

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Introduction

The FY 2025 *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 United States Code (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<sup>1</sup> 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 167 federal consolidation entities (see organizational chart on the next page and Appendix A). As it has for the past 28 years, GAO issued a disclaimer of opinion on the accrual-based, consolidated financial statements for the fiscal years ended September 30, 2025, and 2024. GAO also issued a disclaimer of opinion on the sustainability financial statements, which consist of the 2025 and 2024 SLTFP; the 2025, 2024, 2023, 2022, and 2021 SOSI; and the 2025 and 2024 Statements of Changes in Social Insurance Amounts (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 U.S. Generally Accepted Accounting Principles (GAAP). In FY 2025, 30<sup>2</sup> of the 38 most significant entities earned unmodified ("clean") opinions on their financial statements.

The FY 2025 *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, 2025, and 2024. Note 29—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 results and issues presented in the *Financial Report* and an overview of the government's financial position and condition.

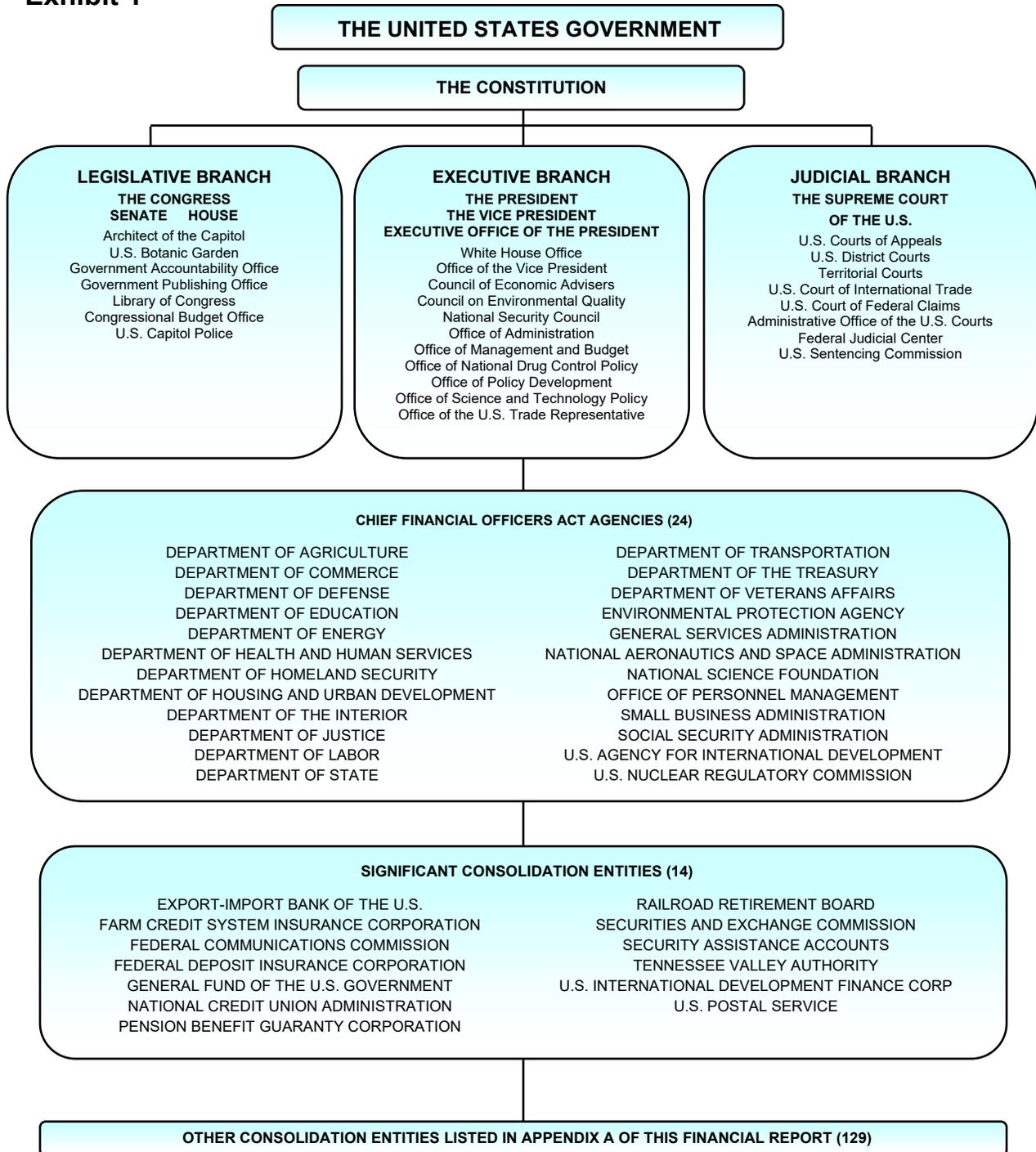
## Mission & Organization

The government's fundamental mission is derived from the Preamble to the U.S. 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.

<sup>1</sup> 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.

<sup>2</sup> The 30 entities include HHS, which received disclaimers of opinion on its 2025, 2024, 2023, 2022, and 2021 SOSI and on its 2025 and 2024 SCSIA.

**Exhibit 1**



# 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**

	2025	2024*	Increase / (Decrease)	
			\$	%
<b>FINANCIAL MEASURES (Dollars in Billions)</b>				
<b>Gross Cost</b>	\$ (8,071.4)	\$ (7,750.2)	\$ 321.2	4.1%
Less: Earned Revenue	\$ 752.2	\$ 670.7	\$ 81.5	12.2%
Gain/(Loss) from Changes in Assumptions	\$ (18.6)	\$ (283.6)	\$ (265.0)	(93.4%)
<b>Net Cost</b>	\$ (7,337.8)	\$ (7,363.1)	\$ (25.3)	(0.3%)
<b>Less: Total Tax and Other Unearned Revenues</b>	\$ 5,244.6	\$ 4,977.9	\$ 266.7	5.4%
<b>Net Operating Cost</b>	\$ (2,093.2)	\$ (2,385.2)	\$ (292.0)	(12.2%)
<b>Budget Deficit</b>	\$ (1,775.4)	\$ (1,816.8)	\$ (41.4)	(2.3%)
<b>Assets:</b>				
Cash & Other Monetary Assets	\$ 1,187.7	\$ 1,177.7	\$ 10.0	0.8%
Inventory and Related Property, Net	\$ 504.2	\$ 479.9	\$ 24.3	5.1%
Loans Receivable, Net	\$ 2,002.5	\$ 1,751.0	\$ 251.5	14.4%
Property, Plant & Equipment, Net	\$ 1,400.3	\$ 1,302.1	\$ 98.2	7.5%
Other	\$ 960.7	\$ 973.1	\$ (12.4)	(1.3%)
<b>Total Assets</b>	\$ 6,055.4	\$ 5,683.8	\$ 371.6	6.5%
<b>Liabilities:</b>				
Federal Debt and Interest Payable	\$ (30,334.1)	\$ (28,338.9)	\$ 1,995.2	7.0%
Federal Employee and Veteran Benefits Payable	\$ (15,472.2)	\$ (15,033.4)	\$ 438.8	2.9%
Other	\$ (1,972.5)	\$ (1,960.8)	\$ 11.7	0.6%
<b>Total Liabilities</b>	\$ (47,778.8)	\$ (45,333.1)	\$ 2,445.7	5.4%
<b>Net Position</b>	\$ (41,723.4)	\$ (39,649.3)	\$ 2,074.1	5.2%
<b>SUSTAINABILITY MEASURES (Dollars in Trillions)</b>				
<b>Social Insurance Net Expenditures:</b>				
Social Security (OASDI)	\$ (27.9)	\$ (25.4)	\$ 2.5	9.8%
Medicare (Parts A, B, & D)	\$ (60.4)	\$ (52.8)	\$ 7.6	14.4%
Other	\$ (0.1)	\$ (0.1)	\$ -	0.0%
<b>Total Social Insurance Net Expenditures</b>	\$ (88.4)	\$ (78.3)	\$ 10.1	12.9%
<b>Total Federal Non-Interest Net Expenditures</b>	\$ (79.6)	\$ (72.7)	\$ 6.9	9.5%
<b>75-Year Fiscal Gap (Percent of Gross Domestic Product)<sup>1</sup></b>	<b>(4.7%)</b>	<b>(4.3%)</b>	<b>0.3%</b>	<b>7.0%</b>
<sup>1</sup> 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 4.7 percent of GDP on average is needed (4.3 percent of GDP on average in FY 2024). Totals may not equal sum of components due to rounding. See Financial Statement Note 24 for additional information.				
* Restated for prior period adjustment due to correction of error (see Financial Statement Note 1.V).				

Table 1 on the previous page, together with the following, summarize the federal government's financial position:

- During FY 2025, the budget deficit decreased by \$41.4 billion (2.3 percent) to \$1.8 trillion. Net operating cost also decreased by \$292.0 billion (12.2 percent) to \$2.1 trillion. The primary contributor to the difference between the deficit and net operating cost is an increase in the liability for federal employee and veteran benefits payable that affects the government's current-year costs but does not affect the current-year budget deficit.
- The government's gross costs of \$8.1 trillion, less \$752.2 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 \$18.6 billion in net losses from changes in assumptions (e.g., interest rates, inflation, disability claims rates) yields the government's net cost of \$7.3 trillion, a decrease of \$25.3 billion or 0.3 percent compared to FY 2024.
- Net cost decreased but is subject to both cost increases and decreases across the government. For example:
  - The largest decreases were due to: 1) a \$269.3 billion net cost decrease at Education mostly from changes in student loan program subsidy estimates; and 2) a net loss (and a corresponding net cost) decrease of \$265.0 billion stemming from changes in assumptions affecting cost and liability estimates for the government's employee and veteran benefits.
  - HHS and SSA posted the largest increases of \$148.1 billion and \$125.2 billion, respectively due to increases in benefit expenses.
- Total tax and other unearned revenues increased \$266.7 billion to \$5.2 trillion. Deducting these revenues from net cost results in a "bottom line" net operating cost of \$2.1 trillion for FY 2025, a decrease of \$292.0 billion or 12.2 percent compared to FY 2024.
- Comparing total FY 2025 government assets of \$6.1 trillion (including \$2.0 trillion of loans receivable, net and \$1.4 trillion of PP&E) to total liabilities of \$47.8 trillion (including \$30.3 trillion in federal debt and interest payable<sup>3</sup>, and \$15.5 trillion of federal employee and veteran benefits payable) yields a negative net position of \$41.7 trillion.
- The government's net costs, assets, and liabilities were also impacted by changes in accounting principle at DOD<sup>4</sup> and correction of prior period errors at DOD and [SAA](#).
- The budget deficit is primarily financed through borrowing from the public. As of September 30, 2025, debt held by the public, excluding accrued interest, was \$30.2 trillion. This amount, plus intra-governmental debt (\$7.3 trillion) equals gross federal debt, which, with some adjustments, is subject to the statutory debt limit. As of September 30, 2025, the government's total debt subject to the debt limit was \$37.5 trillion. On June 3, 2023, P.L. 118-5 was enacted, suspending the debt limit through January 1, 2025. Following Treasury's use of extraordinary measures to avoid exceeding the debt limit, on July 4, 2025, Congress and the President enacted P.L. 119-21, which includes the WFTC<sup>5</sup>, and which raised the debt limit from \$36,104.0 billion to \$41,104.0 billion.

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<sup>6</sup> 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 \$79.6 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<sup>7</sup> by about \$88.4 trillion, increasing by approximately \$10.1 trillion compared to the social insurance projections presented in the 2024 *Financial Report*.
- 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.

<sup>3</sup> 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, Federal Reserve Banks (FRB), foreign governments, and other entities outside the federal government.

<sup>4</sup> As referenced in the FY 2025 DOD AFR, this report refers to the Department of Defense (DOD) in accordance with statutory requirements. While mindful of Executive Order 14347 and ongoing legal determinations regarding the Department's name, this report utilizes the designation "Department of Defense" because the DOD AFR and this *Financial Report* are statutorily mandated reports, all relevant legislation designates the Department as the "Department of Defense," and the funding for programs discussed in the DOD AFR was issued to the Department of Defense.

<sup>5</sup> P.L. 119-21 commonly referred to as the OBBBA. Prominent components of P.L. 119-21 are WFTC, which provide federal income tax deductions for certain income from Social Security benefits, overtime, and tips (P.L. 119-21).

<sup>6</sup> 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.

<sup>7</sup> 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 of the U.S. Government (General Fund), which are presented, and by accounting convention, eliminated in the SOSI. For the FYs 2025 and 2024 SOSI, the amounts eliminated totaled \$57.1 trillion and \$50.2 trillion, respectively. In addition, the SOSI programs include Department of Labor's (DOL) Black Lung Program, the projection period for which is 25 years.

The government's current financial position and long-term financial condition can be evaluated both in dollar terms and in relation to the economy. 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 \$1,816.8 billion in FY 2024 to \$1,775.4 billion in FY 2025. The deficit-to-GDP ratio also decreased from 6.4 percent in FY 2024 to 5.9 percent in 2025.
- The budget deficit is primarily financed through borrowing from the public. As of September 30, 2025, the \$30.2 trillion in debt held by the public, excluding accrued interest, was 99 percent of GDP.
- The 2025 SOSI projection of \$88.4 trillion net PV excess of expenditures over receipts over 75 years represents about 4.6 percent of the PV of GDP over 75 years. The excess of total projected non-interest spending over receipts of \$79.6 trillion from the SLTFP represents 3.9 percent of GDP over 75 years. As discussed in this *Financial Report*, changes in policy can, in turn, have a significant impact on projected debt as a percent of GDP.
- The debt-to-GDP ratio was 99 percent at the end of FY 2025. Under current policy and based on this report's assumptions, it is projected to reach 576 percent by 2100. The projected continuous rise of the debt-to-GDP ratio indicates that current policy is unsustainable. 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 4.7 percent of GDP on average is needed (4.3 percent of GDP on average in the 2024 projections).

Restatements of FY 2024 amounts were made to correct errors at DOD and SAA. DOD's corrections of errors relate to PP&E and inventory that were identified as part of a department-wide effort to improve financial reporting. SAA corrections of errors related to the recognition of inventory and revenue (see Note 1.V—Corrections of Errors).

## FY 2025 Financial Statement Audit Results

For FY 2025, GAO issued a disclaimer of audit opinion on the accrual-based, government-wide financial statements, as it has for the past 28 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 208 of this *Financial Report*, discusses GAO's findings.

In FY 2025, 16 of the 24 entities required to issue audited financial statements under the *Chief Financial Officers Act of 1990* (CFO Act) received unmodified audit opinions, as did 14 of 14 additional significant consolidation entities (see Table 10 and Appendix A).<sup>8</sup>

### 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. Statement of Federal Financial Accounting Standards (SFFAS) 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.

Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (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 Federal Reserve System (FR System) and the Special Purpose Vehicles (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 31, *Accounting for Fiduciary Activities*, fiduciary funds are not consolidated in the government financial statements.<sup>9</sup>

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 2025, 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.

<sup>8</sup> The 16 entities include HHS, which received disclaimers of opinions on its 2025, 2024, 2023, 2022, and 2021 SOSI and its 2025 and 2024 SCSIA. The 16 also includes Education, which received an unmodified opinion on only its Balance Sheet with the remaining statements being unaudited. The 16 does not include DOL, which as of issuance of this *Financial Report*, had not issued its AFR. The 14 additional significant entities include FDIC, the National Credit Union Administration (NCUA), and the Farm Credit System Insurance Corporation (FCSIC), which report their audited financial statements on a calendar year basis (December 31 year-end). Statistic reflects 2024 audit results for these organizations if 2025 results are not available.

<sup>9</sup> See Note 23—Fiduciary Activities.

## 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.<sup>10</sup> 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 the *Financial Report*.

Budget of the U.S. Government	Financial Report of the U.S. Government
<p><u>Prepared primarily on a “cash basis”</u></p> <ul style="list-style-type: none"> <li>• Initiative-based and prospective: focus on current and future initiatives planned and how resources will be used to fund them.</li> <li>• Receipts (“cash in”), taxes and other collections recorded when received.</li> <li>• Outlays (“cash out”), largely recorded when payment is made.</li> </ul>	<p><u>Prepared on an “accrual basis” and “modified cash basis”</u></p> <ul style="list-style-type: none"> <li>• Entity-based and retrospective – prior and present resources used to implement initiatives.</li> <li>• 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.</li> <li>• Costs: recognized when incurred, but not necessarily paid.</li> </ul>

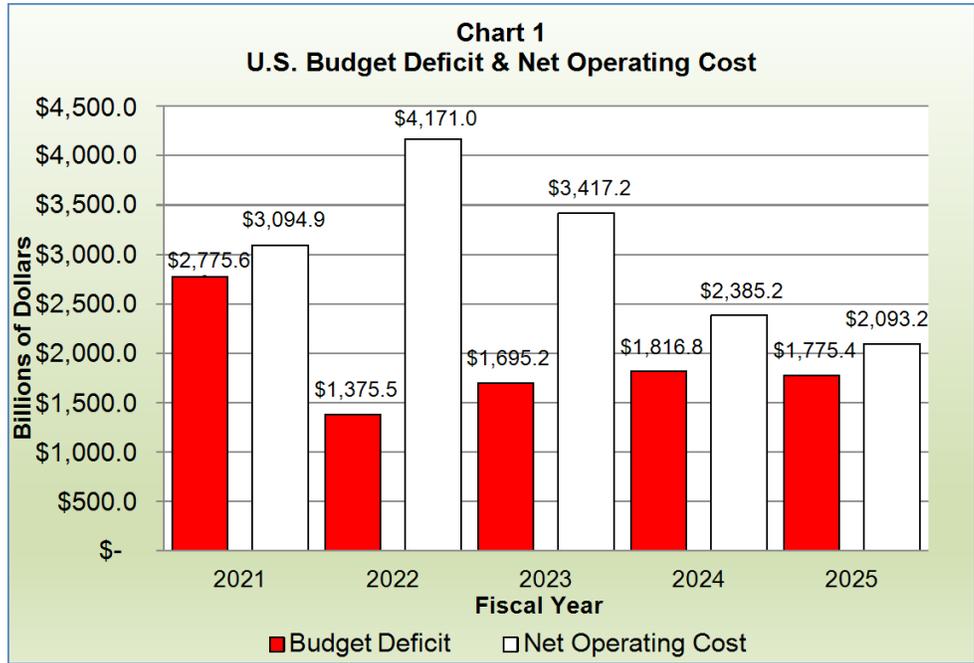
### Budget Deficit vs. Net Operating Cost

Three key components of the *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 outlaid) 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.

<sup>10</sup> 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, Railroad Retirement Program (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.

The government's primarily cash-based<sup>11</sup> budget deficit decreased by \$41.4 billion (2.3 percent) from approximately \$1,816.8 billion in FY 2024 to about \$1,775.4 billion in FY 2025 due to a \$316.5 billion increase in receipts which more than offset a \$275.1 billion increase in outlays in FY 2025. The increase in receipts can be attributed primarily to a \$118.9 billion increase in customs deposits, predominantly tariffs implemented or raised compared to FY 2024, and to a \$200.8 billion increase in individual and corporate income tax receipts. The increase in outlays is due to increased spending on interest on the public debt as well as increased refundable tax credits. Spending also increased at SSA, HHS, VA, and DOD.



Treasury's [September 2025 Monthly Treasury Statement \(MTS\)](#) provides FY 2025 receipts, spending, and deficit information for this *Financial 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 *Budget* is divided into approximately 20 categories, or budget functions, as a means of organizing federal spending by primary purpose (e.g., National Defense, 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, Department of Homeland Security (DHS), Department of Energy (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 2025 MTS.<sup>12</sup>

The government's largely accrual-based net operating cost decreased by \$292.0 billion (12.2 percent) to \$2.1 trillion during FY 2025. As discussed in this *Financial Report*, as the deficit is affected by changes in both receipts and outlays, so too are the government's net operating costs affected by changes in both revenues and costs, as discussed later in this *Financial Report*.

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, as shown in Table 2, most of the \$317.8 billion net difference for FY 2025 is attributable to a \$438.8 billion 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 \$98.2 billion increase in net PP&E, which includes the net effect of acquisitions, depreciation, and revaluation and disposals (see Note 6—Property, Plant, and Equipment, Net); 2) \$68.7 billion in non-cash earned revenue related to investments in government-sponsored enterprises (see Note 7—Investments in Government-Sponsored Enterprises); 3) a \$76.4 billion decrease in advances and prepayments made by the federal government (see Note 9—Advances and Prepayments); and 4) a \$41.5 billion timing difference when credit reform costs are recorded in the budget versus net operating cost (see Note 4—Loans Receivable, Net and Loan Guarantees).

<sup>11</sup> 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.

<sup>12</sup> [Final MTS for FY 2025 through September 30, 2025 and Other Periods.](#)

Dollars in Billions	2025	2024*
<b>Net Operating Cost</b>	<b>\$ (2,093.2)</b>	<b>\$ (2,385.2)</b>
Changes in:		
Federal Employee and Veteran Benefits Payable	\$ 438.8	\$ 685.8
Property, Plant, and Equipment, Net <sup>1</sup>	\$ (98.2)	\$ (67.1)
Investments in Government-Sponsored Enterprises	\$ (68.7)	\$ (65.4)
Advances and Prepayments	\$ 76.4	\$ 106.3
Credit Reform and Other Activities	\$ (41.5)	\$ (144.8)
Other, Net	\$ 11.0	\$ 53.6
Subtotal - Net Difference:	\$ 317.8	\$ 568.4
<b>Budget Deficit</b>	<b>\$ (1,775.4)</b>	<b>\$ (1,816.8)</b>

\*Restated for prior period adjustment due to correction of error (see Financial Statement Note 1.V).

<sup>1</sup> Net effect of: capitalized fixed assets, depreciation expense, and asset disposals and revaluations.

## 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), and its "bottom line" net operating cost (the difference between its revenues and costs) are also key financial indicators.

### 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). 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 reduced by the government's taxes and other unearned revenue reported in the Statement of Operations and Changes in Net Position to calculate the "bottom line" or net operating cost.

Dollars in Billions	2025	2024*	Increase / (Decrease)	
			\$	%
<b>Gross Cost</b>	<b>\$ (8,071.4)</b>	<b>\$ (7,750.2)</b>	<b>\$ 321.2</b>	<b>4.1%</b>
Less: Earned Revenue	\$ 752.2	\$ 670.7	\$ 81.5	12.2%
Gain/(Loss) from Changes in Assumptions	\$ (18.6)	\$ (283.6)	\$ (265.0)	(93.4%)
<b>Net Cost</b>	<b>\$ (7,337.8)</b>	<b>\$ (7,363.1)</b>	<b>\$ (25.3)</b>	<b>(0.3%)</b>
Less: Tax and Other Unearned Revenue	\$ 5,244.6	\$ 4,977.9	\$ 266.7	5.4%
<b>Net Operating Cost</b>	<b>\$ (2,093.2)</b>	<b>\$ (2,385.2)</b>	<b>\$ (292.0)</b>	<b>(12.2%)</b>

\*Restated for prior period adjustment due to correction of error (see Financial Statement Note 1.V).

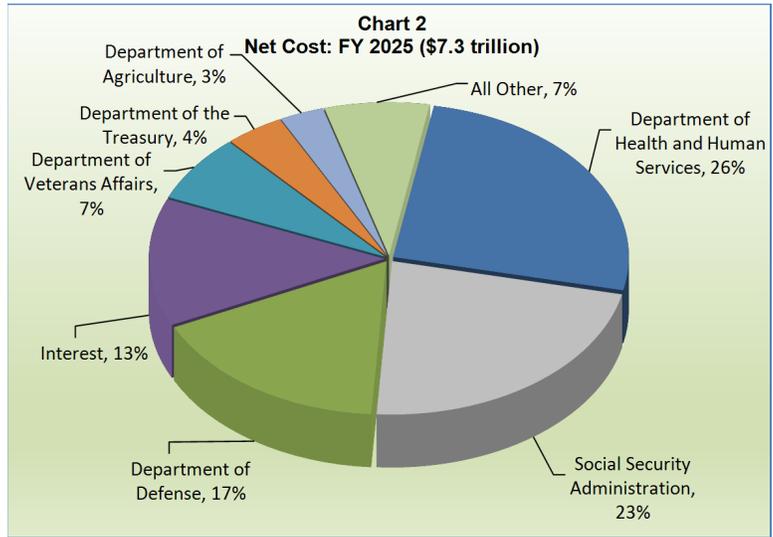
Table 3 shows that the government's "bottom line" net operating cost decreased \$292.0 billion (12.2 percent) during 2025 from \$2.4 trillion to \$2.1 trillion. This decrease is due mostly to a \$25.3 billion (0.3 percent) decrease in net costs, combined with a \$266.7 billion (5.4 percent) increase in tax and other revenues over the past fiscal year as discussed in the following.

**Gross Cost and Net Cost**

The FY 2025 Statement of Net Cost starts with the government’s total gross costs of \$8.1 trillion, subtracts \$752.2 billion in 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 (\$18.6 billion loss), including federal employee and veteran benefits to derive its net cost of \$7.3 trillion, a \$25.3 billion (0.3 percent) decrease compared to FY 2024.

Typically, the annual change in the government’s net cost is the result of a variety of offsetting increases and decreases across entities. Offsetting changes in federal entity net cost during FY 2025 included:

- A \$269.3 billion net cost decrease at [Education](#), due primarily to significant changes in loan program subsidy cost estimates. Gross costs for the direct loan program decreased by \$183.4 billion due to loan modifications related primarily to changes in types of loans and repayment plans offered, as a result of P.L. 119-21. Gross costs for the Federal Family Education Loan (FFEL) program decreased by \$19.0 billion due to net downward subsidy reestimates.
- Entities administering federal employee and veteran benefits programs employ a complex series of assumptions,



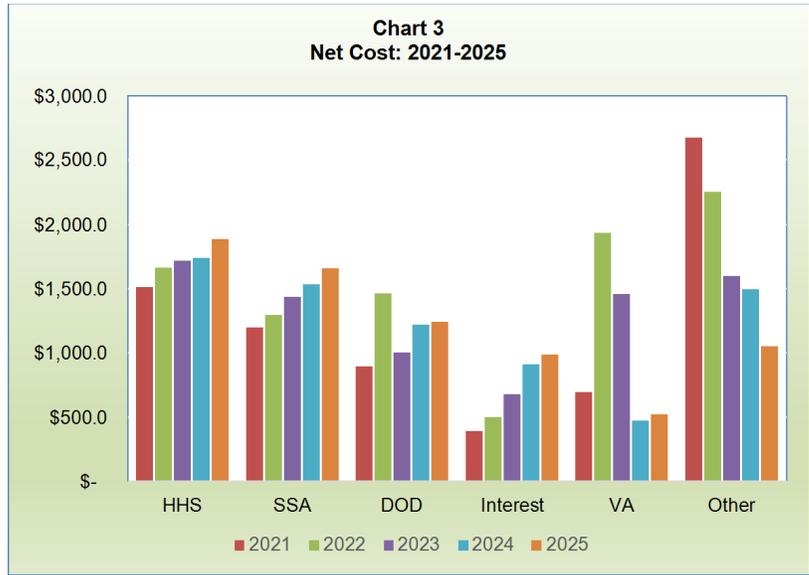
including but not limited to interest rates, beneficiary eligibility, life expectancy, and medical cost levels, to make actuarial projections of their long-term benefits liabilities. Changes in these assumptions can result in either losses (net cost increases) or gains (net cost decreases). Across the government, these net losses from changes in assumptions amounted to \$18.6 billion in FY 2025, a net loss (and a corresponding net cost) decrease of \$265.0 billion compared to FY 2024. The primary entities that administer programs impacted by these assumptions – typically federal employee pension and benefit programs – are the [VA](#), [DOD](#), and [OPM](#). For FY 2025, DOD recorded a loss from changes in assumptions of \$241.9 billion, and VA and OPM recorded gains in the amounts of \$44.2 billion and \$180.4 billion, 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:

- A \$275.1 billion net cost decrease at [OPM](#) was attributed primarily to a \$180.4 billion gain as compared to a \$83.8 billion loss from assumptions changes in FY 2024 for both OPM’s retirement and health programs. Retirement program gains in FY 2025 stemmed from changes to the assumed long-term rates of future mortality and an increase in assumed long term interest, partly offset by an increase in the assumed long-term rate of inflation and salary increase. The OPM health program experienced a gain mostly due to updated mortality assumptions.
- A \$50.2 billion increase in [VA](#)’s net cost to \$522.2 billion included the offsetting effect of a slight increase of \$6.5 billion in VA’s gain from changes in assumptions from \$37.7 billion in FY 2024 to \$44.2 billion in FY 2025. VA net costs increased overall due in large part to an increase of more than four million veterans’ compensation payments during FY 2025 and the expansion of medical services pursuant to implementation of the *Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxins (PACT) Act* under the Toxic Exposures Fund.
- The \$18.9 billion increase in [DOD](#) net cost includes the effect of a \$5.2 billion increase in losses from changes in assumptions referenced above. The majority (nearly 90 percent) of DOD costs are attributable to a wide range of functions, including military operations, readiness, and support; procurement; military personnel; and R&D.
- A \$148.1 billion net cost increase at [HHS](#) was primarily due to increases in Medicare benefit expenses, which include increases in SMI and HI and in Medicaid benefit expenses. Medicare expenses increased due to an increase in the number of beneficiaries, an increase in the rate of benefits paid, and increase in prescription drug spending. Medicaid enrollees slightly decreased but the costs increased.
- A \$125.2 billion net cost increase at [SSA](#), due to a 2.1 million person increase in the number of OASI beneficiaries, and a 2.5 percent COLA provided to beneficiaries in 2025. The OASI, and Supplemental Security Income net cost increased by 9.3 percent and 7.0 percent, respectively, and Disability Insurance (DI) net cost decreased by 0.4 percent. Total benefit expenses increased by \$125.4 billion or 8.3 percent.
- The \$74.5 billion increase in [Treasury](#) net costs is largely attributable to a \$20.6 billion increase in the liquidation of advances associated with Treasury’s pandemic relief programs. Treasury issued advance payments to cover

anticipated qualified incurred costs; these advances are subsequently recognized as expenses as the recipients incur the qualified costs.

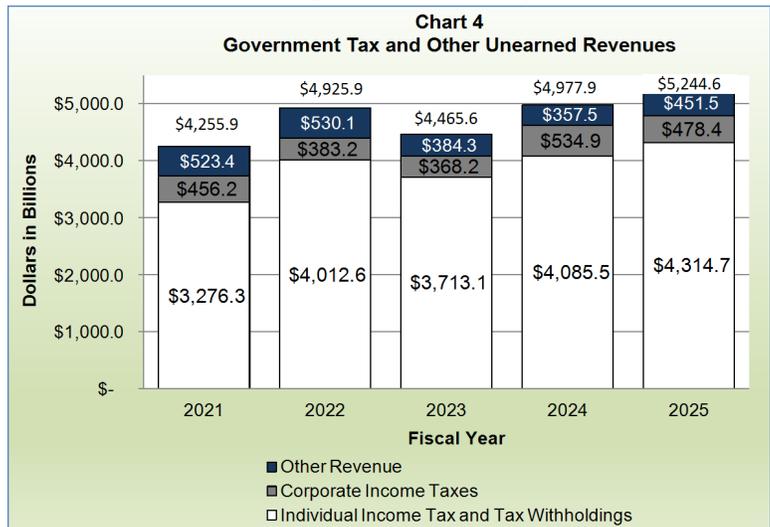
- A \$78.0 billion increase in [interest on debt held by the public](#) to \$987.1 billion for FY 2025 primarily attributable to an increase in the outstanding debt held by the public.

Chart 2 shows the composition of the government's net cost for FY 2025, and Chart 3 shows the five-year trend in the largest agency cost components. In FY 2025, approximately 93 percent of the federal government's total net cost came from only six agencies ([HHS](#), [SSA](#), [DOD](#), [VA](#), [Treasury](#), U.S. Department of Agriculture ([USDA](#))), and interest on the debt. The other 150-plus entities included in the government's FY 2025 Statement of Net Cost accounted for a combined 7 percent of the government's total net cost for FY 2025. HHS and SSA net costs for FY 2025 (\$1.9 trillion and \$1.7 trillion, respectively) are largely attributable to major social insurance programs administered by these entities. VA net costs of \$522.2 billion support health, education and other benefits programs for our nation's veterans. DOD net costs of \$1.2 trillion relate primarily to operations, readiness, and support; personnel; research; procurement; and retirement and health benefits. Treasury net costs of \$296.8 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. USDA net costs of \$223.9 billion support a wide range of programs that provide leadership on food, agriculture, natural resources, rural development, nutrition, and related issues based on public policy, the best available science, and effective management.



**Tax and Other Unearned Revenues**

As noted earlier, tax and other unearned 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 unearned revenue increased by \$266.7 billion or 5.4 percent to \$5.2 trillion for FY 2025. This increase is attributable mainly to an increase in individual income tax collections, partially offset by a decrease in corporate tax collections. Individual income tax and tax withholdings of \$4.3 trillion and corporate income taxes of \$478.4 billion accounted for about 82.3 percent and 9.1 percent of total tax and other unearned revenue, respectively in FY 2025; other unearned revenues from Chart 4 include Federal Reserve earnings, excise taxes, unemployment taxes, and customs duties. Notably, customs duties increased \$133.9 billion (275.3 percent) to \$210.3 billion mostly due to multiple tariffs implemented during FY 2025. Earned revenues from Table 3 are not considered "taxes and other unearned revenue" and, thus, are not shown in Chart 4.



As previously shown in Table 3, the increase in tax and other unearned revenue combined with the net decrease in net cost, yields a \$292.0 billion decrease to the government's bottom line net operating cost of \$2.1 trillion for FY 2025.

**Tax Expenditures**

Tax and other unearned 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). 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*.

Dollars in Billions	2025	2024*	Increase / (Decrease)	
			\$	%
<b>Assets</b>				
Cash & Other Monetary Assets	\$ 1,187.7	\$ 1,177.7	\$ 10.0	0.8%
Inventory and Related Property, Net	\$ 504.2	\$ 479.9	\$ 24.3	5.1%
Loans Receivable, Net	\$ 2,002.5	\$ 1,751.0	\$ 251.5	14.4%
Property, Plant & Equipment, Net	\$ 1,400.3	\$ 1,302.1	\$ 98.2	7.5%
Other	\$ 960.7	\$ 973.1	\$ (12.4)	(1.3%)
<b>Total Assets</b>	<b>\$ 6,055.4</b>	<b>\$ 5,683.8</b>	<b>\$ 371.6</b>	<b>6.5%</b>
<b>Less: Liabilities, comprised of:</b>				
Federal Debt and Interest Payable	\$(30,334.1)	\$(28,338.9)	\$ 1,995.2	7.0%
Federal Employee and Veteran Benefits Payable	\$(15,472.2)	\$(15,033.4)	\$ 438.8	2.9%
Other	\$ (1,972.5)	\$ (1,960.8)	\$ 11.7	0.6%
<b>Total Liabilities</b>	<b>\$(47,778.8)</b>	<b>\$(45,333.1)</b>	<b>\$ 2,445.7</b>	<b>5.4%</b>
<b>Net Position</b>	<b>\$(41,723.4)</b>	<b>\$(39,649.3)</b>	<b>\$ 2,074.1</b>	<b>5.2%</b>

\*Restated for prior period adjustment due to correction of error (see Financial Statement Note 1.V).

## Assets

From Table 4, as of September 30, 2025, 84.1 percent of the government's \$6.1 trillion in reported assets is comprised of: 1) cash and other monetary assets (\$1.2 trillion); 2) inventory and related property, net (\$504.2 billion); 3) loans receivable, net (\$2.0 trillion); and 4) net PP&E (\$1.4 trillion).<sup>13</sup> Chart 5 compares the balances of these and other Balance Sheet amounts as of September 30, 2025, and 2024.

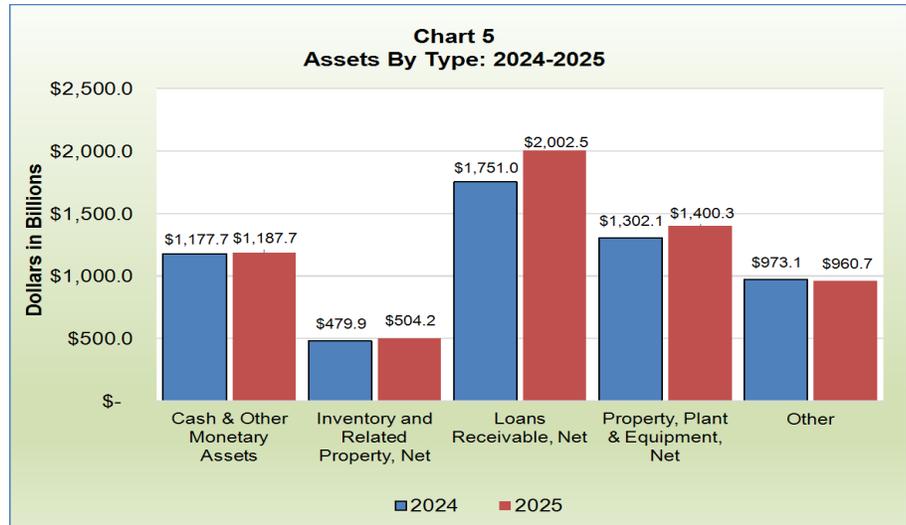
Cash and other monetary assets (\$1.2 trillion) is comprised largely of the operating cash of the U.S. government. Operating cash held by Treasury, which represents balances from tax collections, federal debt receipts, and other various receipts net of cash outflows for federal debt repayments and other payments, increased \$1.1 billion (0.1 percent) to \$871.9 billion (see Note 2—Cash and Other Monetary Assets).

Inventory and related property (\$504.2 billion) is comprised of inventory; OM&S; stockpile materials; commodities; and seized, forfeited, and foreclosed property. 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

<sup>13</sup> 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 Property Plant, and Equipment).

(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. Contributing agencies include [DOD](#) and [DOE](#) (see Note 5—Inventory and Related Property, Net).

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. Department of Housing and Urban Development ([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. Loans receivable consists primarily of direct loans disbursed by the government, receivables related to guaranteed loans that have defaulted, and certain receivables for guaranteed loans that the government has purchased from lenders. The federal government's loan receivable, net increased by \$251.5 billion (14.4 percent) to \$2.0 trillion during FY 2025, with Education and SBA together accounting for nearly three-fourths of the total.

Loan guarantee programs are another form of federal lending. 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. Significant changes to the federal government's loans receivable, net, and loan guarantees. Some of these changes are discussed below and in greater detail in Note 4.

- [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 offers four types of educational loans: Stafford, Unsubsidized Stafford, Parent Loan for Undergraduate Students, and consolidation loans. Education's net loans receivable for its Direct Loan Program totaled \$1.3 trillion, 62.6 percent of total loans receivable, net. Credit program receivables for the Direct Loan Program increased by \$212.3 billion due largely to FY 2025 loan disbursements and changes in the subsidy cost allowance. In FY 2025, the allowance for subsidy decreased by \$152.5 billion due to loan modifications in types of loans and repayment plans offered, as a result of P.L. 119-21 which increased the net credit program receivable.
- [SBA](#) employs a variety of methods to support America's small businesses. These methods include promoting equitable access to capital, federal contracting, counseling, and disaster assistance. SBA's Disaster Assistance Loan Program makes direct loans to disaster survivors under four categories: 1) physical disaster loans to repair or replace damaged homes and personal property; 2) physical disaster loans to businesses of any size; 3) Economic Injury Disaster Loans (EIDL) to eligible small business and nonprofit organizations without credit available elsewhere; and 4) economic injury loans to eligible small businesses affected by essential employees called up to active duty in the military reserves. In FY 2025, SBA's direct disaster loans receivable, gross increased by \$37.9 billion from FY 2024 primarily due to previously charged off loans being placed back into service. However, SBA's direct disaster loans receivable, net decreased by \$24.3 billion from FY 2024 primarily due to an upward reestimate because of lower than projected cash collections on COVID-19 EIDL loans.
- Loans Receivable also includes Treasury's \$96.4 billion in notes issued by trusts created by FDIC in its receivership capacity and backed by a guarantee from the FDIC in its corporate capacity.

Federal government PP&E consists predominantly of tangible assets, including land. Internal use software, land rights that do not meet the definition of a lease, assets acquired through financing leases, right-to-use (RTU) lease assets, and leasehold improvements are also included in PP&E. DOD comprises approximately 70.2 percent of the government's reported PP&E of \$1.4 trillion as of September 30, 2025. The FY 2024 PP&E net balance was restated by a decrease of \$10.9

billion. DOD made corrections of errors for assets that were not properly capitalized upon acquisition and depreciation reevaluation. (see Note 6—Property, Plant, and Equipment, Net).

“Other” assets of \$1.0 trillion in Table 4 and Chart 5 includes:

- \$252.9 billion in Accounts Receivable, Net. Taxes Receivable, which comprises approximately 58.1 percent of the government’s reported accounts receivable, net, consist of uncollected tax assessments, penalties, and interest when taxpayers have agreed, or a court has determined the assessments are owed and unpaid taxes related to Internal Revenue Code (IRC) section 965. Taxes receivable, net, decreased by \$30.0 billion during FY 2025, mainly due to payments from taxpayers resulting in a \$48.8 billion decrease in unpaid transition taxes on foreign earnings pursuant to IRC section 965(h). The decrease is primarily offset by a \$17.4 billion increase in taxes receivable, net attributable to other entities (see Note 3—Accounts Receivable, Net).
- \$504.2 billion in Inventory and Related Property, Net includes OM&S, inventory, stockpile materials, and other related property. DOD comprises approximately 76.6 percent of the government’s inventory and related property, net as of September 30, 2025. OM&S consists of tangible personal property to be consumed in normal operations (e.g., spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines held for consumption). 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. Stockpile materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation, or local/national emergencies. Inventory and Related Property increased \$24.3 billion during FY 2025. The FY 2024 inventory balance was restated by an increase of \$32.6 billion due to corrections of errors related to SAA assets that were previously classified as expense and revenue transactions (see Note 5—Inventory and Related Property, Net).
- \$70.0 billion in Advances and Prepayments, which 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 \$76.4 billion decrease in this amount is largely attributable to a large decrease at Treasury due to advance liquidations based on recipient reported expenditures in the Coronavirus Relief Fund and Emergency Rental Assistance. As these programs mature, the participants’ increasing expenditures result in the liquidation of the advances with no offsetting additions to advance balance from new disbursements (see Note 9—Advances and Prepayments).
- \$374.5 billion in Investments in GSEs. The asset value of the Investments in GSEs was \$374.5 billion as of September 30, 2025, and grew by \$68.7 billion during FY 2025, reflecting a net fair value (FV) valuation gain in senior preferred stock and warrants of \$41.9 billion, coupled with a \$26.8 billion growth in the liquidation preference of the senior preferred stock. 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 7—Investments in Government-Sponsored Enterprises).
- \$142.9 billion in Investments. While investments in the GSEs were among those intended to stabilize the economy during a time of national crisis, the federal government has also made investments in support of other goals, including insuring pension benefits, promoting national security and industrial policy. For example, to those ends, Pension Benefit Guaranty Corporation (PBGC) investments insure private sector defined benefit plans, protecting workers' retirement income if their employer's plan fails; National Railroad Retirement Investment Trust (NRRIT) on behalf of the Railroad Retirement Board (RRB), manages and invests railroad retirement assets that are to be used to pay retirement benefits to the nation’s railroad workers; and Department of Commerce’s (DOC’s) investments consist of Intel Corporation (Intel) common stock acquired through a Warrant and Common Stock Agreement dated August 22, 2025. DOC received a five-year warrant to purchase up to 240.5 million shares of Intel common stock exercisable under certain conditions at \$20.00/share which is subject to adjustment. Due to the uncertainty of certain conditions being met, the warrant was not recorded as of September 30, 2025 (see Note 8—Investments).

**Liabilities**

As indicated in Table 4 and Chart 6, of the government's \$47.8 trillion in total liabilities, the largest liability is federal debt and interest payable, the balance of which increased by \$2.0 trillion (7.0 percent) to \$30.3 trillion as of September 30, 2025.

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 \$0.4 trillion (2.9 percent) during FY 2025, to about \$15.5 trillion. This total amount is comprised of \$3.4 trillion in benefits payable for the current and retired civilian workforce, and \$12.1 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 2.3 million retirees and survivors.

The federal workforce experienced significant change during 2025, including from Reductions in Force (RIF) and implementation of the "Deferred Resignation Program" (DRP). The DRP allowed eligible employees to resign voluntarily while receiving paid administrative leave (salary and benefits) from employees' DRP effective date through fiscal or calendar-year end 2025. According to OPM's website, during calendar-year 2025, "the government hired roughly 68,000 people this year, while approximately 317,000 employees left the government."<sup>14</sup>

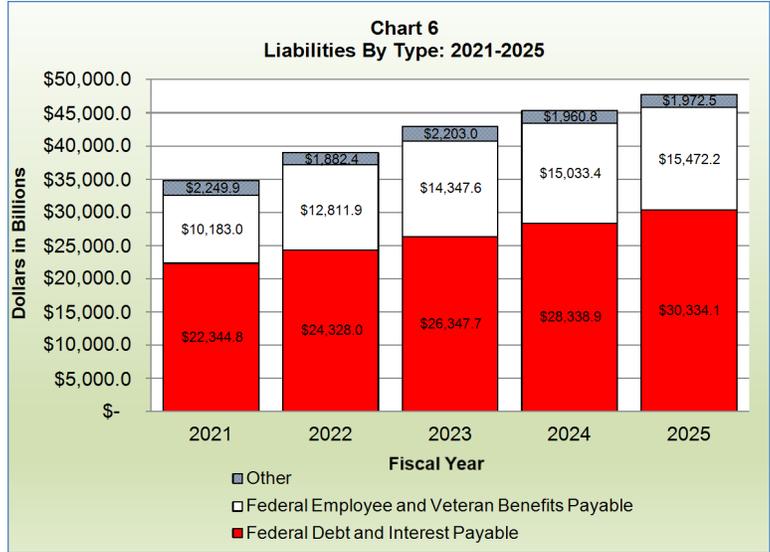
**Federal Debt**

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.

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

(7.0 percent) to \$30.3 trillion as of September 30, 2025. 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 2025, new borrowings were \$30.7 trillion, and repayments of maturing debt held by the public were \$28.8 trillion, both increases over FY 2024. 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.

In addition to debt held by the public, the government has about \$7.3 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 (\$2.6 trillion) and Medicare (\$406.7 billion) Trust Funds. Intra-



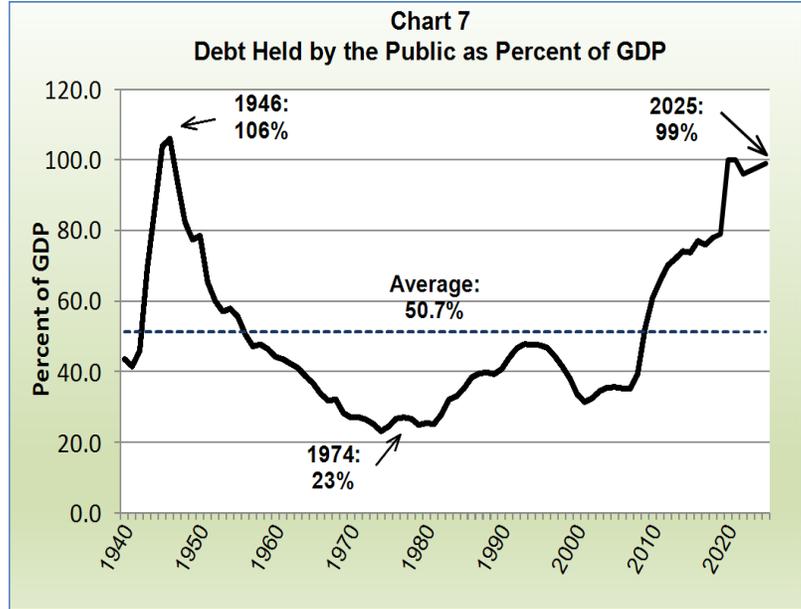
Prior to 1917, Congress approved each debt issuance. In 1917, to facilitate planning in World War I, Congress and the President established a dollar ceiling for federal borrowing. With the *Public Debt Act of 1941* (P.L. 77-7), Congress and the President set an overall limit of \$65 billion on Treasury 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 raised the debt limit on July 4, 2025 to \$41.1 trillion. 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.

<sup>14</sup> <https://www.opm.gov/news/secrets-of-opm/everyone-has-a-plan-until-you-step-into-the-ring/>

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—Federal Debt and Interest Payable). 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 2025, debt subject to the statutory limit was \$37.5 trillion.<sup>15</sup>

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 20<sup>th</sup> 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 Pay-As-You-Go (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.



- The debt-to-GDP ratio rose significantly in 2008-2009 during the financial crisis and again in 2020-2021 during the pandemic reflecting the government's responses to both events and the resulting significant spending and deficit increases, as well as the economic challenges experienced during both periods.
- During the first decade of the 21<sup>st</sup> 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.
- The extraordinary demands of the pandemic, the government's response, and pressures on the economy contributed to a rise in the debt-to-GDP ratio to approximately 100 percent during FY 2020 and FY 2021.
- The debt was 99 percent of GDP at the end of FY 2025. This ratio increased during FY 2025 because debt grew faster than GDP.<sup>16,17</sup> From Chart 7, since 1940, the average debt-to-GDP ratio is 51 percent.

See Note 29—Subsequent Events – for information about events that occurred after the end of the fiscal year that may affect the government's financial position and condition.

<sup>15</sup> On June 3, 2023, P.L. 118-5 was enacted suspending the debt limit through January 1, 2025. On January 21, 2025, a delay in raising the debt limit commenced at which time Treasury departed from its normal debt management operations and undertook extraordinary measures to avoid exceeding the statutory debt limit. On July 4, 2025, Congress and the President enacted P.L. 119-21 which raised the debt limit from \$36,104.0 billion to \$41,104.0 billion. On July 7, 2025, Treasury discontinued the use of extraordinary measures and resumed normal debt management operations (see Note 12—Federal Debt and Interest Payable).

<sup>16</sup> GDP, in this context, refers to nominal GDP.

<sup>17</sup> The increase in debt of \$2.0 trillion was greater than the FY 2025 deficit of \$1.8 trillion primarily because of an increase in federal direct loan financing activity.

## The Economy in FY 2025

A consideration of U.S. macroeconomic performance provides useful context for several aspects of the government's financial statements. In FY 2025, the economy's growth slowed, the pace of payroll job creation tapered while headline inflation remained above the Federal Reserve's 2 percent target. While production and nonsupervisory workers continued to see positive growth in real earnings, the pace of growth slowed in FY 2025 relative to the previous fiscal year. Nonetheless, private sector forces continue to sustain the economy's expansion, job growth likely remains adequate to keep the unemployment rate stable, and important drivers of inflation have eased over the past 12 months.

As summarized in Table 5, the real GDP grew by 2.3 percent over the four quarters of FY 2025, driven mainly by personal consumption expenditures (PCE). Over the four quarters of FY 2025, real PCE rose by 2.6 percent—accounting for an average 1.8 percentage points of total GDP growth—but slowed by a half percentage point compared with PCE growth in the previous fiscal year. Business fixed investment added 0.5 percentage points to growth, matching the share in the previous fiscal year. Residential investment was roughly neutral for growth, as in FY 2024. Government spending added 0.2 percentage points to growth, pulling back from a 0.7 percentage point contribution in the previous fiscal year. Finally, the net change in inventories slowed from FY 2024, which appeared as an 0.5 percentage point drag on GDP growth in FY 2025, after having an essentially neutral impact on GDP growth the previous fiscal year.

Labor markets largely remained in balance in FY 2025, although the economy generated jobs at a slower pace. On average during FY 2025, employers added 53,000 payroll jobs per month, slower than the 125,000 monthly average pace during FY 2024. Meanwhile, the unemployment rate hovered in a low and narrow range of 4.1-4.2 percent through most of the fiscal year, and only ticked up in August and September 2025, ending the fiscal year at 4.4 percent, or 0.3 percentage points higher than at the end of the previous fiscal year and only 0.1 percentage points above the Congressional Budget Office's (CBO's) estimate of the noncyclical unemployment rate for 2025. Labor force participation has remained relatively stable over the past three fiscal years, although the composition of the labor force continues to diverge. The overall labor force participation rate was down 0.3 percentage points over the course of FY 2025, but the participation rate among prime age (ages 25 to 54) workers has been stable at a high level. After reaching a 23-year high of 84.0 percent in July 2024, the prime-age labor force participation rate finished FY 2025 at 83.7 percent, still 0.6 percentage points above the pre-pandemic peak. However, consistent with demographic trends, the labor force participation rate among older workers declined more steeply during the latest fiscal year, dropping 0.6 percentage points to 38.3 percent from the end of FY 2024. This participation rate was 1.9 percentage points below the rate at the end of FY 2019, just before the COVID-19 pandemic. After easing in previous fiscal years, headline inflation picked up moderately in FY 2025, although core inflation (which excludes the volatile components of food and energy) continued to ease. As measured by the Consumer Price Index (CPI), inflation was 3.0 percent over the 12 months of FY 2025, up from 2.4 percent over FY 2024 but considerably below the peak fiscal year pace of 8.2 percent over FY 2022. Faster energy price and food price inflation helped drive up headline inflation. By contrast, core inflation eased as price growth for shelter services and non-housing core services began to recede more durably. Core inflation was 3.0 percent over the fiscal year ending September 2025, down from 3.3 percent at the end of FY 2024 and less than half of the 6.6 percent peak rate at the end of FY 2022. Meanwhile, the Federal Reserve's preferred measure of inflation, the PCE price index, moved up to 0.8 percentage points above its target 2-percent rate at the end of FY 2025.

Gains in nominal wages and Disposable Personal Income (DPI) slowed moderately in FY 2025. Nominal hourly wages for production and supervisory workers grew by 3.8 percent over FY 2025, a bit slower than the 4.2 percent pace over the previous fiscal year. However, with the pick-up in inflation, (real) wages increased just 0.7 percent in FY 2025, following a 2.0 percent gain in FY 2024. Meanwhile, nominal DPI growth was 4.4 percent in FY 2025, below the previous fiscal year's pace of 5.1 percent. After adjusting for inflation, real DPI growth was 1.5 percent, compared with a 2.8 percent advance over FY 2024.

**Table 5: National Economic Indicators<sup>1</sup>**

	2025	2024
Real GDP Growth <sup>1</sup> (4-quarter percent change)	2.3%	2.8%
Real Personal Consumption Expenditures <sup>1</sup> (4-quarter percent change)	2.6%	3.2%
Average monthly payroll job change (thousands) <sup>2</sup>	53	125
Unemployment rate <sup>2</sup> (percent, September of fiscal year shown)	4.4%	4.1%
Consumer Price Index (CPI) <sup>2</sup> (12-month percent change, not seasonally adjusted, NSA)	3.0%	2.4%
CPI, excluding food and energy <sup>2</sup> (12-month percent change, NSA)	3.0%	3.3%
Real Disposable Personal Income <sup>1</sup> (12-month percent change)	1.5%	2.8%
Real Average Hourly Earnings <sup>2</sup> Production and Non-Supervisory (12-month percent change)	0.7%	2.0%

<sup>1</sup> Source: Bureau of Economic Analysis

<sup>2</sup> Source: Bureau of Labor Statistics

\* Some FY 2024 data may differ from the FY 2024 Financial Report due to updates and revisions.

## 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<sup>18</sup> for FY 2025 and FY 2024.

### Fiscal Sustainability

A sustainable fiscal policy is defined in this *Financial Report* 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 *Financial 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 99 percent at the end of FY 2025<sup>19</sup>, up slightly from approximately 98 percent at the end of FY 2024. The long-term fiscal projections in this *Financial Report* are based on the same economic and demographic assumptions that underlie the 2025 SOSI, which is as of January 1, 2025. As discussed below, if current policy is left unchanged and based on this *Financial Report's* assumptions, the debt-to-GDP ratio is projected to exceed 200 percent by 2048 and reach 576 percent in 2100. By comparison, under the 2024 projections, the debt-to-GDP ratio exceeded 200 percent in 2049 and reached 535 percent in 2099. 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 amounts to 4.7 percent PV 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<sup>20</sup> 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

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, and rose again in 2020 due to the COVID-19 pandemic and ensuing economic downturn. Increased spending and temporary tax reductions enacted to stimulate the economy and support recovery contributed to elevated primary deficits over both periods, resulting in sharp increases in the ratio of debt to GDP. The debt-to-GDP ratio rose from 39 percent at the end of 2008 to 70 percent at the end of 2012 and then from 79 percent at the end of 2019 to approximately 100 percent at the end of 2020.

The primary deficit-to-GDP ratio in 2025 was 2.7 percent, a decrease of 0.6 percentage points from the primary deficit-to-GDP ratio reported for 2024 in last year's *Financial Report*, due to higher receipts, partially offset by higher non-interest spending. The primary deficit-to-GDP ratio is projected to average 3.3 percent over the next 10 years, based on the technical assumptions in this *Financial Report*, and projected changes in receipts and outlays, then increase to a peak of 4.2 percent of GDP in 2046, and gradually decrease beyond that point and reach 3.1 percent of GDP in 2100, 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 [American Recovery and Reinvestment Act](#) and the [Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010](#). The share subsequently

<sup>18</sup> 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.

<sup>19</sup> Calculated with the September 2025 total debt held by the public and the FY 2025 GDP, as reported in Bureau of Economic Analysis's (BEA's) second estimate. Total debt held by the public is adjusted to account for borrowing by other (non-Treasury) agencies and for net unamortized premiums/discounts. It excludes accrued interest payable. See Note 12—Federal Debt and Interest Payable for details.

<sup>20</sup> 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). See Note 24 for additional discussion of departures of current policy from current law.

increased to almost 18.0 percent of GDP by 2015, before falling to nearly 16.0 percent in 2020, following the enactment of the *Tax Cuts and Jobs Act of 2017* (TCJA) (P.L. 115-97) and COVID-19 pandemic-induced economic downturn.

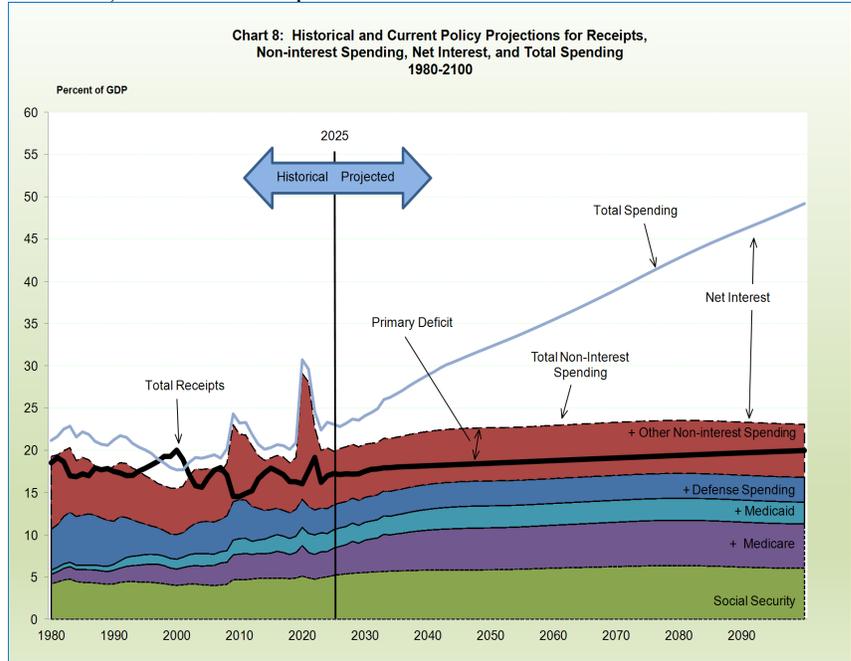
Receipts were 17.2 percent of GDP in 2025, an increase of 0.1 percentage point relative to the share of GDP reported for 2024 in last year's *Financial Report*. Receipts are projected to fall slightly to 17.1 percent of GDP in 2026 and gradually increase to 18.0 percent of GDP in 2035. After 2035, receipts 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.<sup>21</sup>

On the spending side, the non-interest spending share of GDP was 19.9 percent in 2025, 0.5 percentage points below the share of GDP reported for 2024 in last year's *Financial Report*, which was 20.4 percent. The ratio of non-interest spending to GDP is projected to rise gradually, peaking at 23.5 percent of GDP in 2080. The ratio of non-interest spending to GDP then declines

to 23.1 percent in 2100, the end of the projection period. These increases are principally due to expenditure growth rate in Social Security, Medicare, and Medicaid exceeding the GDP growth rate (see Chart 8). The aging of the population, among other factors, is projected to increase the spending shares of GDP of Social Security and Medicare by about 0.5 and 1.6 percentage points, respectively, from 2026 to 2046. After 2046, 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 SLTFP in this year's *Financial Report* increased in both present-value terms and as a percent of the current 75-year PV of GDP. As shown in the SLTFP, this year's estimate of the 75-year PV imbalance of receipts less non-interest spending is 3.9 percent of the current 75-year PV of GDP (\$79.6 trillion), compared with 3.6 percent (\$72.7 trillion) as was projected in last year's *Financial Report*. For clarity, the "75-year PV imbalance of receipts less non-interest spending" is distinct from the fiscal gap. The measure of imbalance accounts for neither the initial debt level nor interest payments and therefore does not indicate the scale of fiscal reforms required to stabilize the debt-to-GDP ratio. As discussed in Note 24, these changes are attributable to the net effect of the following factors:

- The largest factor affecting the projections is the effect of new Social Security, Medicare, and Medicaid program-specific actuarial assumptions, which increased the fiscal imbalance by 0.7 percentage points (percentage points in reference to the percent of the 75-year PV of GDP).<sup>22</sup> Changes to Medicare-specific actuarial assumptions account for 0.4 percentage points of that increase. Changes to Medicaid-specific actuarial assumptions account for a further 0.2 percentage points of that increase—note that this change is independent of the changes to Medicaid outlays in P.L. 119-21 (discussed further, below). Changes to Social Security-specific actuarial assumptions account for the balance of this increase.
- The second-largest factor affecting the projections is the change due to updated budget data, which decreased the fiscal imbalance by 0.2 percentage points (percentage points in reference to the percent of the 75-year PV of GDP). This figure is primarily the result of two larger changes, which largely offset one another. Those two changes are:
  - The incorporation of projected customs duties (largely revenue from tariffs) as projected by the Mid-Session Review (MSR) of the FY 2026 *Budget*.<sup>23</sup> This decreased the fiscal imbalance by 0.9 percentage points. The MSR-projected customs duties for FY 2035 were 1.2 percent of GDP. For the SLTFP, receipts from customs duties were fixed at 1.2 percent of GDP in FY 2036 and beyond.
  - The incorporation of revenue and outlay changes stemming from P.L. 119-21, the law signed by President Trump on July 4, 2025, which includes the WFTC.<sup>24</sup> On net, this increased the fiscal imbalance by 0.7 percentage points.<sup>25</sup>



<sup>21</sup> Other possible paths for the receipts-to-GDP ratio and projected debt held by the public are shown in the "Alternative Scenarios" RSI section of this *Financial Report*.

<sup>22</sup> For more information on Social Security and Medicare actuarial estimates, refer to Note 25—Social Insurance.

<sup>23</sup> "Budget" refers to the *Budget of the U.S. Government*.

<sup>24</sup> P.L. 119-21 is commonly referred to as the OBBBA. Prominent components of P.L. 119-21 are WFTC, which provide federal income tax deductions for certain income from Social Security benefits, overtime, and tips (P.L. 119-21).

- Prior to incorporating changes from P.L. 119-21 and tariff policies, budget projections were updated. Those pre-policy change updates had offsetting changes, with a decline in the PV of total receipts adding 0.3 percentage points to the fiscal imbalance matching a decline in the PV of total outlays subtracting 0.3 percentage points from the fiscal imbalance.
- The third-largest factor affecting the projections is update of economic and demographic assumptions, which decreased the fiscal imbalance by 0.2 percentage points (percentage points in reference to the percent of the 75-year GDP). Contributing to this improvement in the imbalance are higher wages that increase receipts and higher GDP levels that reduce spending as a percentage of GDP. The 75-year PV of GDP for this year's projections is \$2,043.6 trillion, 2.0 percent greater than last year's \$2,002.6 trillion.
- Factors that had smaller effects on the fiscal imbalance included the change in the reporting period (the shift of calculations from 2025 through 2099 to 2026 through 2100), and the updates to technical assumptions.

The net effect of these changes equal to the penultimate row in the SLTFP, shows that this year's estimate of the overall 75-year PV of receipts less non-interest spending is negative 3.9 percent of the 75-year PV of GDP (negative \$79.6 trillion, as compared to a GDP of \$2,043.6 trillion).

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 lowered payment rate updates 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 2025 Medicare Trustees Report, which assume the PPACA and MACRA cost control measures will be effective in producing a substantial slowdown in Medicare cost growth.

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. Other key assumptions, as discussed in greater detail in Note 24—Long-Term Fiscal Projections, include the following:

- Social Security spending and payroll taxes are based on future spending and payroll taxes projected in the 2025 Social Security Trustees Report, adjusted for presentational differences and converted to a fiscal year basis. These amounts include a number of adjustments, including an adjustment to exclude certain taxation of Social Security benefits.
- Projected Medicare spending and Medicare Part A payroll taxes are based on Medicare spending and payroll taxes in the Medicare Trustees Report, adjusted for presentational differences and converted to a fiscal year basis. These amounts include a number of adjustments, including an adjustment to exclude certain taxation of Social Security benefits.
- Medicaid spending projections start with the National Health Expenditure (NHE) projections which are based on recent trends in Medicaid spending, and the demographic, economic, and health cost growth assumptions in the Medicare Trustees Report. NHE projections, which end in 2033, are adjusted to accord with the actual Medicaid spending in FY 2025. After 2033, the number of beneficiaries is projected to grow at the same rate as total population. Medicaid cost per beneficiary after 2033 is assumed to transition over a four-year period to growth at the same rate as Medicare benefits per beneficiary. Additionally, Medicaid cost projections were adjusted from 2026-2034 following CBO's P.L. 119-21 estimates. In 2035 and thereafter, the effects of P.L. 119-21 on Medicaid are assumed to continue.

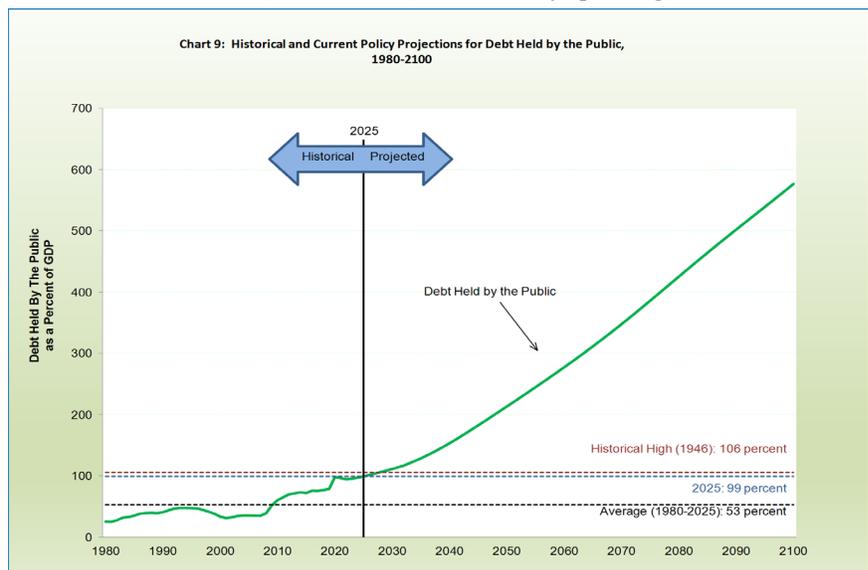
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<sup>25</sup> The increase in the fiscal imbalance is relative to the current law baseline used in the 2024 *Financial Report*, which assumed expiration of the individual income and estate and gift tax provisions of the 2017 TCJA. In addition to providing WFTC and extending expiring TCJA provisions, P.L. 119-21 decreased direct spending by over \$1.2 trillion between 2025 and 2034, according to the CBO's cost estimate (with small adjustments to match the GDP growth path in the Social Security Trustees' Report – for CBO estimates see: <https://www.cbo.gov/publication/61570>). In the long-term fiscal projections, the inclusion of this spending reduction over the full 75-year window decreases the 75-year PV of total programmatic outlays by \$9.5 trillion (0.5 percent of the 75-year PV of GDP), with \$8.4 trillion of those decreases coming via reduced Medicaid outlays. As a result, it is likely that P.L. 119-21 reduced the fiscal imbalance relative to a current policy baseline that assumed an extension of the TCJA provisions.

- Other mandatory spending includes federal employee retirement, veterans' disability benefits, and means-tested entitlements other than Medicaid. Current mandatory spending components that are judged permanent under current policy are assumed to increase by the rate of growth in nominal GDP starting in 2026, implying that such spending will remain constant as a percent of GDP.<sup>26</sup> Additionally, other mandatory spending projections were adjusted from 2026-2034 following CBO's P.L. 119-21 estimates. In 2035 and thereafter, the effects of P.L. 119-21 are assumed to continue.
- Defense and non-defense discretionary spending grow with GDP, starting in 2026.
- Interest spending is determined by projected interest rates and the level of outstanding debt held by the public. The long-run interest rate assumptions accord with those in the 2025 Social Security Trustees Report. The average interest rate over this year's projection period is 4.5 percent, slightly higher than the 2024 *Financial Report*. Debt at the end of each year is projected by adding that year's deficit and other financing requirements to the debt at the end of the previous year.
- Receipts (other than Social Security and Medicare payroll taxes) is comprised of individual income taxes, corporate income taxes, customs duties and other receipts.
  - Individual income taxes are projected using CBO's January 2025 baseline projection of individual income taxes, expressed as a share of salaries and wages from 2026-2035. Those shares are then adjusted to reflect the salaries and wage projections in the Social Security 2025 Trustees Report. Starting in 2036, individual income taxes are initially fixed at the percentage of wages and salaries projected for 2035, then adjusted each year to reflect the tendency of effective tax rates to increase as growth in income per capita outpaces inflation (also known as "bracket creep"). Additionally, those rates are adjusted to reflect the P.L. 119-21 tax cuts, as estimated by CBO. Individual income taxes are projected to increase gradually from 20 percent of wages and salaries in 2026, to 27 percent of wages and salaries in 2100 as real taxable incomes rise over time, and an increasing share of total income is taxed in the higher tax brackets.
  - Corporation tax receipts as a percent of GDP reflect CBO's January 2025 baseline revenue projections through the first 10 years of the projections. That percentage is then adjusted according to CBO's estimated effects of P.L. 119-21 corporate tax reductions. Corporation tax receipts rise from 1.1 percent of GDP in 2027 to 1.2 percent of GDP in 2035, where they stay for the remainder of the projection period.
  - New in the FY 2025 SLTFP, customs duties are estimated separately from "Other Receipts." For 2026 – 2035, customs duties as a percent of GDP follow the projections given in the MSR to the FY 2026 *Budget*. In 2024, customs revenues were 0.3 percent of GDP, and in 2025 they were 0.6 percent of GDP. Revenue projections in this statement do not encompass any effects of the result of the Supreme Court decision affecting tariffs imposed under the International Emergency Economic Powers Act (IEEPA). For more information regarding that decision and any effects or consideration of effects, see Note 29—Subsequent Events.
  - Other receipts, including excise taxes, estate and gift taxes, and miscellaneous receipts, reflect CBO's January 2025 baseline levels as a share of GDP from 2026 – 2035, and then grow with GDP starting in 2036. The ratio of other receipts to GDP is estimated to increase from 0.8 percent in 2026 to 1.0 percent by 2035.

The long-term projections are highly uncertain. To illustrate this, the unaudited RSI section of the *Financial Report* presents alternative scenarios for the growth rate of health care costs, interest rates, discretionary spending, individual income tax receipts, and customs duties.

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 99 percent at the end of FY 2025 and under current policy is projected to be approximately 102 percent in 2026, exceed 200 percent by 2048 and reach 576 percent by 2100. 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



<sup>26</sup> This assumed growth rate for other mandatory programs after 2025 is slightly higher than the average growth rate in the most recent OMB and CBO 10-year budget baselines.

expenditures, and higher net interest expenditures lead to higher debt.<sup>27</sup> The continuous rise of the debt-to-GDP ratio indicates that current policy is unsustainable.

These debt-to-GDP projections are higher than the corresponding projections in both the 2024 and 2023 *Financial Reports*. For example, the last year of the 75-year projection period used in the FY 2023 *Financial Report* is 2098. In the FY 2025 *Financial Report*, the debt-to-GDP ratio for 2098 is projected to be 561 percent, which compares with 528 and 531 percent for that same year in the FY 2024 *Financial Report* and the FY 2023 *Financial Report*, respectively.<sup>28</sup>

### 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 2100 to remain at its level in 2025. Primary deficits average 3.9 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 0.8 percent of GDP, 4.7 percentage points higher than the projected PV of receipts less non-interest spending shown in the financial statements. Hence, the 75-year fiscal gap is estimated to equal to 4.7 percent of GDP. This amount is, in turn, equivalent to 25.1 percent of 75-year PV receipts and 20.7 percent of 75-year PV non-interest spending. This estimate of the fiscal gap is 0.3 percentage points higher than estimated in the FY 2024 *Financial Report* (4.3 percent of GDP).

In these projections, closing the fiscal gap requires running 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 rate of nominal 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 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

Table 6	
Cost of Delaying Fiscal Reform	
Period of Delay	Change in Average Primary Surplus
Reform in 2026 (No Delay)	4.7 percent of GDP between 2026 and 2100
Reform in 2036 (Ten-Year Delay)	5.6 percent of GDP between 2036 and 2100
Reform in 2046 (Twenty-Year Delay)	6.9 percent of GDP between 2046 and 2100

increasing primary surpluses by 4.7 percent of GDP on average between 2026 and 2100 (i.e., some combination of reducing spending and increasing revenue by a combined 4.7 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 5.6 percent of GDP on average between 2036 and 2100. Similarly, delaying reform by 20 years requires primary surplus increases that start in 2036 and 2046 (5.6 and 6.9 percent of GDP, respectively) and that which starts in 2026 (4.7 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 *Financial 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.

<sup>27</sup> 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.

<sup>28</sup> See Note 24 of the *FY 2023 Financial Report of the U.S. Government* for more information about changes in the long-term fiscal projections between FYs 2023 and 2022.

## 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.<sup>29</sup> 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 2025 Social Security and Medicare Trustees Reports and the 2025 SOSI, while comparative information presented from last year's report is based on the 2024 Social Security and Medicare Trustees Reports and the 2024 SOSI. Table 7 summarizes amounts reported in the SOSI, showing that net social insurance expenditures are projected to be \$88.4 trillion over 75 years as of January 1, 2025 for the open group, an increase by approximately \$10.1 trillion compared to net expenditures of \$78.3 trillion projected in the FY 2024 *Financial Report*.<sup>30</sup>

The current-law 2025 amounts reported for Medicare reflect the physician payment levels expected under the MACRA payment rules and the PPACA-mandated reductions in other Medicare payment rates, but not the payment reductions and/or delays that would result from trust fund depletion.<sup>31</sup> 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 2025 and 2024 SOSI, the amounts eliminated totaled \$57.1 trillion and \$50.2 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).

In addition, the Medicare projections have been significantly affected by the enactment of the *Inflation Reduction Act* (IRA) of 2022. This legislation has wide-ranging provisions, including those that restrain price growth and negotiate drug prices for certain Part B and Part D drugs and that redesign the Part D benefit structure to decrease beneficiary out-of-pocket costs. The law takes several years to implement, resulting in very different effects by year. The total effect of the IRA of 2022 is to reduce government expenditures for Part B, to increase expenditures for Part D through 2030, and to decrease Part D expenditures beginning in 2031.

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.

<sup>29</sup> 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](https://www.dol.gov/owcp/regs/compliance/ca_main.htm). RRB's projections are based on economic and demographic assumptions that underlie the *29th Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Acts as of December 31, 2022 with Technical Supplement*, which also serves as the Annual Report for 2024, and the 2025 Annual Report on the Railroad Retirement System required by Section 502 of the *Railroad Retirement Solvency Act of 1983* (P.L. 98-76).

<sup>30</sup> 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.

<sup>31</sup> 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 Alternative Payment Models; 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.

<b>Table 7: Social Insurance Future Expenditures in Excess of Future Revenues</b>					
Dollars in Trillions	2025		2024		Increase / (Decrease)
	\$	%	\$	%	\$ %
<b>Open Group (Net):</b>					
Social Security (OASDI)	\$ (27.9)		\$ (25.4)		\$ 2.5 9.8%
Medicare (Parts A, B, & D)	\$ (60.4)		\$ (52.8)		\$ 7.6 14.4%
Other	\$ (0.1)		\$ (0.1)		\$ - 0.0%
<b>Total Social Insurance Expenditures, Net (Open Group)</b>	<b>\$ (88.4)</b>		<b>\$ (78.3)</b>		<b>\$ 10.1 12.9%</b>
<b>Total Social Insurance Expenditures, Net (Closed Group)</b>	<b>\$ (115.5)</b>		<b>\$ (105.8)</b>		<b>\$ 9.7 9.2%</b>
<b>Social Insurance Net Expenditures as a % of GDP*</b>					
<b>Open Group</b>					
Social Security (OASDI)	(1.4%)		(1.3%)		
Medicare (Parts A, B, & D)	(3.2%)		(2.9%)		
<b>Total (Open Group)</b>	<b>(4.6%)</b>		<b>(4.2%)</b>		
<b>Total (Closed Group)</b>	<b>(5.9%)</b>		<b>(5.6%)</b>		
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 2025 & 2024 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.					

Table 8 identifies the principal reasons for the changes in projected social insurance amounts during 2025 and 2024. Net Present Value (NPV)-Open Group is the PV of estimated future expenditures in excess of estimated future revenue, which represents net cash outflows.

The following briefly summarizes the significant changes for the current valuation (as of January 1, 2025) 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 caused the PV of the estimated future net cash outflows to increase (became more negative) by \$0.8 trillion and \$1.8 trillion for Social Security and Medicare, respectively. The effect of this change on the 75-year PV of estimated future net cash flows is to replace a small negative net cash flow for 2024 with a much larger negative net cash flow for 2099.

<b>Table 8: Changes in Social Insurance Projections</b>		
Dollars in Trillions	2025	2024
<b>NPV - Open Group (Beginning of the Year)</b>	<b>\$ (78.3)</b>	<b>\$ (78.4)</b>
<b>Changes In:</b>		
Valuation Period	\$ (2.6)	\$ (2.3)
Demographic data, assumptions, and methods	\$ 1.0	\$ (2.3)
Economic data, assumptions, and methods <sup>1</sup>	\$ (0.3)	\$ 0.4
Law or policy	\$ (1.1)	\$ -
Methodology and programmatic data <sup>1</sup>	\$ (0.2)	\$ 1.4
Economic and healthcare assumptions <sup>2</sup>	\$ (4.8)	\$ 2.7
Change in projection base <sup>2</sup>	\$ (2.1)	\$ 0.2
<b>Net Change in Open Group measure</b>	<b>\$ (10.1)</b>	<b>\$ 0.1</b>
<b>NPV - Open Group (End of the Year)</b>	<b>\$ (88.4)</b>	<b>\$ (78.3)</b>
<sup>1</sup> Relates to Social Security Program.		
<sup>2</sup> Relates to Medicare Program.		

- Changes in demographic data, assumptions, and methods caused the PV of the estimated future net cash outflows to increase (became more negative) by \$0.1 trillion and decrease (become less negative) by \$1.1 trillion for Social Security and Medicare, respectively. The most significant changes affecting these results included: 1) longer transition to the ultimate Total Fertility Rate (TFR); 2) updated mortality, historical population, immigration, marriage, and divorce data; and 3) higher levels of temporary or unlawfully present immigrant entrants in the period 2022-2025.
- Changes in economic data, assumptions, and methods caused the PV of the estimated future net cash outflows for Social Security to increase (become more negative) by \$0.3 trillion. There was one change to the ultimate economic

assumptions. The ratio of total labor compensation to GDP is assumed to increase gradually in 2034, and to remain approximately constant thereafter. However, the starting economic value and the way these values transition to the ultimate assumptions were changed. The one significant change is that historical Old-Age, Survivors, and Disability Insurance (OASDI) covered employment for 2022 was slightly higher and its age distribution was different than assumed under the prior valuation. In addition, the most significant changes included: 1) improved process to calculate and apply adjustments to the age profile for labor force participation rates; 2) updates to projections of OASDI-covered employment; and 3) updates to the model to project the civilian noninstitutional (CNI) population to make these projections more consistent with the Social Security area population.

- Changes in law or policy: There were two notable changes in law or policy: 1) SSA published a final rule on past relevant work which affects disability determinations and decisions; and 2) the *Social Security Fairness Act of 2023* which reduced or eliminated the Social Security benefits of individuals receiving a pension based on work that was not covered by Social Security.
- Changes in methodology and programmatic data caused the PV of the estimated future net cash outflows to increase (become more negative) by \$0.2 trillion for Social Security. The most significant changes were: 1) lower near-term and ultimate levels of revenue from income taxation of OASDI benefits than projected in the prior valuation; and 2) updates to better reflect the distribution of taxable earnings levels observed through 2019 in order to project average benefit levels of retired-worker and disabled-worker beneficiaries.
- Changes in economic and healthcare assumptions caused the PV of estimated future net cash outflows to increase (become more negative) by \$4.8 trillion for Medicare. The economic assumptions used in the Medicare projections are the same as those used for the OASDI (described above); and the healthcare assumptions are specific to the Medicare projections. Changes include higher Part A projected spending growth because of higher-than-anticipated 2024 expenditures and higher projected spending for inpatient hospital and hospice service; higher Part B projected spending growth due to higher projected spending for outpatient hospital and physician-administered drugs; and lower Part D projected spending growth because of lower Part D enrollment which is disproportionately lower for those eligible for low-income subsidies.
- Change in the net impact of Part A, B, and D projection base caused the PV of estimated future cash outflows to increase (become more negative) by \$2.1 trillion for Medicare. Part A, B, and D income and expenditures were higher than estimated based on actual experience. Actual experience of the Medicare Trust Funds between January 1, 2024, and January 1, 2025, is incorporated in the current valuation and is less than projected in the prior valuation.

As reported in Note 25—Social Insurance, 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 2025, 2024, 2023, 2022 and 2021 SOSI because of these significant uncertainties. Refer to Note 25 and SSA's and HHS's financial statements for additional information.

In addition, Note 25—Social Insurance references the potential impact of P.L. 119-21. Because it was enacted after the release of the 2025 Social Security and Medicare Trustees Reports, the impact of P.L. 119-21 is not reflected in the actuarial estimates presented in the SOSI and SCSIA. However, it is estimated that enactment of P.L. 119-21 will result in the PV of the estimated future net cash outflows to increase (become more negative).

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 of employment and GDP.<sup>32</sup> According to the Medicare Trustees Report, spending on Medicare is projected to rise from its current level of 3.8 percent of GDP in 2024 to 6.2 percent in 2049 and then rise more slowly before leveling off at around 6.7 percent in the final 25 years of the projection period.<sup>33</sup> As for Social Security, combined spending is projected to generally increase from 5.3 percent of GDP in 2025 to a peak of about 6.4 percent for 2079, and then decline to 6.1 percent by 2099. 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.

<sup>32</sup> [A Summary of the 2025 Annual Social Security and Medicare Trust Fund Reports](#), page 6.

<sup>33</sup> Percent of GDP amounts are expressed in gross terms (including amounts financed by premiums and state transfers).

Table 9: Trust Fund Status		
Fund	Projected Depletion	Projected Post-Depletion Trend
Medicare Hospital Insurance *	2033	In 2033, trust fund income is projected to cover 89 percent of scheduled benefits, decreasing to 86 percent in 2049, then returning to 100 percent by 2099.
Combined Old-Age Survivors and Disability Insurance **	2034	In 2034, trust fund income is projected to cover 81 percent of scheduled benefits, decreasing to 72 percent by 2099.
* Source: 2025 Medicare Trustees Report ** Source: 2025 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*.

## Financial Management

### Grants and Cooperative Agreements

In FY 2025, the federal government obligated approximately \$1.2 trillion for grants and cooperative agreements, according to [USAspending.gov](https://www.usaspending.gov). This figure does not include obligations for other types of financial assistance, such as loans or direct appropriations and may not reflect deobligations from terminations that occurred in FY 2025. A large portion of grant funding was provided under the Bipartisan Infrastructure Law and the IRA of 2022. During FY 2025, OMB worked with the [Council on Federal Financial Assistance](#) and grantmaking federal agencies to ensure the alignment of federal programs with Administration priorities and the President’s Executive Orders, including Executive Order 14332, “Improving Oversight of Federal Grantmaking.” As a result of this Executive Order, Federal agencies instituted a more disciplined process for reviewing Notices of Funding Opportunities (NOFOs) and federal awards. Federal agencies designated senior appointees responsible for oversight of each agency’s process of issuing NOFOs and executing grants and cooperative agreements. In addition, under the President’s Management Agenda (PMA), agencies are ensuring that grants and cooperative agreements align with the Administration’s America First priorities, that funds go only to high-performing grant recipients, and that grant recipients are held accountable. Through the Executive Order and the PMA, the Administration is assuring that taxpayer dollars spent on grants and cooperative agreements are delivering results for the American taxpayer.

Improving financial assistance data continues to be a priority for OMB, including ensuring that federal assistance recipients justify requests for payments and report subaward data on [USAspending.gov](https://www.usaspending.gov). OMB has also continued to develop the Federal Program Inventory to ensure it accurately reflects programs that have specific and measurable objectives that can be used to assess results, thereby improving visibility into program efficiency and effectiveness.

### Payment Integrity

An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirement. Improper payments include overpayments, underpayments, payments to ineligible recipients, payments for ineligible services, duplicate payments, and payments lacking proper documentation.

Preventing improper payments, especially those resulting from fraudulent activity, continues to be a top priority of the Administration. The PMA demonstrates this commitment by prioritizing the elimination of wasteful spending and ceasing payments to fraudsters. To be successful in preventing improper payments, the Administration has placed an increased focus on improving up-front processes and controls that enable agencies to make payments accurately and minimizing monetary losses. In March 2025, the President issued Executive Order 14249, “Protecting America’s Bank Account Against Fraud, Waste, and Abuse.” This Executive Order removed the barriers that prevented agencies from easily sharing data and fully utilizing Treasury’s Do Not Pay System. OMB continues to work with Treasury, agencies, the Chief Financial Officers Council, and other stakeholders to add new data to Do Not Pay, and enable agencies to sign-up and start screening payments.

[PaymentAccuracy.gov](https://www.PaymentAccuracy.gov) provides payment integrity information that OMB and Executive agencies are required to report under the *Payment Integrity Information Act of 2019*, including program compliance, overpayment recoveries, and accountability mechanisms

## Agency Financial Report Audits

Since the enactment of the CFO Act, the federal financial management community has made significant progress in financial accounting and reporting. In June, OMB issued Memorandum M-25-30 “Ensuring Accountability: How We Oversee, Audit, and Improve.” M-25-30 calls for a strategic reset of how the government conducts financial statement audits and utilizes the results of those audits. The Administration has led agencies to take a hard look at their processes and procedures, and identify multiple opportunities to improve. The due diligence and work of these agencies provides a clear path forward to assuring good stewardship of taxpayer dollars. As shown in Table 10, for FY 2025, 16 of the CFO Act agencies obtained an unmodified opinion from the independent auditors on their financial statements, with one opinion pending as of the date of publication of this report.<sup>34</sup> In addition, 56 auditor-identified material weaknesses were identified for FY 2025. There are instances where increased due diligence by the current Administration led to findings on matters that had been missed or ignored during the prior administration. Mitigation strategies are now in place to address findings and improve stewardship of taxpayer dollars. Twenty-six of these material weaknesses are associated with DOD. The other 30 material weaknesses are associated with non-DOD agencies. As of the date of this *Financial Report*, one agency (DOL) had not issued its AFR.

**Table 10: CFO Act Agency Audit Results: FY 2025**

Agency	Audit Opinion	Auditor-Reported Material Weaknesses				Consolidated Ending
		Beginning	New	Resolved	Consolidated	
Department of Agriculture (USDA)	Qualified	2	-	-	-	2
Department of Commerce (DOC)	Unmodified	2	2	2	-	2
Department of Defense (DOD)	Disclaimer	28	-	1	1	26
Department of Education (Education)*	Unmodified*	1	-	-	-	1
Department of Energy (DOE)	Qualified	1	-	-	-	1
Department of Health and Human Services (HHS)**	Unmodified	-	-	-	-	-
Department of Homeland Security (DHS)	Unmodified	3	3	1	-	5
Department of Housing & Urban Development (HUD)	Disclaimer	-	-	-	-	-
Department of the Interior (DOI)	Unmodified	1	1	1	-	1
Department of Justice (DOJ)	Unmodified	1	-	-	-	1
Department of Labor (DOL)***	---	1	---	---	---	---
Department of State (State)	Unmodified	-	-	-	-	-
Department of Transportation (DOT)	Unmodified	-	-	-	-	-
Department of the Treasury (Treasury)	Unmodified	-	-	-	-	-
Department of Veterans Affairs (VA)	Unmodified	3	1	2	-	2
Agency for International Development (USAID)	Disclaimer	-	4	-	-	4
Environmental Protection Agency (EPA)	Disclaimer	2	4	1	-	5
General Services Administration (GSA)	Unmodified	-	1	-	-	1
National Aeronautics & Space Administration (NASA)	Unmodified	1	-	1	-	-
National Science Foundation (NSF)	Unmodified	-	-	-	-	-
Nuclear Regulatory Commission (NRC)	Unmodified	-	-	-	-	-
Office of Personnel Management (OPM)	Unmodified	-	1	-	-	1
Small Business Administration (SBA)	Disclaimer	7	-	3	-	4
Social Security Administration (SSA)	Unmodified	-	-	-	-	-
<b>Totals</b>		<b>53</b>	<b>17</b>	<b>12</b>	<b>1</b>	<b>56</b>

\* Balance Sheet only  
\*\* Unmodified opinion on all statements except SOSI and SCSIA, which received a disclaimer.  
\*\*\*Audit opinion has not been issued as of the publication of this *Financial Report*.

## Financial Management and Grants Systems

Federal agencies continue to face challenges in implementing financial management systems that meet federal requirements. Five CFO Act agencies reported lack of substantial compliance with one or more of the three Section 803(a) requirements of the *Federal Financial Management Improvement Act of 1996* (FFMIA) in FY 2025. As of the date of this *Financial Report*, one agency had not reached or reported a conclusion, and one agency had not yet issued its AFR. Seven auditors reported agencies' lack of substantial compliance with one or more of the three Section 803(a) FFMIA requirements in FY 2025. Two auditors had not reached or reported a conclusion and, as noted above, one agency had not yet issued its AFR as of the date of publication of this report.

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. As noted above, in March the President signed Executive Order 14249, “Protecting America’s Bank Account Against Fraud, Waste, and Abuse”, to fix these long-standing issues. This

<sup>34</sup>The 16 entities include HHS, which received an unmodified (“clean”) opinion on all statements except the SOSI and the SCSIA.

Executive Order directed CFO Act agencies to consolidate to a single agency-wide Financial Management Quality Service Management Office (FM QSMO) approved system. Consistent with the Executive Order, the PMA seeks to consolidate and standardize systems and eliminate duplicative ones.

OMB and Treasury, as the designated Quality Service Management Office (QSMO), continue to pursue financial management improvement strategies that have government-wide benefits. These strategies include continuing to increase the number of providers available on the FM QSMO Marketplace, enhancing system standards, creating standardized processes, gathering system requirements, and assuring interoperability with other system interfaces. The OMB and Treasury's efforts are providing a path to the decommissioning of legacy systems and migration to updated systems, leveraging modernized technologies.

OMB and HHS, as the designated Grants QSMO, continue working to modernize and streamline the government's vast and aging legacy grants management systems. The Grants QSMO established a marketplace of shared service providers for federal grants and developed a Catalog of Market Research highlighting select vendors that offer standard award management systems. Federal agencies have been taking steps to ensure that they continue to advance the Administration's goals of consolidating systems, migrating to federal shared services, and buying from Grants QSMO-approved vendors. OMB and HHS continue to develop government-wide data standards to be incorporated into marketplace offerings in alignment with the [Grant Reporting Efficiency and Agreements Transparency Act of 2019](#). 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 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 A-123 implements the requirements of 31 U.S.C. 3512 (c) and (d) [commonly known as the *Federal Managers' Financial Integrity Act of 1982*] by providing agencies a framework for assessing and managing risks strategically and tactically. The Circular contains multiple appendices that address one or more of the objectives of effective internal control.

- Appendix A outlines a risk-based approach for agencies to use 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 the *Payment Integrity Information Act of 2019*; 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 56 for FY 2025. While progress is being made at many agencies and across the government in identifying and resolving internal control deficiencies, additional work is needed, as the audit has identified, that, at the government-wide level, material weaknesses resulted in ineffective internal control over financial reporting.

## 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. As a result of this testing, agency audit reports may report instances of noncompliance. The auditor reported that its work on compliance with laws and regulations was limited by the material weaknesses and scope limitations discussed in its report.

## Conclusion

Although the federal government has made significant progress in financial management since the passage of the CFO Act more than 30 years ago, challenges remain to realizing the intended financial management reforms of the Act. President Trump has made addressing financial integrity a priority, evidenced by executive orders, to assure that all agencies have sound financial management processes and procedures that protect taxpayer dollars. 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 OMB and Treasury, agencies are implementing the tools and capabilities to bring true 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/information-resources/guidance/>; 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.*