

GAO Highlights

Highlights of [GAO-14-28](#), a report to the Chairman, Committee on the Budget, House of Representatives

Why GAO Did This Study

The federal government's long-term fiscal imbalances are driven on the spending side by the effects of an aging population and rising health care costs on Social Security and major federal health programs. However, GAO identified a variety of other fiscal exposures—responsibilities, programs, and activities that may legally commit or create the expectation for future federal spending—that vary as to source, extent of the government's legal commitment, and magnitude. A more complete understanding of these other fiscal exposures can help policymakers anticipate changes in future spending and enhance control and oversight over federal resources.

GAO was asked to provide information on risks facing the federal budget. This report (1) examines selected programs that create a fiscal exposure, including the extent and estimated magnitude of the government's legal commitment; and (2) assesses how fiscal exposures could be better recognized in the budget. Based on its review of budget and financial data, GAO selected nine programs, including federal employee benefit programs, insurance programs, and the stock purchase agreements with Fannie Mae and Freddie Mac, and drew upon previous work to discuss potential approaches for improving budgetary attention to fiscal exposures.

What GAO Recommends

GAO is not making new recommendations but this analysis provides additional support for past recommendations to improve budget recognition of fiscal exposures by, for example, expanding the availability and use of information on expected future spending arising from commitments made today.

View [GAO-14-28](#). For more information, contact Susan J. Irving at (202) 512-6806 or irvings@gao.gov.

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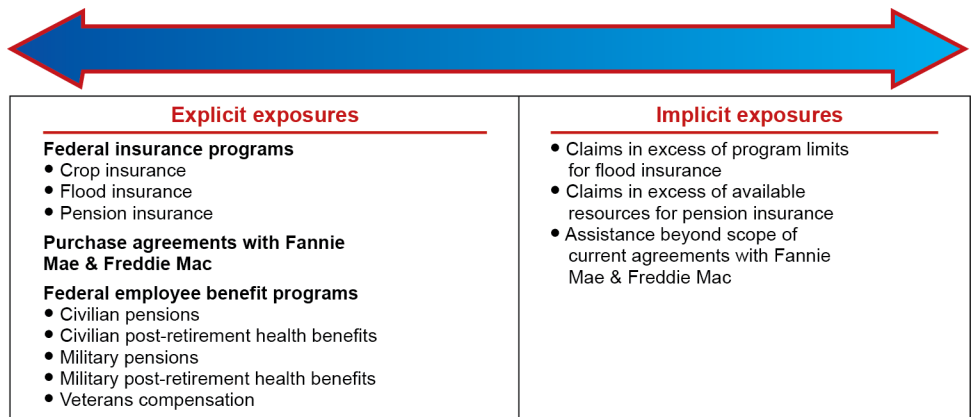
FISCAL EXPOSURES

Improving Cost Recognition in the Federal Budget

What GAO Found

Fiscal exposures may be explicit in that the federal government is legally required to pay for the commitment; alternatively, it may be implicit in that the exposure arises from expectations based on current policy or past practices. The nine programs GAO examined illustrate the range of federal fiscal exposures (see figure) and how they can change over time. Also, some programs may have elements of both explicit and implicit exposure. Federal insurance programs, for example, fall across the spectrum: if an event occurs, some payment is legally required—an explicit exposure. However, there may be an expectation that the government will provide assistance beyond the amount legally required—that is an implicit exposure. Prior to 2008, securities issued by Fannie Mae or Freddie Mac were explicitly not backed by the U.S. government. However, in response to the financial crisis, the government's agreement to provide temporary assistance to cover their losses up to a set amount created a new explicit exposure. The amount of future spending arising from federal fiscal exposures varies in the degree to which it is known and can be measured.

Figure: Selected Programs Illustrate the Range of Fiscal Exposures



Source: GAO.

For some exposures GAO found that the budget provided incomplete information or potentially misleading signals regarding the full cost of the commitments made today. A uniform across-the-board approach to make fiscal exposures more apparent when making budget decisions may not be appropriate given their varying characteristics. Several factors need to be taken into account in selecting an approach to better recognize fiscal exposures in the budget: the extent of the government's legal commitment; the length of time until the resulting payment is made; and the extent to which the magnitude of the exposure can be reasonably estimated. Expanding the availability and use of supplemental information, including measures that can signal significant changes in the magnitude of fiscal exposures, would be an important first step to enhancing oversight over federal resources and can aid in monitoring the financial condition of programs over the longer term. Incorporating measures of the full cost into primary budget data would provide enhanced control over future spending, which can help both improve the nation's fiscal condition and enhance budgetary flexibility.