CITIZEN'S GUIDE

TO THE FISCAL YEAR 2015

15

FINANCIAL REPORT

OF THE UNITED STATES GOVERNMENT

Citizen's Guide to the Fiscal Year 2015 Financial Report of the United States Government

The Citizen's Guide to the Fiscal Year 2015 *Financial Report* of the U.S. Government (*Financial Report*) summarizes the U.S. Government's current financial position and condition and discusses key financial topics, including fiscal sustainability. This Guide and the *Financial Report* are produced by the U.S. Department of the Treasury in coordination with the Office of Management and Budget (OMB) of the Executive Office of the President. The Secretary of the Treasury, Director of OMB, and Comptroller General of the United States at the Government Accountability Office believe that the information discussed in this Guide is important to all Americans.

Where We Are Now

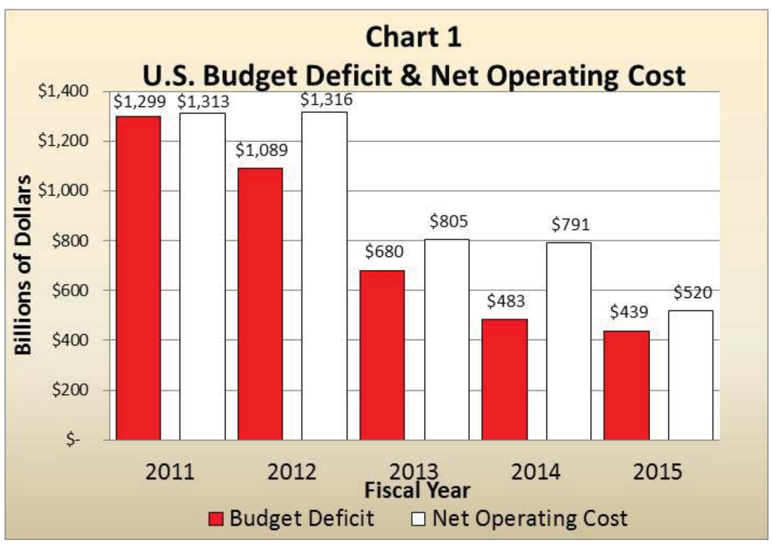
Comparing the Budget and the Financial Report

Together, the ***Budget of the United States Government*** (*Budget*) and the ***Financial Report of the U.S. Government*** *(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 presents the President's proposed receipt and spending plan. The *Budget* focuses on *receipts*, or cash received by the U.S. Government (*Government*) and *outlays*, or payments made by the Government to the public. An excess of receipts over outlays is called a budget *surplus*; an excess of outlays over receipts is called a budget *deficit*.
- The *Financial Report* focuses on the Government's costs and revenues (what went out and what came in), assets and liabilities (what it owns and owes), and other important financial information. The *Financial Report* compares the Government's *revenues* (amounts earned, but not necessarily collected), with its *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 (FY) 2011-2015. During FY 2015:

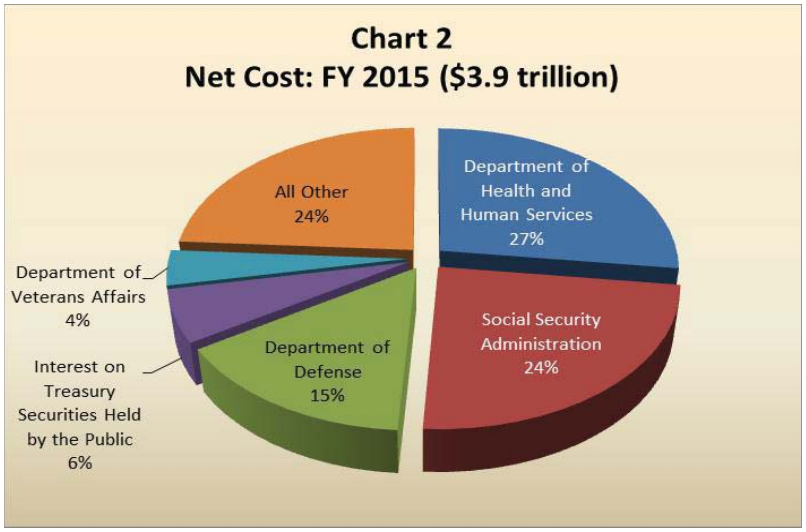
- A $227.9 billion increase in receipts more than offset a $183.4 billion increase in outlays to reduce the budget deficit by $44.5 billion (about 9 percent) to $438.9 billion.
- Net operating cost decreased $271.6 billion or 34.3 percent to $519.7 billion, due largely to a $267.9 billion increase in tax and other revenues, which more than offset a slight $21.8 billion increase in net cost.



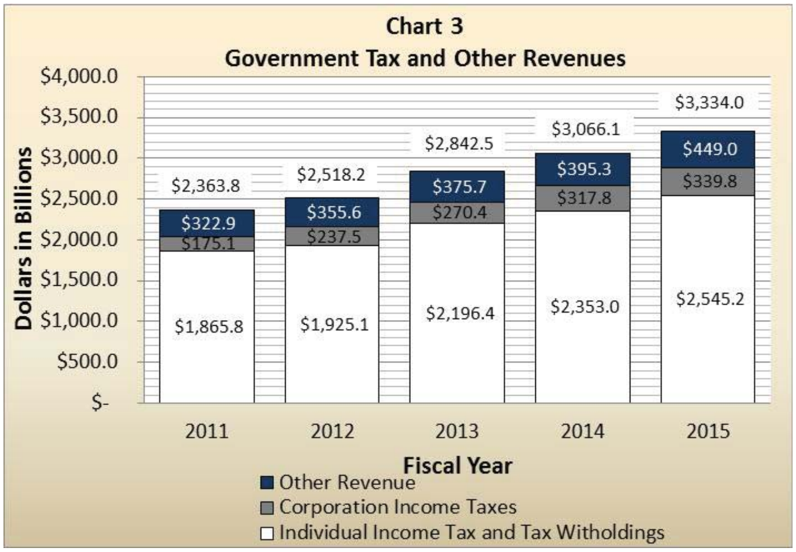
- The $80.8 billion difference between the budget deficit and net operating cost is primarily due to accrued costs (incurred but not necessarily paid) associated with increases in estimated federal employee and veteran benefits liabilities and certain other liabilities that are included in net operating cost, but not the budget deficit.

What Went Out and What Came In

The Government's "bottom line" net operating cost (revenue less net cost of Government operations with some adjustments) of $519.7 billion in FY 2015 is calculated as follows:



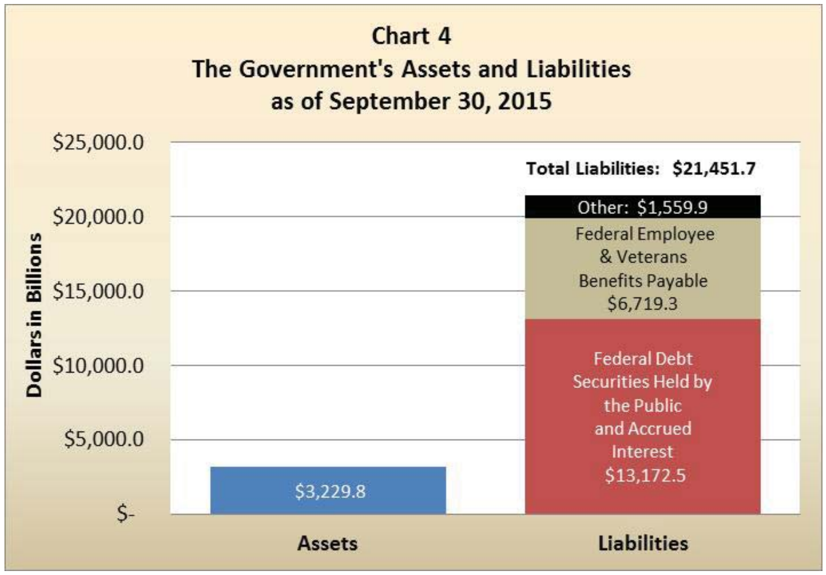
- Starting with total gross costs of $4.3 trillion, the government subtracts earned program revenues (e.g., Medicare premiums, national park entry fees, and postal service fees) and adjusts the balance for gains or losses from changes in actuarial assumptions used to estimate future liabilities for federal employee and veterans benefits to derive its net cost of $3.9 trillion, a slight increase of $21.8 billion or 0.6 percent from FY 2014. This net increase is the combined effect of many offsetting increases and decreases across the Government. For example:
  - The Department of Health and Human Services (HHS) and the Social Security Administration (SSA) experienced net cost increases of $78.0 billion and $38.3 billion, respectively, largely due to increases in benefit expenses from the social insurance programs administered by those agencies (e.g., Medicare, Social Security). Net costs at the Department of Defense (DOD) decreased by $88.7 billion due largely to decreases in costs for future military retirement and health care benefits. Chart 2 shows that the largest shares of the Government's total FY 2015 net cost came from HHS, SSA, and DOD.
  - The Department of Energy's net costs increased $19.9 billion due mostly to changes in environmental and other liability estimates, while the Department of Education's net costs decreased $11.4 billion due largely to decreases in loan program costs and increases in interest earned on loans.



- The Government deducts tax and other revenues from its net cost (with some adjustments) to derive its "bottom line" net operating cost of $519.7 billion, a decrease of $271.6 billion from FY 2014. From Chart 3, total Government tax and other revenues grew by $267.9 billion or 8.7 percent to more than $3.3 trillion for FY 2015.
  - This increase can be attributed to a stronger economy and growth in wages and salaries.
  - Together, individual income tax and tax withholdings, and corporation taxes accounted for about 86.5 percent of total revenues in FY 2015. Other revenues include excise and unemployment taxes, and customs duties.

What We Own and What We Owe

Chart 4 summarizes what the Government owns in assets and what it owes in liabilities. As of September 30, 2015:



- The Government held about $3.2 trillion in assets (mostly $1.2 trillion in net loans receivable (primarily student loans) and $893.9 billion in net property, plant, and equipment).
  - Beyond these assets, 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 ($21.5 trillion) consist mostly of: (1) $13.2 trillion in federal debt securities held by the public and accrued interest and (2) $6.7 trillion in federal employee and veteran benefits payable.
  - The "public" consists of individuals, corporations, state and local governments, Federal Reserve Banks, foreign governments, and other entities outside the federal government.
- The Government also reports about $5.1 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 in Treasury-issued federal debt securities, creating trust fund assets and Treasury liabilities. These amounts are included in the financial statements of investing agencies and Treasury, respectively, but offset each other when consolidated into the governmentwide financial statements. Thus, they are not reflected in Chart 4.

Debt held by the public plus intragovernmental debt equals gross federal debt, which, with some adjustments, is subject to a statutory debt ceiling ("debt limit").

- When delays in raising the debt limit occur, as they did during both fiscal years 2014 and 2015, Treasury implements "extraordinary measures," on a temporary basis, to enable the Government to protect the full faith and credit of the United States by continuing to pay the Nation's bills.
  - 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.
  - Congress suspended the debt limit during FY 2014 and FY 2015: from October 17, 2013 through February 7, 2014; and again from February 15, 2014 through March 15, 2015. In November 2015, the debt limit was again suspended through March 15, 2017. The debt limit was last raised to $18.1 trillion in March 2015.

As budget deficits continue to occur, the Government will have to continue to borrow from the public. Instances where the debt held by the public increases faster than the economy for extended periods can pose challenges to the sustainability of current fiscal policy.

Considering key macroeconomic indicators can help place the discussion of the Government's financial results in a broader context. During FY 2015, the economy continued to grow, job growth accelerated, and the unemployment rate declined. These and other economic and financial developments are discussed in greater detail in the *Financial Report*.

Where We Are Headed

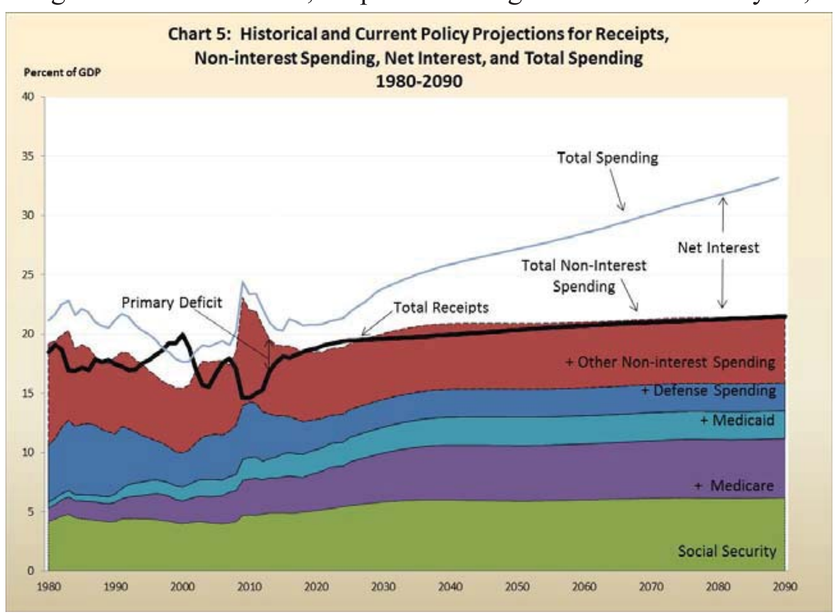
An important purpose of this Guide and the *Financial Report* is to help citizens understand current fiscal policy and the importance and magnitude of policy reforms necessary to make it sustainable. A sustainable policy is one where the ratio of debt held by the public to Gross Domestic Product (GDP) (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.

To determine if current fiscal policy is sustainable, the projections discussed in this Guide assume current policy will continue indefinitely and draw out the implications for the growth of the debt-to-GDP ratio.[1] The projections are therefore neither forecasts nor predictions. As policy changes are enacted, actual financial outcomes will be different than those projected.

Receipts, Spending, and the Debt

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

- The difference between the receipts and non-interest spending shares of GDP (the primary deficit-to-GDP ratio) grew rapidly in 2009 due to the financial crisis, the recession, and the policies pursued to combat both. The ratio remained high from 2010 to 2012, despite shrinking in each successive year, and fell significantly in 2013 and 2014.



- The primary deficit is projected to shrink in the next few years as spending limits called for in the Budget Control Act (BCA) continue and the economy continues to recover, becoming a surplus starting in 2019 that peaks at 0.5 percent of GDP in 2024.
- After 2025, however, increased spending for Social Security and health programs[2] due to the continued retirement of the baby boom generation and increases in the price of health care services is expected to cause primary surpluses to steadily deteriorate and become a primary deficit starting in 2028 that reaches 1.0 percent of GDP by 2038. After 2038, the age composition of the population is expected to stabilize and the pace of health care

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[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] The 2015 Medicare Trustees Report projects that the Hospital Insurance (HI) Trust Fund will remain solvent until 2030 (unchanged from last year's report). Under current law, tax revenue would be sufficient to pay 86 percent of estimated HI cost in 2030 and 84 percent by 2089. As for Social Security, under current law, the Old-Age, Survivors, and Disability Insurance (OASDI) Trust Fund reserves, considered on a theoretical combined basis, are projected to be depleted in 2034 (one year later than shown in last year's Financial Report), at which time the projected share of scheduled benefits payable from trust fund income is 79 percent, declining to 73 percent in 2089. The Disability Insurance (DI) Trust Fund alone was expected to deplete by the end of 2016, at which time 81 percent of scheduled benefits would be payable. However, the impending depletion of the DI Trust Fund was circumvented by the passage of the Bipartisan Budget Act of 2015, which reallocated a portion of the payroll tax rate from the Old Age Survivors Insurance Trust Fund to the DI Trust Fund. This reallocation is expected to ensure full payment of disability benefits into 2022. The projections assume full Social Security and Medicare benefits are paid after the corresponding trust funds are exhausted. See http://www.ssa.gov/oact/trsum/index.html pp 3, 10, 11

price increases is expected to slow, causing the primary deficit to gradually decrease and become a primary surplus in 2085 that reaches 0.1 percent of GDP in 2090.

- o In these projections, the Affordable Care Act (ACA)[3] provision of health insurance subsidies and expanded Medicaid coverage boost federal spending, and other ACA provisions significantly reduce per-beneficiary Medicare cost growth.
- o Overall, the ACA is projected to substantially reduce the growth rate of federal expenditures for Medicare over the next 75 years. However, as noted in the *Financial Report*, there is uncertainty about the extent to which the ACA's provisions will result in reduced health care cost growth. Even if those provisions work as intended and as assumed in these projections, Chart 5 still shows a persistent gap between projected receipts and total spending.

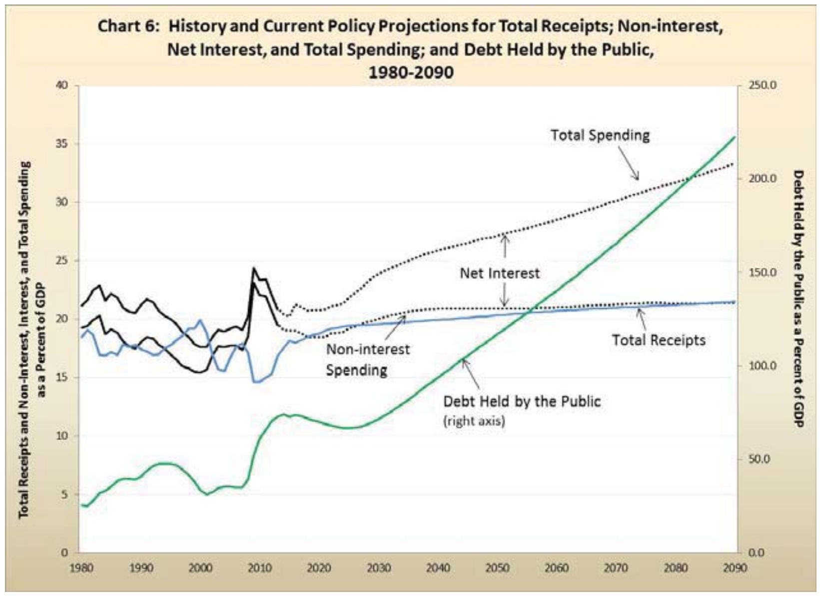

Chart 6: History and Current Policy Projections for Total Receipts; Non-interest, Net Interest, and Total Spending; and Debt Held by the Public, 1980-2090

The primary deficit projections in Charts 5 and 6 (left axis), along with those for interest rates and GDP, determine the debt-to-GDP ratio projections shown in Chart 6 (right axis).

- The debt-to-GDP ratio was 74 percent at the end of FY 2015, and under the long-term fiscal projections of current policy is projected to be 67 percent in 2025, 106 percent in 2045, and 223 percent in 2090. The debt-to-GDP ratio rises at an accelerating rate despite primary deficits that flatten out because higher levels of debt lead to higher net interest expenditures, and higher net interest expenditures lead to higher debt. The continuous rise of the debt-to-GDP ratio after 2025 indicates that current policy is unsustainable.
- These debt-to-GDP projections are generally lower than the corresponding projections in both the FY 2014 and FY 2013 *Financial Reports*. For example, the debt-to-GDP projection for 2088 (the final projection year for the 2013 report) is 217 percent in this year's *Financial Report*, was 315 percent in the FY 2014 *Financial Report*, and was 277 percent in the FY 2013 *Financial Report*.[4]

The Fiscal Gap and the Cost of Delaying Policy Reform

- It is estimated that preventing the debt-to-GDP ratio from rising over the next 75 years would require some combination of spending reductions and receipt increases that amount to 1.2 percent of GDP on average over the next 75 years, 0.9 percentage points smaller than the 2.1 percent estimate in 2014.
- The timing of changes to non-interest spending and receipts that close this "75-year fiscal gap" has important implications for the well-being of future generations.
  - o For example, relative to a policy that begins immediately, if action is delayed by 10 years, it is estimated that the magnitude of reforms necessary to close the 75-year fiscal gap will increase by about 25 percent; if action is delayed by 20 years, the magnitude of reforms necessary will increase by nearly 60 percent.

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[3] The ACA refers to P.L. 111-148, as amended by P.L. 111-152. The ACA 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 ACA. (See Note 23 and the Required Supplementary Information section of the *Financial Report,* and the 2014 Medicare Trustees Report for more information).

[4] See the Required Supplementary Information section of the FY 2014 Financial Report of the U.S. Government for more information about changes from the long term fiscal projections for FY 2014.

- o Future generations are harmed by a policy delay of this sort 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

- The Government took significant steps towards fiscal sustainability by enacting the ACA in 2010, the BCA in 2011, and the American Taxpayer Relief Act (ATRA) in 2013. The ACA holds the prospect of lowering long-term per beneficiary spending growth for Medicare and Medicaid, the BCA significantly curtails discretionary spending, and ATRA increased revenues. Together, these three laws substantially reduce the estimated long-term fiscal gap.
- But even with these laws, the Government's debt-to-GDP ratio is projected to remain relatively flat over the next ten years, and then commence a continuous rise over the remaining projection period and beyond if current policy is kept in place. This trend implies that current policy is not sustainable.
- Subject to the important caveat that changes in policy are not so abrupt that they slow continued economic growth, the sooner policies are put in place to avert these trends, the smaller the revenue increases and/or spending decreases will need to be to return the Government to a sustainable fiscal path.

The Nation By The Numbers

The *Financial Report* provides the President, Congress, and the American people a comprehensive view of how the Government is managing taxpayer dollars. It discusses the Government's financial position and condition, its revenues and costs, assets and liabilities, and other responsibilities and commitments, as well as important financial issues that affect the nation and its citizens both now and in the future. The table on the following page presents several key indicators of the Government's financial position and condition, which are summarized in this Guide and discussed in greater detail in the *Financial Report*.

The Government Accountability Office's (GAO) audit report on the U.S. Government's consolidated financial statements can be found beginning on page 239 of the full *Financial Report*. For the reasons discussed below, GAO was prevented from expressing (disclaimed) an opinion on these consolidated financial statements. GAO disclaimed an opinion on the 2015 Statement of Long-Term Fiscal Projections; the 2015, 2014, 2013, 2012, and 2011 Statements of Social Insurance (SOSI); and the 2015 and 2014 Statements of Changes in Social Insurance Amounts because of significant uncertainties (discussed in Note 23 in the *Financial Report*) primarily related to the achievement of projected reductions in Medicare cost growth and certain other limitations. In addition, GAO disclaimed an opinion on the remaining FY 2015 and 2014 financial statements in the *Financial Report* due to certain material financial reporting control weaknesses and other limitations on the scope of its work.

NATION BY THE NUMBERS

A Snapshot of
The Government's Financial Position & Condition

Dollars in Billions		2015		2014
Gross Costs	**$**	**(4,253.7)**	**$**	**(4,251.4)**
Less: Earned Revenue	$	375.6	$	417.9
Gain/(Loss) from Changes in Assumptions	$	19.3	$	(3.5)
Net Cost	**$**	**(3,858.8)**	**$**	**(3,837.0)**
Less: Total Tax and Other Revenues	**$**	**3,334.0**	**$**	**3,066.1**
Unmatched Transactions and Balances[1]	$	5.1	$	(20.4)
Net Operating Cost	**$**	**(519.7)**	**$**	**(791.3)**
Assets:	**$**	**3,229.8**	**$**	**3,065.3**
Less: Liabilities, comprised of:				
Debt Held By the Public & Accrued Interest	$	(13,172.5)	$	(12,833.6)
Federal Employee & Veteran Benefits	$	(6,719.3)	$	(6,672.6)
Other	$	(1,559.9)	$	(1,259.8)
Total Liabilities	**$**	**(21,451.7)**	**$**	**(20,766.0)**
Net Position (Assets Less Liabilities)	**$**	**(18,221.9)**	**$**	**(17,700.7)**
Sustainability Measures:				
Social Insurance Net Expenditures[2]	$	(41,487)	$	(41,916)
Total Non-Interest Net Expenditures[3]	$	(4,100)	$	(4,700)
Sustainability Measures as Percent of Gross Domestic Product (GDP)[4]:				
Social Insurance Net Expenditures		(3.7%)		(4.0%)
Non-Interest Spending Less Receipts		(0.3%)		(0.4%)
Budget Results				
Unified Budget Deficit	**$**	**(438.9)**	**$**	**(483.4)**

1 Reflects adjustments made to bring certain accounts into balance for such items as restatements and errors in federal agency reporting and unreconciled intragovernmental transactions and balances among agencies.

2 Source: Statement of Social Insurance. Amounts equal present value of projected revenues and expenditures for scheduled benefits over the next 75 years of certain benefit programs that are referred to as Social Insurance (e.g., Social Security, Medicare). Amounts represent 'open group' population (all current and future beneficiaries). These amounts are not considered liabilities on the balance sheet.

3 Source: Statement of Long-Term Fiscal Projections. Represents the 75-year projection of the federal government's receipts less non-interest spending.

4 GDP values used represent the average of 75-year present value of nominal GDP for 2015 and 2014 based on the Social Security and Medicare Trustees Reports.

Find Out More

The *2015 Financial Report of the United States Government* and other information about the nation's finances are available at:

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