

United States Government Notes to the Financial Statements for the Fiscal Years Ended September 30, 2017, and 2016

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

This *Financial Report* includes the financial status and activities of the executive branch, the legislative branch, and the judicial branch of the government. The financial reporting period ends September 30 and is the same as used for the annual budget. The legislative and judicial branches are not required by law to submit financial statement information to Treasury; however, these branches are included in the *Financial Report*. Appendix A of this report lists the organizations and agencies (entities) included in the U.S. Government's consolidated reporting entity for the *Financial Report*, as well as some entities not included in the reporting entity. Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, provides criteria for determining which entities are included in the reporting entity. Such criteria are summarized in Appendix A. Also, as discussed further in Appendix A, certain entities are excluded from the *Financial Report* because they do not meet the criteria, such as Federal Home Loan Banks, or were specifically excluded from the consolidated reporting entity in accordance with SFFAC 2, such as the Board of Governors of the Federal Reserve System and bailout entities. Examples of bailout entities include the Federal Home Loan Mortgage Corporation (Freddie Mac) and Federal National Mortgage Association (Fannie Mae).

During fiscal year 2008, the government began a number of emergency economic measures relating to the economy that involved various financing programs. Key initiatives beginning in fiscal year 2008 involved programs concerning Fannie Mae and Freddie Mac (Government-Sponsored Enterprises [GSEs]), provision of a credit facility for GSEs and Federal Home Loan Banks, purchase of Mortgage-Backed Securities (MBSs), see Note 1.H—Investments in Government-Sponsored Enterprises and Note 8—Investments in Government-Sponsored Enterprises for detailed information.

Following GAAP for federal entities, the government has not consolidated into its financial statements the assets, liabilities, or results of operations of any financial organization or commercial entity in which Treasury holds either a direct, indirect, or beneficial equity investment. Even though some of the equity investments are significant, under SFFAC 2, these entities meet the criteria of paragraph 50 and do not appear in the federal budget section "Federal Programs by Agency and Account." As such, these entities are not consolidated into the financial reports of the government. However, the values of the investment in such entities are presented on the balance sheet.

Intragovernmental transactions are eliminated in consolidation, except as described in the Other Information—Unmatched Transactions and Balances, see Note 1.S—Unmatched Transactions and Balances for detailed information.

B. Basis of Accounting and Revenue Recognition

Consolidated Financial Statements

The consolidated financial statements of the government were prepared using GAAP, primarily based on FASAB's Statement of Federal Financial Accounting Standards (SFFAS). The consolidated financial statements include accrual-based financial statements and sustainability financial statements, which are discussed in more detail below, and the related notes to the consolidated financial statements. Collectively, the accrual-based financial statements, the sustainability financial statements, and the notes represent basic information that is deemed essential for the financial statements and notes to be presented in conformity with GAAP.

Accrual-Based Financial Statements

The accrual-based financial statements were prepared under the following principles:

- Expenses are generally recognized when incurred.
- Non-exchange revenue, including taxes, duties, fines, and penalties, are recognized when collected and adjusted for the change in net measurable and legally collectible amounts receivable. Related refunds and other offsets, including those that are measurable and legally payable, are netted against non-exchange revenue.
- Exchange (earned) revenue is recognized when the government provides goods and services to the public for a price. Exchange revenue includes user charges such as admission to federal parks and premiums for certain federal insurance.

The basis of accounting used for budgetary purposes, which is primarily on a cash basis (budget deficit) and follows budgetary concepts and policies, differs from the basis of accounting used for the financial statements which follow U.S. GAAP. See the Reconciliations of Net Operating Cost and Budget Deficit in the Financial Statements section.

Sustainability Financial Statements

The sustainability financial statements were prepared based on the projected present value of the estimated future revenue and estimated future expenditures, primarily on a cash basis, for a 75 year period¹. They include the Statements of Long-Term Fiscal Projections, covering all federal government programs, and the Statements of Social Insurance and the Statements of Changes in Social Insurance Amounts, covering social insurance programs (Social Security, Medicare, Railroad Retirement, and Black Lung programs). These estimates are based on economic as well as demographic assumptions presented in Notes 22 and 23. The sustainability financial statements are not forecasts or predictions. The sustainability financial statements are designed to illustrate the relationship between receipts and expenditures, if current policy is continued. For this purpose, the projections assume that scheduled social insurance benefit payments would continue after related trust funds are projected to be exhausted, contrary to current law, and that debt could continue to rise indefinitely without severe economic consequences.

By accounting convention, the Statements of Social Insurance do not include projected general revenues that, under current law, would be used to finance the remainder of the expenditures in excess of revenues for Medicare Parts B and D that is reported in the Statements of Social Insurance. The Statements of Long-Term Fiscal Projections include all revenues (including general revenues) of the federal government.

New Standards Issued in Prior Years and Implemented in Current Year

Beginning in fiscal year 2016, the government implemented the requirements of new standards related to the reporting for: Inventories and Related Property and Property, Plant, and Equipment. The standards being implemented are:

- FASAB issued SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*. SFFAS No. 48 permits a reporting entity to apply an alternative valuation method in establishing opening balances and applies when a reporting entity is presenting financial statements or one or more line items addressed by this statement. This method is permitted when presenting financial statements or one or more line items addressed in the standard. This standard can be applied for the first time or after a period during which existing systems could not provide the information necessary for producing GAAP-based financial statements without use of the alternative valuation methods. This is intended to provide an alternative method to adoption of GAAP when historical records and systems do not provide a basis for valuation of opening balances in accordance with SFFAS No. 3, *Accounting for Inventory and Related Property*. Reporting entities that meet either condition and elect to apply this statement should follow the guidance in SFFAS No. 21, *Reporting Corrections of Errors and Changes in Accounting Principles*. SFFAS No. 48 is effective beginning in fiscal year 2017. Early implementation was permitted. DOD did partially implement in 2016 and select component entities have continued to implement in 2017. DOD has not declared full implementation yet.
- FASAB issued SFFAS No. 50, *Establishing Opening Balances for General Property, Plant and Equipment*. SFFAS No. 50 permits a reporting entity to apply an alternative valuation method in establishing opening balances and applies when a reporting entity is presenting financial statements or one or more line items addressed by this statement. This standard can be applied for the first time or after a period during which existing systems could not provide the information necessary for producing GAAP-based financial statements without use of the alternative valuation methods. This is intended to provide an alternative method to adoption of GAAP when historical records and systems do not provide a basis for valuation of opening balance in accordance with SFFAS No. 6, *Accounting for Property, Plant, and Equipment*. This application is available to each reporting entity only once per line item

¹ With the exception of the Black Lung program, which has a rolling 25-year projection period through September 30, 2042.

addressed in this statement. Reporting entities meeting the conditions and electing to apply this statement should follow the guidance in SFFAS No. 21, *Reporting Corrections of Errors and Changes in Accounting Principles*. SFFAS No. 50 is effective beginning in fiscal year 2017. Early implementation was permitted. DOD did partially implement in 2016 and select component entities have continued to implement in 2017. DOD has not declared full implementation yet.

New Standards Issued and Not Yet Implemented

FASAB issued the following new standards that are applicable to the *Financial Report*, but are not yet implemented at the governmentwide level for fiscal year 2017:

- In December 2014, FASAB issued SFFAS No. 47, *Reporting Entity*. SFFAS No. 47 establishes principles to identify organizations for which elected officials are accountable. The standard also guides preparers of general purpose federal financial reports in determining what organizations to report upon, whether such organizations are considered “consolidation entities” or “disclosure entities,” and what information should be presented about those organizations. An organization is considered a consolidation entity if, based on assessment of the following characteristics as a whole, the organization: is financed through taxes and other non-exchange revenues, is governed by the Congress and/or President, imposes or may impose risks and rewards to the federal government, and provides goods and services on a non-market basis. Organizations listed in the budget, except for non-federal organizations receiving federal assistance, would generally qualify as consolidation entities (Consolidation aggregates the individual financial statements of organizations that constitute a reporting entity and results in presentation of information for a single economic entity representing consolidated activities supported by taxes and other non-exchange revenue, resources, and obligations). A disclosure entity has a greater degree of autonomy with the federal government than a consolidation entity. To avoid obscuring information about these more autonomous organizations while still providing accountability, certain information for each disclosure entity (such as the nature of the federal government’s relationship to the disclosure entity, magnitude of relevant activity, and future exposure) and the aggregation of the disclosure entities are only going to be disclosed at the governmentwide level. The standard also requires information to be provided about related party relationships (organizations are considered related parties if one party has the ability to exercise significant influence over the other party in making policy decisions). SFFAS No. 47 is effective for periods beginning after September 30, 2017 and early implementation is not permitted.
- In April 2016, FASAB issued SFFAS No. 49, *Public-Private Partnerships Disclosure Requirements*. SFFAS No. 49 establishes principles to ensure disclosure about Public-Private Partnerships (P3s) are presented in the reporting entity’s general purpose federal financial reports (GPFRRs). P3s are defined as “risk sharing” arrangements or transactions lasting more than five years between public and private sector entities. Disclosure requirements comprise quantitative and qualitative information to assist users in understanding the nature of P3s. P3s disclosures help achieve the operating performance and budgetary integrity objectives outlined in SFFAC No. 1. P3s are a form of investments. They should be adequately disclosed in order to assist report users in determining: (a) the important assets of the U.S. government and how effectively they are being managed and (b) the identification of risks. SFFAS No. 49 is effective for periods beginning after September 30, 2018 and early implementation is permitted; however, it is not being early implemented in fiscal year 2017.
- In January 2017, FASAB issued SFFAS No. 51, *Insurance Programs*. SFFAS No. 51 establishes accounting and financial reporting standards to ensure that insurance programs are adequately defined and report consistent information about the liabilities for losses incurred and claimed as well as expected losses during remaining coverage. These will replace the insurance guarantee program standards provided in paragraphs 97-121 of SFFAS No. 5, *Accounting for Liabilities of the Federal Government*. To support consistency, it identifies three categories: 1) exchange transaction insurance programs other than life insurance, 2) nonexchange transaction insurance programs and 3) life insurance programs. Insurance programs are categorized based upon the type of revenue received as defined by SFFAS No. 7, *Accounting for Revenue and Other Financing and Concepts for Reconciling Budgetary and Financial Accounting*, as amended. This provides guidance as to how and when insurance programs should recognize revenue, expenses and liabilities according to the aforementioned categories. The recognition measurement, and disclosure guidance provides for concise, meaningful and transparent information regarding the operating performance of insurance programs. SFFAS No. 51 is effective for periods beginning after September 30, 2018 and early implementation is not permitted.
- In May 2017, FASAB issued SFFAS 52, *Tax Expenditures*. SFFAS No. 52 requires certain information on tax expenditures to assist users of the *Financial Report* in understanding the existence, purpose, and impact of tax expenditures. It requires that the *Financial Report* include narrative disclosures and information regarding tax expenditures, the general purpose of tax expenditures, the impact on and treatment of tax expenditures within the federal budget process, and the impact of tax expenditures on the government’s financial position and condition. It

also requires that the *Financial Report* alert readers regarding the availability of published information on tax expenditure estimates, such as those published annually by the Department of the Treasury's Office of Tax Policy. SFFAS No. 52 also encourages presentation of tax expenditures as other information (OI) in the *Financial Report*. SFFAS No. 52 is effective for periods beginning after September 30, 2017 and early implementation is permitted; however, it is not being early implemented.

C. Accounts and Taxes Receivable

Accounts receivable represent claims to cash or other assets from entities outside the government that arise from the sale of goods or services, duties, fines, certain license fees, recoveries, or other provisions of the law. Accounts receivable are reported net of an allowance for uncollectible amounts. An allowance is established when it is more likely than not the receivables will not be totally collected. The allowance method varies among the agencies in the government and is usually based on past collection experience and is re-estimated periodically as needed. Methods include statistical sampling of receivables, specific identification and intensive analysis of each case, aging methodologies, and percentage of total receivables based on historical collection.

Taxes receivable consist primarily of uncollected tax assessments, penalties, and interest when taxpayers have agreed or a court has determined the assessments are owed. Taxes receivable do not include unpaid assessments when taxpayers or a court have not agreed that the amounts are owed (compliance assessments) or the government does not expect further collections due to factors such as the taxpayer's death, bankruptcy, or insolvency (write-offs). Taxes receivable are reported net of an allowance for the estimated portion deemed to be uncollectible. The majority of the allowance for uncollectible amounts is based on projections of collectible amounts from a statistical sample of unpaid assessments.

D. Loans Receivable and Loan Guarantee Liabilities

Direct loans obligated and loan guarantees committed after fiscal year 1991 are reported based on the present value of the net cash flows estimated over the life of the loan or guarantee. The difference between the outstanding principal of the direct loans and the present value of their net cash inflows is recognized as a subsidy cost allowance. The present value of estimated net cash flows of the loan guarantees is recognized as a liability for loan guarantees.

The subsidy expense for direct or guaranteed loans disbursed during a fiscal year is the present value of estimated net cash flows for those loans or guarantees. A subsidy expense also is recognized for modifications made during the year to loans and guarantees outstanding and for re-estimates made as of the end of the fiscal year to the subsidy allowances or loan guarantee liability for loans and guarantees outstanding.

Direct loans obligated and loan guarantees committed before fiscal year 1992 are valued under two different methodologies within the government: the allowance-for-loss method and the present-value method. Under the allowance-for-loss method, the outstanding principal of direct loans is reduced by an allowance for uncollectible amounts; the liability for loan guarantees is the amount the agency estimates would more likely than not require future cash outflow to pay default claims. Under the present-value method, the outstanding principal of direct loans is reduced by an allowance equal to the difference between the outstanding principal and the present value of the expected net cash flows. The liability for loan guarantees is the present value of expected net cash outflows due to the loan guarantees.

E. Inventories and Related Property

Inventory is tangible personal property that is (1) held for sale, principally to federal agencies, (2) in the process of production for sale, or (3) to be consumed in the production of goods for sale or in the provision of services for a fee. SFFAS No. 3, *Accounting for Inventory and Related Property*, requires inventories held for sale and held in reserve for future sale within the government to be valued using either historical cost or a method that reasonably approximates historical cost. Historical cost methods include first-in-first-out, weighted average, and moving average. Any other valuation method may be used if the results reasonably approximate one of the historical cost methods. FASAB issued additional guidance SFFAS No. 48, which permits a reporting entity to apply an alternative valuation method in establishing opening balances for inventory, operating materials and supplies and stockpile materials and is intended to provide an alternative valuation method when historical records and systems do not provide a basis for valuation of opening balances in accordance with SFFAS No. 3.

DOD values approximately 98 percent of resale inventory using the moving average cost method. Additionally, DOD reports the remaining 2 percent of resale inventories at an approximation of historical cost using latest acquisition cost (LAC) adjusted for holding gains and losses. DOD continues to implement SFFAS No. 48. Some components within DOD used the deemed cost measures from this standard for fiscal year 2016; additional components used the deemed cost measure from the standard in fiscal year 2017 using a combination of standard price (selling price), latest acquisition cost, estimated historical cost, and historical cost as the basis for valuation.

Related property includes commodities, seized monetary instruments, forfeited and foreclosed property, raw materials and work in process. Operating materials and supplies are valued at historical cost or on a basis that reasonably approximates historical cost using the purchase and consumption method of accounting. Operating materials and supplies that are valued at latest acquisition cost and standard pricing are not adjusted for holding gains and losses.

F. Property, Plant, and Equipment

Property, Plant and Equipment (PP&E) consists of tangible assets including buildings, equipment, construction in progress, internal use software, assets acquired through capital leases (including leasehold improvements), and other assets used to provide goods and services.

SFFAS No. 6 requires general PP&E to be recorded at cost. Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use. PP&E used in government operations are carried at acquisition cost, with the exception of some DOD equipment. In some instances, DOD equipment is valued at estimated historical costs, which are calculated using internal DOD records. To establish a baseline, DOD accumulated information relating to program funding and associated equipment, equipment useful life, program acquisitions, as well as disposals. The equipment baseline is updated using expenditure information and information related to acquisitions and disposals. FASAB issued additional guidance, SFFAS No. 50, which permits a reporting entity to apply an alternative method to establish opening balances for general PP&E and is intended to provide an alternative valuation method when existing systems do not provide a basis for valuation of opening balances in accordance with SFFAS No. 6. During fiscal year 2016, select DOD components implemented this standard; additional components used the alternative valuation methods under the standard in fiscal year 2017 using historical records such as expenditure data, contracts, budget information, and engineering documentation as the method of valuation. SFFAS No. 50 also permits a reporting entity to apply an alternative method to establish opening balances for land and land rights which includes excluding land and land rights from the PP&E opening balance. If this method is applied, future land and land right acquisitions should be expensed. DOD has extensive efforts underway to change asset values to include the exclusion of land and land rights from opening balances in fiscal year 2018.

All PP&E is capitalized if the acquisition costs (or estimated acquisition cost for DOD) are in excess of capitalization thresholds that vary considerably between the federal entities. Depreciation and amortization expense applies to PP&E reported on the balance sheets except for land, unlimited duration land rights, and construction in progress. Depreciation and amortization are recognized using the straight-line method over the estimated useful lives of the assets. All PP&E are assigned useful lives depending on their category. The cost of acquisition, betterment, or reconstruction of all multi-use heritage assets is capitalized as general PP&E and is depreciated. Construction in progress is used for the accumulation of the cost of construction or major renovation of fixed assets during the construction period. The assets are transferred out of construction in progress when the project is substantially completed. Internal use software includes purchased commercial off-the-shelf software, contractor-developed software, and software internally developed.

For financial reporting purposes, other than multi-use heritage assets, stewardship assets are not recorded as part of PP&E. Stewardship assets consist of public domain land (stewardship land) and heritage assets. Examples of stewardship land include national parks, wildlife refuges, national forests, and other lands of national and historical significance. Heritage assets include national monuments, and historical sites that among other characteristics are of historical, natural, cultural, educational, or artistic significance. Stewardship land and most heritage assets are considered priceless and irreplaceable, and as such they are measured in physical units with no financial value assigned to them. Some heritage assets have been designated as multi-use heritage assets, for example the White House, the predominant use of which is in government operations. For more details on stewardship assets, see Note 24—Stewardship Land and Heritage Assets.

G. Debt and Equity Securities

Debt and equity securities are classified as held-to-maturity, available-for-sale, and trading. Held-to-maturity debt and equity securities are reported at amortized cost, net of unamortized premiums and discounts. Available-for-sale debt and equity securities are reported at fair value. Trading debt and equity securities are reported at fair value.

H. Investments in Government-Sponsored Enterprises

The senior preferred stock and associated common stock warrants in GSEs are presented at their fair value. The annual valuation to estimate the asset's fair value incorporates various forecasts, projections, and cash flow analyses. These valuations are performed on the senior preferred stock and warrants and any changes in valuation, including impairment, are recorded and disclosed in accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, as amended. Since the valuation is an annual process, the changes in valuation of the senior preferred stock and warrants are deemed usual and recurring. Accordingly, changes in valuation are recorded as an exchange transaction which is either an expense or revenue. Since the costs of the senior preferred stock and warrants are reflected in exchange transactions, any change in valuation is also recorded as an exchange transaction.

The *Housing and Economic Recovery Act of 2008 (HERA)* established the Federal Housing Finance Agency (FHFA), which was created to enhance authority over the GSEs, and provide the Secretary of the Treasury with certain authorities to support the financial stability of the GSEs. In September 2008, Treasury entered into a Senior Preferred Stock Purchase Agreement (SPSPA) with each GSE. The GSEs were placed under conservatorship and require that Treasury increase their investment in the GSEs' senior preferred stock if, at the end of any quarter, the FHFA, acting as the conservator, determines that the liabilities of either GSE exceed its respective assets. The potential liabilities to the GSEs, if any, are assessed annually and recorded at the gross estimated amount. For more detailed information on investments in GSEs, refer to Note 8—Investments in Government-Sponsored Enterprises.

I. Federal Debt

Accrued interest on Treasury securities held by the public is recorded as an expense when incurred, instead of when paid. Certain Treasury securities are issued at a discount or premium. These discounts and premiums are amortized over the term of the security using an interest method for all long-term securities and the straight line method for short-term securities. Treasury also issues Treasury Inflation-Protected Securities (TIPS). The principal for TIPS is adjusted daily over the life of the security based on the Consumer Price Index for all Urban Consumers (CPI-U).

J. Federal Employee and Veteran Benefits Payable

Generally, federal employee and veteran benefits payable are recorded during the time employee services are rendered. The related liabilities for defined benefit pension plans, veterans' compensation, burial and education benefits, post-retirement health benefits, and post-retirement life insurance benefits, are recorded at estimated present value of future benefits, less any estimated present value of future normal cost contributions. Normal cost is the portion of the actuarial present value of projected benefits allocated as an expense for employee services rendered in the current year. Actuarial gains and losses (as well as prior service cost, if any) are recognized immediately in the year they occur without amortization.

The Department of Veterans Affairs (VA) also provides certain veterans and/or their dependents with pension benefits, based on annual eligibility reviews, if the veteran died or was disabled for nonservice-related causes. The actuarial present value of the future liability for these VA pension benefits is a non-exchange transaction and is not required to be recorded on the Balance Sheet. These benefits are expenses when benefits are paid rather than when employee services are rendered.

The liabilities for Federal Employees' Compensation Act (workers compensation) benefits are recorded at estimated present value of future benefits for injuries and deaths that have already been incurred.

Gains and losses from changes in long-term assumptions used to estimate federal employee pensions, Other Retirement Benefits (ORB), and Other Postemployment Benefits (OPEB) liabilities are reflected separately on the Statement of Net Cost

and the components of the expense related to federal employee pension, ORB, and OPEB liabilities are disclosed in Note 12—Federal Employee and Veteran Benefits Payable as prescribed by SFFAS No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*. In addition, SFFAS No. 33 also provides a standard for selecting the discount rate assumption for present value estimates of federal employee pension, ORB, and OPEB liabilities.

K. Environmental and Disposal Liabilities

Environmental and disposal liabilities are recorded at the estimated current cost of removing, containing, treating, and/or disposing of radioactive waste, hazardous waste, chemical and nuclear weapons, as well as other environmental contaminations (including asbestos), assuming the use of current technology. Hazardous waste is a solid, liquid, or gaseous waste that, because of its quantity or concentration, presents a potential hazard to human health or the environment. Remediation consists of removal, decontamination, decommissioning, site restoration, site monitoring, closure as well as post-closure cost, treatment, and/or safe containment. Where technology does not exist to clean up radioactive or hazardous waste, only the estimable portion of the liability (typically monitoring and safe containment) is recorded.

L. Insurance and Guarantee Program Liabilities

Insurance and guarantee programs (such as Federal Crop Insurance Program and Benefit Pension Plans Program) provide protection to individuals or entities against specified risks except for those specifically covered by federal employee and veteran benefits, social insurance, and loan guarantee programs. Insurance and guarantee program funds are commonly held in revolving funds in the government and losses sustained by participants are paid from these funds. Many of these programs receive appropriations to pay excess claims and/or have authority to borrow from the Treasury. The values of insurance and guarantee program liabilities are particularly sensitive to changes in underlying estimates and assumptions. Insurance and guarantee programs with recognized liabilities in future periods (i.e., liabilities that extend beyond one year) are reported at their actuarial present value.

M. Deferred Maintenance and Repairs

Deferred maintenance and repairs are maintenance and repairs that were not performed when they should have been or scheduled maintenance and repairs that were delayed or postponed. Maintenance is the act of keeping fixed assets in acceptable condition, including preventative maintenance, normal repairs, and other activities needed to preserve the assets, so they continue to provide acceptable service and achieve their expected life. Maintenance and repairs exclude activities aimed at expanding the capacity of assets or otherwise upgrading them to serve needs different from those originally intended. Deferred maintenance and repairs expenses are not accrued in the Statements of Net Cost or recognized as liabilities on the Balance Sheet. However, deferred maintenance and repairs information is disclosed in the unaudited RSI section of this report. Please see unaudited RSI, Deferred Maintenance & Repairs for additional information including measurement methods.

N. Contingencies

Liabilities for contingencies are recognized on the Balance Sheet when both:

- A past transaction or event has occurred, and
- A future outflow or other sacrifice of resources is probable and measurable.

The estimated contingent liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, then that amount is recognized. If no amount within the range is a better estimate than any other amount, then the minimum amount in the range is recognized and the range is disclosed.

Contingent liabilities that do not meet the above criteria for recognition, but for which there is at least a reasonable possibility that a loss may be incurred, are disclosed in Note 18—Contingencies.

O. Commitments

In the normal course of business, the government has a number of unfulfilled commitments that may require the use of its financial resources. Note 19—Commitments describes the components of the government’s actual commitments that are disclosed due to their nature and/or their amount. They include long-term leases, undelivered orders, and other commitments.

P. Social Insurance

A liability for social insurance programs (Social Security, Medicare, Railroad Retirement, Black Lung, and Unemployment) is recognized for any unpaid amounts currently due and payable to beneficiaries or service providers as of the reporting date. No liability is recognized for future benefit payments not yet due. For further information, see Note 22—Social Insurance and the unaudited RSI—Social Insurance section.

Q. Funds from Dedicated Collections

Generally, funds from dedicated collections are financed by specifically identified revenues, provided to the government by non-federal sources, often supplemented by other financing sources that remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government’s general revenues. The three required criteria for a fund from dedicated collections are:

- A statute committing the government to use specifically identified revenues and/or other financing sources that are originally provided to the government by a non-federal source only for designated activities, benefits, or purposes;
- Explicit authority for the fund to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
- A requirement to account for and report on the receipt, use, and retention of the revenues and/or other financing sources that distinguishes the fund from the government’s general revenues.

For more details on funds from dedicated collections, see Note 20—Funds from Dedicated Collections.

R. Related Party Transactions

Federal Reserve System

The Federal Reserve System (FR System) was created by Congress under the *Federal Reserve Act of 1913*. The FR System consists of the Federal Reserve Board of Governors (Board), the Federal Open Market Committee (FOMC), and the Federal Reserve Banks (FRBs). Collectively, the FR System serves as the nation’s central bank and is responsible for formulating and conducting monetary policy, issuing and distributing currency (Federal Reserve Notes), supervising and regulating financial institutions, providing nationwide payment systems (including large-dollar transfers of funds, Automated Clearing House (ACH) operations, and check collection), providing certain financial services to federal agencies and fiscal principals, and serving as the U.S. government’s bank. Monetary policy includes actions undertaken by the FR System that influence the availability and cost of money and credit as a means of helping to promote national economic goals. The FR System also conducts operations in foreign markets in order to counter disorderly conditions in exchange markets or to meet other needs specified by the FOMC to carry out its central bank responsibilities. The FR System is not included in the federal budget. It is considered an independent central bank, and its decisions are not ratified by the executive branch of the federal government.

The government interacts with the FRBs in a variety of ways, including the following:

- The FRBs serve as the government’s fiscal agent and depository, executing banking and other financial transactions on the government’s behalf. The government reimburses the FRBs for these services, the cost of which is included on the Statements of Net Cost;
- The FRBs hold Treasury and other federal securities in the FRBs’ System Open Market Account (SOMA) for the purpose of conducting monetary policy (Note 11—Federal Debt Securities Held by the Public and Accrued Interest);

- The FRBs hold gold certificates issued by the government in which the certificates are collateralized by gold (Note 2—Cash and Other Monetary Assets);
- The FRBs hold Special Drawing Rights (SDR) certificates issued by the government which are collateralized by SDRs (see Note 2—Cash and Other Monetary Assets); and,
- The FRBs are required by Board policy to transfer their excess earnings to the government, which are included in Other Taxes and Receipts on the Statements of Operations and Changes in Net Position.

The government also consults with the FR System on matters affecting the economy and certain financial stabilization activities (Note 4—Loans Receivable and Loan Guarantee Liabilities, Net). The above financial activities involving the government are accounted for and disclosed in the government consolidated financial statements. In accordance with SFFAC No. 2, *Entity and Display*, the FR System's assets, liabilities, and operations are not consolidated into the government's financial statements, and are, therefore, not a part of the reporting entity.

Federal Reserve System Structure

The Board is an independent organization governed by seven members who are appointed by the President and confirmed by the Senate. The full term of a Board member is 14 years, and the appointments are staggered so that one term expires on January 31 of each even-numbered year. The Board has a number of supervisory and regulatory responsibilities for institutions including, among others, state-chartered banks that are members of the FR System, bank holding companies, and savings and loan holding companies. In addition, the Board has general supervisory responsibilities for the 12 FRBs, and issues currency (Federal Reserve Notes) to the FRBs for distribution.

The FOMC is comprised of the seven Board members and five of the 12 FRB presidents, and is charged with formulating and conducting monetary policy primarily through open market operations (the purchase and sale of certain securities in the open market), the principal tool of national monetary policy. These operations affect the amount of reserve balances available to depository institutions, thereby influencing overall monetary and credit conditions. The 12 FRBs are chartered under the *Federal Reserve Act*, which requires each member bank to own the capital stock of its FRB. Supervision and control of each FRB is exercised by a board of directors, of which three are appointed by the Board of Governors of the FR System, and six are elected by their member banks.

The FRBs participate in formulating and conducting monetary policy, distribute currency and coin, and serve as fiscal agents for the government, other federal agencies, and fiscal principals. Additionally, the FRBs provide short-term loans to depository institutions and loans to participants in programs or facilities with broad-based eligibility in unusual and exigent circumstances when approved by the Board and the Treasury Secretary.

Federal Reserve System Assets and Liabilities

The FRBs hold Treasury and other securities in the SOMA for the purpose of conducting monetary policy. Treasury securities held by the FRBs totaled \$1,964.7 billion and \$1,750.2 billion at September 30, 2017 and 2016, respectively (Note 11—Federal Debt Securities Held by the Public and Accrued Interest). These assets are generally subject to the same market (principally interest-rate) and credit risks as other financial instruments. In the open market, the FR System purchases and sells Treasury securities as a mechanism for controlling the money supply.

The FRBs have deposit liabilities with Treasury and depository institutions. The FRBs issue Federal Reserve Notes, the circulating currency of the United States, which are collateralized by the Treasury securities and other assets held by the FRBs. Financial and other information concerning the FR System, including financial statements for the Board and the FRBs, may be obtained at <https://www.federalreserve.gov>.

FRB Residual Earnings Transferred to the Government

FRBs generate income from interest earned on securities, reimbursable services provided to federal agencies, and the provision of priced services to depository institutions, as specified by the *Monetary Control Act of 1980*. Although the FRBs generate earnings from carrying out open market operations (via the earnings on securities held in the SOMA account), their execution of these operations is for the purpose of accomplishing monetary policy rather than generating earnings. Each FRB is required by Board policy to transfer to the government its residual (or excess) earnings, after providing for the cost of operations, payment of dividends, and surplus funds not to exceed an FRB's allocated portion of an aggregate of \$10 billion for all FRBs. This is in accordance with the provisions of a new statute, *Fixing America's Surface Transportation Act of 2015* (P.L. 114-94). These residual earnings may vary due to, among other things, changes in the SOMA balance levels that may occur in conducting monetary policy. Under P.L. 114-94, if an FRB's earnings for the year are not sufficient to provide for the cost of operations, payment of dividends, or allocated portion of \$10 billion aggregate surplus funds limitation, an FRB will suspend its payments to the government until such earnings become sufficient. The FRB residual earnings of \$81.3 billion and \$115.7 billion for fiscal years ended September 30, 2017 and 2016, respectively, are reported as other taxes and receipts on the Statements of Operations and Changes in Net Position. Accounts and taxes receivables, net, includes a

receivable for FRB's residual earnings which represents the earnings due to the General Fund as of September 30, but not collected by the General Fund until after the end of the month. As of September 30, 2017 and 2016, interest receivable on FRB's residual earnings are \$0.3 billion and \$0.4 billion, respectively (Note 3—Accounts and Taxes Receivables, Net).

Other Related Parties

The federal government, through the FHFA is the conservator for Fannie Mae and Freddie Mac. See Note 8—Investments in Government-Sponsored Enterprises.

The Secretary of Transportation has possession of two long term notes with the National Railroad Passenger Service Corporation (more commonly referred to as Amtrak). The first note is for \$4 billion and matures in 2975 and the second note is for \$1.1 billion and matures in 2082 with renewable 99 year terms. Interest is not accruing on these notes as long as the current financial structure of Amtrak remains unchanged. If the financial structure of Amtrak changes, both principal and accrued interest are due and payable. The Department of Transportation (DOT) does not record the notes in its financial statements since the notes, with maturity dates of 2975 and 2082, are considered fully uncollectible due to the lengthy terms and Amtrak's history of operating losses.

In addition, DOT has possession of all the preferred stock shares (109.4 million) of Amtrak. Congress, through DOT, has continued to fund Amtrak since approximately 1972; originally through grants, then, beginning in 1981, through the purchase of preferred stock, and then through grants again after 1997. The *Amtrak Reform and Accountability Act of 1997* changed the structure of the preferred stock by rescinding the voting rights with respect to the election of the Board of Directors and by eliminating the preferred stock's liquidation preference over the common stock. The Act also eliminated further issuance to DOT of preferred stock. DOT does not record the Amtrak preferred stock in its financial statements because, under the Corporation's current financial structure, the preferred shares do not have a liquidation preference over the common shares, the preferred shares do not have any voting rights, and dividends are neither declared nor in arrears.

In general, Amtrak is not a department, agency, or instrumentality of the government or DOT. Of the 10 members of Amtrak's Board of Directors, eight are appointed by the President and are subject to confirmation by the United States Senate. Once appointed, board members, as a whole, act independently without the consent of the government or any of its officers to set Amtrak policy, determine its budget, and decide operational issues. The Secretary of Transportation and the President of Amtrak (a nonvoting member) are statutorily appointed to the 10 member board. Traditionally, the Secretary of Transportation has designated the FRA Administrator to represent the Secretary at Board meetings.

The Export-Import Bank of the United States (Ex-Im Bank) has contractual agreements with the Private Export Funding Corporation (PEFCO). PEFCO, which is owned by a consortium of private-sector banks, industrial companies, and financial services institutions, makes and purchases from private sector lenders, medium-term and long-term fixed-rate and variable-rate loans guaranteed by Ex-Im Bank to foreign borrowers to purchase U.S. made equipment "export loans".

Ex-Im Bank's credit and guarantee agreement with PEFCO provides that Ex-Im Bank will guarantee the due and punctual payment of interest on PEFCO's secured debt obligations which Ex-Im Bank has approved, and grants to Ex-Im Bank a broad measure of supervision over PEFCO's major financial management decisions, including entitlement to have representatives and attend and participate in all meetings of PEFCO's board of directors, advisory board, and exporters' council, and to review PEFCO's financials and other records. This agreement extends through December 31, 2020.

The contractual agreements provide that Ex-Im Bank will (1) guarantee the due and punctual payment of principal, as well as interest on export loans made by PEFCO and (2) guarantee the due and punctual payment of interest on PEFCO's long-term secured debt obligations when requested by PEFCO. Related to the amounts for Ex-Im Bank as shown in Note 4—Loans Receivable and Loan Guarantee Liabilities, Net, these guarantees to PEFCO, aggregating \$6.4 billion and \$5.7 billion at September 30, 2017, and 2016, respectively, are included within the principal amounts guaranteed by the United States. The estimated losses related to these transactions is included within the guaranteed loan liability. Ex-Im Bank received fees for the agreements totaling \$0.07 billion and \$0.05 billion for fiscal years 2017 and 2016, respectively, which are included as earned revenue on the Statements of Net Cost.

S. Unmatched Transactions and Balances

The reconciliation of the change in net position requires that the difference between ending and beginning net position equals the difference between revenue and cost, plus or minus prior-period adjustments.

The unmatched transactions and balances are needed to bring the change in net position into balance. The primary factors affecting this out of balance situation are:

- Unmatched intragovernmental transactions and balances between federal agencies; and
- Errors and restatements in federal agencies' reporting.

As intragovernmental transactions and balances reduce to immaterial amounts, the corresponding individual lines in the Unmatched Transactions and Balances table are adjusted to remove the differences for the fiscal year. Please refer to the table of Unmatched Transactions and Balances in Other Information (Unaudited) for examples of the individual lines. Materiality for these adjustments is considered in the absolute value, when at or below \$0.1 billion.

Refer to the Other Information (unaudited)—Unmatched Transactions and Balances for detailed information.

T. Prior-Period Adjustments

During fiscal years 2016 and 2017, the Pension Benefit Guaranty Corporation (PBGC) and DOD reported prior period adjustments impacting the financial statements. DOD reported an increase of over \$37 billion and a \$1.5 billion decrease in fiscal year 2017 and 2016, respectively, to beginning net position due to implementation of SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials* and SFFAS No. 50 *Establishing Opening Balances for General Property, Plant and Equipment*. DOD adopted SFFAS No. 48 for stockpile materials for selected components, which is reported in Inventories and Related Property. In addition, DOD adopted SFFAS No. 50 for PP&E for selected components, which is reported in PP&E.

In fiscal year 2016, PBGC's trust fund was reported as a fiduciary activity. During fiscal year 2017, the trust fund was reassessed for fiduciary fund reporting in the *Financial Report*. Based on the reassessment of the guidance within the federal accounting standards and the guidance provided by the establishment of PBGC under the Employee Retirement Income Security Act (ERISA), as amended, and the U.S. Code it was determined that PBGC's trust fund assets and liabilities should be consolidated in the financial statements and not reported as fiduciary activity in the notes. As a result the prior year financial statements were restated thus reversing the change in accounting principle of an increase of \$0.1 billion to net position previously reported in fiscal year 2016.

Note 20—Funds from Dedicated Collections included \$0.2 billion in prior-period adjustments for Gulf Coast Ecosystem Restoration Council and Department of Housing and Urban Development for fiscal year 2017.

U. Reclassifications

The Railroad Retirement and Black Lung programs are combined on the Statements of Social Insurance (SOSI) in 2016. In previous years, these programs were broken out and displayed separately.

In fiscal year 2017, additional lines were included in the presentation of the Statement of Changes in Cash Balance from Budget and Other Activities to provide a further breakdown of certain categories of transactions.

A review was done to enhance the format and readability of the *Financial Report* leading to consolidation of immaterial lines within tables and removal of information not required by FASAB.

V. Restatements

In fiscal year 2017, the assets and liabilities of PBGC were reassessed for reporting purposes. In fiscal year 2016 PBGC's revolving fund was consolidated in the financial statements and the trust fund was reported as fiduciary activity in the notes. For fiscal year 2017, both funds were consolidated in the financial statements. This change resulted in a correction of errors for the prior fiscal year 2016 financial statements which is reported as a restatement of the amounts on the Balance Sheet, Statement of Net Cost, Statement of Operations and Changes in Net Position, Reconciliations of Net Operating Cost and Budget Deficit, Statements of Changes in Cash Balance from Budget and Other Activities, Note 2—Cash and Other Monetary Assets (\$3.3 billion increase), Note 3—Accounts and Taxes Receivable (\$0.1 billion decrease), Net, Note 7—Debt and Equity Securities (\$60.0 billion increase), Note 9—Other Assets (\$1.1 billion increase), Note 15—Insurance and Guarantee Program Liabilities (\$64.7 billion increase), and Note 16—Other Liabilities (\$4.0 billion increase).

In fiscal year 2017, errors were noted in the presentation of Federal Housing Administration's (FHA) fiscal year 2016 Note 4—Loans Receivable and Loan Guarantee Liabilities, Net that required correction of balances reported in fiscal year 2017. The corrections resulted in the restatement of the prior year amounts for FHA's principal amount of loans under guarantee (\$2.9 billion increase), principal amount guaranteed by the United States (\$2.5 billion increase), and subsidy expense (income) for the fiscal year (\$8.1 billion increase).

W. Fiduciary Activities

Fiduciary activities are the collection or receipt, as well as the management, protection, accounting, investment and disposition by the government of cash or other assets in which non-federal individuals or entities have an ownership interest that the government must uphold. Fiduciary cash and other fiduciary assets are not assets of the government and are not recognized on the Balance Sheet. See Note 21—Fiduciary Activities, for further information.

X. Use of Estimates

The government has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities to prepare these financial statements. There are a large number of factors that affect these assumptions and estimates, which are inherently subject to substantial uncertainty arising from the likelihood of future changes in general economic, regulatory, and market conditions. As such, actual results will differ from these estimates and such differences may be material.

Significant transactions subject to estimates include loans and credit program receivables, federal employee and veteran benefits payable, credit reform subsidy costs, investments in GSEs, and other non-federal securities and related impairment, tax receivables, loan guarantees, depreciation, imputed costs, other actuarial liabilities, cost and earned revenue allocations, as well as contingencies and any related recognized liabilities.

The government recognizes the sensitivity of credit reform modeling to slight changes in some model assumptions and uses regular review of model factors, statistical modeling, and annual re-estimates to reflect the most accurate cost of the credit programs to the U.S. Government. *Federal Credit Reform Act of 1990* (FCRA) loan receivables and loan guarantees are disclosed in Note 4—Loans Receivable and Loan Guarantee Liabilities, Net.

The forecasted future cash flows used to determine credit reform amounts are sensitive to slight changes in model assumptions, such as general economic conditions, specific stock price volatility of the entities in which the government has an equity interest, estimates of expected default, and prepayment rates. Therefore, forecasts of future financial results have inherent uncertainty.

The annual valuation performed as of September 30 on the preferred stock and warrants comprising the Investments in GSEs line item on the Balance Sheets incorporates various forecasts, projections, and cash flow analyses to develop an estimate of the asset's fair value. The value of the senior preferred stock is estimated by first estimating the fair value of the total equity of each GSE (which, in addition to the senior preferred stock, is comprised of other equity instruments including common stock, common stock warrants, and junior preferred stock). The fair value of the total equity is based on a discounted cash flow valuation methodology, whereby the primary input is the present value of the projected quarterly dividend payments. The fair value of the GSE's other equity instruments are then deducted from its total equity, with the remainder representing the fair value of the senior preferred stock. The primary input into the warrants valuation is the market value of the shares of common stock of the GSEs which, along with the junior preferred stock, are traded on the over-the-counter (OTC) Bulletin Board. Treasury evaluates the need for adjusting the OTC market-based valuation of the warrants for the effects, if any, of significant events occurring after the close of the market but before the end of the measurement date. Treasury records any changes in valuation, including impairment, and discloses changes in accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, as amended. Since the valuation is an annual process, Treasury deems changes in valuation of the preferred stock and warrants as usual and recurring.

Treasury performs annual calculations, as of September 30, to assess the need for recording an estimated liability in accordance with SFFAS No. 5, *Accounting for Liabilities of The Federal Government*, related to the government's funding commitment to the GSEs under the SPSPAs. Liability recognition is predicated on the probable future occurrence of an excess of liabilities and minimum capital reserve amounts, as defined, over the assets of either GSE at the end of any reporting quarter. The occurrence of future GSE deficits, which ultimately determines the liability to the GSEs, is most sensitive to future changes in the housing price index and, to a lesser extent, future changes in guarantee fees received by the GSEs on single family mortgages and interest rates. For more detailed information on investments in GSEs and the amended SPSPAs, see Note 8—Investments in Government-Sponsored Enterprises.

The government offers its employees' pension and other post-employment retirement benefits, as well as life and health insurance. The Office of Personnel Management administers the largest civilian plan and the Department of Defense and Department of Veterans Affairs administer the military plans. Generally the benefits payable are recorded during the time employee services are rendered. The related liabilities for defined benefit pension plans, veterans' compensation and burial

benefits, post-retirement health benefits, life insurance benefits, education benefits, and *Federal Employees' Compensation Act* benefits are recorded at estimated present value of future benefits, less any estimated present value of future normal cost contributions. See Note 12—Federal Employee and Veteran Benefits Payable for additional information.

Y. Credit Risk

Credit risk is the potential, no matter how remote, for financial loss from a failure of a borrower or counterparty to perform in accordance with underlying contractual obligations. The government takes on credit risk when it makes direct loans or guarantees to non-federal entities, provides credits to foreign entities, or becomes exposed to institutions which engage in financial transactions with foreign countries.

The government also takes on credit risk related to committed, but undisbursed direct loans, funding commitments to GSEs, guarantee of money market funds, and other activities. These activities generally focus on the underlying problems in the credit markets. These programs were developed to provide credit where borrowers are not able to get access to credit with reasonable terms and conditions. Because these programs attempt to correct for a market imperfection, it can expose the government to potential costs and losses. The extent of the risk assumed is described in more detail in the notes to the financial statements, and where applicable, is factored into credit reform models and reflected in fair value measurements.

Note 2. Cash and Other Monetary Assets

Cash and Other Monetary Assets as of September 30, 2017, and 2016

(In billions of dollars)	2017	Restated 2016
Unrestricted cash:		
Cash held by Treasury for governmentwide operations	153.3	347.0
Other	3.7	11.6
Restricted	26.1	25.6
Total cash	<u>183.1</u>	<u>384.2</u>
International monetary assets	63.3	59.6
Gold and silver	11.1	11.1
Foreign currency	13.7	13.0
Total cash and other monetary assets	<u><u>271.2</u></u>	<u><u>467.9</u></u>

Unrestricted cash includes cash held by Treasury for governmentwide operations (Operating Cash) and all other unrestricted cash held by the federal agencies. Operating Cash represents balances from tax collections, other revenue, federal debt receipts, and other various receipts net of cash outflows for budget outlays and other payments. Treasury checks outstanding are netted against Operating Cash until they are cleared by the Federal Reserve System. Other unrestricted cash not included in Treasury's Operating Cash balance includes balances representing cash, cash equivalents, and other funds held by agencies, such as undeposited collections, deposits in transit, demand deposits, amounts held in trust, and imprest funds. Operating Cash held by the Treasury decreased by \$193.7 billion (a decrease of approximately 56 percent) in fiscal year 2017 due to Treasury's investment and borrowing decisions to manage the balance and timing of the Government's cash position.

Restrictions on cash are due to the imposition on cash deposits by law, regulation, or agreement. Restricted cash is primarily composed of cash held by the DSCA. The Foreign Military Sales Program - DSCA included \$21.3 billion and \$20.7 billion as of September 30, 2017, and 2016, respectively.

International monetary assets include the United States (U.S.) reserve position in the International Monetary Fund (IMF) and U.S. holdings of Special Drawing Rights (SDRs). The U.S. reserve position in the IMF is an interest-bearing claim on the IMF that includes the reserve asset portion of the financial subscription that the U.S. has paid in as part of its participation in the IMF as well as any amounts drawn by the IMF from a letter of credit made available by the U.S. as part of its financial subscription to the IMF. The IMF promotes international monetary cooperation and a stable payments system to facilitate growth in the world economy. Its primary activities are surveillance of members' economies, financial assistance, as appropriate, and technical assistance.

Only a portion of the U.S. financial subscription to the IMF is made in the form of reserve assets; the remainder is provided in the form of a letter of credit from the U.S. to the IMF. The balance available under the letter of credit totaled \$105.3 billion and \$105.8 billion as of September 30, 2017, and 2016 respectively. The current participation in the IMF is authorized in accordance with the *Consolidated Appropriations Act of 2016* (P.L. 114-113). The U.S. reserve position in the IMF had a U.S. dollar equivalent of \$11.5 billion and \$9.6 billion as of September 30, 2017, and 2016, respectively.

The SDR is an international reserve asset created by the IMF to supplement the existing reserve assets of its members. These interest-bearing assets can be obtained by IMF allocations, transactions with IMF member countries, or in the form of interest earnings on SDR holdings and reserve positions in the IMF. U.S. SDR holdings are an interest-bearing asset of Treasury's Exchange Stabilization Fund (ESF). The total amount of SDR holdings of the U.S. was the equivalent of \$51.5 billion and \$50.1 billion as of September 30, 2017, and 2016, respectively.

The IMF allocates SDRs to its members in proportion to each member's quota in the IMF. *The SDR Act*, enacted in 1968, authorized the Secretary of the Treasury to issue SDR Certificates (SDRCs) to the Federal Reserve in exchange for dollars. The amount of SDRCs outstanding cannot exceed the dollar value of SDR holdings. The Secretary of the Treasury

determines when Treasury will issue or redeem SDRCs. SDRCs outstanding totaled \$5.2 billion as of September 30, 2017, and 2016, and are included in Note 16—Other Liabilities.

As of September 30, 2017, and 2016, other liabilities included \$49.9 billion and \$49.3 billion, respectively, of interest-bearing liability to the IMF for SDR allocations. The SDR allocation item represents the cumulative total of SDRs distributed by the IMF to the U.S. in allocations. The U.S. has received no SDR allocations since 2009.

Gold is valued at the statutory price of \$42.2222 per fine troy ounce. The number of fine troy ounces of gold was 261,498,927 as of September 30, 2017, and 2016. The market value of gold on the London Fixing was \$1,283 and \$1,323 per fine troy ounce as of September 30, 2017, and 2016, respectively. In addition, silver is valued at the statutory price of \$1.2929 per fine troy ounce. The number of fine troy ounces of silver was 16,000,000 as of September 30, 2017, and 2016. The market value of silver on the London Fixing was \$16.86 and \$19.35 per fine troy ounce as of September 30, 2017, and 2016, respectively. Gold totaling \$11.0 billion as of September 30, 2017, and 2016, was pledged as collateral for gold certificates issued and authorized to the FRBs by the Secretary of the Treasury. Gold certificates were valued at \$11.0 billion as of September 30, 2017, and 2016, which are included in Note 16—Other Liabilities. Treasury may redeem the gold certificates at any time. Foreign currency is translated into U.S. dollars at the exchange rate at fiscal year-end. The foreign currency is maintained by the ESF and various U.S. federal agencies as well as foreign banks.

Certain PBGC amounts have been restated. Refer to Note 1.V—Restatements for more information.

Note 3. Accounts and Taxes Receivable, Net

Accounts and Taxes Receivable as of September 30, 2017, and 2016		
(In billions of dollars)	2017	Restated 2016
Accounts receivable:		
Gross accounts receivable	117.9	110.9
Allowance for uncollectible amounts	(29.8)	(30.1)
Accounts receivable, net	<u>88.1</u>	<u>80.8</u>
Taxes receivable:		
Gross taxes receivable	203.8	184.7
Allowance for uncollectible amounts	(148.6)	(132.3)
Taxes receivable, net.....	<u>55.2</u>	<u>52.4</u>
Total accounts and taxes receivable, net	<u><u>143.3</u></u>	<u><u>133.2</u></u>

Gross accounts receivable include related interest receivable of \$3.4 billion and \$3.5 billion as of September 30, 2017, and 2016, respectively.

Treasury comprises approximately 37.3 percent of the Government's reported accounts and taxes receivable, net, as of September 30, 2017. The following list of agencies comprise 97.3 percent of the Government's accounts and taxes receivable, net, of \$143.3 billion as of September 30, 2017. Please refer to the following financial statements for details on gross accounts and taxes receivable and the related allowance for uncollectible amounts:

- Treasury
- HHS
- SSA
- Department of the Interior (DOI)
- DHS
- DOD
- PBGC
- DOE
- Federal Deposit Insurance Corporation (FDIC)
- VA
- OPM
- Tennessee Valley Authority (TVA)
- DOL
- Department of Agriculture (USDA)
- United States Postal Service (USPS)
- HUD

Accounts and taxes receivable, net have historically included amounts related to criminal restitution owed to the government. Beginning in fiscal year 2017, additional information is disclosed related to these amounts for the current fiscal year. Included in accounts and taxes receivable, net is \$8.8 billion of gross receivables related to criminal restitution orders monitored by the responsible agencies, of which \$0.6 billion is determined to be collectible. Of this gross receivable amount, Treasury, HHS, and SSA collectively account for \$8.0 billion of which \$0.5 billion is determined to be collectible as of September 30, 2017.

Certain PBGC amounts have been restated. Refer to Note 1.V— Restatements for more information.

Note 4. Loans Receivable and Loan Guarantee Liabilities, Net

Loans Receivable as of September 30, 2017, and 2016

	Face Value of Loans Outstanding		Long-term Cost of (income from) Loans Outstanding		Loans Receivable, Net		Subsidy Expense (Income) for the Fiscal Year	
	2017	2016	2017	2016	2017	2016	2017	2016
(In billions of dollars)								
Federal Direct Student Loans - Education	1,058.4	953.6	16.8	(5.3)	1,041.6	958.9	5.3	16.1
Federal Family Education Loans - Education	120.9	128.0	18.5	13.1	102.4	114.9	2.4	3.5
Electric Loans - USDA	48.2	47.3	1.8	2.1	46.4	45.2	-	-
Rural Housing Services - USDA	24.7	25.1	1.9	2.0	22.8	23.1	0.1	-
Export-Import Bank Loans	21.9	25.3	1.6	1.6	20.3	23.7	0.1	(0.3)
Housing and Urban Development Loans	26.3	22.4	7.5	5.7	18.8	16.7	(3.5)	(0.7)
All other programs	110.0	110.9	13.8	15.8	96.2	95.1	-	(0.7)
Total loans receivable	<u>1,410.4</u>	<u>1,312.6</u>	<u>61.9</u>	<u>35.0</u>	<u>1,348.5</u>	<u>1,277.6</u>	<u>4.4</u>	<u>17.9</u>

Loan Guarantee Liabilities as of September 30, 2017, and 2016								
(In billions of dollars)	Principal Amount of Loans Under Guarantee		Principal Amount Guaranteed by the United States		Loan Guarantee Liabilities		Subsidy Expense (Income) for the Fiscal Year	
	Restated		Restated				Restated	
	2017	2016	2017	2016	2017	2016	2017	2016
Federal Housing Administration Loans - HUD	1,409.5	1,338.6	1,277.6	1,215.9	20.6	(0.8)	13.0	(17.8)
Veterans Housing Benefit Programs - VA	596.5	517.2	151.9	132.8	10.4	10.0	(0.6)	(1.1)
Rural Housing Services - USDA ..	120.4	114.8	108.3	103.3	0.1	0.7	(0.5)	(4.3)
Small Business Loans - SBA.....	121.0	113.1	99.5	93.8	2.6	2.4	(0.9)	(0.4)
Federal Family Education Loans - Education	176.4	196.9	172.7	192.7	3.7	1.4	1.0	6.7
All other guaranteed loan programs	111.1	119.2	106.5	114.0	5.5	4.5	0.5	0.6
Total loan guarantee liabilities...	2,534.9	2,399.8	1,916.5	1,852.5	42.9	18.2	12.5	(16.3)

The government has two types of loan programs: direct loans and loan guarantees. One major type of loan is direct loans such as the Department of Education's (Education) Federal Direct Student Loans. The second type is loan guarantee programs, such as the Department of Housing and Urban Development's (HUD's) Federal Housing Administration Loans program.

Direct loans and loan guarantee programs are used to promote the Nation's welfare by making financing available to segments of the population not served adequately by non-federal institutions, or otherwise providing for certain activities or investments. For those unable to afford credit at the market rate, federal credit programs provide subsidies in the form of direct loans offered at an interest rate lower than the market rate. For those to whom non-federal financial institutions are reluctant to grant credit because of the high risk involved, federal credit programs guarantee the payment of these non-federal loans and absorb the cost of defaults.

The amount of the long-term cost of post-1991 direct loans and loan guarantees outstanding equals the subsidy cost allowance for direct loans and the liability for loan guarantees (including defaulted guaranteed loans) as of September 30. The amount of the long-term cost of pre-1992 direct loans and loan guarantees equals the allowance for uncollectible amounts (or present value allowance) for direct loans and the liability for loan guarantees. The long-term cost is based on all direct loans and guaranteed loans disbursed in this fiscal year and previous years that are outstanding as of September 30. It includes the subsidy cost of these loans and guarantees estimated as of the time of loan disbursement and subsequent adjustments such as modifications, re-estimates, amortizations, and write-offs.

Net loans receivable includes related interest and foreclosed property. Foreclosed property is property that is transferred from borrowers to a federal credit program, through foreclosure or other means, in partial or full settlement of post-1991 direct loans or as a compensation for losses that the government sustained under post-1991 loan guarantees. Please refer to the financial statements of the United States Department of Agriculture (USDA), VA, and HUD for significant detailed information regarding foreclosed property. The total subsidy expense/(income) is the cost of direct loans and loan guarantees recognized during the fiscal year. It consists of the subsidy expense/(income) incurred for direct and guaranteed loans disbursed during the fiscal year, for modifications made during the fiscal year of loans and guarantees outstanding, and for upward or downward re-estimates as of the end of the fiscal year of the cost of loans and guarantees outstanding. This expense/(income) is included in the Statements of Net Cost.

Loan Programs

The majority of the loan programs are provided by Education, HUD, USDA, Small Business Administration (SBA), VA, and Export-Import Bank. For significant detailed information regarding the direct and guaranteed loan programs listed in the tables above, please refer to the financial statements of the agencies.

Education has two major loan programs, authorized by Title IV of the *Higher Education Act of 1965 (HEA)*. The first program is the William D. Ford Federal Direct Loan Program, (referred to as the Direct Loan Program) that was established in fiscal year 1994. The Direct Loan Program offered four types of educational loans: Stafford, Unsubsidized Stafford, PLUS for parents and/or graduate or professional students, and consolidation loans. With this program, the government makes loans directly to students and parents through participating institutions of higher education. Direct loans are originated and serviced through contracts with private vendors. Education disbursed approximately \$142.5 billion in Direct Loans to eligible borrowers in fiscal year 2017 and approximately \$140.5 billion in fiscal year 2016. The second program is the Federal Family Education Loan (FFEL) Program. This program was established in fiscal year 1965, and is a guaranteed loan program. Like the Direct Loan Program, it offered four types of loans: Stafford, Unsubsidized Stafford, PLUS for parents and/or graduate or professional students, and consolidation loans. The *Student Aid and Fiscal Responsibility Act (SAFRA)*, which was enacted as part of the *Health Care Education and Reconciliation Act of 2010 (P.L. 111-152)*, eliminated the authority to guarantee new FFEL after June 30, 2010. During fiscal year 2017, Education net loans receivable increased by \$70.1 billion, largely the result of increased Direct Loan Program disbursements for new loan originations and FFEL consolidations, net of borrower principal and interest collections.

HUD's Federal Housing Administration (FHA) provides mortgage insurance to encourage lenders to make credit available to expand home ownership. FHA serves many borrowers that the conventional market does not serve adequately. This includes first-time homebuyers, minorities, low-income, and other underserved households to realize the benefits of home ownership. Borrowers obtain an FHA insured mortgage and pay an upfront premium as well as an annual premium to FHA. The proceeds from those premiums are used to fund FHA program costs, including claims on defaulted mortgages and holding costs, property management fees, property sales, and other associated costs. Certain FHA amounts have been restated. Refer to Note 1.V—Restatements for more information.

USDA's Rural Development offers both direct and guaranteed loans with unique missions to bring prosperity and opportunity to rural areas. The Rural Housing programs provide affordable, safe, and sanitary housing and essential community facilities to rural communities. Rural Utility programs help improve the quality of life in rural areas through a variety of loan programs for electric energy, telecommunications, and water and environmental projects.

The Export-Import Bank aids in financing and promoting U.S. exports. Loans and guarantees extended under the medium-term loan program typically have repayment terms of one to seven years, while loans and guarantees extended under the long-term program usually have repayment terms in excess of seven years. Generally, both the medium-term and the long-term loan and guarantee programs cover up to 85 percent of the U.S. contract value of shipped goods.

The SBA provides guarantees that help small businesses obtain bank loans and licensed companies to make investments in qualifying small businesses. The SBA also makes loans to microloan intermediaries and provides a direct loan program that assists homeowners, renters and businesses recover from disasters.

VA operates the following direct loan and loan guaranty programs: Home Loans, Insurance Policy Loans, and Vocational Rehabilitation and Employment Loans. The VA Home Loans program is the largest of the VA loan programs. The Home Loans program provides loan guarantees and direct loans to veterans, service members, qualifying dependents, and limited non-veterans to purchase homes and retain homeownership with favorable market terms. During fiscal year 2017, the face value of outstanding principal on loans guaranteed by the VA increased by \$79.3 billion. This increase was primarily due to \$161.8 billion in new loans guaranteed by the VA, partially offset by \$80.8 billion in guaranteed loan terminations.

Note 5. Inventories and Related Property, Net

Inventories and Related Property, Net as of September 30, 2017, and 2016

(In billions of dollars)	All			All		
	Defense	Others	Total	Defense	Others	Total
	2017			2016		
Inventory purchased for resale	61.3	0.5	61.8	61.9	0.5	62.4
Inventory and operating material and supplies held for repair	65.8	1.3	67.1	88.1	1.2	89.3
Inventory—excess, obsolete, and unserviceable	0.9	-	0.9	1.1	-	1.1
Operating materials and supplies held for use	140.3	3.5	143.8	105.0	3.5	108.5
Operating materials and supplies held in reserve for future use	-	0.2	0.2	-	0.2	0.2
Operating materials and supplies-excess, obsolete, and unserviceable	2.5	-	2.5	2.1	-	2.1
Stockpile materials held in reserve for future use	0.8	48.5	49.3	1.1	47.3	48.4
Stockpile materials held for sale	-	5.1	5.1	-	5.6	5.6
Other related property	2.7	1.1	3.8	2.4	1.2	3.6
Allowance for loss	(7.3)	(0.5)	(7.8)	(6.4)	(0.5)	(6.9)
Total inventories and related property, net.....	<u>267.0</u>	<u>59.7</u>	<u>326.7</u>	<u>255.3</u>	<u>59.0</u>	<u>314.3</u>

Inventory purchased for resale is the cost or value of tangible personal property purchased by an agency for resale. As of September 30, 2017, DOD values approximately 98 percent of its resale inventory using the moving average cost (MAC) method. DOD reports the remaining 2 percent of resale inventories at an approximation of historical cost using LAC adjusted for holding gains and losses. DOD continues to implement SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, permitting alternative methods in establishing opening balances. Please refer to the financial statements of DOD for more information on its inventories.

Inventory and operating materials and supplies held for repair are damaged inventory that require repair to make them suitable for sale (inventory) or is more economical to repair than to dispose of (operating materials and supplies). Excess, obsolete, and unserviceable inventory is reported at net realizable value. Inventory—excess, obsolete, and unserviceable consists of:

- Excess inventory that exceeds the demand expected in the normal course of operations and which does not meet management's criteria to be held in reserve for future sale.
- Obsolete inventory that is no longer needed due to changes in technology, laws, customs, or operations.
- Unserviceable inventory that is damaged beyond economic repair.

Operating materials and supplies held for use are tangible personal property to be consumed in normal operations.

Operating materials and supplies held in reserve for future use are materials retained because they are not readily available in the market or because they will not be used in the normal course of operations, but there is more than a remote chance they will eventually be needed. DOD, which accounts for most of the reported operating materials and supplies held for use, uses both the consumption method and the purchase method of accounting for operating materials and supplies, and expends a significant amount when purchased instead of when consumed.

Operating materials and supplies—excess, obsolete, and unserviceable consists of:

- Excess operating materials and supplies are materials that exceed the demand expected in the normal course of operations, and do not meet management's criteria to be held in reserve for future use.

- Obsolete operating materials and supplies are materials no longer needed due to changes in technology, laws, customs, or operations.
- Unserviceable operating materials and supplies are materials damaged beyond economic repair.

DOD, which accounts for most of the reported excess, obsolete, and unserviceable operating materials and supplies, revalues it to a net realizable value of zero through the allowance account. Please refer to the financial statements of DOD for more information on its operating materials and supplies. Stockpile materials include strategic and critical materials held in reserve for use in national defense, conservation, or national emergencies due to statutory requirements; for example, nuclear materials and oil, as well as stockpile materials that are authorized to be sold. The majority of the stockpile materials held for sale and stockpile materials held in reserve for future use were reported by the Department of Energy (DOE). Please refer to the financial statements of DOE for more information on stockpile materials.

Other related property consists of the following:

- Commodities include items of commerce or trade that have an exchange value used to stabilize or support market prices. Please refer to the financial statements of the USDA for detailed information regarding commodities.
- Seized monetary instruments are comprised only of monetary instruments that are awaiting judgment to determine ownership. The related liability is included in other liabilities. Other property seized by the government, such as real property and tangible personal property, is not considered a government asset. It is accounted for in agency property-management records until the property is forfeited, returned, or otherwise liquidated. Please refer to the financial statements of the Department of Justice (DOJ), Treasury, and the Department of Homeland Security (DHS) for detailed information regarding seized property.
- Forfeited property is comprised of monetary instruments, intangible property, real property, and tangible personal property acquired through forfeiture proceedings; property acquired by the government to satisfy a tax liability; and/or unclaimed/abandoned merchandise. Please refer to the financial statements of DOJ, Treasury, and DHS for detailed information regarding forfeited property.
- Foreclosed property is comprised of assets received in satisfaction of a loan receivable or as a result of payment of a claim under a guaranteed or insured loan (excluding commodities acquired under price support programs). All properties included in foreclosed property are assumed to be held for sale. Please refer to the financial statements of USDA and HUD for detailed information regarding foreclosed property.

Note 6. Property, Plant, and Equipment, Net

Property, Plant, and Equipment as of September 30, 2017

	Cost		Accumulated Depreciation/ Amortization		Net	
	All		All		All	
	Defense	Others	Defense	Others	Defense	Others
(In billions of dollars)						
Buildings, structures, and facilities	407.1	284.3	248.3	158.6	158.8	125.7
Furniture, fixtures, and equipment	1,103.5	185.9	637.2	115.4	466.3	70.5
Construction in progress	110.0	38.2	N/A	N/A	110.0	38.2
Land	10.6	13.4	N/A	N/A	10.6	13.4
Other property, plant, and equipment.....	21.3	62.7	5.3	37.7	16.0	25.0
Subtotal	<u>1,652.5</u>	<u>584.5</u>	<u>890.8</u>	<u>311.7</u>	<u>761.7</u>	<u>272.8</u>
Total property, plant, and equipment, net		<u>2,237.0</u>		<u>1,202.5</u>		<u>1,034.5</u>

Property, Plant, and Equipment as of September 30, 2016

	Cost		Accumulated Depreciation/ Amortization		Net	
	All		All		All	
	Defense	Others	Defense	Others	Defense	Others
(In billions of dollars)						
Buildings, structures, and facilities	384.1	275.3	230.1	150.8	154.0	124.5
Furniture, fixtures, and equipment	1,054.5	172.7	639.7	113.3	414.8	59.4
Construction in progress	118.1	46.5	N/A	N/A	118.1	46.5
Land	10.7	13.0	N/A	N/A	10.7	13.0
Other property, plant, and equipment.....	20.8	58.4	6.5	34.2	14.3	24.2
Subtotal	<u>1,588.2</u>	<u>565.9</u>	<u>876.3</u>	<u>298.3</u>	<u>711.9</u>	<u>267.6</u>
Total property, plant, and equipment, net		<u>2,154.1</u>		<u>1,174.6</u>		<u>979.5</u>

DOD comprises approximately 73.6 percent of the government's reported property, plant, and equipment, net, as of September 30, 2017. DOD continues to implement SFFAS No. 50 which permits alternative methods in establishing opening balances for general property, plant and equipment.

The following agencies comprise over 97 percent of the government's reported property, plant, and equipment net of \$1,034.5 billion as of September 30, 2017. Refer to each agencies' financial statements for details.

- DOD
- DOE
- GSA
- VA
- TVA
- DOI
- Department of State (DOS)
- Department of Transportation (DOT)
- USPS
- DHS
- National Aeronautics and Space Administration (NASA)
- Department of Commerce (DOC)
- DOJ

See Note 24—Stewardship Land and Heritage Assets for additional information on multi-use heritage assets.

Note 7. Debt and Equity Securities

Debt and Equity Securities as of September 30, 2017

(In billions of dollars)	Cost	Adjustment	Book Value
Held-To Maturity			
Debt securities:			
Non-US Government	-	-	-
Mortgage/asset backed	0.2	-	0.2
Equity Securities:			
All other equity securities	3.6	-	3.6
Total Held-To-Maturity (Net Investment)	3.8	-	3.8
Available-for-Sale:			
Debt Securities:	5.4	0.2	5.6
Total Available-for-Sale (Fair Value)	5.4	0.2	5.6
Trading Securities:			
Debt Securities:			
Non-U.S. Government	12.2	0.6	12.8
Commercial	0.2	-	0.2
Mortgage/asset backed.....	3.9	-	3.9
Corporate and other bonds	16.4	0.6	17.0
All other debt securities.....	4.0	(0.1)	3.9
Equity Securities:			
Unit Trust.....	18.0	8.2	26.2
Common Stocks.....	2.1	0.1	2.2
All other equity securities	15.2	(0.1)	15.1
Total Trading Securities (Fair Value)	72.0	9.3	81.3
			Total
Total debt and equity securities categorized as held-to-maturity, available-for-sale or trading			90.7
Total RRB debt and equity securities.....			25.5
Total debt and equity securities.....			116.2

Debt and Equity Securities as of September 30, 2016			Restated
(In billions of dollars)	Restated Cost	Restated Adjustment	Book Value
Held-To Maturity			
Debt securities:			
Non-US Government	0.1	-	0.1
Mortgage/asset backed	0.3	-	0.3
Equity Securities:			
All other equity securities	11.0	-	11.0
Total Held-To-Maturity (Net Investment)	11.4	-	11.4
Available-for-Sale:			
Debt Securities:	9.5	0.4	9.9
Total Available-for-Sale (Fair Value)	9.5	0.4	9.9
Trading Securities:			
Debt Securities:			
Non-U.S. Government	11.4	0.3	11.7
Commercial	0.1		0.1
Mortgage/asset backed	3.9	0.1	4.0
Corporate and other bonds	11.9	0.8	12.7
All other debt securities.....	2.4	-	2.4
Equity Securities:			
Unit Trust.....	19.4	4.6	24.0
Common Stocks.....	0.3	0.1	0.4
All other equity securities	7.4	(0.1)	7.3
Total Trading Securities (Fair Value)	56.8	5.8	62.6
			Total
Total debt and equity securities categorized as held-to-maturity, available-for-sale or trading			<u>83.9</u>
Total RRB debt and equity securities.....			<u>24.3</u>
Total debt and equity securities.....			<u>108.2</u>

Debt and Equity Securities as of September 30, 2017, and 2016

(In billions of dollars)	2017	2016 Restated
Pension Benefit Guaranty Corporation	66.7	60.0
Railroad Retirement Board	25.5	24.3
Tennessee Valley Authority	11.4	9.8
Department of the Treasury	8.6	9.9
All other	4.0	4.2
Total securities and investments	<u>116.2</u>	<u>108.2</u>

These debt and equity securities do not include nonmarketable Treasury securities that have been eliminated in consolidation. Held-to-maturity debt and equity securities are reported as total net investment, net of unamortized discounts and premiums. Available-for-sale debt and equity securities are reported at fair value, net of unrealized gain or loss. Trading debt and equity securities are reported at fair value, net of unrealized gain or loss. PBGC and TVA invest primarily in fixed maturity and equity securities, classified as trading. PBGC reported gains related to trading securities held as of September 30, 2017 and September 30, 2016 of \$3.3 billion and \$2.2 billion, respectively. TVA reported gains related to trading securities held as of September 30, 2017 and 2016 of \$1.2 billion and \$0.9 billion, respectively. Treasury invests primarily in fixed maturity and equity securities, classified as available-for-sale and trading securities. Treasury's Exchange Stabilization Fund invests in among other things, foreign fixed maturity debt, with a fair value of \$8.5 billion and \$9.8 billion as of September 30, 2017, and 2016, respectively. The National Railroad Retirement Investment Trust (NRRIT), on behalf of the RRB, manages and invests railroad retirement assets that are to be used to pay retirement benefits to the Nation's railroad workers under the Railroad Retirement Program. As an investment company, NRRIT is subject to different accounting standards that do not require the classifications presented above. Please refer to NRRIT's financial statements for more detailed information concerning this specific investment. The TVA balance includes \$8.5 billion and \$7.3 billion as of September 30, 2017, and 2016, respectively, for the Tennessee Valley Authority Retirement System (TVARS). TVARS includes unrealized gains of \$0.8 billion and \$0.5 billion as of September 30, 2017 and 2016, respectively. The Department of the Defense reflects the majority of all other total securities and investments. PBGC, NRRIT, Treasury and TVA base market values on the last sale of a listed security, on the mean of the "bid-and-ask" for nonlisted securities, or on a valuation model in the case of fixed income securities that are not actively traded. These valuations are determined as of the end of each fiscal year. Purchases and sales of securities are recorded on the trade date. Please refer to the individual financial statements of PBGC, NRRIT, TVA, Treasury and DOD for more detailed information related to debt and equity securities. These agencies comprise 99.6 percent of the total reported debt and equity securities of \$116.2 billion as of September 30, 2017.

Certain PBGC amounts have been restated. Refer to Note 1.V— Restatements for more information.

Note 8. Investments in Government-Sponsored Enterprises

Congress established Fannie Mae and Freddie Mac as GSEs to support mortgage lending. A key function of the GSEs is to purchase mortgages, package those mortgages into securities, which are subsequently sold to investors, and guarantee the timely payment of principal and interest on these securities.

Leading up to the financial crisis, increasingly difficult conditions in the housing market challenged the soundness and profitability of the GSEs, thereby threatening to undermine the entire housing market. In response Congress passed HERA (P.L.110-289) in July 2008. This act created FHFA, with enhanced regulatory authority over the GSEs, and provided the Secretary of the Treasury with certain authorities intended to ensure the financial stability of the GSEs, if necessary. In September 2008, FHFA placed the GSEs under conservatorship and Treasury invested in the GSEs by entering into a SPSPA with each GSE. These actions were taken to preserve the GSEs' assets, ensure a sound and solvent financial condition, and mitigate systemic risks that contributed to market instability.

The purpose of such actions is to maintain the solvency of the GSEs so they can continue to fulfill their vital roles in the home mortgage market while the Administration and Congress determine what structural changes should be made to the housing finance system. Draws under the SPSPAs result in an increased investment in the GSEs as further discussed below. Per SFFAC No. 2, *Entity and Display*, these entities meet the criteria of "bailed out" entities. Accordingly, the government has not consolidated them into the financial statements, but included disclosure of the relationship(s) with the bailed out entities and any actual or potential material costs or liabilities in the consolidated financial statements.

Senior Preferred Stock Purchase Agreements

Under the SPSPAs, Treasury initially received from each GSE: 1) 1,000,000 shares of non-voting variable liquidation preference senior preferred stock with a liquidation preference value of \$1,000 per share and 2) a non-transferable warrant for the purchase, at a nominal cost, of 79.9 percent of common stock on a fully-diluted basis. The warrants expire on September 7, 2028. Under the amended SPSPAs, the quarterly dividend payment changed from a 10.0 percent per annum fixed rate dividend on the total liquidation preference to an amount equivalent to the GSE's positive net worth above a capital reserve amount. The capital reserve amount, which was initially set at \$3.0 billion for calendar year 2013, declines by \$600 million at the beginning of each calendar year thereafter until it reaches zero by calendar year 2018. On January 1, 2017, and 2016, the capital reserve amount had declined to \$600 million and \$1.2 billion for calendar years 2017 and 2016, respectively. The GSEs will not pay a quarterly dividend if their positive net worth is below the required capital reserve threshold. Cash dividends of \$25.3 billion and \$11.5 billion were received during fiscal years ended September 30, 2017, and 2016, respectively.

The SPSPAs, which have no expiration date, provide that Treasury will disburse funds to the GSEs if at the end of any quarter, the FHFA determines that the liabilities of either GSE exceed its assets. Draws from Treasury under the SPSPAs are designed to ensure that the GSEs maintain positive net worth, with a fixed maximum amount available to each GSE under this agreement established as of December 31, 2012 (refer to the "Contingent Liability to GSEs" section below). Draws against the funding commitment of the SPSPAs do not result in the issuance of additional shares of senior preferred stock; instead, it increases the liquidation preference of the initial 1,000,000 shares by the amount of the draw. The combined cumulative liquidation preference totaled \$189 billion as of September 30, 2017 and 2016. There were no payments to the GSEs for the fiscal years ended September 30, 2017 and 2016. Refer to Note 25—Subsequent Events for additional information.

Senior Preferred Stock and Warrants for Common Stock

In determining the fair value of the senior preferred stock and warrants for common stock, Treasury relied on the GSEs' public filings and press releases concerning their financial statements, as well as non-public, long-term financial forecasts, monthly summaries, quarterly credit supplements, independent research regarding preferred stock trading, independent research regarding the GSEs' common stock trading on the OTC Bulletin Board, discussions with each of the GSEs and FHFA, and other information pertinent to the valuations. Because the instruments are not publicly traded, there is no comparable trading information available. The fair valuations rely on significant unobservable inputs that reflect assumptions about the expectations that market participants would use in pricing.

The fair value of the senior preferred stock considers the amount of forecasted dividend payments. The fair valuations assume that a hypothetical buyer would acquire the discounted dividend stream as of the transaction date. The fair value of the senior preferred stock decreased as of September 30, 2017 when compared to September 30, 2016, primarily reflecting a higher discount rate which was driven by a higher long-term Treasury rate (or risk-free rate), as well as an increase in the market value of the GSEs' other equity securities that comprise their total equity.

Factors impacting the fair value of the warrants include the nominal exercise price and the large number of potential exercise shares, the market trading of the common stock that underlies the warrants as of September 30, the principal market, and the market participants. Other factors impacting the fair value include, among other things, the holding period risk related directly to the assumption of the amount of time that it will take to sell the exercised shares without depressing the market. The fair value of the warrants increased at the end of fiscal year 2017, when compared to 2016, primarily due to increases in the market price of the underlying common stock of each GSE.

Contingent Liability to GSEs

As part of the annual process undertaken by Treasury, a series of long-term financial forecasts are prepared to assess, as of September 30, the likelihood and magnitude of future draws to be required by the GSEs under the SPSPAs within the forecast time horizon. Treasury used 25-year financial forecasts prepared through years 2042 and 2041 in assessing if a contingent liability was required as of September 30, 2017 and 2016, respectively. If future payments under the SPSPAs are deemed to be probable within the forecast horizon, Treasury will estimate and accrue a contingent liability to the GSEs to reflect the forecasted equity deficits of the GSEs. This accrued contingent liability will be undiscounted and will not take into account any of the offsetting dividends that could be received, as the dividends, if any, would be owed directly to the General Fund. Such recorded accruals will be adjusted in subsequent years as new information develops or circumstances change.

Based on the annual forecasts as of September 30, 2017 and 2016, Treasury estimated there was no probable future funding draws. However, the reduction in the U.S. corporate income tax rate resulting from the enactment of the *Tax Cuts and Job Act* on December 22, 2017, required that each of Fannie Mae and Freddie Mac record a reduction in the value of their deferred tax assets in the quarter in which the legislation was enacted, impacting potential future funding draws. The funding draws and the associated amounts are expected to be realized in March 2018. Management believes the amounts of such draws will not be material to the consolidated financial statements. At September 30, 2017 and 2016, the maximum remaining contractual commitment to the GSEs for the remaining life of the SPSPAs was \$258.1 billion. Subsequent funding draws will reduce the remaining commitments. Refer to Note 19—Commitments for a full description of other commitments and risks.

In assessing the need for an estimated contingent liability, Treasury relied on the GSEs' public filings and press releases concerning their financial statements, monthly summaries, and quarterly credit supplements, as well as non-public, long-term financial forecasts, the FHFA House Price Index, discussions with each of the GSEs and FHFA, and other information pertinent to the liability estimates. The forecasts prepared in assessing the need for an estimated contingent liability as of September 30, 2017 include three potential wind-down scenarios, with varying assumptions regarding the timing as to when the GSEs would cease issuing new guaranteed mortgage-backed securities. The forecasts also assume a continued gradual wind-down of the retained portfolios (and corresponding net interest income) through 2018, as directed under the amended SPSPAs for each GSE to reduce the maximum balance of its retained mortgage portfolio by 15.0 percent per annum beginning December 31, 2013. The maximum balance of the GSEs' retained mortgage portfolio was initially set at \$650 billion as of December 31, 2012, and the amended SPSPAs requires that GSEs reduce this maximum balance to \$250 billion by December 31, 2018.

Estimation Factors

Treasury's forecasts concerning the GSEs may differ from actual experience. Estimated senior preferred values and future draw amounts will depend on numerous factors that are difficult to predict including, but not limited to, changes in government policy with respect to the GSEs, the business cycle, inflation, home prices, unemployment rates, interest rates, changes in housing preferences, home financing alternatives, availability of debt financing, market rates of guarantee fees, outcomes of loan refinancings and modifications, new housing programs, and other applicable factors.

Regulatory Environment

To date, Congress has not approved a plan to address the future of the GSEs, thus the GSEs continue to operate under the direction of their conservator, the FHFA, whose stated strategic goals for the GSEs are to: (1) maintain foreclosure prevention activities and credit availability to foster liquid, efficient, competitive, and resilient national housing finance markets; (2) reduce taxpayer risk through increasing the role of private capital in the mortgage market, and (3) build a new single-family securitization infrastructure.

The *Temporary Payroll Tax Cut Continuation Act of 2011* (P.L. 112-78) was funded by an increase of 10-basis points in the GSEs' guarantee fees (referred to as "the incremental fees") which began in April 2012, and is effective through October 1, 2021. The incremental fees are to be remitted to Treasury and not retained by the GSEs and, thus, do not affect the profitability of the GSEs. For fiscal years 2017 and 2016, the GSEs remitted to Treasury the incremental fees totaling \$3.2 billion and \$2.8 billion, respectively.

As of September 30, 2017, and 2016, GSEs investments consisted of the following:

Investments in GSEs as of September 30, 2017			
(In billions of dollars)	Gross Investments	Cumulative Valuation Gain/(Loss)	Fair Value
Fannie Mae senior preferred stock	117.0	(74.5)	42.5
Freddie Mac senior preferred stock	72.1	(41.0)	31.1
Fannie Mae warrants common stock	3.1	9.2	12.3
Freddie Mac warrants common stock	2.3	4.4	6.7
Total investments in GSEs	<u>194.5</u>	<u>(101.9)</u>	<u>92.6</u>
Investments in GSEs as of September 30, 2016			
(In billions of dollars)	Gross Investments	Cumulative Valuation Gain/(Loss)	Fair Value
Fannie Mae senior preferred stock	117.0	(58.9)	58.1
Freddie Mac senior preferred stock	72.1	(32.5)	39.6
Fannie Mae warrants common stock	3.1	4.0	7.1
Freddie Mac warrants common stock	2.3	1.5	3.8
Total investments in GSEs	<u>194.5</u>	<u>(85.9)</u>	<u>108.6</u>

Note 9. Other Assets

Other Assets as of September 30, 2017, and 2016		
(In billions of dollars)	2017	Restated 2016
Advances and prepayments	97.4	92.9
Regulatory assets.....	20.0	21.8
FDIC receivable from resolution activity	9.3	9.0
Other	21.0	21.8
Total other assets	<u>147.7</u>	<u>145.5</u>

Advances and prepayments are assets that represent funds disbursed in contemplation of the future performance of services, receipt of goods, the incurrence of expenditures, or the receipt of other assets. These include advances to contractors and grantees, travel advances, and prepayments for items such as rents, taxes, insurance, royalties, commissions, and supplies.

With regard to regulatory assets, the DOE's Power Marketing Administrations (PMAs) and the TVA record certain amounts as assets in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 980, *Regulated Operations*. The provisions of FASB ASC Topic 980 require that regulated enterprises reflect rate actions of the regulator in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise. In order to defer incurred costs under FASB ASC Topic 980, a regulated entity must have the statutory authority to establish rates that recover all costs, and those rates must be charged to and collected from customers. If the PMAs' or TVA's rates should become market-based, FASB ASC Topic 980 would no longer be applicable, and all of the deferred costs under that standard would be expensed. Other items included in "other" are purchased power generating capacity, deferred nuclear generating units, nonmarketable equity investments in international financial institutions, derivative assets, and the balance of assets held by the experience rated carriers participating in the Health Benefits and Life Insurance Program (pending disposition on behalf of OPM).

The Federal Deposit Insurance Corporation (FDIC) has the responsibility for resolving failed institutions in an orderly and efficient manner. The resolution process involves valuing a failing institution, marketing it, soliciting and accepting bids for the sale of the institution, determining which bid is least costly to the insurance fund, and working with the acquiring institution through the closing process. FDIC records receivables for resolutions that include payments by the Deposit Insurance Fund to cover obligations to insured depositors, advances to receiverships and conservatorships for working capital, and administrative expenses paid on behalf of receiverships and conservatorships.

Certain PBGC amounts have been restated. Refer to Note 1.V—Restatements for more information.

Note 10. Accounts Payable

Accounts Payable as of September 30, 2017, and 2016

(In billions of dollars)	2017	2016
Department of Defense	26.4	18.3
Department of Justice	6.0	6.2
Department of Education	4.2	4.0
Department of the Treasury	3.9	4.4
Department of Energy	3.7	3.6
Department of Veterans Affairs	3.6	4.8
General Services Administration	2.8	2.4
Department of State	2.7	2.5
Department of Homeland Security.....	2.3	2.0
U.S. Agency for International Development.....	1.8	1.7
Tennessee Valley Authority	1.8	1.5
Department of Agriculture.....	1.8	1.9
U.S. Postal Service	1.6	1.8
All other.....	8.2	7.3
Total accounts payable	<u>70.8</u>	<u>62.4</u>

Accounts payable includes amounts due for goods and property ordered and received, services rendered by other than federal employees, cancelled appropriations for which the U.S. government has contractual commitments for payment, and non-debt related interest payable.

Note 11. Federal Debt Securities Held by the Public and Accrued Interest

Federal Debt Securities Held by the Public and Accrued Interest

	Balance September 30, 2016	Net Change During Fiscal Year 2017	Balance September 30, 2017	Average Interest Rate	
				2017	2016
(In billions of dollars)					
Treasury securities (public):					
Marketable securities:					
Treasury bills	1,644.8	154.8	1,799.6	1.1%	0.4%
Treasury notes	8,624.3	174.6	8,798.9	1.8%	1.8%
Treasury bonds	1,825.3	123.1	1,948.4	4.2%	4.4%
Treasury inflation-protected securities (TIPS)	1,209.8	76.3	1,286.1	0.8%	0.8%
Treasury floating rate notes (FRN)	334.1	8.5	342.6	1.2%	0.4%
Total marketable Treasury securities	13,638.3	537.3	14,175.6		
Nonmarketable securities	535.1	(37.3)	497.8	2.3%	2.0%
Net unamortized premiums/(discounts)	(33.8)	(5.4)	(39.2)		
Total Treasury securities, net (public)	14,139.6	494.6	14,634.2		
Agency securities:					
Tennessee Valley Authority	23.8	0.1	23.9		
All other agencies	0.2	(0.1)	0.1		
Total agency securities, net of unamortized premiums and discounts	24.0	-	24.0		
Accrued interest payable	57.5	8.4	65.9		
Total federal debt securities held by the public and accrued interest	14,221.1	503.0	14,724.1		

Types of marketable securities:

Bills—Short-term obligations issued with a term of 1 year or less.

Notes—Medium-term obligations issued with a term of 2-10 years.

Bonds—Long-term obligations of more than 10 years.

TIPS—Term of more than 5 years.

FRN—Term of 2 years.

Federal debt securities held by the public outside the Government are held by individuals, corporations, state or local governments, FRBs, foreign governments, and other entities outside the federal government. The above table details Government borrowing primarily to finance operations and shows marketable and nonmarketable securities at face value less net unamortized premiums and discounts including accrued interest.

Securities that represent federal debt held by the public are issued primarily by the Treasury and include:

- Interest-bearing marketable securities (bills, notes, bonds, inflation-protected, and floating rate notes).
- Interest-bearing nonmarketable securities (government account series held by deposit and fiduciary funds, foreign series, state and local government series, domestic series, and savings bonds).
- Non-interest-bearing marketable and nonmarketable securities (matured and other).

Section 3111 of Title 31, United States Code (U.S.C.) authorizes the Secretary of the Treasury to use money received from the sale of an obligation and other money in the General Fund to buy, redeem, or refund, at or before maturity, outstanding bonds, notes, certificates of indebtedness, Treasury bills, or savings certificates of the Government.

Gross federal debt (with some adjustments) is subject to a statutory ceiling (i.e., the debt limit). Prior to 1917, Congress approved each debt issuance. In 1917, to facilitate planning in World War I, Congress and the President first enacted a statutory dollar ceiling for federal borrowing. With the *Public Debt Act of 1941* (P.L. 77-7), Congress and the President set an overall limit of \$65 billion on Treasury debt obligations that could be outstanding at any one time; since then, Congress and the President have enacted a number of debt limit increases.

During fiscal years 2017 and 2016, Treasury faced two delays in raising the statutory debt limit that required it to depart from its normal debt management operations and to invoke legal authorities to avoid exceeding the statutory debt limit. During these periods, extraordinary actions taken by Treasury have resulted in federal debt securities not being issued to certain federal accounts. The first period occurred from March 16, 2015 to October 30, 2015. On Monday, November 2, 2015, The *Bipartisan Budget Act of 2015* (P.L. 114-74) was enacted suspending the statutory debt limit through March 15, 2017. The second delay in raising the statutory debt limit occurred from March 16, 2017 through September 7, 2017. On Friday, September 8, 2017 the *Continuing Appropriations Act, 2018 and Supplemental Appropriations for Disaster Relief Requirements Act, 2017* (P.L. 115-56) was enacted suspending the statutory debt limit through December 8, 2017.

As of September 30, 2017, and 2016, debt subject to the statutory debt limit was \$20,208.6 billion and \$19,538.5 billion, respectively. The debt subject to the limit includes Treasury securities held by the public and Government guaranteed debt of federal agencies (shown in the table above) and intragovernmental debt holdings (shown in the following table). See Note 25—Subsequent Events for additional information.

**Intragovernmental Debt Holdings: Federal Debt Securities
Held as Investments by Government Accounts as of September 30, 2017, and 2016**

(In billions of dollars)	Balance 2016	Net Change During Fiscal Year 2017	Balance 2017
Social Security Administration, Federal Old-Age and Survivors Insurance Trust Fund	2,796.7	23.5	2,820.2
Office of Personnel Management, Civil Service Retirement and Disability Fund.....	887.2	17.9	905.1
Department of Defense, Military Retirement Fund....	591.0	70.0	661.0
Department of Defense, Medicare-Eligible Retiree Health Care Fund	213.5	12.3	225.8
Department of Health and Human Services, Federal Hospital Insurance Trust Fund	192.2	5.6	197.8
Federal Deposit Insurance Corporation, Deposit Insurance Fund	71.5	8.7	80.2
Department of Health and Human Services, Federal Supplementary Medical Insurance Trust Fund	63.3	7.3	70.6
Social Security Administration, Federal Disability Insurance Trust Fund	45.9	23.8	69.7
Department of Labor, Unemployment Trust Fund ...	53.8	6.9	60.7
Department of Energy, Nuclear Waste Disposal Fund.....	52.4	0.6	53.0
Department of Transportation, Highway Trust Fund	64.6	(12.3)	52.3
Office of Personnel Management, Postal Service Retiree Health Benefits Fund	51.5	(2.0)	49.5
Office of Personnel Management, Employees Life Insurance Fund	45.2	0.5	45.7
Department of Housing and Urban Development, FHA, Mutual Mortgage Insurance Capital Reserve Account	36.4	(5.5)	30.9
Pension Benefit Guaranty Corporation	23.7	4.7	28.4
Office of Personnel Management, Employees Health Benefits Fund	23.7	2.3	26.0
Department of the Treasury, Exchange Stabilization Fund	22.7	(0.6)	22.1
Department of State, Foreign Service Retirement and Disability Fund	18.3	0.5	18.8
Department of Housing and Urban Development, Guarantees of Mortgage-Backed Securities Capital Reserve Account.....	15.8	1.3	17.1
Department of Transportation, Airport and Airway Trust Fund	13.4	-	13.4
National Credit Union Share Insurance Fund.....	12.3	0.8	13.1
United States Postal Service, Postal Service Fund ..	8.5	2.5	11.0
All other programs and funds	96.3	2.8	99.1
Subtotal	5,399.9	171.6	5,571.5
Total net unamortized premiums/(discounts) for intragovernmental.....	72.7	(0.5)	72.2
Total intragovernmental debt holdings, net	5,472.6	171.1	5,643.7

Intragovernmental debt holdings represent the portion of the gross federal debt held as investments by government entities such as trust funds, revolving funds, and special funds.

Government entities that held investments in Treasury securities include trust funds that have funds from dedicated collections. For more information on funds from dedicated collections, see Note 20—Funds from Dedicated Collections. These intragovernmental debt holdings are eliminated in the consolidation of these financial statements.

Note 12. Federal Employee and Veteran Benefits Payable

Federal Employee and Veteran Benefits Payable as of September 30, 2017, and 2016

	Civilian		Military		Total	
	2017	2016	2017	2016	2017	2016
(In billions of dollars)						
Pension and accrued benefits	2,013.8	1,910.7	1,568.0	1,490.6	3,581.8	3,401.3
Veterans compensation and burial benefits.....	N/A	N/A	2,810.0	2,496.3	2,810.0	2,496.3
Post-retirement health and accrued benefits	375.7	352.3	781.6	799.7	1,157.3	1,152.0
Veterans education benefits.....	N/A	N/A	50.7	59.6	50.7	59.6
Life insurance and accrued benefits.....	53.1	50.9	6.9	7.7	60.0	58.6
FECA benefits.....	28.9	30.1	8.3	8.3	37.2	38.4
Liability for other benefits	1.1	1.0	2.0	2.2	3.1	3.2
Total federal employee and veteran benefits payable	<u>2,472.6</u>	<u>2,345.0</u>	<u>5,227.5</u>	<u>4,864.4</u>	<u>7,700.1</u>	<u>7,209.4</u>

Change in Pension and Accrued Benefits

	Civilian		Military		Total	
	2017	2016	2017	2016	2017	2016
(In billions of dollars)						
Actuarial accrued pension liability, beginning of fiscal year	1,910.7	1,945.0	1,490.6	1,563.2	3,401.3	3,508.2
Pension expense:						
Prior (and past) service costs from plan amendments or new plans.....	-	(1.0)	(0.9)	(18.7)	(0.9)	(19.7)
Normal costs	38.8	39.2	27.4	26.9	66.2	66.1
Interest on liability	69.5	73.9	57.6	63.4	127.1	137.3
Actuarial (gains)/losses (from experience)	(12.0)	(27.1)	(1.6)	(25.5)	(13.6)	(52.6)
Actuarial (gains)/losses (from assumption changes)	94.3	(33.0)	52.9	(61.2)	147.2	(94.2)
Other	-	0.1	-	-	-	0.1
Total pension expense	190.6	52.1	135.4	(15.1)	326.0	37.0
Less benefits paid	<u>(87.5)</u>	<u>(86.4)</u>	<u>(58.0)</u>	<u>(57.5)</u>	<u>(145.5)</u>	<u>(143.9)</u>
Actuarial accrued pension liability, end of fiscal year	<u>2,013.8</u>	<u>1,910.7</u>	<u>1,568.0</u>	<u>1,490.6</u>	<u>3,581.8</u>	<u>3,401.3</u>

Change in Post-Retirement Health and Accrued Benefits						
(In billions of dollars)	Civilian		Military		Total	
	2017	2016	2017	2016	2017	2016
Actuarial accrued post-retirement health benefits liability, beginning of fiscal year.....	352.3	364.0	799.7	731.2	1,152.0	1,095.2
Post-Retirement health benefits expense:						
Prior (and past) service costs from plan amendments or new plans.....	-	(0.2)	-	(5.8)	-	(6.0)
Normal costs	13.4	14.1	20.5	19.4	33.9	33.5
Interest on liability	13.9	14.8	32.3	30.3	46.2	45.1
Actuarial (gains)/losses (from experience)	4.5	(11.1)	(20.6)	40.9	(16.1)	29.8
Actuarial (gains)/losses (from assumption changes)	7.5	(14.0)	(28.8)	3.6	(21.3)	(10.4)
Total post-retirement health benefits expense	39.3	3.6	3.4	88.4	42.7	92.0
Less claims paid.....	(15.9)	(15.3)	(21.5)	(19.9)	(37.4)	(35.2)
Actuarial accrued post-retirement health benefits liability, end of fiscal year.....	<u>375.7</u>	<u>352.3</u>	<u>781.6</u>	<u>799.7</u>	<u>1,157.3</u>	<u>1,152.0</u>

The Government offers its employees retirement and other benefits, as well as health and life insurance. The liabilities for these benefits, which include both actuarial amounts and amounts due and payable to beneficiaries and health care carriers, apply to current and former civilian and military employees. Large fluctuations in actuarial amounts can result from changes in estimates to future outflows for benefits based on complex assumptions and cost models.

OPM administers the largest civilian plan. DOD and VA administer the largest military plans. Other significant pension plans with more than \$10 billion in accrued benefits payable include those of the Coast Guard (DHS), Foreign Service (DOS), TVA, USPS, and HHS's Public Health Service Commissioned Corps Retirement System. Please refer to the financial statements of the agencies listed for further details regarding their pension plans and other benefits.

Change in Civilian Life Insurance and Accrued Benefits		
(In billions of dollars)	2017	2016
Actuarial accrued life insurance benefits liability, beginning of fiscal year	50.9	49.6
Life insurance benefits expense:		
New entrant expense	0.4	0.4
Interest on liability	1.9	1.9
Actuarial (gains)/losses (from experience)	(0.4)	(0.8)
Actuarial (gains)/losses (from assumption changes)	0.9	0.4
Total life insurance benefits expense	2.8	1.9
Less costs paid	(0.6)	(0.6)
Actuarial accrued life insurance benefits liability, end of fiscal year	<u>53.1</u>	<u>50.9</u>

Significant Long-Term Economic Assumptions Used in Determining Pension Liability and the Related Expense

	Civilian				Military	
	2017		2016		2017	2016
	FERS	CSRS	FERS	CSRS		
Rate of interest	3.80%	3.20%	4.00%	3.50%	3.70%	3.90%
Rate of inflation.....	1.80%	1.80%	1.90%	1.90%	1.70%	1.70%
Projected salary increases.....	1.50%	1.50%	1.50%	1.50%	2.10%	2.10%
Cost of living adjustment	1.40%	1.80%	1.60%	1.90%	N/A	N/A

Significant Long-Term Economic Assumptions Used in Determining Post-Retirement Health Benefits and the Related Expense

	Civilian		Military	
	2017	2016	2017	2016
Rate of interest	3.80%	4.00%	3.80%	4.00%
Single equivalent medical trend rate.....	4.80%	5.00%	4.12%	4.56%
Ultimate medical trend rate.....	3.40%	3.50%	4.20%	4.45%

Significant Long-Term Economic Assumptions Used in Determining Life Insurance Benefits and the Related Expense

	Civilian	
	2017	2016
Rate of interest	3.60%	3.80%
Rate of increase in salary	1.50%	1.50%

In accordance with SFFAS No. 33, *Pension, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, agencies are required to separately present gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, Other Retirement Benefits (ORB), and Other Postemployment Benefits (OPEB) on the Statement of Net Cost. SFFAS No. 33 also provides a standard for selecting the discount rate assumption for present value estimates of federal employee pension, ORB, and OPEB liabilities. The SFFAS No. 33 standard for selecting the discount rate assumption requires it be based on a historical average of interest rates on marketable Treasury securities consistent with the cash flows being discounted. Additionally, SFFAS No. 33 provides a standard for selecting the valuation date for estimates of federal employee pension, ORB, and OPEB liabilities that establishes a consistent method for such measurements.

To provide a sustainable, justifiable data resource for the affected agencies, Treasury developed a new model and methodology for developing these interest rates in fiscal year 2014. The new method that was developed is based on methodology used to produce the High Quality Market (HQM) Yield Curve pursuant to the Pension Protection Act of 2006.² As of July 2014, Treasury began releasing interest rate yield curve data using this new U.S. Department of the Treasury's Yield Curve for Treasury Nominal Coupon Issues (TNC yield curve), which is derived from Treasury notes

² Treasury's HQM resource is available at: <https://www.treasury.gov/resource-center/economic-policy/corp-bond-yield/Pages/Corp-Yield-Bond-Curve-Papers.aspx>.

and bonds. The TNC yield curve provides information on Treasury nominal coupon issues and the methodology extrapolates yields beyond 30 years through 100 years maturity. The TNC yield curve is used to produce a Treasury spot yield curve (a zero coupon curve), which provides the basis for discounting future cash flows.

Civilian Employees

Pensions

OPM administers the largest civilian pension plan, which covers substantially all full-time, permanent civilian federal employees. This plan includes two components of defined benefits, the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). The basic benefit components of the CSRS and the FERS are financed and operated through the Civil Service Retirement and Disability Fund (CSRDF), a trust fund. CSRDF monies are generated primarily from employees' contributions, agency contributions, payments from the General Fund, and interest on investments in Treasury securities.

The Federal Retirement Thrift Investment Board administers the TSP. The TSP investment options include two fixed income funds (the G and F Funds), three stock funds (the C, S, and I Funds) and five lifecycle funds (L 2050, L 2040, L 2030, L 2020, and L Income). The L Funds diversify participant accounts among the G, F, C, S, and I Funds, using professionally determined investment mixes (allocations) that are tailored to different time horizons. Treasury securities held in the G Fund are included in federal debt securities held by the public and accrued interest on the Balance Sheet. The G Fund held \$217.9 billion and \$220.9 billion in nonmarketable Treasury securities as of September 30, 2017, and 2016, respectively.

The liability for civilian pension and accrued benefits payable increased \$103.1 billion. This increase is largely attributable to changes in actuarial assumptions. The assumption loss results primarily from decreases to the assumed rates of interest and to changes in demographic assumptions.

Post-Retirement Health Benefits

The post-retirement civilian health benefit liability is an estimate of the Government's future cost of providing post-retirement health benefits to current employees and retirees. Although active and retired employees pay insurance premiums under the Federal Employees Health Benefits Program (FEHB), these premiums cover only a portion of the costs. The OPM actuary applies economic and demographic assumptions to historical cost information to estimate the liability.

The *Postal Accountability and Enhancement Act of 2006* (Postal Act of 2006) (P.L. No 109-435, Title VIII), made significant changes in the funding of future retiree health benefits for employees of the USPS, including the requirement for the USPS to make scheduled payments to the Postal Service Retiree Health Benefits (PSRHB) Fund. Various legislation requires the USPS to make scheduled payments to the PSRHB Fund ranging from \$5.4 billion to \$5.8 billion per year from fiscal year 2007 through fiscal year 2016. Thereafter, the law requires USPS to make annual payments in the amount of the normal cost plus or minus an amount to amortize the unfunded liability or surplus. USPS currently owes the PSRHB Fund a total of \$38.2 billion consisting of: \$11.1 billion for fiscal year 2012, \$5.6 billion for fiscal year 2013, \$5.7 billion for both fiscal years 2014 and 2015, \$5.8 billion for fiscal year 2016, and \$4.3 billion for fiscal year 2017. As of September 30, 2017, USPS has not indicated its intention regarding payment of the \$38.2 billion due. At this time, Congress has not taken further action on these payments due to the PSRHB Fund from USPS. The cost for each year's payment, including any defaulted payment, along with all other benefit program costs, are included in USPS' net cost for that year in the consolidated Statements of Net Cost.

The post-retirement civilian health benefit liability increased \$23.4 billion. This increase is due to the accruing cost of benefits, interest on the existing liability and an actuarial loss primarily attributable to updated demographic assumptions used in the fiscal year 2017 calculation.

Life Insurance Benefits

One of the other significant employee benefits is the Federal Employee Group Life Insurance (FEGLI) Program. Employee and annuitant contributions and interest on investments fund a portion of this liability. The actuarial life insurance liability is the expected present value of future benefits to pay to, or on behalf of, existing FEGLI participants, less the expected present value of future contributions to be collected from those participants. The OPM actuary uses salary increase and interest rate yield curve assumptions that are generally consistent with the pension liability.

Workers' Compensation Benefits

The DOL determines both civilian and military agencies' liabilities for future workers' compensation benefits for civilian federal employees, as mandated by the Federal Employees' Compensation Act (FECA), for death, disability, medical, and miscellaneous costs for approved compensation cases, and a component for incurred, but not reported, claims. The FECA liability is determined annually using historical benefit payment patterns related to injury years to predict the future payments.

The actuarial methodology provides for the effects of inflation and adjusts historical payments to constant dollars by applying wage inflation factors (cost-of-living adjustments or COLA) and medical inflation factors (consumer price index-medical or CPIM) to the calculation of projected benefits.

DOL selects the COLA factors, CPIM factors, and discount rate by averaging the COLA rates, CPIM rates, and interest rates for the current and prior four years. Using averaging renders estimates that reflect historical trends over five years instead of conditions that exist in one year.

The COLAs and CPIMs used in the projections for fiscal year 2017 are listed below in the table.

Fiscal Year	COLA	CPIM
2018	1.22%	3.20%
2019	1.35%	3.52%
2020	1.59%	3.80%
2021	1.99%	3.99%
2022+	2.26%	3.91%

DOL selected the interest rate assumptions whereby projected annual payments were discounted to present value based on interest rate assumptions on the TNC Yield Curve to reflect the average duration of income payments and medical payments. The average durations for income payments and medical payments were 14.7 years and 9.5 years, respectively. Based on averaging the TNC Yield Curves for the current and prior four years, the interest rate assumptions for income payments and medical payments were 2.68% and 2.22%, respectively.

For the COLAs, CPIMs, average durations, and interest rate assumptions used in the projections for fiscal year 2016, refer to the *Fiscal Year 2016 Financial Report of the U.S. Government*.

Military Employees (Including Veterans)

Pensions

The military retirement system consists of a funded, noncontributory, defined benefit plan. It applies to military personnel (Departments of Army, Navy, Air Force, and the Marine Corps). This system includes non-disability retired pay, disability retired pay; survivor annuity programs, and Combat-Related Special Compensation. The Service Secretaries may approve immediate non-disability retired pay at any age with credit of at least 20 years of active duty service. Reserve retirees must be at least 60 years old and have at least 20 qualifying years of service before retired pay commences; however, in some cases, the age can be less than 60 if the reservist performs certain types of active service. P.L. 110-181 provides for a 90-day reduction in the reserve retirement age from age 60 for every 3 months of certain active duty service served within a fiscal year for service after January 28, 2008 (not below age 50). There is no vesting of benefits before non-disabled retirement. There are distinct non-disability benefit formulas related to four populations within the Military Retirement System: Final Pay, High-3, Career Status Bonus/Redux, and the Blended Retirement System (BRS) enacted in the *National Defense Authorization Act for Fiscal Year 2016*, effective January 1, 2018. The BRS is a new retirement benefit merging aspects of both a defined benefit annuity with a defined contribution account, through the Thrift Savings Plan (TSP). The date an individual enters the military determines which retirement system they would fall under and if they have the option to pick their retirement system. Military personnel with a start date on or after January 1, 2018 are automatically enrolled in BRS. Although all members serving as of December 31, 2017 are grandfathered under the existing retirement system, Active Duty, National Guard and Reserve personnel meeting established criteria may opt into BRS during calendar year 2018. Under the BRS, retiring members are given the option to receive a portion of their retired pay annuity in the form of a lump sum distribution. For more information on these benefits, see DOD's Office of Military Compensation website <https://militarypay.defense.gov>.

The DOD Military Retirement Fund was established by P.L. 98-94 (currently Chapter 74 of Title 10, U.S.C.) and accumulates funds to finance, on an accrual basis, the liabilities of DOD military retirement and survivor benefit programs. This Fund receives income from three sources: monthly normal cost payments from the Services and Treasury to pay for the current years' service cost; annual payments from the Treasury to amortize the unfunded liability and pay for the increase in the normal cost attributable to Concurrent Receipt per P.L. 108-136; and investment income.

The \$77.4 billion increase in the Military Retirement Pension liability is primarily attributable to a reduction in the discount rate related to requirements prescribed by SFFAS No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits*, and the expected increase from normal and interest costs offset by benefit payments. Liabilities in the future will depend on expected changes due to interest and benefit accruals, future benefit changes, assumption changes, and actuarial experience.

Post-Retirement Health Benefits

Military retirees who are not yet eligible for Medicare (and their eligible non-Medicare eligible dependents) are eligible for post-retirement medical coverage provided by DOD. Depending on the benefit plan selected, retirees and their eligible dependents may receive care from military treatment facilities (MTFs) on a space-available basis or from civilian providers. This TRICARE coverage is available in Indemnity (health plan that allows you to visit almost any doctor or hospital you choose), preferred provider organization [(PPO) – health plan that contracts with medical providers to create a network of participating providers; member cost-shares are typically higher for services received out-of-network] and health maintenance organization [(HMO) – health plan that limits services to a specific network of medical personnel and facilities and usually by requiring referral by a primary-care physician for specialty care] designs, with varying levels of cost sharing. These postretirement medical benefits are paid by the Defense Health Agency on a pay-as-you-go basis.

Since fiscal year 2002, DOD has provided medical coverage to Medicare-eligible retirees (and their eligible Medicare-eligible dependents). This coverage, called TRICARE for Life (TFL), is a Medicare Supplement plan which includes inpatient, outpatient and pharmacy coverage. Enrollment in Medicare Part B is required to maintain eligibility in TFL. Retirees with TFL coverage can obtain care from MTFs on a space-available basis or from civilian providers.

10 U.S.C., Chapter 56 created the DOD Medicare-Eligible Retiree Health Care Fund (MERHCF), which became operative on October 1, 2002. The purpose of this fund is to account for and accumulate funds for the health benefit costs of Medicare-eligible military retirees, and their dependents and survivors who are Medicare eligible. The Fund receives revenues from three sources: interest earnings on MERHCF assets, Uniformed Services normal cost contributions, and Treasury contributions. The DOD Medicare-Eligible Retiree Health Care Board of Actuaries (the Board) approves the methods and assumptions used in actuarial valuations of the MERHCF for the purpose of calculating the per capita normal cost rates (to fund the annual accrued benefits) and determining the unfunded liability amortization payment (the U.S. Treasury contribution). The Secretary of Defense directs the Secretary of Treasury to make DOD's normal cost payments. The MERHCF pays for medical costs incurred by Medicare-eligible beneficiaries at MTFs and civilian providers (including capitated payments to U.S. Family Health Plans for grandfathered beneficiaries), plus the costs associated with claimed administration. The actuaries calculate the actuarial liabilities annually using assumptions and actual experience (e.g., mortality and retirement rates, health care costs, medical trend rates, and the discount rate).

Military post-retirement health and accrued benefits payable decreased \$18.1 billion. This decrease is due primarily to changes in key actuarial assumptions, and actuarial experience being more favorable from what has been assumed (demographic and claims data).

In addition to the health care benefits the federal government provides for civilian and military retirees and their dependents, the VA also provides medical care to veterans on an "as available" basis, subject to the limits of the annual appropriations. In accordance with 38 CFR 17.36 (c), VA's Secretary makes an annual enrollment decision that defines the veterans, by priority, who will be treated for that fiscal year subject to change based on funds appropriated, estimated collections, usage, the severity index of enrolled veterans, and changes in cost. While VA expects to continue to provide medical care to veterans in future years, an estimate of such future benefits cannot be reasonably made. Accordingly, VA recognizes the medical care expenses in the period the medical care services are provided. For the fiscal years 2013 through 2017, the average medical care cost per year was \$58.0 billion.

Veterans Compensation and Burial Benefits

The Government compensates disabled veterans and their survivors. Veterans' compensation is payable as a disability benefit or a survivor's benefit. Entitlement to compensation depends on the veteran's disabilities having been incurred in, or aggravated during, active military service; death while on duty; or death resulting from service-connected disabilities, if not on active duty.

Eligible veterans who die or are disabled from military service-related causes, as well as their dependents, receive compensation benefits. Also, veterans are provided with burial flags, headstones/markers, and grave liners for burial in a VA

national cemetery or are provided a burial flag, headstone/marker and a plot allowance for burial in a private cemetery. These benefits are provided under 38 U.S.C., Part 2, Chapter 23 in recognition of a veteran's military service and are recorded as a liability in the period the requirements are met.

The liability for veterans' compensation and burial benefits payable is based on an actuarial estimate of future compensation and burial payments and increased by \$313.7 billion in fiscal year 2017. The \$313.7 billion increase is primarily attributable to assumption changes and experience. The major experience impact was a higher than expected number of veterans who became eligible for benefits during fiscal year 2017. The major assumption change impacts were from a decrease in the discount rate and an increase in assumed future new compensation case rates.

Several significant actuarial assumptions were used in the valuation of compensation and burial benefits to calculate the present value of the liability. A liability was recognized for the projected benefit payments to: 1) those beneficiaries, including veterans and survivors, currently receiving benefit payments; 2) current veterans who will in the future become beneficiaries of the compensation program; and 3) a proportional share of those in active military service as of the valuation date who will become eligible disabled veterans in the future. Future benefit payments to survivors of those veterans in classes 1, 2, and 3 above are also incorporated into the projection. The projected liability does not include any administrative costs.

The veterans' compensation and burial benefits liability is developed on an actuarial basis. It is impacted by interest on the liability balance, experience gains or losses, changes in actuarial assumptions, prior service costs, and amounts paid for costs included in the liability balance.

Change in Veterans Compensation and Burial Benefits						
	Compensation		Burial		Total	
	2017	2016	2017	2016	2017	2016
(In billions of dollars)						
Actuarial accrued liability, beginning of fiscal year	2,491.4	2,014.0	4.9	4.6	2,496.3	2,018.6
Current year expense:						
Interest on the liability balance	97.9	82.2	0.2	0.2	98.1	82.4
Actuarial (gains)/losses (from experience)	50.7	91.9	(0.2)	0.2	50.5	92.1
Actuarial (gains)/losses (from assumption changes)	244.3	377.4	0.2	0.1	244.5	377.5
Total current year expense.....	392.9	551.5	0.2	0.5	393.1	552.0
Less benefits paid	(79.2)	(74.1)	(0.2)	(0.2)	(79.4)	(74.3)
Actuarial accrued liability, end of fiscal year	<u>2,805.1</u>	<u>2,491.4</u>	<u>4.9</u>	<u>4.9</u>	<u>2,810.0</u>	<u>2,496.3</u>
Significant Economic Assumptions Used in Determining Veterans Compensation and Burial Benefits as of September 30, 2017, and 2016						
			2017		2016	
Rate of interest.....			3.66%		3.93%	
Rate of inflation			2.28%		2.30%	

Veterans Education Benefits

For eligible Veterans and their dependents, the VA provides four unique education/retraining type programs:

- Post 9/11 GI Bill
- Montgomery GI Bill-Active Duty (MGIB-AD)
- Vocational Rehabilitation and Employment (VR&E)
- Dependent Education Assistance (DEA)

In fiscal year 2016, VA reported an estimated liability for the Post 9/11 GI Bill of \$59.6 billion. This was the first time VA had reported this estimated liability and the models and assumptions used were conservative with limited experience studies or assumptions. At that time, VA had not developed models or estimates for the other three programs listed; however, it was management's assertion that the amount recorded for the Post 9/11 GI Bill was large enough to include any liability for the other three programs. In fiscal year 2017, VA broke out each program and developed individual estimates based on actuarial standards. While not reported last year, VA did develop an estimate for fiscal year 2016 for each of the new programs to be used for comparisons only. These estimates reflect an increase in the liability of \$8.7 billion. This amount is presented as "Other" in the schedule of "Changes in Veterans Education Benefits" provided below.

The decrease in the liability of \$14.8 billion from "Actuarial (gains)/losses from assumption changes" included the impacts of refinements to the modeling of the Post 9/11 GI Bill program (liability decrease of \$29.3 billion); prior service costs associated with the "Forever GI Bill of 2017," which eliminated the 15-year limitation for using the benefit (liability increase of \$8.2 billion); and other assumption changes (liability increase of \$6.3 billion).

For details regarding actuarial assumptions and the four unique education/retraining type programs, please refer to VA's financial statements.

Change in Veterans Education Benefits		
(In billions of dollars)	2017	2016
Actuarial accrued liability, beginning of fiscal year.....	59.6	53.1
Current year expense:		
Interest on liability	0.7	0.2
Actuarial (gains)/losses (from experience)	9.3	18.0
Actuarial (gains)/losses (from assumption changes).....	(14.8)	-
Other	8.7	-
Total current year expense.....	3.9	18.2
Less benefits paid	(12.8)	(11.7)
Actuarial accrued liability, end of fiscal year	50.7	59.6

Life Insurance Benefits

The largest veterans' life insurance programs consist of the following:

- National Service Life Insurance (NSLI) covers policyholders who served during World War II.
- Veterans' Special Life Insurance (VSLI) was established in 1951 to meet the insurance needs of veterans who served during the Korean Conflict and through the period ending January 1, 1957.
- Service-Disabled Veterans Insurance (S-DVI) program was established in 1951 to meet the insurance needs of veterans who received a service-connected disability rating.

The components of veteran life insurance liability for future policy benefits are presented below:

Veterans Life Insurance Liability as of September 30, 2017, and 2016		
(In billions of dollars)	2017	2016
Insurance death benefits:		
NSLI.....	2.8	3.4
VSLI.....	1.2	1.3
S-DVI	0.7	0.6
Other.....	0.3	0.3
Total death benefits	<u>5.0</u>	<u>5.6</u>
Death benefit annuities	-	0.1
Disability income & waiver	0.8	0.8
Insurance dividends payable	1.1	1.2
Total veterans life insurance liability	<u>6.9</u>	<u>7.7</u>

Insurance dividends payable consists of dividends left on a deposit with VA, related interest payable, and dividends payable to policyholders.

The VA supervises Service members Group Life Insurance (SGLI) and Veterans Group Life Insurance programs that provide life insurance coverage to members of the uniformed armed services, reservists, and post-Vietnam Veterans as well as their families. VA has entered into a group policy with the Prudential Insurance Company of America to administer and provide the insurance payments under these programs. All SGLI insureds are automatically covered under the Traumatic Injury Protection (TSGLI) program, which provides for insurance payments to veterans who suffer a serious traumatic injury in service.

Pension Benefits

The VA also provides certain veterans and/or their dependents with pension benefits, based on annual eligibility reviews, if the veteran died or was disabled for nonservice-related causes. VA pension benefits are recognized as a non-exchange transaction due to the nature of the VA pension plan. Therefore, the actuarial present value of these future benefits is not required to be recorded on the Balance Sheet. The projected amounts of future payments for pension benefits (presented for informational purposes only) as of September 30, 2017, and 2016, was \$87.6 billion and \$87.2 billion, respectively.

Note 13. Environmental and Disposal Liabilities

Environmental and Disposal Liabilities as of September 30, 2017, and 2016		
(In billions of dollars)	2017	2016
Department of Energy:		
Environmental and disposal liabilities	383.8	371.8
Department of Defense:		
Environmental restoration liabilities	27.4	26.8
Environmental disposal for military equipment/weapons programs	16.3	14.8
Other environmental liabilities-non-BRAC	11.2	9.3
Chemical weapons disposal program	8.7	7.1
Base realignment and closure installations (BRAC)	4.7	4.6
Total Department of Defense	68.3	62.6
All other agencies	12.4	12.2
Total environmental and disposal liabilities	464.5	446.6

During World War II and the Cold War, DOE (or predecessor agencies) developed a massive industrial complex to research, produce, and test nuclear weapons. This included nuclear reactors, chemical-processing buildings, metal machining plants, laboratories, and maintenance facilities that manufactured tens of thousands of nuclear warheads and conducted more than 1,000 nuclear tests.

At all sites where these activities took place, some environmental contamination occurred. This contamination was caused by the production, storage, and use of radioactive materials and hazardous chemicals, which resulted in contamination of soil, surface water, and groundwater. The environmental legacy of nuclear weapons production also includes thousands of contaminated buildings and large volumes of waste and special nuclear materials requiring treatment, stabilization, and disposal.

Estimated cleanup costs at sites for which there are no current feasible remediation approaches, such as the Nevada nuclear test site, are excluded from the estimates, although applicable stewardship and monitoring costs for these sites are included. DOE has not been required through regulation to establish remediation activities for these sites.

Estimating DOE's environmental cleanup liability requires making assumptions about future activities and is inherently uncertain. The future course of DOE's environmental cleanup and disposal will depend on a number of fundamental technical and policy choices, many of which have not been made. The sites and facilities could be restored to a condition suitable for any desirable use, or could be restored to a point where they pose no near-term health risks. Achieving the former conditions would have a higher cost but may (or may not) warrant the costs, or be legally required. The environmental and disposal liability estimates include contingency estimates intended to account for the uncertainties associated with the technical cleanup scope of the program.

DOE's environmental and disposal liabilities estimates are dependent on annual funding levels and achievement of work as scheduled. Congressional appropriations at lower than anticipated levels or unplanned delays in project completion would cause increases in life-cycle costs.

DOE's environmental and disposal liabilities also include the estimated cleanup and post-closure responsibilities, including surveillance and monitoring activities, soil and groundwater remediation, and disposition of excess material for sites. The Department is responsible for the post-closure activities at many of the closure sites as well as other sites. The costs for these post-closure activities are estimated for a period of 75 years after the balance sheet date, i.e., through 2092 in fiscal year 2017 and through 2091 in fiscal year 2016. While some post-cleanup monitoring and other long-term stewardship activities post-2092 are included in the liability, there are others the Department expects to continue beyond 2092 for which the costs cannot reasonably be estimated.

A portion of DOE's environmental and disposal liabilities at various field sites includes anticipated costs for facilities managed by DOE's ongoing program operations which will ultimately require stabilization, deactivation, and decommissioning. The estimate is largely based upon a cost-estimating model. Site specific estimates are used in lieu of the

cost-estimating model, when available. Cost estimates for ongoing program facilities are updated each year. For facilities newly contaminated since fiscal year 1997, cleanup costs allocated to future periods and not included in environmental and disposal liabilities amounted to \$0.9 billion and \$0.7 billion for fiscal years 2017 and 2016, respectively.

Please refer to the financial statements of the DOE for significant detailed information regarding DOE's environmental and disposal liabilities, including cleanup costs.

DOD must restore active installations, installations affected by base realignment and closure, and other areas formerly used as Defense sites. DOD also bears responsibility for disposal of chemical weapons and environmental costs associated with the disposal of weapons systems (primarily nuclear powered aircraft carriers and submarines).

DOD follows the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), Superfund Amendments and Reauthorization Act, Resource Conservation and Recovery Act (RCRA) and other applicable federal or state laws to clean up contamination. The CERCLA and RCRA require the DOD to clean up contamination in coordination with regulatory agencies, current owners of property damaged by the Department, and third parties that have a partial responsibility for the environmental restoration. Failure to comply with agreements and legal mandates puts the DOD at risk of incurring fines and penalties.

DOD uses engineering estimates and independently validated models to estimate environmental costs. The engineering estimates are used after obtaining extensive data during the remedial investigation/feasibility phase of the environmental project.

For general PP&E placed into service after September 30, 1997, DOD expenses associated environmental costs systematically over the life of the asset using two methods: physical capacity for operating landfills and life expectancy in years for all other assets. DOD expenses the full cost to clean up contamination for stewardship property, plant, and equipment at the time the asset is placed into service. DOD has expensed the costs for cleanup associated with general property, plant, and equipment placed into service before October 1, 1997, except for costs intended to be recovered through user charges; for those costs, DOD has expensed cleanup costs associated with that portion of the asset life that has passed since it was placed into service. DOD systematically recognizes the remaining cost over the remaining life of the asset. DOD is unable to provide an estimate for the unrecognized portion of the cleanup cost associated with general property, plant, and equipment for fiscal year 2017. The Department is reevaluating its methodology and implementing procedures to address deficiencies. The unrecognized portion of the cleanup cost associated with general property, plant, and equipment for fiscal year 2016 is \$2.7 billion.

DOD is unable to estimate and report a liability for environmental restoration and corrective action for buried chemical munitions and agents, because the extent of the buried chemical munitions and agents is unknown at this time. DOD is also unable to provide a complete estimate for the Formerly Utilized Sites Remedial Action Program. DOD has ongoing studies and will update its estimate as additional liabilities are identified. DOD has the potential to incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. However, DOD is unable to provide a reasonable estimate at this time because the extent of required restoration is unknown.

Please refer to the financial statements of DOD for further detailed information regarding DOD's environmental and disposal liabilities, including cleanup costs.

Note 14. Benefits Due and Payable

Benefits Due and Payable as of September 30, 2017, and 2016

(In billions of dollars)	2017	2016
Federal Old-Age and Survivors Insurance.....	71.3	69.1
Grants to States for Medicaid.....	34.1	35.4
Federal Supplementary Medical Insurance (Medicare Parts B and D).....	30.6	36.2
Federal Hospital Insurance (Medicare Part A).....	30.0	27.8
Federal Disability Insurance.....	26.9	28.1
All other benefits programs.....	25.9	21.6
Total benefits due and payable.....	<u>218.8</u>	<u>218.2</u>

Benefits due and payable are amounts owed to program recipients or medical service providers as of September 30 that have not been paid. HHS and the SSA administer the majority of the medical service programs. For a description of the programs, see Note 22—Social Insurance and the Unaudited Required Supplementary Information—Social Insurance section.

Note 15. Insurance and Guarantee Program Liabilities

Insurance and Guarantee Program Liabilities as of September 30, 2017, and 2016

(In billions of dollars)	2017	Restated 2016
Insurance and Guarantee Program Liabilities:		
Pension Benefit Guaranty Corporation - Benefit Pension Plans	178.6	174.7
Department of Homeland Security - National Flood Insurance Programs	12.3	3.2
Department of Agriculture - Federal Crop Insurance	11.3	8.9
National Credit Union Administration - Share Insurance Fund	0.3	0.2
Total insurance and guarantee program liabilities	<u>202.5</u>	<u>187.0</u>

As of September 30, 2017, and 2016, \$178.6 billion and \$174.7 billion, respectively, pertain to the PBGC single-employer and multiemployer pension plans. PBGC insures pension benefits for participants in covered defined benefit pension plans. As of September 30, 2017, and 2016, PBGC had total liabilities of \$184.4 billion and \$179.0 billion, and its total liabilities exceeded its total assets by \$76.0 billion and \$79.4 billion, respectively. Refer to PBGC's financial statements for more information. As a wholly-owned corporation of the government, PBGC's financial activity and balances are included in the consolidated financial statements of the government. Certain PBGC amounts have been restated. Refer to Note 1.V—Restatements for more information.

As of September 30, 2017, and 2016, \$12.3 billion and \$3.2 billion, respectively, pertain to the DHS National Flood Insurance Program. As a result of the major Hurricanes Harvey, Irma, and Maria in August and September 2017, and the related flooding, there was a significant increase in DHS's insurance liabilities.

As of September 30, 2017, and 2016, \$11.3 billion and \$8.9 billion, respectively, pertain to the USDA's Federal Crop Insurance Program. The Federal Crop Insurance Program is administered by the Federal Crop Insurance Corporation, whose mission is to provide an actuarially sound risk management program to reduce agricultural producers' economic losses due to natural disasters.

As of September 30, 2017, and 2016, \$0.3 billion and \$0.2 billion, respectively, pertain to the National Credit Union Administration's (NCUA) National Credit Union Share Insurance Fund (NCUSIF). The NCUSIF is administered by the NCUA, and protects members' accounts in insured credit unions in the event of a credit union failure.

Note 16. Other Liabilities

Other Liabilities as of September 30, 2017, and 2016	2017	Restated 2016
(In billions of dollars)		
Unearned revenue and assets held for others:		
Unearned fees for nuclear waste disposal (DOE) and other unearned revenue	60.0	54.4
Assets held on behalf of others	111.4	114.4
Subtotal	<u>171.4</u>	<u>168.8</u>
Employee-related liabilities:		
Accrued federal employees' wages and benefits	37.4	36.2
Selected DOE contractors' and D.C. employees' pension benefits	51.5	53.1
Subtotal	<u>88.9</u>	<u>89.3</u>
International monetary liabilities and gold certificates:		
Exchange Stabilization Fund	55.1	54.5
Gold certificates (see Note 2)	11.0	11.0
Subtotal	<u>66.1</u>	<u>65.5</u>
Subsidies and grants:		
Farm and other subsidies	13.2	13.5
Grant payments due to state and local governments and others	22.1	21.9
Subtotal	<u>35.3</u>	<u>35.4</u>
Miscellaneous liabilities:		
Legal and other contingencies	56.6	49.6
Non-federal power projects and capital lease liabilities, and disposal liabilities	12.1	11.0
Other miscellaneous	42.8	49.1
Subtotal	<u>111.5</u>	<u>109.7</u>
Total	<u><u>473.2</u></u>	<u><u>468.7</u></u>

Other liabilities represent liabilities that are not separately identified on the Balance Sheet and are presented on a comparative basis by major category.

Unearned Revenue and Assets Held for Others

The government recognizes a liability when it receives money in advance of providing goods and services or assumes custody of money belonging to others. The government's unearned revenue from fees DOE has collected from utility companies for the future cost of managing the disposal of nuclear waste and interest income received is about \$40.3 billion and \$38.8 billion as of September 30, 2017, and 2016, respectively. Other unearned revenue includes USPS income for such things as prepaid postage and prepaid P.O. Box rentals. Assets held on behalf of others include funds collected in advance for such things as outstanding postal money orders and undelivered Defense articles. DSCA holds \$85.6 billion and \$80.9 billion as of September 30, 2017, and 2016, respectively for articles and services for future delivery to foreign governments.

Employee-Related Liabilities

This category includes amounts owed to employees at year-end and actuarial liabilities for certain non-federal employees. Actuarial liabilities for federal employees and veteran benefits are included in Note 12—Federal Employee and Veteran Benefits Payable and are reported on another line on the Balance Sheet. The largest liability in the employee-related liabilities category is the amount owed at the end of the fiscal year to federal employees for wages and benefits (including accrued annual leave). In addition, DOE is liable to certain contractors for contractor employee pension and postretirement benefits, which is about \$23.1 billion and \$28.9 billion as of September 30, 2017 and 2016, respectively. Also, the government owed about \$8.7 billion and \$8.8 billion as of September 30, 2017, and 2016 respectively, for estimated future pension benefits of the District of Columbia's judges, police, firefighters, and teachers.

International Monetary Liabilities and Gold Certificates

Consistent with U.S. obligations in the IMF on orderly exchange arrangements and a stable system of exchange rates, the Secretary of the Treasury, with the approval of the President, may use the Exchange Stabilization Fund to deal in gold, foreign exchange, and other instruments of credit and securities.

Gold certificates are issued in nondefinitive or book-entry form to the Federal Reserve Bank of New York (FRBNY). The government's liability incurred by issuing the gold certificates, as reported on the Balance Sheet, is limited to the gold being held by the Department of the Treasury at the standard value established by law. Upon issuance of gold certificates to the FRBNY, the proceeds from the certificates are deposited into the operating cash of the U.S. Government. All of the Department of the Treasury's certificates issued are payable to the FRBNY.

Subsidies and Grants

The government supports the public good through a wide variety of subsidy and grant programs in such areas as agriculture, medical and scientific research, education, and transportation. USDA programs such as Conservation Reserve; grants, subsidies, and contributions; and Agricultural Risk Coverage and Price Loss Coverage account for the majority of the subsidies due, about \$12.1 billion and \$12.7 billion as of September 30, 2017 and 2016, respectively.

The government awards hundreds of billions of dollars in grants annually. These include project grants that are competitively awarded for agency-specific projects, such as HHS grants to fund projects to "enhance the independence, productivity, integration, and inclusion into the community of people with developmental disabilities." Other grants are formula grants, such as matching grants. Formula grants go to state governments for such things as education and transportation programs. These grants are paid in accordance with distribution formulas that have been provided by law or administrative regulations. Of the total liability reported for grants as of September 30, 2017, and 2016, DOT, Education, and HHS collectively owed their grantees about \$17.4 billion and \$16.6 billion, respectively. Refer to the financial statements and footnotes of the respective agencies for additional information.

Miscellaneous Liabilities

Some of the more significant liabilities included in this category are for (1) legal and other contingencies (see Note 18—Contingencies), (2) Bonneville Power Administration liability to pay annual budgets of several power projects for its electrical generating capacity, and (3) payables due to the purchases of securities. Certain PBGC amounts have been restated. Refer to Note 1.V—Restatements for more information.

In addition, many federal agencies reported relatively small amounts of miscellaneous liabilities that are not otherwise classified.

Note 17. Collections and Refunds of Federal Revenue

Collections of Federal Tax Revenue for the Year Ended September 30, 2017

(In billions of dollars)	Federal Tax Revenue Collections	Tax Year to Which Collections Relate			
		2017	2016	2015	Prior Years
Individual income tax and tax withholdings	2,976.3	1,930.0	988.6	32.3	25.4
Corporation income taxes	338.6	218.6	108.9	1.8	9.3
Excise taxes	89.4	66.7	22.5	-	0.2
Unemployment taxes	44.2	31.4	12.7	-	0.1
Customs duties	34.9	34.9	-	-	-
Estate and gift taxes	23.8	0.2	20.9	1.0	1.7
Railroad retirement taxes	6.0	4.6	1.4	-	-
Fines, penalties, interest, and other revenue	6.6	6.5	0.1	-	-
Subtotal	<u>3,519.8</u>	<u>2,292.9</u>	<u>1,155.1</u>	<u>35.1</u>	<u>36.7</u>
Less: amounts collected for non-federal entities	<u>(0.4)</u>				
Total	<u><u>3,519.4</u></u>				

Treasury is the Government's principal revenue-collecting agency. Collections of individual income and tax withholdings include FICA/SECA and individual income taxes. These taxes are characterized as non-exchange revenue.

Excise taxes, also characterized as non-exchange revenue, consist of taxes collected for various items, such as airline tickets, gasoline products, distilled spirits and imported liquor, tobacco, firearms, and others.

Federal Tax Refunds Disbursed for the Year Ended September 30, 2017

(In billions of dollars)	Refunds Disbursed	Tax Year to Which Refunds Relate			
		2017	2016	2015	Prior Years
Individual income tax and tax withholdings	389.2	46.3	306.4	27.8	8.7
Corporation income taxes	44.9	5.2	14.4	7.8	17.5
Excise taxes	2.1	0.4	1.0	0.2	0.5
Unemployment taxes	0.1	-	0.1	-	-
Customs duties	1.7	1.1	0.3	0.1	0.2
Estate and gift taxes	1.1	-	0.2	0.4	0.5
Total	<u><u>439.1</u></u>	<u><u>53.0</u></u>	<u><u>322.4</u></u>	<u><u>36.3</u></u>	<u><u>27.4</u></u>

Reconciliation of Revenue to Tax Collections for the Year Ended September 30, 2017, and 2016

(In billions of dollars)	2017	2016
Consolidated revenue per the Statement of Operations and Changes in Net Position	3,374.6	3,345.3
Tax refunds	439.1	428.3
Earned income tax and child tax credit imputed revenue	(79.1)	(80.8)
Other tax credits and accrual adjustments	(49.0)	(41.0)
Federal Insurance Contributions Act - Tax	21.9	21.2
Federal Reserve earnings	(81.3)	(115.7)
Nontax-related fines and penalties reported by agencies	(78.4)	(100.3)
Nontax-related earned revenue.....	(28.4)	(18.2)
Collections of federal tax revenue	<u>3,519.4</u>	<u>3,438.8</u>

Consolidated revenue in the SOCNP is presented on a modified cash basis, net of tax refunds, and includes other non-tax related revenue. Earned Income Tax Credit, Child Tax Credit, and other tax credits amounts (unaudited) are included in gross cost in the Statements of Net Cost. The Federal Insurance Contributions Act – Tax is included in the Individual income and tax withholdings line in the Collections of Federal tax revenue; however, it is not reported on the SOCNP as these collections are intragovernmental revenue and eliminated in consolidation. The table above reconciles total revenue to federal tax collections.

Collections of Federal Revenue for the Year Ended September 30, 2016

(In billions of dollars)	Federal Tax Revenue Collections	Tax Year to Which Collections Relate			
		2016	2015	2014	Prior Years
Individual income tax and tax withholdings	2,874.9	1,833.5	982.9	32.8	25.7
Corporation income taxes.....	345.6	228.2	107.2	2.5	7.7
Excise taxes	101.8	78.6	23.0	0.1	0.1
Unemployment taxes	47.1	31.9	15.1	-	0.1
Customs duties.....	35.0	35.0	-	-	-
Estate and gift taxes	22.3	-	8.0	0.9	13.4
Railroad retirement taxes	5.9	4.5	1.4	-	-
Fines, penalties, interest and other revenue	6.6	6.5	0.1	-	-
Subtotal	<u>3,439.2</u>	<u>2,218.2</u>	<u>1,137.7</u>	<u>36.3</u>	<u>47.0</u>
Less: amounts collected for non- federal entities	<u>(0.4)</u>				
Total	<u>3,438.8</u>				

Federal Tax Refunds Disbursed for the Year Ended September 30, 2016

(In billions of dollars)	Refunds Disbursed	Tax Year to Which Refunds Relate			
		2016	2015	2014	Prior Years
Individual income tax and tax withholdings	372.3	37.0	300.7	26.5	8.1
Corporation income taxes.....	51.4	6.5	19.2	7.4	18.3
Excise taxes	1.5	0.2	0.6	0.4	0.3
Unemployment taxes	0.2	-	0.2	-	-
Customs duties.....	1.6	0.9	0.3	0.1	0.3
Estate and gift taxes	1.3	0.4	0.5	0.1	0.3
Total	<u>428.3</u>	<u>45.0</u>	<u>321.5</u>	<u>34.5</u>	<u>27.3</u>

Note 18. Contingencies

Financial Treatment of Loss Contingencies

Loss contingencies are existing conditions, situations, or set of circumstances involving uncertainty as to possible loss to an entity. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. The reporting of loss contingencies depends on the likelihood that a future event or events will confirm the loss or impairment of an asset or the incurrence of a liability. Terms used to assess the range for the likelihood of loss are probable, reasonably possible, and remote. Loss contingencies that are assessed as probable and measurable are accrued in the financial statements. Loss contingencies that are assessed to be at least reasonably possible are disclosed in this note and loss contingencies that are assessed as remote are not reported in the financial statements, nor disclosed in the notes. The following table provides criteria for how federal agencies are to account for loss contingencies, based on the likelihood of the loss and measurability.³

Likelihood of future outflow or other sacrifice of resources	Loss amount can be reasonably measured	Loss range can be reasonably measured	Loss amount or range cannot be reasonably measured
<p>Probable Future confirming event(s) are more likely to occur than not.⁴</p>	<p>Accrue the liability. Report on Balance Sheet and Statement of Net Cost.</p>	<p>Accrue liability of the best estimate or (if there is no best estimate) minimum amount in loss range, and disclose nature of contingency and range of estimated liability.</p>	<p>Disclose nature of contingency and include a statement that an estimate cannot be made.</p>
<p>Reasonably possible Possibility of future confirming event(s) occurring is more than remote and less than likely.</p>	<p>Disclose nature of contingency and estimated loss amount.</p>	<p>Disclose nature of contingency and estimated loss range.</p>	<p>Disclose nature of contingency and include a statement that an estimate cannot be made.</p>
<p>Remote Possibility of future event(s) occurring is slight.</p>	<p>No disclosure.</p>	<p>No disclosure.</p>	<p>No disclosure.</p>

³ In addition, a third condition must be met to be a loss contingency: a past event or an exchange transaction must occur.

⁴ For loss contingencies related to litigation, probable is defined as the future confirming event or events are more likely than not to occur, with the exception of pending or threatened litigation and unasserted claims. For the pending or threatened litigation and unasserted claims, the future confirming event or events are likely to occur.

The Government is subject to loss contingencies that include insurance and litigation cases. These loss contingencies arise in the normal course of operations and their ultimate disposition is unknown. Based on information currently available, however, it is management's opinion that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the financial statements, except for the insurance and litigation described in the following section, which could have a material adverse effect on the financial statements.

Insurance Contingencies

At the time an insurance policy is issued, a contingency arises. The contingency is the risk of loss assumed by the insurer, that is, the risk of loss from events that may occur during the term of the policy. The Government has insurance contingencies that are reasonably possible in the amount of \$253.1 billion as of September 30, 2017, and \$243.8 billion as of September 30, 2016. The major programs are identified below:

- PBGC reported \$252.2 billion and \$242.8 billion as of September 30, 2017, and 2016, respectively, for the estimated aggregate unfunded vested benefits exposure to the PBGC for private-sector single-employer and multiemployer defined benefit pension plans that are classified as a reasonably possible exposure to loss. This increase is primarily due to the decrease in the interest factors used for valuing liabilities for the single-employer program, while the multiemployer program experienced a decrease in liability due to the removal of certain plans that are no longer classified as reasonably possible. Please refer to the PBGC financial statements for further details.
- FDIC reported \$0.6 billion and \$0.7 billion as of September 30, 2017, and 2016, respectively, for identified additional risk in the financial services industry that could result in additional loss to the Deposit Insurance Fund (DIF) should potentially vulnerable insured institutions ultimately fail. Actual losses, if any, will largely depend on future economic and market conditions.

Deposit Insurance

Deposit insurance covers all types of deposit accounts such as checking, Negotiable Order of Withdrawal and savings accounts, money market deposit accounts, and certificates of deposit received at an insured bank, savings association, or credit union. The insurance covers the balance of each depositor's account and shares, dollar-for-dollar, up to the insurance limit, including principal and any accrued interest through the date of the insured financial institution's closing. As a result, the Government has the following exposure from federally-insured financial institutions:

- FDIC has estimated insured deposits of \$7,092.0 billion as of September 30, 2017, and \$6,822.9 billion as of September 30, 2016, for the DIF.
- National Credit Union Administration (NCUA) has estimated insured shares of \$1,080.9 billion as of September 30, 2017, and \$1,015.9 billion as of September 30, 2016, for the National Credit Union Share Insurance Fund.

Legal Contingencies

Legal contingencies as of September 30, 2017, and 2016, are summarized in the table below:

(In billions of dollars)	2017			2016		
	Accrued Liabilities ¹	Estimated Range of Loss for Certain Cases ²		Accrued Liabilities ¹	Estimated Range of Loss for Certain Cases ²	
		Lower End	Upper End		Lower End	Upper End
Legal contingencies:						
Probable	7.4	6.8	8.6	7.2	7.2	7.9
Reasonably possible.....	-	3.1	12.6	-	9.2	16.3

¹ Accrued liabilities are recorded and presented in the related line items of the Balance Sheet.

² Does not reflect the total range of loss; many cases assessed as reasonably possible of an unfavorable outcome did not include estimated losses that could be determined.

The Government is party to various administrative claims and legal actions brought against it, some of which may ultimately result in settlements or decisions against the Government.

Management and legal counsel have determined that it is “probable” that some of these actions will result in a loss to the Government and the loss amounts are reasonably measurable. The estimated liabilities for “probable” cases against the government are \$7.4 billion and \$7.2 billion as of September 30, 2017, and 2016, respectively, and are included in “Other Liabilities” on the Balance Sheet. For example, the U.S. Supreme Court decision in *Salazar v. Ramah Navajo Chapter*, dated June 18, 2012, is likely to result in additional claims against the Indian Health Service (IHS), which is a component within HHS. As a result of this decision, many tribes have filed claims. Some claims have been settled and others have been asserted but not yet settled.

There are also administrative claims and legal actions pending where adverse decisions are considered by management and legal counsel as “reasonably possible” with an estimate of potential loss or a range of potential loss. The estimated potential losses reported for such claims and actions range from \$3.1 billion to \$12.6 billion as of September 30, 2017, and from \$9.2 billion to \$16.3 billion as of September 30, 2016. For example, the Department of the Treasury’s *American Recovery and Reinvestment Tax Act of 2009 (ARRA) Related Cases* are a number of cases that were filed in the U.S. Court of Federal Claims alleging that the U.S. government violated statutory and regulatory mandates to make proper payments to plaintiffs under ARRA, Section 1603, for having placed certain energy properties into service. The Department has determined there is a reasonably possible likelihood of unfavorable outcomes in some of the cases.

Numerous litigation cases are pending where the outcome is uncertain or it is reasonably possible that a loss has been incurred and where estimates cannot be made. There are other litigation cases where the plaintiffs have not made claims for specific dollar amounts, but the settlement may be significant. The ultimate resolution of these legal actions for which the potential loss could not be determined may materially affect the U.S. government’s financial position or operating results. An example of a specific case is summarized below:

- In the case, *Starr International Co., Inc. v. United States*, the plaintiff, an American International Group, Inc. (AIG) shareholder that brought suit on behalf of two classes of shareholders, alleges that the U.S. government violated the Fifth Amendment to the United States Constitution by illegally exacting or taking property without just compensation. One class, the Credit Agreement Class, claimed that the Fifth Amendment was violated when a majority share of AIG’s equity and voting rights was conveyed in connection with an \$85 billion loan to AIG during the 2008 financial crisis. Starr also asserted a Fifth Amendment violation on behalf of the second class, the Reverse Stock Split Shareholder Class, alleging that a June 2009 reverse split of AIG’s common stock constituted a taking of the common stockholders’ asserted right to a shareholder vote on whether to approve a reverse split of AIG’s common stock. The U.S. Court of Federal Claims held that the Credit Agreement Shareholder Class prevails on liability, but recovers no damages, and that the Reverse Stock Split Shareholder class does not prevail on liability or damages. On appeal, the U.S. Court of Appeals for the Federal Circuit overturned the lower court’s finding with respect to the Credit Agreement Shareholder Class and held that the plaintiff did not have standing to bring the

illegal exaction claim, since equity-acquisition claims belong exclusively to AIG and not to its shareholders. (AIG's board of directors declined to pursue any claims against the Government in a unanimous vote in January 2013.) The Federal Circuit also affirmed the trial court's ruling on the reverse stock split claim. On October 6, 2017, the plaintiff petitioned the Supreme Court for a writ of certiorari. The Government is unable to determine the likelihood of an unfavorable outcome or make an estimate of potential loss at this time.

Environmental and Disposal Contingencies

Environmental and disposal contingencies as of September 30, 2017, and 2016, are summarized in the table below:

(In billions of dollars)	2017			2016		
	Accrued Liabilities ¹	Estimated Range of Loss for Certain Cases ²		Accrued Liabilities ¹	Estimated Range of Loss for Certain Cases ²	
		Lower End	Upper End		Lower End	Upper End
Environmental and disposal contingencies:						
Probable	28.4	27.7	29.5	25.9	25.8	25.9
Reasonably possible	-	0.7	1.5	-	0.7	1.8
¹ Accrued liabilities are recorded and presented in the related line items of the Balance Sheet.						
² Does not reflect the total range of loss; many cases assessed as reasonably possible of an unfavorable outcome did not include estimated losses that could be determined.						

The Government is subject to loss contingencies for a variety of environmental cleanup costs for the storage and disposal of hazardous material as well as the operations and closures of facilities at which environmental contamination may be present.

Management and legal counsel have determined that it is "probable" that some of these actions will result in a loss to the Government and the loss amounts are reasonably measurable. The estimated liabilities for these cases are \$28.4 billion and \$25.9 billion as of September 30, 2017, and 2016, respectively, and are included in "Other Liabilities" on the Balance Sheet.

In accordance with the *Nuclear Waste Policy Act of 1982* (NWP), DOE entered into more than 68 standard contracts with utilities in return for payment of fees established by the NWP into the Nuclear Waste Fund. DOE agreed to begin disposal of spent nuclear fuel (SNF) by January 31, 1998. Because DOE has no facility available to receive SNF under the NWP, it has been unable to begin disposal of the utilities' SNF as required by the contracts. Therefore, DOE is subject to SNF litigation for damages suffered by all utilities as a result of the delay in beginning disposal of SNF and also damages for alleged exposure to radioactive and/or toxic substances. Significant claims for partial breach of contract and a large number of class action and/or multiple plaintiff tort suits have been filed with estimated liability amounts of \$26.7 billion and \$24.7 billion as of September 30, 2017, and 2016, respectively.

Other Contingencies

DOT, HHS, and Treasury reported the following other contingencies:

- The Federal Highway Administration (FHWA) preauthorizes states to establish construction budgets without having received appropriations from Congress for such projects. FHWA has authority to approve projects using advance construction under 23 U.S.C. 115(a). FHWA does not guarantee the ultimate funding to the states for these "advance construction" projects and does not obligate any funds for these projects. When funding becomes available to FHWA, the states can then apply for reimbursement of costs that they have incurred on such projects, at which time FHWA can accept or reject such requests. FHWA has pre-authorized \$55.2 billion and \$50.6 billion to the states to establish budgets for its construction projects for fiscal years ending September 30, 2017, and 2016, respectively. Congress has not provided appropriations for these projects and no liability is accrued in the DOT consolidated financial statements.

- Contingent liabilities have been accrued as a result of Medicaid audit and program disallowances that are currently being appealed by the states and for reimbursement of state plan amendments. The Medicaid amounts are \$12.2 billion and \$10.2 billion for fiscal years ending September 30, 2017, and 2016, respectively. In all cases, the funds have been returned to HHS. If the appeals are decided in favor of the states, HHS will be required to pay these amounts. In addition, certain amounts for payment have been deferred under the Medicaid program when there is reasonable doubt as to the legitimacy of expenditures claimed by a state. There are also outstanding reviews of the state expenditures in which a final determination has not been made.
- Through an annual process, Treasury assesses the need for an estimated contingent liability that reflects the forecasted equity deficits of the GSEs. Based on this assessment, no accrued contingent liability was recorded for fiscal years 2017 and 2016. However, the reduction in U.S. corporate tax rate resulting from the enactment of the *Tax Cuts and Jobs Act* on December 22, 2017, required that each of Fannie Mae and Freddie Mac record a reduction in the value of their deferred tax assets in the quarter in which the legislation was enacted, impacting potential future funding draws. The funding draws and the associated amounts are expected to be realized in March 2018. See Note 8—Investments in Government-Sponsored Enterprises for further information.

Treaties

The Government is a party to treaties and other international agreements. These treaties and other international agreements address various issues including, but not limited to, trade, commerce, security, and law enforcement that may involve financial obligations or give rise to possible exposure to losses. Treaties and other international agreements fall into three broad categories: (1) no commitment to spend money; (2) commitment to spend money; or (3) potential obligation to spend money. A review must be conducted of potential contingent liabilities arising from litigation related to treaties and other international agreements. This review, along with any resulting relevant information, is captured and reported in the annual legal representation letter process. Refer to the Legal Contingencies section of this note for further information. It has been confirmed that the relevant financial obligations are included in the applicable financial statements and notes for the commitment to spend money and the potential obligation to spend money categories. The final category of no commitment to spend money will continue to be analyzed to confirm that all material financial obligations or possible loss exposures are properly reported in the *Financial Report*.

Note 19. Commitments

Long-Term Operating Leases as of September 30, 2017, and 2016

(In billions of dollars)	2017	2016
General Services Administration	22.4	23.1
U.S. Postal Service	7.6	7.4
Department of State	1.6	1.6
Department of Health and Human Services	1.0	1.0
Other operating leases	4.5	5.1
Total long-term operating leases	<u>37.1</u>	<u>38.2</u>

The government has entered into contractual commitments that require future use of financial resources. It has significant amounts of long-term lease obligations and undelivered orders. Undelivered orders represent the value of goods and services ordered that have not yet been received.

The government has other commitments that may require future use of financial resources. For example, the government has callable subscriptions in certain Multilateral Development Banks (MDBs), which are international financial institutions that finance economic and social development projects in developing countries. Callable capital in the MDBs serves as a supplemental pool of resources that may be redeemed and converted into ordinary paid in shares, if the MDB cannot otherwise meet certain obligations through its other available resources. MDBs are able to use callable capital as backing to obtain favorable financing terms when borrowing from international capital markets. To date, there has never been a call on this capital at any MDBs and none is anticipated.

Undelivered Orders and Other Commitments as of September 30, 2017, and 2016

(In billions of dollars)	2017	2016
Undelivered Orders:		
Department of Defense	263.8	239.6
Defense Security Cooperation Agency	140.8	130.0
Department of Education	128.1	123.4
Department of Health and Human Services	114.2	96.1
Department of Transportation	103.7	105.9
Department of Agriculture	62.0	52.4
Department of Housing and Urban Development	39.1	35.1
Department of Homeland Security	37.9	35.7
Department of Energy	22.8	22.2
Department of State	21.8	21.6
Agency for International Development	17.9	17.6
All other agencies	112.1	91.6
Total undelivered orders	<u>1,064.2</u>	<u>971.2</u>
Other Commitments:		
GSE Senior Preferred Stock Purchase Agreements	258.1	258.1
U.S. Participation in the International Monetary Fund	157.0	155.1
Callable Capital Subscriptions for Multilateral Development Banks	120.6	120.0
All other commitments	19.2	16.7
Total other commitments	<u>554.9</u>	<u>549.9</u>

Other Commitments and Risks

Undelivered Orders

DOD reported undelivered orders of \$263.8 billion and \$239.6 billion as of September 30, 2017, and 2016, respectively. The increase of \$24.2 billion in fiscal year 2017 was primarily caused by increased estimates in non-federal undelivered orders.

Commitments to GSEs

At September 30, 2017 and 2016, the maximum remaining potential commitment to the GSEs for the remaining life of the SPSPAs was \$258.1 billion, which was established on December 31, 2012. Refer to Note 8—Investments in Government-Sponsored Enterprises for a full description of the SPSPAs related commitments and contingent liability, if any, as well as additional information.

Terrorism Risk Insurance Program

Congress originally enacted the Terrorism Risk Insurance Act (TRIA) in November 2002 to address market disruptions resulting from terrorist attacks on September 11, 2001. Most recently, the Terrorism Risk Insurance Program Reauthorization Act of 2015 extended the Terrorism Risk Insurance Program (TRIP) until December 31, 2020. The TRIP helps to ensure available and affordable commercial property and casualty insurance for terrorism risk, and simultaneously allows private markets to stabilize. The authority to pay claims under the TRIP Program is activated when the Secretary of the Treasury (in consultation with the Secretary of the U.S. Department of Homeland Security and the U.S. Attorney General) certifies an “act of terrorism.” In the event of certification of an “act of terrorism” insurers may be eligible to receive reimbursement from the U.S. government for associated insured losses assuming an aggregate insured loss threshold (“program trigger”) has been reached once a particular insurer has satisfied its designated deductible amount. For calendar years 2017 and 2016, the program trigger amount was \$140 million and \$120 million, respectively. This amount will increase by \$20 million annually through calendar year 2020. Insured losses above insurer deductibles will be shared between insurance companies and the U.S. government. The TRIP includes both mandatory and discretionary authority for the Department of the Treasury to recoup federal payments made under the TRIP through policyholder surcharges under certain circumstances, and contains provisions designed to manage litigation arising from or relating to a certified act of terrorism. There were no claims under the TRIP as of September 30, 2017 or 2016.

Note 20. Funds from Dedicated Collections

Funds from Dedicated Collections as of September 30, 2017¹

(In billions of dollars)	Federal Old-Age and Survivors Insurance Trust Fund	Federal Hospital Insurance Trust Fund (Medicare Part A)	Federal Disability Insurance Trust Fund	Federal Supplementary Medical Insurance Trust Fund (Medicare Parts B and D)	All Other Funds from Dedicated Collections	Total Funds from Dedicated Collections (Combined)
Assets:						
Cash and other monetary assets	-	-	-	-	65.0	65.0
Fund balance with Treasury	(0.1)	0.8	(0.2)	27.5	139.1	167.1
Investments in U.S. Treasury securities, net of unamortized premiums/discounts	2,820.2	197.8	69.7	70.6	271.6	3,429.9
Other federal assets	20.4	37.9	0.5	36.0	18.5	113.3
Non-federal assets	2.5	11.7	4.8	39.0	112.1	170.1
Total assets	<u>2,843.0</u>	<u>248.2</u>	<u>74.8</u>	<u>173.1</u>	<u>606.3</u>	<u>3,945.4</u>
Liabilities and net position:						
Due and payable to beneficiaries	71.3	30.1	27.4	30.6	14.8	174.2
Other federal liabilities	5.1	38.6	1.1	43.2	72.6	160.6
Other non-federal liabilities	-	1.1	-	0.7	189.4	191.2
Total liabilities	<u>76.4</u>	<u>69.8</u>	<u>28.5</u>	<u>74.5</u>	<u>276.8</u>	<u>526.0</u>
Total net position	<u>2,766.6</u>	<u>178.4</u>	<u>46.3</u>	<u>98.6</u>	<u>329.5</u>	<u>3,419.4</u>
Total liabilities and net position ...	<u>2,843.0</u>	<u>248.2</u>	<u>74.8</u>	<u>173.1</u>	<u>606.3</u>	<u>3,945.4</u>
Change in net position:						
Beginning net position	2,746.4	174.1	20.8	94.5	338.5	3,374.3
Prior-period adjustment	-	-	-	-	0.2	0.2
Beginning net position, adjusted	<u>2,746.4</u>	<u>174.1</u>	<u>20.8</u>	<u>94.5</u>	<u>338.7</u>	<u>3,374.5</u>
Investment revenue	84.1	7.4	1.7	2.4	4.0	99.6
Individual income taxes	702.1	259.7	166.0	-	-	1,127.8
Other taxes and miscellaneous earned revenue	-	0.5	-	4.2	142.3	147.0
Other changes in fund balance (e.g., appropriations, transfers)	27.7	23.4	(0.8)	278.0	(1.2)	327.1
Total financing sources	<u>813.9</u>	<u>291.0</u>	<u>166.9</u>	<u>284.6</u>	<u>145.1</u>	<u>1,701.5</u>
Program gross costs and non- program expenses	793.7	290.8	141.4	366.1	205.4	1,797.4
Less: program revenue	-	(4.1)	-	(85.6)	(51.1)	(140.8)
Net cost	<u>793.7</u>	<u>286.7</u>	<u>141.4</u>	<u>280.5</u>	<u>154.3</u>	<u>1,656.6</u>
Ending net position	<u>2,766.6</u>	<u>178.4</u>	<u>46.3</u>	<u>98.6</u>	<u>329.5</u>	<u>3,419.4</u>

¹ By law, certain expenses (costs), revenues, and other financing sources related to the administration of the above funds are not charged to the funds and are therefore financed and/or credited to other sources.

Funds from Dedicated Collections as of September 30, 2016¹

(In billions of dollars)	Federal Old-Age and Survivors Insurance Trust Fund	Federal Hospital Insurance Trust Fund (Medicare Part A)	Federal Disability Insurance Trust Fund	Federal Supplementary Medical Insurance Trust Fund (Medicare Parts B and D)	All Other Funds from Dedicated Collections	Total Funds from Dedicated Collections (Combined)
Assets:						
Cash and other monetary assets	-	-	-	-	63.2	63.2
Fund balance with Treasury	(0.1)	2.1	(0.1)	51.8	122.1	175.8
Investments in U.S. Treasury securities, net of unamortized premiums/discounts	2,796.7	192.2	45.9	63.3	277.3	3,375.4
Other federal assets	21.2	35.9	0.3	40.3	15.9	113.6
Non-federal assets	2.5	8.0	4.3	21.2	115.8	151.8
Total assets	<u>2,820.3</u>	<u>238.2</u>	<u>50.4</u>	<u>176.6</u>	<u>594.3</u>	<u>3,879.8</u>
Liabilities and net position:						
Due and payable to beneficiaries	69.2	27.7	28.5	36.2	10.8	172.4
Other federal liabilities	4.7	35.1	1.1	45.0	63.4	149.3
Other non-federal liabilities	-	1.3	-	0.9	181.6	183.8
Total liabilities	<u>73.9</u>	<u>64.1</u>	<u>29.6</u>	<u>82.1</u>	<u>255.8</u>	<u>505.5</u>
Total net position	<u>2,746.4</u>	<u>174.1</u>	<u>20.8</u>	<u>94.5</u>	<u>338.5</u>	<u>3,374.3</u>
Total liabilities and net position ...	<u>2,820.3</u>	<u>238.2</u>	<u>50.4</u>	<u>176.6</u>	<u>594.3</u>	<u>3,879.8</u>
Change in net position:						
Beginning net position	2,720.4	170.5	18.0	76.3	262.5	3,247.7
Prior period adjustment	-	-	-	-	-	-
Beginning net position, adjusted	<u>2,720.4</u>	<u>170.5</u>	<u>18.0</u>	<u>76.3</u>	<u>262.5</u>	<u>3,247.7</u>
Investment revenue	88.1	7.9	1.4	2.0	3.4	102.8
Individual income taxes	679.6	250.5	147.6	-	-	1,077.7
Other taxes and miscellaneous earned revenue	-	0.8	-	2.9	147.3	151.0
Other changes in fund balance (e.g., appropriations, transfers)	23.7	22.2	(1.9)	301.7	63.8	409.5
Total financing sources	<u>791.4</u>	<u>281.4</u>	<u>147.1</u>	<u>306.6</u>	<u>214.5</u>	<u>1,741.0</u>
Program gross cost and non-program expenses	765.4	281.4	144.3	365.7	187.5	1,744.3
Less: program revenue	-	(3.6)	-	(77.3)	(49.0)	(129.9)
Net cost	<u>765.4</u>	<u>277.8</u>	<u>144.3</u>	<u>288.4</u>	<u>138.5</u>	<u>1,614.4</u>
Ending net position	<u>2,746.4</u>	<u>174.1</u>	<u>20.8</u>	<u>94.5</u>	<u>338.5</u>	<u>3,374.3</u>

¹ By law, certain expenses (costs), revenues, and other financing sources related to the administration of the above funds are not charged to the funds and are therefore financed and/or credited to other sources.

Generally, funds from dedicated collections are financed by specifically identified revenues, often supplemented by other financing sources, provided to the government by non-federal sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the government's general revenues. Funds from dedicated collections generally include trust funds, public enterprise revolving funds (not including credit reform financing funds), and

special funds. Funds from dedicated collections specifically exclude any fund established to account for pensions, other retirement benefits, other postemployment or other benefits provided for federal employees (civilian and military). In the federal budget, the term “trust fund” means only that the law requires a particular fund be accounted for separately, used only for a specified purpose, and designated as a trust fund. A change in law may change the future receipts and the terms under which the fund’s resources are spent. In the private sector, trust fund refers to funds of one party held and managed by a second party (the trustee) in a fiduciary capacity. The activity of funds from dedicated collections differs from fiduciary activities primarily in that assets within funds from dedicated collections are government-owned. For further information related to fiduciary activities, see Note 21—Fiduciary Activities.

Public enterprise revolving funds include expenditure accounts authorized by law to be credited with offsetting collections, mostly from the public, that are generated by and dedicated to finance a continuing cycle of business-type operations. Some of the financing for these funds may be from appropriations.

Special funds are federal funds dedicated by law for a specific purpose. Special funds include the special fund receipt account and the special fund expenditure account.

The tables above depict major funds from dedicated collections chosen based on their significant financial activity and importance to taxpayers. All other government funds from dedicated collections not shown separately are aggregated as “all other.”

Total assets represent the unexpended balance from all sources of receipts and amounts due to the funds from dedicated collections, regardless of source, including related governmental transactions. These are transactions between two different entities within the government (for example, monies received by one entity of the government from another entity of the government).

The intragovernmental assets are comprised of fund balances with Treasury, investments in Treasury securities—including unamortized amounts, and other assets that include the related accrued interest receivable on federal investments. These amounts were eliminated in preparing the principal financial statements. The non-federal assets represent only the activity with individuals and organizations outside of the government.

Most of the assets within funds from dedicated collections are invested in intragovernmental debt holdings. The government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections. The cash receipts collected from the public for funds from dedicated collections are deposited in the General Fund, which uses the cash for general government purposes. Treasury securities are issued to federal agencies as evidence of its receipts. Treasury securities are an asset to the federal agencies and a liability to the U.S. Treasury and, therefore, they do not represent an asset or a liability in the *Financial Report*. These securities require redemption if a fund’s disbursements exceeds its receipts. Redeeming these securities will increase the government’s financing needs and require more borrowing from the public (or less repayment of debt), or will result in higher taxes than otherwise would have been needed, or less spending on other programs than otherwise would have occurred, or some combination thereof. See Note 11—Federal Debt Securities Held by the Public and Accrued Interest for further information related to the investments in federal debt securities.

Depicted below is a description of the major funds from dedicated collections shown in the above tables, which also identifies the government agencies that administer each particular fund. For detailed information regarding these funds from dedicated collections, please refer to the financial statements of the corresponding administering agencies. For information on the benefits due and payable liability associated with certain funds from dedicated collections, see Note 14—Benefits Due and Payable.

Federal Old-Age and Survivors Insurance Trust Fund

The Federal Old-Age and Survivors Insurance Trust Fund, administered by the SSA, provides retirement and survivors benefits to qualified workers and their families.

Payroll and self-employment taxes primarily fund the Federal Old-Age and Survivors Insurance Trust Fund. Interest earnings on Treasury securities, federal agencies’ payments for the Social Security benefits earned by military and federal civilian employees, and Treasury payments for a portion of income taxes collected on Social Security benefits provide the fund with additional income. The law establishing the Federal Old-Age and Survivors Insurance Trust Fund and authorizing the depositing of amounts to the credit of the fund is set forth in 42 U.S.C. § 401.

Federal Hospital Insurance Trust Fund (Medicare Part A)

The Federal Hospital Insurance Trust Fund, administered by HHS, finances the Hospital Insurance Program (Medicare Part A). This program funds the cost of inpatient hospital and related care for individuals age 65 or older who meet certain insured status requirements, and eligible disabled people.

The Federal Hospital Insurance Trust Fund is financed primarily by payroll taxes, including those paid by federal agencies. It also receives income from interest earnings on Treasury securities, a portion of income taxes collected on Social Security benefits, premiums paid by, or on behalf of, aged uninsured beneficiaries, and receipts from fraud and abuse control activities. Section 1817 of the *Social Security Act* established the Medicare Hospital Trust Fund.

Federal Disability Insurance Trust Fund

The Federal Disability Insurance Trust Fund provides assistance and protection against the loss of earnings due to a wage earner's disability in form of monetary payments. The SSA administers this fund.

Like the Federal Old-Age and Survivors Insurance Trust Fund, payroll taxes primarily fund the Federal Disability Insurance Trust Fund. The fund also receives income from interest earnings on Treasury securities, federal agencies' payments for the Social Security benefits earned by military and federal civilian employees, and Treasury payments for a portion of income taxes collected on Social Security benefits. The law establishing the Federal Disability Insurance Trust Fund and authorizing the depositing of amounts to the credit of the fund is set forth in 42 U.S.C. § 401.

Federal Supplementary Medical Insurance Trust Fund (Medicare Parts B and D)

The Federal Supplementary Medical Insurance Trust Fund, administered by HHS, finances the Supplementary Medical Insurance Program (Medicare Part B) and the Medicare Prescription Drug Benefit Program (Medicare Part D). These programs provide supplementary medical insurance for enrolled eligible participants to cover physician and outpatient services not covered by Medicare Part A and to obtain qualified prescription drug coverage, respectively. Medicare Part B financing is not based on payroll taxes; it is primarily based on monthly premiums, income from the General Fund, and interest earnings on Treasury securities. Medicare Supplementary Medical Insurance Trust Fund was established by Section 1841 of the *Social Security Act*.

Medicare Part D was created by the *Medicare Modernization Act of 2003* (P.L. No. 108-173). Medicare Part D financing is similar to Part B; it is primarily based on monthly premiums and income from the General Fund, not on payroll taxes. The fund also receives transfers from States.

All Other Funds from Dedicated Collections

The government is responsible for the management of numerous funds from dedicated collections that serve a wide variety of purposes. The funds from dedicated collections presented on an individual basis in the above tables represent the majority of the government's net position attributable to funds from dedicated collections. All other activity attributable to funds from dedicated collections is aggregated in accordance with SFFAS No. 27, *Identifying and Reporting Funds from Dedicated Collections*, as amended by SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*. The funds from dedicated collections within the "all other" aggregate, along with the agencies that administer them, include the following:

- Highway Trust Fund and Airport and Airway Trust Fund—administered by DOT.
- Unemployment Trust Fund (UTF) and Black Lung Disability Trust Fund (BLDTF)—administered by DOL.
- Land and Water Conservation Fund, Reclamation Fund, and Water and Related Resources Fund—administered by DOI.
- Exchange Stabilization Fund—administered by Treasury.

- National Flood Insurance Program—administered by DHS.
- Railroad Retirement Trust Fund—administered by RRB.
- Uranium Enrichment Decontamination and Decommissioning Fund—administered by DOE.
- Government National Mortgage Association—administered by HUD.
- Crime Victims Fund—administered by DOJ.
- Harbor Maintenance Trust Fund—administered by DOD.

In accordance with SFFAS No. 43, any funds established to account for pension, other retirement, or other post-employment benefits to civilian or military personnel are excluded from the reporting requirements related to funds from dedicated collections.

Gulf Coast Ecosystem Restoration Council and Department of Housing and Urban Development contributed to the \$0.2 billion in prior-period adjustments for fiscal year 2017.

Other Taxes and Miscellaneous Earned Income

Unemployment Taxes

The Unemployment Trust Fund (UTF), within the “all other” aggregate, represents all the unemployment tax revenues attributable to funds from dedicated collections shown on the consolidated Statement of Operations and Changes in Net Position.

UTF provides temporary assistance to workers who lose their jobs. The program is administered through a unique system of federal and state partnerships, established in federal law, but executed through conforming state laws by state officials. DOL administers the federal operations of the program.

Employer taxes provide the primary funding source for the UTF and constitute the largest portion of unemployment tax revenues attributable to funds from dedicated collections as shown on the consolidated Statement of Operations and Changes in Net Position. However, interest earnings on Treasury securities also provide income to the fund. For the years ending September 30, 2017, and 2016, UTF unemployment tax revenues were \$44.1 billion and \$46.9 billion, respectively. Appropriations have supplemented the fund’s income during periods of high and extended unemployment. UTF was established under the authority of Section 904 of the *Social Security Act of 1935*.

Excise Taxes

There are 11 funds from dedicated collections within the “all other” aggregate that represent all of the dedicated excise tax revenue attributable to funds from dedicated collections shown on the consolidated Statement of Operations and Changes in Net Position. The Highway Trust Fund and the Airport and Airway Trust Fund, combined, represents 90 percent of all dedicated excise tax revenues. Both of these funds are administered by the DOT. For more information, please refer to DOT’s financial statements.

The Highway Trust Fund was established to promote domestic interstate transportation and to move people and goods. The fund provides federal grants to states for highway construction, certain transit programs, and related transportation purposes. The Highway Trust Fund was created by the *Highway Revenue Act of 1956*. Funding sources include designated excise taxes on gasoline and other fuels, the initial sale of heavy trucks, and highway use by commercial motor vehicles. For the years ending September 30, 2017, and 2016, Highway Trust Fund excise tax revenues were \$41.0 billion and \$41.3 billion, respectively. As funds are needed for payments, the Highway Trust Fund corpus investments are liquidated and funds are transferred to the Federal Highway Administration, the Federal Transit Administration, or other DOT entities, for payment of obligations.

The Airport and Airway Trust Fund provides for airport improvement and airport facilities maintenance. It also funds airport equipment, research, and a portion of the Federal Aviation Administration’s administrative operational support. The Airport and Airway Trust Fund was authorized by the *Airport and Airway Revenue Act of 1970*. Funding sources include aviation-related excise tax collections from:

- Passenger tickets,
- Passenger flight segments,
- International arrival/departures,
- Cargo waybills, and
- Aviation fuels.

For the years ending September 30, 2017, and 2016, Airport and Airway Trust Fund excise tax revenues were \$15.1 billion and \$14.4 billion, respectively.

Miscellaneous Earned Revenues

Miscellaneous earned revenues due to activity attributable to funds from dedicated collections primarily related to royalties retained by various funds within DOI.

Note 21. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment and disposition by the Government of cash or other assets in which non-federal individuals or entities have an ownership interest that the Government must uphold. Fiduciary cash and other assets are not assets of the Government and are not recognized on the consolidated Balance Sheet. Examples of the Government's fiduciary activities include the Thrift Savings Plan (TSP), which is administered by the Federal Retirement Thrift Investment Board (FRTIB), and the Indian Tribal and individual Indian Trust Funds, which are administered by the DOI.

Schedule of Fiduciary Net Assets as of September 30, 2017, and 2016

(In billions of dollars)	2017	2016
Thrift Savings Fund	531.5	472.1
Department of the Interior	5.2	5.1
All other	6.6	5.3
Total fiduciary net assets	<u>543.3</u>	<u>482.5</u>

In accordance with the requirements of SFFAS No. 31, *Accounting for Fiduciary Activities*, fiduciary investments in Treasury securities and fund balance with Treasury held by fiduciary funds are to be recognized on the Balance Sheet as debt held by the public and a liability for fiduciary fund balance with Treasury, respectively.

As of September 30, 2017, total fiduciary investments in Treasury securities and in non-Treasury securities are \$223.7 billion and \$317.9 billion, respectively. As of September 30, 2016, total fiduciary investments in Treasury securities and in non-Treasury securities were \$226.2 billion and \$268.9 billion, respectively. Refer to Note 11—Federal Debt Securities Held by the Public and Accrued Interest for more information on the Treasury securities.

As of September 30, 2017, and 2016, the total fiduciary fund balance with Treasury is \$1.2 billion and \$1.1 billion, respectively. A liability for this fiduciary fund balance with Treasury is reflected as other miscellaneous liabilities in Note 16—Other Liabilities.

As of September 30, 2017, and 2016, collectively, the fiduciary investments in Treasury securities and fiduciary fund balance with Treasury held by all Government entities represent \$7.0 billion and \$6.4 billion, respectively, of unrestricted cash included within cash held by Treasury for Governmentwide Operations shown in Note 2—Cash and Other Monetary Assets.

Thrift Savings Fund

The Thrift Savings Fund (TSF) maintains and holds in trust the assets of the TSP. The TSP is administered by an independent Government agency, the Federal Retirement Thrift Investment Board, which is charged with operating the TSP prudently and solely in the interest of the participants and their beneficiaries.

The TSP is a retirement savings and investment plan for federal employees and members of the uniformed services. It was authorized by the United States Congress in the *Federal Employees' Retirement System Act of 1986*. The Plan provides federal employees and members of the uniformed services with a savings and tax benefit similar to what many private sector employers offer their employees under 401(k) plans. The Plan was primarily designed to be a key part of the retirement package (along with a basic annuity benefit and Social Security) for employees who are covered by FERS.

Federal employees, who are participants of FERS, the CSRS, or equivalent retirement systems, as provided by statute, and members of the uniformed services, are eligible to join the Plan immediately upon being hired. Generally, FERS employees are those employees hired on or after January 1, 1984, while CSRS employees are employees hired before January 1, 1984, who have not elected to convert to FERS. Each group has different rules that govern contribution rates. As of December 31, 2016, and 2015, there were approximately 5.0 million and 4.8 million participants in the TSP, respectively, with approximately 3.3 million for both years contributing their own money. For further information about FRTIB and the TSP, please refer to the FRTIB website at <https://www.frtib.gov>.

As of September 30, 2017, and 2016, the TSF held \$531.5 billion and \$472.1 billion, respectively, in net assets, which included \$217.9 billion and \$220.9 billion, respectively, of U.S. Government Securities (amounts are unaudited). The most recent audited financial statements for the TSF are as of December 31, 2016, and 2015. As of December 31, 2016, and 2015, the TSF held \$483.3 billion and \$443.2 billion, respectively, in net assets, which included \$222.3 billion and \$206.9 billion, respectively, of U.S. Government Securities. These unaudited amounts above are included to enhance comparability of the TSF net assets with the remainder of the Government's fiduciary net assets as of September 30, 2017, and 2016.

DOI–Indian Trust Funds

As stated above, DOI has responsibility for the assets held in trust on behalf of American Indian Tribes and individuals, and these account for all of DOI's fiduciary net assets. DOI maintains accounts for Tribal and Other Trust Funds (including the Alaska Native Escrow Fund and Individual Indian Money Trust Funds) in accordance with the *American Indian Trust Fund Management Reform Act of 1994*. The fiduciary balances that have accumulated in these funds have resulted from land use agreements, royalties on natural resource depletion, other proceeds derived directly from trust resources, judgment awards, settlements of claims, and investment income. These funds are maintained for the benefit of individual Native Americans as well as for designated Indian tribes. DOI maintains separate financial statements for these trust funds which were prepared using the cash or modified cash basis of accounting, a comprehensive basis of accounting other than GAAP. The independent auditors' reports were qualified as it was not practical to extend audit procedures sufficiently to satisfy themselves as to the fairness of the trust fund balances. For further information related to these assets, please refer to the DOI website at <https://www.doi.gov>.

All Other Entities with Fiduciary Activities

The Government is responsible for the management of other fiduciary net assets on behalf of various non-federal entities. The component entities presented individually in the table on the previous page represent the vast majority of the Government's fiduciary net assets. All other component entities with fiduciary net assets are aggregated in accordance with SFFAS No. 31. As of September 30, 2017, and 2016, including TSF and DOI, there are a total of 20 and 20 federal entities, respectively, with fiduciary activities at a grand total of 67 and 68 fiduciary funds, respectively. SBA and LOC are the significant agencies relating to the fiduciary activities of the remaining component entities within the "all other" aggregate balance. As of September 30, 2017, "all other" fiduciary net assets were \$6.6 billion, compared to \$5.3 billion as of September 30, 2016.

Note 22. Social Insurance

The Statements of Social Insurance (SOSI) present the projected actuarial present value of the estimated future revenue and estimated future expenditures of the Social Security, Medicare, Railroad Retirement, and Black Lung social insurance programs which are administered by the SSA, HHS, RRB, and DOL, respectively. These estimates are based on the intermediate economic and demographic assumptions presented later in this note as set forth in the relevant Social Security and Medicare trustees' reports and in the agency financial reports of HHS, SSA, and DOL, as well as in the relevant agency performance and accountability report for RRB. Due to a change in the presentation of the consolidated SOSI and this note from billions of dollars to trillions of dollars beginning in fiscal year 2016, some amounts in the narrative will not be traceable to the corresponding agency financial statements. The SOSI projections, with one exception related to Medicare Part A and OASDI, are based on current law; that is, they assume that scheduled social insurance benefit payments would continue after related trust funds are projected to be depleted, contrary to current law. By law, once assets are exhausted, expenditures cannot be made except to the extent covered by ongoing tax receipts and other trust fund income. The estimates in the consolidated SOSI of the open group measures are for persons who are participants or eventually will participate in the programs as contributors (workers) or beneficiaries (retired workers, survivors, and disabled) during the 75-year projection period. To enhance comparability of the Black Lung Disability Trust Fund's (BLDTF) social insurance information and continue to illustrate the fund's long-term condition and sustainability, DOL revised its projection period from a fixed terminus of September 30, 2040 to a rolling 25-year projection period that begins on the September 30 valuation date each year. The revised projection period became effective for the September 30, 2017 valuation date.

Contributions and dedicated taxes consist of: payroll taxes from employers, employees, and self-employed persons; revenue from federal income taxation of Old-Age Survivors and Disability Insurance (OASDI) and railroad retirement benefits; excise tax on the domestic sale of coal (Black Lung); premiums from, and state transfers on behalf of, participants in Medicare; and reimbursements from the General Fund to the OASDI Trust Funds to make up for reductions in payroll tax revenue due to temporary payroll tax rate reductions. Income for all programs is presented from a consolidated perspective. Future interest payments and other future intragovernmental transfers have been excluded upon consolidation. Expenditures include benefit payments scheduled under current law and administrative expenses. Current Social Security and Medicare law provides for full benefit payments only to the extent that there are sufficient balances in the trust funds. Expenditures reflect full benefit payments even after the point at which assets are projected to be depleted.

Actuarial present values of estimated future income (excluding interest) and estimated future expenditures for the Social Security, Medicare, and Railroad Retirement social insurance programs are presented for three different groups of participants: (1) current participants who have not yet attained eligibility age; (2) current participants who have attained eligibility age; and (3) new entrants, who are expected to become participants in the future. Current participants in the Social Security and Medicare programs are the "closed group" of taxpayers and/or beneficiaries who are at least age 15 years at the start of the projection period. Since the projection period for the Social Security, Medicare, and Railroad Retirement social insurance programs consists of 75 years, the period covers virtually all of the current participants' working and retirement years, a period that could be greater than 75 years in a relatively small number of instances. Future participants for Social Security and Medicare include births during the projection period and individuals below age 15 as of January 1 of the valuation year. Railroad Retirement's future participants are the projected new entrants as of October 1 of the valuation year. For fiscal year 2015 and years prior, future participants for Railroad Retirement were the projected new entrants as of January 1 of the valuation year⁵.

The present values of estimated future expenditures in excess of estimated future revenue are calculated by subtracting the actuarial present values of future scheduled contributions as well as dedicated tax income by and on behalf of current and future participants from the actuarial present value of the future scheduled benefit payments to them or on their behalf. To determine a program's funding shortfall over any given period of time, the starting trust fund balance is subtracted from the present value of expenditures in excess of revenues over the period.

The trust fund balances as of the valuation date for the respective programs, including interest earned, are shown in the table below⁶. Substantially all of the Social Security (OASDI), Medicare Hospital Insurance (HI), and Supplementary Medical Insurance (SMI) Trust Fund balances consist of investments in special nonmarketable Treasury securities that are backed by the full faith and credit of the U.S. Government.

⁵ Beginning with the fiscal year 2016 reporting period, the valuation date for the Railroad Retirement program was changed from calendar year to fiscal year.

⁶ Trust fund balances for the Railroad Retirement and Black Lung programs are not included, as these balances are less than \$50 billion.

Social Insurance Programs Trust Fund Balances ¹

(In trillions of dollars)	2017	2016	2015	2014	2013
Social Security	2.8	2.8	2.8	2.8	2.7
Medicare	0.3	0.3	0.3	0.3	0.3

¹ As of the valuation date of the respective programs.

Social Security

The Federal Old-Age and Survivors Insurance (OASI) Trust Fund, established on January 1, 1940, and the Federal Disability Insurance (DI) Trust Fund, established on August 1, 1956, collectively referred to as OASDI or “Social Security,” provides cash benefits for eligible U.S. citizens and residents. Eligibility and benefit amounts are determined under the laws applicable for the period. Current law provides that the amount of the monthly benefit payments for workers and their eligible dependents or survivors is based on the workers’ lifetime earnings histories.

The primary financing of the OASDI Trust Funds are taxes paid by workers, their employers, and individuals with self-employment income, based on work covered by the OASDI Program. Refer to the Unaudited Required Supplementary Information—Social Insurance section for additional information on Social Security program financing.

That portion of each trust fund not required to pay benefits and administrative costs is invested, on a daily basis, in interest-bearing obligations of the U.S. Government. The *Social Security Act* authorizes the issuance by the Treasury of special nonmarketable, intragovernmental debt obligations for purchase exclusively by the trust funds. Although the special issues cannot be bought or sold in the open market, they are redeemable at any time at face value and thus bear no risk of fluctuation in principal value due to changes in market yield rates. Interest on the bonds is credited to the trust funds and becomes an asset to the funds and a liability to the General Fund. These Treasury securities and related interest are eliminated in consolidation at the governmentwide level.

Medicare

The Medicare Program, created in 1965, has two separate trust funds: the HI (Medicare Part A) and SMI (Medicare Parts B and D) Trust Funds. HI pays for inpatient acute hospital services, hospice, and major alternatives to hospitals (skilled nursing services, for example), and SMI pays for hospital outpatient services, physician services, and assorted other services and products through the Part B account and pays for prescription drugs through the Part D account. Though the events that trigger benefit payments are similar, HI and SMI have different dedicated financing structures. Similar to OASDI, HI is financed primarily by payroll contributions. Other income to the HI Trust Fund includes a small amount of premium income from voluntary enrollees, receipts from fraud and abuse control activities, a portion of the federal income taxes that beneficiaries pay on Social Security benefits and interest credited on Treasury securities held in the HI Trust Fund. These Treasury securities and related interest are eliminated in the consolidation at the governmentwide level.

For SMI, transfers from the General Fund represent the largest source of income for both Parts B and D. Generally, beneficiaries finance the remainder of Parts B and D costs via monthly premiums to these programs. With the introduction of Part D drug coverage, Medicaid is no longer the primary payer of drug costs for full-benefit dually eligible beneficiaries of Medicare and Medicaid. For those beneficiaries, states are subject to a contribution requirement and must pay a portion of their estimated foregone drug costs into the Part D account (referred to as state transfers). Fees related to brand-name prescription drugs, required by the *Affordable Care Act* (ACA), are included as income for Part B of SMI. As with HI, interest received on Treasury securities held in the SMI Trust Fund is credited to the fund and these Treasury securities as well as related interest are eliminated in consolidation at the governmentwide level. By accounting convention, the transfers of general revenues are eliminated in the consolidation of the SOSI at the governmentwide level and as such, the general revenues that are used to finance Medicare Parts B and D are not included in these calculations even though the expenditures on these programs are included. For the fiscal year 2017 and 2016 SOSI, the amounts eliminated totaled \$30.0 trillion and \$28.7 trillion, respectively. Refer to Unaudited Required Supplementary Information—Social Insurance section for additional information on Medicare program financing.

The financial projections for the Medicare program reflect substantial, but very uncertain, cost savings deriving from provisions of the *Patient Protection and Affordable Care Act* and the *Health Care and Education Reconciliation Act*,

collectively referred to as the *Affordable Care Act (ACA)*, and the *Medicare Access and CHIP Reauthorization Act of 2015 (MACRA)* that lowered increases in Medicare payment rates to most categories of health care providers.

The ACA became law in fiscal year 2010 and provided funding for the establishment by Centers for Medicare & Medicaid Services (CMS) of a Center for Medicare and Medicaid Innovation to test innovative payment and service delivery models to reduce program expenditures while preserving or enhancing the quality of care furnished to individuals. It also allowed for the establishment of a Center for Consumer Information and Insurance Oversight (CCIIO). One of the main programs under CCIIO is the Affordable Insurance Exchanges (the “Exchanges”). A brief description of these programs is presented below.

Affordable Insurance Exchanges. Grants have been provided to the states to establish Affordable Insurance Exchanges. The initial grants were made by HHS to the states “not later than one year after the date of enactment.” Thus, HHS made the initial grants by March 23, 2011. Subsequent grants were issued by CMS through December 31, 2014, after which time no further grants could be made. All Exchanges were launched on October 1, 2013.

Transitional Reinsurance Program. The Transitional Reinsurance Program was established in each state to help stabilize premiums for coverage in the individual market from 2014 through 2016. All health insurance issuers and third party administrators, on behalf of self-insured group health plans, made contributions to support reinsurance payments that cover high-cost individuals in non-grandfathered plans in the individual market, inside and outside the Exchange.

Risk Adjustment Program. The Risk Adjustment Program is a permanent program. It applies to non-grandfathered individuals and small group plans inside and outside the Exchanges. It provides payments to health insurance issuers that disproportionately attract higher-risk populations (such as individuals with chronic conditions) and transfers funds from plans with relatively lower risk enrollees to plans with relatively higher risk enrollees to protect against adverse selection. States that operate a state-based Exchange are eligible to establish a risk adjustment program. States operating a risk adjustment program may have an entity other than the Exchange perform this function. CMS operates a risk adjustment program for each state that does not operate its own.

Risk Corridors Program. The temporary Risk Corridors Program operated for benefit years 2014 through 2016. This program applied to qualified health plans in the individual and small group markets, inside and outside the Exchanges and protected against inaccurate rate-setting by sharing risk (gains and losses) on allowable costs between CMS and qualified health plans.

It is important to note that the improved results for HI and SMI Part B since 2010 depend in part on the long-range feasibility of the various cost-saving measures in the ACA—most importantly, the reductions in the annual payment rate updates for most categories of Medicare providers by the growth in economy-wide private nonfarm business multifactor productivity and the specified physician updates put in place by MACRA. Without fundamental changes in the current delivery system, these productivity-related adjustments to Medicare payment rates would probably not be viable indefinitely. However, this outcome is achievable if health care providers are able to realize productivity improvements at a faster rate than experienced historically. On the other hand, if the health sector cannot transition to more efficient models of care delivery and achieve productivity increases commensurate with economy-wide productivity, and if the provider reimbursement rates paid by commercial insurers continue to be based on the same negotiated process used to date, then the availability and quality of health care received by Medicare beneficiaries would, under current law, fall over time compared to that received by those with private health insurance.

A transformation of health care in the United States, affecting both the means of delivery and the method of paying for care, is also a possibility. Private health insurance and Medicare take important steps in this direction by initiating programs of research into innovative payment and service delivery models, such as accountable care organizations, patient-centered medical homes, improvement in care coordination for individuals with multiple chronic health conditions, better coordination of post-acute care, payment bundling, pay for performance, and assistance for individuals in making informed health choices. Such changes have the potential to reduce health care costs as well as cost growth rates and could, as a result, help lower health care spending to levels compatible with the lower price updates payable under current law.

The ability of new delivery and payment methods to lower cost growth rates is uncertain at this time. Preliminary indications are that some of these delivery reforms have had modest levels of success in lowering costs, but at this time it is too early to tell if these reductions in spending will continue, or if they will grow to the magnitude needed to align with the statutory Medicare price updates. For those providers affected by the productivity adjustments and the specified updates to physician payments, sustaining the price reductions will be challenging, as the best available evidence indicates that most providers cannot improve their productivity to this degree for a prolonged period given the labor-intensive nature of these services and that physician costs will grow at a faster rate than the specified updates. As a result, actual Medicare expenditures are highly uncertain for reasons apart from the inherent difficulty in projecting health care cost growth over time.

Absent an unprecedented change in health care delivery systems and payment mechanisms, the prices paid by Medicare for most health services will fall increasingly short of the cost of providing such services. If this issue is not addressed by

subsequent legislation, it is likely that access to, and quality of, Medicare benefits would deteriorate over time for beneficiaries. The specified rate updates could be an issue in years when levels of inflation are high and would be problematic when the cumulative gap between the price updates and physician costs becomes large. The gap will continue to widen throughout the projection, and it is estimated that physician payment rates under current law will be lower than they would have been under the sustainable growth rate (SGR) formula by 2048. Absent a change in the delivery system or level of update by subsequent legislation, access to Medicare-participating physicians may become a significant issue in the long term under current law. Overriding the price updates in current law, as lawmakers repeatedly did in the case of physician payment rates, would lead to substantially higher costs for Medicare in the long range than those projected in this report.

To help illustrate and quantify the potential magnitude of the cost understatement, the Trustees asked the Office of the Actuary at CMS to prepare an illustrative Medicare Trust Fund projection under a hypothetical alternative that assumes that, starting in 2020, the economy-wide productivity adjustments gradually phase down to 0.4 percent, and starting in 2026, physician payments transition from a payment update of 0.6 percent to an increase of 2.2 percent. In addition, the illustrative alternative assumes the continuation of the 5-percent bonuses for physicians in advanced alternative payment models (APMs) and of the \$500 million payments for physicians in the merit-based incentive payment system (MIPS). In addition, the projection assumes that the Independent Payment Advisory Board (IPAB) requirements would not be implemented.⁷ This alternative was developed for illustrative purposes only; the calculations have not been audited; no endorsement of the policies underlying the illustrative alternative by the Trustees, CMS, or the Office of the Actuary should be inferred; and the examples do not attempt to portray likely or recommended future outcomes. Thus, the illustrations are useful only as general indicators of the substantial impacts that could result from future legislation affecting the productivity adjustments and physician updates under Medicare and of the broad range of uncertainty associated with such impacts. The table below contains a comparison of the Medicare 75-year present values of estimated future income and estimated future expenditures under current law with those under the illustrative alternative scenario.

⁷ The illustrative alternative projections included changes to the productivity adjustments starting with the 2010 annual report, following enactment of the *Affordable Care Act*. The assumption regarding physician payments is being used because the enactment of *MACRA* in 2015 replaced the SGR with specified physician updates.

Medicare Present Values (in trillions) (Unaudited)

	2017 Consolidated SOSI Current Law	Illustrative Alternative Scenario^{1, 2}
Income:		
Part A	\$21.7	\$21.9
Part B ³	\$8.4	\$10.6
Part D ⁴	\$3.1	\$3.2
Total income	\$33.2	\$35.7
Expenditures:		
Part A	\$25.3	\$31.5
Part B	\$30.8	\$38.7
Part D	\$10.8	\$10.9
Total expenditures	\$66.9	\$81.1
Income less expenditures:		
Part A	\$3.5	\$9.6
Part B	\$22.4	\$28.1
Part D	\$7.6	\$7.8
Excess of expenditures over income	\$33.5	\$45.5

¹These amounts are not presented in the 2017 Trustees' Report.

²At the request of the Trustees, the Office of the Actuary at CMS has prepared an illustrative set of Medicare Trust Fund projections that differ from current law. No endorsement of the illustrative alternative to current law by the Trustees, CMS, or the Office of the Actuary should be inferred.

³Excludes \$22.4 trillion and \$28.1 trillion of General Revenue Contributions from the 2017 Consolidated SOSI Current Law projection and the Illustrative Alternative Scenario's projection, respectively; i.e., to reflect Part B income on a consolidated governmentwide basis.

⁴Excludes \$7.6 trillion and \$7.8 trillion of General Revenue Contributions from the 2017 Consolidated SOSI Current Law projection and the Illustrative Alternative Scenario's projection, respectively; i.e., to reflect Part D income on a consolidated governmentwide basis.

Note: Totals may not equal the sum of components due to rounding.

The difference between the current-law and illustrative alternative projections is substantial for Parts A and B. All Part A fee-for-service providers and roughly half of Part B fee-for-service providers are affected by the productivity adjustments, so the current-law projections reflect an estimated 1.1 percent reduction in annual cost growth each year for these providers. If the productivity adjustments were gradually phased out, the physician updates transitioned to the Medicare Economic Index update of 2.2 percent, the 5-percent bonuses paid to physicians in APMs did not expire, and the IPAB requirements were not implemented, as illustrated under the alternative scenario, the estimated present values of Part A and Part B expenditures would each be higher than the current-law projections by roughly 25 and 26 percent, respectively. As indicated above, the present value of Part A income is basically unaffected under the alternative scenario.

The Part D values are similar under each projection because the services are not affected by the productivity adjustments or the physician updates. The very minor effect is the result of the removal of the IPAB impact and a slight change in the discount rates that are used to calculate the present values.

The extent to which actual future Part A and Part B costs exceed the projected amounts due to changes to the productivity adjustments and physician updates depends on what specific changes might be legislated and whether Congress would pass further provisions to help offset such costs. As noted, these examples reflect only hypothetical changes to provider payment rates.

Social Security and Medicare—Demographic and Economic Assumptions

The Boards of Trustees⁸ of the OASDI and Medicare Trust Funds provide in their annual reports to 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 Boards use three alternative sets of economic and demographic assumptions to show a range of possibilities. Assumptions are made about many economic and demographic factors, including Gross Domestic Product (GDP)⁹, disability incidence and terminations, earnings, the Consumer Price Index (CPI), the unemployment rate, the fertility rate, immigration, mortality, and for the Medicare projections health care cost growth. The assumptions used for the most recent set of projections shown in Table 1A (Social Security) and Table 1B (Medicare) are generally referred to as the “intermediate assumptions,” and reflect the trustees’ reasonable estimate of expected future experience. For further information on Social Security and Medicare demographic and economic assumptions, refer to SSA’s and HHS’ Agency Financial Reports.

⁸ There are six trustees: the Secretaries of the Treasury (managing trustee), Health and Human Services, and Labor, the Commissioner of the Social Security Administration, and two public trustees who are generally appointed by the President and confirmed by the Senate for a 4-year term. By law, the public trustees are members of two different political parties.

⁹In July 2013, the Bureau of Economic Analysis (BEA) revised upward the historical values for GDP beginning with estimates for 1929.

Table 1A
Social Security – Demographic and Economic Assumptions

Demographic Assumptions						
Year	Total Fertility Rate ¹	Age-Sex Adjusted Death Rate (per 100,000) ²	Net Annual Immigration (persons per year) ³	Period Life Expectancy at Birth ⁴		
				Male	Female	
2017	1.90	772.1	1,559,000	77.0	81.6	
2020	1.98	750.2	1,512,000	77.4	81.9	
2030	2.00	686.1	1,332,000	78.6	82.9	
2040	2.00	630.8	1,282,000	79.7	83.8	
2050	2.00	582.3	1,257,000	80.7	84.6	
2060	2.00	539.7	1,243,000	81.7	85.4	
2070	2.00	502.0	1,234,000	82.5	86.1	
2080	2.00	468.6	1,229,000	83.4	86.8	
2090	2.00	438.7	1,227,000	84.1	87.4	

Economic Assumptions						
Year	Real Wage Differential (percent) ⁵	Average Annual Wage In Covered Employment (percent change) ⁶	CPI (percent change) ⁷	Real GDP (percent change) ⁸	Total Employment (percent change) ⁹	Average Annual Interest Rate (percent) ¹⁰
2020	1.87	4.47	2.60	2.9	1.0	4.6
2030	1.29	3.89	2.60	2.1	0.5	5.3
2040	1.21	3.81	2.60	2.2	0.6	5.3
2050	1.24	3.84	2.60	2.2	0.5	5.3
2060	1.21	3.81	2.60	2.1	0.4	5.3
2070	1.15	3.75	2.60	2.1	0.5	5.3
2080	1.13	3.73	2.60	2.1	0.5	5.3
2090	1.15	3.75	2.60	2.0	0.4	5.3

¹The total fertility rate for any year is the average number of children that would be born to a woman in her lifetime if she were to experience, at each age of her life, the birth rate observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period.

²The age-sex-adjusted death rate is based on the enumerated total population as of April 1, 2010, 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.

³Net annual immigration is the number of persons who enter during the year (both legally and otherwise) minus the number of persons who leave during the year. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

⁴The period life expectancy at a given age for a given year is the average remaining number of years expected prior to death for a person at that exact age, born on January 1, using the mortality rates for that year over the course of his or her remaining life. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

⁵The real-wage differential is the annual percentage change in the average annual wage in covered employment less the annual percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Values are rounded after all computations.

⁶The average annual wage in covered employment is the total amount of wages and salaries for all employment covered by the OASDI program in a year, divided by the number of employees with any such earnings during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

⁷The CPI is the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

⁸The real GDP is the value of total output of goods and services in 2009 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

⁹Total employment is total U.S. military and civilian employment. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

¹⁰The average annual interest rate is the average of the nominal interest rates, which compound semiannually, for special public-debt obligations issuable to the OASI and DI Trust Funds in each of the 12 months of the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

**Table 1B
Medicare – Demographic and Economic Assumptions**

Demographic Assumptions								
Year	Total Fertility Rate ¹	Age-Sex Adjusted Death Rate (per 100,000) ²	Net Annual Immigration (persons per year) ³					
2017	1.90	772.1	1,559,000					
2020	1.98	750.2	1,512,000					
2030	2.00	686.1	1,332,000					
2040	2.00	630.8	1,282,000					
2050	2.00	582.3	1,257,000					
2060	2.00	539.7	1,243,000					
2070	2.00	502.0	1,234,000					
2080	2.00	468.6	1,229,000					
2090	2.00	438.7	1,227,000					

Economic Assumptions					Per Beneficiary Cost ⁸ (percent change)			
Year	Real Wage Differential (percent) ⁴	Average Annual Wage In Covered Employment (percent change) ⁵	CPI (percent change) ⁶	Real GDP (percent change) ⁷	SMI			Real Interest Rate (percent) ⁹
					HI	Part B	Part D	
2017	1.84	4.00	2.17	2.9	0.5	3.1	(0.2)	(0.3)
2020	1.87	4.47	2.60	2.9	4.1	5.1	5.4	1.7
2030	1.29	3.89	2.60	2.1	3.8	4.8	4.5	2.7
2040	1.21	3.81	2.60	2.2	4.6	4.2	4.7	2.7
2050	1.24	3.84	2.60	2.2	3.8	3.7	4.7	2.7
2060	1.21	3.81	2.60	2.1	3.6	3.6	4.5	2.7
2070	1.15	3.75	2.60	2.1	3.8	3.6	4.4	2.7
2080	1.13	3.73	2.60	2.1	3.8	3.6	4.4	2.7
2090	1.15	3.75	2.60	2.0	3.4	3.4	4.3	2.7

¹The total fertility rate for any year is the average number of children that would be born to a woman in her lifetime if she were to experience, at each age of her life, the birth rate observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period.

²The age-sex-adjusted death rate is based on the enumerated total population as of April 1, 2010, 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.

³Net annual immigration is the number of persons who enter during the year (both legally and otherwise) less the number of persons who leave during the year. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

⁴The real-wage differential is the annual percentage change in the average annual wage in covered employment less the annual percentage change in CPI. Values are rounded after computations.

⁵The average annual wage in covered employment is the total amount of wages and salaries for all employment covered by the OASDI program in a year, divided by the number of employees with any such earnings during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

⁶The CPI is the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

⁷The real GDP is the value of total output of goods and services produced in the U.S. in 2009 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

⁸These increases reflect the overall impact of more detailed assumptions that are made for each of the different types of service provided by the Medicare program (for example, hospital care, physician services, and pharmaceutical costs). These assumptions include changes in the payment rates, utilization, and intensity of each type of service.

⁹The real interest rate is the average rate of interest earned on new trust fund securities, above and beyond the rate of inflation.

Railroad Retirement

The Railroad Retirement and Survivor Benefit program pays full retirement annuities at age 60 to railroad workers with 30 years of service. The program pays disability annuities based on total or occupational disability. It also pays annuities to spouses and divorced spouses of retired workers and to widow(er)s, surviving divorced spouses, remarried widow(er)s, children, and parents of deceased railroad workers. Medicare covers qualified railroad retirement beneficiaries in the same way as it does Social Security beneficiaries.

The RRB and the SSA share jurisdiction over the payment of retirement and survivor benefits. The RRB has jurisdiction over the payment of retirement benefits if the employee has at least 10 years of railroad service, or five years if performed after 1995. For survivor benefits, RRB requires that the employee's last regular employment before retirement or death be 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, where they are treated as social security credits.

Payroll taxes paid by railroad employers and their employees are a primary source of funding for the Railroad Retirement and 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 and Tier II taxes to finance railroad retirement benefit payments that are higher than Social Security levels.

Revenues in excess of benefit payments are invested to provide additional trust fund income. Legislation enacted in 2001 allowed for Railroad Retirement Account funds transferred to the National Railroad Retirement Investment Trust (NRRIT) to be invested in non-governmental assets, as well as in governmental securities. Funds transferred from the Social Security Equivalent Benefit (SSEB) Account to the NRRIT are allowed to be invested only in governmental securities.

Since its inception, NRRIT has received \$21.3 billion from RRB (including \$19.2 billion in fiscal year 2003, pursuant to the *Railroad Retirement and Survivors' Improvement Act of 2001*) and returned \$21.1 billion. During fiscal year 2017, the NRRIT made net transfers of \$1.8 billion to the RRB to pay retirement benefits. Administrative expenses of the trust are paid out of trust assets. The balance as of September 30, 2017, and 2016, of non-federal securities and investments of the NRRIT are disclosed in Note 7—Debt and Equity Securities.

Another major source of income to the Railroad Retirement and Survivor Benefit program consists of financial transactions with the Social Security and Medicare Trust Funds. The RRB, SSA, and CMS are parties to a financing arrangement, the "financial interchange", which is intended to put the OASDI and Medicare HI Trust Funds in the same positions they would have been had railroad employment been covered under the *Social Security and Federal Insurance Contributions Acts*.

Other sources of program income include revenue resulting from federal income taxes on railroad retirement benefits, and appropriations provided after 1974 as part of a phase out of certain vested dual benefits. From a governmentwide perspective, these future financial interchanges and transactions are intragovernmental transfers and are eliminated in consolidation.

The estimated future revenues and expenditures reflected in the SOSI are based on various economic, employment, and other actuarial assumptions, and assume that the Railroad Retirement program will continue as presently constructed. The calculations assume that all future transfers required by current law under the financial interchange will be made. For further details on actuarial assumptions related to the Railroad Retirement program and how these assumptions affect amounts presented on the SOSI and Statement of Changes in Social Insurance Amounts (SCSIA), consult the Technical Supplement to the *26th Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Acts as of December 31, 2013*, the *Annual Report on the Railroad Retirement System Required by the Railroad Retirement Act of 1974 and Railroad Retirement Solvency Act of 1983*, and RRB's financial statements.

Black Lung–Disability Benefit Program

The Black Lung Disability Benefit Program provides for compensation, medical, and survivor benefits for eligible coal miners who are totally disabled due to pneumoconiosis (black lung disease) arising out of their coal mine employment, and the BLDTF provides benefit payments when no responsible mine operator (RMO) can be assigned the liability or when the liability is adjudicated to the BLDTF, which may occur as a result of, among other things, bankruptcy of the RMO. DOL operates the Black Lung Disability Benefit Program.

Black lung disability benefit payments are funded by excise taxes from coal mine operators based on the domestic sale of coal, as are the fund's administrative costs. These taxes are collected by the IRS and transferred to the BLDTF, which was established under the authority of the *Black Lung Benefits Revenue Act*, and administered by the Treasury.

P.L. 110-343, *Division B-Energy Improvement and Extension Act of 2008*, enacted on October 3, 2008, among other things, restructured the BLDTF debt by refinancing the outstanding high interest rate repayable advances with low interest rate discounted debt instruments similar in form to zero-coupon bonds, plus a one-time appropriation. This Act also allowed that any subsequent debt issued by the BLDTF may be used to make benefit payments, other authorized expenditures, or to repay debt and interest from the initial refinancing.

The significant assumptions used in the projections for the SOSI are the coal excise tax revenue estimates, the tax rate structure, number of beneficiaries, life expectancy, federal civilian pay raises, medical cost inflation, and interest rates used to discount future cash flows. These assumptions affect the amounts reported on the SOSI and the SCSIA. The program's valuation date is September 30 for each year of information presented in the SOSI and the SCSIA. Refer to DOL's financial statements for further details on significant assumptions related to the Black Lung Disability Benefit Program, and how these assumptions affect amounts presented on the SOSI and SCSIA.

Statement of Changes in Social Insurance Amounts

The Statement of Changes in Social Insurance Amounts reconciles the change (between the current valuation and the prior valuation) in the present value of estimated future revenue less estimated future expenditures for current and future participants (the open group measure) over the next 75 years (except Black Lung which has a rolling 25-year projection period through September 30, 2042). The reconciliation identifies several components of the changes that are significant and provides reasons for the changes. The following disclosures relate to the Statement of Changes in Social Insurance Amounts including the reasons for the components of the changes in the open group measure during the reporting period from the end of the previous reporting period for the Government's social insurance programs.

Social Security

The Statement of Changes in Social Insurance Amounts shows two reconciliations for Social Security: (1) changes from the period beginning on January 1, 2016, to the period beginning on January 1, 2017, and (2) changes from the period beginning on January 1, 2015, to the period beginning on January 1, 2016. All estimates relating to the Social Security Program in the Statement of Changes in Social Insurance Amounts represent values that are incremental to the prior change. As an example, the present values shown for economic data, assumptions, and methods represent the additional effect of these new data, assumptions, and methods after considering the effects from demography and the change in the valuation period. In general, an increase in the present value of net cash flows represents a positive change (improving financing), while a decrease in the present value of net cash flows represents a negative change (worsening financing).

Assumptions Used for the Components of the Changes for the Social Security Program

The present values included in the Statement of Changes in Social Insurance Amounts are for the current and prior years and are based on various economic as well as demographic assumptions used for the intermediate assumptions in the Social Security Trustees Reports for these years. Table 1A summarizes these assumptions for the current year.

Period Beginning on January 1, 2016, and Ending January 1, 2017

Present values as of January 1, 2016 are calculated using interest rates from the intermediate assumptions of the 2016 Social Security Trustees Report. All other present values in this part of the Statement of Changes in Social Insurance Amounts are calculated as a present value as of January 1, 2017. Estimates of the present value of changes in social insurance amounts due to changing the valuation period and changing demographic data, assumptions, and methods are presented using the interest rates under the intermediate assumptions of the 2016 Social Security Trustees Report. Because interest rates are an economic estimate and all estimates in the table are incremental to the prior change, all other present values in this part of the Statement of Changes in Social Insurance Amounts are calculated using the interest rates under the intermediate assumptions of the 2017 Social Security Trustees Report.

Period Beginning on January 1, 2015, and Ending January 1, 2016

Present values as of January 1, 2015 are calculated using interest rates from the intermediate assumptions of the 2015 Social Security Trustees Report. All other present values in this part of the Statement of Changes in Social Insurance Amounts are calculated as a present value as of January 1, 2016. Estimates of the present value of changes in social insurance amounts due to changing the valuation period and changing demographic data, assumptions, and methods are presented using the interest rates under the intermediate assumptions of the 2015 Social Security Trustees Report. Because interest rates are an economic estimate and all estimates in the table are incremental to the prior change, all other present values in this part of the Statement of Changes in Social Insurance Amounts are calculated using the interest rates under the intermediate assumptions of the 2016 Social Security Trustees Report.

Changes in Valuation Period

Period Beginning on January 1, 2016, and Ending January 1, 2017

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2016-2090) to the current valuation period (2017-2091) is measured by using the assumptions for the prior valuation and extending them to cover the current valuation. Changing the valuation period removes a small negative net cash flow for 2016, replaces it with a much larger negative net cash flow for 2091, and measures the present values as of January 1, 2017, one year later. Thus, the present value of estimated future net cash flows (excluding the combined OASI and DI Trust Fund asset reserves at the start of the period) decreased (became more negative) when the 75-year valuation period changed from 2016-2090 to 2017-2091. In addition, the effect on the level of asset reserves in the combined OASI and DI Trust Funds of changing the valuation period is measured by assuming all values projected in the prior valuation for the year 2016 are realized. The change in valuation period increased the starting level of asset reserves in the combined OASI and DI Trust Funds.

Period Beginning on January 1, 2015, and Ending January 1, 2016

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2015-2089) to the current valuation period (2016-2090) is measured by using the assumptions for the prior valuation and extending them to cover the current valuation. Changing the valuation period removes a small negative net cash flow for 2015, replaces it with a much larger negative net cash flow for 2090, and measures the present values as of January 1, 2016, one year later. Thus, the present value of estimated future net cash flows (excluding the combined OASI and DI Trust Fund asset reserves at the start of the period) decreased (became more negative) when the 75-year valuation period changed from 2015-2089 to 2016-2090. In addition, the effect on the level of asset reserves in the combined OASI and DI Trust Funds of changing the valuation period is measured by assuming all values projected in the prior valuation for the year 2015 are realized. The change in valuation period increased the starting level of asset reserves in the combined OASI and DI Trust Funds.

Changes in Demographic Data, Assumptions, and Methods

Period Beginning on January 1, 2016, and Ending January 1, 2017

The ultimate demographic assumptions for the current valuation (beginning on January 1, 2017) are the same as those for the prior valuation. However, the starting demographic values and the way these values transition to the ultimate assumptions were changed.

- Final birth rate data for 2015 indicated slightly lower birth rates than were assumed in the prior valuation.
- Incorporating 2014 mortality data obtained from the National Center for Health Statistics at ages under 65 and preliminary 2014 mortality data from Medicare experience at ages 65 and older resulted in higher death rates for all future years than were projected in the prior valuation.
- More recent legal and other-than-legal immigration data and historical population data were included.

The effects of including the recent birth rate data, immigration data, and historical population data were all decreases in the present value of estimated future net cash flows. These effects were offset somewhat by the inclusion of the recent mortality data, which increased the present value of estimated future net cash flows.

There were no notable changes in demographic methodology.

Period Beginning on January 1, 2015, and Ending January 1, 2016

The ultimate demographic assumptions for the current valuation (beginning on January 1, 2016), with the exception of a small change in marriage rates, are the same as those for the prior valuation. However, the starting demographic values and the way these values transition to the ultimate assumptions were changed.

- Final birth rate data for 2013 and 2014 indicated lower birth rates than were expected in the prior valuation. The data also show an increase in birth rates starting in 2014, one year later than assumed in the prior valuation.
- Incorporating mortality data obtained from the National Center for Health Statistics at ages under 65 for 2012 and 2013 and from Medicare experience at ages 65 and older for 2013 resulted in slightly higher death rates than were projected in the prior valuation.
- Assumed ultimate marriage rates were decreased somewhat to reflect a continuation of recent trends.
- More recent legal and other-than-legal immigration data and historical population data were included.

The effect of including the new birth rate data and immigration data was a decrease in the present value of estimated future net cash flows, while the inclusion of the mortality data and the marriage rate changes increased the present value of estimated future net cash flows.

There were two changes in demographic methodology:

- The transition from recent mortality rates to the ultimate rates starts sooner, immediately after the year of final data. The approach used for the prior valuation extended the trend of the last 10 years through the valuation year for the report and only thereafter started the transition to assumed ultimate rates of decline.
- Historical non-immigrant population counts were revised to match recent totals provided by the Department of Homeland Security. In addition, emigration rates for the never-authorized and visa-overstayer populations were recalibrated to reflect a longer historical period and to be less influenced by the high emigration rates experienced during the recent recession. Finally, the method for projecting emigration of the never-authorized population was altered to reflect lower rates of emigration for those who have resided here longer.

The effect of including these methodological improvements was an increase in the present value of estimated future net cash flows.

Changes in Economic Data, Assumptions, and Methods

Period Beginning on January 1, 2016, and Ending January 1, 2017

For the current valuation (beginning on January 1, 2017), there was one change to the ultimate economic assumptions.

- The ultimate average real-wage differential is assumed to be 1.20 percent in the current valuation, which is close to a 0.01 percent decrease relative to the previous valuation (even though both ultimate average real-wage differentials are 1.20 when rounded to two decimal places).

In addition to this change in ultimate assumption, the assumed path of the real-wage differential in the first 10 years of the projection period was also lower than in the previous valuation. This led to 0.05 percent lower annual growth in the average annual wage in covered employment in the first 10 years. The lower long-term and near-term real-wage differential assumptions are based on new projections by CMS of faster growth in employer sponsored group health insurance premiums. Because these premiums are not subject to the payroll tax, faster growth in these premiums means that a smaller share of employee compensation will be in the form of wages that are subject to the payroll tax. The lower real-wage differential decreased the present value of estimated future net cash flows.

Otherwise, the ultimate economic assumptions for the current valuation are the same as those for the prior valuation. However, the starting economic values and the way these values transition to the ultimate assumptions were changed. The most notable change was updating the near-term interest rates. Also notable was an assumed weaker recovery from the recent recession than previously expected, which led to a reduction in the ultimate level of actual and potential GDP of about 1.0 percent for all years after the short-range period.

The changes in near-term interest rates and GDP decreased the present value of estimated future net cash flows. Other, smaller changes in starting values and near-term growth assumptions combined to decrease the present value of estimated future net cash flows.

Period Beginning on January 1, 2015, and Ending January 1, 2016

For the current valuation (beginning on January 1, 2016), there were three changes to the ultimate economic assumptions.

- The ultimate rate of price inflation (CPI-W) was lowered by 0.1 percentage point, to 2.6 percent from 2.7 percent for the previous valuation.
- The ultimate average real-wage differential is assumed to be 1.20 percent in the current valuation, compared to 1.17 percent in the previous valuation.
- The ultimate real interest rate was lowered by 0.2 percentage point, to 2.7 percent from 2.9 percent for the previous valuation.

While very low inflation in recent years is reflective of U.S. and international supply and demand factors that have been affected by the global recession, the average rate of change in the CPI-W over the last two complete business cycles (from 1989 to 2007) is 2.63 percent. The lower ultimate CPI decreases the present value of estimated future net cash flows.

The higher real-wage differential assumption is based on new projections by CMS of slower growth in employer-sponsored group health insurance premiums. Because these premiums are not subject to the payroll tax, slower growth in these premiums means that a greater share of employee compensation will be in the form of wages that are subject to the payroll tax. The higher real-wage differential increased the present value of estimated future net cash flows.

Real interest rates have been low since 2000, and particularly low since the start of the recent recession. An ongoing and much-debated question among experts is how much of this change is cyclic or a temporary response to extraordinary events, versus a fundamental permanent change. The Trustees believe that lowering the long-term ultimate real interest rate somewhat is appropriate at this time. The lower real interest rate decreased the present value of estimated future net cash flows.

Otherwise, the ultimate economic assumptions for the current valuation are the same as those for the prior valuation. However, the starting economic values and the way these values transition to the ultimate assumptions were changed.

- A reduction in the ultimate level of actual and potential GDP of about 1.0 percent is assumed. Thus, by the end of the short-range period (2025) and for all years thereafter, projected GDP in 2009 dollars is about 1.8 percent below the level in last year's report.

The change to GDP decreased the present value of estimated future net cash flows. Other, smaller changes in starting values and near-term growth assumptions combined to increase the present value of estimated future net cash flows.

Changes in Law or Policy

Period Beginning on January 1, 2016, and Ending January 1, 2017

The monetary effect of the changes in law or policy on the long-range cost of the OASDI program was not significant at the consolidated level. Please refer to SSA's financial statements for further information related to the impact of the changes in law or policy on the long-range cost of the OASDI program.

Period Beginning on January 1, 2015, and Ending January 1, 2016

Between the prior valuation (the period beginning on January 1, 2015) and the current valuation (the period beginning on January 1, 2016), one law was enacted that is expected to have a significant effect on the long-range cost of the OASDI program. On November 2, 2015, the President signed into law P.L. 114-74, *Bipartisan Budget Act of 2015*. Several sections of the law had significant effects on long-range actuarial status, including:

- Section 831. Closure of unintended loopholes. This provision eliminates: (1) the ability to receive only a retired-worker benefit or an aged-spouse benefit when eligible for both, for those attaining age 62 in 2016 and later; and (2) the ability of a family member other than a divorced spouse to receive a benefit based on the earnings of a worker with a voluntarily suspended benefit, for voluntary suspensions requested after April 29, 2016.
- Section 832. Requirement for medical review. This section requires that the medical portion of the case review and any applicable residual functional capacity assessment for an initial disability determination be completed by an appropriate physician, psychiatrist, or psychologist.
- Section 833. Reallocation of payroll tax rates. For earnings in calendar years 2016 through 2018, this section temporarily reallocates from 1.80 percent to 2.37 percent the portion of the total 12.40 percent OASDI payroll tax that is directed to the DI Trust Fund. This reallocation of the payroll tax rates had no cost effect on the combined OASDI program.

The effect of including this law was an increase in the present value of estimated future net cash flows.

Potential Impact on the Social Insurance Statements of the September 5, 2017 Rescission of the 2012 DACA Policy Directive

The Deferred Action for Childhood Arrivals (DACA) policy directive was implemented on June 15, 2012. On September 5, 2017, the Department of Homeland Security rescinded the 2012 DACA policy directive and scheduled an orderly phase out of the DACA program. The SSA Office of the Chief Actuary has concluded that the phase out of the DACA program has an effect on the actuarial methods and assumptions used in developing the estimates presented in the Statements of Social Insurance and the Statement of Changes in Social Insurance Amounts. It is expected that the phase out of the DACA program will change the present value of future noninterest income less future cost for current and future participants (open group measure) presented in the Statements of Social Insurance and Statement of Changes in Social Insurance Amounts by less than \$20 billion. These effects are not considered to be material.

Medicare

The Statement of Changes in Social Insurance Amounts shows two reconciliations for Medicare: (1) changes from the period beginning on January 1, 2016, to the period beginning on January 1, 2017, and (2) changes from the period beginning on January 1, 2015, to the period beginning on January 1, 2016. All estimates relating to the Medicare program in the Statement of Changes in Social Insurance Amounts represent values that are incremental to the prior change. As an example,

the present values shown for demographic data, assumptions, and methods represent the additional effect that these assumptions have, once the effects from the change in the valuation period and projection base have been considered. In general, an increase in the present value of net cash flows represents a positive change (improving financing), while a decrease in the present value of net cash flows represents a negative change (worsening financing).

Assumptions Used for the Components of the Changes for the Medicare Program

The present values included in the Statement of Changes in Social Insurance Amounts are for the current and prior years and are based on various economic and demographic assumptions used for the intermediate assumptions in the Medicare Trustees Reports for these years. Table 1B summarizes these assumptions for the current year.

Period Beginning on January 1, 2016, and Ending January 1, 2017

Present values as of January 1, 2016 are calculated using interest rates from the intermediate assumptions of the 2016 Medicare Trustees Report. All other present values in this part of the Statement of Changes in Social Insurance Amounts are calculated as a present value as of January 1, 2017. Estimates of the present value of changes in social insurance amounts due to changing the valuation period, projection base, demographic assumptions, and law are presented using the interest rates under the intermediate assumptions of the 2016 Medicare Trustees Report. Since interest rates are an economic estimate and all estimates in the table are incremental to the prior change, the estimates of the present values of changes in economic and health care assumptions are calculated using the interest rates under the intermediate assumptions of the 2017 Medicare Trustees Report.

Period Beginning on January 1, 2015, and Ending January 1, 2016

Present values as of January 1, 2015 are calculated using interest rates from the intermediate assumptions of the 2015 Medicare Trustees Report. All other present values in this part of the Statement of Changes in Social Insurance Amounts are calculated as a present value as of January 1, 2016. Estimates of the present value of changes in social insurance amounts due to changing the valuation period, projection base, demographic assumptions, and law are presented using the interest rates under the intermediate assumptions of the 2015 Medicare Trustees Report. Since interest rates are an economic estimate and all estimates in the table are incremental to the prior change, the estimates of the present values of changes in economic and health care assumptions are calculated using the interest rates under the intermediate assumptions of the 2016 Medicare Trustees Report.

Changes in Valuation Period

Period Beginning on January 1, 2016, and Ending January 1, 2017

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2016-2090) to the current valuation period (2017-2091) is measured by using the assumptions for the prior valuation period and extending them, in the absence of any other changes, to cover the current valuation period. Changing the valuation period removes a small negative net cash flow for 2016, replaces it with a much larger negative net cash flow for 2091, and measures the present values as of January 1, 2017, one year later. Thus, the present value of estimated future net cash flow (including or excluding the combined Medicare Trust Fund assets at the start of the period) decreased (became more negative) when the 75-year valuation period changed from 2016-2090 to 2017-2091. In addition, the effect on the level of assets in the combined Medicare Trust Funds of changing the valuation period is measured by assuming all values projected in the prior valuation for the year 2016 are realized. The change in valuation period increased the starting level of assets in the combined Medicare Trust Funds.

Period Beginning on January 1, 2015, and Ending January 1, 2016

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2015-2089) to the current valuation period (2016-2090) is measured by using the assumptions for the prior valuation period and extending them, in the absence of any other changes, to cover the current valuation period. Changing the valuation period removes a small negative net cash flow for 2015, replaces it with a much larger negative net cash flow for 2090, and measures the present values as of January 1, 2016, one year later. Thus, the present value of estimated future net cash flow (including or excluding the combined Medicare Trust Fund assets at the start of the period) decreased (became more negative) when the 75-year valuation period changed from 2015-2089 to 2016-2090. In addition, the effect on the level of assets in the combined Medicare Trust Funds of changing the valuation period is measured by assuming all values projected in the prior valuation for the year 2015 are realized. The change in valuation period slightly increased the starting level of assets in the combined Medicare Trust Funds.

Changes in Demographic Data, Assumptions, and Methods

Period Beginning on January 1, 2016, and Ending January 1, 2017

The demographic assumptions used in the Medicare projections are the same as those used for the Old-Age Survivors and Disability Insurance (OASDI) and are prepared by the Office of the Chief Actuary at SSA.

The ultimate demographic assumptions for the current valuation (beginning on January 1, 2017), with the exception of a small change in marriage rates, are the same as those for the prior valuation. However, the starting demographic values and the way these values transition to the ultimate assumptions were changed.

- Final birth rate data for 2015 indicated slightly lower birth rates than were assumed in the prior valuation.
- Incorporating 2014 mortality data obtained from the National Center for Health Statistics at ages under 65 and preliminary 2014 mortality data from Medicare experience at ages 65 and older resulted in higher death rates for all future years than were projected in the prior valuation.
- More recent legal and other-than-legal immigration data and historical population data were included.

There were no consequential changes in demographic methodology.

These changes slightly lowered overall Medicare enrollment for the current valuation period and resulted in a decrease in the estimated future net cash flow. The present value of estimated expenditures is lower for Part A but slightly higher for Parts B and D; and the present value of estimated income is also higher for Parts B and D but lower for Part A.

Period Beginning on January 1, 2015, and Ending January 1, 2016

The demographic assumptions used in the Medicare projections are the same as those used for the OASDI and are prepared by the Office of the Chief Actuary at SSA.

The ultimate demographic assumptions for the current valuation (beginning on January 1, 2016), with the exception of a small change in marriage rates, are the same as those for the prior valuation. However, the starting demographic values and the way these values transition to the ultimate assumptions were changed.

- Final birth rate data for 2013 and 2014 indicated lower birth rates than were expected in the prior valuation. The data also show an increase in birth rates starting in 2014, one year later than assumed in the prior valuation.
- Incorporating mortality data obtained from the National Center for Health Statistics at ages under 65 for 2012 and 2013 and from Medicare experience at ages 65 and older for 2013 resulted in slightly higher death rates than were projected in the prior valuation.
- Assumed ultimate marriage rates were decreased somewhat to reflect a continuation of recent trends.
- More recent legal and other-than-legal immigration data and historical population data were included.

There were two changes in demographic methodology:

- The transition from recent mortality rates to the ultimate rates starts sooner, immediately after the year of final data. The approach used for the prior valuation extended the trend of the last 10 years through the valuation year for the report and only thereafter started the transition to assumed ultimate rates of decline.
- Historical non-immigrant population counts were revised to match recent totals provided by the Department of Homeland Security. In addition, emigration rates for the never-authorized and visa-overstayer populations were recalibrated to reflect a longer historical period and to be less influenced by the high emigration rates experienced during the recent recession. Finally, the method for projecting emigration of the never-authorized population was altered to reflect lower rates of emigration for those who have resided here longer.

These changes slightly lowered overall Medicare enrollment for the current valuation period and resulted in an increase in the estimated future net cash flow. The present value of estimated expenditures is lower for all parts of Medicare; and the present value of estimated income is also lower for Parts B and D but very slightly higher for Part A.

Changes in Economic and Other Health Care Assumptions

Period Beginning on January 1, 2016, and Ending January 1, 2017

The economic assumptions used in the Medicare projections are the same as those used for the Old-Age Survivors and Disability Insurance (OASDI) and are prepared by the Office of the Chief Actuary at SSA.

For the current valuation (beginning on January 1, 2017), there was one change to the ultimate economic assumptions.

- The ultimate average real-wage differential is assumed to be 1.20 percent in the current valuation, which is close to a 0.01 percent decrease relative to the previous valuation (even though both ultimate average real-wage differentials are 1.20 when rounded to two decimal places).

In addition to this change in assumption, the assumed real-wage differential for the first ten years of the projection period averaged 0.05 percent lower than in the previous valuation. The lower long-term and near-term real-wage differential assumptions are based on new projections of faster growth in employer sponsored group health insurance premiums. Because these premiums are not subject to the payroll tax, faster growth in these premiums means that a smaller share of employee compensation will be in the form of wages that are subject to the payroll tax.

Otherwise, the ultimate economic assumptions for the current valuation are the same as those for the prior valuation. However, the starting economic values and the way these values transition to the ultimate assumptions were changed. Most significantly, an assumed weaker recovery from the recent recession than previously expected led to a reduction in the ultimate level of actual and potential GDP of about 1.0 percent for all years after the short-range period.

The health care assumptions are specific to the Medicare projections. The following health care assumptions were changed in the current valuation.

- Utilization rate assumptions for inpatient hospital and skilled nursing facilities services were decreased.
- The number of beneficiaries enrolled in Medicare Advantage plans and their relative costs are slightly different from last year's assumptions.
- Lower productivity increases through 2025, resulting in higher provider payment updates.
- Higher projected drug rebates.
- Change in projection methodology of drug spending for Part B patients with end-stage renal disease.

The net impact of these changes resulted in a decrease in the estimated future net cash flow for total Medicare.

Period Beginning on January 1, 2015, and Ending January 1, 2016

The economic assumptions used in the Medicare projections are the same as those used for the OASDI and are prepared by the Office of the Chief Actuary at SSA.

For the current valuation (beginning on January 1, 2016), there were three changes to the ultimate economic assumptions.

- The ultimate rate of price inflation (CPI-W) was lowered by 0.1 percentage point, to 2.6 percent from 2.7 percent for the previous valuation.
- The ultimate average real-wage differential is assumed to be 1.20 percent in the current valuation period, compared to 1.17 percent in the previous valuation period.
- The ultimate real interest rate was lowered by 0.2 percentage point, to 2.7 percent from 2.9 percent for the previous valuation period.

While very low inflation in recent years is reflective of U.S. and international supply and demand factors that have been affected by the global recession, the average rate of change in the CPI-W over the last two complete business cycles (from 1989 to 2007) is 2.63 percent.

The higher real-wage differential assumption is based on new projections by CMS of slower growth in employer-sponsored group health insurance premiums. Because these premiums are not subject to the payroll tax, slower growth in these premiums means that a greater share of employee compensation will be in the form of wages that are subject to the payroll tax.

Real interest rates have been low since 2000, and particularly low since the start of the recent recession. An ongoing and much-debated question among experts is how much of this change is cyclic or a temporary response to extraordinary events, versus a fundamental permanent change. The Trustees believe that lowering the long-term ultimate real interest rate somewhat is appropriate at this time. The long-range present values are very sensitive to the ultimate interest rate assumption because they are used as the discount factor. The reduction in the ultimate interest rate assumption from 2.9 percent to 2.7 percent increases each of the present values by roughly 15 to 16 percent.

Otherwise, the ultimate economic assumptions for the current valuation are the same as those for the prior valuation. However, the starting economic values and the way these values transition to the ultimate assumptions were changed.

- A reduction in the ultimate level of actual and potential GDP of about 1.0 percent is assumed. Thus, by the end of the short-range period (2025) and for all years thereafter, projected GDP in 2009 dollars is about 1.8 percent below the level in last year's report.

The health care assumptions are specific to the Medicare projections. The following health care assumptions were changed in the current valuation.

- Utilization rate assumptions for inpatient hospital services were increased.

- The number of beneficiaries enrolled in Medicare Advantage plans and their relative costs are slightly different from last year's assumptions.
- Lower productivity increases through 2021, resulting in higher provider payment updates.
- Greater reductions in expenditures attributable to the Independent Payment Advisory Board.
- Inclusion of the income and expenditures for aged non-insured beneficiaries in the Medicare Part A long-range analysis.
- Higher projected drug cost trend, particularly for certain high-cost specialty drugs.

The net impact of these changes resulted in a decrease in the estimated future net cash flow for total Medicare. For Part A, these changes resulted in an increase to the present value of estimated future expenditures and income, with an overall decrease in the estimated future net cash flow. For Part B and Part D, these changes increased the present value of estimated future expenditures (and also income).

Changes in Law or Policy

Period Beginning on January 1, 2016, and Ending January 1, 2017

The monetary effect of the changes in law or policy on the present value of the 75-year estimated future income, expenditures, and net cash flow of the Medicare program was not significant at the consolidated level. Please refer to HHS's financial statements for further information related to the impact of the changes in law or policy on the 75-year estimated future income, expenditures, and net cash flow of the Medicare program.

Period Beginning on January 1, 2015, and Ending January 1, 2016

Most of the provisions enacted as part of Medicare legislation since the prior valuation date had little or no impact on the program. The following provisions did have a financial impact on the present value of the 75-year estimated future income, expenditures, and net cash flow.

- The *Trade Preference Extension Act of 2015* requires Medicare coverage for renal dialysis services provided by outpatient renal dialysis facilities to individuals with acute kidney injury, effective January 1, 2017.
- The *Bipartisan Budget Act of 2015* (BBA) included provisions that affect the HI and SMI programs.
 - The BBA required that the 2016 actuarial rate for enrollees aged 65 and older be determined as if the hold-harmless provision does not apply, thereby lowering the standard Part B premium rate from what it otherwise would have been. The premium revenue that was lost by using the resulting lower premium (excluding the forgone income-related premium revenue) was replaced by a transfer of general revenue from the Treasury, which will be repaid over time to the General Fund. Starting in 2016, in order to repay the balance due (which is to include the transfer amount and the forgone income-related premium revenue), the monthly Part B premium otherwise determined is to be increased by \$3.00. These repayment amounts are to be added to the Part B premium otherwise determined each year and paid back to the General Fund. This \$3.00 increase will not be matched by government contributions. These repayment amounts are to continue until the total amount collected is equal to the beginning balance due. (In the final year of the repayment, the additional amounts may be modified to avoid an overpayment.) The repayment amounts (excluding those for high-income enrollees) are subject to the hold-harmless provision. The BBA also stipulated that if the Social Security cost-of-living adjustment (COLA) was 0 percent in 2017, then an additional transfer (and \$3 repayment amount) would have again applied. However, the 2017 COLA of 0.3 percent was released on October 18, 2016.
 - Outpatient hospital services provided on or after January 1, 2017 by most new off-campus hospital provider-based outpatient departments (that is, those established on or after the BBA date of enactment of November 2, 2015 and located more than 250 yards from the campus) are excluded from the outpatient hospital prospective payment system, and are instead to be reimbursed under the applicable Part B payment system.
 - The sequestration process that is in place should Congress fail to address the budget deficit by certain deadlines is extended by one year, through fiscal year 2025. In addition, Medicare benefit payments for services provided under periods of sequestration incur a payment reduction limited to 2 percent, so that the former differential payment reduction limits imposed for fiscal years 2023 and 2024 are replaced with 2-percent limits. Finally, the 2-percent limit is raised to 4.0 percent for the first 6 months of sequestration required for fiscal year 2025 and reduced to 0.0 percent for the second 6 months of the year.

- The *Consolidated Appropriations Act of 2016* included provisions that affect the HI and SMI programs.
 - The payment calculation associated with inpatient hospital operating costs for Puerto Rico hospital discharges on or after January 1, 2016 is to be based on 0 percent of the applicable Puerto Rico percentage and 100 percent of the applicable federal percentage. (In addition, CMS announced that both the fiscal year 2016 Inpatient Prospective Payment System Pricer and the Long-Term Care Hospital Pricer, which are used to determine all inpatient hospital payment rates and certain long-term care hospital payment rates, respectively, for providers nationwide, are to incorporate the Puerto Rico inpatient hospital payment modification. These conforming changes are applicable to inpatient hospital discharges and long-term care hospital discharges on or after January 1, 2016.)
 - Puerto Rico hospitals are eligible to receive incentive payments under the Medicare Electronic Health Records Incentive Program, effective January 1, 2016.
 - Effective January 1, 2017, separate Medicare payment is authorized to home health agencies when they use cost-effective disposable alternatives to negative pressure wound therapy equipment.
 - To incentivize the transition from traditional x-ray imaging to digital radiography, Part B payment for the technical component of film x-rays, under the hospital outpatient prospective payment system and under the physician fee schedule, is reduced by 20 percent beginning in 2017. In addition, payment for the technical component of x-rays taken using computed radiography technology is reduced by 7 percent during 2018 through 2022 and by 10 percent beginning in 2023. Also, the discount in payment for the professional component of multiple imaging services furnished on or after January 1, 2017 is reduced from 25 percent to 5 percent, and the 5 percent reduction is taken in a non-budget neutral manner.
 - A one-year moratorium for calendar year 2017 is placed on the annual fee to be paid by health insurance providers. This fee, which was established by the *Affordable Care Act*, is imposed on certain large health insurance providers, including those furnishing coverage under Medicare Advantage (Part C) and Medicare Part D. (Since Medicare Advantage is paid for by the HI Trust Fund and the Part B account of the SMI Trust Fund, this provision affects all parts of Medicare.)

Overall these provisions resulted in a slight increase in the estimated future net cash flow for total Medicare. For Part A, these changes resulted in a slight decrease to the present value of estimated future expenditures, with an overall increase in the estimated future net cash flow. For Part B, these changes decreased the present value of estimated future expenditures (and also income). For Part D, the above-mentioned changes also resulted in a lower present value of estimated future expenditures (and also income) but only very slightly.

Change in Projection Base

Period Beginning on January 1, 2016, and Ending January 1, 2017

Actual income and expenditures in 2016 were different than what was anticipated when the 2016 Medicare Trustees Report projections were prepared. Part A income was higher and expenditures were lower than anticipated, based on actual experience. Part B total income and expenditures were higher than estimated based on actual experience. For Part D, actual income and expenditures were both lower than prior estimates. The net impact of the Part A, B, and D projection base changes is an increase in the estimated future net cash flow. Actual experience of the Medicare Trust Funds between January 1, 2016 and January 1, 2017 is incorporated in the current valuation and is slightly more than projected in the prior valuation.

Period Beginning on January 1, 2015, and Ending January 1, 2016

Actual income and expenditures in 2015 were different than what was anticipated when the 2015 Medicare Trustees Report projections were prepared. Part A income and expenditures were higher than anticipated, based on actual experience. Part B total income and expenditures were lower than estimated based on actual experience. For Part D, actual income and expenditures were both higher than prior estimates. The net impact of the Part A, B, and D projection base changes is a decrease in the estimated future net cash flow. Actual experience of the Medicare Trust Funds between January 1, 2015 and January 1, 2016 is incorporated in the current valuation and is slightly less than projected in the prior valuation.

Potential Impact on the Social Insurance Statements of the September 5, 2017 Rescission of the 2012 DACA Policy Directive

The DACA policy directive was implemented on June 15, 2012. On September 5, 2017, the Department of Homeland Security rescinded the 2012 DACA policy directive and scheduled an orderly phase out of the DACA program. The SSA Office of the Chief Actuary has concluded that the phase out of the DACA program has an effect on the actuarial methods and assumptions used in developing the estimates presented in the Statements of Social Insurance and the Statement of

Changes in Social Insurance Amounts. It is expected that the phase-out of the DACA program, which affects the demographic assumptions used in the Medicare projections, will not have a material impact on the present value estimates in the Statements of Social Insurance and Statement of Changes in Social Insurance Amounts.

Other

The present values included in the Statement of Changes in Social Insurance Amounts for the Railroad Retirement program are for the current and prior valuation and are based on various employment, demographic, and economic assumptions that reflect the RRB's reasonable estimate of expected future financial and actuarial status of the trust funds.

Note that beginning in fiscal year 2016, the present values included in the Statement of Changes in Social Insurance Amounts for the Railroad Retirement program were on a fiscal year basis, as of October 1, 2015. Prior to fiscal year 2016, all present values were on a calendar year basis, as of January 1. The primary reasons for the changes in the 2017 Statement of Changes in Social Insurance Amounts for Railroad Retirement are for the 12-month period between October 1, 2015 and October 1, 2016, while the primary reasons for the changes in the 2016 Statement of Changes in Social Insurance Amounts for Railroad Retirement were for the 9-month period between January 1, 2015 and October 1, 2015. Consequently, the Railroad Retirement changes on the 2017 Statement of Changes in Social Insurance Amounts will not be comparable to the Railroad Retirement changes on the 2016 Statement of Changes in Social Insurance Amounts. For a more detailed description of the primary reasons for the changes in the 2017 Statement of Changes in Social Insurance Amounts, refer to RRB's financial statements.

The significant assumptions used in the projections of the Black Lung social insurance program, referenced earlier in this note, affect the amounts reported on the Statement of Changes in Social Insurance Amounts, which shows two reconciliations for Black Lung: (1) changes in the open group measure for the year ended September 30, 2017, and (2) changes in the open group measure for the year ended September 30, 2016. For a more detailed description of the primary reasons for the changes in the 2017 Statement of Changes in Social Insurance Amounts, refer to DOL's financial statements.

Note 23. Long-Term Fiscal Projections

The Statements of Long-Term Fiscal Projections are prepared pursuant to SFFAS No. 36, *Comprehensive Long-Term Projections for the U.S. Government*, as amended. The basic financial statement, Note 23, and related unaudited required supplementary information (RSI) provide information to aid readers of the *Financial Report* in assessing whether current policies for Federal spending and taxation can be sustained and the extent to which the cost of public services received by current taxpayers will be shifted to future taxpayers under sustainable policies. This assessment requires prospective information about receipts and spending, the resulting debt, and how these amounts relate to the size of the economy. A sustainable policy is defined as one where the ratio of Federal debt held by the public to GDP (the debt-to-GDP ratio) is ultimately stable or declining. The *Financial Report* does not address the sustainability of State and local government fiscal policy.

The projections and analysis presented here are extrapolations based on an array of assumptions described in detail below. A fundamental assumption is that current Federal policy will not change. This assumption is made so as to inform the question of whether current fiscal policy is sustainable and, if it is not sustainable, the magnitude of needed reforms to make fiscal policy sustainable. The projections are therefore neither forecasts nor predictions. If policy changes are implemented, perhaps in response to projections like those presented here, then actual financial outcomes will be different than those projected. The methods and assumptions underlying the projections are subject to continuing refinement.

The projections focus on future cash flows, and do not reflect either the accrual basis or the modified-cash basis of accounting. These cash-based projections reflect receipts or spending at the time cash is received or when a payment is made by the Government. In contrast, accrual-based projections would reflect amounts in the time period in which income is earned or when an expense or obligation is incurred. The cash basis accounting underlying the long-term fiscal projections is consistent with methods used to prepare the Statements of Social Insurance (SOSI) and the generally cash-based Federal budget.

The basic financial statement, Long-Term Fiscal Projections for the U.S. Government, displays the present value of 75-year projections for various categories of the Federal Government's receipts and non-interest spending.¹⁰ The projections for fiscal years 2017 and 2016 are expressed in present value dollars and as a percentage of the present value of Gross Domestic Product (GDP)¹¹ as of September 30, 2017 and September 30, 2016, respectively. The present value of a future amount, for example \$1 billion in October 2092, is the amount of money that if invested on September 30, 2017 in an account earning the government borrowing rate would have a value of \$1 billion in October 2092.¹²

The present value of a receipt or expenditure category over 75 years is the sum of the annual present value amounts. When expressing a receipt or expenditure category over 75 years as a percent of GDP, the present value dollar amount is divided by the present value of GDP over 75 years. Measuring receipts and expenditures as a percentage of GDP is a useful indicator of the economy's capacity to sustain Federal Government programs.

Fiscal Projections

Receipt categories in the long-term fiscal projections include individual income taxes, Social Security and Medicare payroll taxes, and a residual remaining category of "other receipts." On the spending side, categories include: (1) discretionary spending that is funded through annual appropriations, such as spending for national security, and (2) mandatory (entitlement) spending that is generally financed with permanent or multi-year appropriations, such as spending for Social Security and Medicare. This year's projections for Social Security and Medicare are based on the same economic and demographic assumptions that underlie the 2017 Social Security and Medicare trustees' reports and the 2017 Statement of Social Insurance, while comparative information presented from last year's report is based on the 2016 Social Security and Medicare trustees' reports and the 2016 Statement of Social Insurance. Projections for the other categories of receipts and spending are consistent with the economic and demographic assumptions in the trustees' reports. The projections assume the continuance of current policy which, as is explained below, can be different than current law in cases where lawmakers have in the past periodically changed the law in a consistent way. Also, the projections are based on current policy as of September

¹⁰ For the purposes of this analysis, spending is defined in terms of outlays. In the context of Federal budgeting, spending can either refer to budget authority – the authority to commit the government to make a payment; to obligations – binding agreements that will result in payments, either immediately or in the future; or to outlays – actual payments made.

¹¹ GDP is a standard measure of the overall size of the economy and represents the total market value of all final goods and services produced domestically during a given period of time. The components of GDP are: private sector consumption and investment, government consumption and investment, and net exports (exports less imports). Equivalently, GDP is a measure of the gross income generated from domestic production over the same time period.

¹² Present values recognize that a dollar paid or collected in the future is worth less than a dollar today because a dollar today could be invested and earn interest. To calculate a present value, future amounts are thus reduced using an assumed interest rate, and those reduced amounts are summed.

30. Therefore, such projections do not reflect legislation enacted subsequent to September 30 that changes policy that was in effect as of the end of the fiscal year.

The projections shown in the basic statement are made over a 75-year time frame, consistent with the time frame featured in the Social Security and Medicare trustees' reports. However, these projections are for fiscal years starting on October 1, whereas the trustees' reports feature calendar-year projections. This difference allows the projections to start from the actual budget results from fiscal years 2017 and 2016.

The *Tax Cuts and Jobs Act* (P.L. 115-97) was enacted on December 22, 2017, and is therefore not reflected in the projections shown in the Statements of Long-Term Fiscal Projections and this note. For more information on the Tax Cuts and Jobs Act, see Note 25—Subsequent Events.

Changes in Long-Term Fiscal Projections		
Present Value (PV) of 75-Year Projections	Trillions of \$	Percent of GDP
Receipts less non-interest spending as of September 30, 2016.....	(10.6)	(0.8) %
Components of Change:		
Change due to Economic and Demographic Assumptions.....	(4.7)	(0.3)
Change due to Program-Specific Actuarial Assumptions.....	1.0	0.1
Change due to Updated Budget Data.....	2.1	0.2
Change in Reporting Period.....	(0.2)	-
Change in Model Technical Assumptions.....	(3.8)	(0.3)
Total	(5.6)	(0.4)
Receipts less non-interest spending as of September 30, 2017.....	(16.2)	(1.2)

NOTE: Totals may not equal the sum of components due to rounding.

This year's estimate of the 75-year present value imbalance of receipts less non-interest spending is 1.2 percent of the 75-year present value of GDP, compared to 0.8 percent as was projected in last year's *Financial Report*.¹³ The above table reports the effects of various factors on the updated projections. The largest factor, increasing the imbalance by 0.3 percent of GDP (\$4.7 trillion), is attributable to the economic and demographic assumptions used in formulating the projection. Lower GDP and wage projections had the effect of decreasing the 75-year present value of income tax and social insurance receipts, with a smaller decrease in Social Security outlays, for a net increase in the 75-year present value imbalance. Nearly as significant is the effect of a change in the model's assumption for the future growth of spending for Overseas Contingency Operations (OCO). As discussed further below in the section on assumptions used in the projections, outlays for OCO are now assumed to grow with GDP from the level of outlays in the most recent year, in contrast to the previous assumption under which OCO outlays were assumed to phase out entirely during the first 10 years of the projection. The OCO change and other minor offsetting updates increase the imbalance by 0.3 percent of GDP (\$3.8 trillion). The next largest change in the table – decreasing the imbalance by 0.2 percent of GDP (\$2.1 trillion) – is attributable to actual budget results for fiscal year 2017 and other budget data, including lower actual spending for mandatory programs other than Social Security, Medicare, and Medicaid, partially offset by increased funding for OCO in final 2017 appropriations action. The cumulative effect of the various changes to OCO described above (which reflect current policy without change as discussed in footnote 21) increased the imbalance by 0.4 percent of GDP (\$5.7 trillion).

The penultimate row in the basic financial statement shows that this year's estimate of the overall 75-year present value of receipts less non-interest spending is 1.2 percent of the 75-year present value of GDP (negative \$16.2 trillion, as compared to GDP of \$1,347.0 trillion).

¹³ More information on the projections in last year's *Financial Report* can be found in Note 23 to the Financial Statements here: https://fiscal.treasury.gov/fsreports/rpt/finrep/fr/16frusg/NotestoFinancialStatements_2016.pdf

This imbalance can be broken down by funding source. There is a surplus of receipts over spending of 0.2 percent of GDP (\$3.3 trillion) among programs funded by the government's general revenues, but an imbalance of 1.5 percent of GDP (\$19.6 trillion¹⁴) for the combination of Social Security (OASDI) and Medicare Part A, which under current law are funded with payroll taxes and not in any material respect with general revenues.^{15, 16} By comparison, the fiscal year 2016 projections showed that programs funded by the Government's general revenues had an excess of receipts over spending of 0.7 percent of GDP (\$8.7 trillion) while the payroll tax-funded programs had an imbalance of spending over receipts of 1.5 percent of GDP (\$19.4 trillion).

Sustainability and the Fiscal Gap

As discussed further in RSI, the projections in this report indicate that current policy is not sustainable. If current policy is left unchanged, the projections show the debt-to-GDP ratio will fall about 4 percentage points between 2017 and 2023 before commencing a steady rise, exceeding its 2017 level by 2029, exceeding 100 percent by 2037, and reaching 297 percent in 2092. Moreover, if the trends that underlie the 75-year projections were to continue, the debt-to-GDP ratio would continue to rise beyond the 75-year window.

The fiscal gap measures how much the primary surplus (receipts less non-interest spending) must increase in order for fiscal policy to achieve a target debt-to-GDP ratio in a particular future year. In these projections, the fiscal gap is estimated over a 75-year period, from 2018 to 2092, and the target debt-to-GDP ratio is equal to the ratio at the beginning of the projection period, in this case the debt-to-GDP ratio at the end of fiscal year 2017.

The 75-year fiscal gap under current policy is estimated at 2.0 percent of GDP, which is 10.0 percent of the 75-year present value of projected receipts and 9.4 percent of the 75-year present value of non-interest spending. This estimate of the fiscal gap is 0.4 percentage point larger than was estimated in 2016 (1.6 percent of GDP).

The projections show that projected primary deficits average 1.2 percent of GDP over the next 75 years under current policies. If policies were put in place that would result in a zero fiscal gap, the average primary surplus over the next 75 years would be 0.8 percent of GDP, 2.0 percentage points higher than the projected present value of receipts less non-interest spending shown in the basic financial statement. In these projections, closing the fiscal gap requires running a substantially positive level of primary surplus, rather than simply eliminating the primary deficit. The primary reason is that the projections assume future interest rates will exceed the growth rate of GDP. Achieving primary balance (that is, running a primary surplus of zero) implies that the debt held by the public grows each year by the amount of interest spending, which under these assumptions would result in debt growing faster than GDP.

Assumptions Used and Relationship to Other Financial Statements

A fundamental assumption underlying the projections is that current Federal policy (defined below) does not change. The projections are therefore neither forecasts nor predictions, and do not consider large infrequent events such as natural disasters, military engagements, or economic crises. By definition, they do not build in changes in policy, such as recent proposals to repeal the Affordable Care Act. If policy changes are enacted, perhaps in response to projections like those presented here, then actual fiscal outcomes will be different than those projected.

¹⁴ The 75-year present value imbalance for Social Security and Medicare Part A of \$19.6 trillion is comprised of several line items from the long-term fiscal projections – Social Security outlays net of Social Security payroll taxes (\$20.6 trillion) and Medicare Part A outlays net of Medicare payroll taxes (\$7.2 trillion) – as well as subcomponents of these programs not presented separately in the table. These subcomponents include Social Security and Medicare Part A administrative costs that are classified as non-defense discretionary spending (\$0.7 trillion) and Social Security and Medicare Part A income other than payroll taxes: taxation of benefits (-\$4.0 trillion), Federal employer share (-\$1.2 trillion), and other income (-\$3.7 trillion).

¹⁵ Social Security and Medicare Part A expenditures can exceed payroll tax revenues in any given year to the extent that there are sufficient balances in the respective trust funds, balances that derive from past excesses of payroll tax revenues over expenditures and interest earned on those balances and represent the amount the General Fund owes the respective trust fund programs. When spending does exceed payroll tax revenues, as has occurred each year since 2008 for Medicare Part A and 2010 for Social Security, the excess spending is financed first with interest due from the General Fund and secondly with a drawdown of the trust fund balance; in either case, the spending is ultimately supported by general revenues or borrowing. Under current law, benefits for Social Security and Medicare Part A can be paid only to the extent that there are sufficient balances in the respective trust funds. In order for the long-term fiscal projections to reflect the full size of these program's commitments to pay future benefits, the projections assume that all scheduled benefits will be financed with borrowing to the extent necessary after the trust funds are exhausted.

¹⁶ The fiscal imbalances reported in the long-term fiscal projections are limited to future outlays and receipts. They do not include the initial level of publicly-held debt, which was \$14.7 trillion in 2017 and \$14.2 trillion in 2016, and therefore they do not by themselves answer the question of how large fiscal reforms must be to make fiscal policy sustainable, or how those reforms divide between reforms to Social Security and Medicare Part A and to other programs. Other things equal, past cash flows (primarily surpluses) for Social Security and Medicare Part A reduced Federal debt at the end of 2017 by \$3.1 trillion (the trust fund balances at that time); the contribution of other programs to Federal debt at the end of 2017 was therefore \$17.7 trillion. Because the \$19.6 trillion imbalance between outlays and receipts over the next 75 years for Social Security and Medicare Part A does not take account of the Social Security and Medicare Part A trust fund balances, it overstates the magnitude of reforms necessary to make Social Security and Medicare Part A solvent over 75 years by \$3.1 trillion. The \$3.1 trillion combined Social Security and Medicare Part A trust fund balance represents a claim on future general revenues.

Even if policy does not change, actual expenditures and receipts could differ materially from those projected here. Long-range projections are inherently uncertain and are necessarily based on simplifying assumptions. For example, one key simplifying assumption is that interest rates paid on debt held by the public remain unchanged, regardless of the amount of debt outstanding. To the contrary, it is likely that future interest rates would increase if the debt-to-GDP ratio rises as shown in these projections. To help illustrate this uncertainty, projections that assume higher and lower interest rates are presented in the “Alternative Scenarios” discussion in the RSI section of this *Financial Report*.

As is true for prior long-term fiscal projections for the *Financial Report*, the assumptions for GDP, interest rates, and other economic and demographic variables underlying this year’s projections are the same assumptions that underlie the most recent Social Security and Medicare trustees’ report projections, adjusted for historical revisions that occur annually. The use of discount factors consistent with the Social Security trustees’ rate allows for consistent present value calculations over 75 years between the Statements of Long-Term Fiscal Projections and the Statements of Social Insurance.

The following bullets summarize the key assumptions used for the categories of receipts and spending presented in the basic financial statement and the disclosures:

- **Social Security:** Projected Social Security (OASDI) spending excludes administrative expenses, which are classified as discretionary spending, and is based on the projected expenditures in the 2017 Social Security trustees’ report for benefits and for the Railroad Retirement interchange. The projections of Social Security payroll taxes and Social Security spending are based on future spending and for payroll taxes as are projected in the 2017 Social Security trustees’ report, adjusted for presentational differences and converted to a fiscal year basis. More information about the assumptions for Social Security cost growth can be found in Note 22 and the RSI discussion of Social Insurance.
- **Medicare:** Projected Medicare spending is also shown net of administrative expenses and is based on projected incurred expenditures from the 2017 Medicare trustees’ report. The projections here make some adjustments to the trustees’ report projections. Medicare Part B and D premiums, as well as State contributions to Part D, are subtracted from gross spending in measuring Part B and Part D outlays, just as they are subtracted from gross cost to yield net cost in the financial statements.¹⁷ Here, as in the Federal budget, premiums are treated as “negative spending” rather than receipts since they represent payment for a service rather than payments obtained through the Government’s sovereign power to tax. This is similar to the financial statement treatment of premiums as “earned” revenue as distinct from all other sources of revenue, such as taxes. The projections are based on Medicare spending in the Medicare trustees’ report, adjusted for presentational differences and converted to a fiscal year basis. Medicare Part A payroll taxes are projected similarly. More information about the assumptions for Medicare cost growth can be found in Note 22 and the Required Supplementary Information for Social Insurance. As discussed in Note 22, there is uncertainty about whether the reductions in health care cost growth projected in the Medicare trustees’ report will be fully achieved. Note 22 illustrates this uncertainty by considering Medicare cost growth assumptions under varying policy assumptions.
- **Medicaid:** The Medicaid spending projections start with the projections from the *2016 Actuarial Report on the Financial Outlook for Medicaid* prepared by the Office of the Actuary, Centers for Medicare & Medicaid Services (CMS)¹⁸. These projections are based on recent trends in Medicaid spending, the demographic, economic, and health cost growth assumptions in the 2016 Medicare Trustees’ Report, and projections of the effect of the ACA on Medicaid enrollment. The projections, which end in 2025, are adjusted to accord with the actual Medicaid expenditures in fiscal year 2017. After 2025, the projections assume no further change in State Medicaid coverage under the ACA, with the number of Medicaid beneficiaries expected to grow at the same rate as total population, and Medicaid costs per beneficiary assumed to grow at the same rate as Medicare benefits per beneficiary, as is generally consistent with the experience since 1987. Between 1987 and 2015, the average annual growth rate of outlays per beneficiary for Medicaid and Medicare were within 0.2 percentage point of each other. Projections of Medicaid spending are subject to added uncertainty related to: (1) assumed reductions in health care cost growth discussed above in the context of Medicare, and (2) the projected size of the Medicaid enrolled population, which depends on a variety of factors, including future actions by States regarding the ACA Medicaid expansion.
- **Other Mandatory Spending:** Other mandatory spending, which includes Federal employee retirement, veterans’ disability benefits, and means-tested entitlements other than Medicaid, is projected in two steps. First, spending prior to the automatic spending cuts called for by the enforcement provisions of the *Budget Control Act* (BCA) is projected and, second, the effect of the BCA enforcement is projected through its statutory expiration in 2025. With

¹⁷ Medicare Part B and D premiums and State contributions to Part D are subtracted from the Part B and D spending displayed in the basic financial statement. The total 75-year present value of these subtractions is \$12.4 trillion, or 0.9 percent of GDP.

¹⁸ Christopher J. Truffer, Christian J. Wolfe, and Kathryn E. Rennie, *2016 Actuarial Report on the Financial Condition for Medicaid*, Office of the Actuary, Centers for Medicare and Medicaid Services, United States Department of Health and Human Services, December 2016.

regard to pre-BCA spending: (a) current mandatory spending components that are judged permanent under current policy are assumed to increase by the rate of growth in nominal GDP starting in 2018, implying that such spending will remain constant as a percentage of GDP¹⁹; and (b) projected spending for insurance exchange subsidies starting in 2018 grows with growth in the non-elderly population and with the National Health Expenditure (NHE) projected per enrollee cost growth for other private health insurance for the NHE projection period (through 2026 for the fiscal year 2017 projections), and with growth in per enrollee health care costs as projected for the Medicare program after that period. As discussed in Note 22, there is uncertainty about whether the reductions in health care cost growth projected in the Medicare trustees' report will be fully achieved. Projected exchange subsidy spending as a percentage of GDP remains below the failsafe provision in the ACA that limits this spending to 0.504 percent of GDP.

- **Defense and Non-defense Discretionary Spending:** Through 2021, discretionary spending other than for OCO is dictated by the spending caps and automatic spending cuts called for by the BCA. After 2021, this spending is assumed to grow at the same rate as nominal GDP, and thus plateaus at a long-term level of 5.5 percent of GDP. The BCA reductions are projected to reduce the present value of spending by \$0.3 trillion through 2021, and by an additional \$4.6 trillion between 2022 and 2092 because of the lower base spending in 2021. Projected OCO spending, which is not subject to the caps, is assumed to grow from the level in the most recent year at the same rate as nominal GDP. To illustrate uncertainty, present value calculations under alternative discretionary growth scenarios are presented in the "Alternative Scenarios" RSI section.
- **Receipts (Other than Social Security and Medicare Payroll Taxes):** It is assumed that individual income taxes will equal the same share of wages and salaries as in the current law baseline projection in the Administration's latest Budget. That baseline accords with current policy as defined above, including the tendency of effective tax rates to increase as growth in incomes per capita outpaces inflation (also known as "bracket creep"). After reaching about 22 percent of wages and salaries in 2024, individual income taxes increase gradually to 29 percent of wages and salaries in 2092 as real taxable incomes rise over time and an increasing share of total income is taxed in the higher tax brackets. The ratio of all other receipts combined to GDP is projected to remain at 3.6 percent of GDP, based on a long-run historical average. To illustrate uncertainty, present value calculations under higher and lower individual income tax receipts growth scenarios are presented in the "Alternative Scenarios" section.
- **Debt and Interest Spending:** Interest spending is determined by projected interest rates and the level of outstanding debt held by the public. The long-run interest rate assumptions accord with those in the 2017 Social Security trustees' report.²⁰ The average interest rate over the projection period is 5.1 percent. These rates are also used to convert future cash flows to present values as of the start of fiscal year 2018. Debt at the end of each year is projected by adding that year's deficit and other financing requirements to the debt at the end of the previous year.

The methods described above include one significant revision from those used to produce the fiscal year 2016 projections. As discussed under changes in long-term fiscal projections, OCO spending now grows with GDP from the level of outlays in the most recent fiscal year, rather than being assumed to steadily decline and fully phase out during the first 10 years of the projection period. In the years following enactment of the BCA in 2011, appropriations for OCO – which was exempt from the BCA's discretionary spending limits – were declining as operations in Afghanistan and Iraq phased down. In the last few years, however, appropriations for OCO have stabilized and even increased slightly. The future path of appropriations for OCO is uncertain, but "current policy without change" can no longer be characterized as consistent with phasing OCO funding out entirely.²¹

Departures of Current Policy from Current Law

The long-term fiscal projections are made on the basis of current Federal policy, which in some cases is different from current law. The notable differences between current policy that underlies the projections and current law are: (1) projected spending, receipts, and borrowing levels assume raising or suspending the current statutory limit on Federal debt, (2) continued discretionary appropriations are assumed throughout the projection period, (3) scheduled Social Security and Medicare benefit payments are assumed to occur beyond the projected point of trust fund exhaustion, and (4) many mandatory programs with expiration dates prior to the end of the 75-year projection period are assumed to be reauthorized. As is true in the Medicare trustees' report and in the Statement of Social Insurance, the projections incorporate programmatic changes already scheduled in law, such as the ACA productivity adjustment for non-physician Medicare services and the expiration of certain physician bonus payments in 2025.

¹⁹ This assumed growth rate for other mandatory programs exceeds the growth rate in the most recent OMB and CBO 10-year budget baselines.

²⁰ As indicated in the more detailed discussion of Social Insurance in Note 22 to the financial statements.

²¹ The revised assumption of continued OCO funding in these long-term fiscal projections should not be interpreted as a change in the Administration's proposed future funding levels for OCO. As with other assumptions in the long-term fiscal projections, the OCO assumption is meant to project the implications of current policy without change, rather than to indicate a preference or a prediction of future budget outcomes.

Note 24. Stewardship Land and Heritage Assets

Stewardship land is federally-owned land 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 government does not expect to use to meet its obligations, unlike the assets listed in the Balance Sheets. Stewardship land is measured in non-financial units such as acres of land and lakes, and the number of National Parks and National Marine Sanctuaries. Examples of stewardship land include national parks, national forests, wilderness areas, and land used to enhance ecosystems for the encouragement of animal and plant species, and nature conservation. This category excludes lands administered by the Bureau of Indian Affairs and held in trust.

The majority of public lands that are under the management of DOI were acquired by the government during the first century of the Nation's existence between 1781 and 1867.

Stewardship land is used and managed in accordance with the statutes authorizing acquisition or directing use and management. Additional detailed information concerning stewardship land, such as agency stewardship policies, physical units by major categories, and the condition of stewardship land, can be obtained from the financial statements of DOI, DOD, TVA, and USDA.

Heritage assets are government-owned assets that have one or more of the following characteristics:

- Historical or natural significance;
- Cultural, educational, or artistic importance; and/or
- 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 the Mount Rushmore National Memorial and Yosemite National Park. Other examples of heritage assets 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 the Library of Congress. Many other sites such as battlefields, historic structures, and national historic landmarks are placed in this category, as well.

Many laws and regulations govern the preservation and management of heritage assets. Established policies by individual federal agencies for heritage assets ensure the proper care and handling of the assets under their control and preserve these assets for the benefit of the American public.

Some heritage assets are used both to remind us of our heritage and 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 (PP&E) and is depreciated.

The government classifies heritage assets into two broad categories: collection type and non-collection type. Collection type heritage assets include objects gathered and maintained for museum and library collections. Non-collection type heritage assets include national wilderness areas, wild and scenic rivers, natural landmarks, forests, grasslands, historic places and structures, memorials and monuments, buildings, national cemeteries, and archeological sites.

This discussion of the government's heritage assets is not exhaustive. Rather, it highlights significant heritage assets reported by federal agencies. Please refer to the individual financial statements of the DOC, VA, DOT, State, DOD, as well as websites for the Library of Congress (<https://loc.gov>), the Smithsonian Institution (<https://si.edu>), and the Architect of the Capitol (<https://aoc.gov>) for additional information on multi-use heritage assets, agency stewardship policies, and physical units by major categories.

Note 25. Subsequent Events

Disaster Relief

In August and September of 2017, Hurricanes Harvey, Irma, and Maria struck the continental United States, Puerto Rico and the U.S. Virgin Islands. While the full future effect of these disasters is still unknown, there will be an impact on some federal government entities as a result in assisting these areas as they strive to recover. The fiscal year 2017 financial statements did not reflect any liabilities for additional disaster relief amounts that may be authorized by legislation enacted after September 30, 2017. The SBA has begun to increase its rate of administrative spending as it conducts its disaster response. This spending is consistent with the Agency's experience in responding to prior disasters. The SBA could experience future variations in the performance of existing disaster and business loan portfolios as businesses in the affected areas strive to recover.

Congress enacted the Additional Supplemental Appropriations for Disaster Relief Requirements Act of 2017 (Pub.L. 115-72) on October 26, 2017 as a result of the hurricanes. This Act provides Federal Emergency Management Agency's (FEMA) Disaster Relief Fund with an additional \$13.8 billion for response and recovery activity, and FEMA's Disaster Assistant Direct Loan Program \$4.9 billion for direct loans to assist local governments in providing essential services. The act also provides debt relief and additional borrowing authority for the National Flood Insurance Program (NFIP) by canceling \$16.0 billion of the NFIP's debt to Treasury.

Statutory Debt Limit

As of September 30, 2017, debt subject to the statutory debt limit was \$20,208.6 billion, as stated in Note 11—Federal Debt Securities Held by the Public and Accrued Interest. However, per P.L. 115-56, the statutory debt limit was temporarily suspended through December 8, 2017. Effective December 9, 2017, the statutory debt limit was set at \$20,456.0 billion and on Monday, December 11, 2017, the Secretary of the Treasury notified the Congress that the statutory debt limit would be reached on or after that day. Treasury began to depart from its normal debt management procedures and invoke legal authorities to avoid exceeding the statutory debt limit on December 11, 2017. See Note 11—Federal Debt Securities Held by Public and Accrued Interest for further information.

Tax Reform

As stated in Note 23, the Statement of Long-Term Fiscal Projections is based on current policy that was in effect on September 30, 2017, and does not reflect legislation enacted after that date. Therefore, such projections do not reflect legislation enacted subsequent to September 30 that changes policy that was in effect as of the end of the fiscal year. Subsequent to the end of the fiscal year, and after the preparation of the long-term fiscal projections (LTFP), Congress passed and on December 22, 2017, the President signed the *Tax Cuts and Jobs Act* (P.L. 115-97), which enacts comprehensive reforms to the tax code. The Joint Committee on Taxation (JCT) estimated that the outlays and receipt effects of the enacted law will increase deficits from 2018 through 2027 by \$1.5 trillion, primarily due to lower tax receipts. According to the JCT estimates, the deficit effects peak at 1.4 percent of GDP in 2019 and fall to 0.4 percent of GDP by 2025, after which many of the provisions in the bill affecting individual income taxes expire. The JCT also provided supplemental estimates of the macroeconomic effect of the law that indicated the tax changes would boost GDP growth, producing increased receipts that would offset a significant portion of the law's effect on the deficit. The Statement of LTFP and Note 23 in next year's *Financial Report* will incorporate the effects of the law on the long-range receipt projection, based on an updated economic forecast from the Social Security trustees that reflects the tax law and other economic developments in the period since the previous forecast was prepared. At the time the *Financial Report* was issued, management had not assessed the impact of the *Tax Cuts and Jobs Act* on the Statement of LTFP.

GSEs

On December 22, 2017, the Department of the Treasury and FHFA agreed to modify the Senior Preferred Stock Purchase Agreements (SPSPAs) between Treasury and the GSEs to increase the capital reserve amount for each GSE to \$3 billion, effective with the December 2017 dividend payment. Absent the agreement, the GSEs' capital reserves would have declined to zero on January 1, 2018. In exchange for the increase in the capital reserve, Treasury's liquidation preference in each GSE increased by \$3 billion on December 31, 2017.

The reduction in the U.S. corporate income tax rate resulting from the enactment of the *Tax Cuts and Jobs Act* on December 22, 2017, required that each of Fannie Mae and Freddie Mac record a reduction in the value of their deferred tax assets in the quarter in which the legislation was enacted, impacting potential future draws. The funding draws and the associated amounts are expected to be realized in March 2018. Refer to Note 8—Investments in Government Sponsored Enterprises for additional information.