United States Government Supplemental Information (Unaudited) for the Years Ended September 30, 2009, and 2008

Social Insurance

The social insurance programs consisting of Social Security, Medicare, Railroad Retirement and Black Lung, were developed to provide income security and health care coverage to citizens under specific circumstances as a responsibility of the Government. Because taxpayers rely on these programs in their long-term planning, social insurance program information should indicate whether they are sustainable under current law, as well as what their effect will be on the Government's financial condition. The resources needed to run these programs are raised through taxes and fees. Eligibility for benefits rests in part on earnings and time worked by the individuals. Social Security benefits are generally redistributed intentionally toward lower-wage workers (i.e., benefits are progressive). In addition, each social insurance program has a uniform set of entitling events and schedules that apply to all participants.

Social Security and Medicare

Social Security

The OASI Trust Fund was established on January 1, 1940, as a separate account in the Treasury. The DI Trust Fund, another separate account in the Treasury, was established on August 1, 1956. OASI pays cash retirement benefits to eligible retirees and their eligible dependents and survivors, and the much smaller DI fund pays cash benefits to eligible individuals who are unable to work because of medical conditions and certain family members of such eligible individuals. Though the events that trigger benefit payments are quite different, both trust funds have the same earmarked financing structure: primarily payroll taxes and income taxes on benefits. All financial operations of the OASI and DI Programs are handled through these respective funds. The two funds are often referred to as simply the combined OASDI Trust Funds. At the end of calendar year 2008, OASDI benefits were paid to approximately 51 million beneficiaries.

The primary financing of these two funds are taxes paid by workers, their employers, and individuals with self-employment income, based on work covered by the OASDI Program. Since 1990, employers and employees have each paid 6.2 percent of taxable earnings. The self-employed pay 12.4 percent of taxable earnings. Payroll taxes are computed on wages and net earnings from self-employment up to a specified maximum annual amount, referred to as maximum taxable earnings ($106,800 in 2009), that increases each year with economy-wide average wages.

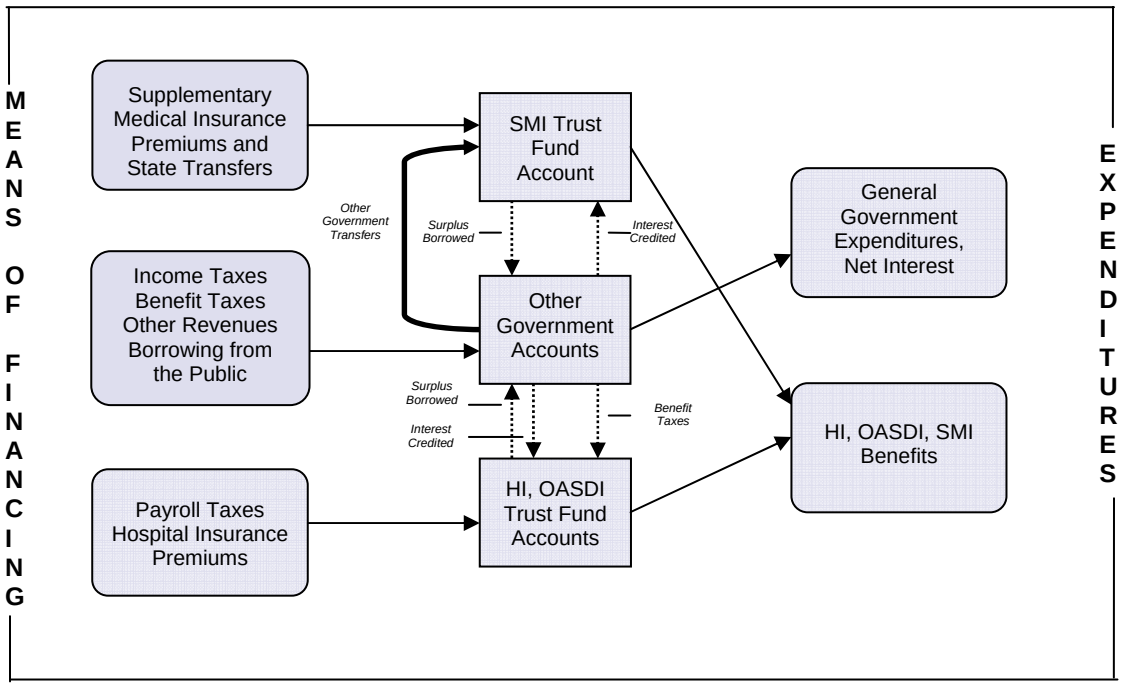
Legislation passed in 1984 subjected up to half of OASDI benefits to tax and allocated the revenue to the OASDI Trust Funds, and in 1993 legislation upped the potentially taxed portion of benefits to 85 percent and allocated the additional revenue to the Hospital Insurance Trust Fund.

Medicare

The Medicare Program, created in 1965, also has two separate trust funds: the Hospital Insurance (HI, Medicare Part A) and Supplementary Medical Insurance (SMI, Medicare Parts B and D) Trust Funds.[1] HI pays for inpatient acute hospital services and major alternatives to hospitals (skilled nursing services, for example) and SMI pays for hospital outpatient services, physician services, and assorted other services and products through the Part B account and pays for prescription drugs through the Part D account. Though the events that trigger benefit payments are similar, HI and SMI have different earmarked financing structures. Similar to OASDI, HI is financed primarily by payroll contributions. Employers and employees each pay 1.45 percent of earnings, while self-employed workers pay 2.9 percent of their net earnings. Other income to the HI fund includes a small amount of premium income from voluntary enrollees, a portion of the Federal income taxes that beneficiaries pay on Social Security benefits (as explained above), and interest credited on Treasury securities held in the HI Trust Fund. As is explained in the next section, these Treasury securities and related interest have no effect on the consolidated statement of Governmentwide finances.

For SMI, transfers from the General Fund of the Treasury represent the largest source of income covering about 74 percent and 77 percent of program costs for Parts B and D, respectively. Beneficiaries pay monthly premiums that finance approximately 26 percent and 23 percent of costs for Parts B and D, respectively. With the introduction of Part D drug coverage, Medicaid is no longer the primary payer of drug benefits for beneficiaries dually eligible for Medicare and Medicaid. For those beneficiaries, States must pay the Part D account a portion of their estimated foregone drug costs for this population (referred to as State transfers). As with HI, interest received on Treasury securities held in the SMI Trust Fund is credited to the fund. These Treasury securities and related interest have no effect on the consolidated statement of Governmentwide finances. See Note 26—Social Insurance, for additional information on Medicare program financing.

Figure 1
Social Security, Medicare, and Governmentwide Finances



[1] Medicare legislation in 2003 created the new Part D account in the SMI Trust Fund to track the finances of a new prescription drug benefit that began in 2006. As in the case of Medicare Part B, approximately three-quarters of revenues to the Part D account will come from future transfers from the General Fund of the Treasury. Consequently, the nature of the relationship between the SMI Trust Fund and the Federal budget described below is largely unaffected by the presence of the Part D account though the magnitude will be greater.

Social Security, Medicare, and Governmentwide Finances

The current and future financial status of the separate Social Security and Medicare Trust Funds is the focus of the trustees' reports, a focus that may appropriately be referred to as the "trust fund perspective." In contrast, the Government primarily uses the *unified budget* concept as the framework for budgetary analysis and presentation. It represents a comprehensive display of all Federal activities, regardless of fund type or on- and off-budget status, and has a broader focus than the trust fund perspective that may appropriately be referred to as the "budget perspective" or the "Governmentwide perspective." Social Security and Medicare are among the largest expenditure categories of the U.S. Federal budget. Together, they now account for more than a third of all Federal spending and the percentage is projected to rise dramatically for the reasons discussed below. This section describes in detail the important relationship between the trust fund perspective and the Governmentwide perspective.

Figure 1 is a simplified graphical depiction of the interaction of the Social Security and Medicare Trust Funds with the rest of the Federal budget.[2] The boxes on the left show sources of funding, those in the middle represent the trust funds and other Government accounts (of which the General Fund is a part) into which that funding flows, and the boxes on the right show simplified expenditure categories. The figure is intended to illustrate how the various sources of program revenue flow through the budget to beneficiaries. The general approach is to group revenues and expenditures that are linked specifically to Social Security and/or Medicare separately from those for other government programs.

Each of the trust funds has its own sources and types of revenue. With the exception of General Fund transfers to SMI, each of these revenue sources is earmarked specifically for the respective trust fund, and cannot be used for other purposes. In contrast, personal and corporate income taxes and other revenue go into the General Fund of the Treasury and are drawn down for any Government program for which Congress has approved spending.[3] The arrows from the boxes on the left represent the flow of the revenues into the trust funds and other Government accounts.

The heavy line between the top two boxes in the middle of Figure 1 represents intragovernmental transfers between the SMI Trust Fund and other Government accounts. The Medicare SMI Trust Fund is shown separately from the two Social Security trust funds (OASI and DI) and the Medicare HI Trust Fund to highlight the unique financing of SMI. SMI is currently the only one of the four programs that is funded through transfers from the General Fund of the Treasury, which is part of the other Government accounts (the Part D account will receive transfers from the States). The transfers finance roughly three-fourths of SMI Program expenses. The transfers are automatic; their size depends on how much the program requires, not on how much revenue comes into the Treasury. If General Fund revenues become insufficient to cover both the mandated transfer to SMI and expenditures on other general Government programs, Treasury would have to borrow to make up the difference. In the longer run, if transfers to SMI are increasing—as shown below, they are projected to increase significantly in coming years—then Congress must either raise taxes, cut other Government spending, reduce SMI benefits, or borrow even more.

The dotted lines between the middle boxes of Figure 1 also represent intragovernmental transfers but those transfers arise in the form of "borrowing/lending" between the Government accounts. Interest credited to the trust funds arises when the excess of program income over expenses is loaned to the General Fund. The vertical lines labeled *Surplus Borrowed* represent these flows from the trust funds to the other Government accounts. These loans reduce the amount the General Fund has to borrow from the public to finance a deficit (or likewise increase the amount of debt paid off if there is a surplus). However, the General Fund has to credit interest on the loans from the trust fund programs, just as if it borrowed the money from the public. The credits lead to future obligations for the General Fund (which is part of the other Government accounts). These transactions are indicated in Figure 1 by the vertical arrows labeled *Interest Credited*. The credits increase trust fund income exactly as much as they increase credits (future obligations) in the General Fund. From the standpoint of the Government as a whole, at least in an accounting sense, these interest credits are a wash.

[2] The Federal unified budget encompasses all Government financing and is synonymous with a Governmentwide perspective.

[3] Other programs also have dedicated revenues in the form of taxes and fees (and other forms of receipt) and there are a large number of earmarked trust funds in the Federal budget. Total trust fund receipts account for about 40 percent of total Government receipts with the Social Security and Medicare Trust Funds accounting for about two-thirds of trust fund receipts. For further discussion, see the report issued by the Government Accountability Office, *Federal Trust and Other Earmarked Funds*, GAO-01-199SP, January 2001. In the figure and the discussion that follows, all other programs, including these other earmarked trust fund programs, are grouped under "Other Government Accounts" to simplify the description and maintain the focus on Social Security and Medicare.

It is important to understand the additional implications of these loans from the trust funds to the other Government accounts. When the trust funds get the receipts that they loan to the General Fund, these receipts provide additional authority to spend on benefits and other program expenses. The General Fund, in turn, has taken on the obligation of paying interest on these loans every year and repaying the principal when trust fund income from other sources falls below expenditures—the loans will be called in and the General Fund will have to reduce other spending, raise taxes, or borrow more from the public to finance the benefits paid by the trust funds.

Actual dollar amounts roughly corresponding to the flows presented in Figure 1 are shown in Table 1 for fiscal year 2009. In Table 1, revenues from the public (left side of Figure 1) and expenditures to the public (right side of Figure 1) are shown separately from transfers between Government accounts (middle of Figure 1). Note that the transfers ($196.2 billion) and interest credits ($136.9 billion) received by the trust funds appear as negative entries under "Other Government" and are thus offsetting when summed for the total budget column. These two intragovernmental transfers are the key to the differences between the trust fund and budget perspectives.

From the Governmentwide perspective, only revenues received from the public (and States in the case of Medicare, Part D) and expenditures made to the public are important for the final balance. Trust fund revenue from the public consists of payroll taxes, benefit taxes, and premiums. For HI, the difference between total expenditures made to the public ($238.0 billion) and revenues ($211.2 billion) was ($26.8 billion) in 2009, indicating that HI had a relatively small negative effect on the overall budget outcome *in that year*. For the SMI account, revenues from the public (premiums) were relatively small, representing about a quarter of total expenditures made to the public in 2009. The difference ($194.9 billion) resulted in a net draw on the overall budget balance in that year. For OASDI, the difference between total expenditures made to the public ($669.7 billion) and revenues from the public ($689.0 billion) was $19.4 billion in 2009, indicating that OASDI had a positive effect on the overall budget outcome *in that year*.

The trust fund perspective is captured in the bottom section of each of the three trust fund columns. For HI, total expenditures exceeded total revenues by $9.1 billion in 2009, as shown at the bottom of the first column. This cash deficit was made up by calling in past loans made to the General Fund (i.e., by redeeming Trust Fund assets). For SMI, total revenues of $262.5 billion ($65.3 + $197.2), including $194.3 billion transferred from other Government accounts (the General Fund), exceeded total expenditures by $2.3 billion. Transfers to the SMI Program from other Government accounts (the General Fund), amounting to about 75 percent of program costs, are obligated under current law and therefore appropriately viewed as revenue from the trust fund perspective. For OASDI, total revenues of $807.0 billion ($689.0 + $118.0), including interest and a small amount of other Government transfers, exceeded total expenditures of $669.7 billion by $137.3 billion.

Table 1
Revenues and Expenditures for Medicare and Social Security Trust Funds and the Total Federal Budget, for the Fiscal Year ended September 30, 2009

(In billions of dollars)	Trust Funds HI	SMI	OASDI	Total	All Other	Total [1]
Revenues from the public and States:						
Payroll and benefit taxes, State grants...	206.5	-	689.0	895.5	-	895.5
Premiums	4.7	57.8	-	62.5	-	62.5
Other taxes and fees	-	7.5	-	7.5	1,139.1	1,146.6
Total	211.2	65.3	689.0	965.5	1,139.1	2,104.6
Total expenditures to the public [2]	238.0	260.2	669.7	1,167.9	2,353.8	3,521.7
Net results—budget perspective [3]	(26.8)	(194.9)	19.4	(202.4)	(1,214.7)	(1,417.1)
Revenues from other Government accounts:						
Transfers	1.9	194.3	-	196.2	(196.2)	-
Interest credits	15.9	3.0	118.0	136.9	(136.9)	-
Total	17.7	197.2	118.0	333.1	(333.1)	-
Net results—trust fund perspective (change in Trust Fund balance) [3]	(9.1)	2.3	137.3	130.7	N/A	N/A

[1] This column is the sum of the preceding two columns and shows data for the total Federal budget. The figure $1,417.1 billion was the total Federal deficit in fiscal year 2009.
[2] The OASDI figure includes $4.1 billion transferred to the Railroad Retirement Board for benefit payments and is therefore an expenditure to the public.
[3] Net results are computed as revenues less expenditures.

Notes: Amounts may not add due to rounding.
"N/A" indicates not applicable.

Cashflow Projections

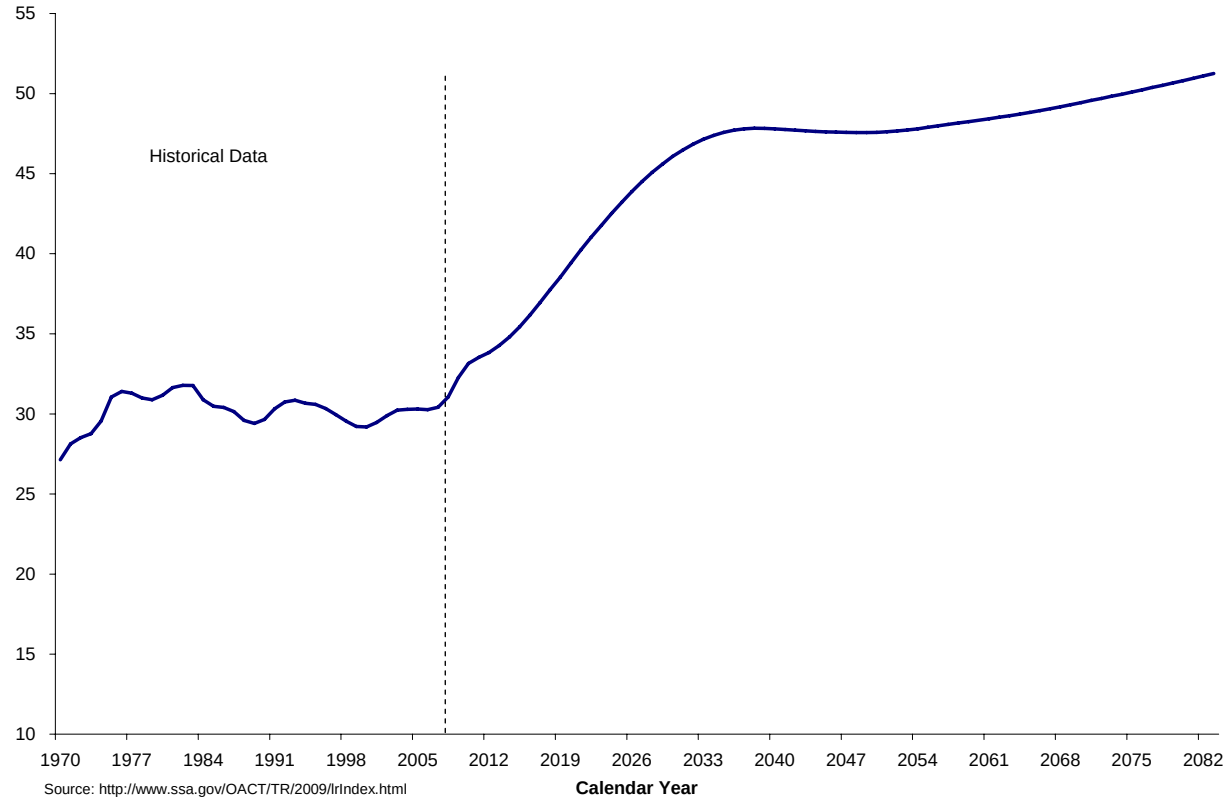
Background

Economic and Demographic Assumptions. The Boards of Trustees [4] of the OASDI and Medicare Trust Funds provide in their annual reports to Congress short-range (10-year) and long-range (75-year) actuarial estimates of each trust fund. Because of the inherent uncertainty in estimates for 75 years into the future, the Boards use three alternative sets of economic and demographic assumptions to show a range of possibilities. The economic and demographic assumptions used for the most recent set of intermediate projections for Social Security and Medicare are shown in the "Social Security" and "Medicare" sections of Note 26—Social Insurance.

[4] There are six trustees: the Secretaries of the Treasury (managing trustee), Health and Human Services, and Labor; the Commissioner of the Social Security Administration; and two public trustees who are appointed by the President and confirmed by the Senate for a 4-year term. By law, the public trustees are members of two different political parties.

Beneficiary-to-Worker Ratio. Underlying the pattern of expenditure projections for both the OASDI and Medicare Programs is the impending demographic change that will occur as the large baby-boom generation, born in the years 1946 to 1964, retires or reaches eligibility age. The consequence is that the number of beneficiaries will increase much faster than the number of workers who pay taxes that are used to pay benefits. The pattern is illustrated in Chart 1 which shows the ratio of OASDI beneficiaries to 100 covered workers for the historical period and estimated for the next 75 years. In 2009, there were about 32 beneficiaries for every 100 workers. By 2030, there will be about 46 beneficiaries for every 100 workers. A similar demographic pattern confronts the Medicare Program. For example, for the HI Program, there were about 28 beneficiaries for every 100 workers in 2009; by 2030, there are expected to be about 42 beneficiaries for every 100 workers. This ratio for both programs will continue to increase to about 50 beneficiaries for every 100 workers by the end of the projection period, after the baby-boom generation has moved through the Social Security system as well as declining birth rates and increasing longevity.

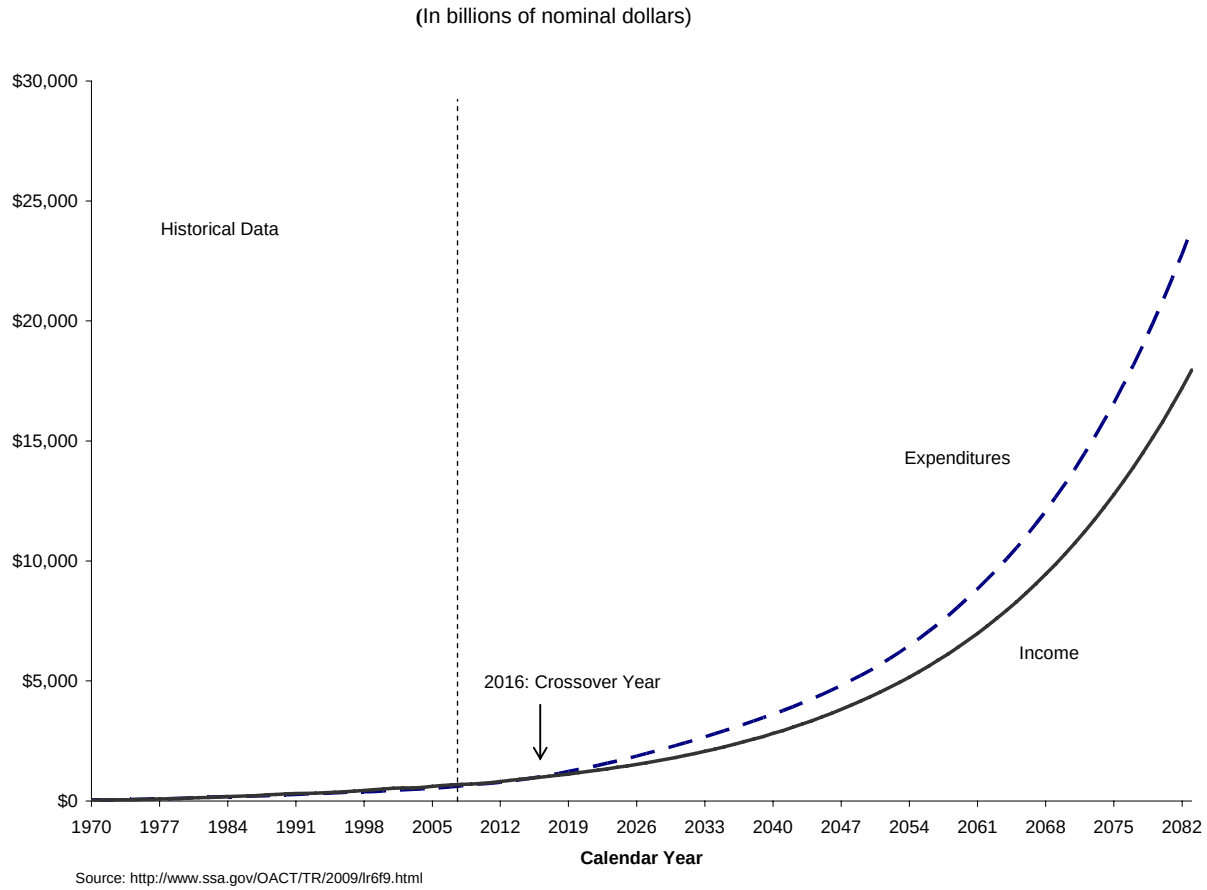
Chart 1—OASDI Beneficiaries per 100 Covered Workers 1970-2083



Social Security Projections

Nominal Income and Expenditures. Chart 2 shows historical values and actuarial estimates of combined OASDI annual income (excluding interest) and expenditures for 1970-2083 in nominal dollars. The estimates are for the open-group population. That is, the estimates include taxes paid from, and on behalf of, workers who will enter covered employment during the period, as well as those already in covered employment at the beginning of that period. These estimates also include scheduled benefit payments made to, and on behalf of, such workers during that period. Note that expenditure projections in Chart 2 and subsequent charts are based on current-law benefit formulas, regardless of whether the income and assets are available to finance them.

Chart 2—OASDI Income (Excluding Interest) and Expenditures 1970-2083



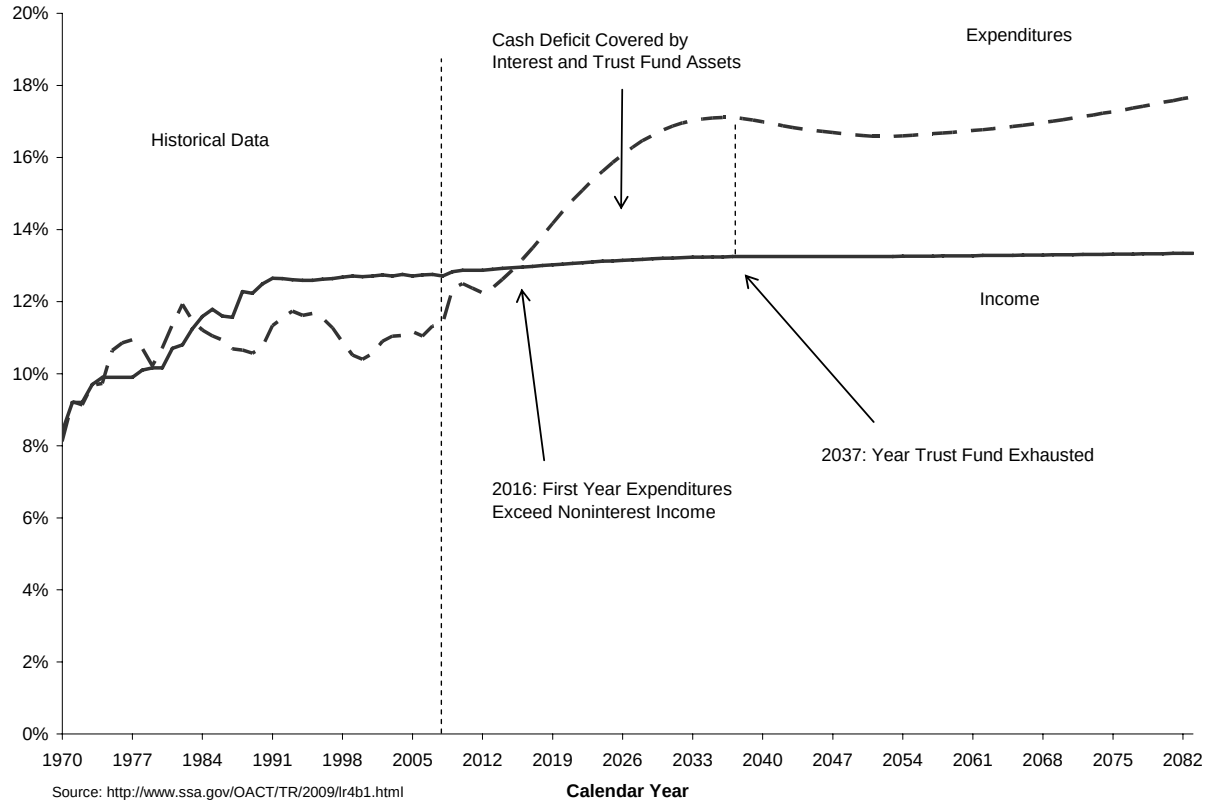
Source: http://www.ssa.gov/OACT/TR/2009/lr6f9.html

Currently, Social Security tax revenues exceed benefit payments and will continue to do so until 2016, when revenues are projected to fall below benefit payments, after which the gap between expenditures and revenues continues to widen.

Income and Expenditures as a Percent of Taxable Payroll. Chart 3 shows annual income (excluding interest but including both payroll and benefit taxes) and expenditures expressed as percentages of taxable payroll, commonly referred to as the income rate and cost rate, respectively.

The OASDI cost rate is projected to increase rapidly and first exceeds the income rate in 2016, producing cashflow deficits thereafter. As described above, surpluses that occur prior to 2016 are "loaned" to the General Fund and accumulate, with interest, reserve spending authority for the trust fund. The reserve spending authority represents an obligation for the General Fund. Beginning in 2016, Social Security will start using interest credits to meet full benefit obligations. The Government will need to raise taxes, reduce benefits, increase borrowing from the public, and/or cut spending for other programs to meet its obligations to the trust fund. By 2037, the trust fund reserves (and thus reserve spending authority) are projected to be exhausted. Even if a trust fund's assets are exhausted, however, tax income will continue to flow into the fund. Present tax rates would be sufficient to pay 76 percent of scheduled benefits after trust fund exhaustion in 2037 and 74 percent of scheduled benefits in 2083.

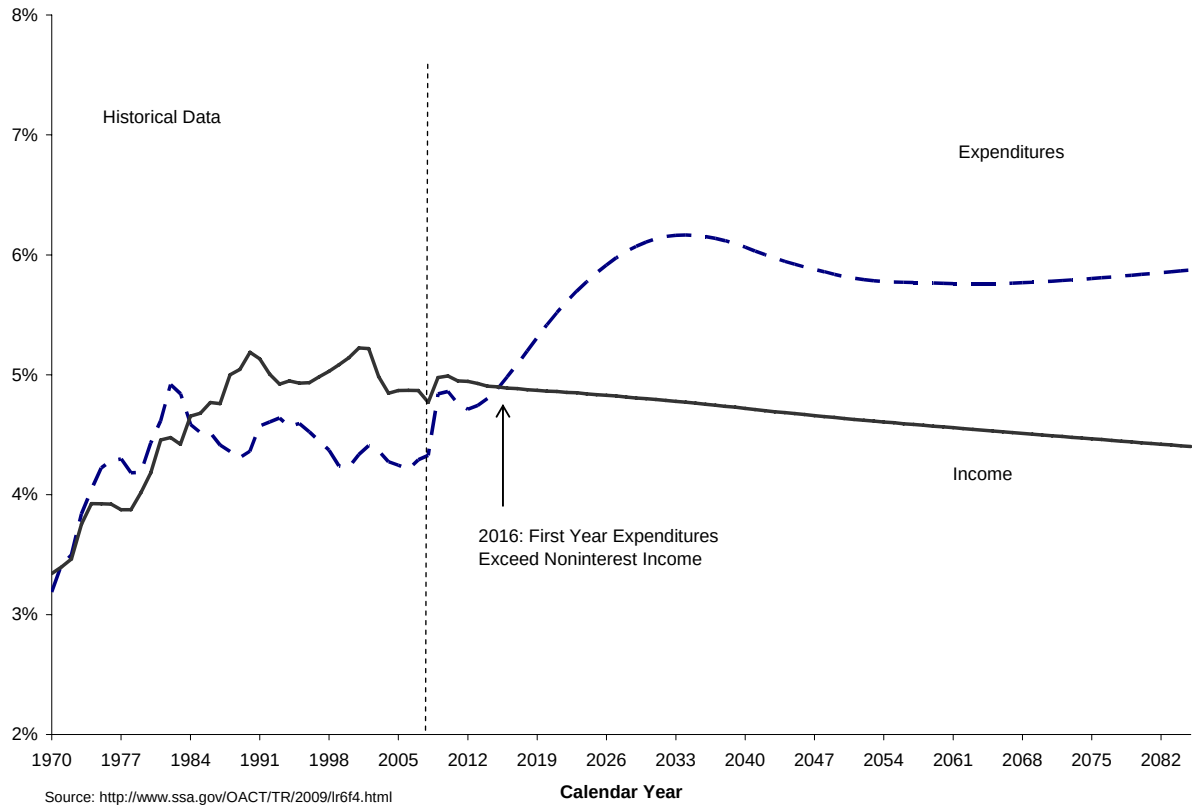
Chart 3—OASDI Income (Excluding Interest) and Expenditures as a Percent of Taxable Payroll 1970-2083



Source: http://www.ssa.gov/OACT/TR/2009/lr4b1.html

Income and Expenditures as a Percent of GDP. Chart 4 shows estimated annual income (excluding interest) and expenditures, expressed as percentages of GDP, the total value of goods and services produced in the United States. This alternative perspective shows the size of the OASDI Program in relation to the capacity of the national economy to sustain it. The gap between expenditures and income generally widens with expenditures generally growing as a share of GDP and income declining slightly relative to GDP. Social Security's expenditures are projected to grow from 4.8 percent of GDP in 2009 to 5.9 percent in 2083. In 2083, expenditures are projected to exceed income by 1.5 percent of GDP.

Chart 4—OASDI Income (Excluding Interest) and Expenditures as a Percent of GDP 1970-2083



Sensitivity Analysis. Actual future income from OASDI payroll taxes and other sources and actual future expenditures for scheduled benefits and administrative expenses will depend upon a large number of factors: the size and composition of the population that is receiving benefits, the level of monthly benefit amounts, the size and characteristics of the work force covered under OASDI, and the level of workers' earnings. These factors will depend, in turn, upon future marriage and divorce rates, birth rates, death rates, migration rates, labor force participation and unemployment rates, disability incidence and termination rates, retirement age patterns, productivity gains, wage increases, cost-of-living increases, and many other economic and demographic factors.

This section presents estimates that illustrate the sensitivity of long-range expenditures and income for the OASDI Program to changes in *selected individual assumptions*. In this analysis, the intermediate assumption is used as the reference point, and one assumption at a time is varied. The variation used for each individual assumption reflects the levels used for that assumption in the low cost (Alternative I) and high cost (Alternative III) projections. For example, when analyzing sensitivity with respect to variation in real wages, income and expenditure projections using the intermediate assumptions are compared to the outcome when projections are done by changing only the real wage assumption to either low cost or high cost alternatives.

The low cost alternative is characterized by assumptions that generally improve the financial status of the program (relative to the intermediate assumption) such as slower improvement in mortality (beneficiaries die younger). In contrast, assumptions under the high cost alternative generally worsen the financial outlook. One exception occurs with the consumer price index (CPI) assumption (see below).

Table 2 shows the effects of changing individual assumptions on the present value of estimated OASDI expenditures in excess of income (the *shortfall* of income relative to expenditures in present value terms). The assumptions are shown in parentheses. For example, the intermediate assumption for the annual rate of *reduction in age-sex-adjusted death rates* is 0.79 percent. For the low cost alternative, a slower reduction rate (0.33 percent) is assumed as it means that beneficiaries die at a younger age relative to the intermediate assumption, resulting in lower expenditures. Under the low cost assumption, the shortfall drops from $7,677 billion to $5,864 billion, a 24 percent smaller shortfall. The high cost death rate assumption (1.32 percent) results in an increase in the shortfall, from $7,677 billion to $9,682 billion, a 26 percent increase in the shortfall. Clearly, alternative death rate assumptions have a substantial impact on estimated future cashflows in the OASDI Program.

A higher fertility rate means more workers relative to beneficiaries over the projection period, thereby lowering the shortfall relative to the intermediate assumption. An increase in the rate from 2.0 to 2.3 percent results in an 11 percent smaller shortfall (i.e., expenditures less income), from $7,677 billion to $6,826 billion.

Higher real wage growth results in faster income growth relative to expenditure growth. Table 2 shows that a real wage differential that is 0.6 greater than the intermediate assumption of 1.1 results in a drop in the shortfall from $7,677 billion to $5,914 billion, a 23 percent decline.

The CPI change assumption operates in a somewhat counterintuitive manner, as seen in Table 2. A lower rate of change results in a higher shortfall. This arises as a consequence of holding the real wage assumption constant while varying the CPI so that wages (the income base) are affected sooner than benefits. If the rate is assumed to be 1.8 percent rather than 2.8 percent, the shortfall rises about 6 percent, from $7,677 billion to $8,161 billion.

The effect of net immigration is similar to fertility in that, over the 75-year projection period, higher immigration results in proportionately more workers (taxpayers) than beneficiaries. The low-cost assumption for net immigration results in a 6 percent drop in the shortfall, from $7,677 billion to $7,238 billion, relative to the intermediate case; and the high-cost assumption results in a 6 percent higher shortfall.

Finally, Table 2 shows the sensitivity of the shortfall to variations in the real interest rate or, in present value terminology, the sensitivity to alternative discount rates assuming a higher discount rate results in a lower present value. The shortfall of $6,067 billion is 21 percent lower when the real interest rate is 3.6 percent rather than 2.9 percent, and 34 percent higher when the real interest rate is 2.1 percent rather than 2.9 percent.

Table 2
Present Values of Estimated OASDI Expenditures in Excess of Income Under Various Assumptions, 2009-2083

(Dollar values in billions; values of assumptions shown in parentheses)

	Financing Shortfall Range		
Assumption	**Low**	**Intermediate**	**High**
Average annual reduction in death rates ..	5,864 (0.33)	7,677 (0.79)	9,682 (1.32)
Total fertility rate.....	6,826 (2.3)	7,677 (2.0)	8,572 (1.7)
Real wage differential.....	5,914 (1.7)	7,677 (1.1)	8,873 (0.5)
CPI change.....	7,189 (3.8)	7,677 (2.8)	8,161 (1.8)
Net immigration	7,238 (1,370,000) [1]	7,677 (1,065,000) [1]	8,126 (785,000) [1]
Real interest rate	6,067 (3.6)	7,677 (2.9)	10,249 (2.1)

[1] Amounts represent the average annual net immigration over the 75-year projection period.

Source: 2009 OASDI Trustees Report and SSA.

Medicare Projections

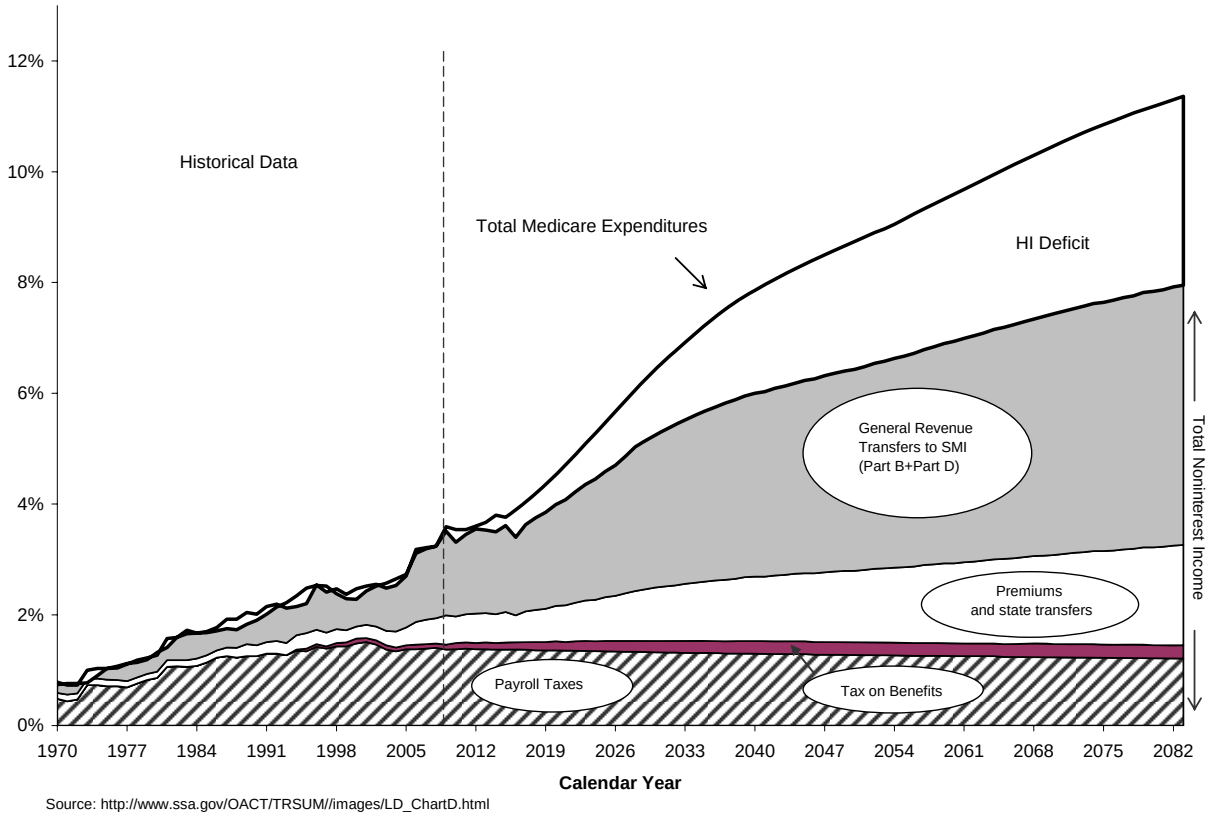
Medicare Legislation. On December 8, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. The 2003 law has a major impact on the operations and finances of Medicare. The law added a prescription drug benefit to Medicare beginning in 2006 and a new prescription drug account in the SMI Trust Fund. The benefit can be obtained through a private drug-only plan, a PPO or HMO, or through an employer-sponsored retiree health plan. The preferred-provider organizations are new to the Medicare Program and operate on a regional basis. The Government assumes some of the costs of providing prescription drug coverage to people eligible for both Medicare and Medicaid.

The legislation also includes provisions not related to the prescription drug benefit. It includes increases in Medicare provider reimbursements, higher Medicare Part B premiums for people at higher income levels, and an expansion of tax-deductible health savings accounts. The 2003 legislation is expected to have a significant effect on future Medicare finances as seen below and earlier in the Statement of Social Insurance.

Health Care Cost Growth. In addition to the growth in the number of beneficiaries per worker, the Medicare Program has the added pressure of expected growth in the use and cost of health care per person that is driven in large by new technology. For the intermediate assumption, health care expenditures per beneficiary are assumed to grow, on average, about one percentage point faster than per capita GDP over the long range. The combination of more beneficiaries per worker and rapid growth in real expenditures per beneficiary causes projected Medicare expenditures to grow substantially more rapidly than GDP.

Total Medicare. It is important to recognize the rapidly increasing long-range cost of Medicare and the large role of general revenues and beneficiary premiums in financing the SMI Program. Chart 5 shows expenditures and current-law noninterest revenue sources for HI and SMI combined as a percentage of GDP. The total expenditure line shows Medicare costs rising to 11.4 percent of GDP by 2083. Revenues from taxes and premiums (including State transfers under Part D) are expected to increase from 2.0 percent of GDP in 2009 to 3.3 percent of GDP in 2083. Payroll tax income declines gradually as a percent of GDP as growth in the number of workers paying such taxes slows and wages as a portion of compensation declines, offset by higher premiums combined for Parts B and D of SMI as a percent of GDP. General revenue contributions for SMI, as determined by current law, are projected to rise as a percent of GDP from 1.5 percent to 4.7 percent over the same period. Thus, revenues from taxes and premiums (including State transfers) will fall substantially as a share of total noninterest Medicare income (from 57 percent in 2009 to 41 percent in 2083) while general revenues will rise (from 43 percent to 59 percent). The gap between total noninterest Medicare income (including general revenue contributions) and expenditures begins around 2009 and then steadily continues to widen, reaching 3.4 percent of GDP by 2083.

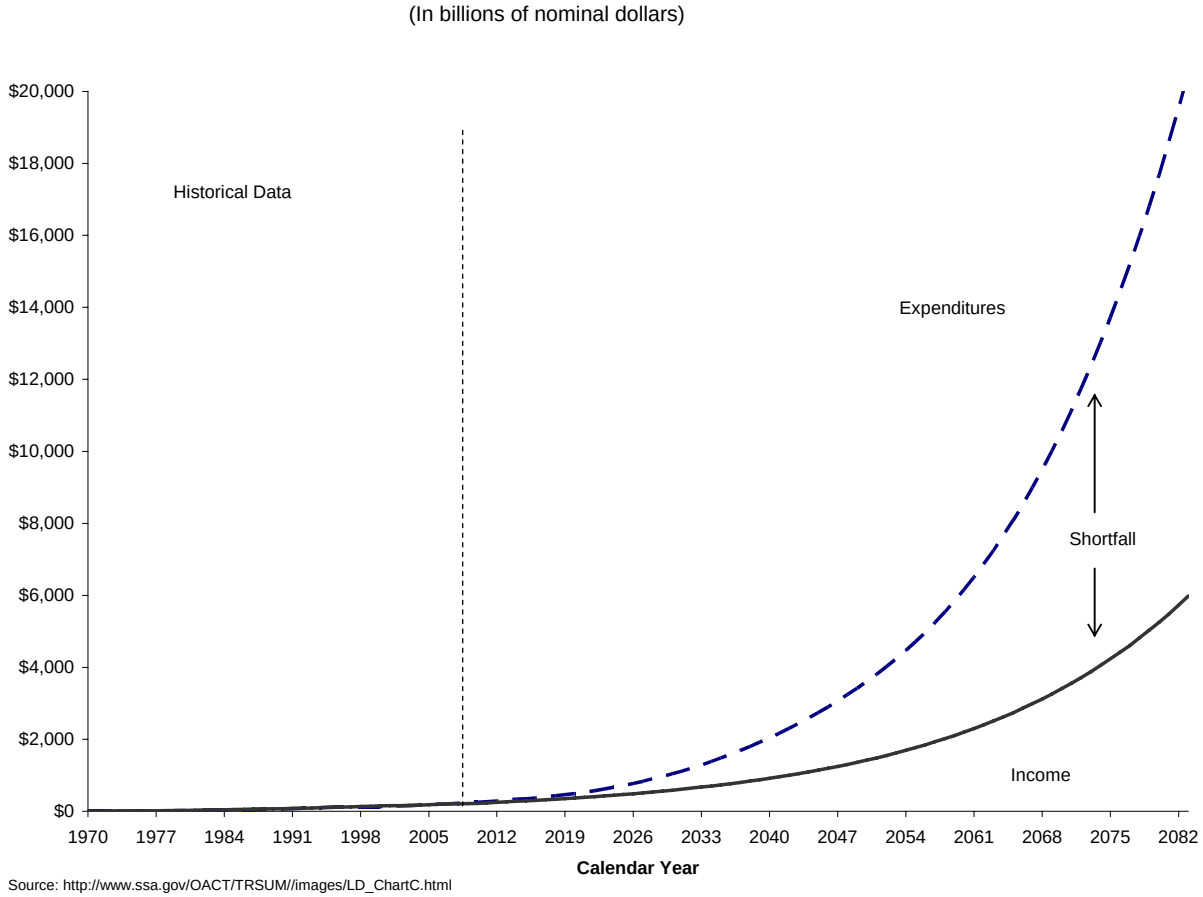
Chart 5—Total Medicare (HI and SMI) Expenditures and Noninterest Income as a Percent of GDP 1970-2083



Source: http://www.ssa.gov/OACT/TRSUM//images/LD_ChartD.html

Medicare, Part A (Hospital Insurance)—Nominal Income and Expenditures. Chart 6 shows historical and actuarial estimates of HI annual income (excluding interest) and expenditures for 1970-2083 in nominal dollars. The estimates are for the open-group population. The figure reveals a widening gap between projected income and expenditures.

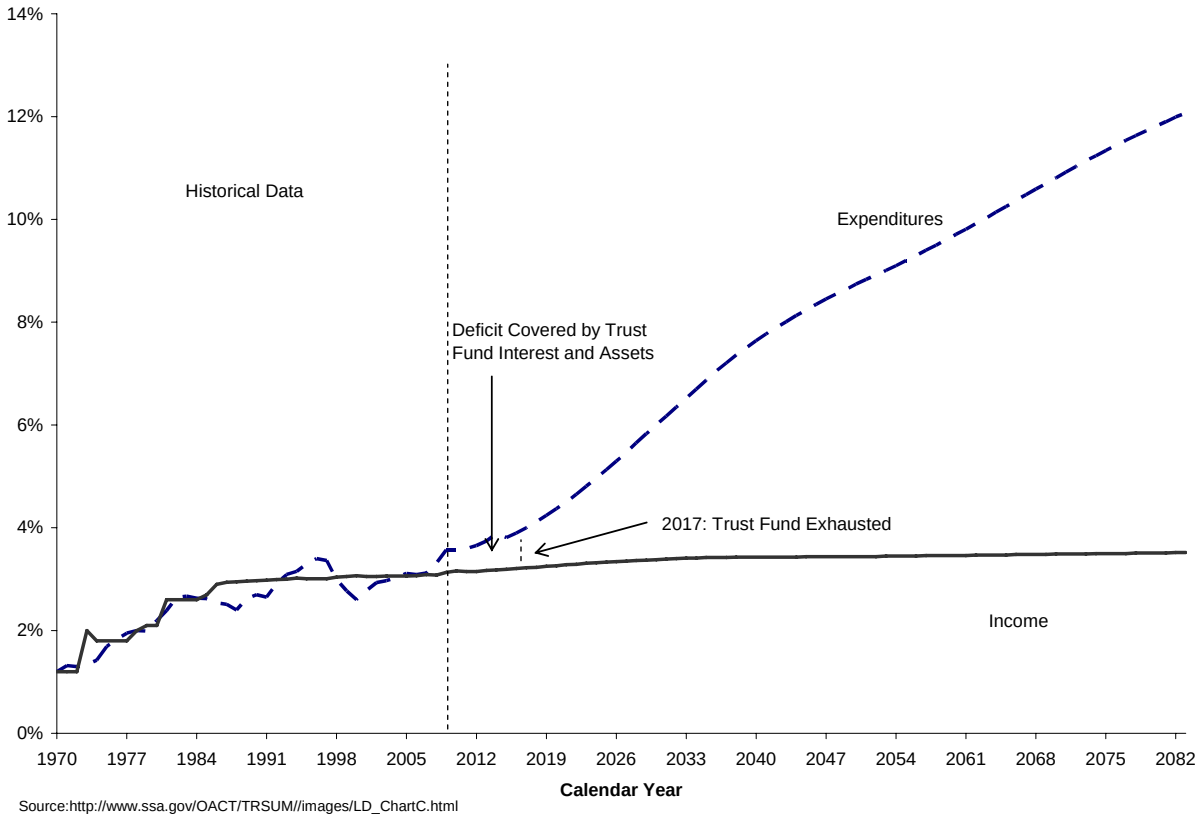
Chart 6—Medicare Part A Income (Excluding Interest) and Expenditures 1970-2083



Source: http://www.ssa.gov/OACT/TRSUM//images/LD_ChartC.html

Medicare, Part A Income and Expenditures as a Percent of Taxable Payroll. Chart 7 illustrates income (excluding interest) and expenditures as a percentage of taxable payroll over the next 75 years. The chart shows that the expenditure rate exceeds the income rate in 2007, and cash deficits continue thereafter. Trust fund interest earnings and assets provide enough resources to pay full benefit payments until 2017 with general revenues used to finance interest and loan repayments to make up the difference between cash income and expenditures during that period. Pressures on the Federal budget will thus emerge well before 2017. Present tax rates would be sufficient to pay 81 percent of scheduled benefits after trust fund exhaustion in 2017 and 29 percent of scheduled benefits in 2083.

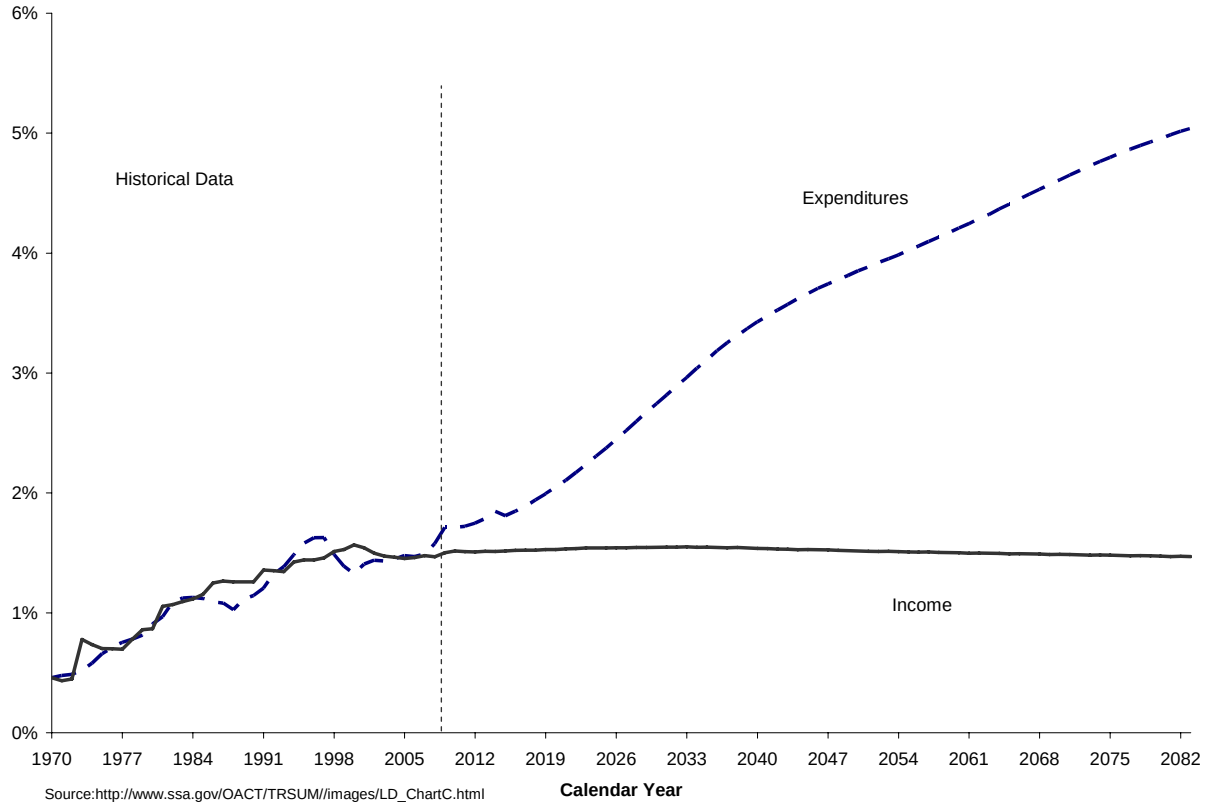
Chart 7—Medicare Part A Income (Excluding Interest) and Expenditures as a Percent of Taxable Payroll 1970-2083



Source:http://www.ssa.gov/OACT/TRSUM//images/LD_ChartC.html

Medicare Part A Income and Expenditures as a Percent of GDP. Chart 8 shows estimated annual income (excluding interest) and expenditures, expressed as percentages of GDP, the total value of goods and services produced in the United States. This alternative perspective shows the size of the HI Program in relation to the capacity of the national economy to sustain it. Medicare Part A's expenditures are projected to grow from 1.7 percent of GDP in 2009, to 2.8 percent in 2030, and to 5.0 percent by 2083. The gap between expenditures and income widens continuously with expenditures growing as a share of GDP and income declining slightly relative to GDP. By 2083, expenditures are projected to exceed income by 3.6 percent of GDP.

Chart 8—Medicare Part A Income (Excluding Interest) and Expenditures as a Percent of GDP 1970-2083

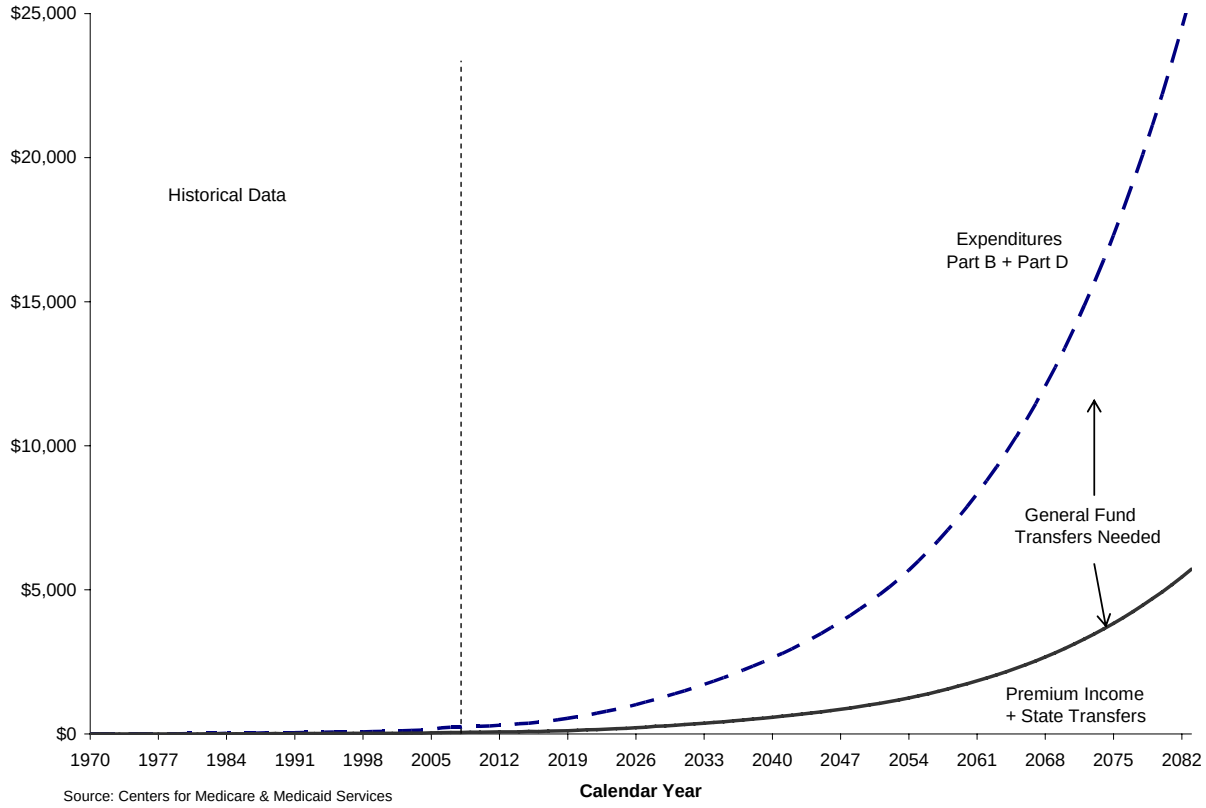


Source:http://www.ssa.gov/OACT/TRSUM//images/LD_ChartC.html

Medicare, Parts B and D (Supplementary Medical Insurance). Chart 9 shows historical and actuarial estimates of Medicare Part B and Part D premiums (and Part D State transfers) and expenditures for each of the next 75 years, in nominal dollars. The gap between premiums and State transfer revenues and program expenditures, a gap that will need to be filled with transfers from general revenues, grows throughout the projection period.

Chart 9—Medicare Part B and Part D Premium and State Transfer Income and Expenditures 1970-2083

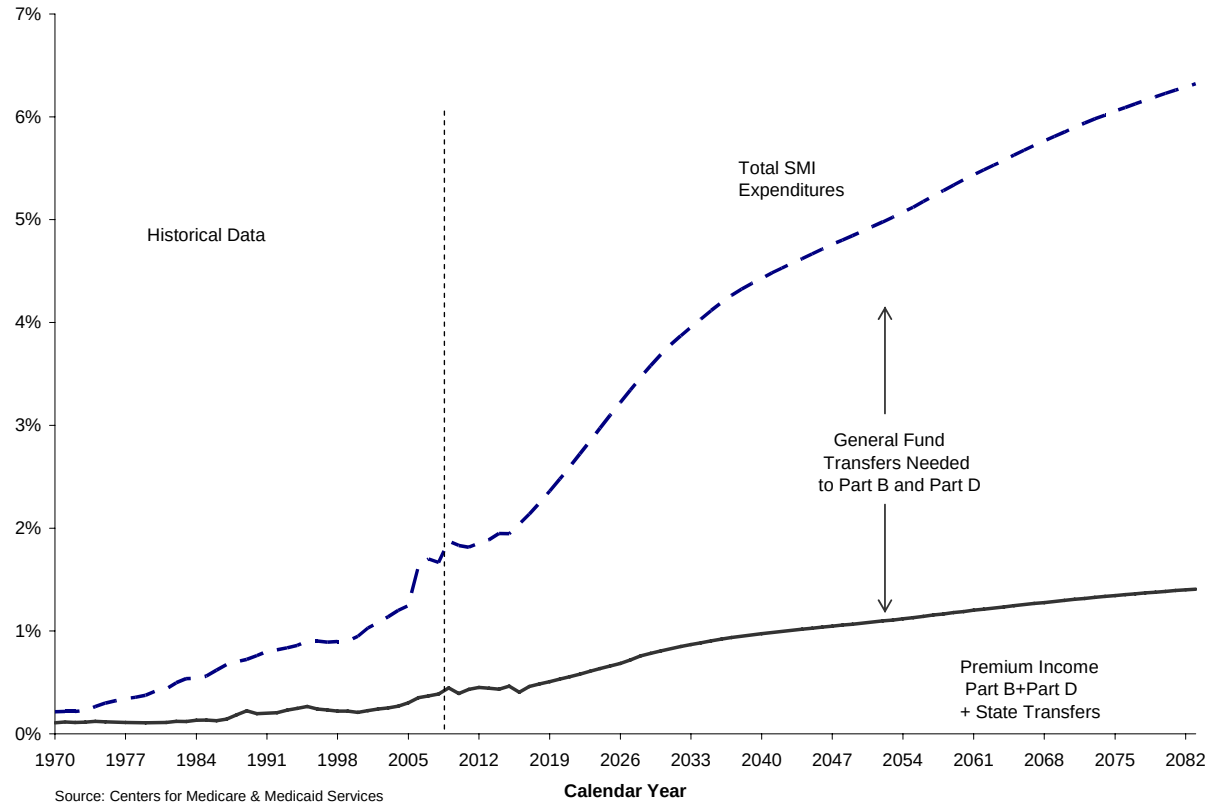
(In billions of nominal dollars)



Source: Centers for Medicare & Medicaid Services

Medicare Part B and Part D Premium and State Transfer Income and Expenditures as a Percent of GDP. Chart 10 shows expenditures for the Supplementary Medical Insurance Program over the next 75 years expressed as a percentage of GDP, providing a perspective on the size of the SMI Program in relation to the capacity of the national economy to sustain it. In 2009, SMI expenditures are expected to be $264 billion or 1.9 percent of GDP. After 2009, this percentage is projected to increase steadily reaching 6.3 percent in 2083. This reflects growth in the volume and intensity of Medicare services provided per beneficiary throughout the projection period, including the prescription drug benefits, together with the effects of the baby boom retirement. Premium and State transfer income grows from about 0.5 percent in 2009 to 1.6 percent of GDP in 2083, so the portion financed by General Fund transfers to SMI is projected to be about 75 percent throughout the projection period.

Chart 10—Medicare Part B and Part D Premium and State Transfer Income and Expenditures as a Percent of GDP 1970-2083



Medicare Sensitivity Analysis. This section illustrates the sensitivity of long-range cost and income estimates for the Medicare Program to changes in *selected individual assumptions*. As with the OASDI analysis, the intermediate assumption is used as the reference point, and one assumption at a time is varied. The variation used for each individual assumption reflects the levels used for that assumption in the low cost and high cost projections (see description of sensitivity analysis for OASDI).

Table 3 shows the effects of changing various assumptions on the present value of estimated HI expenditures in excess of income (the *shortfall* of income relative to expenditures in present value terms). The assumptions are shown in parentheses. Clearly, net HI expenditures are extremely sensitive to alternative assumptions about the growth in health care cost. For the low cost alternative, the slower growth in health costs causes the shortfall to drop from $13,770 billion to $5,767 billion, a 58 percent smaller shortfall. The high cost assumption results in a near doubling of the shortfall, from $13,770 billion to $26,798 billion.

Variations in the next four assumptions in Table 3 result in relatively minor changes in net HI expenditures. The higher or lower fertility assumptions cause a less than 2 percent change in the shortfall relative to the intermediate case. The higher or lower real wage growth rate results in about a 10 percent change in the shortfall relative to the intermediate case. Wages are a key cost factor in the provision of health care. Higher wages also result in greater payroll tax income. HI expenditures exceed HI income by a wide and increasing margin in the future (Charts 6 to 8). CPI and net immigration changes have very little effect on net HI expenditures. Higher immigration increases the net shortfall modestly as higher payroll tax revenue is more than offset by higher medical care expenditures.

Table 3 also shows that the present value of net HI expenditures is 24 percent lower if the real interest rate is 3.6 percent rather than 2.9 percent and 40 percent higher if the real interest rate is 2.1 percent rather than 2.9 percent.

Table 3
Present Values of Estimated Medicare Part A Expenditures in Excess of Income Under Various Assumptions, 2009-2083

(Dollar values in billions; values of assumptions shown in parentheses)

	Financing Shortfall Range		
Assumption[1]	**Low**	**Intermediate**	**High**
Average annual growth in health costs[2]	5,767 (3.1)	13,770 (4.1)	26,798 (5.1)
Total fertility rate[3]	13,535 (2.3)	13,770 (2.0)	14,017 (1.7)
Real wage differential	12,367 (0.5)	13,770 (1.1)	15,161 (1.7)
CPI change	13,677 (1.8)	13,770 (2.8)	13,822 (3.8)
Net immigration.....	13,652 (785,000)[4]	13,770 (1,065,000)[4]	14,149 (1,370,000)[4]
Real interest rate.....	10,425 (3.6)	13,770 (2.9)	19,238 (2.1)

[1] The sensitivity of the projected HI net cashflow to variations in future mortality rates is also of interest. At this time, however, relatively little is known about the relationship between improvements in life expectancy and the associated changes in health status and per beneficiary health expenditures. As a result, it is not possible at present to prepare meaningful estimates of the Part A, mortality sensitivity.

[2] Annual growth rate is the aggregate cost of providing covered health care services to beneficiaries. The low cost and high cost alternatives assume that costs increase 1 percent slower or faster, respectively, than the intermediate assumption, *relative to growth in taxable payroll*.

[3] The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year and if she were to survive the entire childbearing period.

[4] Amount represents the average annual net immigration over the 75-year projection period.

Table 4 shows the effects of various assumptions about the growth in health care costs on the present value of estimated SMI (Medicare Parts B and D) expenditures in excess of income. As with HI, net SMI expenditures are very sensitive to changes in the health care cost growth assumption. For the low cost alternative, the slower assumed growth in health costs reduces the Governmentwide resources needed for Part B from $17,165 billion to $11,989 billion and in Part D from $7,172 billion to $5,006 billion, about a 30 percent difference in each case. The high-cost assumption increases Governmentwide resources needed to $25,402 billion for Part B and to $10,613 billion for Part D, about a 48 percent difference in each case.

Table 4
Present Values of Estimated Medicare Parts B and D Future Expenditures Less Premium Income and State Transfers Under Three Health Care Cost Growth Assumptions, 2009-2083

(In billions of dollars)

	Governmentwide Resources Needed		
Medicare Program[1]	Low (3.1)	Intermediate (4.1)	High (5.1)
Part B	11,989	17,165	25,402
Part D	5,006	7,172	10,613

[1] Annual growth rate is the aggregate cost of providing covered health care services to beneficiaries. The low and high scenarios assume that costs increase one percent slower or faster, respectively, than the intermediate assumption.

Source: Centers for Medicare & Medicaid Services.

Sustainability of Social Security and Medicare

75-Year Horizon

According to the 2009 Medicare Trustees Report, the HI Trust Fund is projected to remain solvent until 2017 and, according to the 2009 Social Security Trustees Report, the OASDI Trust Funds are projected to remain solvent until 2037. In each case, some general revenues must be used to satisfy the authorization of full benefit payments until the year of exhaustion. This occurs when the trust fund balances accumulated during prior years are needed to pay benefits, which leads to a transfer from general revenues to the trust funds. Moreover, under current law, General Fund transfers to the SMI Trust Fund will occur into the indefinite future and will continue to grow with the growth in health care expenditures.

The potential magnitude of future financial obligations under these three social insurance programs is therefore important from a unified budget perspective as well as for understanding generally the growing resource demands of the programs on the economy. A common way to present future cashflows is in terms of their *present value*. This approach recognizes that a dollar paid or collected next year is worth less than a dollar today, because a dollar today could be saved and earn a year's worth of interest.

Table 5 shows the magnitudes of the primary expenditures and sources of financing for the three trust funds computed on an open-group basis for the next 75 years and expressed in present values. The data are consistent with the Statements of Social Insurance included in the principal financial statements. For HI, revenues from the public are projected to fall short of total expenditures by $13,770 billion in present value terms which is the additional amount needed in order to pay scheduled benefits over the next 75 years. [5] From the trust fund perspective, the amount needed is $13,449 billion in present value after subtracting the value of the existing trust fund balances (an asset to the trust fund account but an intragovernmental transfer to the overall budget). For SMI, revenues from the

[5] Interest income is not a factor in this table as dollar amounts are in present value terms.

public for Parts B and D combined are estimated to be $24,337 billion [6] less than total expenditures for the two accounts, an amount that, from a budget perspective, will be needed to keep the SMI program solvent for the next 75 years. From the trust fund perspective, however, the present values of total revenues and total expenditures for the SMI Program are roughly equal due to the annual adjustment of revenue from other Government accounts to meet program costs.[7] For OASDI, projected revenues from the public fall short of total expenditures by $7,677 billion [8] in present value dollars, and, from the trust fund perspective, by $5,258 billion.

From the Governmentwide perspective, the present value of the total resources needed for the Social Security and Medicare Programs equals $45,784 billion, in addition to payroll taxes, benefit taxes, and premium payments from the public. From the trust fund perspective, which counts the trust funds and the general revenue transfers to the SMI Program as dedicated funding sources additional resources in the amount of $18,647 billion in present value terms are needed, beyond the $24,337 billion in present value of required general revenue transfers already scheduled for the SMI Program and the $2,800 billion to honor the trust fund investments in Treasury securities.

[6] For 2009, the actuarial present value of estimated future expenditures in excess of estimated future revenue for Medicare Parts A, B, and D reflected a total increase from $36,312 billion in 2008 to $38,107 billion in 2009. This increase is primarily attributable to (1) changes in demographic and near-term economic starting values and assumptions, (2) the normal annual level of increase including interest in moving the 75-year projection period forward from the prior year's valuation date (i.e., where much larger amounts of estimated future expenditures in excess of future revenue associated with the last year of the current year's projection period replaced smaller amounts of estimated future expenditures in excess of future revenue associated with the first year of the prior year's projection period), and (3) changes noted in Parts A, B, and D as follows:

For 2009, the present value of estimated future expenditures in excess of estimated future revenue for Part A increased by $1,033 billion as compared to that reported in 2008. This growth is primarily attributable to a higher projection of beneficiary enrollment, which resulted from an improved mortality rate assumption for beneficiaries over age 65, and new immigration assumptions for the disabled population, which increased the number of working-age immigrants significantly.

For 2009, the present value of estimated future expenditures in excess of estimated future revenue for Part B increased $1,445 billion as compared to that reported in 2008. This growth is attributable to (1) higher beneficiary enrollment, similar to that for Part A, (2) legislation that raised the physician fee schedule update for the second half of 2008 and all of 2009, and (3) increased historical data, coupled with legislated higher updates, lead to a different pattern of physician updates through the first 10 years of the projection period, as well as a higher starting point for the transition to the long-range growth rates, which were nearly the same as last year.

For 2009, the present value of estimated future expenditures in excess of estimated future revenue for Part D decreased by $685 billion as compared to that reported in 2008. This reduction is primarily due to lower assumed growth rates for prescription drug expenditures in the U.S. overall, along with the change in beneficiary enrollment described above.

[7] The SMI Trust Fund also has a very small amount of existing assets.

[8] For 2009, the actuarial present value of estimated future expenditures in excess of estimated future revenue, increased from $6,555 billion in 2008 to $7,677 billion in 2009. This increase is primarily attributable to (1) projected lower levels of economic activity that reflect the recent economic downturn and updated data, (2) faster reductions in mortality assumed in the longer term, and (3) the normal annual level of increase including interest in moving the 75-year projection period forward from the prior year's valuation date (i.e., where much larger amounts of estimated future expenditures in excess of future revenue associated with the last year of the current year's projection period replaced smaller amounts of estimated future expenditures in excess of future revenue associated with the first year of the prior year's projection period).

Table 5
Present Values of Costs Less Revenues of 75-Year Open Group Obligations
HI, SMI, and OASDI

(In billions of dollars, as of January 1, 2009)

		SMI			
	HI	Part B	Part D	OASDI	Total
Revenues from the public:					
Taxes	12,008	-	-	37,217	49,225
Premiums, State transfers	-	5,992	2,199	-	8,191
Total	12,008	5,992	2,199	37,217	57,416
Total costs to the public	25,778	23,156	9,371	44,894	103,199
Net results — budget perspective*	13,770	17,165	7,172	7,677	45,784
Revenues from other Government accounts	-	17,165	7,172	-	24,337
Trust fund balance as of 1/1/2009	321	59	1	2,419	2,800
Net results — trust fund perspective*	13,449	(59)	(1)	5,258	18,647

*Net results are computed as costs less revenues.

Note: Details may not add to totals due to rounding.

Source: 2009 OASDI and Medicare Trustees' Reports.

Infinite Horizon

The 75-year horizon represented in Table 5 is consistent with the primary focus of the Social Security and Medicare Trustees' Reports. For the OASDI Program, for example, an additional $7.7 trillion in present value will be needed above currently scheduled taxes to pay for scheduled benefits ($5.3 trillion from the trust fund perspective). Yet, a 75-year projection is not a complete representation of all future financial flows through the infinite horizon. For example, when calculating unfunded obligations, a 75-year horizon includes revenue from some future workers but only a fraction of their future benefits. In order to provide a more complete estimate of the long-run unfunded obligations of the programs, estimates can be extended to the infinite horizon. The open-group infinite horizon net obligation is the present value of all expected future program outlays less the present value of all expected future program tax and premium revenues. Such a measure is provided in Table 6 for the three trust funds represented in Table 5.

From the budget or Governmentwide perspective, the values in line 1 plus the values in line 4 of Table 6 represent the value of resources needed to finance each of the programs into the infinite future. The sums are shown in the last line of the table (also equivalent to adding the values in the second and fifth lines). The total resources needed for all the programs sums to $107 trillion in present value terms. This need can be satisfied only through increased borrowing, higher taxes, reduced program spending, or some combination.

The second line shows the value of the trust fund at the beginning of 2009. For the HI and OASDI Programs this represents, from the trust fund perspective, the extent to which the programs are funded. From that perspective, when the trust fund is subtracted, an additional $36.4 trillion and $15.1 trillion, respectively, are needed to sustain the programs into the infinite future. As described above, from the trust fund perspective, the SMI Program is fully funded. The substantial gap that exists between premiums and State transfer revenue and program expenditures in the SMI Program ($37.1 trillion and $15.6 trillion) represents future general revenue obligations of the Federal budget.

In comparison to the analogous 75-year number in Table 5, extending the calculations beyond 2083, captures the full lifetime benefits, and taxes and premiums of all current and future participants. The shorter horizon understates financial needs by capturing relatively more of the revenues from current and future workers and not capturing all of the benefits that are scheduled to be paid to them.

Table 6
Present Values of Costs Less Tax, Premium and State Transfer Revenue through the Infinite Horizon, HI, SMI, OASDI

(In trillions of dollars as of January 1, 2009)

		SMI			
	HI	Part B	Part D	OASDI	Total
Present value of future costs less future taxes, premiums, and State transfers for current participants	14.5	13.7	5.2	18.7	52.1
Less current trust fund balance	0.3	0.1	-	2.4	2.8
Equals net obligations for past and current participants	14.2	13.6	5.2	16.3	49.3
Plus net obligations for future participants	22.2	23.5	10.4	(1.2)	54.9
Equals net obligations through the infinite future for all participants	36.4	37.1	15.6	15.1	104.2
Present value of future costs less the present values of future income over the infinite horizon	36.7	37.2	15.6	17.5	107.0

Details may not add to totals due to rounding.

Source: 2009 OASDI and Medicare Trustees' Reports.

Railroad Retirement, Black Lung, and Unemployment Insurance

Railroad Retirement

The Railroad Retirement Board (RRB) was created in the 1930s to establish a retirement benefit program for the nation's railroad workers. As the Social Security Program legislated in 1935 would not give railroad workers credit for service performed prior to 1937, legislation was enacted in 1934, 1935, and 1937 (collectively the Railroad Retirement Acts of the 1930s) to establish a railroad retirement program separate from the Social Security Program.

Railroad retirement pays full retirement annuities at age 60 to railroad workers with 30 years of service. The program pays disability annuities based on total or occupational disability. It also pays annuities to spouses, divorced spouses, widow(er)s, remarried widow(er)s, surviving divorced spouses, children, and parents of deceased railroad workers. Medicare covers qualified railroad retirement beneficiaries in the same way as it does Social Security beneficiaries.

Payroll taxes paid by railroad employers and their employees provide a primary source of income for the Railroad Retirement and Survivors' Benefit Program. By law, railroad retirement taxes are coordinated with Social Security taxes. Employees and employers pay tier I taxes at the same rate as Social Security taxes. Tier II taxes finance railroad retirement benefit payments that are higher than Social Security levels.

Other sources of program income include: financial interchanges with the Social Security and Medicare trust funds, earnings on investments, Federal income taxes on railroad retirement benefits, and appropriations (provided after 1974 as part of a phase out of certain vested dual benefits). See Note 26—Social Insurance, for additional information on railroad retirement program financing.

The RRSIA liberalized benefits for 30-year service employees and their spouses, eliminated a cap on monthly benefits for retirement and disability benefits, lowered minimum service requirements from 10 to 5 years, and provided for increased benefits for widow(er)s. Per the RRSIA, amounts in the Railroad Retirement Account and the SSEB Account that are not needed to pay current benefits and administrative expenses are transferred to the NRRIT whose sole purpose is to manage and invest railroad retirement assets. NRRIT's Board of Trustees is empowered to invest trust assets in nongovernmental assets, such as equities and debt, as well as, in Government securities. Prior to RRSIA, all investments were limited to Government securities.

Since its inception, NRRIT has received $21.3 billion from RRB (including $19.2 billion in fiscal year 2003, pursuant to RRSIA) and returned $7.9 billion. During fiscal year 2009, the NRRIT made net transfers of $1.6 billion to the RRB to pay retirement benefits. Administrative expenses of the trust are paid out of trust assets. The balance as of September 30, 2009, and 2008, of non-Federal securities and investments of the NRRIT are disclosed in Note 9—Securities and Investments.

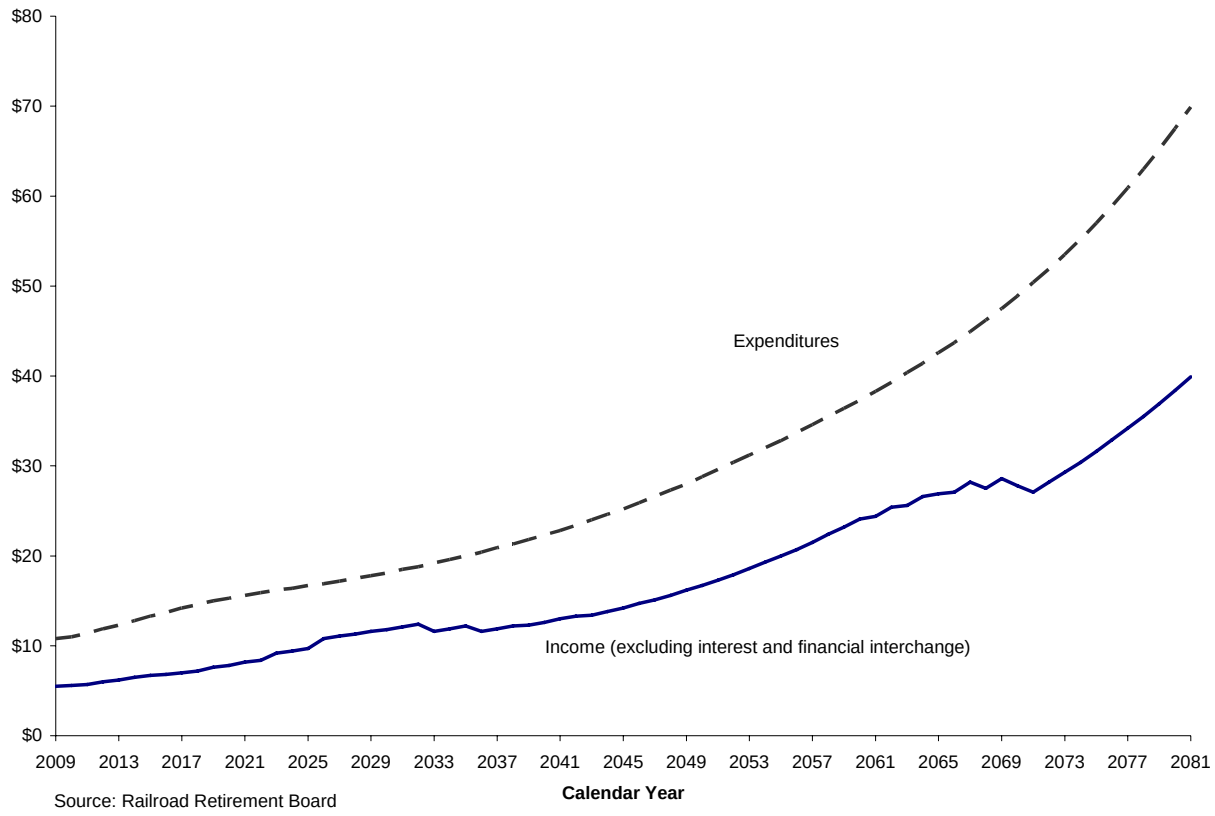
Cashflow Projections

Economic and Demographic Assumptions. The economic and demographic assumptions used for the most recent set of projections are shown in the "Railroad Retirement" section of Note 26—Social Insurance.

Nominal Income and Expenditures. Chart 11 shows, in nominal dollars, estimated railroad retirement income (excluding interest and financial interchange income) and expenditures for the period 2009-2083 based on the intermediate set of assumptions used in the RRB's actuarial evaluation of the program. The estimates are for the open-group population, which includes all persons projected to participate in the Railroad Retirement Program as railroad workers or beneficiaries during the period. Thus, the estimates include payments from, and on behalf of, those who are projected to be employed by the railroads during the period as well as those already employed at the beginning of the period. They also include expenditures made to, and on behalf of, such workers during that period.

Chart 11—Estimated Railroad Retirement Income (Excluding Interest and Financial Interchange Income) and Expenditures 2009-2083

(In billions of nominal dollars)

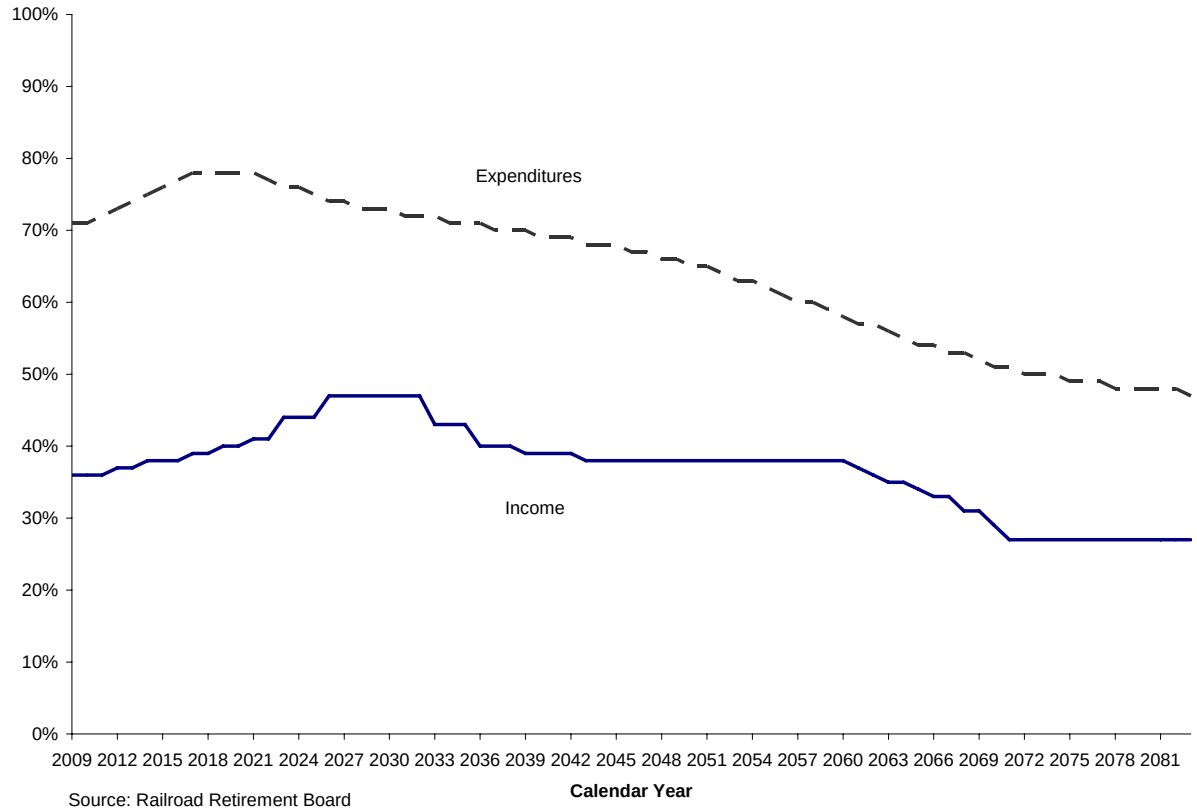


Source: Railroad Retirement Board

As Chart 11 shows, expenditures are expected to exceed tax income for the entire projection period. The imbalances continue to widen until about 2022, decrease slightly for next 10 years, and then begin to grow steadily after 2033.

Income and Expenditures as a Percent of Taxable Payroll. Chart 12 shows estimated expenditures and income as a percent of tier II taxable payroll. The imbalances grow until 2018 but then begin to decrease somewhat steadily as expenditures fall. Tax rates begin to decline after 2032, stabilizing 2071 and after. Compared to last year, projected tax rates are higher, on average. The tier II tax rate is determined from a tax rate table based on the average account benefit ratio.

Chart 12—Estimated Railroad Retirement Income (Excluding Interest and Financial Interchange Income) and Expenditures as a Percent of Tier II Taxable Payroll 2009-2083



Source: Railroad Retirement Board

Sensitivity Analysis. Actual future income from railroad payroll taxes and other sources and actual future expenditures for scheduled benefits and administrative expenses will depend upon a large number of factors as mentioned above. Two crucial assumptions are employment growth and the interest rate. Table 7 shows the sensitivity of the shortfall in the Railroad Retirement Program to variations in these two assumptions. The low-cost employment scenario has a 5.5 percent smaller shortfall of income to expenditures, and the high-cost scenario has a 5.2 percent higher shortfall. A higher discount rate reduces future values relative to a lower rate. As seen in the table, the shortfall is 30.6 percent lower if the interest rate is 11 percent rather than 7.5 percent and 85.6 percent higher when the interest rate is 4 percent rather than 7.5 percent.

Table 7
Present Values of Railroad Retirement Expenditures in Excess of Income Under Various Employment and Interest Rate Assumptions, 2009-2083

(Dollar values in billions; values of assumptions shown in parentheses)

Assumption	Low	Middle	High
Employment[1]	94.4 (-0.5%)	99.9 (-2.0%)	105.1 (-3.5%)
Interest rate.....	69.3 (11%)	99.9 (7.5%)	185.4 (4%)

[1] The low and middle employment scenarios have passenger service employment remaining at 43,000 workers per year and the remaining employment base declining at 0.5 percent and 2.0 percent, respectively, for the next 25 years. The high cost scenario has passenger service employment declining by 500 per workers per year until a level of 35,000 is reached with the remaining employment base declining by 3.5 percent per year for 25 years, at a reducing rate over the next 25 years, and remaining level thereafter.

Source: Railroad Retirement Board.

Sustainability of Railroad Retirement

Table 8 shows the magnitudes of the primary expenditures and sources of financing for the Railroad Retirement Program computed on an open-group basis for the next 75 years and expressed in present values as of January 1, 2009. The data are consistent with the Statements of Social Insurance.

From a Governmentwide perspective, revenues are expected to fall short of expenditures by approximately $99.9 billion, which represents the present value of resources needed to sustain the Railroad Retirement Program. From a trust fund perspective, when the trust fund balance and the financial interchange and transfers are included, the combined balance of the NRRIT, the Railroad Retirement Account, and the SSEB Account show a slight surplus.

Table 8
Present Values of 75-Year Projections of Revenues and Expenditures for the Railroad Retirement Program[1, 2]

(In billions of present-value dollars as of January 1, 2009)

Estimated future income (excluding interest)[3] **received from or on behalf of:**	
Current participants who have attained retirement age	4.9
Current participants not yet having attained retirement age	48.4
Those expected to become participants	69.6
All participants	122.9
Estimated future expenditures:[4]	
Current participants who have attained retirement age	102.1
Current participants not yet having attained retirement age	91.2
Those expected to become participants	29.5
All participants	222.8
Net obligations from budget perspective (expenditures less income)	99.9
Railroad retirement program assets (mostly investments stated at market)[5]	21.8
Financial interchange from Social Security Trust	79.2
Net obligations from trust fund perspective	(1.1)

[1] Represents combined values for the Railroad Retirement Account, SSEB Account, and NRRIT, based on middle employment assumption.
[2] The data used reflect the provisions of RRSIA of 2001.
[3] Future income (excluding interest) includes tier I taxes, tier II taxes, and income taxes on benefits.
[4] Future expenditures include benefits and administrative expenditures.
[5] The value of the fund reflects the 7.5 percent interest rate assumption. The RRB uses the relatively high rate due to investments in private securities.

Note: Detail may not add to totals due to rounding. Employee and beneficiary status are determined as of 1/1/2008 whereas present values are as of 1/1/2009.

Black Lung

The Federal Coal Mine Health and Safety Act of 1969 created the Black Lung Disability Benefit Program to provide compensation, medical, and survivor benefits for eligible coal miners who are totally disabled due to pneumoconiosis (black lung disease) arising out of their coal mine employment. The survivor benefits are available only for eligible survivors of coal miners who died due to pneumoconiosis. DOL operates the Black Lung Disability Benefit Program. The BLDTF provides benefit payments to eligible coal miners totally disabled by pneumoconiosis and to eligible survivors when no responsible mine operator can be assigned the liability. The beneficiary population is a nearly closed universe in which attrition by death exceeds new entrants by a ratio of more than ten to one.

Excise taxes on coal mine operators, based on the sale of coal, are the primary source of financing black lung disability payments and related administrative costs. The Black Lung Benefits Revenue Act provided for repayable advances to the BLDTF from the General Fund of the Treasury, in the event that BLDTF resources were not adequate to meet program obligations. Prior to legislation enacted in 2008 that allowed for the restructuring of BLDTF debt, the trust fund had accumulated large liabilities from significant and growing shortfalls of excise taxes relative to benefit payments and interest expenses.

The Energy Improvement and Extension Act of 2008 (P.L. 110-343), enacted on October 3, 2008, contained several provisions that significantly improved the BLDTF's financial position, including:

- Continuation of a previously-enacted increase in coal excise tax rates for an additional 5 years, through December 2018;
- Provision for the restructuring of BLDTF debt by refinancing the outstanding repayable advances with proceeds from issuing new debt instruments with lower interest rates; and
- A one-time appropriation that significantly reduced the outstanding debt of the BLDTF.

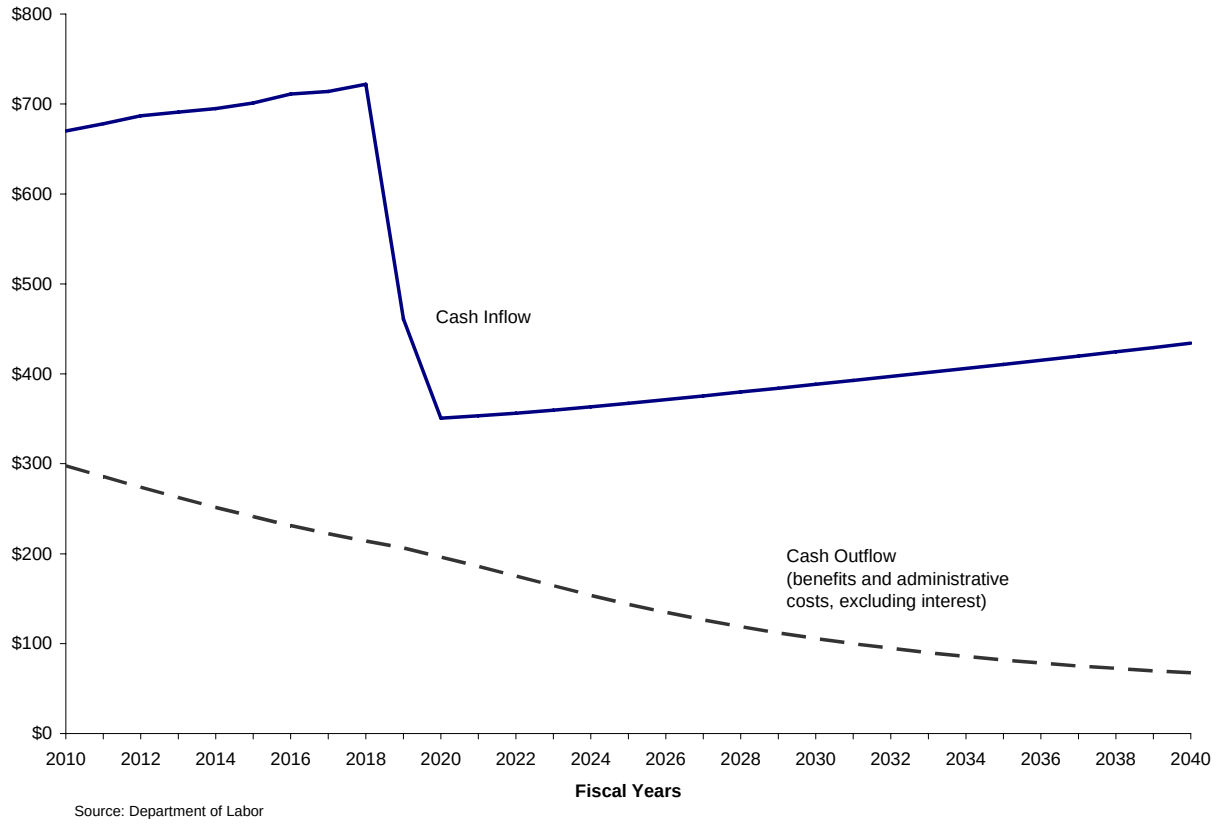
The Act also allowed that any debt issued by the BLDTF subsequent to the refinancing may be used to make benefit payments, other authorized expenditures, or to repay debt and interest from the initial refinancing. All debt issued by the BLDTF was effected as borrowing from the Treasury's Bureau of Public Debt.

On September 30, 2009, total liabilities of the BLDTF exceeded assets by $6.3 billion. Prior to the enactment of P.L. 110-343, this shortfall was funded by repayable advances to the BLDTF, which are repayable with interest. Pursuant to P.L. 110-343, any shortfall will be financed with debt instruments similar in form to zero-coupon bonds.

From the budget or consolidated financial perspective, Chart 13 shows projected black lung expenditures (excluding interest) and excise tax collections for the period 2010-2040. The significant assumptions used in the most recent set of projections are shown in the "Black Lung" section of Note 26—Social Insurance. The projected decrease in cash inflows in the year 2019 and thereafter is the result of a scheduled reduction in the tax rate on the sale of coal. This rate reduction is projected to result in a thirty-six percent decrease in the amount of excise taxes collected between the years 2018 and 2019.

Chart 13—Estimated Black Lung Income and Expenditures (Excluding Interest) 2010-2040

(In millions of nominal dollars)



Source: Department of Labor

Table 9
Present Values of 31-Year Projections of Expenditures and Revenues for the Black Lung Disability Benefit Program

(In billions of present value dollars, as of September 30, 2009)

Projected future expenditures	3.2
Projected future tax income	9.1
Net obligations from budget perspective (expenditures less income)	(5.8)
Accumulated balance due general fund	6.3
Net obligations from trust fund perspective	0.6

Note: Detail may not add to totals due to rounding.

Source: Department of Labor projections and Treasury Department calculations.

Table 9 shows present values of 31-year projections of expenditures and revenues for the Black Lung Disability Benefit Program computed as of September 30, 2009. Cashflows were discounted using the rates on the debt in the BLDTF. From a Governmentwide (budget) perspective, the present value of expenditures is expected to be less than the present value of income by $5.8 billion (a surplus). From a trust fund perspective, a large balance ($6.3 billion) is owed to the General Fund. From that perspective, when that accumulated balance is combined with the cashflow surplus, the program has a shortfall of $0.6 billion in present value dollars. This compares to a shortfall of $6.4 billion reported in last year's *Financial Report*. This significant reduction in net future BLDTF obligations is due to the provisions of the Energy Improvement and Extension Act of 2008, discussed above.

Unemployment Insurance

The Unemployment Insurance Program was created in 1935 to provide temporary partial wage replacement to workers who lost their jobs. The program is administered through a unique system of Federal and State partnerships established in Federal law but administered through conforming State laws by State agencies. DOL interprets and enforces Federal law requirements and provides broad policy guidance and program direction, while program details such as benefit eligibility, duration, and amount of benefits are established through individual State unemployment insurance statutes and administered through State unemployment insurance agencies.

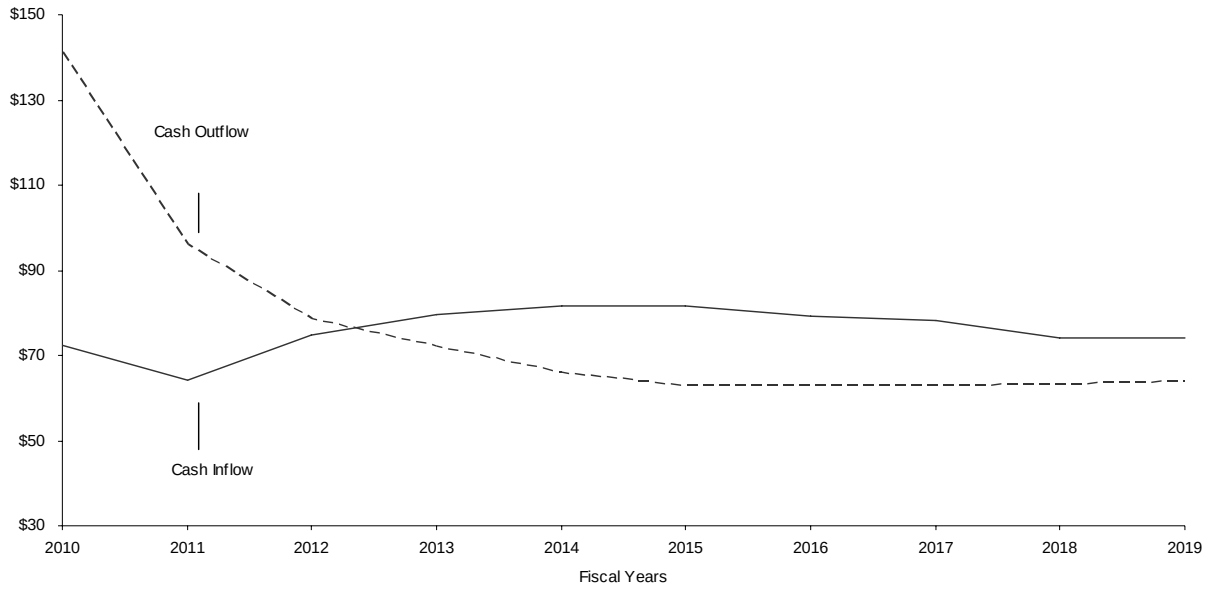
The program is financed through the collection of Federal and State unemployment taxes that are credited to the UTF and reported as Federal tax revenue. The fund was established to account for the receipt, investment, and disbursement of unemployment taxes. Federal unemployment taxes are used to pay for Federal and State administration of the Unemployment Insurance Program, veterans' employment services, State employment services, and the Federal share of extended unemployment insurance benefits. Federal unemployment taxes are also used to maintain a loan account within the UTF, from which insolvent State accounts may borrow funds to pay unemployment insurance benefits.

Chart 14 shows the projected cash contributions and expenditures over the next 10 years under expected economic conditions (described below). The significant assumptions used in the projections include total unemployment rates, civilian labor force levels, percent of unemployed receiving benefits, total wages, distribution of benefit payments by State, State tax rate structures, State taxable wage bases, and interest rates on UTF investments. These projections, excluding interest earnings, indicate a negative net cashflow until 2012 followed by positive net cashflow for the remainder of the projection period.

The Worker, Homeownership, and Business Assistance Act of 2009 was enacted on November 6, 2009. The Act extended unemployment benefits to eligible recipients up to 14 additional weeks in all States. It also extended a total of up to 20 additional weeks in States with unemployment of 8.5 percent or greater. The Act also amended section 3301 of the Internal Revenue Code of 1986 to extend the 0.2 percent Federal Unemployment Tax Act (FUTA) surtax on covered employers through June 30, 2011. No benefits are payable for weeks of unemployment commencing before the date of enactment of the Act.

Chart 14—Estimated Unemployment Trust Fund Cash Flow Using Expected Economic Conditions 2010-2019

(In billions of nominal dollars)



Source: Department of Labor

Table 10 shows present values of 10-year projections of revenues and expenditures for the Unemployment Insurance Program using a discount rate of 4.30 percent, the average of the interest rates underlying the 10-year projections. Three sets of numbers are presented in order to show the effects of varying economic conditions as reflected in different assumptions about the unemployment rate. For expected economic conditions, the estimates are based on an unemployment rate of 9.92 percent during fiscal year 2010, decreasing to below 6.0 percent in fiscal year 2015 and thereafter. Under Recovery Scenario One (decreasing unemployment rates), the unemployment rate decreases from 8.94 percent in fiscal year 2010 to 5.20 percent in fiscal year 2019. Under Recovery Scenario Two (higher than expected unemployment), the unemployment rate is assumed to reach 10.62 percent in fiscal year 2010 and gradually fall by the end of the projection period.

Each scenario uses an open group that includes current and future participants of the Unemployment Insurance Program. Table 10 shows the impact on the UTF projections of varying projected unemployment rates. For example, in Recovery Scenario Two, while tax income is projected to increase as higher layoffs result in higher employer taxes, benefit outlays increase even more. From the Governmentwide (budget) perspective, under expected conditions, the present value of expenditures exceeds the present value of income by $29.4 billion. From the same perspective, under Recovery Scenario Two, the present value of expenditures exceeds the present value of income by $42.9 billion. From a trust fund perspective, the program has $13.6 billion in assets. When combined with the present value of net cash income under expected economic conditions, the program has a deficit of $15.8 billion.

Table 10
Present Values of 10-Year Projections of Expenditures and Revenues for Unemployment Insurance Under Three Alternative Scenarios for Economic Conditions

(In billions of present value dollars, as of September 30, 2009)

	Economic Conditions		
	Expected	Recovery Scenario One	Recovery Scenario Two
Projected future expenditures	635.0	581.6	666.1
Projected future cash income	605.6	577.3	623.3
Net obligations from budget perspective (expenditures less income)	29.4	4.2	42.9
Trust fund assets	13.6	13.6	13.6
Net obligations from trust fund perspective[1]	15.8	(9.3)	29.3

[1]Net obligations from the trust fund perspective equals net obligations from the budget perspective minus trust fund assets. The positive values in this line are indicative of deficits.

Note: Detail may not add to totals due to rounding.

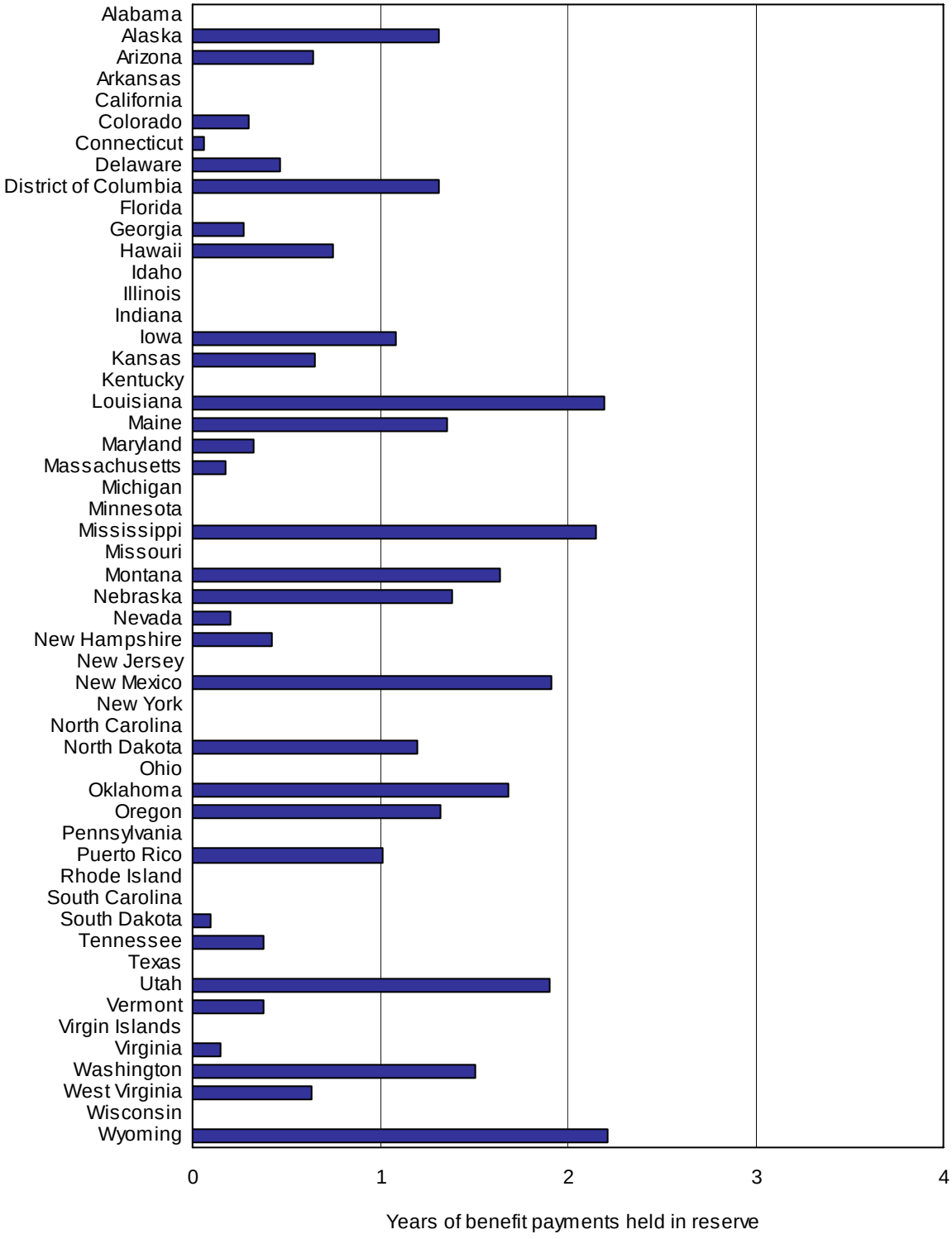
Source: Department of Labor.

Unemployment Trust Fund Solvency

Each State's accumulated UTF net assets or reserve balance should provide a defined level of benefit payments over a defined period. To be minimally solvent, a State's reserve balance should provide for one year's projected benefit payment needs based on the highest levels of benefit payments experienced by the State over the last 20 years. A ratio of 1.0 or greater indicates a state is minimally solvent. States below this level are vulnerable to exhausting their funds in a recession. States exhausting their reserve balance borrow funds from the Federal Unemployment Account (FUA) to make benefit payments. During fiscal year 2009, the balances in the FUA were depleted and the FUA borrowed from the Treasury General Fund.

Chart 15 presents the State by State results of this analysis as of September 30, 2009. As the chart illustrates, 37 state funds were below the minimal solvency ratio of 1.0 at September 30, 2009.

Chart 15—Unemployment Trust Fund Solvency as of September 30, 2009



Deferred Maintenance

Deferred maintenance is the estimated cost to bring Government-owned property, plant, and equipment to an acceptable condition, resulting from not performing maintenance on a timely basis. Deferred maintenance excludes the cost of expanding the capacity of assets or upgrading them to serve needs different from those originally intended. The consequences of not performing regular maintenance could include increased safety hazards, poor service to the public, higher costs in the future, and inefficient operations. Estimated deferred maintenance costs are not accrued in the Statements of Net Cost or recognized as a liability on the Balance Sheets.

The amounts disclosed for deferred maintenance are allowed to be measured using one of the following three methods:

- Condition assessment surveys are periodic inspections of the Government-owned property to determine the current condition and estimated cost to bring the property to an acceptable condition.
- Life-cycle cost forecast is an acquisition or procurement technique that considers operation, maintenance, and other costs in addition to the acquisition cost of assets.
- Management analysis method is founded on inflation-adjusted reductions in maintenance funding since the base year.

The amounts disclosed in the table below have all been measured using the condition assessment survey method. The standards for acceptable operating condition and the changes in these standards and changes in asset condition vary widely between the Federal entities.

Some deferred maintenance has been deemed critical. Such amounts and conditions are defined by the individual agencies with responsibility for the safekeeping of these assets. Low and high estimates are based on the materiality of the estimated cost of returning the asset to the acceptable condition versus the total value of the corresponding asset.

Deferred Maintenance as of September 30

	Deferred Maintenance Cost Range					
	Low Estimate		High Estimate		Critical Maintenance	
(In billions of dollars)	2009	2008	2009	2008	2009	2008
Asset category:						
Buildings, structures and facilities	93.5	88.6	98.7	94.1	2.4	5.0
Furniture, fixtures and equipment	0.3	0.3	0.3	0.3	0.2	0.1
Other general property, plant, and equipment	12.9	11.9	12.9	12.0	0.2	0.2
Heritage assets	10.0	7.0	10.0	7.0	0.1	-
Stewardship land	3.1	2.2	4.5	3.2	-	-
Total deferred maintenance	119.8	110.0	126.4	116.6	2.9	5.3

The agencies material to property, plant, and equipment are the DOD, DOE, DOI, DHS, GSA, TVA, and USPS. These agencies comprise 89 percent of the Government's total reported net property, plant, and equipment of $784.1 billion as of September 30, 2009.

Please refer to the individual financial statements of DOD, DOE, DOI, and DHS for detailed significant information on deferred maintenance, including the standards used for acceptable operating condition and changes in asset condition. As of the end of fiscal year 2009, GSA, TVA, and USPS had no material amounts of deferred maintenance cost.

Unexpended Budget Balances

The Federal budget and budget process largely use obligational accounting–a distinct administrative control through which Federal Agencies control, monitor, and report on the status of funds at their disposal. Unexpended budget balances consist of the unobligated and obligated, but unliquidated, budget balances.

Unobligated budget balances, including amounts for trust funds, are the cumulative amount of budget balances that are not obligated and that remain available for obligation. In 1-year accounts, the unobligated balance is not available for new obligations after the end of the fiscal year. In multiyear accounts, the unobligated balance may be carried forward and remains available for obligation for the period specified. In no-year accounts, the unobligated balance is carried forward until specifically rescinded by law or the head of the agency concerned determines that the purposes for which it was provided have been accomplished and disbursements have not been made against the appropriation for 2 consecutive years. The total unobligated budget balances as of September 30, 2009, and 2008, are $1,012.7 billion and $688.9 billion, respectively.

Obligated budget balances are the cumulative budget balances that have been obligated but not liquidated. The obligated balance can be carried forward for a maximum of 5 years after the appropriation has expired. The total obligated budget balances as of September 30, 2009, and 2008, are $1,418.1 billion and $1,104.4 billion, respectively.

The President's Budget is located at www.whitehouse.gov/omb; unexpended budget balances are shown in the supporting documentation section under "Balances of Budget Authority." The President's fiscal year 2011 Budget (issued on February 1, 2010), includes the actual amounts unobligated and obligated amounts for fiscal year 2009.

Tax Burden

The Internal Revenue Code provides for progressive tax rates, whereby higher incomes are generally subject to higher tax rates. The following tables present the latest available information on income tax and related income, deductions, and credit for individuals by income level and for corporations by size of assets.

Individual Income Tax Liability for Tax Year 2007

Adjusted Gross Income (AGI)	Number of Taxable Returns (In thousands)	AGI (In millions of dollars)	Total Income Tax (In millions of dollars)	Average AGI per Return (In whole dollars)	Average Income Tax per Return (In whole dollars)	Income Tax as a Percentage of AGI
Under $15,000	37,597	186,000	3,022	4,947	80	1.6%
$15,000 under $30,000	30,229	669,932	22,211	22,162	735	3.3%
$30,000 under $50,000	25,978	1,015,283	61,396	39,082	2,363	6.0%
$50,000 under $100,000	31,260	2,216,021	191,293	70,890	6,119	8.6%
$100,000 under $200,000	13,463	1,793,835	229,415	133,242	17,040	12.8%
$200,000 or more	4,503	2,650,325	585,572	588,569	130,040	22.1%
Total	143,030	8,531,396	1,092,909			

Corporation Income Tax Liability for Tax Year 2006

Total Assets (In thousands of dollars)	Income Subject to Tax (In millions of dollars)	Total Income Tax after Credits (In millions of dollars)	Percentage of Income Tax after Credits to Taxable Income
Zero assets	17,500	5,399	30.9%
$1 under $500	9,519	1,787	18.8%
$500 under $1,000	4,659	1,123	24.1%
$1,000 under $5,000	16,790	4,933	29.4%
$5,000 under $10,000	10,019	3,286	32.8%
$10,000 under $25,000	16,070	5,321	33.1%
$25,000 under $50,000	14,181	4,661	32.9%
$50,000 under $100,000	16,626	5,457	32.8%
$100,000 under $250,000	32,623	10,431	32.0%
$250,000 or more	1,153,444	310,686	26.9%
Total	1,291,431	353,084	

Tax Gap

The tax gap is the aggregate amount of tax (i.e., excluding interest and penalties) that is imposed by the tax laws for any given tax year but is not paid voluntarily and timely. The Internal Revenue Service (IRS) currently projects that the annual Federal gross tax gap is estimated at $345.0 billion. This estimate is based on the results of the National Research Program (NRP). The NRP was a study conducted to measure the compliance rate of the individual filers based on examination of a statistical sample of their filed returns for tax year 2001. The tax gap arises from three types of noncompliance: not filing timely tax returns (the nonfiling gap), underreporting the correct amount of tax on timely-filed returns (the underreporting gap), and not paying on time the full amount reported on timely-filed returns (the underpayment gap). Of these three components, only the underpayment gap is observed; the nonfiling gap and the underreporting gap must be estimated. Each instance of noncompliance by a taxpayer contributes to the tax gap, whether the IRS detects it, and whether the taxpayer is even aware of the noncompliance. The tax gap does not include underpayments by corporate taxpayers or include taxes that should have been paid on income from the illegal sector of the economy.

Underreporting of income tax, employment taxes, and other taxes represents 82 percent of the tax gap. The single largest subcomponent of underreporting involves individuals understating their income, taking improper deductions, overstating business expenses, and erroneously claiming credits. Individual underreporting represents about half of the total tax gap. Individual income tax also accounts for about half of all tax liabilities.

The collection gap is the cumulative amount of assessed tax, penalties, and interest that the IRS expects to remain uncollectible. In essence, it represents the difference between the total balance of unpaid assessments and the net taxes receivable reported on the IRS' balance sheet. The tax gap and the collection gap are related and overlapping concepts, but they have significant differences. The collection gap is a cumulative balance sheet concept for a particular point in time, while the tax gap is like an income statement item for a single year. Moreover, the tax gap estimates include all noncompliance, while the collection gap includes only amounts that have been assessed (a small portion of all noncompliance).

Other Claims for Refunds

Management has estimated amounts that may be paid out as other claims for tax refunds. This estimate represents an amount (principal and interest) that may be paid for claims pending judicial review by the Federal courts or, internally, by appeals. The total estimated payout (including principal and interest) for claims pending judicial review by the Federal courts is $4.7 billion and $5.0 billion for fiscal years 2009 and 2008, respectively. For those under appeal, the estimated payout is $6.3 billion and $17.0 billion for fiscal years 2009 and 2008, respectively. There are also unasserted claims for refunds of certain excise taxes. Although these refund claims have been deemed to be probable, they do not meet the criteria in SFFAS No. 5 for reporting the amounts in the balance sheets or for disclosure in the Notes to the Financial Statements. However, they meet the criteria in SFFAS No. 7 for inclusion as supplemental information. To the extent judgments against the Government for these claims prompt other similarly situated taxpayers to file similar refund claims; these amounts could become significantly greater.

Tax Assessments

The Government is authorized and required to make inquiries, determinations, and assessments of all taxes which have not been duly paid. Unpaid assessments result from taxpayers filing returns without sufficient payment, as well as enforcement programs such as examination, under-reporter, substitute for return and combined annual wage reporting. Assessments with little or no future collection potential are called write-offs. Although compliance assessments and write-offs are not considered receivables under Federal accounting standards, they represent legally enforceable claims of the Government. There is, however, a significant difference in the collection potential between compliance assessments and receivables.

Management's best estimate of additional revenues that may potentially be collected by agencies from compliance assessments and pre-assessment work in process are $77.2 billion and $69.0 billion for fiscal years 2009 and 2008, respectively. The amount of assessments that agencies have statutory authority to collect at the end of the period, but have been written off and excluded from accounts receivable are $105.4 billion and $99.3 billion for fiscal years 2009 and 2008, respectively.

Risk Assumed

Risk assumed information is important for all Federal insurance and guarantee programs, except social insurance, life insurance and loan guarantee programs. Risk assumed is generally measured by the present value of unpaid expected losses net of associated premiums, based on the risk inherent in the insurance or guarantee coverage in force. In addition to the liability for unpaid insurance claims included in Note 18—Insurance and Guarantee Program Liabilities, for events that have already occurred, the Government is also required to report as supplementary information risk assumed amounts and the periodic changes in those amounts.

The assessments of losses expected based on the risk assumed are based on actuarial or financial methods that include information and assumptions applicable to the economic, legal and policy environment in force at the time the assessments are made. Management has estimated the loss amounts based on the risk assumed as well as the periodic changes.

Please refer to the individual financial statements of the PBGC, USDA and NCUA for other significant detailed information.

Risk Assumed Information as of September 30

(In billions of dollars)	2009	2008
Present value of unpaid expected losses, net of associated premiums:		
Pension Benefit Guaranty Corporation	168.2	46.8
Department of Agriculture	8.9	9.9
National Credit Union Administration	5.9	0.1
All other	1.6	1.3
Total	184.6	58.1
Periodic changes in risk assumed amounts:		
Pension Benefit Guaranty Corporation	121.4	(19.0)
Department of Agriculture	(1.0)	3.3
All other	6.1	0.3
Total	126.5	(15.4)

Unmatched Transactions and Balances

(In millions of dollars)	Fiscal Year 2009	Fiscal Year 2008
Change in intra-Governmental unmatched balances:		
Debt/investment	(1,202.7)	343.0
Interest payable/receivable	13.6	(35.1)
Loans payable/receivable	(6,396.5)	1,843.1
Benefit program contributions payable/receivable	(25.7)	(514.9)
Accounts payable/receivable	4,380.6	2,502.1
Advances from/to others and deferred credits/prepayments	1,121.7	3,877.2
Transfers payable/receivable	(61.2)	9.0
	(2,170.2)	8,024.4
Unmatched intra-Governmental transactions:		
Federal securities interest revenue/expense - investment exchange	40.1	570.2
Borrowings interest revenue/expense - exchange	55.9	1,532.4
Borrowings gains/losses	125.3	(54.7)
Nonexpenditure transfers-in/out	234.0	1,352.2
Expenditure transfers-in/out	20,357.0	5,279.5
Transfers-in/out without reimbursement	10,221.6	(2,974.0)
Imputed financing source/cost	(15.0)	(13.1)
Benefit program revenue/cost	(1,240.2)	1,551.8
	29,778.7	7,244.3
General fund transactions:		
Fund balance with Treasury	98,104.3	(38,370.7)
Appropriations of unavailable special or trust fund receipts - transfers out/in	94.4	1,776.1
Appropriations received/warrants	(5,454.1)	(31,000.7)
Other general fund transactions	(100,707.0)	82,826.6
	(7,962.4)	15,231.3
Net intra-agency reporting errors and restatements	(2,229.2)	(751.9)
Unmatched transactions and balances, net	17,416.9	29,748.1

( ) Parentheses indicate a decrease to Net Position.

The Statement of Operations and Changes in Net Position includes an amount for unmatched transactions and balances that result from the consolidation of Federal reporting entities. Transactions between Federal entities must be eliminated in consolidation to calculate the financial position of the U.S. Government. Many of the amounts included in the table represent intragovernmental activity and balances that differed between Federal agency trading partners and often totaled significantly more in the absolute than the net amounts shown. In addition, included in the "General Fund Transactions" section are certain intragovernmental accounts, primarily related to agency unreconciled transactions with the General Fund, totaling hundreds of billions of dollars. The table also reflects other consolidating adjustments and other adjustments that contributed to the unmatched transactions and balances amount.

Unmatched transactions and balances between Federal entities impact not only in the period in which differences originate but also in the periods where differences are reconciled. As a result, it would not be proper to conclude that increases or decreases in the unmatched amounts shown in the "Unmatched Transactions and Balances" table reflect improvements or deteriorations in the Government's ability to reconcile intragovernmental transactions. The Federal community considers the identification and accurate reporting of intragovernmental activity a priority.