NATION BY THE NUMBERS

A Snapshot of The Government's Financial Position & Condition

		2018		2017*
Financial Measures (Dollars in Billions):				
Gross Costs	**$**	**(4,808.5)**	**$**	**(4,606.2)**
Less: Earned Revenue	$	392.8	$	431.9
Gain/(Loss) from Changes in Assumptions	$	(125.2)	$	(356.5)
Net Cost	**$**	**(4,540.9)**	**$**	**(4,530.8)**
Less: Total Tax and Other Revenues	$	3,384.3	$	3,374.6
Unmatched Transactions and Balances	$	(2.4)	$	2.6
Net Operating Cost	**$**	**(1,159.0)**	**$**	**(1,153.6)**
Budget Deficit	**$**	**(779.0)**	**$**	**(665.7)**
Assets, comprised of:				
Loans Receivable, Net	$	1,419.1	$	1,350.2
Property, Plant, and Equipment, Net	$	1,090.5	$	1,087.0
Other	$	1,327.1	$	1,097.7
Total Assets	**$**	**3,836.7**	**$**	**3,534.9**
Less: Liabilities, comprised of:				
Debt Held By the Public & Accrued Interest	$	(15,812.7)	$	(14,724.1)
Federal Employee & Veteran Benefits	$	(7,982.3)	$	(7,700.1)
Other	$	(1,562.5)	$	(1,472.6)
Total Liabilities	**$**	**(25,357.5)**	**$**	**(23,896.8)**
Net Position (Assets Less Liabilities)	**$**	**(21,520.8)**	**$**	**(20,361.9)**
Sustainability Measures (Dollars in Trillions):				
Social Insurance Net Expenditures	$	(53.8)	$	(49.0)
Total Federal Non-Interest Net Expenditures	$	(46.2)	$	(16.2)
Sustainability Measures as Percent of Gross Domestic Product (GDP):				
Social Insurance Net Expenditures		(4.0%)		(4.0%)
Total Federal Non-Interest Net Expenditures		(3.3%)		(1.2%)
Fiscal Gap[1]		(4.1%)		(2.0%)

*Restated - see Financial Statement Note 1.U

[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 4.1 percent of GDP on average is needed (2.0 percent of GDP on average in 2017). See Financial Statement Note 23.

Executive Summary to the Fiscal Year 2018 Financial Report of the United States Government

The Fiscal Year 2018 *Financial Report of the United States 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 (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, 2018 and 2017. Note 26, Subsequent Events discusses events that occurred after the end of the fiscal year which may affect the government's financial position and condition.

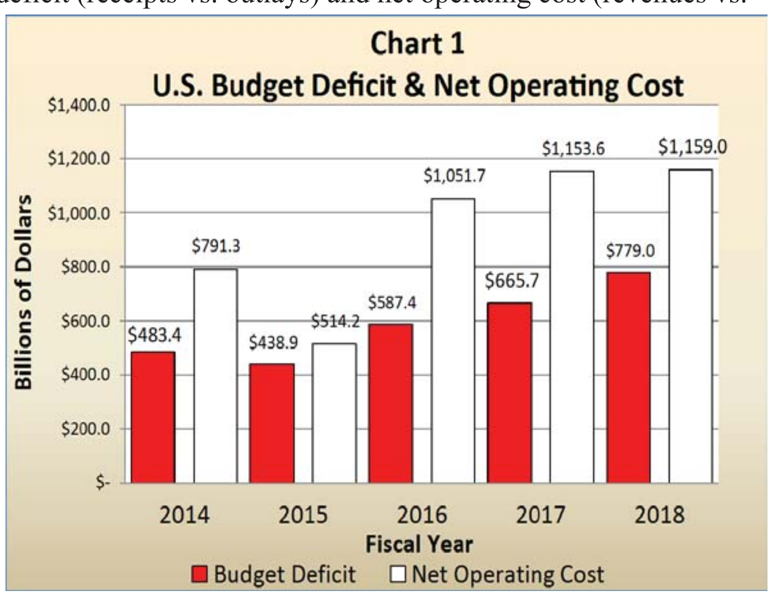
Where We Are Now

Comparing the Budget and the Financial Report

The *Budget of the United States Government (Budget)* and the *Financial Report* 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 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.

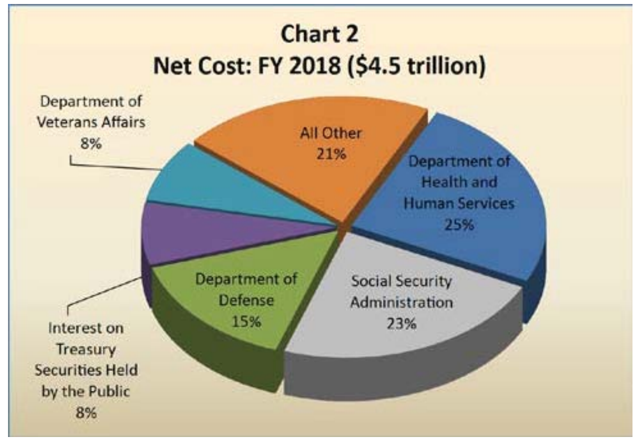
Chart 1 compares the government's budget deficit (receipts vs. outlays) and net operating cost (revenues vs. costs) for fiscal years 2014 - 2018. During fiscal year 2018:



- A $127.1 billion increase in outlays was offset in part by a $13.8 billion increase in receipts to increase the budget deficit by $113.3 billion (about 17.0 percent) to $779.0 billion.
- Net operating cost remained largely unchanged during fiscal year 2018 at $1.2 trillion, increasing by $5.4 billion or 0.5 percent. This is due mostly to a $10.1 billion or 0.2 percent increase in net cost which slightly more than offset a $9.7 billion or 0.3 percent increase in tax and other revenues.
- The $380.0 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.

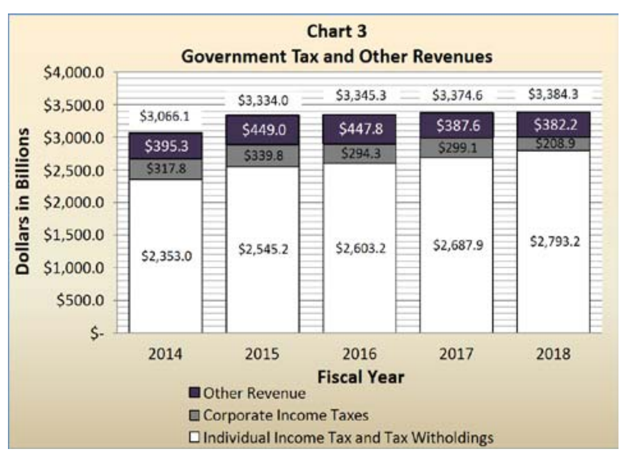
Costs and Revenues

The government's "bottom line" net operating cost remained largely unchanged at $1.2 trillion during fiscal year 2018, increasing by $5.4 billion (0.5 percent). It is calculated as follows:



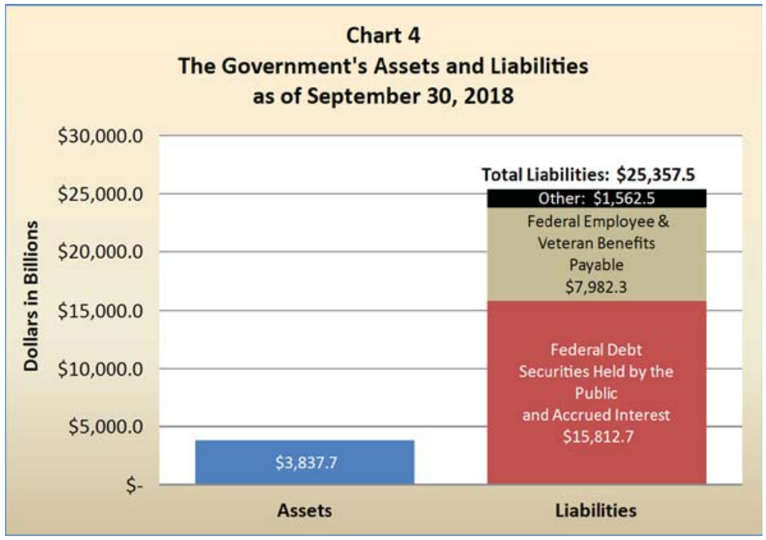
- Starting with total gross costs of $4.8 trillion, the government subtracts earned program revenues (e.g., Medicare premiums, national park entry fees, and postal service fees) and adjusts the balance for gains or losses from changes in actuarial assumptions used to estimate future federal employee and veterans benefits payments to derive its net cost before taxes and other revenues of $4.5 trillion (see Chart 2), an increase of $10.1 billion (0.2 percent) from fiscal year 2017. 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 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 losses from changes in assumptions amounted to $125.2 billion in fiscal year 2018, a loss decrease (and a corresponding net cost decrease) of $231.3 billion compared to fiscal year 2017.
  - The Department of Energy's (DOE) net cost increased by $99.6 billion, predominantly due changes in estimated environmental remediation costs.
  - Department of Health and Human Services (HHS) and Social Security Administration (SSA) net costs increased $56.4 billion and $39.5 billion, respectively, largely due to increases in benefit expenses from the social insurance programs administered by those entities (e.g., Medicare, Social Security).
  - At DOD, a $33.0 billion net cost increase includes a $39.2 billion decrease in earned revenues across the Department, as well as increases in the costs of procurement, personnel, and research and development. These increases were partially offset by a decrease in losses from changes in assumptions referenced above and a decrease in costs of military operations, readiness, and support.
  - Interest costs related to the federal debt held by the public increased by $61.0 billion due largely to an increase in the debt and average interest rates, as well as inflation adjustments on certain Treasury securities. Interest costs increased by 20.6 percent in 2018 from 2017 and by 37.4 percent over the past five years.

- The government deducts tax and other revenues from net cost (with some adjustments) to derive its fiscal year 2018 "bottom line" net operating cost of $1.2 trillion.
  - From Chart 3, total government tax and other revenues grew by $9.7 billion (0.3 percent) to about $3.4 trillion for fiscal year 2018.
  - Together, individual income tax and tax withholdings, and corporate taxes accounted for about 88.7 percent of total tax and other revenues in fiscal year 2018. 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, 2018:



- Total assets ($3.8 trillion) consist mostly of $1.4 trillion in net loans receivable (primarily student loans) and $1.1 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 ($25.4 trillion) consist mostly of: (1) $15.8 trillion in federal debt securities held by the public and accrued interest and (2) $8.0 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 $5.8 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 fiscal year 2018, debt subject to the statutory limit was $21.5 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 February 9, 2018 through March 1, 2019. Effective March 2, 2019, the statutory debt limit was set at $22.0 trillion, and on March 4, 2019, the Secretary of the Treasury notified the Congress that the statutory debt limit would be reached on or after that day. When delays in raising the debt limit occur, 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 its bills. Treasury began taking these extraordinary measures on March 4, 2019.

Key Economic Trends

An examination of key macroeconomic indicators is essential to the discussion of the government's financial performance. During fiscal year 2018, economic growth and the pace of job creation each accelerated, and 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*.

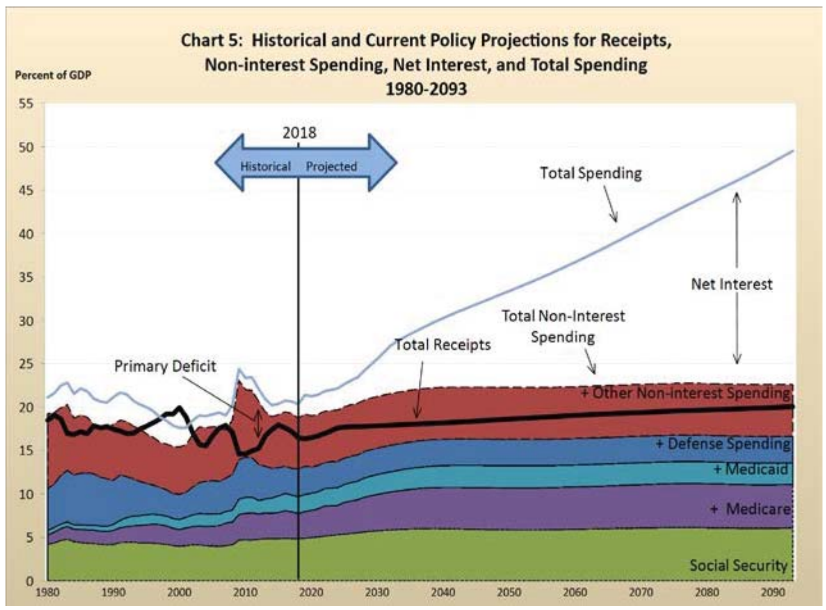
An Unsustainable Fiscal Path

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 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, policy changes must be enacted so that 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 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 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 1.9 percent from 2013-2018. The ratio is projected to rise to 2.9 percent in 2019 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 2039, when the primary deficit-to-GDP ratio reaches 4.1 percent. After 2039, the ratio gradually decreases as the aging of the population continues at a slower pace, and reaches 2.5 percent in 2093.

- These projections assume the individual income and estate and gift tax provisions of the TCJA are permanently extended and discretionary spending grows at the same rate as nominal GDP beyond 2019. Congressional action is required to make these changes. 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. See Note 23 for more information.

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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] See the 2018 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 *Affordable Care Act* (ACA)[3] on long-term deficits.
    - o 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.
    - o 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.

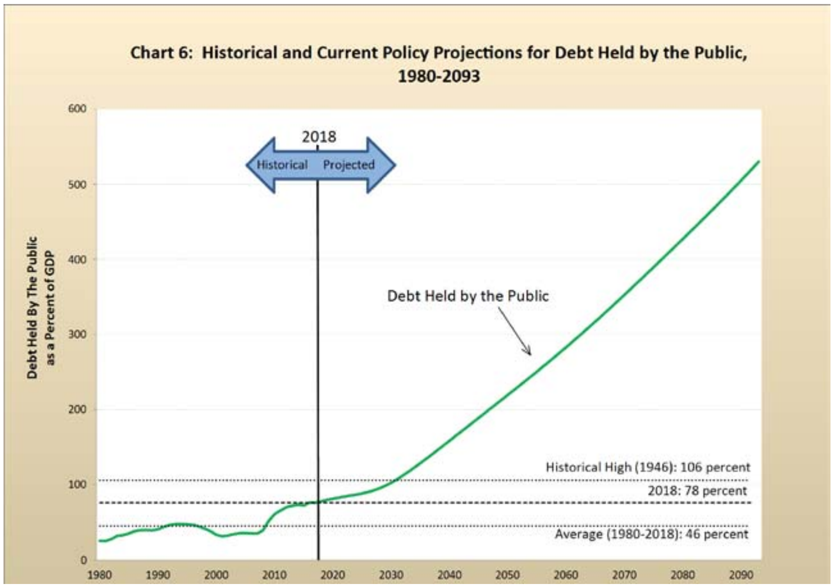
Table 1: Trust Fund Status

Fund	Projected Depletion	Projected Post-Depletion Trend
Medicare Hospital Insurance (HI)*	2026 (2029 in FY 2017 Report)	In 2026, trust fund income is projected to cover 91 percent of benefits, decreasing to 78 percent in 2042, then increasing to 85 percent by 2092.
Combined Old-Age Survivors and Disability Insurance (OASDI)**	2034 (unchanged from FY 2017 Report)	In 2034, trust fund income is projected to cover 79 percent of scheduled benefits, decreasing to about 74 percent by 2092.

* Source: 2018 Medicare Trustees Report ** Source: 2018 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 78 percent at the end of fiscal year 2018, and under current policy is projected to exceed 100 percent by 2030, and reach 530 percent in 2093.
- 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 higher than the corresponding projections in both the fiscal year 2017 and fiscal year 2016 *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 2018 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 2018 is 4.1 percent of GDP (compared to 2.0 percent for 2017).
- 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 4.1 percent of GDP on average over the next 75 years. The fiscal gap represents 21.9 percent of 75-year present value receipts and 18.6 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 2019 (No Delay)	4.1 percent of GDP between 2019 and 2093
Reform in 2029 (Ten-Year Delay)	4.9 percent of GDP between 2029 and 2093
Reform in 2039 (Twenty-Year Delay) ..	6.0 percent of GDP between 2039 and 2093

Note: Reforms taking place in 2018, 2028, and 2038 from the 2017 Financial Report were 2.0, 2.4, and 3.0 percent of GDP, respectively.

  - 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 nearly 20 percent from 4.1 percent of GDP on average over 75 years to 4.9 percent on average over 65 years); if action is delayed by 20 years, the magnitude of reforms necessary increases by about 46 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 the sooner those policy changes are adopted, the smaller the changes to revenue and/or spending will be required to return the government to a sustainable fiscal path.

Find Out More

The *2018 Financial Report* 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 226 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.