# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Introduction

The FY 2022 *Financial Report* provides the President, Congress, and the American people with a comprehensive view of the federal government's financial position and condition, and discusses important financial issues and significant conditions that may affect future operations, including the need to achieve fiscal sustainability over the long term.

Pursuant to 31 U.S.C. § 331(e)(1), Treasury, in cooperation with OMB, must submit an audited (by GAO) financial statement for the preceding fiscal year, covering all accounts and associated activities of the executive branch of the U.S. government[1] to the President and Congress no later than six months after the September 30 fiscal year-end.

The *Financial Report* is prepared from the financial information provided by 164 federal consolidation entities (see organizational chart on the next page and Appendix A). As it has for the past 25 years, GAO issued a disclaimer of opinion on the accrual-based, consolidated financial statements for the fiscal years ended September 30, 2022, and 2021. GAO also issued a disclaimer of opinion on the sustainability financial statements, which consist of the 2022 and 2021 SLTFP; the 2022, 2021, 2020, 2019, and 2018 SOSI; and the 2022 and 2021 SCSIA. A disclaimer of opinion indicates that sufficient information was not available for the auditors to determine whether the reported financial statements were fairly presented in accordance with GAAP. In FY 2022, 33[2] of the 40 most significant entities earned unmodified ("clean") opinions on their financial statements.

The FY 2022 *Financial Report* consists of:

- MD&A, which provides management's perspectives on and analysis of information presented in the *Financial Report*, such as financial and performance trends;
- Financial statements and the related notes to the financial statements;
- RSI and Other Information; and
- GAO's audit report.

This *Financial Report* addresses the government's financial activity and results as of and for the fiscal years ended September 30, 2022, and 2021. Note 30—Subsequent Events discusses events that occurred after the end of the fiscal year that may affect the government's financial position and condition.

In addition, the Executive Summary to this *Financial Report* provides a quick reference to the key issues in the *Financial Report* and an overview of the government's financial position and condition.

## Mission & Organization

The government's fundamental mission is derived from the Constitution: *"…to form a more perfect union, establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare and secure the blessings of liberty to ourselves and our posterity."* The government's functions have evolved over time to include health care, income security, veterans benefits and services, housing and transportation, security, and education. Exhibit 1 provides an overview of how the U.S. government is organized.

[1] The *Government Management Reform Act of 1994* has required such reporting, covering the executive branch of the government, beginning with financial statements prepared for FY 1997. The consolidated financial statements include the legislative and judicial branches.

[2] The 33 entities include the HHS, which received disclaimers of opinion on its 2022, 2021, 2020, 2019, and 2018 SOSI and on its 2022 and 2021 SCSIA.

## Exhibit 1

### THE UNITED STATES GOVERNMENT

**THE CONSTITUTION**

**LEGISLATIVE BRANCH**

**THE CONGRESS**
**SENATE HOUSE**

Architect of the Capitol
U.S. Botanic Garden
Government Accountability Office
Government Publishing Office
Library of Congress
Congressional Budget Office
U.S. Capitol Police

**EXECUTIVE BRANCH**

**THE PRESIDENT**
**THE VICE PRESIDENT**
**EXECUTIVE OFFICE OF THE PRESIDENT**

White House Office
Office of the Vice President
Council of Economic Advisers
Council on Environmental Quality
National Security Council
Office of Administration
Office of Management and Budget
Office of National Drug Control Policy
Office of Policy Development
Office of Science and Technology Policy
Office of the U.S. Trade Representative

**JUDICIAL BRANCH**

**THE SUPREME COURT OF THE U.S.**

U.S. Courts of Appeals
U.S. District Courts
Territorial Courts
U.S. Court of International Trade
U.S. Court of Federal Claims
Administrative Office of the U.S. Courts
Federal Judicial Center
U.S. Sentencing Commission

**CHIEF FINANCIAL OFFICERS ACT AGENCIES (24)**

DEPARTMENT OF AGRICULTURE
DEPARTMENT OF COMMERCE
DEPARTMENT OF DEFENSE
DEPARTMENT OF EDUCATION
DEPARTMENT OF ENERGY
DEPARTMENT OF HEALTH AND HUMAN SERVICES
DEPARTMENT OF HOMELAND SECURITY
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
DEPARTMENT OF THE INTERIOR
DEPARTMENT OF JUSTICE
DEPARTMENT OF LABOR
DEPARTMENT OF STATE
DEPARTMENT OF TRANSPORTATION
DEPARTMENT OF THE TREASURY
DEPARTMENT OF VETERANS AFFAIRS
ENVIRONMENTAL PROTECTION AGENCY
GENERAL SERVICES ADMINISTRATION
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION
NATIONAL SCIENCE FOUNDATION
OFFICE OF PERSONNEL MANAGEMENT
SMALL BUSINESS ADMINISTRATION
SOCIAL SECURITY ADMINISTRATION
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
U.S. NUCLEAR REGULATORY COMMISSION

**SIGNIFICANT CONSOLIDATION ENTITIES (16)**

EXPORT-IMPORT BANK OF THE U.S.
FARM CREDIT SYSTEM INSURANCE CORPORATION
FEDERAL COMMUNICATIONS COMMISSION
FEDERAL DEPOSIT INSURANCE CORPORATION
GENERAL FUND OF THE U.S. GOVERNMENT
MILLENNIUM CHALLENGE CORPORATION
NATIONAL CREDIT UNION ADMINISTRATION
NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST
PENSION BENEFIT GUARANTY CORPORATION
RAILROAD RETIREMENT BOARD
SECURITIES AND EXCHANGE COMMISSION
SECURITY ASSISTANCE ACCOUNTS
SMITHSONIAN INSTITUTION
TENNESSEE VALLEY AUTHORITY
U.S. INTERNATIONAL DEVELOPMENT FINANCE CORP
U.S. POSTAL SERVICE

**OTHER CONSOLIDATION ENTITIES LISTED IN APPENDIX A OF THIS FINANCIAL REPORT (124)**

# The Government's Financial Position and Condition

This *Financial Report* presents the government's financial position at the end of the fiscal year, explains how and why the financial position changed during the year, and discusses the government's financial condition and how it may change in the future.

**Table 1**
**The Federal Government's Financial Position and Condition**

| | 2022 | 2021* | Increase / (Decrease) $ | Increase / (Decrease) % |
|---|---|---|---|---|
| **FINANCIAL MEASURES (Dollars in Billions)** | | | | |
| **Gross Cost** | **$ (7,420.0)** | **$ (7,406.6)** | **$ 13.4** | **0.2%** |
| Less: Earned Revenue | $ 531.1 | $ 574.2 | $ (43.1) | (7.5%) |
| Gain/(Loss) from Changes in Assumptions | $ (2,207.9) | $ (518.4) | $ 1,689.5 | 325.9% |
| **Net Cost** | **$ (9,096.8)** | **$ (7,350.8)** | **$ 1,746.0** | **23.8%** |
| **Less: Total Tax and Other Unearned Revenues** | **$ 4,925.9** | **$ 4,255.9** | **$ 670.0** | **15.7%** |
| **Net Operating Cost** | **$ (4,170.9)** | **$ (3,094.9)** | **$ 1,076.0** | **34.8%** |
| **Budget Deficit** | **$ (1,375.5)** | **$ (2,775.6)** | **$ (1,400.1)** | **(50.4%)** |
| **Assets:** | | | | |
| Cash & Other Monetary Assets | $ 877.8 | $ 475.0 | $ 402.8 | 84.8% |
| Inventory and Related Property, Net | $ 406.9 | $ 399.2 | $ 7.7 | 1.9% |
| Loans Receivable, Net | $ 1,434.1 | $ 1,651.0 | $ (216.9) | (13.1%) |
| General Property, Plant & Equipment, Net | $ 1,197.5 | $ 1,176.9 | $ 20.6 | 1.8% |
| Other | $ 1,046.1 | $ 1,191.5 | $ (145.4) | (12.2%) |
| **Total Assets** | **$ 4,962.4** | **$ 4,893.6** | **$ 68.8** | **1.4%** |
| **Liabilities:** | | | | |
| Federal Debt and Interest Payable | $ (24,328.0) | $ (22,344.8) | $ 1,983.2 | 8.9% |
| Federal Employee & Veteran Benefits Payable | $ (12,811.9) | $ (10,183.0) | $ 2,628.9 | 25.8% |
| Other | $ (1,882.4) | $ (2,249.9) | $ (367.5) | (16.3%) |
| **Total Liabilities** | **$ (39,022.3)** | **$ (34,777.7)** | **$ 4,244.6** | **12.2%** |
| Unmatched Transactions and Balances[1] | $ (1.3) | $ (1.7) | $ (0.4) | (23.5%) |
| **Net Position** | **$ (34,061.2)** | **$ (29,885.8)** | **$ 4,175.4** | **14.0%** |
| **SUSTAINABILITY MEASURES (Dollars in Trillions)** | | | | |
| **Social Insurance Net Expenditures:** | | | | |
| Social Security (OASDI) | $ (23.3) | $ (22.7) | $ 0.6 | 2.6% |
| Medicare (Parts A, B, & D) | $ (52.5) | $ (48.2) | $ 4.3 | 8.9% |
| Other | $ (0.1) | $ (0.1) | $ - | 0.0% |
| **Total Social Insurance Net Expenditures** | **$ (75.9)** | **$ (71.0)** | **$ 4.9** | **6.9%** |
| **Total Federal Non-Interest Net Expenditures** | **$ (79.5)** | **$ (97.6)** | **$ (18.0)** | **(18.4%)** |
| **75-Year Fiscal Gap (Percent of Gross Domestic Product)[2]** | **(4.9%)** | **(6.2%)** | **(1.4%)** | **(22.6%)** |

[1] Unmatched transactions and balances are net adjustments needed to balance the financial statements and are due primarily to unresolved intra-governmental differences. Net unmatched transactions and balances of $0.2 billion for both FY 2022 and FY 2021 are also included in the Statements of Operations and Changes in Net Position. See Financial Statement Note 1.T.

[2] To prevent the debt-to-GDP ratio from rising over the next 75 years, a combination of non-interest spending reductions and receipts increases that amounts to 4.9 percent of GDP on average is needed (6.2 percent of GDP on average in 2021). See Financial Statement Note 24.

* Restated (see Financial Statement Note 1.V).

Table 1 on the previous page and the following summarize the federal government's financial position:

- This *Financial Report* includes discussion and analysis of the effects that the federal government's response to the COVID-19 pandemic continued to have on the government's financial position during FY 2022.
- During FY 2022, the budget deficit decreased by $1.4 trillion (50.4 percent) to $1.4 trillion and net operating cost increased by $1.1 trillion (34.8 percent) to $4.2 trillion.
- Net operating cost increased due largely to significant increases in non-cash costs (primarily losses stemming from changes in assumptions affecting cost and liability estimates for the government's employee and veteran benefits programs). These amounts do not affect the current year budget deficit.
- The government's gross costs of $7.4 trillion, less $531.1 billion in revenues earned for goods and services provided to the public (e.g., Medicare premiums, national park entry fees, and postal service fees), plus $2.2 trillion in net losses from changes in assumptions (e.g., interest rates, inflation, disability claims rates) yields the government's net cost of $9.1 trillion, an increase of $1.7 trillion or 23.8 percent compared to FY 2021.
- Deducting $4.9 trillion in tax and other revenues results in a "bottom line" net operating cost of $4.2 trillion for FY 2022, an increase of $1.1 trillion or 34.8 percent compared to FY 2021.
- Comparing total FY 2022 government assets of $5.0 trillion (including $1.4 trillion of loans receivable, net and $1.2 trillion of PP&E) to total liabilities of $39.0 trillion (including $24.3 trillion in federal debt and interest payable[3], and $12.8 trillion of federal employee and veteran benefits payable) yields a negative net position of $34.1 trillion.
- The budget deficit is primarily financed through borrowing from the public. As of September 30, 2022, debt held by the public, excluding accrued interest, was $24.3 trillion. This amount, plus intra-governmental debt ($6.7 trillion) equals gross federal debt, which, with some adjustments, is subject to the statutory debt limit. As of September 30, 2022, the government's total debt subject to the debt limit was $30.9 trillion. Congress and the President most recently increased the debt limit by $480.0 billion in October 2021 and by $2.5 trillion in December 2021.

This *Financial Report* also contains information about projected impacts on the government's future financial condition. Under federal accounting rules, social insurance amounts as reported in both the SLTFP and in the SOSI are not considered liabilities of the government. From Table 1:

- The SLTFP shows that the PV[4] of total non-interest spending, including Social Security, Medicare, Medicaid, defense, and education, etc., over the next 75 years, under current policy, is projected to exceed the PV of total receipts by $79.5 trillion (total federal non-interest net expenditures from Table 1).
- The SOSI shows that the PV of the government's expenditures for Social Security and Medicare Parts A, B and D, and other social insurance programs over 75 years is projected to exceed social insurance revenues[5] by about $75.9 trillion, a $4.9 trillion increase over 2021 social insurance projections.
- The Social Insurance and Total Federal Non-Interest Net Expenditures measures in Table 1 differ primarily because total non-interest net expenditures from the SLTFP include the effects of general revenues and non-social insurance spending, neither of which is included in the SOSI.

The government's current financial position and long-term financial condition can be evaluated both in dollar terms and in relation to the economy as a whole. GDP is a measure of 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. For example:

- The budget deficit decreased from $2.8 trillion in FY 2021 to $1.4 trillion in FY 2022. The deficit-to-GDP ratio similarly decreased from 12.4 percent in FY 2021 to 5.5 percent in 2022.
- The budget deficit is primarily financed through borrowing from the public. As of September 30, 2022, the $24.3 trillion in debt held by the public, excluding accrued interest, equates to 97.0 percent of GDP.
- The 2022 SOSI projection of $75.9 trillion net PV excess of expenditures over receipts over 75 years represents about 4.3 percent of the PV of GDP over 75 years. The excess of total projected non-interest spending over receipts of $79.5 trillion from the SLTFP represents 4.2 percent of GDP over 75 years. As discussed in this *Financial Report*, changes in these projections can, in turn, have a significant impact on projected debt as a percent of GDP.
- To prevent the debt-to-GDP ratio from rising over the next 75 years, a combination of non-interest spending reductions and receipts increases that amounts to 4.9 percent of GDP on average is needed (6.2 percent of GDP on average in the 2021 projections). The fiscal gap in the 2022 projections represents 26.0 percent of 75-year PV receipts and 21.2 percent of 75-year PV non-interest spending.

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[3] On the government's Balance Sheet, federal debt and interest payable consists of Treasury securities, net of unamortized discounts and premiums, and accrued interest payable. The "public" consists of individuals, corporations, state and local governments, FRB, foreign governments, and other entities outside the federal government.

[4] PVs 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 PV, future amounts are thus reduced using an assumed interest rate, and those reduced amounts are summed.

[5] Social Security is funded by the payroll taxes and revenue from taxation of benefits. Medicare Part A is funded by the payroll taxes, revenue from taxation of benefits, and premiums that support those programs. Medicare Parts B and D are primarily financed by transfers from the General Fund, which are presented, and by accounting convention, eliminated in the SOSI. For the FYs 2022 and 2021 SOSI, the amounts eliminated totaled $47.5 trillion and $43.2 trillion, respectively.

# FY 2022 Financial Statement Audit Results

For FY 2022, GAO issued a disclaimer of audit opinion on the accrual-based, government-wide financial statements, as it has for the past 25 years, due to certain material weaknesses in internal control over financial reporting and other limitations on the scope of its work. In addition, GAO issued a disclaimer of opinion on the sustainability financial statements due to significant uncertainties primarily related to the achievement of projected reductions in Medicare cost growth and certain other limitations. GAO's audit report on page 222 of this *Financial Report*, discusses GAO's findings.

In FY 2022, 20 of the 24 entities required to issue audited financial statements under the CFO Act received unmodified audit opinions, as did 13 of 16 additional significant consolidation entities (see Table 10 and Appendix A).[6]

## The Government-wide Reporting Entity

This *Financial Report* includes the financial status and activities of the executive, legislative, and judicial branches of the federal government. SFFAS No. 47, *Reporting Entity*, provides criteria for identifying organizations that are consolidation entities, disclosure entities, and related parties. Such criteria are summarized in Note 1.A, Significant Accounting Policies, Reporting Entity, and in Appendix A, which lists the entities included in this *Financial Report* by these categories. The assets, liabilities, results of operations, and related activity for consolidation entities are consolidated in the financial statements.

Fannie Mae and Freddie Mac meet the criteria for disclosure entities and, consequently, are not consolidated into the government's financial statements. However, the values of the investments in such entities, changes in value, and related activity with these entities are included in the consolidated financial statements. The FR System and the SPVs are disclosure entities and are not consolidated into the government's financial statements. See Note 1.A and Note 27—Disclosure Entities and Related Parties for additional information. In addition, per SFFAS No. 31, *Accounting for Fiduciary Activities*, fiduciary funds are not consolidated in the government financial statements.[7]

Most significant consolidation entities prepare financial statements that include financial and performance related information, as well as Annual Performance Reports. More information may be obtained from entities' websites indicated in Appendix A and at https://www.performance.gov/.

The following pages contain a more detailed discussion of the government's financial results for FY 2022, the budget, the economy, the debt, and a long-term perspective about fiscal sustainability, including the government's ability to meet its social insurance benefits obligations. The information in this *Financial Report*, when combined with the *Budget*, collectively presents information on the government's financial position and condition.

# Accounting Differences Between the Budget and the Financial Report

Each year, the Administration issues two reports that detail the government's financial results: the *Budget* and this *Financial Report*. The exhibit on the following page provides the key characteristics and differences between the two documents.

Treasury generally prepares the financial statements in this *Financial Report* on an accrual basis of accounting as prescribed by GAAP for federal entities.[8] These principles are tailored to the government's unique characteristics and circumstances. For example, entities prepare a uniquely structured "Statement of Net Cost," which is intended to present net government resources used in its operations. Also, unique to government is the preparation of separate statements to reconcile differences and articulate the relationship between the budget and financial accounting results.

[6] The 20 entities include the HHS, which received disclaimers of opinions on its 2022, 2021, 2020, 2019, and 2018 SOSI and its 2022 and 2021 SCSIA. The 13 entities include the FDIC, the NCUA, and the FCSIC, which operate on a calendar year basis (December 31 year-end). Statistic reflects 2021 audit results for these organizations if 2022 results are not available.

[7] See Note 23—Fiduciary Activities.

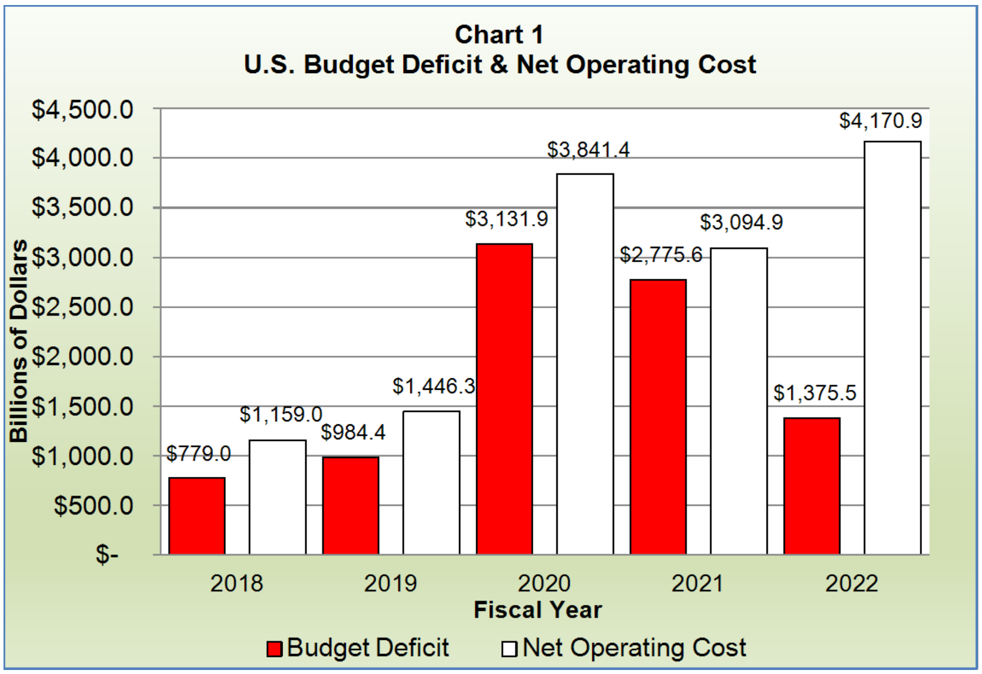
[8] Under GAAP, most U.S. government revenues are recognized on a 'modified cash' basis, (see Financial Statement Note 1.B). The SOSI presents the PV of the estimated future revenues and expenditures for scheduled benefits over the next 75 years for the Social Security, Medicare, RRP; and 25 years for the Black Lung program. The SLTFP presents the 75-year PV of the projected future receipts and non-interest spending for the federal government.

| Budget of the U.S. Government | Financial Report of the U.S. Government |
|---|---|
| Prepared primarily on a "*cash basis*"<br>• Initiative-based and prospective: focus on current and future initiatives planned and how resources will be used to fund them.<br>• Receipts ("cash in"), taxes and other collections recorded when received.<br>• Outlays ("cash out"), largely recorded when payment is made. | Prepared on an "*accrual basis*" and "*modified cash basis*"<br>• Entity-based and retrospective – prior and present resources used to implement initiatives.<br>• Revenue: Tax revenue (more than 90.0 percent of total revenue) recognized on modified cash basis (see Financial Statement Note 1.B). Remainder recognized when earned, but not necessarily received.<br>• Costs: recognized when incurred, but not necessarily paid. |

## Budget Deficit vs. Net Operating Cost

Three key components of the U.S. budget process are: 1) appropriations; 2) obligations; and 3) outlays. An appropriation is a provision of law authorizing the expenditure of funds for a given purpose. Rescissions and cancellations are reductions in law of budgetary resources. They are considered permanent reductions unless legislation clearly indicates that the reduction is temporary. Once funds are appropriated by Congress, Treasury issues warrants that officially establish the amounts available to be obligated and spent (i.e., expended or outlayed) by each agency. An agency's obligation of funds is a binding agreement to outlay funds for a particular purpose immediately or in the future. The budget deficit is measured as the excess of outlays, or payments made by the government, over receipts, or cash received by the government.

Net operating cost, calculated on an accrual basis, is the excess of costs (what the government has incurred but has not necessarily paid) over revenues (what the government has collected and expects to collect but has not necessarily received). As shown in Chart 1, net operating cost typically exceeds the budget deficit due largely to the inclusion of cost accruals associated with increases in estimated liabilities for the government's postemployment benefit programs for its military and civilian employees and veterans as well as environmental liabilities.




The government's primarily cash-based[9] budget deficit decreased by $1.4 trillion (50.4 percent) from approximately $2.8 trillion in FY 2021 to about $1.4 trillion in FY 2022 due to an increase in receipts combined with a decrease in outlays in FY 2022. The $850.1 billion (21.0 percent) increase in receipts can be attributed primarily to higher individual and corporation income tax collections and social insurance and retirement receipts, along with increases in most other sources of receipts. Outlays decreased $550.0 billion (8.1 percent). The decrease in part reflects reductions in COVID-19 related spending, including unemployment insurance and SBA programs. Outlays for some other categories of spending increased, including student loans, Medicare, and net interest.[10]

With some adjustments, Treasury's September 2022 MTS provides fiscal year-end receipts, spending, and deficit information for this *Report*. The MTS presents primarily cash-based spending, or outlays, for the fiscal year in a number of ways, including by month, by entity, and by budget function classification. The federal budget is divided into approximately 20 categories, or budget functions, as a means of organizing federal spending by primary purpose (e.g., National Defense,

[9] Interest outlays on Treasury debt held by the public are recorded in the budget when interest accrues, not when the interest payment is made. For federal credit programs, outlays are recorded when loans are disbursed, in an amount representing the PV cost to the government, commonly referred to as credit subsidy cost. Credit subsidy cost excludes administrative costs.

[10] 10/21/22 press release – Joint Statement of Janet L. Yellen, Secretary of the Treasury, and Shalanda D. Young, Director of the Office of Management and Budget, on Budget Results for Fiscal Year 2022. Note that some amounts in this *Financial Report* reflect updates subsequent to publication of the press release.

Transportation, and Health). Multiple entities may contribute to one or more budget functions, and a single budget function may be associated with only one entity. For example, DOD, DHS, DOE, and multiple other entities administer programs that are critical to the broader functional classification of National Defense. DOD, OPM, and many other entities also administer Income Security programs (e.g., retirement benefits, housing, financial assistance). By comparison, the Medicare program is a budget function category unto itself and is administered exclusively at the federal level by HHS. Federal spending information by budget function and other categorizations may be found in the September 2022 MTS.[11]

The government's largely accrual-based net operating cost increased by $1.1 trillion (34.8 percent) to $4.2 trillion during FY 2022. As explained below, net operating costs are affected by changes in both revenues and costs.

The *Reconciliation of Net Operating Cost and Budget Deficit* statement articulates the relationship between the government's accrual-based net operating cost and the primarily cash-based budget deficit. The difference between the government's budget deficit and net operating cost is typically impacted by many variables. For example, from Table 2, nearly 95 percent of the $2.8 trillion net difference for FY 2022 is attributable to a $2.6 trillion net increase in liabilities for federal employee and veteran benefits payable (see Note 13—Federal Employee and Veteran Benefits Payable). Other differences include: 1) a $45.2 billion increase in advances from others and deferred revenue (see Note 17—Advances From Others and Deferred Revenue); 2) a $71.3 billion decrease in advances and prepayments made by the federal government (see Note 9—Advances and Prepayments); 3) a $65.5 billion decrease in net taxes receivable (see Note 3—Accounts Receivable, Net); and 4) a $58.5 billion timing difference between when credit reform costs are recorded in the budget versus net operating cost (see Note 4—Loans Receivable, Net and Loan Guarantee Liabilities).

**Table 2: Net Operating Cost vs. Budget Deficit**

| Dollars in Billions | 2022 | 2021 |
|---|---|---|
| **Net Operating Cost** | **$ (4,170.9)** | **$ (3,094.9)** |
| Changes in: | | |
| Federal Employee and Veteran Benefits Payable | $ 2,629.0 | $ 767.5 |
| Advances from Others and Deferred Revenue | $ 45.2 | $ 27.8 |
| Advances and Prepayments | $ 71.3 | $ (150.7) |
| Taxes Receivable, Net | $ 65.5 | $ (68.0) |
| Timing Differences - Credit Reform Costs | $ (58.5) | $ (75.1) |
| Other, Net | $ 42.9 | $ (182.2) |
| Subtotal - Net Difference: | $ 2,795.4 | $ 319.3 |
| **Budget Deficit** | **$ (1,375.5)** | **$ (2,775.6)** |

Net operating cost increased due largely to significant increases in non-cash costs (primarily losses stemming from changes in assumptions affecting cost and liability estimates for the government's employee and veteran benefits programs). These amounts do not affect the current year budget deficit.

# The Government's Net Position: "Where We Are"

The government's financial position and condition have traditionally been expressed through the *Budget*, focusing on surpluses, deficits, and debt. However, this primarily cash-based discussion of the government's net outlays (deficit) or net receipts (surplus) tells only part of the story. The government's accrual-based net position, (the difference between its assets and liabilities, adjusted for unmatched transactions and balances), and its "bottom line" net operating cost (the difference between its revenues and costs) are also key financial indicators.

## Financial Effects of the Federal Government's Pandemic Response

On March 11, 2020, a novel strain of the Coronavirus (COVID-19) was declared a pandemic by the WHO and precipitated a severe global health and economic crisis. A national emergency was declared in the U.S. on March 13, 2020. Since then, the federal government has taken broad action, including enacting multiple laws providing approximately $4.5 trillion across the government, to protect public health and economic stability from the effects of the unprecedented pandemic. These actions have included but are not limited to:

- Treasury funding has supported several efforts, including provision of refundable tax credits (recovery rebates or EIP), payments to state, local, territorial, and tribal governments to cover eligible costs, and investments in SPVs

[11] Final MTS for FY 2022 through September 30, 2022 and Other Periods.

established by the Federal Reserve Board through the FRBNY and FRBB to enhance the liquidity of the U.S. financial system.

- SBA funding provided emergency and immediate economic relief and assistance through disaster response programs funded by COVID-19 appropriations. These programs include: 1) PPP; 2) CARES Act Debt Relief; 3) EIDL grants; 4) the Business Loan Fee Waiver and Debt Relief program; 5) the Targeted EIDL and Supplemental EIDL Advance programs; 6) the Restaurant Revitalization program; 7) the Shuttered Venue Operators Grants program; and 8) the Community Navigator Pilot program.
- HHS's COVID-19 appropriations provided support testing, contact tracing, containment, mitigation, to monitor and suppress the spread of COVID-19, as well as support for COVID-19 vaccination programs and addressing disparities in obtaining quality healthcare. Programs also assisted households with paying for drinking water and wastewater services, and provide direct payment to participating eligible pharmacies and healthcare providers for up to eight free over-the-counter COVID-19 tests.
- Education has provided a variety of pandemic-oriented programs primarily through grants. COVID-19 relief legislation and administrative actions also provided support for student loan borrowers primarily by temporarily suspending nearly all federal loan payments, followed by announced broad-based debt relief.
- Several DOT programs received COVID-19 appropriations in support of maintaining and continuing the operations and business needs of various transportation systems.
- DHS's COVID-19 appropriations provided funding for several programs serviced by the Customs and Border Protection, Cybersecurity and Infrastructure Security Agency, Countering Weapons of Mass Destruction Office, and FEMA.

The corresponding financial effects of the government's response to the pandemic have been broad, impacting many agencies in a variety of ways and to varying degrees. The following include brief discussions of some of the continuing effects of the pandemic on the government's financial results for FY 2022. Please refer to Note 29—COVID-19 Activity and other disclosures in this *Financial Report*, as well as in the individual entities' financial statements for more information.

## Costs and Revenues

The government's Statement of Operations and Changes in Net Position, much like a corporation's income statement, shows the government's "bottom line" and its impact on net position (i.e., assets net of liabilities, adjusted for unmatched transactions and balances). To derive the government's "bottom line" net operating cost, the Statement of Net Cost first shows how much it costs to operate the federal government, recognizing expenses when incurred, regardless of when payment is made (accrual basis). It shows the derivation of the government's net cost or the net of: 1) gross costs, or the costs of goods produced and services rendered by the government; 2) the earned revenues generated by those goods and services during the fiscal year; and 3) gains or losses from changes in actuarial assumptions used to estimate certain liabilities. This amount, in turn, is offset against the government's taxes and other revenue reported in the Statement of Operations and Changes in Net Position to calculate the "bottom line" or net operating cost.

**Table 3: Gross Cost, Revenues, Net Cost, and Net Operating Cost**

| Dollars in Billions | 2022 | 2021* | Increase / (Decrease) $ | Increase / (Decrease) % |
|---|---|---|---|---|
| **Gross Cost** | **$ (7,420.0)** | **$ (7,406.6)** | **$ 13.4** | **0.2%** |
| Less: Earned Revenue | $ 531.1 | $ 574.2 | $ (43.1) | (7.5%) |
| Gain/(Loss) from Changes in Assumptions | $ (2,207.9) | $ (518.4) | $ 1,689.5 | 325.9% |
| **Net Cost** | **$ (9,096.8)** | **$ (7,350.8)** | **$ 1,746.0** | **23.8%** |
| **Less: Tax and Other Revenues** | **$ 4,925.9** | **$ 4,255.9** | **$ 670.0** | **15.7%** |
| **Net Operating Cost** | **$ (4,170.9)** | **$ (3,094.9)** | **$ 1,076.0** | **34.8%** |

***Restated (see Financial Statement Note 1.V).**

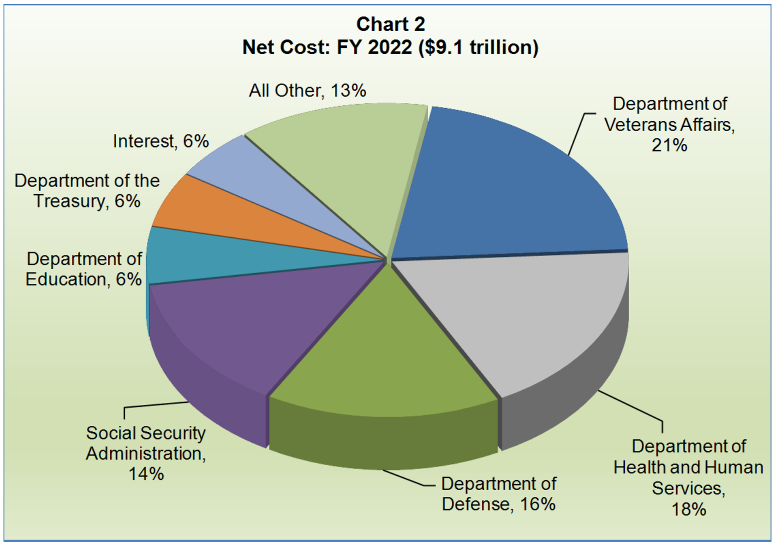
Table 3 shows that the government's "bottom line" net operating cost increased $1.1 trillion (34.8 percent) during 2022 from $3.1 trillion to $4.2 trillion. This increase is due mostly to a $1.7 trillion (23.8 percent) increase in entity net costs, which more than offset a $670.0 billion (15.7 percent) increase in tax and other revenues over the past fiscal year as discussed in the following.

### Gross Cost and Net Cost

The Statement of Net Cost starts with the government's total gross costs of $7.4 trillion, subtracts revenues earned for goods and services provided (e.g., Medicare premiums, national park entry fees, and postal service fees), and adjusts the balance for gains or losses from changes in actuarial assumptions used to estimate certain liabilities, including federal employee and veteran benefits to derive its net cost of $9.1 trillion, a $1.7 trillion (23.8 percent) increase compared to FY 2021.

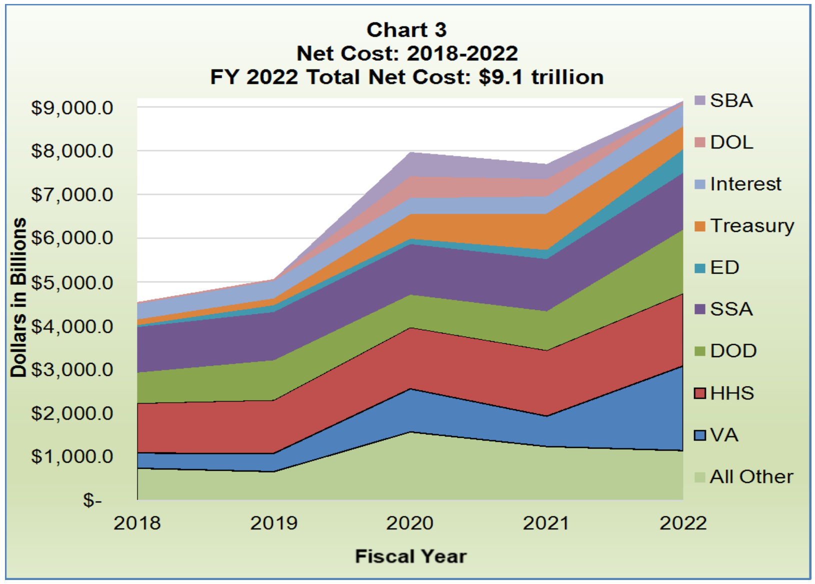
Typically, the annual change in the government's net cost is the result of a variety of offsetting increases and decreases across entities. As referenced earlier, these amounts continue to be affected by the ongoing federal government's response to the COVID-19 pandemic and the related economic recovery. Including these amounts, offsetting changes in federal entity net cost during FY 2022 included:

- Entities administering federal employee and veteran benefits programs employ a complex series of assumptions, including but not limited to interest rates, beneficiary eligibility, life expectancy, and medical cost levels, to make actuarial projections of their long-term benefits liabilities. Changes in these assumptions can result in either losses (net cost increases) or gains (net cost decreases). Across the government, these net losses from changes in assumptions amounted to $2.2 trillion in FY 2022, a net loss increase (and a corresponding net cost increase) of $1.7 trillion compared to FY 2021. The primary entities that administer programs impacted by these assumptions – typically federal employee pension and benefit programs – are the OPM, DOD, and VA. All three of these entities recorded losses from changes in assumptions in the amounts of $148.2 billion, $527.0 billion, and $1.5 trillion, respectively. These actuarial estimates and the resulting gains or losses from changes in assumptions can sometimes cause significant swings in total entity costs from year to year. For example, for FY 2022, changes in net cost at OPM ($102.8 billion increase), DOD ($568.4 billion increase), and VA ($1.2 trillion increase) were significantly impacted by the changes in losses from assumption changes at these entities.




- A $1.2 trillion increase in VA net cost was impacted largely by a $1.2 trillion increase in losses referenced above due to updates in actuarial assumptions underlying VA's Veterans' compensation plan participation and benefit level distribution rates, mortality rates and methodology for setting future long-term COLA. The increase in plan participation and benefit level distribution rates, based on an experience study, reflect the impact of various legislation and VA policy changes in prior years that expanded eligibility. The mortality rates decreased, which indicate Veterans are living longer with their disabilities. The projected COLA rate was updated to the long-term rate of inflation used by SSA.
- Most of the $568.4 billion increase in DOD net costs is primarily due to a $444.2 billion loss increase from changes in assumptions as referenced above. However, the majority of DOD's net costs included military operations, readiness, and support; procurement; military personnel; and R&D, which also collectively increased
- A $303.9 billion decrease in SBA net costs due in large part to substantially lower pandemic-related loan activity. The SBA approved more than 11 million PPP loan applications and provided for over $799 billion in lending over the lifetime of the program. The program ended in May 2021, and existing borrowers may be eligible for PPP loan forgiveness, As of September 2022, over 10 million applications had been submitted requesting PPP loan forgiveness with nearly $753 billion total forgiveness paid.
- The $304.4 billion decrease in Treasury net costs is largely due to a significant decrease in disbursements of EIP made to eligible recipients as part of pandemic relief efforts to help stimulate the economy, from $569.5 billion in FY 2021, to $13.1 billion during FY 2022. EIP amounts are reflected as offsets to net custodial revenue in the Treasury's financial statements. This decrease is partially offset by a $109.1 billion net cost increase in FY 2022 that is attributable to a decrease in GSE net revenue from $112.0 billion in FY 2021 to $2.9 billion in FY 2022. The decrease in GSE revenue is driven by FV changes to Treasury's GSE investments and changes in liquidation preference of the GSEs senior preferred stock.
- A $152.1 billion net cost increase at HHS was driven largely by $111.1 billion total increases in Medicaid and Medicare HI and SMI costs. Notably, Medicaid benefit expense increased $66.4 billion due to higher grant awards to states to continue COVID-19 relief efforts.
- A significant portion of the $354.4 billion decrease at DOL is attributable to a $348.6 billion decrease in Income Maintenance programs costs, primarily due to decreases in unemployment benefits from the September 2021 expiration of COVID-19 unemployment programs and fewer unemployment claims. DOL costs related to the COVID-19 pandemic were $9.7 billion and $313.0 billion in FYs 2022 and 2021, respectively; FY 2021 costs were comprised mostly of unemployment benefit expenses for COVID-19 programs implemented in FY 2020 and extended into FY 2021, whereas FY 2022 costs reflect a decrease in benefit expenses due to the expiration of the COVID-19 unemployment benefit programs.

- A $330.9 billion increase at Education, due largely to a $337.3 billion upward cost modification to its direct loan program. COVID-19 relief legislation and administrative actions provided support for student loan borrowers by temporarily suspending nearly all federal student loan payments interest free. Education has announced broad-based debt relief in continued response to the pandemic to help borrowers at highest risk of delinquencies or default once payments resume.
- A $100.3 billion increase at SSA, due to a 1.9 percent increase in the number of OASI beneficiaries, combined with a 5.9 percent COLA provided to beneficiaries in 2022. Total benefit expenses increased by $99.8 billion or 8.5 percent.

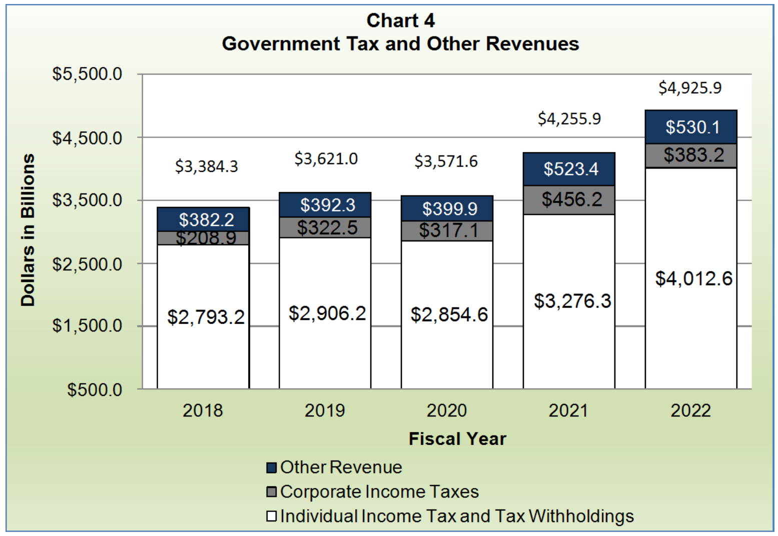



- A $104.5 billion increase in interest on debt held by the public due largely to an increase in inflation adjustments, interest rates, and outstanding debt held by the public.

Chart 2 shows the composition of the government's net cost for FY 2022. In FY 2022, approximately 87 percent of the federal government's total net cost came from only six agencies (VA, HHS, DOD, SSA, Education, and Treasury), and interest on the debt. The other 150-plus entities included in the government's FY 2022 Statement of Net Cost accounted for a combined 13 percent of the government's total net cost for FY 2022. Chart 3 shows the five-year trend in these costs, illustrating the significant impact that the pandemic had on certain agency costs, particularly during FY 2020 and 2021. SBA and DOL are included in Chart 3 above to further illustrate the recent effect of the pandemic on the government's total costs. Aside from pandemic relief costs, as discussed above, HHS and SSA net costs for FY 2022 ($1.7 trillion and $1.3 trillion, respectively) are largely attributable to major social insurance programs administered by these entities. VA net costs of $1.9 trillion support health, education and other benefits programs for our nation's Veterans. DOD net costs of $1.5 trillion relate primarily to operations, readiness, and support; personnel; research; procurement; and retirement and health benefits. Treasury net costs of $526.4 billion support a broad array of programs that promote conditions for sustaining economic growth and stability, protecting the integrity of our nation's financial system, and effectively managing the U.S. government's finances and resources. Education net costs of $539.5 billion are largely associated with federal student loan programs. SBA net costs of $43.5 billion support agency programs and services that enable the establishment and vitality of small businesses and by providing assistance in the economic recovery of communities after disasters. DOL net costs of $42.4 billion support DOL's mission to foster, promote, and develop the welfare of the wage earners, job seekers, and retirees of the U.S.; improve working conditions; advance opportunities for profitable employment; and assure work-related benefits and rights.

### Tax and Other Revenues

As noted earlier, tax and other revenues from the Statement of Operations and Changes in Net Position are deducted from total net cost to derive the government's "bottom line" net operating cost. Chart 4 shows that total tax and other revenue increased by $670.0 billion or 15.7 percent to $4.9 trillion for FY 2022. This increase is attributable mainly to an overall growth in individual income taxes collections and tax withholdings, as well as changes in taxes receivable. Earned revenues from Table 3 are not considered "taxes and other revenue" and, thus, are not shown in Chart 4. Individual income tax and tax withholdings and corporate income taxes accounted for about 81.5 percent and 7.8 percent of total revenue, respectively in FY 2022; other revenues from Chart 4 include Federal Reserve earnings, excise taxes, unemployment taxes, and customs duties.




As previously shown in Table 3, the increase in tax and other revenue was more than offset by the increase in net cost, yielding a $1.1 trillion increase to the government's bottom line net operating cost to $4.2 trillion for FY 2022.

Please refer to Note 29—COVID-19 Activity, as well as the FY 2022 entities financial statements for additional information about the pandemic's effects on the federal government's costs and revenues.

### Tax Expenditures

Tax and other revenues reported reflect the effects of tax expenditures, which are special exclusions, exemptions, deductions, tax credits, preferential tax rates, and tax deferrals that allow individuals and businesses to reduce taxes they may otherwise owe. Tax expenditures may be viewed as alternatives to other policy instruments, such as spending or regulatory programs. For example, the government supports college attendance through both spending programs and tax expenditures. The government uses Pell Grants to help low- and moderate-income students afford college and allows certain funds used to meet college expenses to grow tax free in special college savings accounts. Tax expenditures may include deductions and exclusions which reduce the amount of income subject to tax (e.g., deductions for personal residence mortgage interest). Tax credits, which reduce tax liability dollar for dollar for the amount of credit (e.g., child tax credit), are also considered tax expenditures. Tax expenditures may also allow taxpayers to defer tax liability.

Receipts in the calculation of surplus or deficit, and tax revenues in the calculation of net position, reflect the effect of tax expenditures. As discussed in more detail in the Other Information section of this *Financial Report*, tax expenditures will generally lower federal government receipts although tax expenditure estimates do not necessarily equal the increase in federal revenues (or the change in the budget balance) that would result from repealing these special provisions.

Tax expenditures are reported annually in the Analytical Perspectives of the *Budget*. In addition, current and past tax expenditure estimates and descriptions can be found at the following location from Treasury's Office of Tax Policy: https://home.treasury.gov/policy-issues/tax-policy/tax-expenditures.

## Assets and Liabilities

The government's net position at the end of the fiscal year is derived by netting the government's assets against its liabilities, as presented in the Balance Sheet (summarized in Table 4).[12] The Balance Sheet does not include the financial value of the government's sovereign powers to tax, regulate commerce, or set monetary policy or value of nonoperational resources of the government, such as national and natural resources, for which the government is a steward. In addition, as is the case with the Statement of Operations and Changes in Net Position, the Balance Sheet includes a separate presentation of the portion of net position related to funds from dedicated collections. Moreover, the government's exposures are broader than the liabilities presented on the Balance Sheet. The government's future social insurance exposures (e.g., Medicare and Social Security) as well as other fiscal projections, commitments and contingencies, are reported in separate statements and disclosures. This information is discussed later in this MD&A section, the financial statements, and RSI sections of this *Financial Report*.

[12] As shown in Table 4, the government's Balance Sheet includes an adjustment for unmatched transactions and balances, which represent unresolved differences in intra-governmental activity and balances between federal entities. These amounts are described in greater detail in the Other Information section of this *Financial Report*.

**Table 4: Assets and Liabilities**

| Dollars in Billions | 2022 | 2021 | Increase / (Decrease) $ | % |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash & Other Monetary Assets | $ 877.8 | $ 475.0 | $ 402.8 | 84.8% |
| Inventory and Related Property, Net | $ 406.9 | $ 399.2 | $ 7.7 | 1.9% |
| Loans Receivable, Net | $ 1,434.1 | $ 1,651.0 | $ (216.9) | (13.1%) |
| General Property, Plant & Equipment, Net | $ 1,197.5 | $ 1,176.9 | $ 20.6 | 1.8% |
| Other | $ 1,046.1 | $ 1,191.5 | $ (145.4) | (12.2%) |
| **Total Assets** | **$ 4,962.4** | **$ 4,893.6** | **$ 68.8** | **1.4%** |
| **Less: Liabilities, comprised of:** | | | | |
| Federal Debt and Interest Payable | $(24,328.0) | $(22,344.8) | $ 1,983.2 | 8.9% |
| Federal Employee & Veteran Benefits Payable | $(12,811.9) | $(10,183.0) | $ 2,628.9 | 25.8% |
| Other | $ (1,882.4) | $ (2,249.9) | $ (367.5) | (16.3%) |
| **Total Liabilities** | **$(39,022.3)** | **$(34,777.7)** | **$ 4,244.6** | **12.2%** |
| Unmatched Transactions and Balances[1] | **$ (1.3)** | **$ (1.7)** | **$ (0.4)** | **(23.5%)** |
| **Net Position** | **$(34,061.2)** | **$(29,885.8)** | **$ 4,175.4** | **14.0%** |

[1] Unmatched transactions and balances are net adjustments needed to balance the financial statements and are due primarily to unresolved intra-governmental differences. Net unmatched transactions and balances of $0.2 billion for both FY 2022 and FY 2021 are also included in the Statements of Operations and Changes in Net Position. See Financial Statement Note 1.T.

## Assets

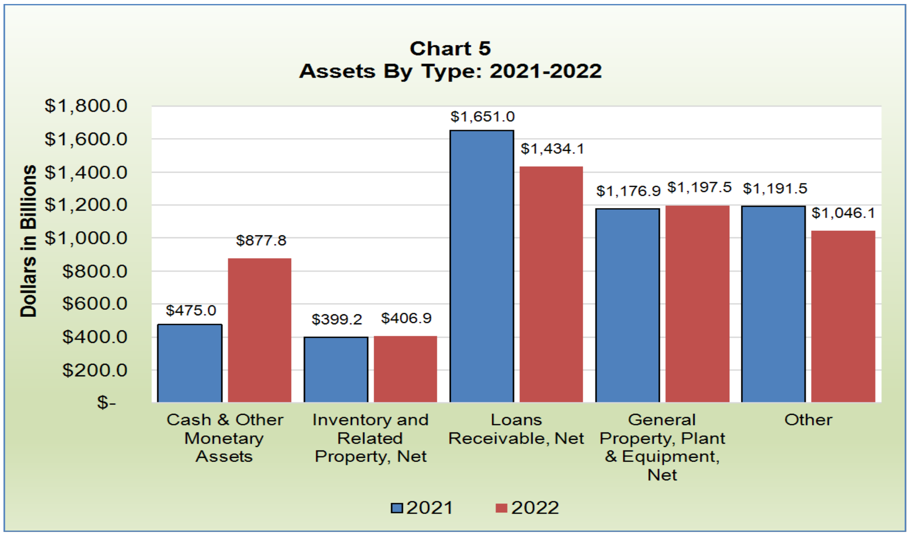
From Table 4, as of September 30, 2022, more than three-fourths of the government's $5.0 trillion in reported assets is comprised of: 1) cash and other monetary assets ($877.8 billion); 2) inventory and related property, net ($406.9 billion); 3) loans receivable, net ($1.4 trillion); and 4) net PP&E ($1.2 trillion).[13] Chart 5 compares the balances of these and other Balance Sheet amounts as of September 30, 2022, and 2021, some of which were substantially impacted by the pandemic response.

Cash and other monetary assets ($877.8 billion) is comprised largely of the operating cash of the U.S. government. Operating cash held by Treasury increased $418.6 billion (211.0 percent) to $617.0 billion during FY 2022 due to Treasury investment and borrowing policy decisions to manage the balance and timing of the government's cash position. During 2021 the debt ceiling constraints forced Treasury to maintain a significantly lower operating cash balance. When the debt ceiling was increased in December 2021, Treasury was able to bring the operating cash balance back to its one-week prudent policy level (see Note 2—Cash and Other Monetary Assets).

Inventory and Related Property is comprised of inventory, OM&S, and stockpiles. Inventory is tangible personal property that is either held for sale, in the process of production for sale, or to be consumed in the production of goods for sale or in the provision of services for a fee (e.g., raw materials, finished goods, spare and repair parts, clothing and textiles, and fuels). OM&S consists of tangible personal property to be consumed in normal operations (e.g., spare and repair parts, ammunition, and tactical missiles). Stockpile materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation, or local/national emergencies. DOD comprises approximately 82.9 percent of the government's inventory and related property, net, as of September 30, 2022. Other contributing agencies include DOE, Treasury, DHS, and HHS (see Note 5—Inventory and Related Property, Net).

[13] For financial reporting purposes, other than multi-use heritage assets, stewardship assets of the government are not recorded as part of PP&E. Stewardship assets are comprised of stewardship land and heritage assets. Stewardship land primarily consists of public domain land (e.g., national parks, wildlife refuges). Heritage assets include national monuments and historical sites that among other characteristics are of historical, natural, cultural, educational, or artistic significance. See Note 26—Stewardship PP&E.

The federal government's 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. For example, Education supports individuals engaged in education programs through a variety of student loan, grant and other assistance programs. USDA administers loan programs to support the nation's farming and agriculture community. HUD loan programs support affordable homeownership, as well as the construction and rehabilitation of housing projects for the elderly and persons with disabilities. SBA loan programs enable the establishment and vitality of small businesses and assist in the economic recovery of communities after disasters. The federal government's direct loan portfolio decreased by $216.9 billion (13.1 percent) to $1.4 trillion during FY 2022, with Education and SBA together accounting for nearly 80 percent of the total. The outstanding loan guarantee liability decreased by $224.3 billion. Significant changes to the federal government's loans receivable, net, and loan guarantees liability, as discussed in Note 4, include:




- Education has loan programs that are authorized by Title IV of the *Higher Education Act of 1965*. The William D. Ford Federal Direct Loan Program (referred to as the Direct Loan Program), was established in FY 1994 and offered four types of educational loans: Stafford, Unsubsidized Stafford, Parent Loan for Undergraduate Students, and consolidation loans. While Education direct loan disbursements to eligible borrowers increased during FY 2022 from approximately $104.8 billion to approximately $120.4 billion, Education's direct loans receivable, net decreased during the same period from $1.1 trillion to $816.6 billion (56.9 percent of total loans receivable, net). The COVID-19 relief legislation and administrative actions provided support for student loan borrowers by temporarily suspending nearly all federal student loan payments interest free. In addition, all federal wage garnishments and collections actions for borrowers with federally held loans in default were halted. Education announced broad-based debt relief during FY 2022 to address the financial harms of the pandemic by smoothing the transition back to repayment and helping borrowers at highest risk of delinquencies or default once payments resume. Borrowers with loans held by Education who received a Pell Grant in college and meet the specified income limits are eligible for up to $20,000 in debt relief, while non-Pell Grant recipients who meet the specified income limits are eligible for up to $10,000 in relief. A federal court order stayed the implementation of the debt relief; the matter is currently under review before the U.S. Supreme Court. See Note 30—Subsequent Events for more information.
- SBA's credit program receivables comprise business and disaster direct loans and defaulted business loans purchased per the terms of SBA's loan guaranty programs, offset by an allowance for related program subsidy costs. The CARES Act provides funding for SBA to offer low-interest EIDL for working capital to small businesses suffering substantial economic injury as a result of COVID-19 that can be used to pay fixed debts, payroll, accounts payable and other bills that cannot be paid because of the disaster's impact. SBA's credit program receivables increased $76.1 billion to $321.5 billion during FY 2022, stemming from a $117.8 billion increase in direct disaster loans as a direct result of CARES Act-funded loans. The loan guarantee PPP provides loan forgiveness for amounts used for eligible expenses for payroll and benefit costs, interest on mortgages, and rent, and utilities, worker protection costs related to COVID-19, uninsured property damage costs caused by looting or vandalism during 2020, and certain supplier costs and expenses for operations. The loan guarantee liability for Small Business Loan Programs which includes the PPP decreased by $202.1 billion primarily due to PPP loan forgiveness to lenders. Refer to SBA's financial statements for additional information on each specific loan program.

Federal government general PP&E includes many of the physical resources that are vital to the federal government's ongoing operations, including buildings, structures, facilities, equipment, internal use software, and general-purpose land. DOD comprises approximately 68.0 percent of the government's reported general PP&E of $1.2 trillion as of September 30, 2022. See Note 6—General Property, Plant, and Equipment, Net.

"Other" assets of $1.0 trillion in Table 4 and Chart 5 includes: 1) $356.3 billion in accounts receivable, net; 2) $298.1 billion in "Advances and Prepayments"; and 3) $223.7 billion in investments in GSEs. Treasury comprises approximately

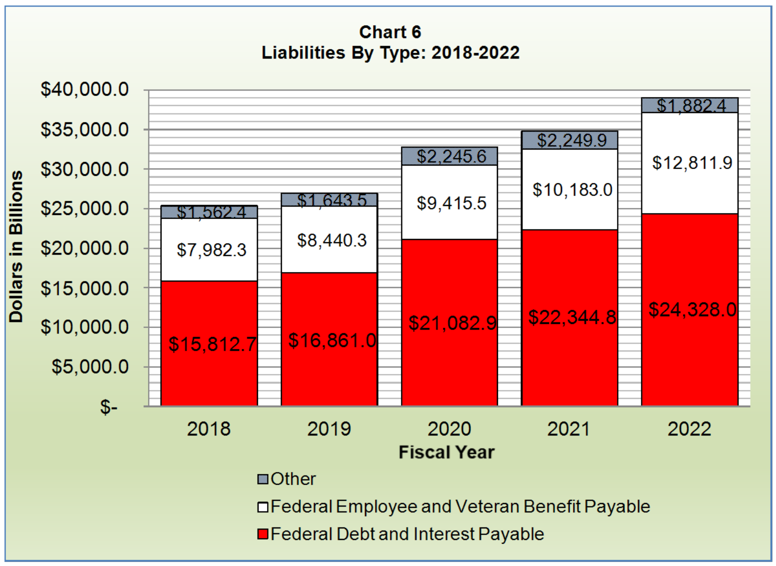
66.8 percent of the government's reported accounts receivable, net, mostly in the form of reported taxes receivable, which consist of unpaid assessments due from taxpayers, unpaid taxes related to IRC section 965, and deferred payments for employer's share of FICA taxes pursuant to the CARES Act. Taxes receivable, net, decreased by $65.5 billion during FY 2022, primarily due to the 50 percent year one installment payment of the deferred employer portion of FICA Social Security taxes. (See Note 3—Accounts Receivable, Net). Advances and Prepayments represent funds disbursed in contemplation of the future performance of services, receipt of goods, the incurrence of expenditures, or the receipt of other assets. The $71.2 billion decrease in this amount was largely attributable to: 1) additional liquidation by Treasury of advances paid to state, local, territorial, and tribal governments pursuant COVID-19 legislation; and 2) collections by HHS of COVID-19 Accelerated & Advance Payment program advances (See Note 9—Advances and Prepayments). Investments in GSEs refers to actions taken by Treasury in the wake of the 2008 financial crisis to maintain the solvency of the GSEs (Fannie Mae and Freddie Mac) so they can continue to fulfill their vital roles in the mortgage market while the Administration and Congress determine what structural changes should be made to the housing finance system. (See Note 8—Investment in GSEs).

Please refer to Note 29—COVID-19 Activity, as well as the FY 2022 entities' financial statements for additional information about the pandemic's continued effects on the federal government's assets and liabilities over the past fiscal year.

In addition, as indicated earlier, Note 30—Subsequent Events, discusses the financial effects of significant events that occurred following the end of the fiscal year, but prior to issuance of this *Financial Report*. These and other subsequent events and their effects are discussed in Note 30.

### Liabilities

As indicated in Table 4 and Chart 6, of the government's $39.0 trillion in total liabilities, the largest liability is federal debt and interest payable, the balance of which increased by $2.0 trillion (8.9 percent) to $24.3 trillion as of September 30, 2022.




The other major component of the government's liabilities is federal employee and veteran benefits payable (i.e., the government's pension and other benefit plans for its military and civilian employees), which increased $2.6 trillion (25.8 percent) during FY 2022, to about $12.8 trillion. This total amount is comprised of $3.1 trillion in benefits payable for the current and retired civilian workforce, and $9.7 trillion for the military and veterans. OPM administers the largest civilian pension plan, covering nearly 2.8 million active employees, including the Postal Service, and more than 2.7 million annuitants, including survivors. The DOD military pension plan covers about 2.1 million current military personnel (including active service, reserve, and National Guard) and approximately 2.4 million retirees and survivors.

### Federal Debt

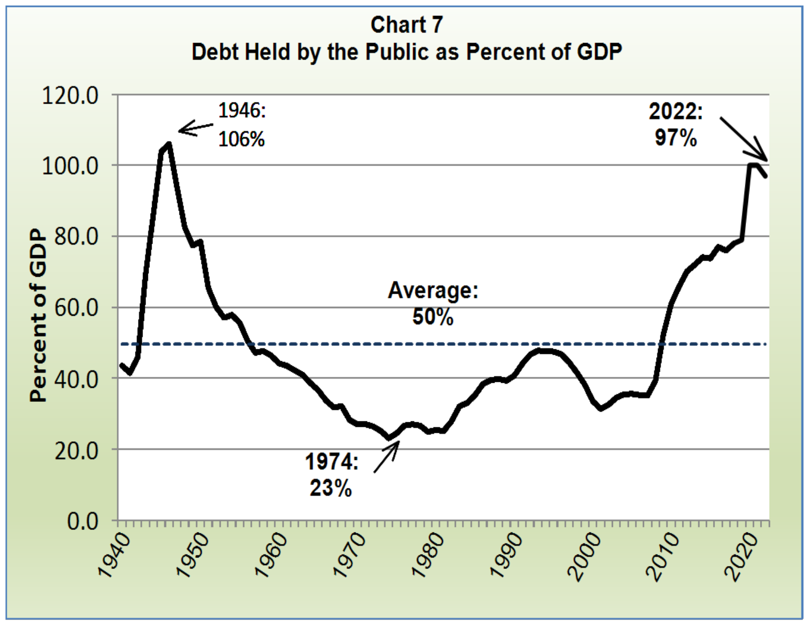
The budget surplus or deficit is the difference between total federal spending and receipts (e.g., taxes) in a given year. The government borrows from the public (increases federal debt levels) to finance deficits. During a budget surplus (i.e., when receipts exceed spending), the government typically uses those excess funds to reduce the debt held by the public. The Statement of Changes in Cash Balance from Budget and Other Activities reports how the annual budget surplus or deficit relates to the federal government's borrowing and changes in cash and other monetary assets. It also explains how a budget surplus or deficit normally affects changes in debt balances.

> Prior to 1917, Congress approved each debt issuance. In 1917, to facilitate planning in World War I, Congress and the President established a 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 measures affecting the debt limit, including several in recent years. Congress and the President most recently increased the debt limit by $2.5 trillion in December 2021 with the enactment of P.L. 117-73. It is important to note that increasing or suspending the debt limit does not increase spending or authorize new spending; rather, it permits the U.S. to continue to honor pre-existing commitments to its citizens, businesses, and investors domestically and around the world.

The government's federal debt and interest payable (Balance Sheet liability), which is comprised of publicly-held debt and accrued interest payable, increased $2.0 trillion (8.9 percent) to $24.3 trillion as of September 30, 2022. It is comprised of Treasury securities, such as bills, notes, and bonds, net of unamortized discounts and premiums issued or sold to the public; and accrued interest payable. The "public" consists of individuals, corporations, state and local governments, FRB, foreign governments, and other entities outside the federal government. As indicated above, budget surpluses have typically resulted in borrowing reductions, and budget deficits have conversely yielded borrowing increases. However, the government's debt operations are generally much more complex. Each year, trillions of dollars of debt matures and new debt is issued to take its place. In FY 2022, new borrowings were $17.5 trillion, and repayments of maturing debt held by the public were $15.7 trillion, both decreases from FY 2021. The $2.0 trillion increase in publicly held debt and accrued interest payable is largely attributable to the need to finance the government's operations, including support of economic relief and COVID-19 recovery efforts.

In addition to debt held by the public, the government has about $6.7 trillion in intra-governmental debt outstanding, which arises when one part of the government borrows from another. It represents debt issued by Treasury and held by government accounts, including the Social Security ($2.8 trillion) and Medicare ($345.4 billion) trust funds. Intra-governmental debt is primarily held in government trust funds in the form of special nonmarketable securities by various parts of the government. Laws establishing government trust funds generally require excess trust fund receipts (including interest earnings) over disbursements to be invested in these special securities. Because these amounts are both liabilities of Treasury and assets of the government trust funds, they are eliminated as part of the consolidation process for the government-wide financial statements (see Financial Statement Note 12). When those securities are redeemed, e.g., to pay Social Security benefits, the government must obtain the resources necessary to reimburse the trust funds. The sum of debt held by the public and intra-governmental debt equals gross federal debt, which (with some adjustments), is subject to a statutory ceiling (i.e., the debt limit). Note that when intra-governmental debt decreases, debt held by the public will increase by an equal amount (if the general account of the U.S. government is in deficit), so that there is no net effect on gross federal debt. At the end of FY 2022, debt subject to the statutory limit was $30.9 trillion[14] (see sidebar).

The federal debt held by the public measured as a percent of GDP (debt-to-GDP ratio) (Chart 7) compares the country's debt to the size of its economy, making this measure sensitive to changes in both. Over time, the debt-to-GDP ratio has varied widely:




- For most of the nation's history, through the first half of the 20th century, the debt-to-GDP ratio has tended to increase during wartime and decline during peacetime.
- Chart 7 shows that wartime spending and borrowing pushed the debt-to-GDP ratio to an all-time high of 106 percent in 1946, soon after the end of World War II, but it decreased rapidly in the post-war years.
- The ratio grew rapidly from the mid-1970s until the early 1990s. Strong economic growth and fundamental fiscal decisions, including measures to reduce the federal deficit and implementation of binding PAYGO rules (which require that new tax or spending laws not add to the deficit), generated a significant decline in the debt-to-GDP ratio, from a peak of 48 percent in FYs 1993-1995, to 31 percent in 2001.
- During the first decade of the 21st century, PAYGO rules were allowed to lapse, significant tax cuts were implemented, entitlements were expanded, and spending related to defense and homeland security increased. By September 2008, the debt-to-GDP ratio was 39 percent of GDP.
- PAYGO rules were reinstated in 2010, but the extraordinary demands of the 2008 economic and financial crisis and the consequent actions taken by the federal government, combined with slower economic growth in the wake of the crisis, pushed the debt-to-GDP ratio up to 74 percent by the end of FY 2014.

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[14] Beginning in FY 2021 and continuing into FY 2022, Treasury faced a delay in raising the statutory debt limit that required it to depart from its normal debt management procedures and to invoke legal authorities to avoid exceeding the statutory debt limit. During these periods, extraordinary measures taken by Treasury have resulted in federal debt securities not being issued to certain federal government accounts with the securities being restored including lost interest to the affected federal government accounts subsequent to the end of the delay period. A delay in raising the statutory debt limit occurred from August 1, 2021, through September 30, 2021. During the period of August 2, 2021, through September 30, 2021, Treasury departed from their normal debt management operations and undertook extraordinary measures to avoid exceeding the statutory debt limit. On October 14, 2021, P.L. 117-50 was enacted which raised the statutory debt limit by $480.0 billion, from $28,401.5 billion to $28,881.5 billion. Even with this increase, extraordinary measures continued in order for Treasury to manage below the debt limit. On December 16, 2021, Congress and the President increased the debt limit by $2.5 trillion to $31.4 trillion with the enactment of P.L. 117-73. On this date, Treasury discontinued its use of extraordinary measures and resumed normal debt management operations. On January 19, 2023, Treasury began taking extraordinary measures. See Note 12—Federal Debt and Interest Payable and Note 30—Subsequent Events for additional information.

- The debt was approximately 97.0 percent of GDP at the end of FY 2022. This ratio decreased during FY 2022 because GDP[15], which increased as the economy continued to recover from the effects of the pandemic, grew faster than the debt.[16] From Chart 7, since 1940, the average debt-to-GDP ratio is 50 percent.

## The Economy in FY 2022

A consideration of U.S. economic performance provides useful context when evaluating the government’s financial statements. Over the last three fiscal years, the economy has been deeply affected by the COVID-19 global pandemic. But in the most recent fiscal year, Russia’s illegal invasion of Ukraine in late February 2022 also caused significant disruption in commodities markets, including a sizeable run-up in energy prices. With the help of the U.S. government’s extensive measures to protect consumers and businesses and restore growth, the number of payroll jobs at the end of FY 2022 exceeded the level in February 2020. In addition, employment growth continued to be strong and activity in the current economic expansion has continued after a brisk recovery, albeit accompanied by price pressures. The disruption in commodities markets contributed to inflation, but actions by the Administration, including release of oil from the Strategic Petroleum Reserve, helped to mitigate energy price inflation.

**Table 5: National Economic Indicators***

| | 2022 | 2021 |
|---|---|---|
| Real GDP Growth (4-quarter percent change) | 1.9% | 5.0% |
| Real Personal Consumption Expenditures (4-quarter percent change) | 2.1% | 7.4% |
| Average monthly payroll job change (thousands) | 473 | 475 |
| Unemployment rate (percent, September of fiscal year shown) | 3.5% | 4.7% |
| CPI (12-month percent change) (not seasonally adjusted, NSA) | 8.2% | 5.4% |
| CPI, excluding food and energy (12-month percent change, NSA) | 6.6% | 4.0% |
| Real Disposable Personal Income (12-month percent change) | (3.3%) | (1.4%) |
| Real Average Hourly Earnings, Production and Non-Supervisory (12-month percent change) | (2.5%) | (0.1%) |

* Some FY 2021 data may differ from the FY 2021 Financial Report due to updates and revisions.

After contracting in FY 2020, the economy bounced back in FY 2021, supported by the $2.2 trillion CARES Act, the widespread distribution of vaccines, and the reopening of industries that were hardest hit by the pandemic. Another economic aid package of roughly $900 billion was passed in December 2020, which funded smaller EIPs and a second draw of PPP loans for small businesses. Then early in calendar year 2021, the ARP provided an additional $1.9 trillion in economic aid, primarily through EIPs and direct aid to economically vulnerable low-to middle-income families. It also assisted state and local governments, provided additional funding for addressing COVID-19 infections and vaccinating the population, created new loans and grants for small businesses, and ended the deadline for PPP applications. As a result, households’ balance sheets were healthy, and real (i.e., inflation-adjusted) GDP rose 5.0 percent over the four quarters of FY 2021, the strongest pace of growth since FY 1984.

In FY 2022, the economy displayed remarkable resilience in the wake of the additional challenges posed by Russia’s invasion of Ukraine. As summarized in Table 5, the real GDP grew by 1.9 percent over the four quarters of FY 2022.

Business fixed investment and PCE continued to support growth in FY 2022, while inventory investment and net exports rebounded, making strong contributions as well. But after supporting growth in the previous fiscal year, residential investment and government spending all declined. Over the four quarters of FY 2022, business fixed investment expanded by 3.5 percent, slowing from a gain of 7.6 percent over the previous four quarters. PCE grew 2.1 percent, returning to a more normal pace after outsized gains in the previous two fiscal years due to support from multiple federal financial programs. Inventory investment contributed 0.6 percentage points to growth in FY 2022, following a drag of 0.3 percentage points in FY 2021, as firms rebuilt depleted inventories. Net exports added 0.2 percentage points to growth in FY 2022, after subtracting 1.1 percentage points in FY 2021.

After providing strong support to the economy over the previous two fiscal years, residential investment growth turned negative in FY 2022, as rising mortgage rates and double-digit increases in home price indexes weighed on housing affordability. Residential investment declined 12.9 percent in FY 2022, after rising by 7.5 percent the previous fiscal year. As pandemic-related financial support programs continued to unwind, government spending declined 0.5 percent in the latest fiscal year, after increasing by 0.7 percent in FY 2021.

In labor markets, the economy recovered the number of jobs lost during March and April 2020. At that time, the imposition of stay-at-home orders and mandated business closures contributed to a loss of more than 22 million payroll jobs and an increase in the unemployment rate to a post-World War II high of 14.7 percent. Over the ensuing months and years job creation was unexpectedly robust, and in the latest fiscal year, labor markets have tightened to a historic degree, as labor

[15] GDP, in this context, refers to nominal GDP.

[16] The increase in debt of $2.0 trillion was greater than the FY 2022 deficit of $1.4 trillion primarily because of increases in the government’s cash balance, as well as the restoration of uninvested principal as discussed in Note 12—Federal Debt and Interest Payable.

supply remained constrained and labor demand, as measured by job openings, surged to new heights. On average, the economy added 473,000 payroll jobs per month in FY 2022, nearly matching the monthly average of 475,000 in FY 2021. By the end of FY 2022, the unemployment rate had dropped 11.2 percentage points from the peak to 3.5 percent, returning to the half-century and pre-pandemic low.

Although inflation had slowed in FY 2020 at the headline and core (which excludes food and energy) levels, both accelerated in FY 2021. In the latest fiscal year, inflation picked up more, reflecting in part higher demand for durable goods and supply-chain disruptions that reduced the availability of goods. Later in the year, demand for services started to recover, though the full rotation to the pre-pandemic balance between goods and services remains elusive, and food and energy price pressures increased related to Russia's invasion of Ukraine. The CPI rose 8.2 percent over the 12 months of FY 2022, picking up from the 5.4 percent pace during the previous fiscal year. Core inflation was 6.6 percent over the fiscal year ending September 2022, accelerating from the 4.0 percent pace during FY 2021.

Higher inflation offset solid gains in nominal income and wages, eroding purchasing power in real terms. Real disposable personal income decreased 3.3 percent over the 12 months of FY 2022, after declining 1.4 percent during the previous fiscal year. The pace of nominal average hourly earnings growth for production and non-supervisory workers was relatively strong in FY 2021 at 5.9 percent, and the gain remained steady at 5.8 percent in the latest fiscal year. But faster inflation more than offset the gain, resulting in an outright drop in real wages. Overall, real average hourly earnings declined 2.5 percent during FY 2022, after a slight decline of 0.1 percent the previous fiscal year. Nonfarm labor productivity decreased 1.2 percent over the four quarters of FY 2022, after declining 0.2 percent during FY 2021. The latest fiscal year saw a 3.4 percent advance in hours worked as employment continued to pick up, which more than offset a 1.9 percent increase in output. Over the four quarters of FY 2021, gains in hours worked and output were about the same, each in excess of 6.0 percent.

# An Unsustainable Fiscal Path

An important purpose of the *Financial Report* is to help citizens understand current fiscal policy and the importance and magnitude of policy reforms necessary to make it sustainable. This *Financial Report* includes the SLTFP and a related Note Disclosure (Note 24). The Statements display the PV of 75-year projections of the federal government's receipts and non-interest spending[17] for FY 2022 and FY 2021.

## Fiscal Sustainability

A sustainable fiscal policy is defined as one where the debt-to-GDP ratio is stable or declining over the long term. The projections based on the assumptions in this *Financial Report* indicate that current policy is not sustainable. This report presents data, including debt, as a percent of GDP to help readers assess whether current fiscal policy is sustainable. The debt-to-GDP ratio was approximately 97 percent at the end of FY 2022, and was approximately 100 percent at the end of FY 2021. The long-term fiscal projections in this report are based on the same economic and demographic assumptions that underlie the 2022 SOSI, which is as of January 1, 2022.[18] As discussed below, if current policy is left unchanged and based on this report's assumptions, the debt-to-GDP ratio is projected to exceed 200 percent by 2046 and reach 566 percent in 2097. Preventing the debt-to-GDP ratio from rising over the next 75 years is estimated to require some combination of spending reductions and revenue increases that amount to 4.9 percent of GDP over the period. While this estimate of the "75-year fiscal gap" is highly uncertain, it is nevertheless nearly certain that current fiscal policies cannot be sustained indefinitely.

Delaying action to reduce the fiscal gap increases the magnitude of spending and/or revenue changes necessary to stabilize the debt-to-GDP ratio as shown in Table 6 below.

The estimates of the cost of policy delay assume policy does not affect GDP or other economic variables. Delaying fiscal adjustments for too long raises the risk that growing federal debt would increase interest rates, which would, in turn, reduce investment and ultimately economic growth.

The projections discussed here assume current policy[19] remains unchanged, and hence, are neither forecasts nor predictions. Nevertheless, the projections demonstrate that policy changes must be enacted to move towards fiscal sustainability.

### The Primary Deficit, Interest, and Debt

[17] For the purposes of the SLTFP and this analysis, spending is defined in terms of outlays. In the context of federal budgeting, spending can either refer to: 1) budget authority – the authority to commit the government to make a payment; 2) obligations – binding agreements that will result in either immediate or future payment; or 3) outlays, or actual payments made.

[18] The 2022 long-term fiscal projections are not adjusted for the more current near-term economic information (e.g., higher inflation and lower real growth).

[19] Current policy in the projections is based on current law, but includes certain adjustments, such as extension of certain policies that expire under current law but are routinely extended or otherwise expected to continue (e.g., reauthorization of the Supplemental Nutrition Assistance Program).

The primary deficit – the difference between non-interest spending and receipts – is the determinant of the debt-to-GDP ratio over which the government has the greatest control (the other determinants include interest rates and growth in GDP). Chart 8 shows receipts, non-interest spending, and the difference – the primary deficit – expressed as a share of GDP. The primary deficit-to-GDP ratio spiked during 2009 through 2012 due to the 2008-09 financial crisis and the ensuing severe recession, as well as the effects of the government's response thereto. These elevated primary deficits resulted in a sharp increase in the ratio of debt to GDP, which rose from 39 percent at the end of 2008 to 70 percent at the end of 2012. As an economic recovery took hold, the primary deficit ratio fell, averaging 2.1 percent of GDP over 2013 through 2019. The primary deficit-to-GDP ratio again spiked in 2020, rising to 13.3 percent of GDP in 2020, 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. Spending remained elevated in 2021 due to additional funding to support economic recovery, but increased receipts reduced the primary deficit-to-GDP to 10.8 percent.

The primary deficit-to-GDP ratio in 2022 was 3.6 percent, decreasing by 7.2 percentage points from 2021 as spending attributable to the pandemic winds down. The primary deficit-to-GDP ratio is projected to fall to 2.2 percent in 2023, based on the technical assumptions[20] in this report, and then average 3.0 percent through 2029. After 2029, however, increased spending for Social Security and health programs due to the ongoing retirement of the baby boom generation and increases in the price of health care services is projected to result in increasing primary deficit ratios that peak at 4.8 percent of GDP in 2044. Primary deficits as a share of GDP gradually decrease beyond that point, as aging of the population continues at a slower pace, and reaches 3.5 percent of GDP in 2097, the last year of the projection period.

Trends in the primary deficit are heavily influenced by tax receipts. The receipt share of GDP was markedly depressed in 2009 through 2012 because of the recession and tax reductions enacted as part of the ARRA and the *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.* The share subsequently increased to 18.0 percent of GDP by 2015, before falling below the 30-year average of 17.2 percent in 2018, after enactment of the TCJA.

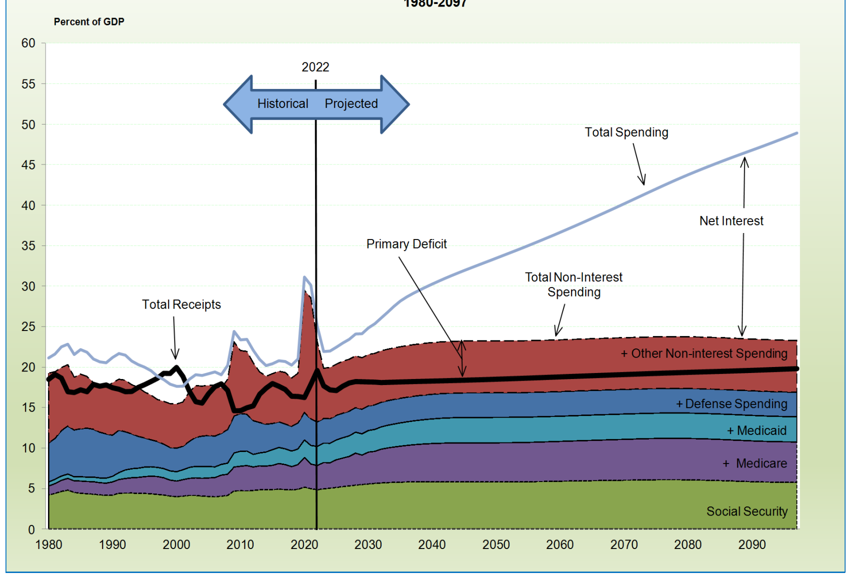

Chart 8: Historical and Current Policy Projections for Receipts, Non-interest Spending, Net Interest, and Total Spending 1980-2097

Receipts were 19.6 percent of GDP in 2022, 1.5 percentage points above 2021. Receipts are projected to fall to 17.7 percent of GDP in 2023 and then further decrease to 17.1 percent of GDP in 2025. Receipts are projected to be 18.1 percent of GDP in 2032 when corporation income tax and other receipts stabilize as a share of GDP. After 2032, receipts grow slightly more rapidly than GDP over the projection period as increases in real (i.e., inflation-adjusted) incomes cause more taxpayers and a larger share of income to fall into the higher individual income tax brackets.[21]

On the spending side, the non-interest spending share of GDP was 23.2 percent in 2022, 5.8 percentage points below the share of GDP in 2021, which was 28.9 percent. The ratio of non-interest spending to GDP is projected to fall to 19.9 percent in 2023 and then rise gradually, reaching 23.8 percent of GDP in 2078. The ratio of non-interest spending to GDP then declines to 23.3 percent in 2097, the end of the projection period. Beginning in 2025, these increases are principally due to faster growth in Social Security, Medicare, and Medicaid spending (see Chart 8). The aging of the baby boom generation, among other factors, is projected to increase the spending shares of GDP of Social Security and Medicare by about 0.9 and 1.5 percentage points, respectively, from 2023 to 2040. After 2040, the Social Security and Medicare spending shares of GDP continue to increase in most years, albeit at a slower rate, due to projected increases in health care costs and population aging, before declining toward the end of the projection period.

On a PV basis, deficit projections reported in the FY 2022 *Financial Report* decreased in both present-value terms and as a percent of the current 75-year PV of GDP. As discussed in Note 24, the largest factor affecting the projections is an adjustment to the model's technical assumptions, which decreases the imbalance by 0.7 percent of the 75-year PV of GDP ($11.9 trillion). In last year's projections, discretionary spending grew from the 2022 baseline estimate in the President's Budget. As discussed below, discretionary spending in this year's projections grows with GDP from actual budget results

[20] Projections for discretionary and mandatory programs – other than Social Security, Medicare, and Medicaid – exclude COVID-19-related spending judged to be temporary. The primary deficit-to-GDP ratio would likely be higher in the near-term if projections assumed outlays of remaining COVID-19 relief funding. See Note 24 for more detail on technical assumptions for the long-term fiscal projections.
[21] Other possible paths for the receipts-to-GDP ratio and the projected debt held by the public are illustrated in the "Alternative Scenarios" section.

following an adjustment to remove outlays of supplemental funding[22] provided in response to the COVID-19 pandemic. This adjustment prevents inflating projections with spending considered temporary. The second largest factor is the effect of new Social Security, Medicare, and Medicaid program-specific actuarial assumptions, which decrease this imbalance as a share of the 75-year PV of GDP by 0.3 percentage points ($5.0 trillion). The third largest factor affecting the projections – decreasing the imbalance as a share of the 75-year PV of GDP by 0.2 percentage points ($4.6 trillion) – is attributable to actual budget results for FY 2022 and baseline estimates published in the FY 2023 President's Budget, and changes to spending and receipts from legislation enacted toward the end of the fiscal year.[23] This improvement in the fiscal position is primarily due to a lower 75-year PV of spending for mandatory programs other than Social Security, Medicare, and Medicaid. That decrease in spending is partially offset by a lower 75-year PV of individual income taxes receipts and other receipts (includes excise taxes, estate and gift taxes, customs duties, and miscellaneous receipts). The fourth factor was the update of economic and demographic assumptions. While the 75-year PV of receipts less non-interest spending deteriorated by $1.5 trillion and appears to worsen the fiscal position, the imbalance decreased by 0.2 percentage points as a share of the 75-year PV of GDP. The 75-year PV of GDP for this year's projections is $1,872.9 trillion, greater than last year's $1,724.4 trillion. That increase in GDP exceeds the increase in the imbalance of receipts less non-interest spending, and thus improves the fiscal position as a percent of GDP. Larger GDP is attributable to updates that raised the level of GDP for 2022 and higher growth rates near the start of the projection period. The last factor, the change in reporting period – the effect of shifting calculations from 2022 through 2096 to 2023 through 2097 – increases the imbalance of the 75-year PV of receipts less non-interest spending by $2.1 trillion, which has a negligible effect on the 75-year PV of GDP.

One of the most important assumptions underlying the projections is that current federal policy 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 future changes to policy. If policy changes are enacted, perhaps in response to projections like those presented here, then actual fiscal outcomes will be different than those projected. Another important assumption is the future growth of health care costs. As discussed in Note 25, these future growth rates – both for health care costs in the economy generally and for federal health care programs such as Medicare, Medicaid, and PPACA exchange subsidies – are highly uncertain. In particular, enactment of the PPACA in 2010 and the MACRA in 2015 established cost controls for Medicare hospital and physician payments whose long-term effectiveness of which is not yet clear. The Medicare spending projections in the long-term fiscal projections are based on the projections in the 2022 Medicare Trustees Report, which assume the PPACA and MACRA cost control measures will be effective in producing a substantial slowdown in Medicare cost growth. As discussed in Note 25, the Medicare projections are subject to much uncertainty about the ultimate effects of these provisions to reduce health care cost growth. Certain features of current law may result in some challenges for the Medicare program including physician payments, payment rate updates for most non-physician categories, and productivity adjustments. Payment rate updates for most non-physician categories of Medicare providers are reduced by the growth in economy-wide private nonfarm business total factor productivity although these health providers have historically achieved lower levels of productivity growth. Should payment rates prove to be inadequate for any service, beneficiaries' access to and the quality of Medicare benefits would deteriorate over time, or future legislation would need to be enacted that would likely increase program costs beyond those projected under current law. For the long-term fiscal projections, that uncertainty also affects the projections for Medicaid and exchange subsidies, because the cost per beneficiary in these programs is assumed to grow at the same reduced rate as Medicare cost growth per beneficiary. The projections in the Medicaid Actuarial Report, which end in 2027, are adjusted to accord with the actual Medicaid spending in FY 2022. Actual Medicaid spending includes temporary spending increases due to changes in enrollment and other temporary measures related to the pandemic. The amounts related to these temporary spending increases cannot be identified, which adds uncertainty to the projections. After 2027, the projections assume no further change in State Medicaid coverage under the PPACA, and the numbers of aged beneficiaries (65-plus years) and non-aged beneficiaries (less than 65 years) are expected to grow at the same rates as the aged and non-aged populations, respectively. The most recent Social Security and Medicare Trustees Reports were released in June 2022. See Note 24—Long-Term Fiscal Projections for additional information.

As discussed in Note 24 of the FY 2022 *Financial Report*, other key assumptions include, but are not limited to the following. For receipts, individual income taxes are based on the share of individual income taxes of salaries and wages in the current law baseline projection in the FY 2023 President's Budget, and the salaries and wages projections in the Social Security 2022 Trustees Report. That baseline accords with the tendency of effective tax rates to increase as growth in income per capita outpaces inflation (also known as "bracket creep") and the expiration dates of individual income and estate and gift tax provisions of the TCJA. Effects of recent legislation enacted toward the end of FY 2022 are added to projections based on CBO estimates and assumed to continue through the projection period. After falling to 19 percent of wages and salaries in 2024, individual income taxes increase gradually to 29 percent of wages and salaries in 2097 as real taxable incomes rise over

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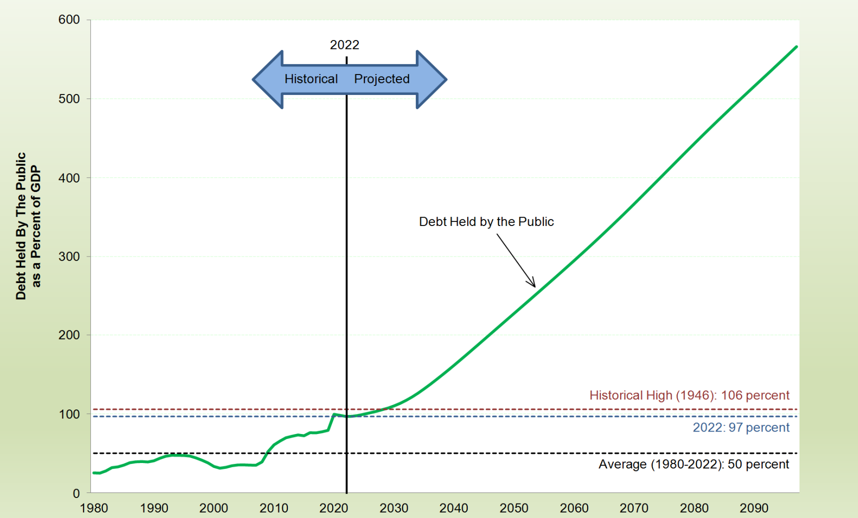
[22] Discretionary outlays of supplemental funding provided in response to COVID-19 are identified using Disaster Emergency Fund Code attributes in budget execution data for the following laws: the *Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020* (P.L. 116-123)*; Families First Coronavirus Response Act* (P.L. 116-127)*;* the CARES Act (P.L. 116-136); the *Paycheck Protection Program and Health Care Enhancement Act* (P.L. 116-139); and the CAA (P.L. 116-260, Division M).

[23] Legislation enacted toward the end of FY 2022 includes: An act making appropriations for Legislative Branch for the fiscal year ending September 30, 2022, and for other purposes (P.L. 117-167); PACT Act (P.L. 117-168); and an act to provide for reconciliation pursuant to title II of S.Con.Res. 14 (P.L. 117-169).

time and an increasing share of total income is taxed in the higher tax brackets. Through the first ten years of the projections, corporation tax receipts as a percent of GDP reflect the economic and budget assumptions used in developing the FY 2023 President's Budget ten-year advance baseline budgetary estimates plus estimated effects of recent legislation. After this time, corporation tax receipts grow at the same rate as nominal GDP. Other receipts also reflect FY 2023 President's Budget baseline levels as a share of GDP throughout the budget window, plus estimated effects of recent legislation, and grow with GDP outside of the budget window. Corporation tax receipts peak at 1.8 percent of GDP in 2024 before falling to 1.3 percent of GDP in 2032, where they stay for the remainder of the projection period. The ratio of other receipts, including excise taxes, estate and gift taxes, customs duties, and miscellaneous receipts, to GDP is estimated to be 1.3 percent in 2023, after which it gradually declines to 1.1 percent by 2032 where it remains through the projection period. Projections for the other categories of receipts and spending are consistent with the economic and demographic assumptions in the Trustees Reports and include updates for actual budget results for FY 2022 or budgetary estimates from the FY 2023 President's Budget. Where possible, those budget totals are adjusted before spending is projected to remove outlays for programs or activities that are judged to be temporary, such as spending related to the COVID-19 pandemic and economic recovery. Such an adjustment is not possible for increased Medicaid outlays under the COVID-19 Public Health Emergency, resulting in higher projections of future spending, increasing the uncertainty surrounding the projections. See Note 24—Long-Term Fiscal Projections for additional information about the assumptions used in this analysis.

The primary deficit-to-GDP projections in Chart 8, projections for interest rates, and projections for GDP together determine the debt-to-GDP ratio projections shown in Chart 9. That ratio was approximately 97 percent at the end of FY 2022 and under current policy is projected to exceed the historic high of 106 percent in 2029, rise to 200 percent by 2046 and reach 566 percent by 2097. The change in debt held by the public from one year to the next generally represents the budget deficit, the difference between total spending and total receipts. The debt-to-GDP ratio rises continually in great part because primary deficits lead to higher levels of debt, which lead to higher net interest expenditures, and higher net interest expenditures lead to higher debt.[24] The continuous rise of the debt-to-GDP ratio indicates that current policy is unsustainable.

**Chart 9: Historical and Current Policy Projections for Debt Held by the Public, 1980-2097**




These debt-to-GDP projections are lower than the corresponding projections in both the 2021 and 2020 *Financial Reports*. For example, the last year of the 75-year projection period used in the FY 2020 *Financial Report* is 2095. In the FY 2022 *Financial Report*, the debt-to-GDP ratio for 2095 is projected to be 552 percent, which compares with 692 and 623 percent for the 2095 projection year in the FY 2021 *Financial Report* and the FY 2020 *Financial Report,* respectively.[25]

## The Fiscal Gap and the Cost of Delaying Policy Reform

The 75-year fiscal gap is one measure of the degree to which current policy is unsustainable. It is the amount by which primary surpluses over the next 75 years must, on average, rise above current-policy levels in order for the debt-to-GDP ratio in 2097 to remain at its level in 2022. The projections show that projected primary deficits average 4.2 percent of GDP over the next 75 years under current policy. If policies were adopted to eliminate the fiscal gap, the average primary surplus over the next 75 years would be 0.6 percent of GDP, 4.9 percentage points higher than the projected PV of receipts less non-interest spending shown in the basic financial statements. Hence, the 75-year fiscal gap is estimated to equal 4.9 percent of GDP. This amount is, in turn, equivalent to 26.0 percent of 75-year PV receipts and 21.2 percent of 75-year PV non-interest spending. This estimate of the fiscal gap is 1.4 percentage points smaller than was estimated in the FY 2021 *Financial Report* (6.2 percent of GDP).

In these projections, closing the fiscal gap requires running substantially positive primary surpluses, rather than simply eliminating the primary deficit. The primary reason is that the projections assume future interest rates will exceed the growth

[24] The change in debt each year is also affected by certain transactions not included in the budget deficit, such as changes in Treasury's cash balances and the nonbudgetary activity of federal credit financing accounts. These transactions are assumed to hold constant at about 0.3 percent of GDP each year, with the same effect on debt as if the primary deficit was higher by that amount.

[25] See the Note 26 of the *FY 2021 Financial Report of the U.S. Government* for more information about changes in the long-term fiscal projections between FYs 2021 and 2020.

rate of GDP. Achieving primary balance (that is, running a primary surplus of zero) implies that the debt grows each year by the amount of interest spending, which under these assumptions would result in debt growing faster than GDP.

| Table 6 | |
|---|---|
| **Cost of Delaying Fiscal Reform** | |
| **Period of Delay** | **Change in Average Primary Surplus** |
| Reform in 2023 (No Delay)............................ | 4.9 percent of GDP between 2023 and 2097 |
| Reform in 2033 (Ten-Year Delay).................... | 5.7 percent of GDP between 2033 and 2097 |
| Reform in 2043 (Twenty-Year Delay).............. | 7.0 percent of GDP between 2043 and 2097 |

Table 6 shows the cost of delaying policy reform to close the fiscal gap by comparing policy reforms that begin in three different years. Immediate reform would require increasing primary surpluses by 4.9 percent of GDP on average between 2023 and 2097 (i.e., some combination of reducing spending and increasing revenue by a combined 4.9 percent of GDP on average over the 75-year projection period). Table 6 shows that delaying policy reform forces larger and more abrupt policy reforms over shorter periods. For example, if policy reform is delayed by 10 years, closing the fiscal gap requires increasing the primary surpluses by 5.7 percent of GDP on average between 2033 and 2097. Similarly, delaying reform by 20 years requires primary surplus increases of 7.0 percent of GDP on average between 2043 and 2097. The differences between the required primary surplus increases that start in 2033 and 2043 (5.7 and 7.0 percent of GDP, respectively) and that which starts in 2023 (4.9 percent of GDP) is a measure of the additional burden that delay would impose on future generations. Future generations are harmed by policy reform delay, because the higher the primary surplus is during their lifetimes the greater the difference is between the taxes they pay and the programmatic spending from which they benefit.

### Conclusion

The debt-to-GDP ratio is projected to rise over the 75-year projection period and beyond if current policy is unchanged, based on this report's assumptions, which implies that current policy is not sustainable and must ultimately change. If policy changes are not so abrupt as to slow economic growth, then the sooner policy changes are adopted to avert these trends, the smaller the changes to revenue and/or spending that would be required to achieve sustainability over the long term. While the estimated magnitude of the fiscal gap is subject to a substantial amount of uncertainty, it is nevertheless nearly certain that current fiscal policies cannot be sustained indefinitely.

These long-term fiscal projections and the topic of fiscal sustainability are discussed in further detail in Note 24 and the RSI section of this *Financial Report*. The fiscal sustainability under alternative scenarios for the growth rate of health care costs, interest rates, discretionary spending, and receipts are illustrated in the "Alternative Scenarios" section within the RSI.

## Social Insurance

The long-term fiscal projections reflect government receipts and spending as a whole. The SOSI focuses on the government's "social insurance" programs: Social Security, Medicare, Railroad Retirement, and Black Lung.[26] For these programs, the SOSI reports: 1) the actuarial PV of all future program revenue (mainly taxes and premiums) - excluding interest - to be received from or on behalf of current and future participants; 2) the estimated future scheduled expenditures to be paid to or on behalf of current and future participants; and 3) the difference between 1) and 2). Amounts reported in the SOSI and in the RSI section in this *Financial Report* are based on each program's official actuarial calculations.

This year's projections for Social Security and Medicare are based on the same economic and demographic assumptions that underlie the 2022 Social Security and Medicare Trustees Reports[27] and the 2022 SOSI, while comparative information presented from last year's report is based on the 2021 Social Security and Medicare Trustees Reports and the 2021 SOSI. Table 7 summarizes amounts reported in the SOSI, showing that net social insurance expenditures are projected to be $75.9 trillion over 75 years as of January 1, 2022 for the open group, an increase of $4.9 trillion over net expenditures of $71.0 trillion projected in the FY 2021 *Financial Report*.[28] The current-law 2022 amounts reported for Medicare reflect the physician payment levels expected under the MACRA payment rules and the PPACA-mandated reductions in other Medicare

[26] *The Black Lung Benefits Act* provides for monthly payments and medical benefits to coal miners totally disabled from pneumoconiosis (black lung disease) arising from their employment in or around the nation's coal mines. See https://www.dol.gov/owcp/regs/compliance/ca_main.htm. RRB's projections are based on economic and demographic assumptions that underlie the *28th Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Acts as of December 31, 2019 with Technical Supplement* and the 2022 Annual Report on the Railroad Retirement System required by Section 502 of the *Railroad Retirement Solvency Act of 1983* (P.L. 98-76).

[27] These assumptions were developed based on data primarily as of January 1, 2022. Subsequent to January 1, 2022, inflation and interest rates increased faster than previously expected. The SOSI projections are not adjusted for the more current near-term economic information.

[28] Closed group and open group differ by the population included in each calculation. From the SOSI, the closed group includes: 1) participants who have attained eligibility; and 2) participants who have not attained eligibility. The open group adds future participants to the closed group. See 'Social Insurance' in the RSI section in this *Financial Report* for more information.

payment rates, but not the payment reductions and/or delays that would result from trust fund depletion.[29] Similarly, current-law projections for Social Security do not reflect benefit payment reductions and/or delays that would result from fund depletion. By accounting convention, the transfers from the General Fund to Medicare Parts B and D are eliminated in the consolidation of the SOSI at the government-wide level and as such, the General Fund transfers that are used to finance Medicare Parts B and D are not included in Table 7. For the FYs 2022 and 2021 SOSI, the amounts eliminated totaled $47.5 trillion and $43.2 trillion, respectively. SOSI programs and amounts are included in the broader fiscal sustainability analysis in the previous section, although on a slightly different basis (as described in Note 24).

The amounts reported in the SOSI provide perspective on the government's long-term estimated exposures for social insurance programs. These amounts are not considered liabilities in an accounting context. Future benefit payments will be recognized as expenses and liabilities as they are incurred based on the continuation of the social insurance programs' provisions contained in current law. The social insurance trust funds account for all related program income and expenses. Medicare and Social Security taxes, premiums, and other income are credited to the funds; fund disbursements may only be made for benefit payments and program administrative costs. Any excess revenues are invested in special nonmarketable U.S. government securities at a market rate of interest. The trust funds represent the accumulated value, including interest, of all prior program surpluses, and provide automatic funding authority to pay cover future benefits.

**Table 7: Social Insurance Future Expenditures in Excess of Future Revenues**

| Dollars in Trillions | 2022 | 2021 | Increase / (Decrease) $ | Increase / (Decrease) % |
|---|---|---|---|---|
| **Open Group (Net):** | | | | |
| Social Security (OASDI) | $ (23.3) | $ (22.7) | $ 0.6 | 2.6% |
| Medicare (Parts A, B, & D) | $ (52.5) | $ (48.2) | $ 4.3 | 8.9% |
| Other | $ (0.1) | $ (0.1) | $ - | 0.0% |
| **Total Social Insurance Expenditures, Net (Open Group)** | **$ (75.9)** | **$ (71.0)** | $ 4.9 | 6.9% |
| **Total Social Insurance Expenditures, Net (Closed Group)** | **$ (100.6)** | **$ (93.6)** | $ 7.0 | 7.5% |
| **Social Insurance Net Expenditures as a % of GDP*** | | | | |
| **Open Group** | | | | |
| Social Security (OASDI) | (1.3%) | (1.3%) | | |
| Medicare (Parts A, B, & D) | (3.0%) | (3.1%) | | |
| **Total (Open Group)** | **(4.3%)** | **(4.4%)** | | |
| **Total (Closed Group)** | **(5.7%)** | **(5.8%)** | | |

Source: SOSI. Amounts equal estimated present value of projected revenues and expenditures for scheduled benefits over the next 75 years of certain Social Insurance programs (e.g., Social Security, Medicare). Open group totals reflect all current and projected program participants during the 75-year projection period. Closed group totals reflect only current participants.

* GDP values used are from the 2022 & 2021 Social Security and Medicare Trustees Reports and represent the present value of GDP over the 75-year projection period. As the GDP used for Social Security and Medicare differ slightly in the Trustees Reports, the two values are averaged to estimate the Other and Total Net Social Insurance Expenditures as a percent of GDP. As a result, totals may not equal the sum of components due to rounding.

[29] MACRA permanently replaces the Sustainable Growth Rate formula, which was used to determine payment updates under the Medicare physician fee schedule with specified payment updates through 2025. The changes specified in MACRA also establish differential payment updates starting in 2026 based on practitioners' participation in eligible APM; payments are also subject to adjustments based on the quality of care provided, resource use, use of certified electronic health records, and clinical practice improvement.

Table 8 identifies the principal reasons for the changes in projected social insurance amounts during 2022 and 2021.

**Table 8: Changes in Social Insurance Projections**

| Dollars in Trillions | 2022 | 2021 |
|---|---|---|
| **NPV - Open Group (Beginning of the Year)** | **$ (71.0)** | **$ (65.5)** |
| **Changes In:** | | |
| Valuation Period | $ (1.7) | $ (2.2) |
| Demographic data, assumptions, and methods | $ (0.8) | $ 1.5 |
| Economic data, assumptions, and methods[1] | $ (0.2) | $ (1.2) |
| Law or policy | $ - | $ (0.2) |
| Methodology and programmatic data[1] | $ 0.6 | $ (1.2) |
| Economic and other healthcare assumptions[2] | $ (5.3) | $ (3.8) |
| Change in projection base[2] | $ 2.5 | $ 1.6 |
| Net Change in Open Group measure | $ (4.9) | $ (5.5) |
| **NPV - Open Group (End of the Year)** | **$ (75.9)** | **$ (71.0)** |

[1] Relates to Social Security Program.
[2] Relates to Medicare Program.

The following briefly summarizes the significant changes for the current valuation (as of January 1, 2022) as disclosed in Note 25—Social Insurance. Note 25 is compiled from disclosures included in the financial statements of those entities administering these programs, including SSA and HHS. See Note 25 for additional information.

- Change in valuation period (affects both Social Security and Medicare): This change replaces a small negative net cash flow for 2021 with a much larger negative net cash flow for 2096. As a result, the PV of the estimated future net cash flows decreased (became more negative) by $0.7 trillion and $1.0 trillion for Social Security and Medicare, respectively.
- Changes in demographic data, assumptions, and methods (affects both Social Security and Medicare): There was one notable change in demographic methodology. An improvement was made to put more emphasis on recent mortality data by increasing the weights for the most recent years in the regressions used to calculate the starting rates of improvement and starting death rates. This change decreased the PV of the estimated future net cash flows. In addition, the starting demographic values and the way these values transition to the ultimate assumptions were changed. Final birth rate data for calendar year 2020 indicated slightly lower birth rates than were assumed in the prior valuation. Death rates increased significantly for 2020 and 2021. Overall, changes to these assumptions caused the PV of the estimated future net cash flows to decrease (became more negative) by $0.3 trillion and $0.5 trillion for Social Security and Medicare, respectively.
- Changes in economic data and assumptions (affects Social Security only): Several changes were made to the ultimate economic assumptions since the last valuation period. Economic starting values and near-term growth assumptions were updated to reflect the stronger-than-expected recovery from the pandemic-induced recession. In addition to these changes in ultimate economic assumptions, the starting economic values and the way these values transition to the ultimate assumptions were changed. Near-term real interest rates are assumed to be slightly higher on average than those for the prior valuation. Economic starting values and near-term growth assumptions were updated to reflect the stronger-than-expected recovery from the pandemic-induced recession. The level of potential GDP for years 2021 and later is assumed to be about 1.1 percent higher than the level in the prior valuation, reflecting the strong recovery and the expectation of a permanent level shift in total economy labor productivity. There were no additional notable changes in economic methodology. Overall, changes to economic data, assumptions, and methods caused the PV of the estimated future net cash flows to decrease (became more negative) by $0.2 trillion for Social Security.
- Changes in law or policy (affects both Social Security and Medicare): The monetary effect of the changes in law or policy on the PV of estimated future net cash flows of the OASDI and Medicare programs was not significant at the consolidated level. Please refer to SSA's and HHS's financial statements for additional information related to the impact of the changes in law or policy on the PV of estimated future net cash flows of the OASDI and Medicare programs.
- Changes in methodology and programmatic data (affects Social Security only). Several methodological improvements and updates of program-specific data are included in the current valuation (beginning on January 1, 2022). The most significant are as follows: The ultimate disability incidence rate was lowered from 5.0 per thousand exposed in the prior valuation to 4.8 in the current valuation. The current valuation is updated using a 10.0 percent sample of all newly entitled worker beneficiaries to project average benefit levels of retired-worker and disabled-worker beneficiaries. Recent data and estimates provided by the Office of Tax Analysis at Treasury indicate higher near-term and ultimate levels of revenue from taxation of OASDI benefits than projected in the prior valuation. Updates were made to the post-entitlement benefit adjustment factors. These factors are used to account for changes in benefit levels, primarily due to differential mortality by benefit level and earnings after benefit entitlement.

Overall, changes to programmatic data and methods caused the PV of the estimated future net cash flows to increase by $0.6 trillion for Social Security.

- Changes in economic and healthcare assumptions (affects Medicare only): The economic assumptions used in the Medicare projections are the same as those used for the OASDI (described above) and are prepared by the Office of the Chief Actuary at SSA. In addition to the economic assumptions changes described above, the healthcare assumptions are specific to the Medicare projections. Changes to these assumptions in the current valuation include: high projected spending growth for outpatient hospital services and for physician-administered drugs; and slower price growth and higher direct and indirect remuneration. Overall, these changes decreased the PV of estimated future net cash flow by $5.3 trillion for Medicare.
- Change in Projection Base (affects Medicare only): Actual income and expenditures in 2021 were different than what was anticipated when the 2021 Medicare Trustees Report projections were prepared. For Part A and Part B income and expenditures in 2021 were lower than estimated based on experience. Part D income and expenditures were higher than estimated based on actual experience. Actual experience of the Medicare Trust Funds between January 1, 2021, and January 1, 2022, is incorporated in the current valuation and is more than projected in the prior valuation. Overall, the net impact of Part A, B, and D projection base change is an increase in the estimated future net cash flows by $2.5 trillion for Medicare.

As reported in Note 25, uncertainty remains about whether the projected cost savings and productivity improvements will be sustained in a manner consistent with the projected cost growth over time. Note 25 includes an alternative projection to illustrate the uncertainty of projected Medicare costs. As indicated earlier, GAO disclaimed opinions on the 2022, 2021, 2020, 2019 and 2018 SOSI because of these significant uncertainties.

Costs as a percent of GDP of both Medicare and Social Security, which are analyzed annually in the Medicare and Social Security Trustees Reports, are projected to increase substantially through the mid-2030s because: 1) the number of beneficiaries rises rapidly as the baby-boom generation retires; and 2) the lower birth rates that have persisted since the baby boom cause slower growth in the labor force and GDP.[30] According to the Medicare Trustees Report, spending on Medicare is projected to rise from its current level of 3.9 percent of GDP to 6.2 percent in 2046 and to 6.5 percent in 2096.[31] As for Social Security, combined spending is projected to generally increase from its current level of 5.0 percent of GDP to a peak of 6.2 percent for 2077, and then decline to 5.9 percent by 2096. The government collects and maintains funds supporting the Social Security and Medicare programs in trust funds. A scenario in which projected funds expended exceed projected funds received, as reported in the SOSI, will cause the balances in those trust funds to deplete over time. Table 9 summarizes additional current status and projected trend information, including years of projected depletion, for the Medicare HI and Social Security Trust Funds.

**Table 9: Trust Fund Status**

| Fund | Projected Depletion | Projected Post-Depletion Trend |
|---|---|---|
| Medicare Hospital Insurance * | 2028 | In 2028, trust fund income is projected to cover 90.0 percent of benefits, decreasing to 80.0 percent in 2046, then returning to 93.0 percent by 2096. |
| Combined Old-Age Survivors and Disability Insurance ** | 2035 | In 2035, trust fund income is projected to cover 80.0 percent of scheduled benefits, decreasing to 74.0 percent by 2096. |

* Source: 2022 Medicare Trustees Report  ** Source: 2022 OASDI Trustees Report

This Report's projections assume full Social Security and Medicare benefits are paid after fund depletion contrary to current law.

As previously discussed and as noted in the Trustees Reports, these programs are on a fiscally unsustainable path. Additional information from the Trustees Reports may be found in the RSI section of this *Financial Report*.

## Reporting on Climate Change

As stated in EO 14008, Tackling the Climate Crisis at Home and Abroad "the United States and the world face a profound climate crisis…Domestic action must go hand in hand with United States international leadership, aimed at

[30] A Summary of the 2022 Annual Social Security and Medicare Trust Fund Reports, page 12.
[31] Percent of GDP amounts are expressed in gross terms (including amounts financed by premiums and state transfers).

significantly enhancing global action." Among other things, the EO "directs each federal agency to develop a plan to increase the resilience of its facilities and operations to the impacts of climate change and directs relevant agencies to report on ways to expand and improve climate forecast capabilities – helping facilitate public access to climate related information and assisting governments, communities, and businesses in preparing for and adapting to the impacts of climate change." As a corollary to EO 14008, EO 14030, Climate-Related Financial Risk, is intended to help the American people understand how climate change could impact their financial security, to strengthen the U.S. financial system so that climate change does not affect the system's stability, and to inform federal government decision-making to mitigate the risks of climate change. Section 5(a) of EO 14030 specifically tasks OMB and the National Economic Council, in consultation with Treasury, to develop recommendations to integrate climate-related financial risk into financial management and reporting, with a focus on the climate-related financial risk of lending programs. Section 5(a) directs the recommendations to include an evaluation of changes to accounting standards where appropriate for federal financial reporting. As required by EO 14030, in October 2021, the National Economic Council issued a report[32] laying out a government-wide strategy to address the financial risk that climate change poses to the government and the U.S. economy. Finally, on December 8, 2021, EO 14057, Catalyzing Clean Energy Industries and Jobs Through Federal Sustainability, was issued. Among other things, this EO directs agencies to develop plans, processes, and analytic tools that will allow federal agencies and programs to adapt to climate change.

In November 2021, President Biden signed a $1 trillion bipartisan infrastructure bill, the IIJA that, in part, included historic funding to protect the country against the detrimental effects of climate change, including expanded access to clean drinking water, programs that help reduce flood risk and damage investments in clean energy transmissions and electric vehicle infrastructure, electrifying thousands of school and transit buses across the country, and creating a new Grid Deployment Authority to build a resilient, 21st century electric grid. Less than a year later, President Biden signed legislation that made the largest climate investment in U.S. history: IRA provides tax incentives and other clean energy initiatives to reduce energy costs for consumers and small businesses, including investments in underserved communities and historic energy communities. For example, the IRA provides a range of tax incentives to accelerate the build-out of a clean energy economy, as well as direct consumer rebates and tax incentives to purchase more efficient appliances and electric vehicles. These investments have put America on track to decrease greenhouse gas emissions by about 40 percent below 2005 levels in 2030.[33]

Many of the 24 CFO Act agencies have leveraged their FY 2022 financial statements to discuss a wide range of topics concerning how their agencies are responding to the climate crisis. The form of the required financial statement climate-related reporting is at the discretion of each agency, so the content varies across the reports, but taken in combination, the following summary provides a broad picture of the many efforts in effect across the 24 CFO Act agencies.

More than half of CFO Act agency heads cited climate change in their financial statements' transmittal messages. For example:

- The Secretary of the Interior referenced the BIL as having made a major investment in the conservation and stewardship of America's public lands, including several provisions that invest in DOI initiatives, such as restoring critical habitats, addressing the drought crisis, assisting with wildlife management, and helping communities prepare for extreme weather events.
- The Secretary of Agriculture stated that USDA has embarked on a department-wide effort to enact climate-smart agriculture, forestry, and rural clean energy policies that are voluntary, flexible, and producer-led. In service of this goal, USDA announced the new Partnerships for Climate-Smart Commodities Program, which finances pilot projects for U.S. agriculture and forestry products that use climate-smart practices.
- The NASA Administrator stated that NASA contributes significantly to what is known about Earth's changing climate and cited recent agency efforts related to climate change, disaster mitigation, fighting forest fires, and improving real-time agricultural processes.
- The GSA Administrator stated that accelerating clean energy and innovation was a priority area, noting that GSA manages the largest civilian vehicle fleet in the country which it is working to electrify, as well as to build to the infrastructure to support it. GSA is advancing clean energy through its buildings portfolio, including through the IRA, which has historic investments for low carbon materials, emerging clean technology, and more.

All but one of the CFO Act agencies referenced their climate action and adaptation plans, or sustainability reports, including:

- State's plan focuses on three goals: 1) protect the health and safety of personnel; 2) adapt department facilities, operations, and mission-critical services to be more resilient to the impacts of climate change; and 3) lead by example through showcasing climate adaptation and resilience solutions.
- Commerce's sustainability reports contain information regarding the department's performance toward energy and sustainability goals in the following categories: facility energy use, water use, renewable energy, facility efficiency investments, high performance sustainable buildings, fleet petroleum and alternative fuel, and greenhouse gas emissions.

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[32] The report can be found here: A ROADMAP TO BUILD A CLIMATE-RESILIENT ECONOMY (whitehouse.gov).
[33] DOE Projects Monumental Emissions Reduction From Inflation Reduction Act

- EPA's Sustainability Report and Implementation Plan identifies targets for reducing agency-wide greenhouse gas emissions and outlines steps to reduce energy, water, waste, and other resource use.
- Referencing its Climate Action Plan and Office of the Chief Sustainability Officer, SSA notes that it has identified five priority areas at delegated facilities located in four of the ten climate regions identified in the National Climate Assessment Report.

Several agencies, including State indicated that their plans include discussions of climate-related financial risk and efforts to manage that risk, using a framework developed by the global Task Force on Climate-Related Financial Disclosures – Governance, Strategy, Risk Management, and Metrics.

Approximately two-thirds of CFO Act agencies discussed climate change in the context of their strategic and performance goals. For example:

- Many of DOI's strategic goals and objectives reference climate change remediation efforts, including Strategic Goal 2 – "conserve, protect, manage, and restore natural and cultural resources in the face of climate change and other stressors". Efforts supporting this goal includes DOI's Wildland Fire Management Program, featuring a suite of activities, including preparedness, suppression, fuels management, burned area rehabilitation, and science.
- EPA's strategic goals include a new goal focused exclusively on tackling the climate crisis and an unprecedented strategic goal to advance environmental justice and civil rights.
- Treasury's strategic goals include "Combat Climate Change", supported by four objectives: 1) to demonstrate global leadership through reengagement with international partners; 2) to promote the flow of capital towards clean and renewable investments; 3) to identify and mitigate climate-related financial risks through improved measuring and monitoring of climate impacts; and 4) to reduce greenhouse gas emissions.
- DOE's strategic plan includes two climate-oriented goals: 1) "Drive U.S. Energy Innovation and Deployment on a Path to Net-Zero Emissions by 2050", which is supported by DOE's Office of Clean Energy Demonstrations; and 2) "Strengthen the Nation's Energy, Security, Resilience, Affordability, and Reliability". Each of DOE's objectives within this goal are aimed at fulfilling the mission of the National Climate Strategy to keep America on track to achieve a clean energy economy with net-zero emissions by 2050. Efforts include: supporting major breakthroughs in the development of cost-effective electric heat pumps to help decarbonize the building sector; completing field development activities for carbon storage; and accelerating deployment of clean technologies at scale and pace.
- DOT's discussion of agency performance includes Agency Priority Goal 5: Joint U.S./DOE Electric Vehicle Charging Infrastructure Deployment under the BIL. The BIL invests in the deployment of a national network of electric vehicle chargers as one of many important ways to address the climate crisis across DOT, DOE, and their newly formed Joint Office of Energy and Transportation. All three entities will support building a national network of electric vehicle chargers.

Approximately one-third of the CFO Act agencies discussed climate change as part of the forward-looking content of their MD&A.

- State's Special Presidential Envoy for Climate leads diplomatic engagement on the climate crisis, exercises climate leadership in international fora, increases international climate ambition and ensures that climate change is integrated into all elements of the Administration's foreign policy-making process.
- SBA reports that for every $1 spent on hazard mitigation, can save up to $6 in future disaster recovery costs. In 2022, SBA spotlighted the promotion of its disaster mitigation loan option through an Agency Priority Goal to drive increased awareness of this option and encourage businesses and homeowners to invest in their own preparedness.
- HHS's Office of Climate Change and Health Equity will launch the Inter-agency Working Group to Decrease Risk of Climate Change to Children, the Elderly, People with Disabilities, and the Vulnerable in 2023 in addition to updating the Sustainable and Climate Resilient Healthcare Facilities Toolkit.
- HUD's Strategic Plan prioritizes the sustainable, inclusive development of American communities, with added emphasis on furthering social equity and environmental justice. Overarching priorities include increasing social equity throughout all HUD programs and operations, as well as prioritizing the needs of vulnerable populations and underserved communities. HUD also discusses its roles under the National Disaster Recovery Framework, wherein HUD has both coordinating and primary roles in the housing recovery function after a declared disaster.
- VA discussed its primary climate vulnerabilities being built, infrastructure and burdens placed on its health care delivery systems, and interruptions in the supply of energy and material. VA has identified specific adaptation actions to decrease its vulnerability to the impacts of climate change, including implementing changes to building design and resilience standards, and updating sustainable building certification requirements.

A few CFO Act agencies discussed the financial effects of their climate-related efforts by relating those efforts to the budgetary expenses and/or financial costs incurred to execute these important programs. For example:

- USAID identifies the net costs associated with its program areas focused on climate change, including sustainable landscapes, clean energy, and adaptation, and provides detail of those costs by USAID's many bureaus.
- State indicates that it budgeted a total of $658.3 million in 2021 for climate change programming to reduce the federal government's exposure to climate related financial risks. Funding supported a variety of projects, including those to improve energy efficiency and resilience, such as the installation of on-site renewable energy storage

systems, for maintenance and repairs to department facilities, and for tools to analyze potential for future climate risks.

- DOI's Net Cost of Operations links DOI net costs with its four mission areas, including two climate-oriented areas: 1) "Conserve, Protect, Manage, and Restore Natural and Cultural Resources in the Face of Climate Change and Other Stressors" ($7.0 billion); and 2) "Sustainably Balance the Use of Resources While Supporting Communities and the Economy" ($8.0 billion). A related note disclosure provides additional detail presenting these net costs by bureau or responsibility segment (e.g., BIA, BLM, etc.).

Approximately one-third of the Inspectors General from CFO Act agencies identified climate change as a management challenge.

- Treasury's OIG added a new Management Challenge in FY 2022, Tackling the Climate Crisis at Home and Abroad, stating that Treasury will play a significant role working with other federal agencies, foreign governments, and international financial institutions to stimulate global action on addressing climate change.
- DOD's OIG includes Adapting to Climate Change, Accelerating Resilience, and Protecting the Environment among DOD's Management Challenges. DOD's response to this effort addresses three lines of effort of DOD's Climate Adaptation Plan – making climate-informed decisions, training and equipping a climate-ready force, and building resilient installations and infrastructure. Key to this challenge is expanding climate literacy and training, integrating climate effects into operations, and addressing installations' maintenance and improvement backlog.
- DOT's OIG identified executing federal priorities related to the impact of climate change, advancing equity, and promoting resilience in infrastructure as among the top management challenges facing the agency. A primary challenge for DOT will be balancing these goals and priorities with the need to execute IIJA projects timely, cost-effectively, and in a manner that provides value.

EO 14008 established the Justice40 Initiative a whole of government effort with the goal that 40 percent of the overall benefits of certain federal investments flow to disadvantaged communities that are marginalized, underserved, and overburdened by pollution. The Justice40 investment categories are: climate change, clean energy and energy efficiency, clean transit, affordable and sustainable housing, training and workforce development, remediation and reduction of legacy pollution, and the development of critical clean water and wastewater infrastructure. Several agencies referenced their Justice40 or environmental justice efforts in their financial statements, including DOE, DOT, EPA, and HUD.

The diversity of climate-related risks reported in agency financial statements is an indicator of the emergent and evolving nature of these efforts and the significant challenge that climate change presents to the nation.

# Financial Management

## Grants

In FY 2022, the federal government obligated over $1.1 trillion for grants and cooperative agreements, according to USAspending.gov. This figure does not include obligations for other types of financial assistance, such as loans or direct appropriations. A large portion of grant funding went to support the nation's response to the pandemic through the ARP, the CARES Act, and other COVID-19 funding. Improving access to key financial assistance data continues to be a priority for OMB and was highlighted in OMB Memorandum M-22-02, *New Financial Assistance Transparency Reporting Requirements*, which requires agencies to report additional information to USAspending.gov. M-22-02 also supports efforts to improve the financial management of grants and other forms of financial assistance.

On November 15, 2021, President Biden signed into law the IIJA and subsequently OMB issued two memoranda to provide guidance to agencies regarding IIJA program implementation. First, OMB issued M-22-08, *Identification of Federal Financial Assistance Infrastructure Programs Subject to the Build America, Buy America Provisions of the Infrastructure Investment and Jobs Act*, which required agencies to identify all existing infrastructure programs. Second, OMB issued M-22-11, *Initial Implementation Guidance on Application of Buy America Preference in Federal Financial Assistance Programs for Infrastructure*, which required that by May 14, 2022, agencies take actions to ensure that "none of the funds made available for a federal financial assistance program for infrastructure, including each deficient program, may be obligated for a project unless all of the iron, steel, manufactured products, and construction materials used in the project are produced in the United States."

Also in FY 2022, OMB issued M-22-12, *Advancing Effective Stewardship of Taxpayer Resources and Outcomes in the Implementation of the Infrastructure Investment and Jobs Act*, which provided initial implementation guidance to agencies to ensure proper governance and management of IIJA programs both within and across agencies and to ensure regular engagement by agencies with the oversight community, including the Inspectors Generals and the GAO. The Memorandum also provided guidance on program planning, design, and execution; managing risk; public reporting of financial, award, and post-award data; and hiring and managing workforce needs.

On May 12, 2022, OMB issued the FY 2022 Compliance Supplement, which was the earliest the Supplement has been issued in 15 years. The Supplement provides audit guidance for federal grant programs and for FY 2022 included five new programs that are funded by ARP.

## Payment Integrity

Preventing improper payments in the federal government continues to be a management priority. To be successful in preventing improper payments, there must be a focus on systemic enhancements intended to make payments correctly the first time with an emphasis on minimizing monetary loss. The federal government, through the CFO community, continues to develop strategies to better analyze and prevent monetary loss.

Agencies with programs reporting more than $100.0 million in monetary loss provide a quarterly scorecard at PaymentAccuracy.gov. These scorecards provide information on the actions taken and progress made on preventing improper payments that would result in monetary loss to the government. Details, including FY 2022 improper payment data, for programs with more than $100.0 million in monetary loss can also be found at PaymentAccuracy.gov. PaymentAccuracy.gov also includes payment integrity information that had previously been reported in agency financial reports, allowing information about program compliance, corrective actions, and accountability mechanisms to be provided in a consistent format across all programs.

OMB will continue to work with agencies, the CFO Council, and other stakeholders to improve the identification of the root causes of improper payments that result in monetary loss and to promote data analytic methods that take a comprehensive view of an agency's payment lifecycle.

## Agency Financial Report Audits

Since the passage of the CFO Act, the federal financial community has made significant progress in financial accounting and reporting. As shown in Table 10, for FY 2022, 20 of the 24 CFO Act agencies obtained an unmodified opinion from the independent auditors on their financial statements.[34] In addition, 50 auditor-identified material weaknesses were identified for FY 2022, three more than in FY 2021. Twenty-eight of these are associated with DOD. The other 22 material weaknesses are associated with non-DOD agencies. Although virtually all federal agencies have adopted and maintained disciplined financial reporting operations, implemented effective internal controls over financial reporting, and integrated transaction processing with accounting records, weaknesses in financial management practices continue to prevent the government as a whole from achieving an audit opinion.

[34] The 20 entities include HHS, which received an unmodified ("clean") opinion on all statements except the SOSI and the SCSIA.

| Table 10: Agency Audit Results: FY 2022 | | | | | | |
|---|---|---|---|---|---|---|
| | Audit | Auditor-Reported Material Weaknesses | | | | |
| Agency | Opinion | Beginning | New | Resolved | Consolidated | Ending |
| Department of Agriculture (USDA) | Unmodified | 2 | 0 | 0 | 0 | 2 |
| Department of Commerce (DOC) | Unmodified | 0 | 0 | 0 | 0 | 0 |
| Department of Defense (DOD) | Disclaimer | 28 | 3 | 0 | 3 | 28 |
| Department of Education (Education) | Disclaimer | 1 | 1 | 0 | 1 | 1 |
| Department of Energy (DOE) | Unmodified | 0 | 0 | 0 | 0 | 0 |
| Department of Health and Human Services (HHS)* | Unmodified | 0 | 0 | 0 | 0 | 0 |
| Department of Homeland Security (DHS) | Unmodified | 2 | 2 | 0 | 0 | 4 |
| Department of Housing & Urban Development (HUD) | Unmodified | 1 | 0 | 0 | 0 | 1 |
| Department of the Interior (DOI) | Unmodified | 0 | 1 | 0 | 0 | 1 |
| Department of Justice (DOJ) | Unmodified | 1 | 1 | 0 | 1 | 1 |
| Department of Labor (DOL)** | Qualified | 1 | 0 | 0 | 0 | 1 |
| Department of State (State) | Unmodified | 0 | 0 | 0 | 0 | 0 |
| Department of Transportation (DOT) | Unmodified | 0 | 0 | 0 | 0 | 0 |
| Department of the Treasury (Treasury) | Unmodified | 0 | 0 | 0 | 0 | 0 |
| Department of Veterans Affairs (VA) | Unmodified | 3 | 0 | 0 | 0 | 3 |
| Agency for International Development (USAID) | Unmodified | 0 | 0 | 0 | 0 | 0 |
| Environmental Protection Agency (EPA) | Unmodified | 0 | 0 | 0 | 0 | 0 |
| General Services Administration (GSA) | Unmodified | 0 | 1 | 0 | 0 | 1 |
| National Aeronautics & Space Administration (NASA) | Unmodified | 0 | 0 | 0 | 0 | 0 |
| National Science Foundation (NSF) | Unmodified | 0 | 0 | 0 | 0 | 0 |
| Nuclear Regulatory Commission (NRC) | Unmodified | 1 | 0 | 1 | 0 | 0 |
| Office of Personnel Management (OPM) | Unmodified | 1 | 0 | 0 | 0 | 1 |
| Small Business Administration (SBA) | Disclaimer | 6 | 0 | 0 | 0 | 6 |
| Social Security Administration (SSA) | Unmodified | 0 | 0 | 0 | 0 | 0 |
| **Totals** | | **47** | **9** | **1** | **5** | **50** |

* Unmodified opinion on all statements except SOSI and SCSIA, which received a disclaimer.
** Unmodified opinion on the SOSI and SCSIA.

## Financial Management Systems

Federal agencies improved, but continue to face challenges, in implementing financial management systems that meet federal requirements. The number of CFO Act agencies reporting lack of substantial compliance with one or more of the three Section 803(a) requirements of the FFMIA decreased to seven in FY 2022, and the number of auditors reporting lack of substantial compliance with one or more of the three Section 803(a) FFMIA requirements decreased to eight in FY 2022.

Because of the federal government's size and diversity, its financial management infrastructure consists of both legacy and modernized systems and standardized and customized systems. Treasury works closely with agencies to manage systems for collecting and disbursing the government's cash and financing disbursements when necessary, recording and reporting on those collections and disbursements, and reporting on all government revenues, expenses, assets, and liabilities.

Treasury was designated as the Financial Management Systems QSMO in 2020 and continues to pursue financial management improvement strategies that have government-wide implications. These strategies include standing up a financial management systems marketplace and developing system standards, standardized processes, system requirements, and system interfaces. These efforts are providing a path to the decommissioning of legacy systems and migration to updated systems, leveraging modernized technologies. In addition, agencies continue to coordinate with the Treasury QSMO to improve their financial management and financial reporting systems as described in their financial reports, congressional budget justifications, and performance plans. DOD continues to address its material weaknesses in financial reporting, and is bringing its financial systems into compliance with federal financial management systems requirements, including the FFMIA.

HHS was designated as the Grants QSMO in 2021 and continues working to modernize and streamline the government's vast and aging legacy grants management systems. The goal of this effort is to allow agencies to successfully manage grants through the entire award cycle and allow grants management systems to interface with agency financial management systems.

## Internal Controls

Federal managers are responsible for developing and maintaining effective internal controls. Internal controls help to ensure effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Safeguarding assets is a goal of each of these three objectives.

OMB Circular No. A-123 implements the requirements of 31 U.S.C. 3512 (c) and (d) (commonly known as the *Federal Managers' Financial Integrity Act)* by providing agencies a framework for assessing and managing risks strategically and tactically. The Circular reflects GAO's *Standards for Internal Control in the Federal Government* and contains multiple appendices that address one or more of the objectives of effective internal control.

- Appendix A provides for agencies to use a risk-based approach to assess, document, test, and report on internal controls over reporting and data integrity;
- Appendix B requires agencies to maintain internal controls that reduce the risk of fraud, waste, and error in government charge card programs;
- Appendix C implements the requirements for effective estimation and remediation of improper payments; and
- Appendix D defines requirements for determining compliance with the FFMIA that are intended to reduce the cost, risk, and complexity of financial system modernizations.

As noted above, the total number of reported material weaknesses for CFO Act agencies was 50 for FY 2022, three more than in FY 2021. Effective internal controls are a challenge at the agency level and at the government-wide level, with GAO reporting that at the government-wide level, material weaknesses resulted in ineffective internal control over financial reporting. While progress is being made at many agencies and across the government in identifying and resolving internal control deficiencies, additional work is needed.

## Legal Compliance

Federal agencies are required to comply with a wide range of laws and regulations, including appropriations, employment, and health and safety, among others. Responsibility for compliance rests with agency management and compliance is addressed as part of agency financial statement audits. Agency auditors test for compliance with selected laws and regulations related to financial reporting and certain individual agency audit reports contain instances of noncompliance. None of these instances were material to the government-wide financial statements; however, GAO reported that its work on compliance with laws and regulations was limited by the material weaknesses and scope limitations discussed in its report.

## Conclusion

The federal government has seen significant progress in financial management since the passage of the CFO Act more than 30 years ago, but significant challenges remain to realizing the intended financial management reforms of the act. The issues that the federal government faces today require financial managers to improve both the efficiency and effectiveness of financial management activities, which includes moving toward integrated government operations with standardized business processes, systems, and data. Together with Treasury and OMB, agencies are building on tools and capabilities to improve financial accountability and transparency.

# Additional Information

This *Financial Report's* Appendix contains the names and websites of the significant government agencies included in the U.S. government's consolidated financial statements. Details about the information in this *Financial Report* can be found in these agencies' financial statements. This *Financial Report*, as well as those from previous years, is also available at Treasury, OMB, and GAO websites at: https://www.fiscal.treasury.gov/reports-statements/; https://www.whitehouse.gov/omb/management/office-federal-financial-management/; and https://www.gao.gov/federal-financial-accountability respectively. Other related government resources include, but are not limited to the:

- *Budget of the United States Government,*
- *Treasury Bulletin,*
- *Monthly Treasury Statement of Receipts and Outlays of the United States Government,*
- *Monthly Statement of the Public Debt of the United States,*
- *Your Guide to America's Finances,*
- *Economic Report of the President, and*
- *Trustees Reports for the Social Security and Medicare Programs.*