

NATION BY THE NUMBERS		
A Snapshot of The Government's Financial Position & Condition		
	2017	2016*
Financial Measures (Dollars in Billions):		
Gross Costs	\$ (4,609.3)	\$ (4,515.7)
Less: Earned Revenue	\$ 431.9	\$ 383.9
Gain/(Loss) from Changes in Assumptions	\$ (356.5)	\$ (273.3)
Net Cost	\$ (4,533.9)	\$ (4,405.1)
Less: Total Tax and Other Revenues	\$ 3,374.6	\$ 3,345.3
Unmatched Transactions and Balances	\$ 2.6	\$ 8.1
Net Operating Cost	\$ (1,156.7)	\$ (1,051.7)
Budget Deficit	\$ (665.7)	\$ (587.4)
Assets:	\$ 3,480.7	\$ 3,534.8
Less: Liabilities, comprised of:		
Debt Held By the Public & Accrued Interest	\$ (14,724.1)	\$ (14,221.1)
Federal Employee & Veteran Benefits	\$ (7,700.1)	\$ (7,209.4)
Other	\$ (1,472.7)	\$ (1,401.1)
Total Liabilities	\$ (23,896.9)	\$ (22,831.6)
Net Position (Assets Less Liabilities)	\$ (20,416.2)	\$ (19,296.8)
Sustainability Measures (Dollars in Trillions):		
Social Insurance Net Expenditures	\$ (49.0)	\$ (46.7)
Total Federal Non-Interest Net Expenditures	\$ (16.2)	\$ (10.6)
Sustainability Measures as Percent of Gross Domestic Product (GDP):		
Social Insurance Net Expenditures	(4.0%)	(3.8%)
Total Federal Non-Interest Net Expenditures	(1.2%)	(0.8%)
Fiscal Gap ¹	(2.0%)	(1.6%)
*Restated (See Financial Statement Note 1.V)		
¹ 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 amounts to 2.0 percent of GDP on average is needed (1.6 percent of GDP on average in 2016). See Financial Statement Note 23.		

Executive Summary to the Fiscal Year 2017 Financial Report of the United States Government

The Fiscal Year 2017 *Financial Report* of the U.S. Government (*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 the U.S. Department of the Treasury (Treasury) in coordination with the Office of Management and Budget (OMB) 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 Summary and, in greater detail, in the *Financial Report*. The Secretary of the Treasury, Director of OMB, and the Comptroller General of the United States at the Government Accountability Office 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 September 30, 2017. Note 25, Subsequent Events discusses events that occurred after the end of the fiscal year which may affect the Government's financial position and condition.

Where We Are Now

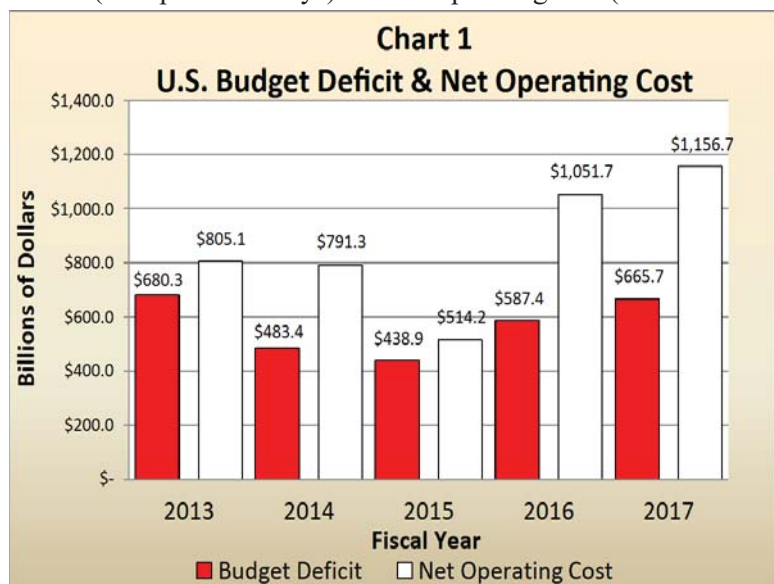
Comparing the Budget and the Financial Report

The *Budget of the United States Government (Budget)* and the *Financial Report of the U.S. Government* 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 (*Government*) and spending is measured as *outlays*, or payments made by the Government to the public. Receipts greater than outlays creates a budget *surplus*; and outlays greater than receipts creates 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 (FY) 2013 - 2017. During FY 2017:

- A \$126.5 billion increase in outlays was offset in part by a \$48.2 billion increase in receipts to increase the budget deficit by \$78.3 billion (about 13.3 percent) to \$665.7 billion.
- Net operating cost increased by \$105.0 billion or 10.0 percent to \$1.2 trillion, due largely to a \$128.8 billion (2.9 percent) increase in net cost, offset by a slight \$29.3 billion (0.9 percent) increase in tax and other revenues.
- The \$491.0 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 and certain other liabilities that are included in net operating cost, but not the budget deficit.

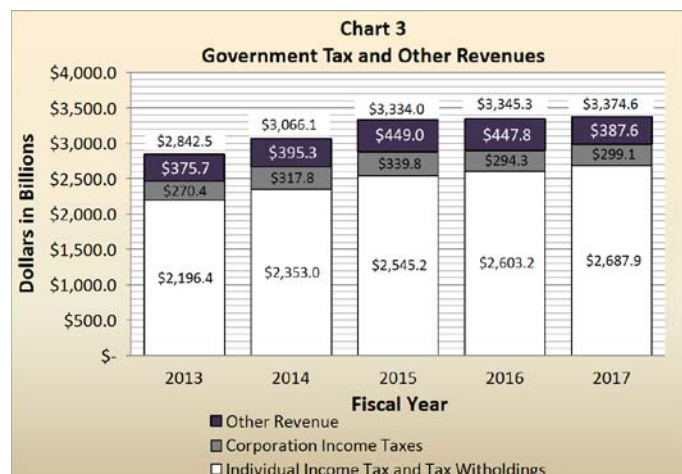
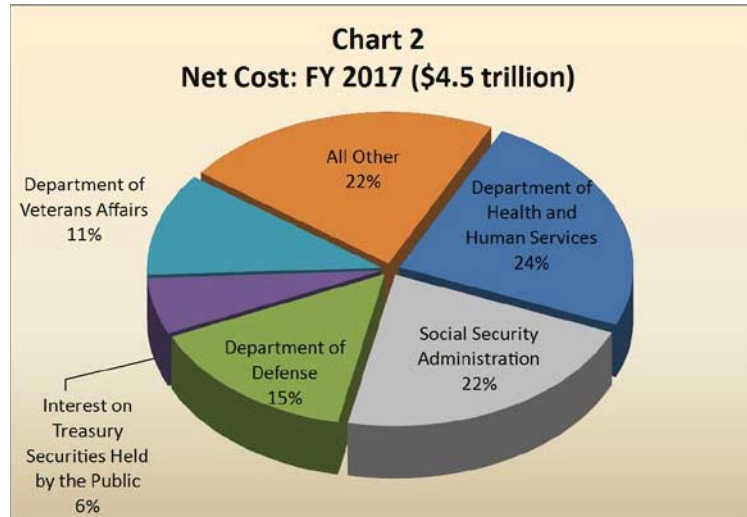


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Costs and Revenues

The Government's "bottom line" net operating cost increased \$105.0 billion (10.0 percent) during FY 2017 to \$1.2 trillion. It is calculated as follows:

- Starting with total gross costs of \$4.6 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 \$4.5 trillion (see Chart 2), an increase of \$128.8 billion (2.9 percent) from FY 2016. This net increase is the combined effect of many offsetting increases and decreases across the Government. For example:
 - Agencies administering federal employee and veterans benefits programs, including the Office of Personnel Management (OPM), Department of Veterans Affairs (VA), and Department of Defense (DOD) employ a complex series of assumptions, including but not limited to interest rates, beneficiary eligibility, life expectancy, and medical cost levels, to make actuarial projections of their long-term benefits liabilities. Changes in these assumptions can result in either losses (net cost increases) or gains (net cost decreases). Across the Government, these net actuarial losses amounted to \$356.5 billion in FY 2017, an increase of \$83.2 billion over FY 2016.
 - Agencies that extend credit to the public, including student and housing loans, estimate and re-estimate long-term program cost employing multiple loan performance and economic assumptions. For example, these estimates and re-estimates contributed to a \$19.4 billion net cost decrease at the Department of Education and a \$39.7 billion net cost increase at the Department of Housing and Urban Development.
 - Department of Health and Human Services (HHS) and Social Security Administration (SSA) net costs increased \$11.8 billion and \$17.0 billion, respectively, largely due to increases in benefit expenses from the social insurance programs administered by those agencies (e.g., Medicare, Social Security). DOD net costs increased by \$56.2 billion due largely to the aforementioned changes in assumptions. Interest costs on the debt held by the public increased \$23.3 billion due largely to an increase in the debt.
 - Department of Energy (DOE) net costs decreased \$23.0 billion predominantly due to changes in estimated environmental remediation costs compared to FY 2016 and Department of Homeland Security (DHS) net costs increased \$10.9 billion primarily for hurricane response and recovery.
- The Government deducts tax and other revenues from net cost (with some adjustments) to derive its FY 2017 "bottom line" net operating cost of \$1.2 trillion.
 - From Chart 3, total Government tax and other revenues grew by \$29.3 billion (0.9 percent) to about \$3.4 trillion for FY 2017.
 - Together, individual income tax and tax withholdings, and corporation taxes accounted for about 88.5 percent of total tax and other revenues in FY 2017. 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, 2017:

- Total assets (\$3.5 trillion) consist mostly of \$1.3 trillion in net loans receivable (primarily student loans) and \$1.0 trillion in net property, plant, and equipment).

- 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 (\$23.9 trillion) consist mostly of: (1) \$14.7 trillion in federal debt securities held by the public and accrued interest and (2) \$7.7 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 \$5.6 trillion of intragovernmental debt outstanding, which arises when one part of the Government borrows from another.

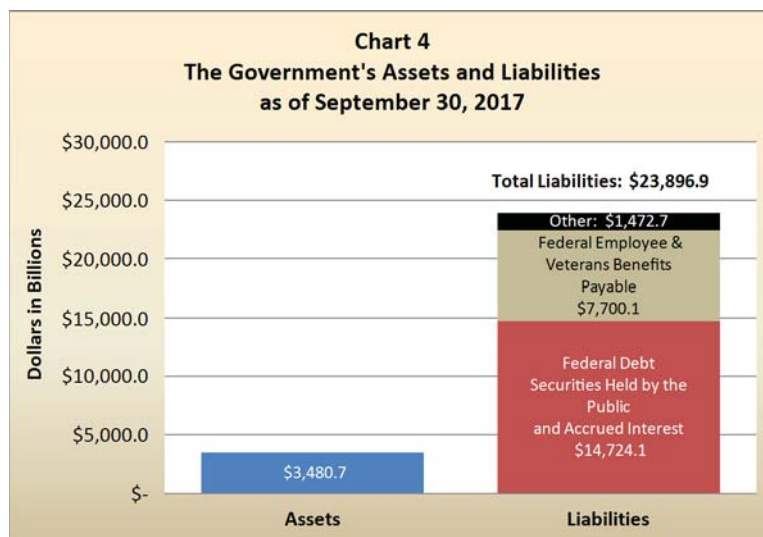
- For example, Government funds (e.g., Social Security and Medicare trust funds) typically must invest excess annual receipts, including interest earnings, in Treasury-issued federal debt securities. Although not reflected in Chart 4, these securities are included in the calculation of federal debt subject to the debt limit.

- 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”).

- At the end of FY 2017, debt subject to the statutory limit (DSL) was \$20.2 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.

- Legislation most recently suspended the debt limit from November 2, 2015 through March 15, 2017, and from September 8, 2017 through December 8, 2017. See Note 25, Subsequent Events, of the *Financial Report* for developments since the end of the fiscal year.

Considering key macroeconomic indicators can help place the discussion of the Government's financial results in a broader context. During FY 2017, the economy continued to grow, job growth decelerated, 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

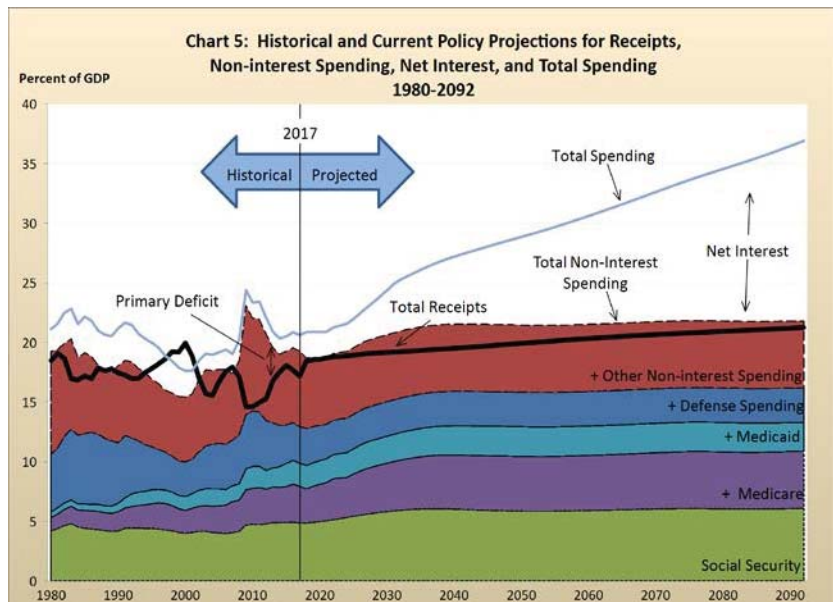
An important purpose of this *Financial Report* is to help citizens understand current fiscal policy and the importance and magnitude of policy reforms necessary to make it sustainable. A sustainable fiscal policy is one where the ratio of debt held by the public to Gross Domestic Product (GDP) (the 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 the *Financial Report* assume current policy will continue indefinitely.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, net interest, and total spending expressed as a percent of GDP. The projections do not reflect the *Tax Cuts and Jobs Act* (P.L. 115-97) enacted on December 22, 2017; for more information on the Act, see Note 25, Subsequent Events.

- The primary deficit is the difference between non-interest spending and receipts. The primary deficit expressed as a ratio relative to GDP (the primary deficit-to-GDP ratio) is useful for gauging long-term fiscal sustainability.
- The primary deficit-to-GDP ratio spiked during 2009 through 2012 due to the financial crisis 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 1.9 percent from 2013-2017. The ratio is projected to shrink further through 2021 as discretionary spending limits remain in effect and economic recovery boosts tax receipts.
- After 2021, increased spending for Social Security and health programs² due to the continued retirement of the baby boom generation and increases in health care costs is projected to result in increasing primary deficits through 2038 when the primary deficit-to-GDP ratio reaches 2.1 percent. After 2038, the ratio slowly declines as the aging of the population slows, and reaches 0.6 percent in 2091.



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 2017 Trustees Report for Medicare (pp 4-5) and Social Security (pp 4-23).

- The persistent long-term gap between projected receipts and total spending shown in Chart 5 occurs despite the projected effects of the *Affordable Care Act (ACA)*³ on long-term deficits.
 - Enactment of the ACA in 2010 and the Medicare Access and CHIP Reauthorization Act (MACRA) in 2015 established cost controls for Medicare hospital and physician payments whose long-term effectiveness is still to be demonstrated.
 - There is uncertainty about the extent to which these projections can be achieved and whether the ACA’s provisions that reduce Medicare cost growth will be overridden by new legislation.

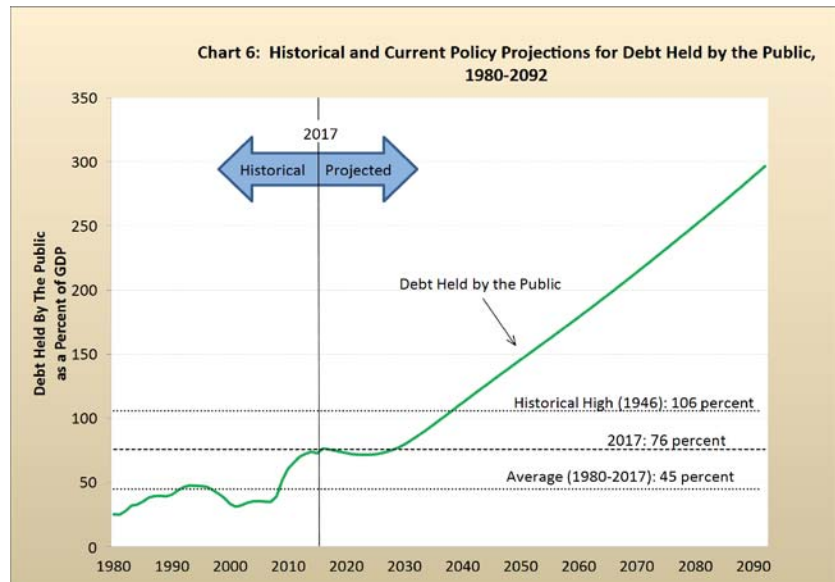
Table 1 summarizes the status and projected trends of the Government’s Social Security and Medicare Trust Funds.

Table 1: Trust Fund Status		
Fund	Projected Depletion	Projected Post-Depletion Trend
Medicare Hospital Insurance (HI)*	2029 (2028 in FY 2016 Report)	In 2029, trust fund income is projected to cover 88 percent of benefits, decreasing to 81 percent in 2041, then increasing to 88 percent by 2091.
Combined Old-Age Survivors and Disability Insurance (OASDI)**	2034 (unchanged from FY 2016 Report)	In 2034, trust fund income is projected to cover 77 percent of scheduled benefits, decreasing to about 73 percent by 2091.

* Source: 2017 Medicare Trustees Report ** Source: 2017 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 76 percent at the end of FY 2017, and under current policy is projected to be 74 percent in 2027, 136 percent in 2047, and 297 percent in 2092.
- The debt-to-GDP ratio rises continuously despite flat primary deficits 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 after 2026 indicates that current fiscal policy is unsustainable.
- These debt-to-GDP projections are generally higher than the corresponding projections in both the FY 2016 and FY 2015 *Financial Reports*.



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 22 and the Required Supplementary Information section of the *Financial Report*, and the 2017 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 2017 is 2.0 percent of GDP (compared to 1.6 percent for 2016).
- 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 2.0 percent of GDP on average over the next 75 years. The fiscal gap represents 10.0 percent of 75-year present value receipts and 9.4 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	
Costs of Delaying Fiscal Reform	
Period of Delay	Change in Average Primary Surplus
Reform in 2018 (No Delay)	2.0 percent of GDP between 2018 and 2092
Reform in 2028 (Ten-Year Delay)	2.4 percent of GDP between 2028 and 2092
Reform in 2038 (Twenty-Year Delay) ..	3.0 percent of GDP between 2038 and 2092

- 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 about 20 percent from 2.0 percent of GDP on average over 75 years to 2.4 percent on average over 65 years; if action is delayed by 20 years, the magnitude of reforms necessary increases by about 50 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 remain relatively stable over the next decade, and then continuously rise over the remaining projection period and beyond if current policy is kept in place. This trend implies that current policy is not sustainable.
- As long as changes in policy are not so abrupt as to slow economic growth, the sooner policy changes are adopted, the smaller the changes to revenue and/or spending will need to be to return the Government to a sustainable fiscal path.

Find Out More

The 2017 *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, <https://www.whitehouse.gov/omb/management/office-federal-financial-management/>; and
- GAO, <http://www.gao.gov/financial.html>

The Government Accountability Office's (GAO) audit report on the U.S. Government's consolidated financial statements can be found beginning on page 218 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.