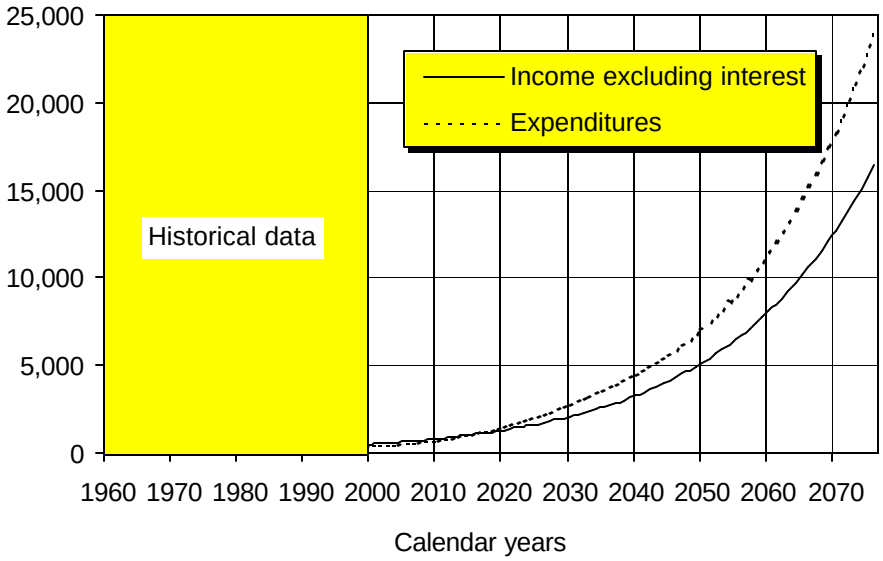


Chart 2 shows estimated annual income excluding interest and expenditures expressed as percentages of taxable payroll. As presently constructed, the program receives most of its income from the 6.2 percent payroll tax that employees and employers each pay on taxable wages and salaries (for a combined payroll tax rate of 12.4 percent of taxable payroll), and the 12.4 percent that is paid on taxable self-employment income. Because estimated annual income excluding interest consists primarily of payroll taxes, when expressed as a percentage of taxable payroll, it is close in magnitude to the OASDI payroll tax rate. The amount by which the income exceeds the tax rate reflects revenue transferred to the trust funds based on Federal income-taxation of OASDI benefits. When estimated expenditures are compared to income as percentages of taxable payroll, they necessarily reflect a similar pattern as when compared in current dollars. Whether expressed as percentages of taxable payroll or in current dollars, prior to 2015, estimated annual expenditures are less than estimated annual income, excluding interest, whereas thereafter they are more.

Chart 2—Estimated OASDI Income (Excluding Interest) and Expenditures as a Percentage of Taxable Payroll 1960-2074

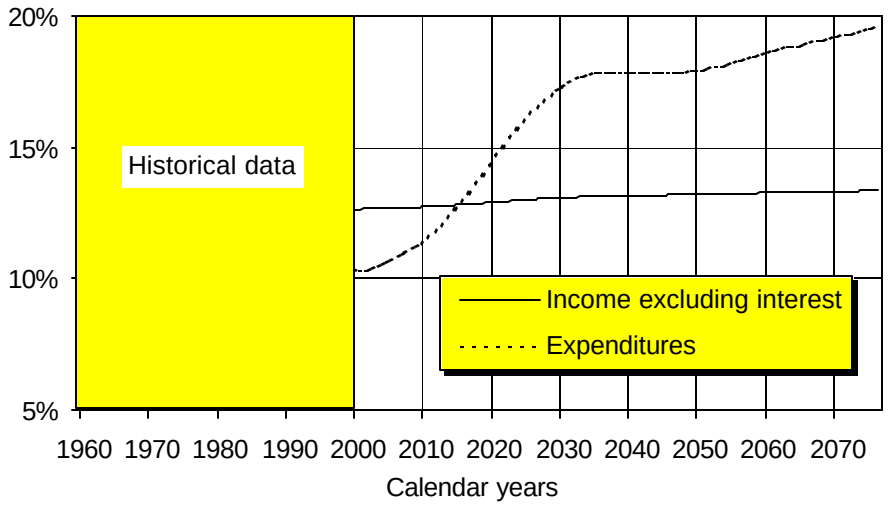
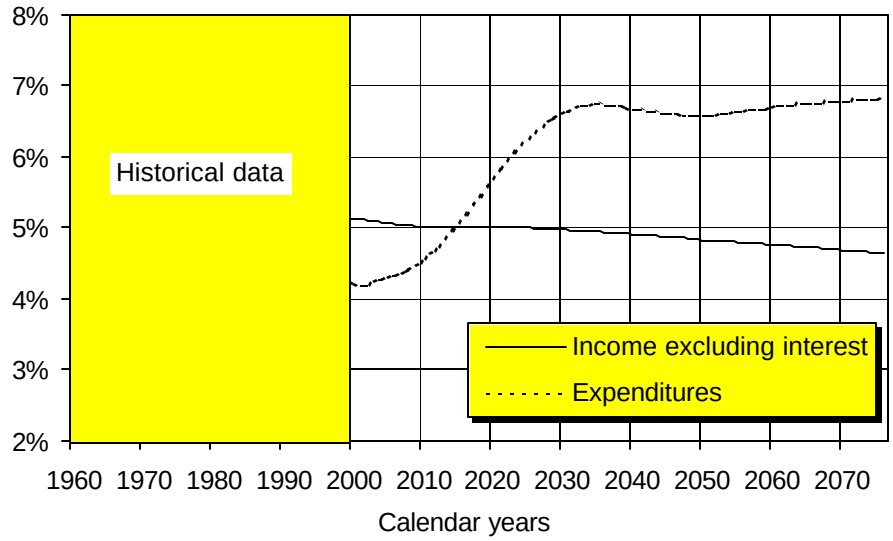


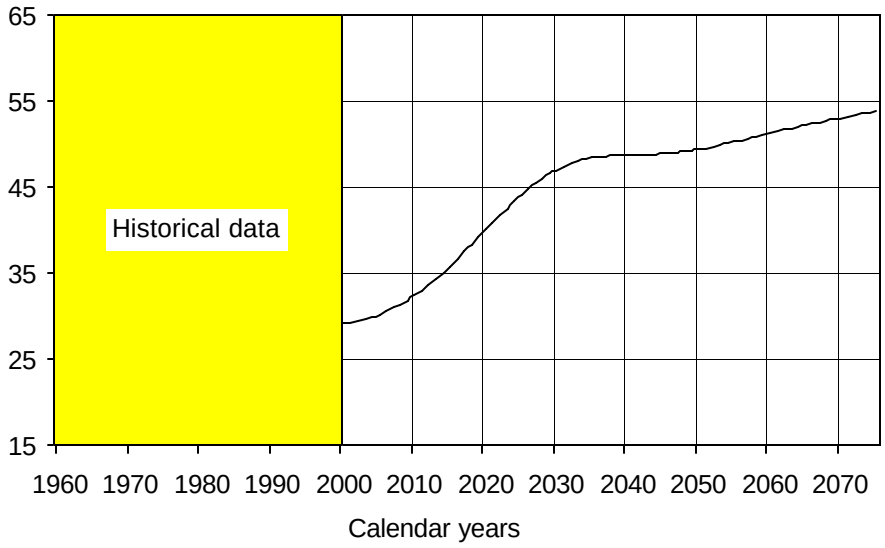
Chart 3 shows estimated annual income, excluding interest, and expenditures, expressed as percentages of GDP. Analyzing these cashflows in terms of percentage of the GDP, which represents the total value of goods and services produced in the United States, provides a measure of the size of the OASDI program in relation to the capacity of the national economy to sustain it.

Chart 3—Estimated OASDI Income (Excluding Interest) and Expenditures as a Percentage of GDP 1960-2074



As shown in Chart 4, there were about 30 OASDI beneficiaries for every 100 covered workers in 1998. As indicated, this ratio is expected to increase substantially in the future. The most rapid increase will occur as the relatively large number of persons born during the baby boom (from the end of World War II through the mid-1960s) reaches retirement age and begins to receive benefits. At the same time, the relatively small number of persons born during the subsequent period of low fertility rates will comprise the labor force. Between 2030 and 2050, the number of workers per beneficiary is estimated to remain relatively stable as the baby-boom generation diminishes in size. After 2050, this ratio is estimated to continue to increase at a slower pace, reflecting the increasing numbers of beneficiaries due to projected increases in life expectancy. Under the intermediate assumption, by the end of the 75-year projection period, the number of workers per beneficiary is projected to increase to 54 OASDI beneficiaries for every 100 covered workers.

Chart 4—Number of Beneficiaries per 100 Covered Workers 1960-2074



Actuarial Assumptions and Sensitivity Analysis

Actual future income from OASDI payroll taxes and other sources, and actual future expenditures for benefits and administrative expenses, will depend upon a large number of factors: the size and composition of the population that is receiving benefits, the level of monthly benefit amounts, the size and characteristics of the work force covered under OASDI, and the level of workers' earnings. These factors will depend in turn upon future marriage and divorce rates, birth rates, death rates, migration rates, labor force participation and unemployment rates, disability incidence and termination rates, retirement age patterns, productivity gains, wage increases, cost-of-living increases, and many other economic and demographic factors.

While it is reasonable to assume that actual trust fund experience will fall within the range defined by the three alternative sets of assumptions used in this report, no definite assurance can be given that this will occur because of the uncertainty inherent in projections of this type and length. In general, a greater degree of confidence can be placed in the assumptions and estimates for the earlier years than for the later years. Nonetheless, even for the earlier years, the estimates are only an indication of the expected trend and potential range of future program experience.

The assumptions vary, in most cases, from year to year during the first 5 to 30 years before reaching their ultimate values for the remainder of the 75-year projection period. The following table summarizes the ultimate values assumed for the key economic and demographic factors underlying the actuarial estimates shown in this report.

The following present value charts and amounts are presented for analysis of the major assumptions impacting estimates in OASDI future cashflows. Present value amounts attempt to demonstrate what future cashflow amounts would be if shown in today's dollars. This is done by discounting, or removing, the increase in these cashflows that is caused by interest, sometimes referred to as inflation. Even small changes in the estimated amount of future interest over the next 75 years has dramatic impact on present value calculations. Given the cashflow estimates between the high and low interest-rate assumptions, the present value of OASDI expenditures over income ranges from $5,618 billion to $2,755 billion using ultimate annual real interest rates of 2.2 percent to 3.7 percent, respectively, compared to $3,845 billion using the intermediate ultimate annual real interest rate of 3.0 percent. These interest rate assumptions do not impact the future cashflow in the OASDI program. If these charts were presented in nominal dollars they would reflect a pattern similar to the present value charts shown here.

Charts of cashflows with varying assumptions that have not been adjusted for interest, as well as other assumptions that are not expected to have a material impact on OASDI, can be found in Social Security's Performance and Accountability Report and on the web at www.ssa.gov/finance.

Social Security Intermediate Assumptions

Year	Total Fertility Rate[1]	Age-Sex-Adjusted Death Rate[2] (per 100,000, per year)	Period Life Expectancy at Birth[3]		Ultimate Net Annual Immigration (Persons per Year)	Real-Wage Differential[4] (Percentage Points)	Average Annual Percentage Change In:			Average Annual Interest Rate[7]
			Male	Female			Average Annual Wage in Covered Employment	CPI[5]	Real GDP[6]	
2000	2.05	796.3	73.9	79.6	900,000	1.5	4.6	3.1	3.5	6.7%
2005	2.03	767.0	74.7	80.0	900,000	1.0	4.2	3.3	2.0	6.2%
2010	2.01	744.2	75.4	80.4	900,000	1.0	4.3	3.3	2.1	6.3%
2020	1.97	692.7	76.4	81.1	900,000	1.0	4.3	3.3	1.7	6.3%
2030	1.95	640.6	77.4	82.0	900,000	1.0	4.3	3.3	1.7	6.3%
2040	1.95	594.8	78.3	82.7	900,000	1.0	4.3	3.3	1.7	6.3%
2050	1.95	554.5	79.1	83.5	900,000	1.0	4.3	3.3	1.7	6.3%
2060	1.95	518.7	79.9	84.1	900,000	1.0	4.3	3.3	1.7	6.3%
2070	1.95	486.9	80.7	84.8	900,000	1.0	4.3	3.3	1.7	6.6%

[1]The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period. The ultimate total fertility rate is assumed to be reached in 2024.

[2]The age-sex-adjusted death rate is the crude rate that would occur in the enumerated total population as of April 1, 1990, if that population were to experience the death rates by age and sex observed in, or assumed for, the selected year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

[3]The period life expectancy for any year is the average number of years of life remaining for a group of persons if that group were to experience the death rates by age observed in, or assumed for, the selected year. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

[4]The real-wage differential is the difference between the percentage increases, before rounding, in the average annual wage in covered employment, and the average annual Consumer Price Index (CPI).

[5]The CPI is the annual average value for the calendar year of the CPI for Urban Wage Earners and Clerical Workers (CPI-W).

[6]The real gross domestic product (GDP) is the value of total output of goods and services, expressed in 1996 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

[7]The average annual interest rate is the average of the nominal interest rates, which, in practice, are compounded semiannually, for special-issue Treasury obligations sold only to the trust funds in each of the 12 months of the year.

Death Rates

The assumptions regarding future death rates have the greatest impact on estimated future cashflows in the OASDI program. The following table shows the present values of the estimated OASDI expenditures in excess of income for the 75-year period, using various assumptions about future reductions in death rates. The analysis was developed by varying the percentage decrease assumed to occur during 1999-2074 in death rates by age, sex, and cause of death. The decreases assumed for this period, summarized as changes in the age-sex-adjusted death rate, are 18, 41, and 61 percent, where 41 percent is the intermediate assumption in the 2000 Trustees' Report. These assumptions do not apply uniformly to all ages. Some variation by age was assumed in recognition of historical patterns and to ensure that, in terms of the financial status of the OASDI program, estimates based on the summarized 18-percent and 61-percent reduction assumptions would be more optimistic and more pessimistic, respectively, than those based on the intermediate assumption.

As the following table demonstrates, if the reductions in death rate are changed from 41 percent, the Trustees' intermediate assumption, to 18 percent, meaning that people die younger, then the shortfall for the period of estimated OASDI income relative to expenditures would decrease to $2,701 billion from $3,845 billion; if the reductions are changed to 61 percent, meaning that people live longer, then the shortfall would increase to $5,146 billion.

Present Value of Estimated OASDI Expenditures in Excess of Income with Various Death Rate Assumptions Valuation Period: 2000-2074

Reduction in age-sex adjusted death rates	18 percent	41 percent	61 percent
Expenditures in excess of income (In billions of present-value dollars)	$2,701	$3,845	$5,146

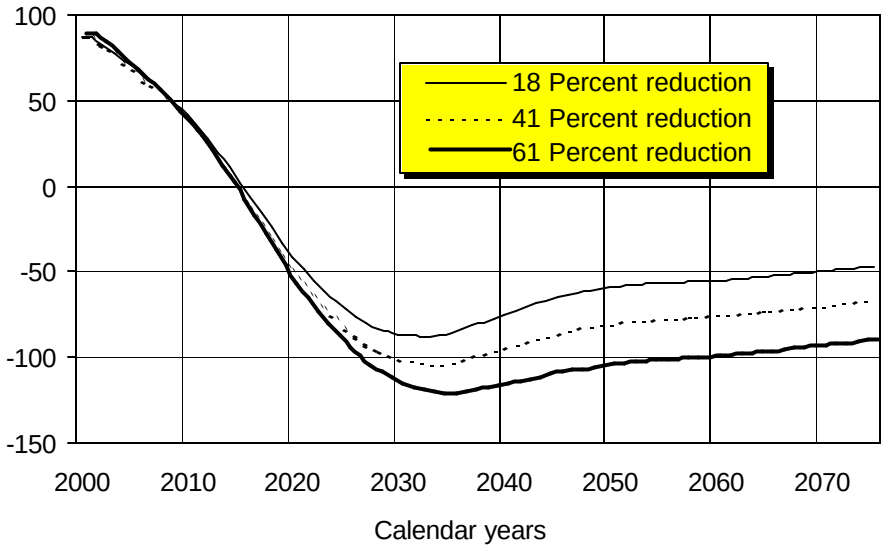
In the early years, relatively little difference is discernible among the estimates of annual net cashflow based on the three assumptions about the reduction in death rates. Thereafter, differences become more apparent. Because annual death rates resulting from the three assumptions diverge steadily with time, resulting estimated annual OASDI net cashflows do so, too.

Although lower death rates result in both higher income and higher expenditures, expenditures increase more than income. For any given year, reductions in death rates at the retirement eligibility age of 62 and older, which are the ages of highest death rates, increase the number of retired-worker beneficiaries (and, therefore, the amount of retirement benefits) without adding significantly to the number of covered workers (and, therefore, the amount of payroll taxes). Although reductions at age 50 to retirement eligibility age add significantly to the number of covered workers, the increased payroll tax income is not large enough to offset the additional retirement and disability benefits resulting from the increased number of people surviving to age 50 and over. At ages under 50, death rates are so low that even substantial reductions do not result in significant increases in either the number of covered workers or beneficiaries.

Chart 5 shows the present value of the estimated annual OASDI net cashflow using the death rate assumptions presented above. The three patterns of the present values shown in Chart 5 are similar. The present values decrease steadily through the early 2030s. They remain positive through 2015, 2014, and 2013 for assumptions of reductions of 18, 41, and 61 percent, respectively, and are negative thereafter. Present values based on all three assumptions begin to increase (become less negative) in the 2030s (2033, 2034, and 2035 for assumptions of reductions of 18, 41, and 61 percent, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time.

Chart 5—Present Value of Estimated OASDI Net Cashflow with Various Death Rate Assumptions 2000-2074

(In billions of dollars)



Real-Wage Differential

The following table shows the present values of the estimated excess of OASDI expenditures in excess of income for the 75-year period, using various assumptions about the ultimate real-wage differential. These assumptions are that the ultimate real-wage differential will be 0.5, 1.0, and 1.5 percentage points, where 1.0 percentage point is the intermediate assumption in the 2000 Trustees' Report. The real-wage differential is the difference between the percentage increases in (1) the average annual wage in OASDI covered employment and (2) the average annual CPI. In each case, the ultimate annual increase in the CPI is assumed to be 3.3 percent (as used in the intermediate assumptions), yielding ultimate percentage increases in the average annual wage in covered employment of 3.8, 4.3, and 4.8 percent, respectively.

As the following table demonstrates, if the ultimate real-wage differential is changed from 1.0 percentage point, the Trustees' intermediate assumption, to 0.5 percentage point, then the shortfall for the period of estimated OASDI income relative to expenditures would increase to $4,252 billion from $3,845 billion; if the ultimate real-wage differential was changed from 1.0 to 1.5 percentage points, then the shortfall would decrease to $3,263 billion.

Present Value of Estimated OASDI Expenditures in Excess of Income with Various Real-Wage Assumptions Valuation Period: 2000-2074

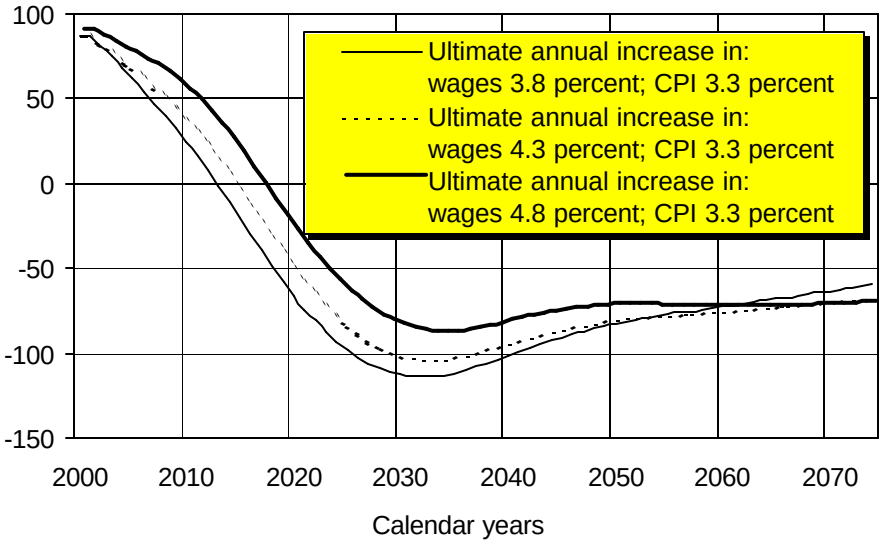
Ultimate percentage change in wages, CPI	3.8% - 3.3%	4.3% - 3.3%	4.8% - 3.3%
Expenditures in excess of income (In billions of present-value dollars)	$4,252	$3,845	$3,263

Differences among the estimates of annual net cashflow based on the three assumptions about the ultimate real-wage differential become apparent early in the projection period. Higher real-wage differentials increase both wages and initial benefit levels. Because the effects on wages and, therefore, on payroll taxes are immediate, while the effects on benefits occur with a substantial lag, annual net cashflow is higher (less negative in later years) for higher assumed real-wage differentials. In the early years, when the effects on benefits are quite small while the effects on wages are compounding, the patterns of the estimates of annual net cashflow based on the three assumptions diverge fairly rapidly.

Chart 6 shows the present value of the estimated annual OASDI net cashflow using the same assumptions about the ultimate real-wage differential shown above. The three patterns of the present values shown in Chart 6 are similar. The present values decrease steadily through the early 2030s. They remain positive through 2012, 2014, and 2016 for assumed ultimate real-wage differentials of 0.5, 1.0, and 1.5 percentage points, respectively. Thereafter, they are negative. Present values based on all three assumptions begin to increase (become less negative) in the 2030s (2033, 2034, and 2035 for assumed ultimate real-wage differentials of 0.5, 1.0, and 1.5 percentage points, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time.

Chart 6—Present Value of Estimated OASDI Net Cashflow with Various Real-Wage Assumptions 2000-2074

(In billions of dollars)



Total Fertility Rate

The following table shows the present value of the estimated excess of OASDI expenditures over income for the 75-year period, using various assumptions about the ultimate total fertility rate. These assumptions are 1.7, 1.95, and 2.2 children per woman, where 1.95 is the intermediate assumption in the 2000 Trustees' Report. The total fertility rate is assumed to change gradually from its current level and to reach the selected ultimate value in 2024.

As the following table demonstrates, if the ultimate total fertility rate is changed from 1.95 children per woman, the Trustees' intermediate assumption, to 1.7, then the shortfall for the period of estimated OASDI income relative to expenditures would increase to $4,252 billion from $3,845 billion; if the ultimate total fertility rate was changed to 2.2, then the shortfall would decrease to $3,437 billion.

Present Value of Estimated OASDI Expenditures in Excess of Income with Various Ultimate Total Fertility Rate Assumptions Valuation Period: 2000-2074

Ultimate total fertility rate (children per woman)	1.7	1.95	2.2
Expenditures in excess of income (In billions of present-value dollars)	$4,252	$3,845	$3,437

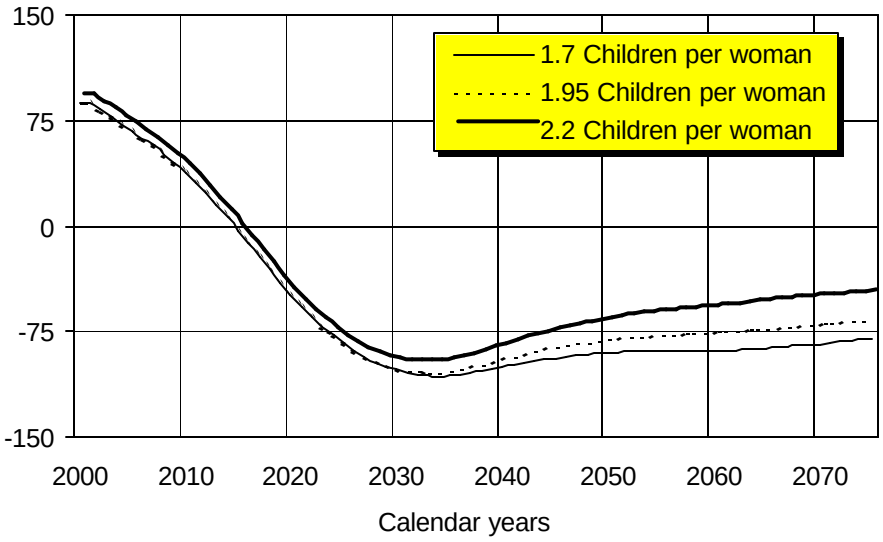
Very little difference is discernible among the estimates of annual net cashflow based on the three ultimate total fertility rates throughout this period. In particular, it is difficult to discern from Chart 7 that annual net cashflow

based on higher fertility rates is lower in the early years, although higher thereafter. In the early years, more births are assumed to result in fewer women in the labor force and more children receiving OASDI benefits. Thus, in the early years, higher fertility rates result in both reduced payroll taxes and increased benefits and, therefore, lower net cashflow. As the larger birth cohorts age and enter the labor force, however, the effect on payroll taxes gradually changes from a reduction to a net increase. By 2027 and for all years thereafter, increased payroll taxes more than offset increased benefits. Thus, from that year on, annual net cashflow based on higher fertility rates is higher (less negative) than annual net cashflow based on lower fertility rates.

Chart 7 shows the present value of the estimated annual OASDI net cashflow using the same assumptions about the total fertility rate shown above. The present values decrease steadily through the early 2030s. They remain positive through 2014 and are negative thereafter. Present values based on all three ultimate total fertility rates begin to increase (become less negative) in the 2030s (2035 for 1.7 and 2034 for the others). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For example, based on all three ultimate total fertility rates, it would take less of an investment today to cover the annual deficit in 2035 than it would to cover the annual deficit in 2034.

Chart 7—Present Value of Estimated OASDI Net Cashflow with Various Ultimate Total Fertility Rate Assumptions 2000-2074

(In billions of dollars)



Consumer Price Index

The following table shows the present values of the estimated excess of OASDI expenditures over income for the 75-year period, using various assumptions about the ultimate rate of change in the CPI. These assumptions are that the ultimate annual increase in the CPI will be 2.3, 3.3, and 4.3 percent, where 3.3 percent is the intermediate assumption in the 2000 Trustees' Report. In each case, the ultimate real-wage differential is assumed to be 1.0 percentage point (as used in the intermediate assumptions), yielding ultimate percentage increases in average annual wages in covered employment of 3.3, 4.3, and 5.3 percent, respectively.

As the following table demonstrates, if the ultimate annual increase in the CPI is changed from 3.3 percent, the Trustees' intermediate assumption, to 2.3 percent, then the shortfall for the period of estimated OASDI income relative to expenditures would increase to $4,148 billion from $3,845 billion; if the ultimate annual increase in the CPI was changed to 4.3 percent, then the shortfall would decrease to $3,530 billion. This seemingly counter-intuitive result—that higher CPI increases result in decreased shortfalls, and vice versa—occurs because varying CPI increases while retaining the same annual real-wage differentials affect earnings (and, therefore, taxes) sooner than benefits (and, therefore, expenditures). See the discussion below for a more complete explanation.

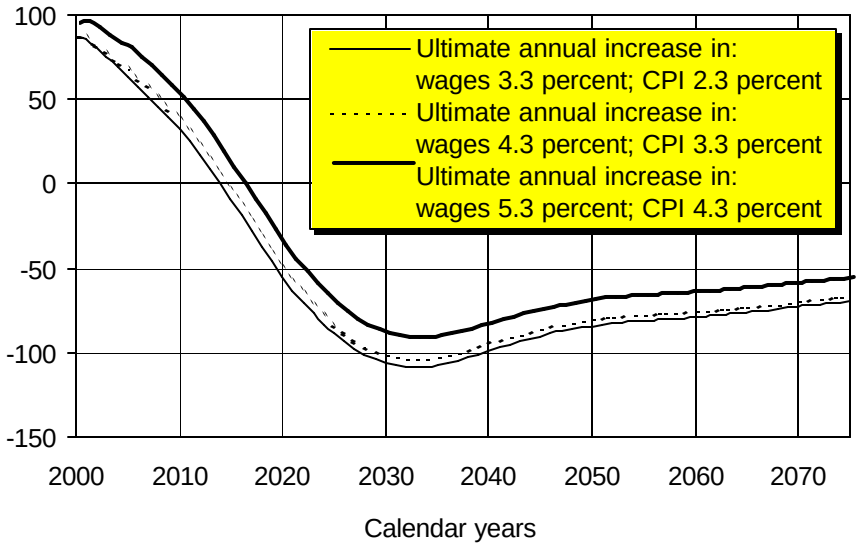
Present Value of Estimated OASDI Expenditures in Excess of Income with Various CPI-Increase Assumptions Valuation Period: 2000-2074			
Ultimate percentage change in wages, CPI	3.3% - 2.3%	4.3% - 3.3%	5.3% - 4.3%
Expenditures in excess of income (In billions of present-value dollars)	$4,148	$3,845	$3,530

Theoretically, if expenditures were increased each year by the same percentage as income, the magnitude of annual net cashflow would increase—positive annual net cashflow would become more positive, and negative annual net cashflow would become more negative. Also, if positive net cashflow were followed by negative net cashflow (or vice versa), the year in which the annual net cashflow would cross zero would be unaffected by altering the assumed rate of change in the CPI. As a result, the patterns would cross each other at that time.

In practice, however, larger increases in the CPI cause income to increase sooner, and thus by more in each year, than expenditures. The effect on wages and payroll taxes occurs immediately, but the effect on benefits occurs with a lag. Thus, the theoretical results described above are shifted by the relatively large effect on income—positive annual net cashflow is even more positive, and negative annual net cashflow is less negative or becomes positive. Chart 8 shows the present value of the estimated annual OASDI net cashflow using the same assumptions about the ultimate annual increase in the CPI shown above. The present values decrease steadily through 2033 before beginning to increase. They remain positive through 2014 (2015 for assumed ultimate annual increase in the CPI of 4.3 percent) and are negative thereafter. Present values based on all three assumptions begin to increase (become less negative) in 2034. Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time.

Chart 8—Present Value of Estimated OASDI Net Cashflow with Various Consumer Price Index Assumptions 2000-2074

(In billions of dollars)



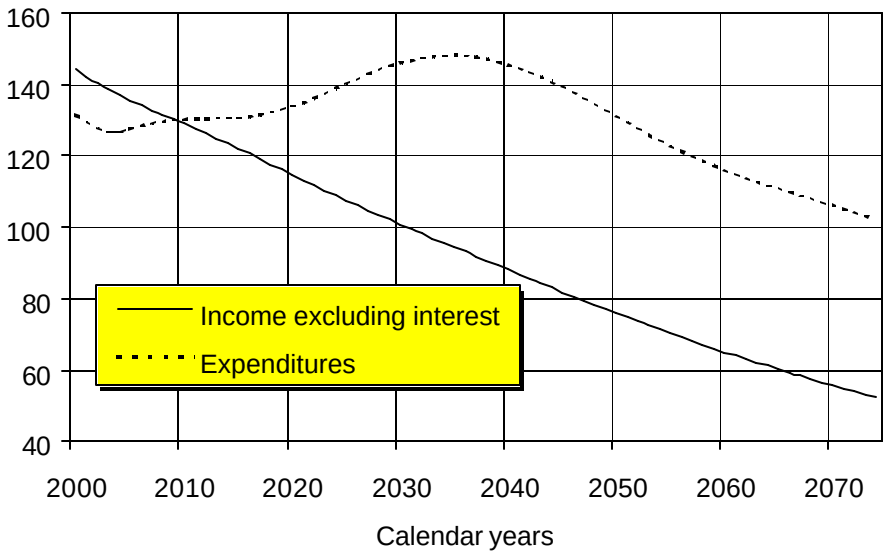
Hospital Insurance Medicare Part A

Federal Hospital Insurance (Medicare Part A) Trust Fund revenue consists primarily of taxes on earnings paid by employees, their employers, and the self-employed. The Fund also receives revenue from part of the taxation of Social Security benefits and from interest on its investments in Treasury securities. Revenues not needed to pay current benefits of the Medicare Part A program or administrative expenses are invested in special issue Treasury securities.

The present values of actuarial estimates were computed as of the beginning of the valuation period, January 1, 2000. The contributions consist of the sum of the present value of various program income items expected to be received through fiscal 2074. The expenditure consists of the sum of the present value of estimated payments through fiscal 2074, claims incurred through September 30, 2000, that were unpaid as of that date, and administrative expenses related to those claims. Under intermediate assumptions from the 2000 Trustees' Report, and based on current legislation in place, the fund is projected to be exhausted in calendar year 2025.

Chart 9¾ Present Value of Estimated Medicare Part A Income (Excluding Interest) and Expenditures 2000-2074

(In billions of dollars)

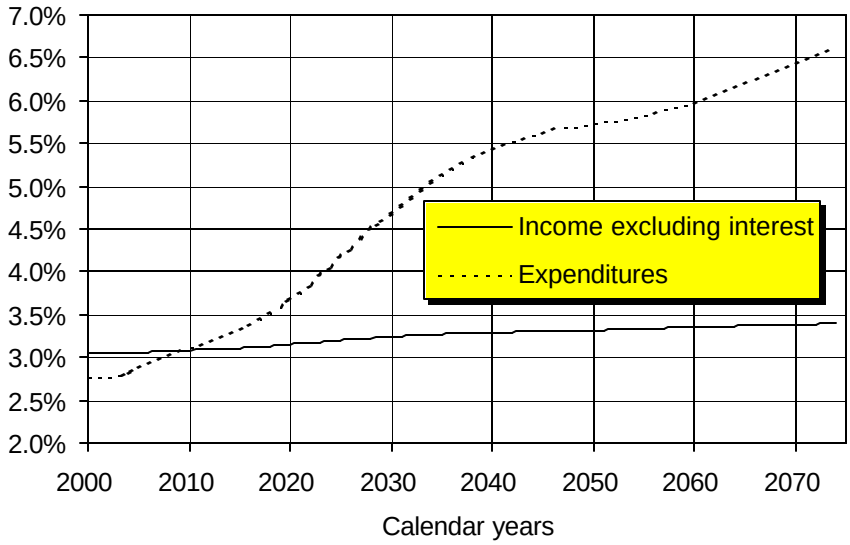


Medicare Part A Cashflow as a Percent of Taxable Payroll

Each year, estimates of the financial and actuarial status of the Medicare Part A program are prepared for the next 75 years. Because of the difficulty in comparing dollar values for different periods without some type of relative scale, income and expenditure amounts are shown relative to the earnings in covered employment that are taxable under the Medicare Part A program (referred to as "taxable payroll").

Chart 10 illustrates income excluding interest and expenditures as a percent of taxable payroll over the next 75 years. Although the long-range financial outlook for the Medicare Part A program has improved substantially in recent years as a result of the Balanced Budget Act of 1997, favorable economic conditions, and efforts to curb fraud and abuse, the program remains seriously underfunded through 2074. This is due in part to health care cost increases that exceed wage growth; a more significant cause, however, is the impending retirement of those born during the 1945-1965 baby boom.

Chart 10¾ Estimated Medicare Part A Income (Excluding Interest) and Expenditures as a Percentage of Taxable Payroll 2000-2074

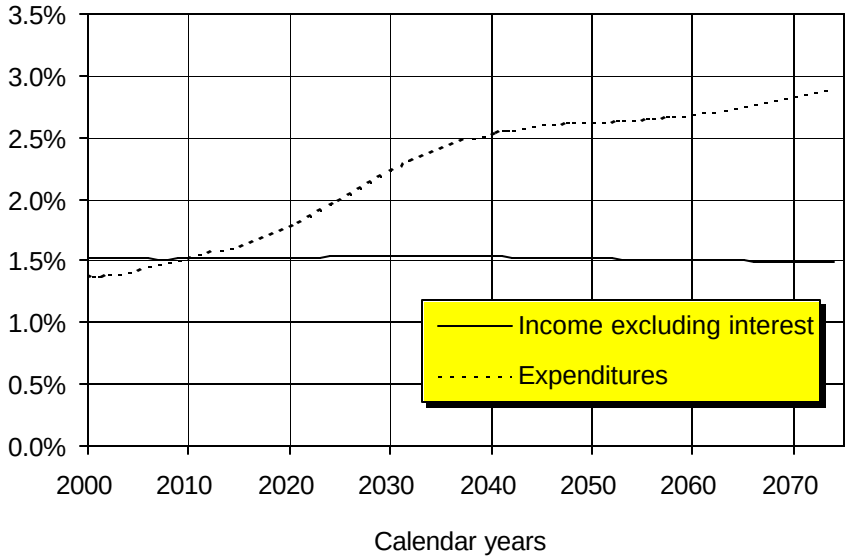


Medicare Part A and Supplementary Medical Insurance (Medicare Part B) Cashflow as a Percent of Gross Domestic Product (GDP)

Expressing Medicare incurred disbursements as a percentage of GDP gives a relative measure of the size of the Medicare program compared to the general economy. GDP represents the total value of goods and services produced in the United States. This measure provides an idea of the relative financial resources that will be necessary to pay for Medicare services.

Chart 11 shows income excluding interest and expenditures for the Medicare Part A program over the next 75 years expressed as a percentage of GDP. In 1999, the expenditures were $131.4 billion, which was 1.40 percent of GDP. This percentage increases steadily throughout the entire 75-year period.

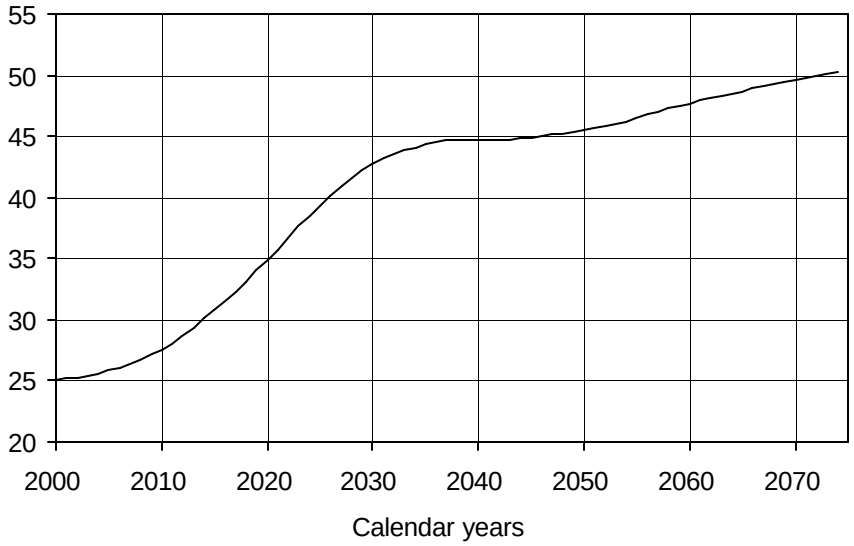
Chart 11¾ Estimated Medicare Part A Income (Excluding Interest) and Expenditures as a Percent of GDP 2000-2074



Worker-to-Beneficiary Ratio

Another way to evaluate the long-range outlook of the Medicare Part A program is to examine the projected number of Medicare Part A beneficiaries per 100 covered workers. Chart 12 illustrates this ratio over the next 75 years. For the most part, current benefits are paid for by current workers. The retirement of the baby boom generation will therefore be financed by the relatively smaller number of persons born after the baby boom. In 1999, a group of 100 workers provided benefits for 25 beneficiaries. In 2030, however, after the last baby boomer turns 65, a group of 100 workers will provide benefits to 43 beneficiaries. The projected ratio continues to increase until there are 50 beneficiaries per 100 workers in 2074.

Chart 12¾ Number of Medicare Part A Beneficiaries per 100 Covered Workers 2000-2074



Actuarial Assumptions and Sensitivity Analysis

In order to make projections regarding the future financial status of the Medicare Part A and Medicare Part B programs, various assumptions have to be made. First and foremost, the estimates presented here are based on the assumption that the programs will continue under present law. In addition, the estimates depend on many economic and demographic assumptions, including changes in wages and the CPI, fertility rates, immigration rates, and interest rates. In most cases, these assumptions vary from year to year during the first 5 to 30 years before reaching their ultimate values for the remainder of the 75-year projection period.

The following chart and amounts are presented for analysis of the major assumptions impacting estimates in Medicare's future cashflows. Present value amounts attempt to demonstrate what future cashflow amounts would be if shown in today's dollars. This is done by discounting, or removing, the increase in these cashflows that is caused by interest, sometimes referred to as inflation. Even small changes in the estimated amount of future interest over the next 75 years has dramatic impact on present value calculations. Given the cashflow assumptions between the highest and lowest expected interest assumptions, the present value of Medicare Part A expenditures over income ranges from $3,847 billion to $1,917 billion using interest rates of 2.2 percent to 3.7 percent, respectively.

Charts of cashflows with varying assumptions that have not been adjusted for interest as well as other assumptions that are not expected to have a material impact on Medicare can be found in the Health Care Financing Administration's (HCFA's) Performance and Accountability Report and on the web at www.hcfa.gov.

The following table shows some of the underlying assumptions used in the projections of Medicare spending displayed in this report. Further details on these assumptions are available in the OASDI, Medicare Part A, and Medicare Part B Trustees' Reports for 2000.

Medicare Intermediate Assumptions

Year	Fertility Rate[1]	Net Immigration	Real Wage Differential[2]	Annual Percentage Change in: Wages	CPI	GDP	Real Interest Rate[3]
2000	2.05	900,000	1.5	4.6	3.1	3.5	3.6
2005	2.03	900,000	1.0	4.2	3.3	2.0	2.9
2010	2.01	900,000	1.0	4.3	3.3	2.1	3.0
2020	1.97	900,000	1.0	4.3	3.3	1.7	3.0
2030	1.95	900,000	1.0	4.3	3.3	1.7	3.0
2040	1.95	900,000	1.0	4.3	3.3	1.7	3.0
2050	1.95	900,000	1.0	4.3	3.3	1.7	3.0
2060	1.95	900,000	1.0	4.3	3.3	1.7	3.0
2070	1.95	900,000	1.0	4.3	3.3	1.7	3.0

[1] Average number of children per woman.
[2] Difference between percentage increase in wages and the CPI.
[3] Average rate of interest earned on new trust fund securities, above and beyond rate of inflation.

Estimates made in prior years have sometimes changed substantially because of revisions to the assumptions, which are due either to changed conditions or to more recent experience. Furthermore, it is important to recognize that actual conditions are very likely to differ from the projections presented here, since the future cannot be anticipated with certainty. In order to illustrate the magnitude of the sensitivity of the long-range projections, four of the key assumptions were varied individually to determine the impact on the Medicare Part A actuarial present values and net cashflow. The assumptions that were varied are health care cost factors, the fertility rate, and real-wage differential.

The sensitivity of the projected Medicare Part A net cashflow to variations in future mortality rates is also of interest. At this time, however, relatively little is known about the relationship between improvements in life expectancy and the associated changes in health status and per-beneficiary health expenditures. As a result, it is not possible at present to prepare meaningful estimates of the Medicare Part A mortality sensitivity. HCFA is sponsoring a current research effort that is expected to provide the information necessary to produce such estimates.

For this analysis, the intermediate economic and demographic assumptions in the *2000 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund* are used as the reference point. Each selected assumption is varied individually to produce three scenarios. All present values are calculated as of January 1, 2000, and are based on estimates of income and expenditures during the 75-year projection period.

Health Care Costs

The following table shows the net present value of cashflow during the 75-year projection period under three alternative assumptions of the annual growth rate in the aggregate cost of providing covered health care services to beneficiaries. These assumptions are that the ultimate annual growth rate in such costs, relative to taxable payroll, will be 1 percent slower than the intermediate assumptions, the same as the intermediate assumptions, and 1 percent faster than the intermediate assumptions. In each case, the taxable payroll will be the same as that which was assumed for the intermediate assumptions.

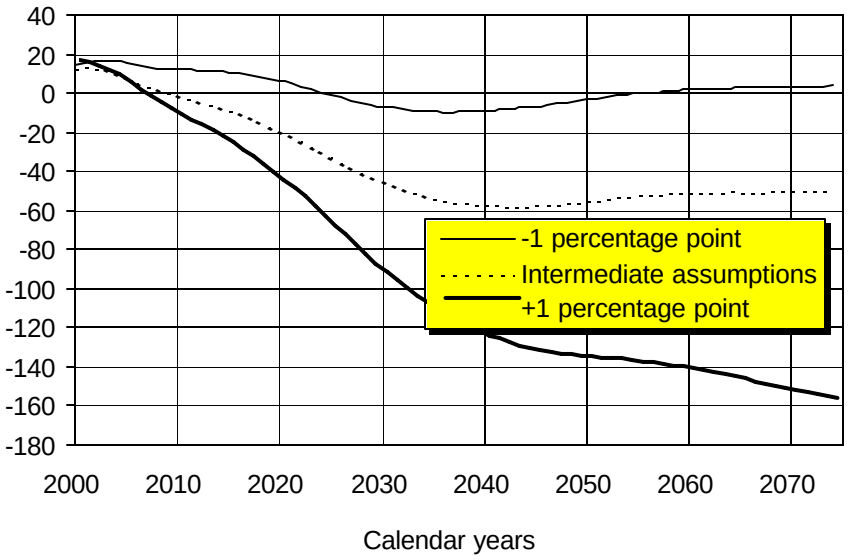
Present Value of Estimated Medicare Part A Expenditures in Excess of Income under Various Health Care Cost Assumptions			
Annual cost/payroll relative growth rate	-1 percentage point	Intermediate assumptions	+1 percentage point
Expenditures in excess of income (In billions of present-value dollars)	-$129	$2,700	$7,236

The above table demonstrates that if the ultimate growth rate assumption is 1 percentage point lower than the intermediate assumptions, the deficit of income over expenditures actually becomes a surplus of $129 billion. On the other hand, if the ultimate growth rate assumption is 1 percentage point higher than the intermediate assumptions, the deficit increases substantially to $7,236 billion.

Chart 13 shows projections of the net cashflow under the three alternative annual growth rate assumptions presented above.

Chart 13—Present Value of Estimated Medicare Part A Net Cashflow with Various Health Care Cost Assumptions 2000–2074

(In billions of dollars)



This assumption has a dramatic impact on projected Medicare Part A cashflow. The assumptions analyzed thus far have affected Medicare Part A income and costs simultaneously. However, several factors, such as the utilization of services by beneficiaries or the relative complexity of services provided, can affect costs without affecting tax income. As Chart 13 indicates, the financial status of the Medicare Part A program is extremely sensitive to the relative growth rates for health care service costs versus taxable payroll.

Fertility Rate

The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period. The table below shows the net present value of cashflow during the 75-year projection period under three alternative ultimate fertility rate assumptions: 1.7, 1.95, and 2.2 children per woman.

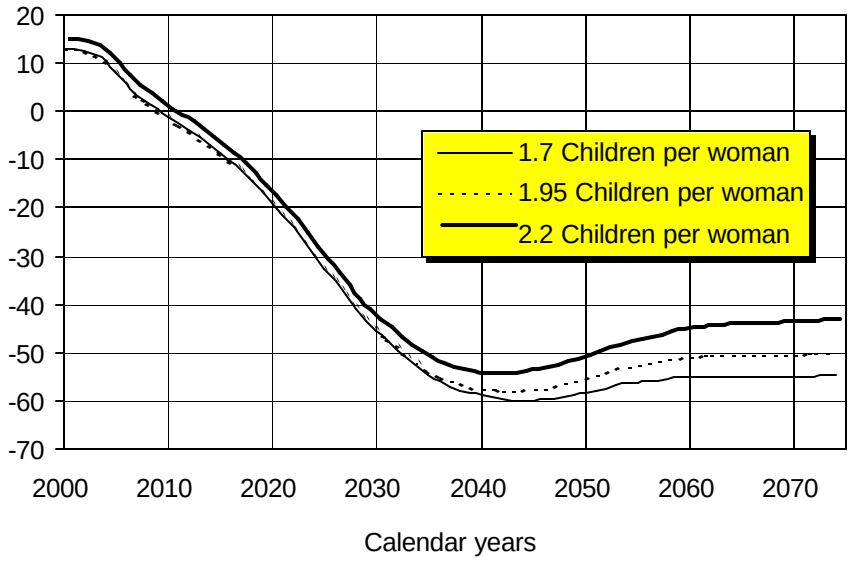
Present Value of Estimated Medicare Part A Expenditures in Excess of Income under Various Fertility Rate Assumptions			
Ultimate fertility rate	1.7	1.95	2.2
Expenditures in excess of income (In billions of present-value dollars)	$2,830	$2,700	$2,575

The table above demonstrates that if the assumed ultimate fertility rate is decreased from 1.95 to 1.7, the projected deficit of income over expenditures increases from $2,700 billion to $2,830 billion. On the other hand, if the ultimate fertility rate is increased from 1.95 to 2.2 children per woman, the deficit decreases to $2,575 billion.

Chart 14 shows projections of the net cashflow under the three alternative fertility rate assumptions presented above.

Chart 14¾ Present Value of Estimated Medicare Part A Net Cashflow with Various Ultimate Fertility Rate Assumptions 2000-2074

(In billions of dollars)



As the first 25 years of Chart 14 indicate, the fertility rate assumption has only a negligible impact on projected Medicare Part A cashflows. This result is because higher fertility in the first year only affects the labor force after roughly 20 years (increasing Medicare Part A payroll taxes slightly) and has virtually no impact on the number of beneficiaries within this period. However, after that period the changes are somewhat greater.

Real-Wage Differential

The following table shows the net present value of cashflow during the 75-year projection period under three alternative ultimate real-wage differential assumptions: 0.5, 1.0, and 1.5 percentage points. In each case, the CPI is assumed to be 3.3 percent, yielding ultimate percentage increases in average annual wages in covered employment of 3.8, 4.3, and 4.8 percent, respectively.

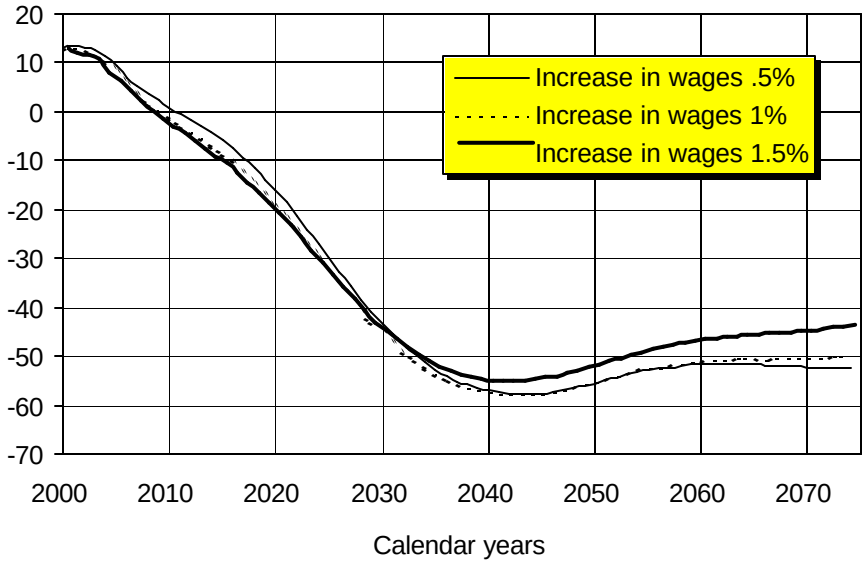
Present Value of Estimated Medicare Part A Expenditures in Excess of Income under Various Real-Wage Assumptions			
Ultimate percentage increase in wages - CPI	3.8 - 3.3	4.3 - 3.3	4.8 - 3.3
Ultimate percentage increase in real-wage differential	0.5	1.0	1.5
Expenditures in excess of income (In billions of present value dollars)	$2,745	$2,700	$2,646

The above table demonstrates that if the ultimate real-wage differential assumption is decreased from 1.0 percentage point to 0.5 percentage point, the deficit of income over expenditures increases from $2,700 billion to $2,745 billion. On the other hand, if the ultimate real-wage differential assumption is increased from 1.0 percentage point to 1.5 percentage points, the deficit decreases to $2,646 billion.

Chart 15 shows projections of the net cashflow under the three alternative real-wage differential assumptions presented below.

Chart 15¾ Present Value of Estimated Medicare Part A Net Cashflow with Various Real-Wage Assumptions 2000-2074

(In billions of dollars)



As Chart 15 indicates, this assumption has a fairly large impact on projected Medicare Part A cashflow very early in the projection period. Higher real-wage differential assumptions immediately increase both Medicare Part A expenditures for health care and wages for all workers. Though there is a full effect on wages and payroll taxes, the effect on benefits is only partial, since not all health care costs are wage-related.

Federal Supplementary Medical Insurance Medicare Part B

The Medicare Part B program differs fundamentally from the Medicare Part A program in regard to the way it is financed. In particular, Medicare Part B financing is not at all based on payroll taxes but instead on monthly

premiums and income from the general fund of the U.S. Treasury. General fund transfers account for approximately 75 percent of the Medicare Part B Trust Fund's income.

Since the income to the Medicare Part B Trust Fund from beneficiary premiums and the general fund is adjusted annually to match expected costs, the trust fund is always in actuarial balance. By law, Medicare Part B income and expenditures will continue to be virtually the same. But as shown in the trust fund illustration on page 59, transfers from the general fund of the U.S. Treasury draw from the same resources as any other social insurance program that is experiencing a negative cashflow. Moreover, the general fund transfers occur from one account of the Federal Government to another and do not represent an external, earmarked source of tax or other revenue. Therefore, for the purposes of this report, with the objective of presenting the financial operations of these programs from a Governmentwide consolidated perspective, transfers from the general fund of the Treasury are excluded. This is the same reason that interest earned on Treasury securities is eliminated for this and all other social insurance programs—again, because such payments represent intragovernmental transfers.

The elimination of this major revenue source to the Medicare Part B Trust Fund produces information that appears to be significantly different from that presented in HCFA's Annual Performance and Accountability Report, as well as the annual Trustees' Report on the Medicare Part B Trust Fund. From the perspective of the financial status of the Medicare Part B Trust Fund (as shown in the HCFA financial statement and the Trustees' report), it is appropriate to consider all sources of income to the fund. Thus, the accounting treatment of Medicare Part B general revenues (and trust fund interest earnings) appropriately varies depending on whether an overall consolidated or trust fund perspective is shown.

Chart 16 shows the actuarial estimates of Medicare Part B premiums and disbursements for each of the next 75 years, in nominal dollars. Income includes monthly premiums paid by, or on behalf of, beneficiaries. Disbursements include benefit payments as well as administrative expenses.

Estimated Medicare Part B Premiums and Expenditures

Chart 16¾ Medicare Part B Income, Premiums, and Expenditures 2000-2074

(In billions of dollars)

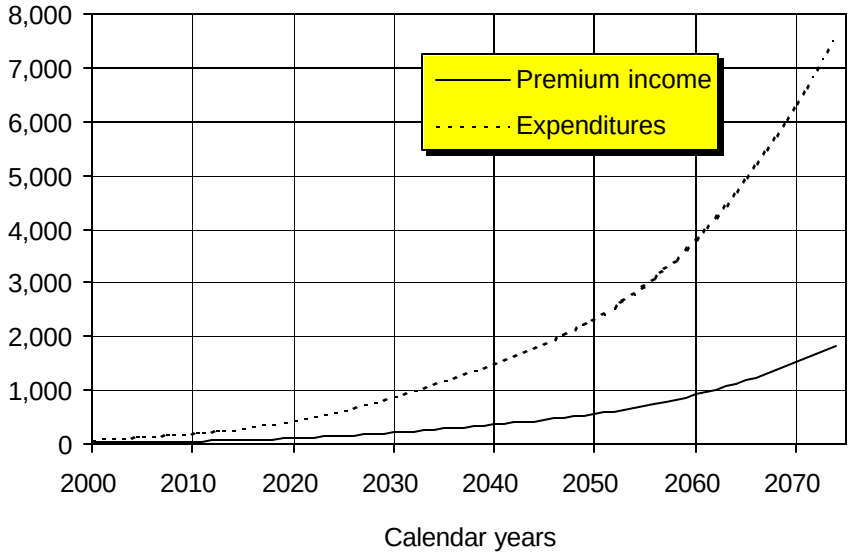
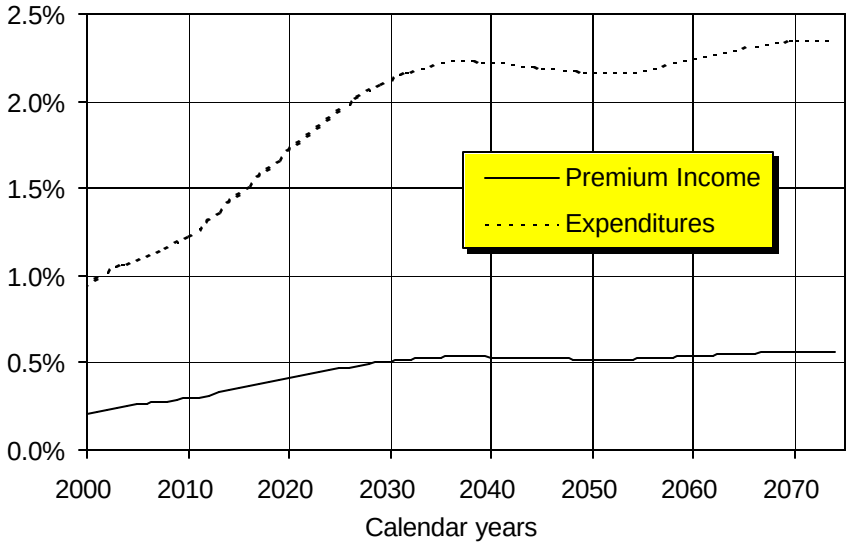


Chart 17 shows expenditures for the Medicare Part B program over the next 75 years expressed as a percentage of GDP. In 1999, Medicare Part B expenditures were $80.5 billion, which was 0.89 percent of GDP. This percentage is projected to increase steadily through 2035, reflecting growth in the price, utilization, and intensity of Medicare Part B services that is expected to exceed GDP growth for many years, together with the effects of the baby boom retirement. After 2035 it levels off because Medicare Part B projections by assumption are tied directly to GDP and because the relatively fewer number of persons born after the baby boom will be eligible for Medicare Part B benefits. Medicare Part B premium increases during the initial 25-year period are assumed to gradually decline in

the last 12 years to the same rate as GDP per capita and then to continue at the same rate as GDP per capita in the last 50 years.

Chart 17¾ Estimated Medicare Part B Premiums and Expenditures as a Percent of GDP 2000-2074



Actuarial Assumptions and Sensitivity Analysis

The Medicare Part B program's actuarial assumptions are the same as those used in Medicare Part A, presented on page 72-73. Since the unique funding mechanism of Medicare Part B allows its trust fund to remain in actuarial balance, the data on various sensitivity analysis are not routinely compiled. It is planned that future editions of the *Financial Report of the United States Government* will regularly contain this information.

Railroad Retirement

Railroad retirement pays full annuities when eligible persons reach full retirement age with 10 years of service or age 62 with 30 years of service. It pays reduced annuities to eligible beneficiaries who are age 62 with 10 to 29 years of service, or age 60 with 30 years of service. The Railroad Retirement program pays disability annuities based on total or occupational disability. It also pays annuities to spouses, divorced spouses, widow(er)s, remarried widow(er)s, surviving divorced spouses, children, and parents of deceased railroad workers. Medicare covers qualified railroad retirement beneficiaries in the same way as Social Security beneficiaries.

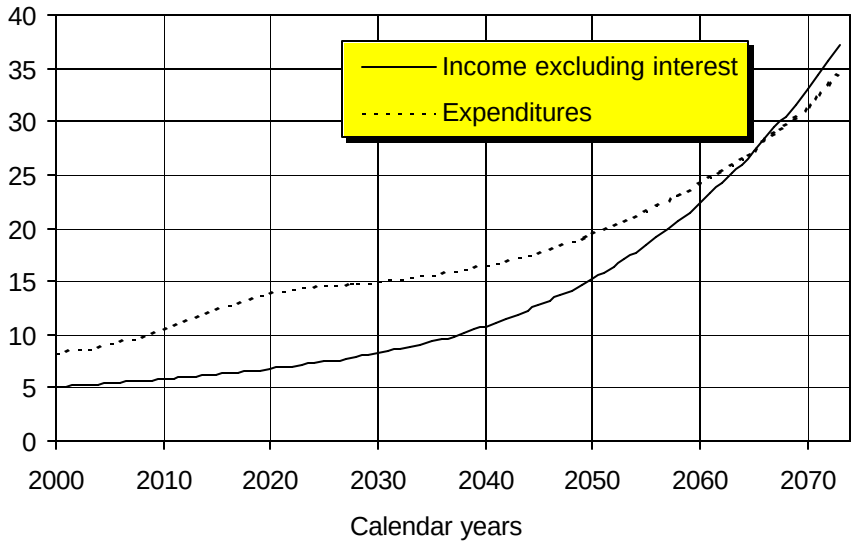
The Railroad Retirement Board (RRB) and Social Security Administration (SSA) share jurisdiction over the payment of retirement and survivor benefits. RRB has jurisdiction over the payment of retirement benefits if the employee had at least 10 years of railroad service. Additionally, for survivor benefits, RRB requires that the employee's last regular employment before retirement or death was in the railroad industry. If a railroad employee or his or her survivors do not qualify for railroad retirement benefits, the RRB transfers the employee's railroad retirement credits to SSA. SSA treats them as Social Security credits.

Payroll taxes paid by railroad employers and their employees provide the primary source of income for the Railroad Retirement Survivor Benefit program. By law, railroad retirement taxes are coordinated with Social Security taxes. Employees and employers pay tier I taxes at the same rate as Social Security taxes. Tier II taxes finance railroad retirement benefit payments that are higher than Social Security levels.

Other sources of program income include: financial interchanges with the Social Security trust funds; interest on investments; Federal income taxes on railroad retirement benefits; and appropriations (provided after 1974 as part of a phaseout of certain vested dual benefits).

Chart 18—Estimated Railroad Retirement Income (Excluding Interest) and Expenditures 2000–2073

(In billions of dollars)



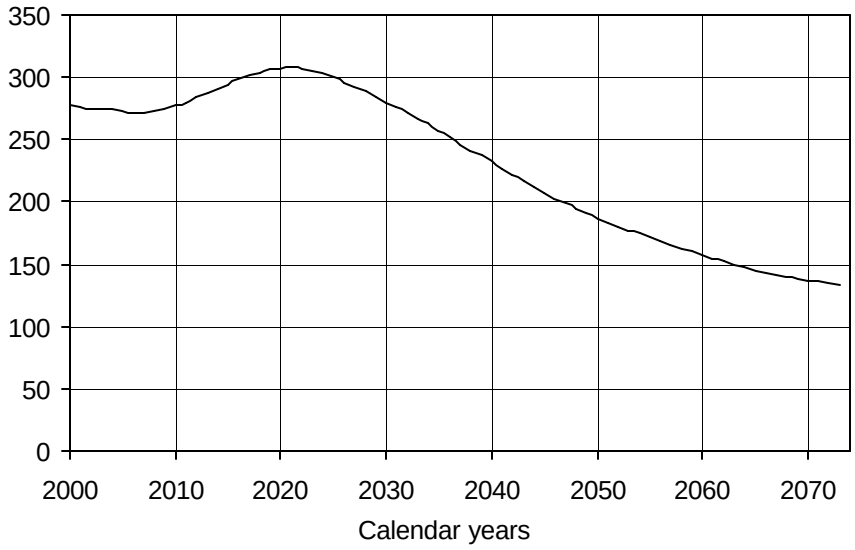
Income and Benefits as a Percentage of Tier II Payroll (Intermediate Assumptions) September 30, 2000 – December 31, 2073

(In billions of present value dollars)

Present Value of Income:	
Retirement taxes	21.00
Income taxes on benefits	2.02
Total future income, excluding intragovernmental transfers	23.02

Present Value of Benefits:	**Tier II**	**Tier I Liability**	**Total Benefits**
Retired and deceased	7.01	2.34	9.35
Active	9.22	3.26	12.48
Inactive	0.52	0.24	0.76
Future entrants	2.30	0.96	3.26
Total benefit payments	19.05	6.80	25.85

Chart 19—Number of Railroad Retirement Beneficiaries per 100 Covered Workers 2000-2073



Railroad Retirement Intermediate Assumptions

Year	Average Employment	Percentage Increase over Prior Year		Interest Rate
		Earnings	Cost of Living	
2000	249,000	4.0	2.4	6.0
2005	220,000	4.0	3.2	6.0
2010	195,000	4.0	3.2	6.0
2020	156,000	4.0	3.2	6.0
2030	129,000	4.0	3.2	6.0
2040	116,000	4.0	3.2	6.0
2050	113,000	4.0	3.2	6.0
2060	113,000	4.0	3.2	6.0
2070	113,000	4.0	3.2	6.0

Estimated Expenditures in Excess of Income with Various Employment Assumptions Valuation Period 2000-2073

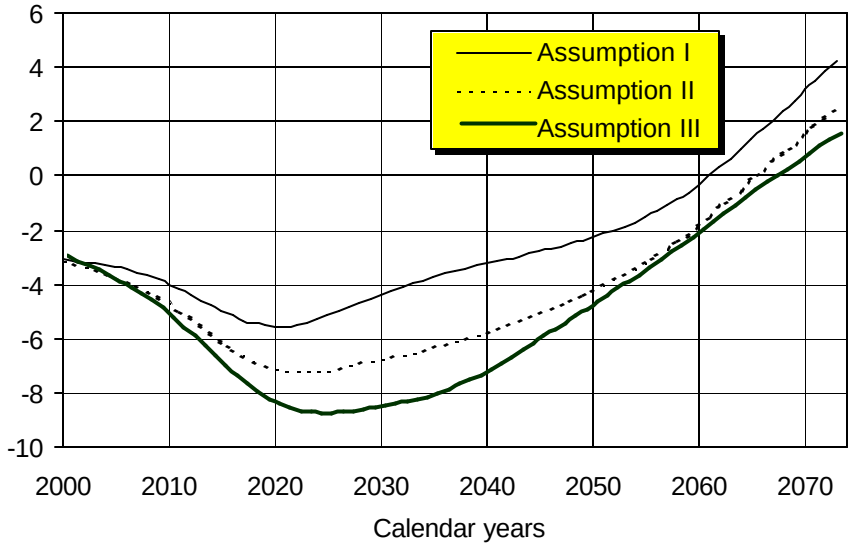
Average yearly employment at end of valuation period	165,000	113,000	73,000
Expenditures in excess of income (In billions of nominal dollars)	$189	$310	$385

The average railroad employment is assumed to be 255,000 in 1999 under each of the three employment assumptions. Employment assumptions I and II, based on a model developed by the Association of American Railroads, assume that (1) passenger employment will remain at the level of 45,000, and (2) the employment base, excluding passenger employment, will decline at a constant annual rate (1.5 percent for assumption I and 3.0 percent for assumption II) for 25 years, at a reducing rate over the next 25 years, and remain level thereafter.

Employment assumption III differs from employment assumptions I and II by assuming that (1) passenger employment will decline by 500 per year until a level of 35,000 is reached and then remain level, and (2) the employment base, excluding passenger employment, will decline at a constant annual rate of 4.5 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter.

Chart 20—Railroad Retirement Net Cashflow with Various Employment Assumptions 2000–2073

(In billions of dollars)



Black Lung (Part C)

The Black Lung Disability program compensates eligible coal miners who are disabled because of employment-related pneumoconiosis (black lung disease). The program provides both medical and survivor benefits. Under Part C, the Black Lung Disability Trust Fund (BLDTF) provides benefit payments to eligible disabled miners when no responsible mine operator can be assigned the liability. The Department of Labor (DOL) administers Part C of the Black Lung Disability Benefits program.

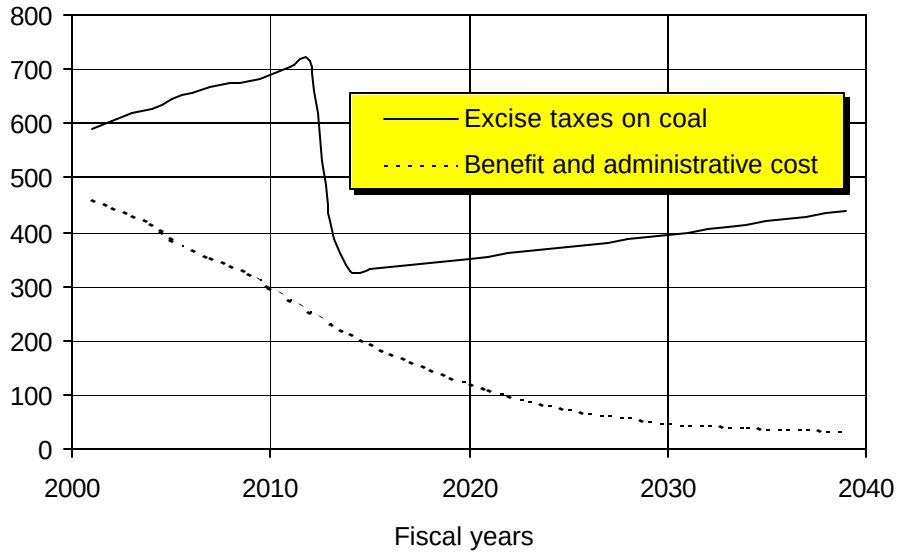
Excise taxes on coal mine operators, based on the sale of coal, partially fund the black lung disability payments and the related administrative and interest costs. Intragovernmental advances to the BLDTF, which must be repaid with interest, fund the shortfall.

Under current conditions, analysts project that scheduled reduction in taxes on coal sales will decrease cash inflows for the year 2014 and beyond. Between the years 2013 and 2015, projections estimate a 54-percent decrease in excise tax collections. By the year 2040, the rate reduction is expected to decrease cash inflows by a total of more than $12.6 billion.

Chart 21 shows the estimated Black Lung expenditures (excluding interest payments) and excise tax collections for the period 2000 through 2040. Under the intermediate assumptions for the next 40 years, the Black Lung Trust Fund will collect $18.8 billion in excise taxes on coal and pay $11.6 billion for benefit payments. However, this favorable cashflow will not be sufficient to repay the intra-governmental debt that resulted from previous deficits.

Chart 21—Estimated Black Lung Expenditures and Excise Tax Collections 2000-2040

(In millions of dollars)



Unemployment Insurance

The Unemployment Insurance program was created in 1935 to provide temporary, partial wage replacement to unemployed workers who lose their jobs through no fault of their own. The program is administered through a unique system of Federal and-State partnerships, established in Federal law but executed through conforming State officials. The Department of Labor provides broad policy guidance and program direction, while program details such as benefit eligibility, duration and amount of benefits are established through individual State unemployment insurance statutes, administered through State unemployment insurance agencies.

The program is financed through the collection of Federal and State unemployment taxes which are deposited in the Unemployment Trust Fund and reported as Federal tax revenue. The fund was established to account for the receipt, investment, and disbursement of unemployment taxes. Federal unemployment taxes are used to pay for Federal and State administration of the unemployment insurance program, veterans employment services, State employment services, and the Federal share of extended unemployment insurance benefits. Federal unemployment taxes also are used to maintain a loan account within the Unemployment Trust Fund, from which insolvent States may borrow funds to pay benefits.

Estimated Unemployment Trust Fund Contributions and Expenditures September 30, 2000 – September 30, 2010 (Expected Economic Conditions)

Contributions to September 30, 2010	346.6
Expenditures to September 30, 2010	376.7
Expenditures in Excess of Contributions (In billions of nominal dollars)	30.1

Charts 22 through 24 demonstrate the effect on accumulated Unemployment Trust Fund assets of projected total cash inflows and cash outflows over a 10-year period ending September 30, 2010, under expected economic conditions, and mild recessionary and deep recessionary unemployment scenarios. Each scenario uses an open group, which includes current and future participants of the Unemployment Insurance programs.

For expected economic conditions, the estimates are based on an expected unemployment rate of 4.12 percent during fiscal 2001, increasing to 5.10 percent in fiscal 2007 and thereafter. Under the mild recessionary scenario, the expected unemployment rate will peak at 7.43 percent in fiscal 2004, and for the deep recession scenario the expected unemployment rate will rise to 10.15 percent in fiscal 2005.

Chart 22—Estimated Unemployment Fund Cashflow
Using Expected Economic Conditions
2001-2010
(In billions of dollars)

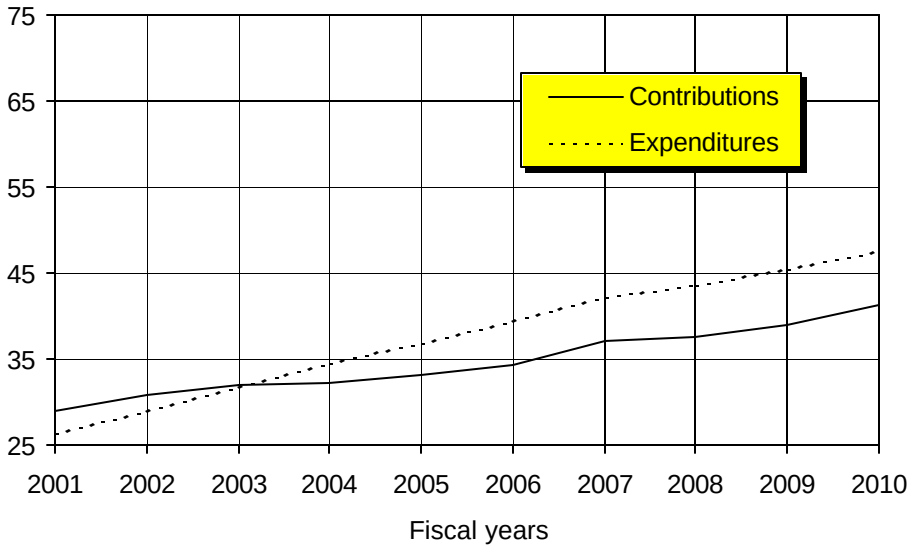


Chart 23—Estimated Unemployment Fund Cashflow
Using a Mild Recessionary Unemployment Rate
2001-2010
(In billions of dollars)

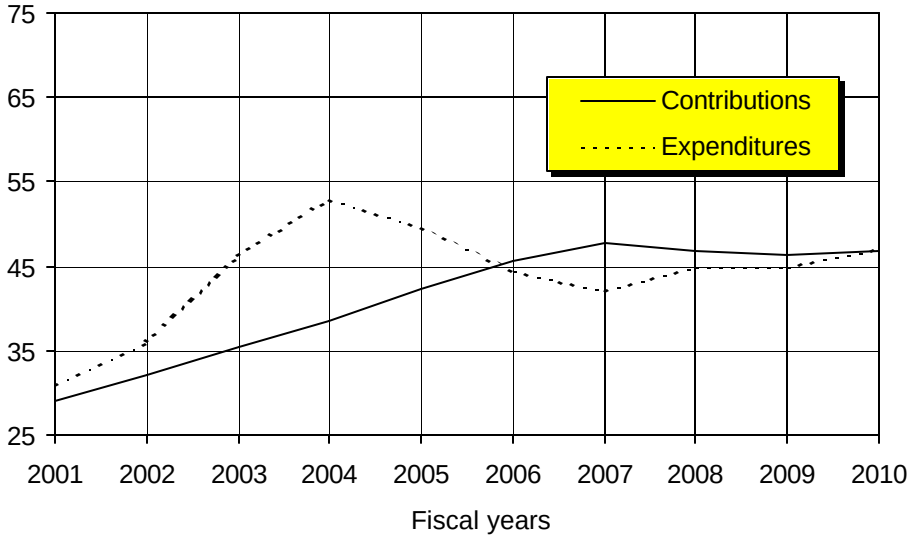
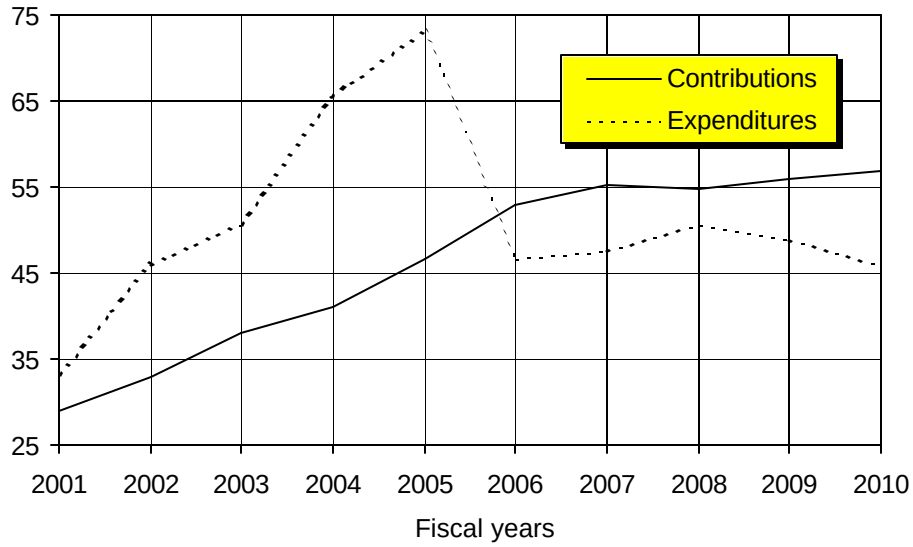


Chart 24—Estimated Unemployment Fund Cashflow Using a Deep Recessionary Unemployment Rate 2001-2010

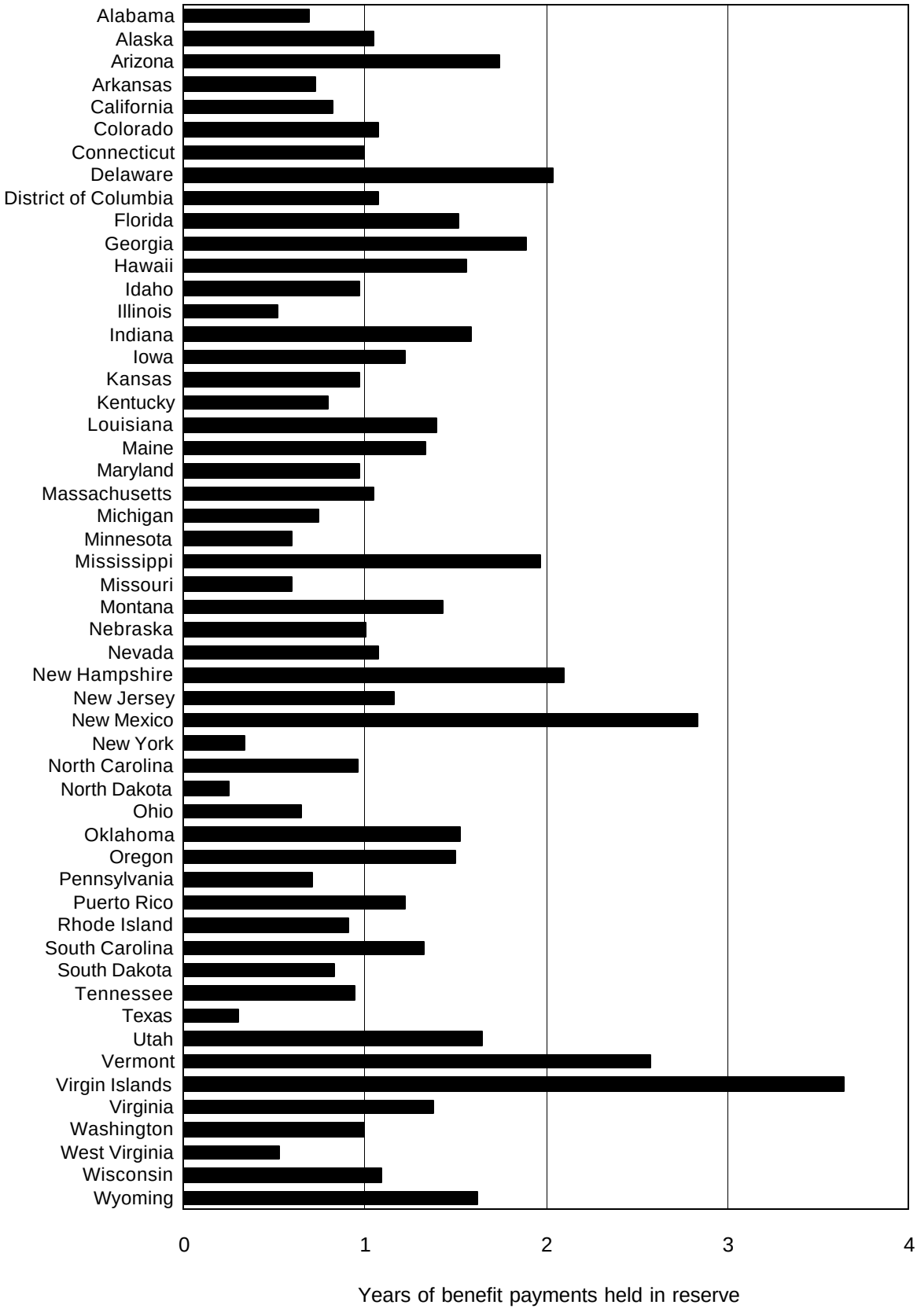
(In billions of dollars)



Unemployment Trust Fund Solvency

Chart 25 shows the adequacy of each State's accumulated Unemployment Trust Fund assets to provide for future unemployment benefits. To be considered minimally solvent, a State's reserve balance should provide for one year's projected benefit payment needs based on the highest level of benefit payments experienced by the State.

Chart 25—Unemployment Trust Fund Solvency



Stewardship Investments

"Stewardship Investments" focus on Government programs aimed at providing long-term benefits by improving the Nation's productivity and enhancing economic growth. These investments can be provided through direct Federal spending or grants to state and local governments for certain education and training programs, research and development, and federally financed but not federally owned property, such as bridges and roads. When incurred, these investments are included as expenses in determining the net cost of operations.

Non-Federal Physical Property

The Federal Government makes grants and provides funds for the purchase, construction, and/or major renovation of state and local government physical properties. Cost for non-Federal physical property programs are included as expenses in the Statement of net Cost and are reported as investments in the table below, and are measured on the same accrual basis of accounting used in the *Financial Report of the United States Government* statements.

Investments in Non-Federal Physical Property for the Years Ended September 30

(In billions of dollars)	Restated Fiscal 1999	Fiscal 2000
Program:		
Federal Surface Transportation programs	22.9	25.0
Federal Transit Administration formula grants	4.1	5.0
Environmental Protection Agency	2.2	2.7
Air transportation	1.6	1.4
Investments from all other programs	3.0	4.0
Investments in non-Federal physical property	33.8	38.1

The Federal Highway Administration reimburses States for construction costs on projects related to the Federal Surface Transportation programs. Improvements to national highways, interstate systems, surface transportation, as well as congestion mitigation and air quality improvement, are backed by these efforts. States contribute 10 percent of the cost for interstate system improvements and 20 percent of costs for other construction.

The Environmental Protection Agency (EPA) provides infrastructure assistance to State and tribal governments. This assistance is in the form of grants for the construction of wastewater and drinking water treatment facilities and ground water protection.

Meanwhile, formula grants assist urban and non-urban areas. States and localities use these grants for a variety of mass transit purposes including planning, construction of facilities, and purchases of railcars and buses. Funding also pays for transportation for the elderly and disabled.

Under the Airport Improvement program (AIP), the Federal Aviation Administration (FAA) makes project grants for airport planning and development to maintain a safe and efficient Nationwide system of public-use airports that meet both the present and future needs of civil aeronautics. FAA works to improve the infrastructure of the Nation's airports, in cooperation with airport authorities, local and State governments, and metropolitan planning authorities.

The Federal Transit Administration's discretionary grants provide capital assistance to finance acquisition, construction, reconstruction, and improvement of facilities and equipment. Discretionary grants fund the categories of new starts, fixed guidance modernization, and bus and bus-related activities.

Human Capital

The Federal Government runs several programs that invest in human capital. Those investments go toward increasing and maintaining a healthy economy by educating and training the general public. Costs do not include training expenses for Federal workers.

Investments in Human Capital for the Years Ended September 30

(In billions of dollars)	Restated Fiscal 1999	Fiscal 2000
Program:		
Education grants and administrative programs	31.9	35.7
Department of Labor	5.5	5.5
Federal family education loans programs	3.1	(3.9)
Veterans benefits	2.3	2.3
National Institutes of Health	0.8	0.9
Investments from all other programs	1.9	1.7
Investments in human capital	45.5	42.2

Education grant activities cover improvements of both public and private preschool and secondary education; assistance to post-secondary educational institutions and students pursuing a post-secondary education; programs that assist in educating children and adults with special needs and disabilities; bilingual education; and vocational-technical education.

DOL provides job training for the general public to increase and maintain national economic productive capacity. Programs include: adult employment and training, dislocated worker employment and training, youth training, school-to-work opportunities, job corps training, as well as training programs for Native Americans and migrant and seasonal farm workers.

The Federal Family Education Loan program operates with State and private nonprofit guaranty agencies to provide loan guarantees and interest supplements on loans by private lenders to eligible students attending participating post-secondary schools.

The Veterans Benefits Administration provides training to assist disabled veterans to become employable. Educational assistance also is provided to veterans under the GI bill.

The National Institutes of Health (NIH) Research and Training and Career Development program addresses the need for trained personnel to conduct medical research. The primary goal is to produce highly trained investigators who are likely to perform research that will benefit the Nation's health.

The Veterans Health Administration provides education and training efforts for health profession students and residents through partnerships with affiliated academic institutions.

The Bureau of Indian Affairs provides education and job corps programs.

Research and Development

Federal investments in research and development comprise those expenses for basic research, applied research, and development that are intended to increase or maintain national economic productive capacity or yield other future benefits.

Investments in basic research are a systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications toward processes or products in mind.

Investments in Basic Research for the Years Ended September 30

(In billions of dollars)	Restated Fiscal 1999	Fiscal 2000
Program:		
National Institutes of Health	7.1	8.5
National Science Foundation	2.6	2.7
Department of Energy	2.5	2.2
Science aeronautics and technology	1.8	2.1
Environmental Protection Agency	0.6	0.6
Investments from all other programs	1.8	1.8
Investments in basic research	16.4	17.9

Investments in applied research are a systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met.

Investments in Applied Research for the Years Ended September 30

(In billions of dollars)	Restated Fiscal 1999	Fiscal 2000
Program:		
National Institutes of Health	4.7	5.9
Science aeronautics and technology	2.6	1.9
Department of Energy	1.9	1.8
Other Defense agencies	1.3	1.3
U.S. Geological Survey	0.7	0.7
Army research development testing and evaluation	0.6	0.7
Air Force combined operations	0.6	0.5
Investments from all other programs	3.2	3.3
Investments in applied research	15.6	16.1

Investments in development are systematic use of the knowledge and understanding gained from research for the production of useful materials, devices, systems, or methods, including the design and development of prototypes and processes.

Investments in Development for the Years Ended September 30

(In billions of dollars)	Restated Fiscal 1999	Fiscal 2000
Program:		
Air Force combined operations	13.7	13.7
Other Defense agencies	8.4	8.4
Navy research development testing and evaluation	7.2	7.8
Army research development testing and evaluation	4.3	4.1
Science aeronautics and technology	2.7	2.8
Human space flight	2.5	-
Department of Energy	2.0	2.0
Investments from all other programs	0.3	-
Investments in development	41.1	38.8

Current Services Assessment

The Current Services Assessment table shows the Office of Management and Budget's (OMB's) estimated receipts, outlays, and surplus or deficit in the budget if no changes are made to laws that are already enacted. Receipts and mandatory outlays, such as Social Security benefits and net interest, involve ongoing activities that generally operate under permanent legal authority authorized by legislation. The current services estimates of receipts and mandatory spending assume that receipts and mandatory spending continue in the future as specified by current laws. The current services estimates for discretionary spending assume discretionary funding for fiscal 2001 equals appropriations enacted by Congress. It also assumes that discretionary funding for subsequent years holds constant in real terms. Because laws already enacted provide the bases for current services estimates, they do not constitute a proposed budget, nor do they predict the most likely budget outcomes.

The current services estimates may be used to help assess the sustainability of programs under current law. That is, they may be used to project if future resources can sustain public services and meet obligations as they come due. In this way, they can warn of future problems inherent in current law. They also can provide a benchmark against which tax and spending proposals can be compared and the magnitude of proposed changes can be assessed. Also, they can provide an analytical perspective of Government by showing the short- and medium-term direction of current programs.

The following schedule presents the actual budget results for fiscal 2000 and the current services estimates for all Federal taxes and spending programs for the subsequent 6 years. It shows receipts by source and outlays by function. The estimates for these years are the same as the current services estimates used for the President's budget for fiscal 2002, as presented in *A Blueprint for New Beginnings: A Responsible Budget for America's Future*.

Current Services Assessment Receipt and Outlay Estimates as Presented in the President's Budget

(In billions of dollars)	Base Year 2000	Fiscal Year 2001	2002	2003	2004	2005	2006
Receipts by Source:							
Individual income taxes	1,004	1,073	1,103	1,149	1,206	1,273	1,345
Corporation income taxes	207	213	220	229	238	249	259
Social insurance and retirement receipts	653	690	726	766	806	856	896
Excise taxes	69	71	74	76	78	81	82
Other receipts	92	90	98	104	110	111	114
Total receipts	2,025	2,137	2,221	2,324	2,438	2,569	2,698
Outlays by Function:							
National defense	294	299	311	319	329	340	350
Social Security	409	434	455	477	502	528	557
Medicare	197	219	230	242	256	275	283
Income security	248	263	276	285	296	309	317
Health	155	173	190	209	225	242	259
Veteran benefits and services	47	45	51	53	56	61	60
Education, training, employment, and social services	59	65	77	80	81	83	85
Transportation	47	51	55	58	60	63	65
Other programmatic functions	152	146	158	158	158	160	163
Net interest	223	206	187	170	150	125	99
Undistributed offsetting receipts	-43	-48	-51	-61	-62	-56	-58
Total outlays	1,789	1,853	1,938	1,990	2,050	2,129	2,182
Unified budget surplus	236	284	283	334	387	440	516

Note: Details may not add to totals due to rounding.