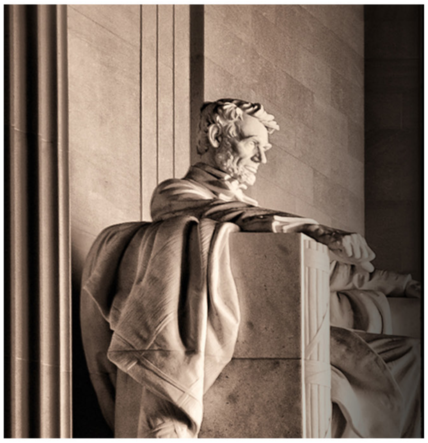
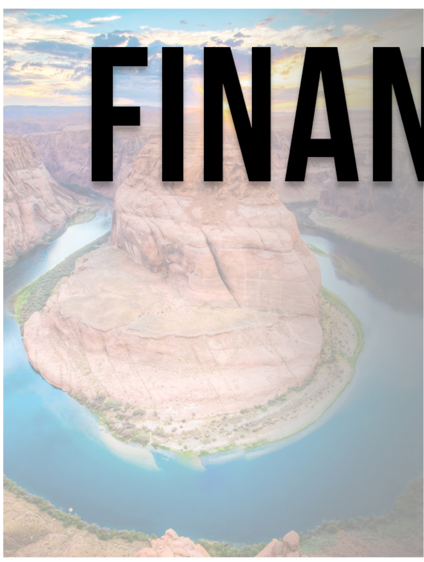
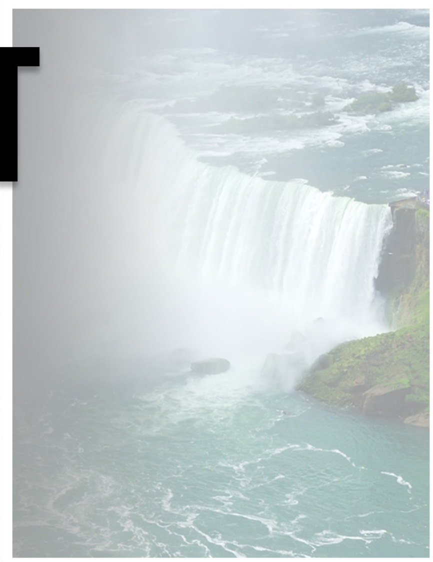


EXECUTIVE SUMMARY TO THE

FINANCIAL REPORT OF THE UNITED STATES GOVERNMENT





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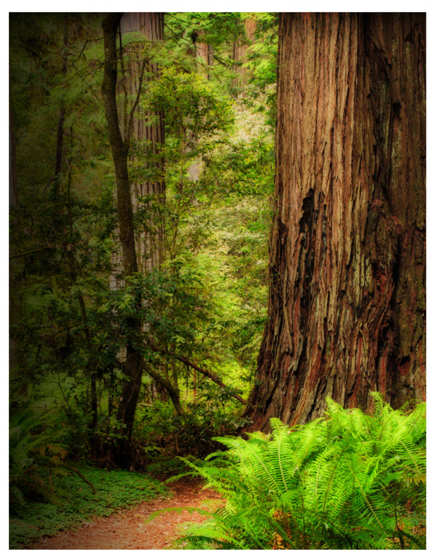


NATION BY THE NUMBERS

A Snapshot of The Government's Financial Position & Condition

	2019	2018
Financial Measures (Dollars in Billions):		
Total Tax and Other Unearned Revenues	**$ 3,621.0**	**$ 3,384.3**
Net Cost:		
Gross Costs	$ (5,287.2)	$ (4,808.5)
Less: Earned Revenue	$ 418.4	$ 392.8
Gain/(Loss) from Changes in Assumptions	$ (198.9)	$ (125.2)
Total Net Cost	**$ (5,067.7)**	**$ (4,540.9)**
Unmatched Transactions and Balances	$ 1.6	$ (2.4)
Net Operating Cost	**$ (1,445.1)**	**$ (1,159.0)**
Budget Deficit	**$ (984.4)**	**$ (779.0)**
Assets, comprised of:		
Loans Receivable, Net	$ 1,425.8	$ 1,419.1
Property, Plant, and Equipment, Net	$ 1,106.9	$ 1,090.5
Other	$ 1,459.3	$ 1,327.1
Total Assets	**$ 3,992.0**	**$ 3,836.7**
Less: Liabilities, comprised of:		
Debt Held By the Public & Accrued Interest	$ (16,861.0)	$ (15,812.7)
Federal Employee & Veteran Benefits	$ (8,440.3)	$ (7,982.3)
Other	$ (1,643.5)	$ (1,562.4)
Total Liabilities	**$ (26,944.8)**	**$ (25,357.4)**
Net Position (Assets Less Liabilities)[1]	**$ (22,952.8)**	**$ (21,520.7)**
Sustainability Measures (Dollars in Trillions):		
Social Insurance Net Expenditures	$ (59.1)	$ (54.0)
Total Federal Non-Interest Net Expenditures	$ (49.0)	$ (46.2)
Sustainability Measures as Percent of Gross Domestic Product (GDP):		
Social Insurance Net Expenditures	(4.1%)	(4.0%)
Total Federal Non-Interest Net Expenditures	(3.2%)	(3.3%)
Fiscal Gap[2]	(3.8%)	(4.1%)

[1] The government's net position is calculated in accordance with federal accounting standards. Per these standards, net position does not include the financial value of the government's sovereign power to tax, regulate commerce, or set monetary policy, or the value of nonoperational resources, such as national and natural resources, for which the government is a steward.

[2] To prevent the debt-to-GDP ratio from rising over the next 75 years, a combination of non-interest spending reductions and receipts increases that amount to 3.8 percent of GDP on average is needed (4.1 percent of GDP on average in 2018). See Financial Statement Note 23.

Executive Summary to the Fiscal Year 2019 Financial Report of the United States Government

The Fiscal Year 2019 *Financial Report* presents the U.S. government's current financial position and condition and discusses key financial topics and trends. The *Financial Report* is produced by Treasury in coordination with OMB, which is part of the Executive Office of the President. The table on the preceding page presents several key indicators of the government's financial position and condition, which are discussed in this Executive Summary and, in greater detail, in the *Financial Report*. The Secretary of the Treasury, the Director of OMB, and the Comptroller General of the U.S. at the GAO believe that the information discussed in this *Financial Report* is important to all Americans.

This *Financial Report* addresses the government's financial activity and results as of and for the fiscal years ended September 30, 2019 and 2018. Note 27— Subsequent Events discusses events that occurred after the end of the fiscal year that may affect the government's financial position and condition.

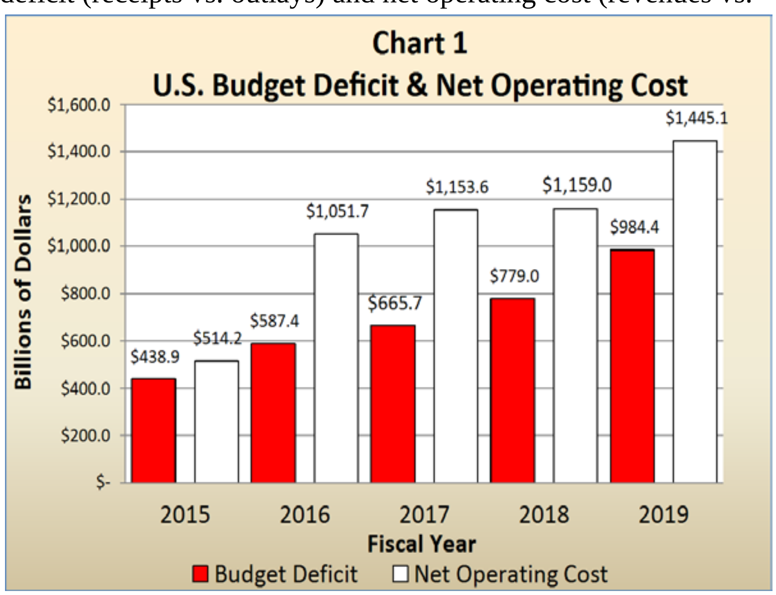
Where We Are Now

Comparing the Budget and the Financial Report

The *Budget* and the *Financial Report* present complementary perspectives on the government's financial position and condition.

- The *Budget* is the government's primary financial planning and control tool. It accounts for past government receipts and spending and includes the President's proposed receipts and spending plan. Receipts are cash received by the U.S. government and spending is measured as outlays, or payments made by the federal government to the public or entities outside the government. In simple terms, when total receipts are greater than outlays, then there is a budget surplus; and when total outlays exceed total receipts, then there is a budget deficit.
- The *Financial Report* includes the government's costs and revenues, assets and liabilities, and other important financial information. It compares the government's revenues (amounts earned, but not necessarily collected), with costs (amounts incurred, but not necessarily paid) to derive net operating cost.

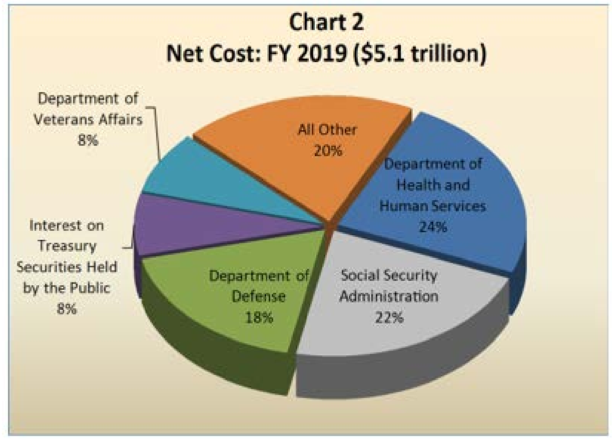
Chart 1 compares the government's budget deficit (receipts vs. outlays) and net operating cost (revenues vs. costs) for fiscal years 2015 - 2019. During fiscal year 2019:



- A $338.9 billion increase in outlays was offset in part by a $133.5 billion increase in receipts to increase the budget deficit by $205.4 billion to $984.4 billion.
- Net operating cost increased $286.1 billion or 24.7 percent from $1.2 trillion to $1.4 trillion, due mostly to a $526.8 billion or 11.6 percent increase in net cost which more than offset a $236.7 billion or 7.0 percent increase in tax and other revenues.
- The $460.7 billion difference between the budget deficit and net operating cost is primarily due to accrued costs (incurred but not necessarily paid) related to increases in estimated federal employee and veteran benefits liabilities that are included in net operating cost, but not the budget deficit.

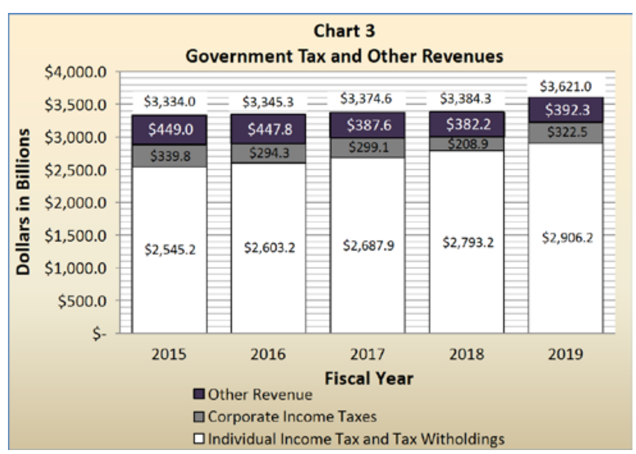
Costs and Revenues

The government's "bottom line" net operating cost increased $286.1 billion (24.7 percent) during fiscal year 2019 to $1.4 trillion. It is calculated as follows:



- Starting with total gross costs of $5.3 trillion, the government subtracts earned program revenues (e.g., Medicare premiums, national park entry fees, and postal service fees) and adjusts the balance for gains or losses from changes in actuarial assumptions used to estimate future federal employee and veterans benefits payments to derive its net cost before taxes and other revenues of $5.1 trillion (see Chart 2), an increase of $526.8 billion (11.6 percent) from fiscal year 2018. This net increase is the combined effect of many offsetting increases and decreases across the government. For example:
  - Entities administering federal employee and veterans benefits programs, including the OPM, VA, and DOD employ a complex series of assumptions to make actuarial projections of their long-term benefits liabilities. These assumptions include but are not limited to interest rates, beneficiary eligibility, life expectancy, and medical cost levels. Changes in these assumptions can result in either losses (net cost increases) or gains (net cost decreases). Across the government, these net losses from changes in assumptions amounted to $198.9 billion in fiscal year 2019, a loss (and net cost) increase of $73.7 billion compared to fiscal year 2018.
  - DOD net costs increased $210.0 billion due primarily to a $122.2 billion loss increase from changes in assumptions referenced above, as well as increases in net costs across DOD's major programs, including military operations, readiness, support, procurement, personnel, and R&D. HHS and SSA net costs increased $79.8 billion and $62.6 billion, respectively. These increases resulted largely from increases in benefit expenses from the social insurance programs administered by these entities (e.g., Medicare and Social Security).
  - VA net costs increased $70.7 billion due largely to actuarial losses from experience.
  - DOE net cost decreased by $87.3 billion, predominantly due to comparatively lower increases in environmental liability estimates.
  - Interest costs related to federal debt securities held by the public increased by $46.3 billion due largely to an increase in the debt. Interest costs increased by 13.0 percent during fiscal year 2019 and by 60.9 percent over the past five fiscal years.

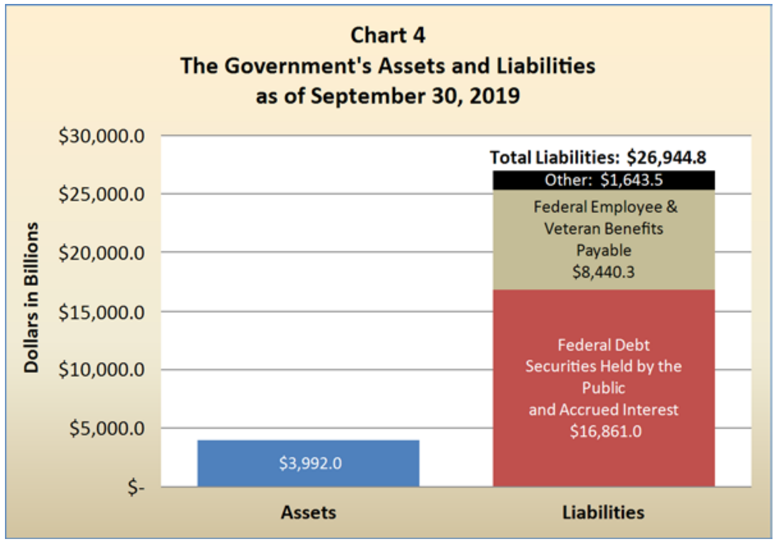
- The government deducts tax and other revenues from net cost (with some adjustments) to derive its fiscal year 2019 "bottom line" net operating cost of $1.4 trillion.



  - From Chart 3, total government tax and other revenues grew by $236.7 billion (7.0 percent) to about $3.6 trillion for fiscal year 2019.
  - Together, individual income tax and tax withholdings, and corporate taxes accounted for about 89.2 percent of total tax and other revenues in fiscal year 2019. Other revenues include Federal Reserve earnings, excise taxes, and customs duties.

Assets and Liabilities

Chart 4 summarizes the assets and liabilities that the government reports on its Balance Sheet. As of September 30, 2019:



- Total assets ($4.0 trillion) consist mostly of $1.4 trillion in net loans receivable (primarily student loans) and $1.1 trillion in net PPE.
  - Other significant government resources not reported on the Balance Sheet include stewardship assets, natural resources, and the government's power to tax and set monetary policy.
- Total liabilities ($26.9 trillion) consist mostly of: (1) $16.9 trillion in federal debt securities held by the public and accrued interest and (2) $8.4 trillion in federal employee and veteran benefits payable.
  - The "public" consists of individuals, corporations, state and local governments, FRB, foreign governments, and other entities outside the federal government.
- The government also reports about $6.0 trillion of intragovernmental debt outstanding, which arises when one part of the government borrows from another.
  - For example, government funds (e.g., Social Security and Medicare trust funds) typically must invest excess annual receipts, including interest earnings, in Treasury-issued federal debt securities. Although not reflected in Chart 4, these securities are included in the calculation of federal debt subject to the debt limit.
- Federal debt securities held by the public plus intragovernmental debt equals gross federal debt, which, with some adjustments, is subject to a statutory debt ceiling ("debt limit").
  - At the end of fiscal year 2019, debt subject to the statutory limit was $22.7 trillion. Increasing or suspending the debt limit does not increase spending or authorize new spending; rather, it permits the government to continue to honor pre-existing commitments.
  - Effective March 2, 2019, the statutory debt limit was set at $22.0 trillion. On August 2, 2019, the *BBA of 2019* (P. L. 116-37) was enacted suspending the statutory debt limit through July 31, 2021.

Key Economic Trends

An examination of key macroeconomic indicators is essential to the discussion of the government's financial performance. During fiscal year 2019, the U.S. economy grew at a more moderate pace and payroll job creation slowed modestly, while the unemployment rate declined to a 49-year low. These and other economic and financial developments are discussed in greater detail in the *Financial Report*.

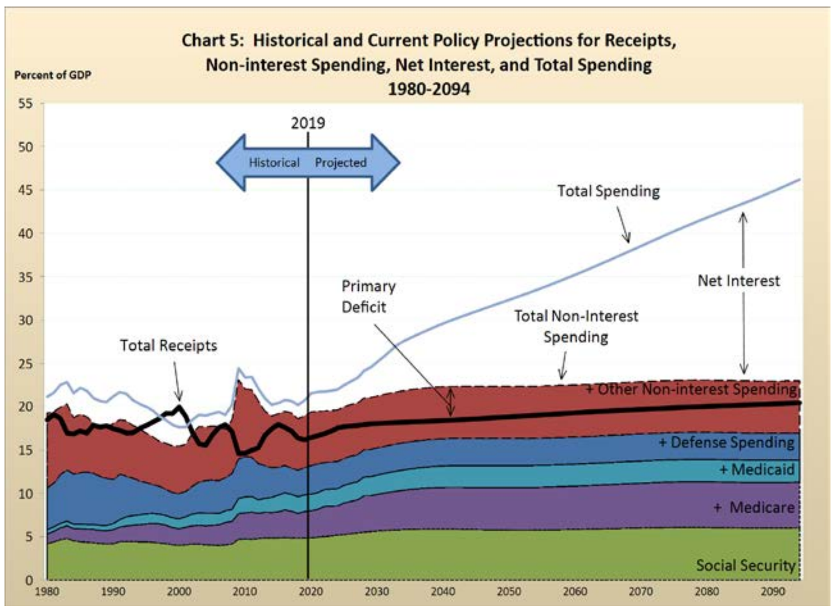
An Unsustainable Fiscal Path

An important purpose of this *Financial Report* is to help citizens understand current fiscal policy and the importance and magnitude of policy reforms necessary to make it sustainable. A sustainable fiscal policy is defined as one where the ratio of debt held by the public to GDP (the debt-to-GDP ratio) is stable or declining over the long term. GDP measures the size of the nation's economy in terms of the total value of all final goods and services that are produced in a year. Considering financial results relative to GDP is a useful indicator of the economy's capacity to sustain the government's many programs.

The current fiscal path is unsustainable. To determine if current fiscal policy is sustainable, the projections discussed in the *Financial Report* assume current policy will continue indefinitely.[1] The projections are therefore neither forecasts nor predictions. Nevertheless, the projections demonstrate that policy changes need to be enacted for the actual financial outcomes to differ from those projected.

Receipts, Spending, and the Debt

Chart 5 shows historical and current policy projections for receipts, non-interest spending by major category, net interest, and total spending expressed as a percent of GDP.



- The primary deficit is the difference between non-interest spending and receipts. The ratio of the primary deficit to GDP is useful for gauging long-term fiscal sustainability.
- The primary deficit-to-GDP ratio spiked during 2009 through 2012 due to the financial crisis of 2008-09 and the ensuing severe recession, as well as increased spending and temporary tax reductions enacted to stimulate the economy and support recovery. As an economic recovery took hold, the primary deficit-to-GDP ratio fell, averaging 2.1 percent from 2013 through 2019. The ratio is projected to rise to 2.9 percent in 2020 and then shrink slightly through 2024 as the economy grows. After 2024, however, increased spending for Social Security and health programs[2] due to the continued retirement of the baby boom generation and increases in health care costs is projected to result in increasing primary deficits that peak in 2040, when the primary deficit-to-GDP ratio reaches 3.9 percent. After 2040, the ratio gradually decreases as the aging of the population continues at a slower pace, and reaches 2.5 percent in 2094, the last year of the projection period.
- These projections assume the individual income and estate and gift tax provisions of the TCJA are permanently extended and discretionary spending grows at essentially the same rate as nominal GDP beyond 2022. Congressional action is required to extend the provisions of the TCJA. GDP, interest, and other economic and demographic assumptions are the same as those that underlie the most recent Social Security and Medicare Trustees' Report projections, adjusted for historical revisions that occur annually.

[1] Current policy in the projections is based on current law but includes extension of certain policies that expire under current law but are routinely extended or otherwise expected to continue.
[2] See the 2019 Trustees' Report for Medicare (pp 4-5) and Social Security (pp 4-23) and the 2017 Medicaid Actuarial Report.

- The persistent long-term gap between projected receipts and total spending shown in Chart 5 occurs despite the projected effects of the PPACA[3] on long-term deficits.
    - Enactment of the PPACA in 2010 and the MACRA in 2015 established cost controls for Medicare hospital and physician payments whose long-term effectiveness is still to be demonstrated fully.
    - There is uncertainty about the extent to which these projections can be achieved and whether the PPACA's provisions intended to reduce Medicare cost growth will be overridden by new legislation.

Table 1 summarizes the status and projected trends of the government's Social Security and Medicare Trust Funds.

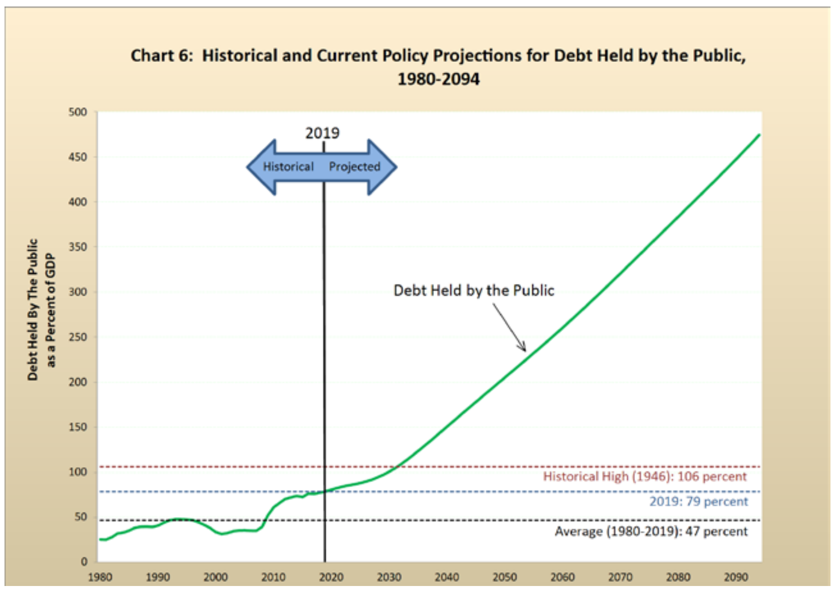
Table 1: Trust Fund Status

Fund	Projected Depletion	Projected Post-Depletion Trend
Medicare Hospital Insurance (HI)*	2026 (unchanged from FY 2018 Report)	In 2026, trust fund income is projected to cover 89 percent of benefits, decreasing to 78 percent in 2043, then increasing to 83 percent by 2093.
Combined Old-Age Survivors and Disability Insurance (OASDI)**	2035 (2034 in FY 2018 Report)	In 2035, trust fund income is projected to cover 80 percent of scheduled benefits, decreasing to about 75 percent by 2093.

* Source: 2019 Medicare Trustees Report ** Source: 2019 OASDI Trustees Report

Projections assume full Social Security and Medicare benefits are paid after fund depletion contrary to current law.

The primary deficit projections in Chart 5, along with those for interest rates and GDP, determine the debt-to-GDP ratio projections in Chart 6.



- The debt-to-GDP ratio was 79 percent at the end of fiscal year 2019, and under current policy is projected to exceed 100 percent by 2030 and reach 474 percent in 2094.
- The debt-to-GDP ratio rises continuously mainly because higher levels of debt lead to higher net interest expenditures, which lead to higher deficits and debt. The continuous rise of the debt-to-GDP ratio indicates that current fiscal policy is unsustainable.
- These debt-to-GDP projections are lower than the 2018 *Financial Report* projections and higher than the 2017 *Financial Report* projections.

[3] The PPACA refers to P.L. 111-148, as amended by P.L. 111-152. The PPACA expands health insurance coverage, provides health insurance subsidies for low-income individuals and families, includes many measures designed to reduce health care cost growth, and significantly reduces Medicare payment rates relative to the rates that would have occurred in the absence of the PPACA. (See Note 22 and the Required Supplementary Information section of the *Financial Report*, and the 2019 Medicare Trustees' Report for more information).

The Fiscal Gap and the Cost of Delaying Fiscal Policy Reform

- The 75-year fiscal gap is a measure of how much primary deficits must be reduced over the next 75 years in order to make fiscal policy sustainable. That estimated fiscal gap for 2019 is 3.8 percent of GDP (compared to 4.1 percent for 2018).
- This estimate implies that making fiscal policy sustainable over the next 75 years would require some combination of spending reductions and receipt increases that equals 3.8 percent of GDP on average over the next 75 years. The fiscal gap represents 20.3 percent of 75-year present value receipts and 17.4 percent of 75-year present value non-interest spending.
- The timing of policy changes to make fiscal policy sustainable has important implications for the well-being of future generations as is shown in Table 2.

Table 2

Cost of Delaying Fiscal Reform

Period of Delay	Change in Average Primary Surplus
Reform in 2020 (No Delay)	3.8 percent of GDP between 2020 and 2094
Reform in 2030 (Ten-Year Delay)	4.5 percent of GDP between 2030 and 2094
Reform in 2040 (Twenty-Year Delay)	5.6 percent of GDP between 2040 and 2094

  - Table 2 shows that, if action is delayed by 10 years, the estimated magnitude of primary surplus increases necessary to close the 75-year fiscal gap increases by 18 percent from 3.8 percent of GDP on average over 75 years to 4.5 percent on average over 65 years; if action is delayed by 20 years, the magnitude of reforms necessary increases by an additional 24 percent.
  - Future generations are harmed by a policy delay because the higher the primary surpluses are during their lifetimes, the greater is the difference between the taxes they pay and the programmatic spending from which they benefit.

Conclusion

- Projections in the *Financial Report* indicate that the government's debt-to-GDP ratio is projected to rise over the 75-year projection period and beyond if current policy is kept in place. The projections in this *Financial Report* show that current policy is not sustainable.
- If changes in fiscal policy are not so abrupt as to slow economic growth and those policy changes are adopted earlier, then the required changes to revenue and/or spending will be smaller to return the government to a sustainable fiscal path.

Find Out More

The *2019 Financial Report* and other information about the nation's finances are available at:

- U.S. Department of the Treasury, https://www.fiscal.treasury.gov/fsreports/rpt/finrep/fr/fr_index.htm;
- OMB's Office of Federal Financial Management, https://www.whitehouse.gov/omb/management/office-federal-financial-management/ ; and
- GAO, http://www.gao.gov/financial.html

The GAO audit report on the U.S. government's consolidated financial statements can be found beginning on page 232 of the full *Financial Report*. GAO was unable to express an opinion (disclaimed) on these consolidated financial statements for the reasons discussed in the audit report.