



A CITIZEN'S GUIDE

— TO THE FISCAL YEAR 2013 —

FINANCIAL REPORT

— OF THE —

UNITED STATES GOVERNMENT



A Citizen's Guide to the Fiscal Year 2013 Financial Report of the United States Government

The Citizen's Guide (Guide) to the Fiscal Year (FY) 2013 Financial Report of the U.S. Government (*Financial Report*) summarizes the U.S. Government's (Government) current financial position and condition and discusses key financial topics, including fiscal sustainability. This Guide and the *Financial Report* are produced by the U.S. Department of the Treasury in cooperation with the Office of Management and Budget (OMB). The Secretary of the Treasury, Director of OMB, and Comptroller General of the United States at the Government Accountability Office (GAO) believe that the information discussed in this Guide is important to all Americans.

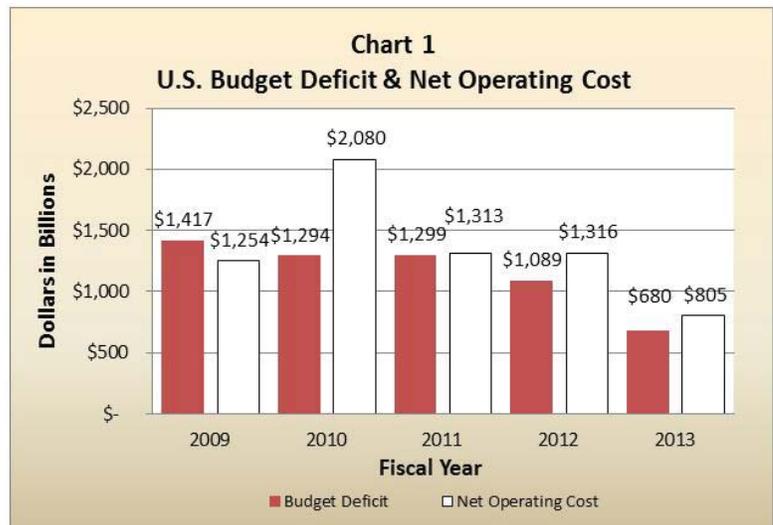
Where We Are Now

Comparing the Budget and the Financial Report

The *Budget of the United States Government* (*Budget*) is the Government's primary financial planning and control tool. It accounts for past Government receipts and spending, and presents the President's proposed receipt and spending plan. The *Budget* compares *receipts*, or cash received by the Government, with *outlays*, or payments made by the Government to the public. An excess of receipts over outlays is called a budget *surplus*; an excess of outlays over receipts is called a budget *deficit*.

The *Financial Report of the United States Government* focuses on the Government's revenues and costs (what came in and what went out), assets and liabilities (what it owns and owes), and other important financial information. The *Financial Report* compares the Government's *revenues* (what the Government has collected and expects to collect, but has not necessarily received), with its *costs* (what the Government has incurred, but has not necessarily paid) to derive net operating cost.

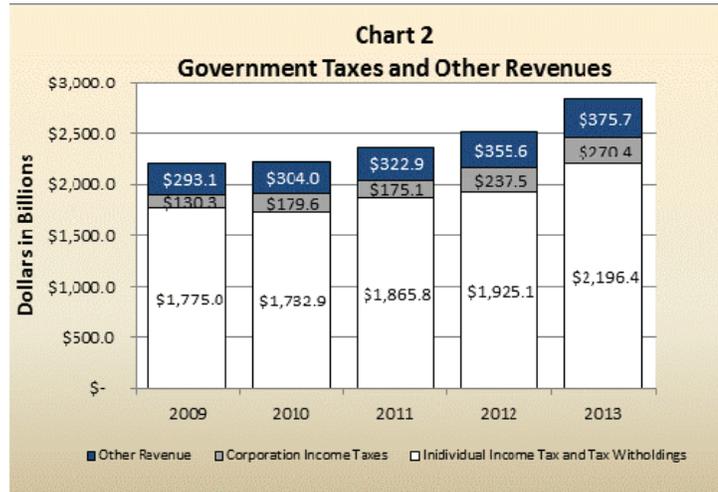
Chart 1 compares the Government's budget deficit and net operating cost for FY 2009-2013. During FY 2013, increased receipts and decreased outlays combined to reduce the budget deficit by \$409 billion (37.6 percent) to \$680 billion. Similarly, net operating cost decreased \$511 billion (38.8 percent) to \$805 billion, due primarily to a \$324 billion tax and other revenue increase and a \$158 billion net cost decrease over the past fiscal year. The \$125 billion difference between the budget deficit and the net operating cost in FY 2013 is primarily due to non-cash costs associated with an increase in estimated liabilities related to federal employee and veteran benefits that are included in net operating cost, but not the budget deficit. In addition, the difference



is affected by changes in various asset and liability balances, including, but not limited to: (a) net property, plant, and equipment, the costs of which are recorded in the budget as outlays when purchased but are capitalized as assets and included in net operating cost as depreciation expense over the useful life of the asset, (b) the valuation of certain assets, such as investments, and (c) insurance and guarantee loan program liabilities. Together, the *Budget* and the *Financial Report* present complementary perspectives on the Government's financial position and condition.

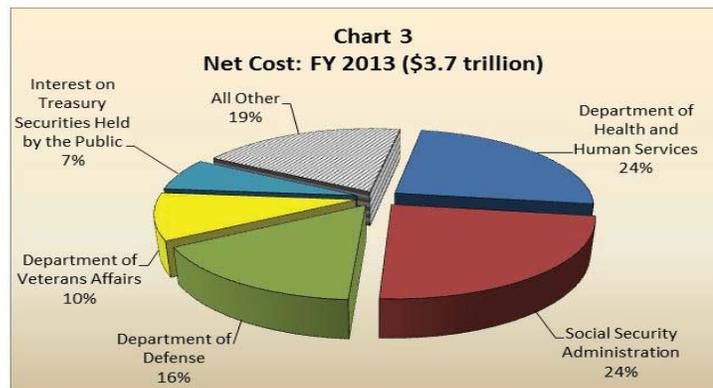
What Came In and What Went Out

What came in? Chart 2 shows that increases in each of the three revenue categories presented (individual income tax and withholdings, corporation income taxes, and other revenue) combined to increase total Government revenues by \$324 billion (12.9 percent) to more than \$2.8 trillion for FY 2013. This was primarily due to an increase in ordinary, capital gains, and dividend income tax rates for individuals, coupled with an increase in corporation income tax collections and a reduction in tax refunds. These increases largely stem from the implementation of the American Taxpayer Relief Act (ATRA) of 2012, the expiration of payroll tax relief provisions, and the ongoing economic recovery. Together, individual income tax and tax withholdings, and corporation taxes accounted for about 87 percent of total revenues in FY 2013. Other revenues include excise and unemployment taxes, and customs duties.



These increases largely stem from the implementation of the American Taxpayer Relief Act (ATRA) of 2012, the expiration of payroll tax relief provisions, and the ongoing economic recovery. Together, individual income tax and tax withholdings, and corporation taxes accounted for about 87 percent of total revenues in FY 2013. Other revenues include excise and unemployment taxes, and customs duties.

What went out? The Government derives its net cost (\$3.7 trillion in FY 2013) by subtracting revenues earned from Government programs (e.g., Medicare premiums, national park entry fees, and postal fees) from its gross costs (\$3.9 trillion in FY 2013) and adjusts the amount for gains or losses from changes in actuarial assumptions used to estimate future liabilities for federal employee and veteran benefits. The Government deducts taxes and other revenues shown in Chart 2 from its net cost to arrive at its “bottom line” net operating cost, which decreased by \$511 billion (38.8 percent) to \$805 billion in FY 2013.¹ Much of this decrease was attributable to the revenue increases mentioned above, as well as a \$158 billion decrease in total net cost. A significant driver of this net decrease was a \$189 billion decrease in certain actuarial cost estimates for federal employee and veteran benefits, especially at the Department of Defense (DOD).



¹ The Government also makes adjustments for “unmatched transactions and balances” to bring certain accounts into balance for such items as restatements and errors in federal agency reporting and unreconciled intragovernmental transactions and balances between agencies.

Chart 3 shows that the largest contributors to the Government’s net cost in FY 2013 include the Department of Health and Human Services (HHS) the Social Security Administration (SSA), and DOD. The bulk of HHS and SSA costs come from major social insurance programs administered by those agencies (e.g., Medicare for HHS, and Social Security for SSA). While much of DOD’s total costs relate to military operations and personnel, the majority of DOD’s more than \$200 billion cost decrease in FY 2013 was attributed to changes in cost estimates related to its Military Retirement Fund and post-retirement health benefits programs.

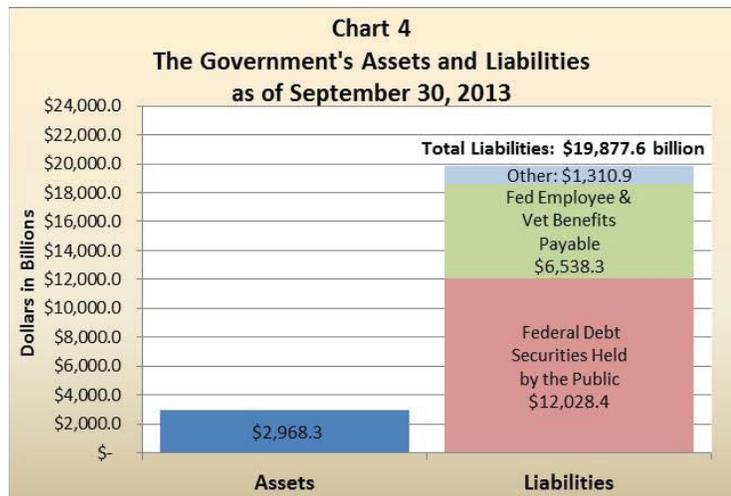
What We Own and What We Owe

Chart 4 is a summary of what the Government owns in assets and what it owes in liabilities. As of September 30, 2013, the Government held about \$3.0 trillion in assets, comprised mostly of \$1.0 trillion in net loans receivable (primarily student loans) and \$896.7 billion in net property, plant, and equipment. Beyond these assets, other significant resources are available to the Government, including stewardship assets, such as natural resources, and the Government’s power to tax and set monetary policy.

The \$19.9 trillion in total liabilities is comprised mostly of: (1) \$12.0 trillion in federal debt securities held by the public and accrued interest² and (2) \$6.5 trillion in federal employee and veteran benefits payable. The Government also reports about \$4.8 trillion of intragovernmental debt outstanding, which arises when one part of the Government borrows from another. For example, Government funds (e.g., Social Security and Medicare trust funds) are typically required to invest excess annual receipts in federal debt securities issued by the Treasury Department, thus creating liabilities of the Treasury and assets of the trust funds. These respective amounts are included in Department of the Treasury and investing agency financial statements, but offset each other in the preparation of the Governmentwide consolidated financial statements, and thus, are not reflected in Chart 4.

The sum of debt held by the public and intragovernmental debt equals gross federal debt, which, with some adjustments, is subject to a statutory debt ceiling (i.e., the “debt limit”). The debt limit was raised by a combined \$2.1 trillion to \$16.394 trillion between August 2011 and January 2012 pursuant to the Budget Control Act (BCA) of 2011. In February 2013, Congress suspended the debt limit through May 18, 2013.

³ Because the debt limit had not yet been raised before the suspension period ended, the Treasury Department began implementing “extraordinary measures”, on a temporary basis, to enable the Government to protect the full faith and credit of the United States Government by continuing to pay



² Debt held by the public and accrued interest, as reported on the Government’s balance sheet, primarily consists of Treasury securities, net of unamortized discounts and premiums, and accrued interest. The “public” consists of individuals, corporations, state and local governments, Federal Reserve Banks, foreign governments, and other entities outside the Federal Government.

³ A delay in raising the statutory debt limit existed as of September 30, 2013. When delays in raising the statutory debt limit occur, Treasury often must deviate from its normal debt management operations and take a number of extraordinary actions to meet the Government’s obligations as they come due without exceeding the debt limit. Increasing or suspending the debt limit does not increase spending or authorize new spending; rather, it permits the Government to continue to honor pre-existing commitments.

the nation's bills. At the end of the suspension period, the debt limit was raised to \$16.699 trillion. As of September 30, 2013, the Government's total debt outstanding subject to the debt limit was \$25 million below the \$16.699 trillion statutory debt limit. In October 2013, Congress again suspended the debt limit, this time through February 7, 2014. In February 2014, Congress again suspended the debt limit, this time through March 15, 2015. As budget deficits continue to occur, the Government will have to continue to borrow from the public. Instances where the debt held by the public increases faster than the economy for extended periods can pose additional challenges to the sustainability of current fiscal policy.

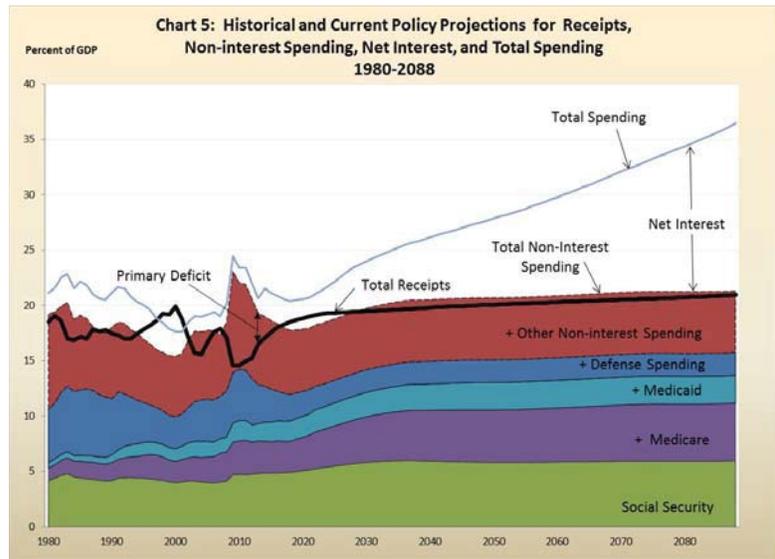
Considering key macroeconomic indicators can help place the discussion of the Government's financial results in a broader context. During FY 2013, the economy continued to grow, job creation accelerated, and the unemployment rate declined. These and other economic and financial developments are discussed in greater detail in the *Financial Report*.

Where We Are Headed

An important purpose of this Guide and the *Financial Report* is to help citizens understand current fiscal policy and the importance and magnitude of policy reforms necessary to make it sustainable. A sustainable policy is one where the ratio of debt held by the public to Gross Domestic Product (GDP)⁴ (the debt-to-GDP ratio) is stable or declining over the long term. To determine if current fiscal policy is sustainable, the projections discussed in this Guide assume current policy will be sustained indefinitely and draw out the implications for the growth of the debt-to-GDP ratio.⁵ The projections are therefore neither forecasts nor predictions. As policy changes are enacted, actual financial outcomes will of course be different than those projected.

Receipts, Spending, and the Debt

Chart 5 shows historical and current policy projections for receipts, non-interest spending by major category, and total spending expressed as a percent of GDP. The difference between the receipts and non-interest spending shares of GDP (the primary deficit-to-GDP ratio) grew rapidly in 2009 due to the financial crisis, the recession, and the policies pursued to combat both. The ratio stayed large from 2010 to 2012, despite shrinking in each successive year, and fell significantly in 2013. The



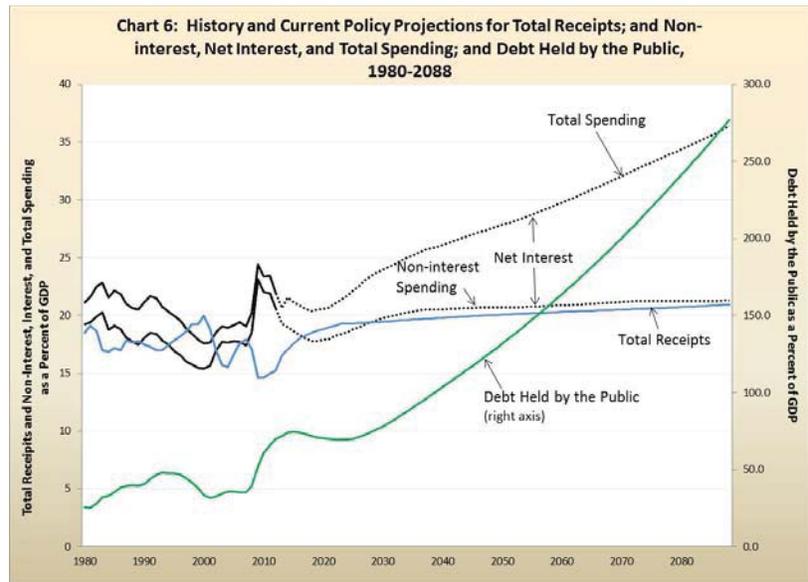
⁴ GDP measures the size of the Nation's economy in terms of the total value of all final goods and services that are produced in a year. Considering financial results relative to GDP is a useful indicator of the economy's capacity to sustain the Government's many programs. In July 2013, the Bureau of Economic Analysis revised upward the historical values for GDP beginning with estimates for 1929. As a result, percentages or shares of GDP throughout the *Financial Report* are slightly lower than those reported in previous years.

⁵ Current policy in the projections is based on current law, but includes extension of certain policies that expire under current law but are routinely extended or otherwise expected to continue.

primary deficit is projected to shrink in the next few years as spending limits called for in the BCA take effect and the economy recovers, becoming a surplus starting in 2017 that peaks at 1.1 percent of GDP in 2021. Between 2022 and 2037, however, increased spending for Social Security and health programs⁶ due to continued aging of the population is expected to cause primary surpluses to steadily decline and become a deficit starting in 2029 that grows to 0.8 percent of GDP by 2036. After 2037, the projected primary deficit-to-GDP ratio slowly declines to 0.4 percent of GDP in 2088 as the impact of the baby boom generation retiring dissipates.

In these projections, the Affordable Care Act (ACA)⁷ provision of health insurance subsidies and expanded Medicaid coverage boost federal spending, and other ACA provisions significantly reduce per-beneficiary Medicare and Medicaid cost growth. Overall, the ACA is projected to substantially reduce the cost growth rate of federal expenditures for Medicare over the next 75 years. However, as noted in the *Financial Report*, there is uncertainty about the extent to which the ACA's provisions will result in reduced health care cost growth. Even if those provisions work as intended and as assumed in these projections, Chart 5 still shows a persistent gap between projected receipts and total non-interest spending.

The primary deficit projections in Chart 5, along with those for interest rates and GDP, determine the debt-to-GDP ratio projections shown in Chart 6. That ratio was 72 percent at the end of FY 2013, and under current policy is projected to be 69 percent in 2023, 112 percent in 2043, and 277 percent in 2088. The continuous rise of the debt-to-GDP ratio after 2023 indicates that current policy is unsustainable.



The Fiscal Gap and the Cost of Delaying Policy Reform

It is estimated that preventing the debt-to-GDP ratio from rising over the next 75 years would require some combination of expenditure reductions and revenue increases that amount to 1.7 percent of GDP on average over the next 75 years. The timing of changes to non-interest spending and receipts that close this “75-year fiscal gap” has important implications for the well-being of future generations. For example, relative to a policy that begins immediately, it is estimated that the magnitude of reforms necessary to close the 75-year fiscal gap increases by

⁶ The 2013 Medicare Trustees Report projects that, assuming full implementation of the Affordable Care Act (ACA) provisions, the Hospital Insurance (HI) Trust Fund will remain solvent under current law until 2026 (two years later than reported last year), at which point the share of estimated HI costs that could be paid from trust fund income is 87 percent, declining to 73 percent by 2087. As for Social Security, under current law, the Old-Age, Survivors, and Disability Insurance (OASDI) Trust Funds are projected to be exhausted in 2033 (unchanged from last year), at which time the projected share of scheduled benefits payable from trust fund income is 77 percent, declining to 72 percent in 2087. The projections assume full Social Security and Medicare benefits are paid after the corresponding trust funds are exhausted. See <http://www.ssa.gov/oact/trsum/index.html>.

⁷ The ACA refers to P.L. 111-148, as amended by P.L. 111-152. The ACA expands health insurance coverage, provides health insurance subsidies for low-income individuals and families, includes many measures designed to reduce health care cost growth, and significantly reduces Medicare payment rates.

more than 20 percent if action is delayed by 10 years and by more than 50 percent if action is delayed 20 years.

This year's estimates of the magnitude of changes needed to close the 75-year fiscal gap, 1.7 percent of GDP, is down more than a third from the 2012 projection of 2.7 percent of GDP. The two largest factors behind the improvement are lower projected spending in Medicare and Medicaid and higher projected revenues (the latter reflecting the increases in high-income marginal tax rates enacted as part of the ATRA in January 2013).

Conclusion

The Government took significant steps towards fiscal sustainability by enacting the ACA in 2010, the BCA in 2011, and the ATRA in 2013. The ACA holds the prospect of lowering the long-term per beneficiary spending growth for Medicare and Medicaid, the BCA significantly curtails discretionary spending, and ATRA increased revenues. Together, these three laws substantially reduce the estimated long-term fiscal gap. But even with these new laws, the Government's debt-to-GDP ratio is projected to remain flat over the next ten years, and then commence a continuous rise over the remaining projection period and beyond if current policy is kept in place. This trend implies that current policy is not sustainable. Subject to the important caveat that changes in policy are not so abrupt that they slow the economy's recovery, the sooner policies are put in place to avert these trends, the smaller the revenue increases and/or spending decreases will need to be to return the Government to a sustainable fiscal path.⁸

The Nation By The Numbers

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

The Government Accountability Office's (GAO) audit report on the U.S. Government's consolidated financial statements can be found beginning on page 220 of the full *Financial Report*. For the reasons discussed below, GAO was prevented from expressing (disclaimed) an opinion on these consolidated financial statements, except for the 2009 Statement of Social Insurance (SOSI). GAO disclaimed an opinion on the 2013, 2012, 2011, and 2010 SOSI and the 2013 and 2012 Statements of Changes in Social Insurance Amounts because of significant uncertainties (discussed in Note 24 in the *Financial Report*) primarily related to the achievement of projected reductions in Medicare cost growth reflected in the 2013, 2012, 2011, and 2010 SOSI. However, GAO issued an unqualified or "clean" opinion on the 2009 SOSI.⁹ In addition, GAO disclaimed an opinion on the remaining FY 2013 and 2012 financial statements in the *Financial Report* due to certain material financial reporting control weaknesses and other limitations on the scope of its work.

⁸ Further information about these fiscal projections and the underlying assumptions can be found in the Required Supplementary Information section of the *Financial Report* at http://www.fiscal.treasury.gov/fsreports/fs_reports_publications.htm.

⁹ In conformity with federal accounting standards, Statements of Social Insurance are presented for the current year and each of the four preceding years.

NATION BY THE NUMBERS		
A Snapshot of The Government's Financial Position & Condition		
Dollars in Billions	2013	2012
Gross Costs	\$ (3,940.9)	\$ (3,844.9)
Less: Earned Revenues	\$ 415.5	\$ 350.8
Gain/(Loss) from Changes in Assumptions	\$ (131.2)	\$ (320.2)
Net Cost	\$ (3,656.6)	\$ (3,814.3)
Less: Total Taxes and Other Revenues	\$ 2,842.5	\$ 2,518.2
Unmatched Transactions and Balances	\$ 9.0	\$ (20.2)
Net Operating Cost	\$ (805.1)	\$ (1,316.3)
Assets:	\$ 2,968.3	\$ 2,748.3
Less: Liabilities, comprised of:		
Debt Held By the Public & Accrued Interest	\$ (12,028.4)	\$ (11,332.3)
Federal Employee & Veteran Benefits	\$ (6,538.3)	\$ (6,274.0)
Other	\$ (1,310.9)	\$ (1,243.0)
Total Liabilities	\$ (19,877.6)	\$ (18,849.3)
Net Position (Assets Minus Liabilities)	\$ (16,909.3)	\$ (16,101.0)
Sustainability Measures:		
Social Insurance Net Expenditures ¹	\$ (39,698)	\$ (38,554)
Total Non-Interest Net Expenditures ²	\$ (4,000)	\$ (16,500)
Sustainability Measures as Percent of Gross Domestic Product (GDP):		
Social Insurance Net Expenditures ³	(4.0%)	(4.2%)
Total Federal Government Non-Interest Net Expenditures	(0.4%)	(1.7%)
Budget Results		
Unified Budget Deficit	\$ (680.3)	\$ (1,089.4)

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

2 Represents the 75-year projection of the Federal Government's receipts less non-interest spending as reported in the 'Statement of Long Term Fiscal Projections' in the Required Supplementary Information section of the Financial Report of the U.S. Government.

3 GDP values used represent the average of 75-year present value of nominal GDP for 2013 and 2012 from the Social Security and Medicare Trustees Reports.

Find Out More

The *2013 Financial Report of the United States Government* and other information about the nation's finances are available at:

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