

# The Federal Accounting Standards Advisory Board



## Comprehensive Long-Term Fiscal Projections for the U.S. Government

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## Disclaimer:

Views expressed are the views of the speaker. Official positions of the FASAB are determined only after extensive due process and deliberations.

Why am I here today?

# Fiscal Sustainability Reporting

- FASAB's Exposure Draft
- International Perspective: Current IPSASB project

# Successful Communication

- Is Easy to Remember
- Changes behavior

# “Sticky” ideas are easy to remember

*Made to Stick* by Chip Heath and Dan Heath

- Simplicity
- Unexpectedness- surprise element
- Concreteness
- Credibility
- Emotions
- Tells a story

# FASAB's Challenge

To communicate to “financial statement readers” (in particular, the general public and public intermediaries) vitally important information about the federal government’s fiscal sustainability in a way that is

- Understandable
- Meaningful
- Technically robust

# Challenges

- Technical challenges
  - Data is very complex
  - Data involves uncertainty
  - Projections require assumptions
- Communication challenges
  - How to simplify complex information
  - How to hold the reader's attention

# Fiscal Sustainability Task Force

- **Technical experts**
  - Chief Actuaries for Social Security and Medicare
  - Representatives from several “think tanks”
  - Subject-matter experts from GAO,OMB, CBO and Treasury
- **Communications experts**
  - Academics in Communication and Public Policy
  - Executives of public advocacy groups
  - Two members of Congress

# Technical Challenges

- Assumptions
- Time Horizon for Projections
- Per Capita amounts

# Technical Challenges

- Type of data:
  - present-value dollars?
  - % GDP?
- How to address uncertainty
- How to set boundaries (what to include)

# What's the objective?

Objective:

Federal financial reporting should provide information that helps the readers to determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due. [SFFAC 1. par.139]

# Technical Challenges: Assumptions

- Demographic assumptions
- Economic assumptions
- Policy assumptions

# Technical Challenges: Policy Assumptions

- What is “current policy”?
- Current law = current policy?
- Challenging aspects of current law
  - Statutory limit on Treasury debt
  - Short term of most discretionary legislation
  - Limitations on social insurance programs (earmarked receipts plus trust funds)

# Technical Challenges: Time Horizon for Projections

- Infinite horizon- pros and cons
- Finite horizon- pros and cons

# Technical Challenges

## Per Capita Amounts

- Pros and cons
- Board proposal

# Technical Challenges

## Dollars versus Ratios

- Dollars- pros and cons
- Ratios- pros and cons

# Technical Challenges: Proposed new financial statement

	PV Dollars (in trillions)	% GDP
Receipts		
Medicare		
Social Security		
All Other Receipts		
Total Receipts		
Spending		
Medicare		
Medicaid		
Social Security		
Rest of Federal government		
Total Spending		
Spending in Excess of Receipts		

# Technical Challenges: Proposed new financial statement

Simplified bottom line:

- Spending in Excess of Receipts

Other alternatives:

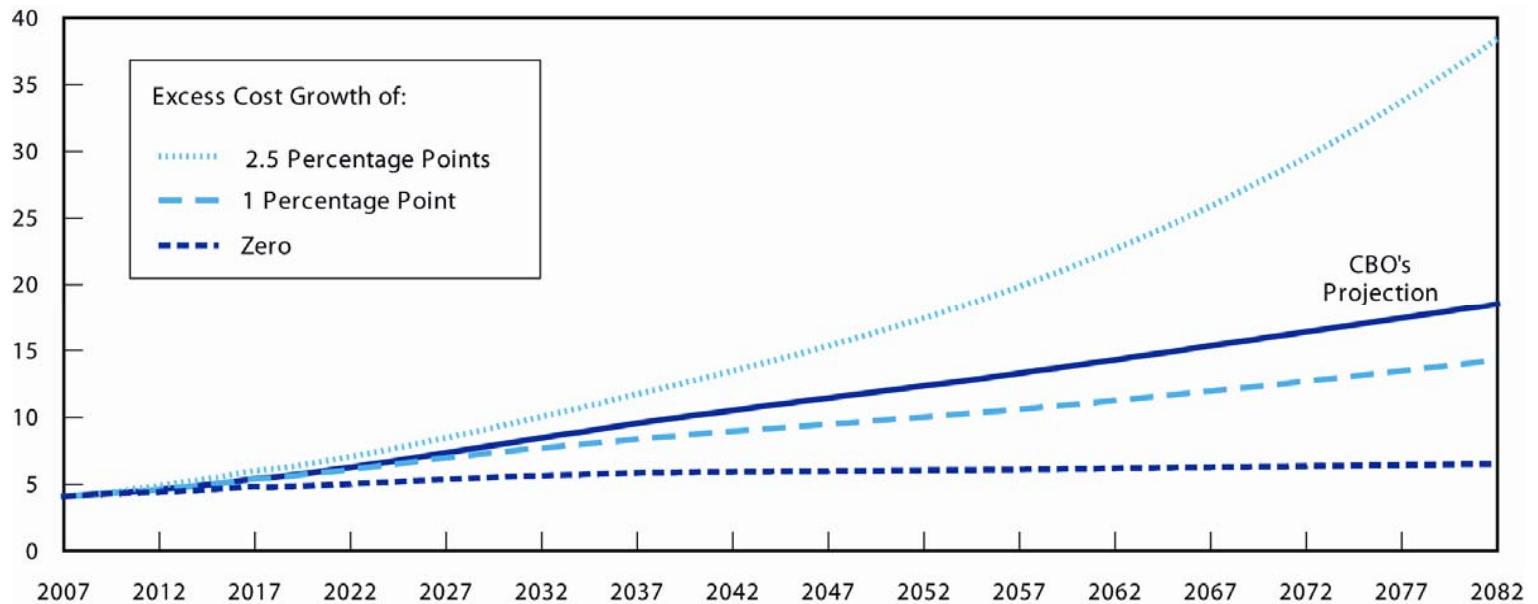
- Fiscal imbalance
- Fiscal gap

# Technical Challenges: Uncertainty

How can we communicate uncertainty  
without confusing readers?

# Technical Challenges: Uncertainty

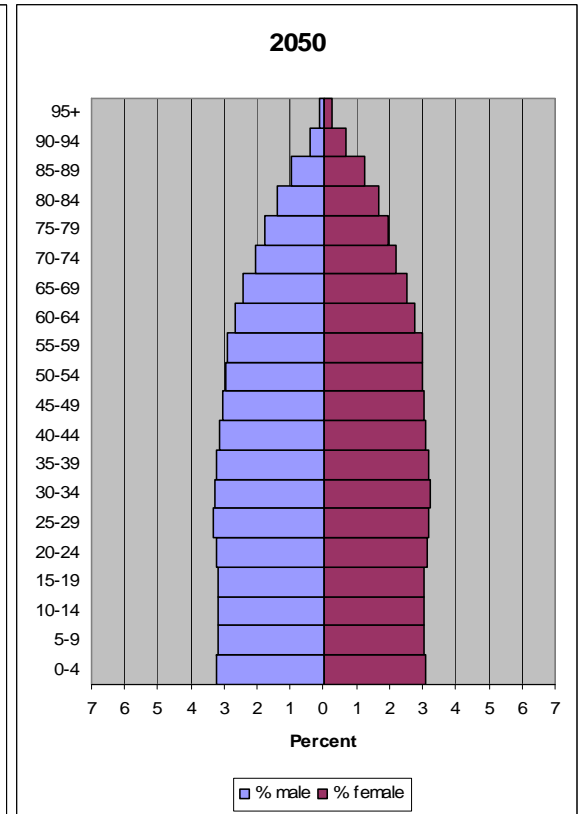
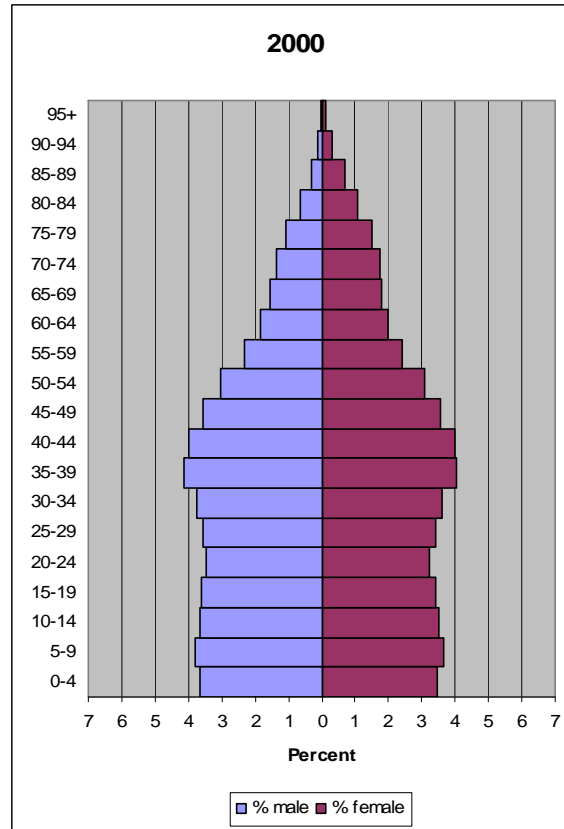
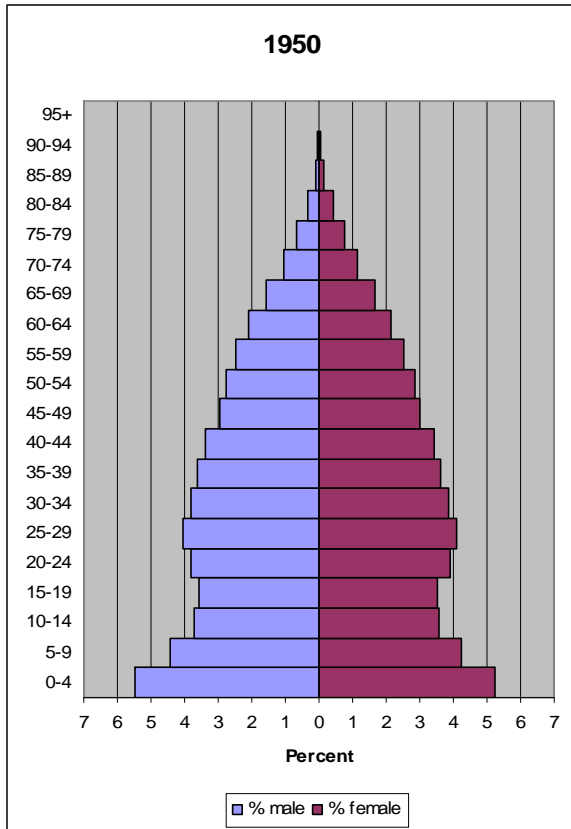
Federal Spending for Medicare and Medicaid as a Percentage of Gross Domestic Product Under Different Assumptions About Excess Cost Growth



# Technical Challenges: What to include

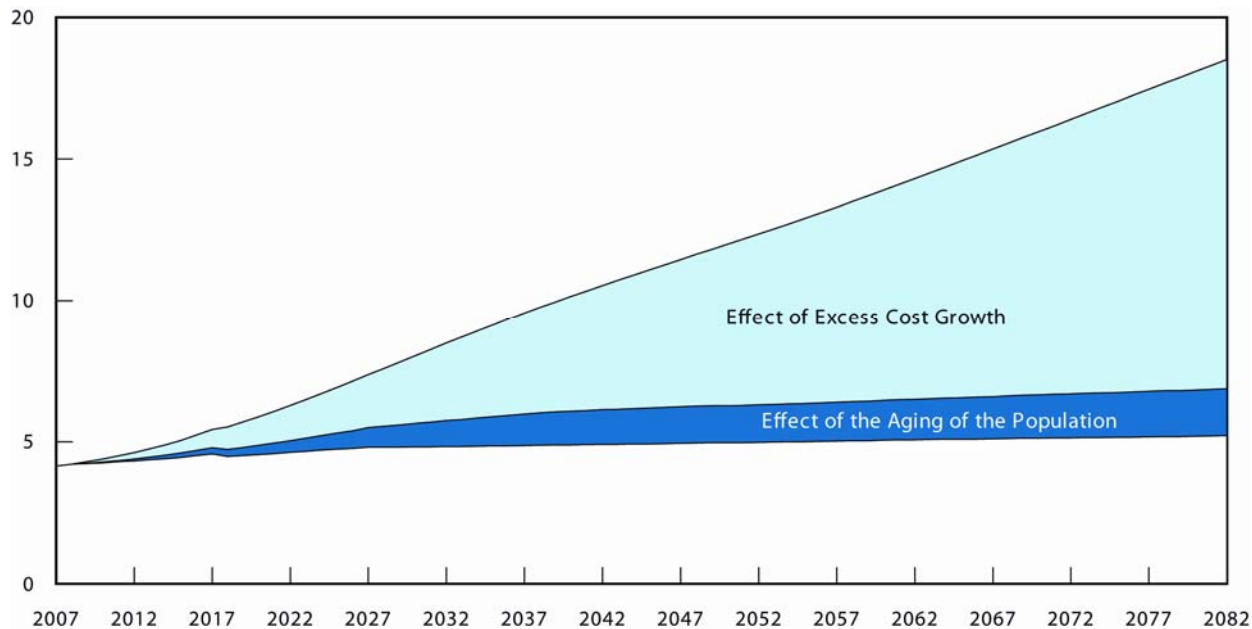
How about something to illustrate changing demographics?

# Technical Challenges: What to include

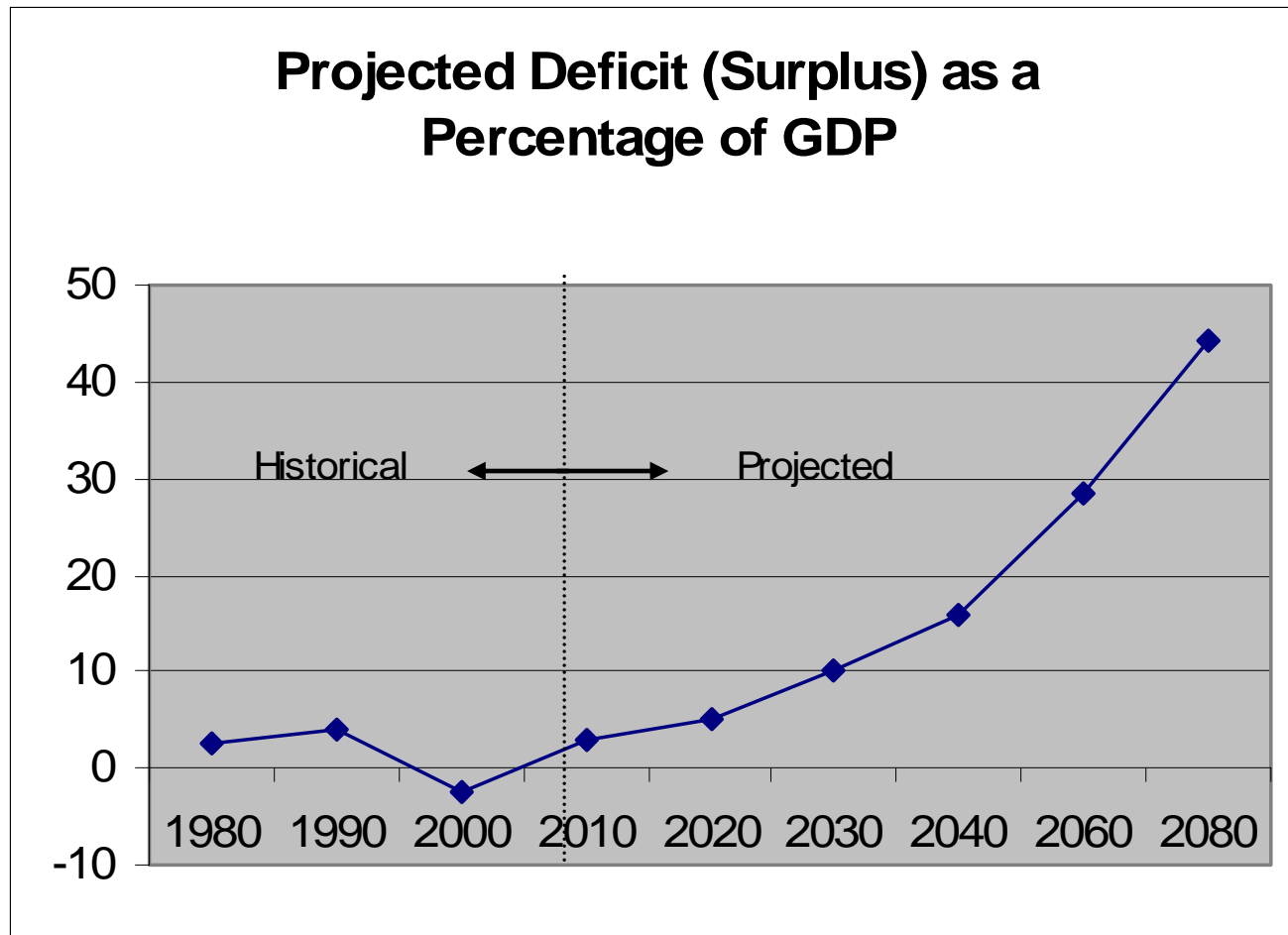


# What are the primary cost drivers? Perhaps not what you expect!

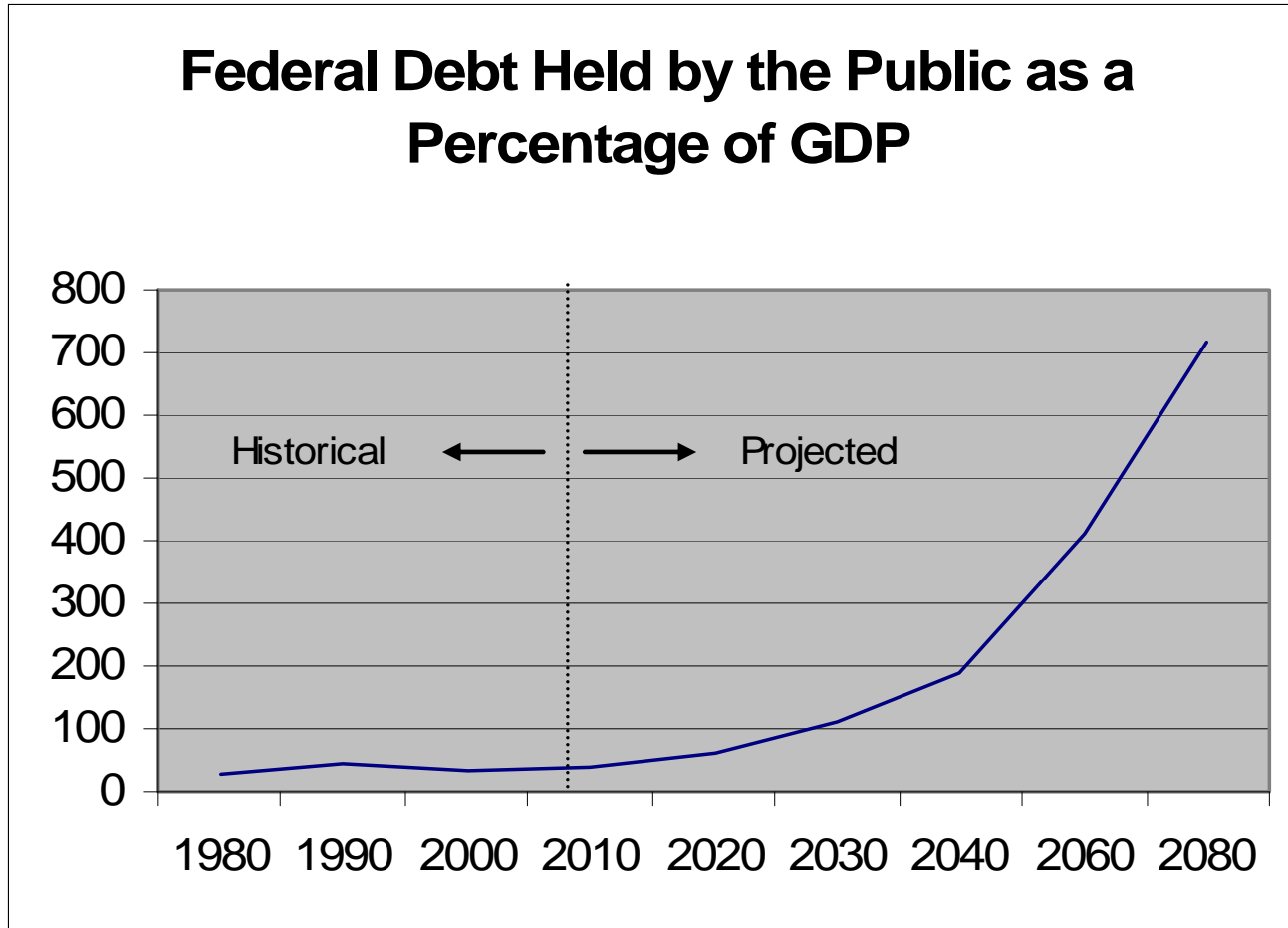
Sources of Growth in Projected Federal Spending on Medicare and Medicaid



# Projected Federal Deficits



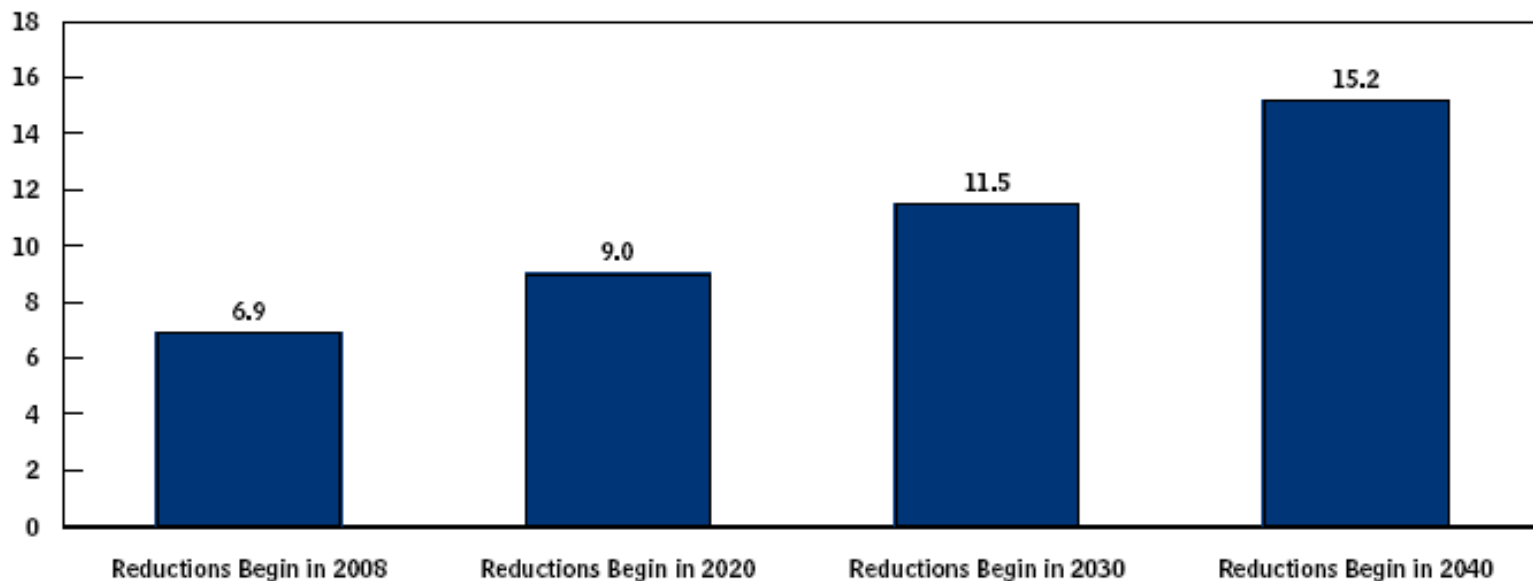
# Federal Debt Held by the Public



# Impact of Delaying Action

## Reductions in Noninterest Spending Needed to Close the Fiscal Gap in Various Years Under CBO's Alternative Fiscal Scenario

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Notes: The fiscal gap is a measure of federal shortfalls over a given period. It represents the extent to which the government would need to immediately and permanently either raise tax revenues or cut spending—or do both, to some degree—to make the government's debt the same size (in relation to the economy) at the end of that period as it was at the beginning.

The alternative fiscal scenario deviates from CBO's baseline projections during the next 10 years, incorporating changes in policy that are widely expected to occur and that policymakers have regularly made in the past.

# Technical Challenges: What to include

## Foreign Holdings of U.S. Treasury Debt

Original staff proposal had two displays:

- List of top foreign government holders of Treasury debt, plus
- Chart showing the change

# Technical Challenges: What to include

## Foreign Holdings of U.S. Government Debt

by Major Investing Country

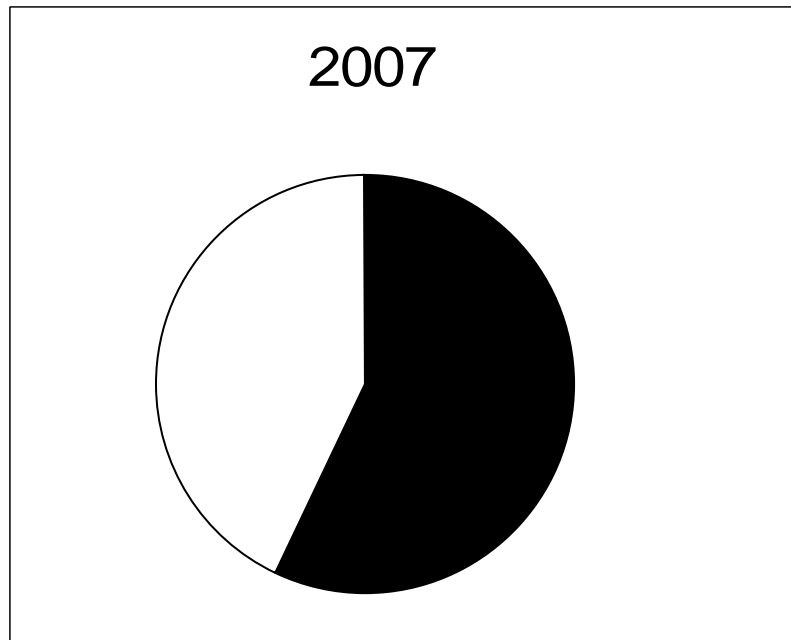
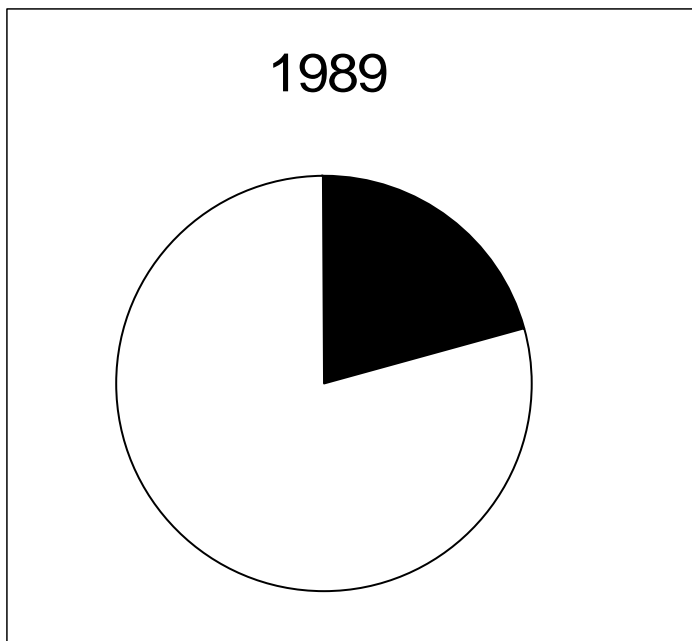
As of June 30, 2006

*Billions of Dollars*

Japan	719
China, mainland	619
Luxembourg	90
Middle East Oil-Exporters**	78
United Kingdom	75
Cayman Islands	57
Belgium	56
Switzerland	43
Netherlands	35
Canada	<u>22</u>
Total	1,794

# Technical Challenges: What to include

Foreign Ownership of U.S. Treasury Debt Has Increased



- Foreign and International Investors
- Federal Reserve, domestic investors, state and local governments

# Technical Challenges: What to include

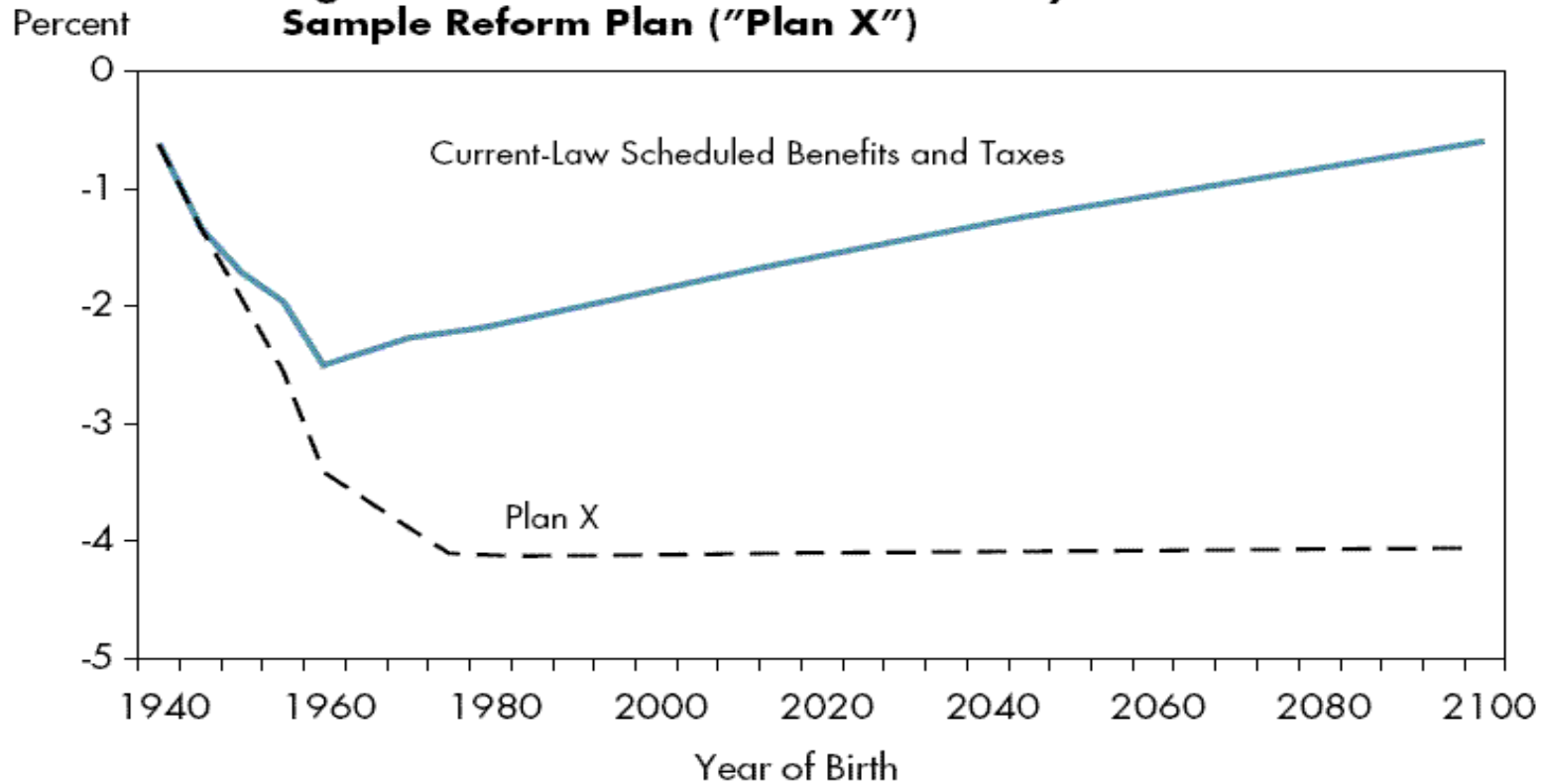
The proposed requirements do not include:

- Policy proposals
- “Inter-generational equity”

(See Treasury’s **“Issue Brief No. 3: Social Security Reform: Benchmarks for Assessing Fairness and Benefit Adequacy”**)

# Inter-generational Equity

**Figure 3: Lifetime Net Benefit Rates by Birth Cohort for Sample Reform Plan ("Plan X")**



Source: Department of the Treasury

# Outreach

## FASAB outreach for this ED:

- FASAB mailing list
- Press contact list
- IPA contacts
- Over 300 think tanks
- Public advocacy /government watchdog groups
- Article in AGA DC Chapter newsletter (December 2008)
- This presentation, right here, right now! Please consider sending comments! Thank you!

# International Accounting Standards

## The International Public Sector Accounting Standards Board (IPSASB)

- is an independent standard-setting body designated by, and operating under the auspices of, the International Federation of Accountants (IFAC).
- has begun a project with similar objectives titled: *Long-Term Fiscal Sustainability*

# International Accounting Standards: IPSASB

- IPSASB meets less frequently than FASAB - only 4x year
- IPSASB does not expect to issue a standard for several years
- IPSASB has formed an international task force for this project

# International Accounting Standards IPSASB Project

- “Project Brief” issued March 2008-  
comments were due in July 2008
- IPSASB agenda item October 2008
- Available at  
<http://www.ifac.org/PublicSector/Projects.php>

# IPSASB Project

IPSASB Project Brief addresses many of the issues in FASAB's ED:

- Should a primary financial statement “statement of fiscal sustainability” be required?
- Scope: social insurance only, or all of government?

# IPSASB Project

Definitions to consider:

- Fiscal Sustainability
- Fiscal Gap
- Fiscal Imbalance

# IPSASB Project

Other issues to consider:

- Time horizons
- Frequency of projections
- Policy assumptions
- Demographic and economic assumptions
- Conflicts within legislation
- Conflicts between legal and moral (constructive obligations)

# IPSASB Project

How to find October 2008 IPSASB Briefing Materials for the Fiscal Sustainability project

- Go to IPSASB website  
[www.ifac.org/PublicSector/](http://www.ifac.org/PublicSector/)
- Click on IPSASB Meetings
- Click on October 28-31 Background Papers
- Click on Zurich meeting material- Second Posting
- Click on [Item 6 Long-Term Fiscal Sustainability \(public\).pdf](#)

# International Accounting Standards IPSASB Project

GAO provided comments to IPSASB on behalf of the USA:

- “Strongly endorsed” a primary financial statement, to be issued annually
- Supports comprehensive scope: not just limited to social insurance programs

Thank you!

Please consider sending comments!

Exposure Draft, “Comprehensive Long-Term Projections for the U.S. Government”

is on FASAB website at

[http://www.fasab.gov/pdffiles/fsr\\_edfinal.pdf](http://www.fasab.gov/pdffiles/fsr_edfinal.pdf)

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Questions?