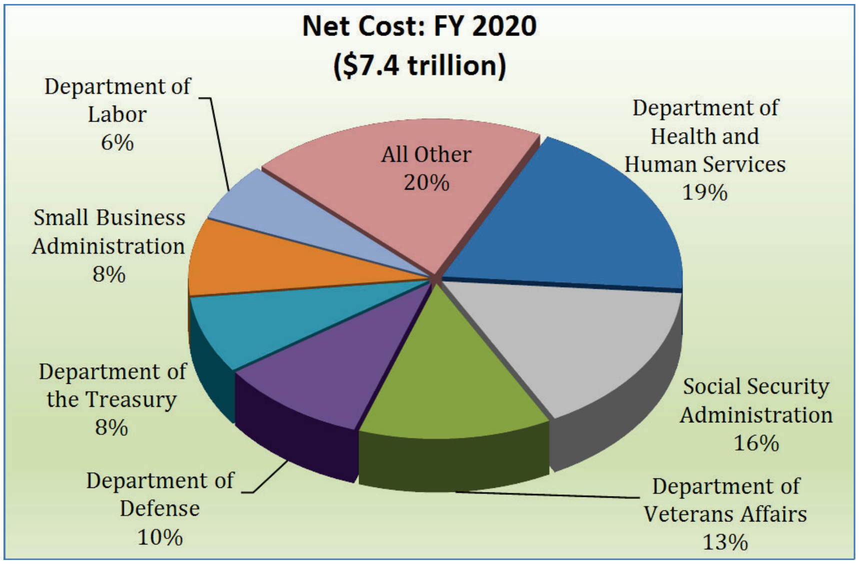
RESULTS IN BRIEF
Highlights of the FY 2020
Financial Report of the U.S. Government

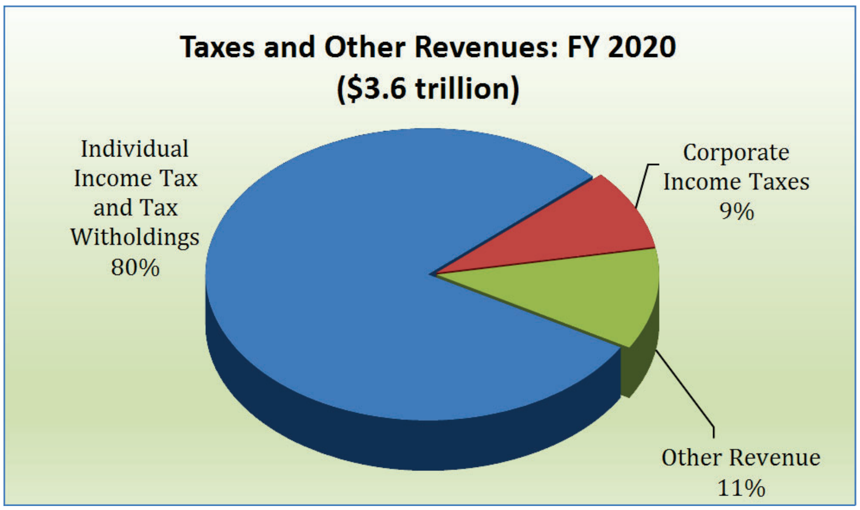
Where We Are Now

The government's net cost before taxes and other revenues for FY 2020 was $7.4 trillion - an increase of $2.3 trillion (46.3 percent) from FY 2019.

Net cost equals gross costs of $7.2 trillion, less earned program revenues (e.g., Medicare premiums, national park entry fees), and then adjusted for gains or losses from assumption changes used to estimate future federal employee and veteran benefits payments.

The increase in net cost is attributable to the combined effect of many offsetting increases and decreases across the government, including, but not limited to:





- Net cost increases at SBA ($559.1 billion), Treasury ($405.0 billion), HHS ($184.8 billion), DOL ($452.7 billion) attributable in great part to pandemic relief efforts.
- Net cost increase totaling $480.6 billion across multiple agencies, including, but not limited to VA (net loss), DOD (net gain), and OPM (net loss) associated with changes in actuarial assumptions for the costs of federal employee and veteran benefits programs.
- HHS and SSA net costs increased $184.8 billion and $56.4 billion, respectively resulting largely from COVID-19 relief efforts at HHS referenced above, as well as increases in benefit expenses from the social insurance programs administered by these entities (e.g., Medicare and Social Security).
- A decrease of $32.5 billion in interest costs related to federal debt securities held by the public largely due to a decrease in the average interest rates on the debt.

Total government tax and other revenues decreased by $49.4 billion (1.4 percent) to about $3.6 trillion for FY 2020. The government deducts the $3.6 trillion in tax and other revenues from its $7.4 trillion net cost (with some adjustments) to derive its FY 2020 "bottom line" net operating cost of $3.8 trillion, a $2.4 trillion increase over FY 2019.

By comparison, the government's budget deficit for FY 2020 was $3.1 trillion – an increase of $2.1 trillion over FY 2019. The $696.9 billion difference between the budget deficit and net operating cost is primarily due to accrued costs (incurred but not paid) relating to federal employee and veteran benefits that are included in net operating cost, but not the budget deficit.

An Unsustainable Fiscal Path

The long-term fiscal projections indicate that the government's debt-to-GDP ratio will rise to 623 percent over the 75-year projection period, and will continue to rise thereafter, if current policy is kept in place. The debt-to-GDP at September 30, 2020 was 100 percent. The continuous rise of the debt-to-GDP ratio projections based on the assumptions in this *Financial Report* indicates that current policy is not sustainable. These projections assume that current policy will continue indefinitely, and are, therefore, neither forecasts nor predictions. While the projections are inherently uncertain, it is nevertheless nearly certain that current fiscal policies cannot be sustained indefinitely. This report presents data, including debt, as a percent of GDP to help readers assess whether current fiscal policy is sustainable. The long-term fiscal projections in this report are based on the same economic assumptions that underlie the Social Security Trustees' Report, and those assumptions were developed using data available as of January 1, 2020, prior to the economic downturn. At this time, management cannot reasonably estimate the potential effects of COVID-19 on the projections or other sustainability measures, which could be significant.

The primary deficit is the difference between non-interest spending and receipts. The primary deficit projections, along with those for interest rates and GDP, determine the debt-to-GDP ratio projections. The ratio of the primary deficit to GDP is useful for gauging long-term fiscal sustainability. This ratio spiked from FY 2009 through FY 2012 due to the financial crisis of 2008-09, the ensuing severe recession, and increased spending and temporary tax reductions enacted to stimulate the economy and support recovery. As the economic recovery took hold, the primary deficit-to-GDP ratio fell, averaging 2.1 percent from FYs 2013-2019. The primary deficit-to-GDP ratio spiked again in 2020 rising to 13.3 percent of GDP due to increased spending to address the COVID-19 pandemic and lessen the economic impacts of stay-at-home and social distancing orders on individuals, hard-hit industries, and small businesses. The ratio is projected to fall to 6.0 percent in FY 2021 and then shrink to 2.9 percent in 2023 as the economy grows and spending due to legislation enacted in response to the COVID-19 pandemic decreases. After FY 2024, increased spending for Social Security and health programs is projected to result in increasing primary deficits that will peak in FY 2042 at 5.4 percent. This effect is due to the continued retirement of the baby boom generation and increases in health care costs. After FY 2042, the ratio is projected to gradually decrease to 4.3 percent by FY 2095 as the aging of the population slows.

The expiring individual income and estate and gift tax provisions of the TCJA are assumed to continue past their legal expiration on December 31, 2025 because of the recent historical pattern of such tax rates being extended, similar to the presentation in the FY 2021 President's Budget. Congressional action is required to extend the provisions of the TCJA. GDP, interest, and other economic and demographic assumptions are the same as those that underlie the most recent Social Security and Medicare Trustees' Report projections, adjusted for historical revisions that occur annually. See Note 24—Long-Term Fiscal Projections for additional information.

If changes in policy are not so abrupt as to slow economic growth, then the sooner policy changes are adopted, the smaller the changes to revenue and/or spending will be required to return the government to a sustainable fiscal path.

The Federal Government's Response to the Pandemic

During FY 2020, the federal government took broad action to protect public health from the effects of the unprecedented pandemic, enacting four major pieces of legislation, including, but not limited to P.L. 116-136, the CARES Act. These laws address the health and economic effects of COVID-19, providing assistance to American workers and families, small businesses, and state, local, and tribal governments, and preserving jobs for American industry. The financial effects of the government's response to the COVID-19 pandemic during FY 2020 were broad, impacting many agencies in a variety of ways and to varying degrees. The *Financial Report* includes discussion and analysis of the significant impact that the federal government's response to the COVID-19 pandemic had on the government's financial results during FY 2020. This Report also discusses significant events that occurred after the end of the fiscal year, but prior to release of this Report.