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Contingent Financial Liabilities of the Federal Government

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For information about the conference, see https://tinyurl.com/257y3559.

Overview of the Presentation

- Financial commitments of the federal government and their prominence within a broader category of contingent liabilities

- Three measures of the size of financial commitments that CBO developed in its March 2023 report *Financial Commitments of Federal Credit and Insurance Programs, 2012–2021*

- Examples of federal commitments:
  - The Pension Benefit Guaranty Corporation’s coverage of private pensions
  - The Federal Deposit Insurance Corporation’s orderly liquidation authority, which could be used in the event of a failure of a large, systemically important financial institution
  - Supplemental appropriations for natural disasters

- How unexpected losses on financial commitments affect three different measures of federal debt

Contingent Claims: Federal Credit and Insurance Programs

Federal loan guarantees and insurance coverage represent contingent liabilities—that is, they could result in net outflows of cash from the government, depending on the outcome of various events. Nonfinancial contingent liabilities include federal coverage of natural disasters and environmental liabilities. Financial commitments include these large federal programs:

- Housing and real estate programs,
- Student loans,
- Deposit insurance and orderly liquidation authority, and
- Insurance for private pensions.

Commitments can be either:

- **Explicit**, in the case of credit programs, deposit insurance up to statutory limits, Fannie Mae and Freddie Mac since conservatorship, and pension insurance; or
- **Implicit**, in the case of Fannie Mae and Freddie Mac before conservatorship, other government-sponsored enterprises, and deposit insurance losses above statutory limits.

Measuring the Cost of Federal Financial Programs That Involve Risk

Under law, the cost of most activities is based on their average projected effect on the government's cash flows.

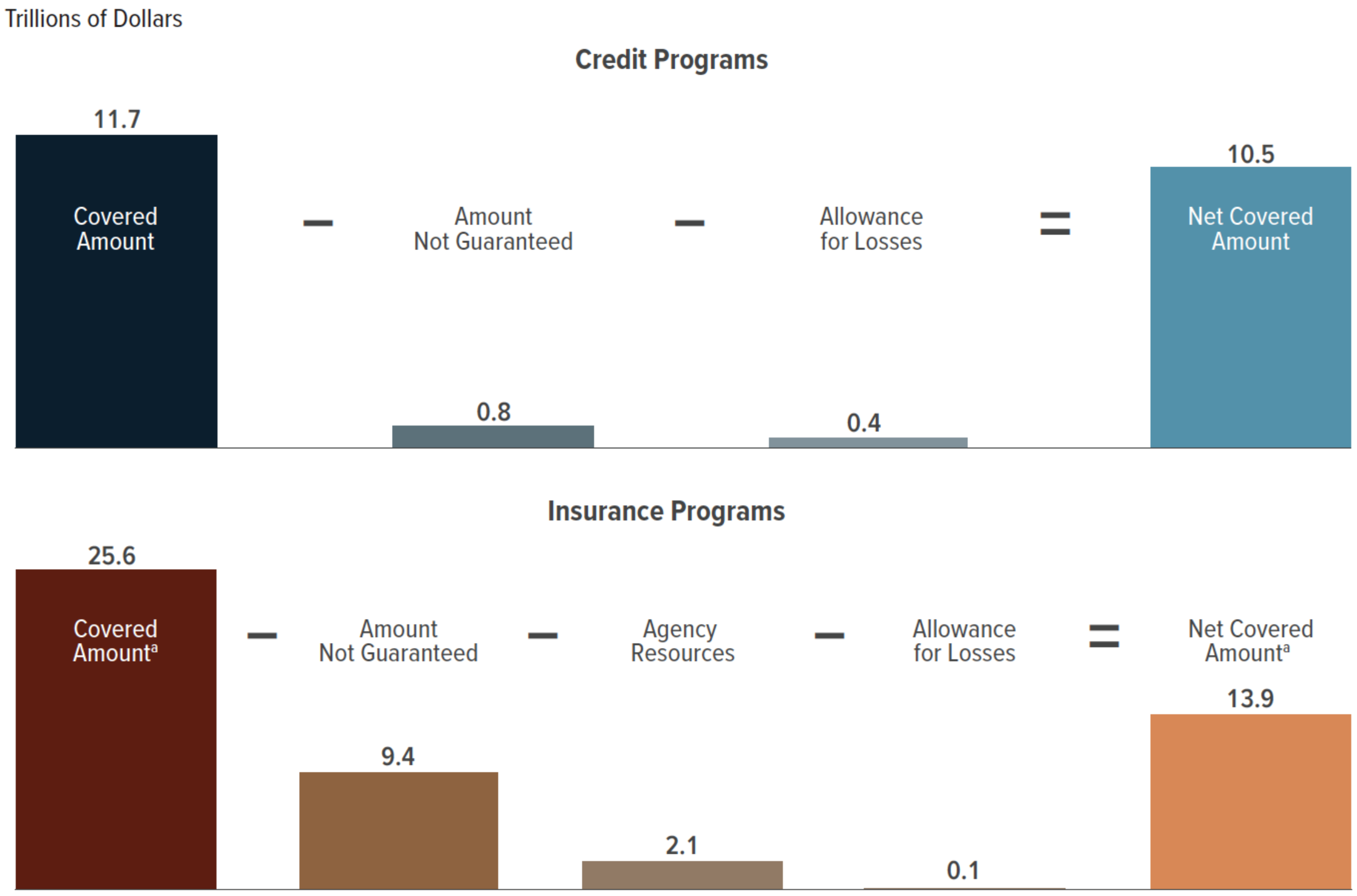
- For federal loans and loan guarantees, the Federal Credit Reform Act of 1990 (FCRA) bases the cost of loans on their average default rates and associated losses, using an accrual (present-value) measure.

- For insurance programs, the budget uses a cash measure based on average cash flows, including payments to depositors and recoveries.

An alternative approach, called fair value, incorporates a fuller cost of risk than is reflected in average budgetary effects. It includes the cost of market (systematic) risk that federal activities create for taxpayers.

For additional discussion, see Congressional Budget Office, *Measuring the Cost of Government Activities That Involve Financial Risk* (March 2021), www.cbo.gov/publication/56778.

Overall Financial Position of Credit and Insurance Programs, 2021



Covered amount: Face value of direct loans, loan guarantees, or insurance in force.

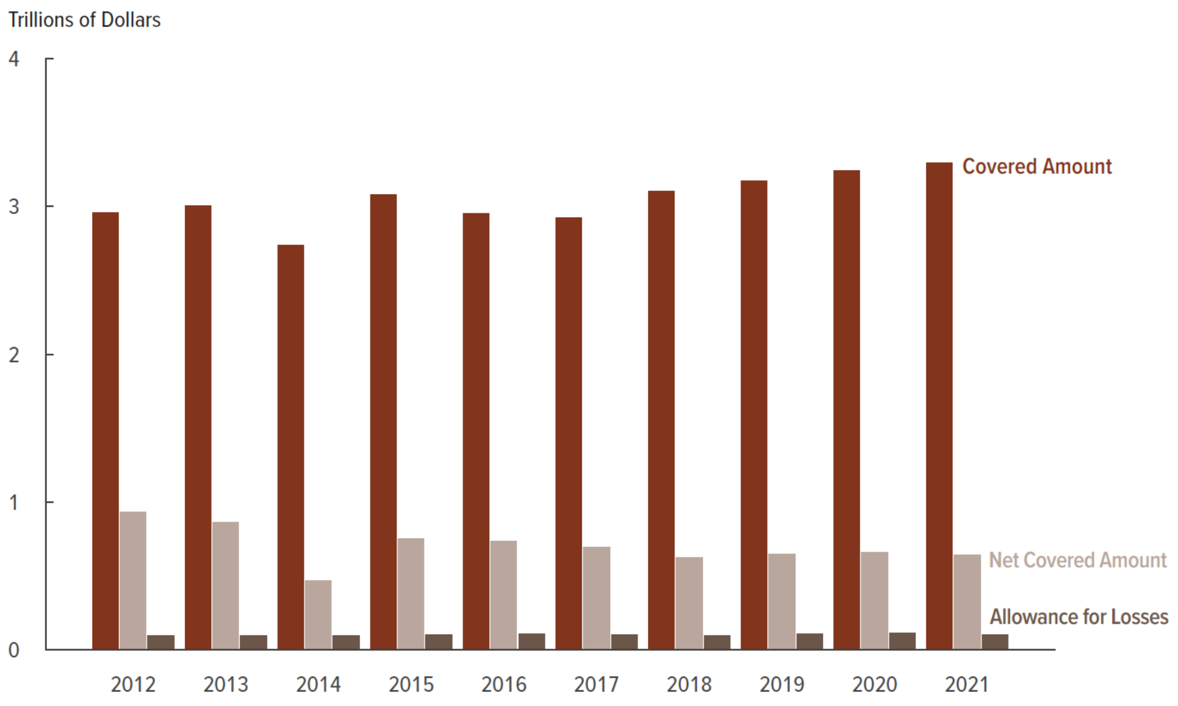
Allowance for losses: Amount recognized as losses from default or insurance claims net of recoveries (or, for credit programs, net of all future cash flows) associated with events that have already occurred or are expected to occur in the future

Net covered amount: Takes into account guarantee limits, agency resources available to cover losses, and the allowance for losses

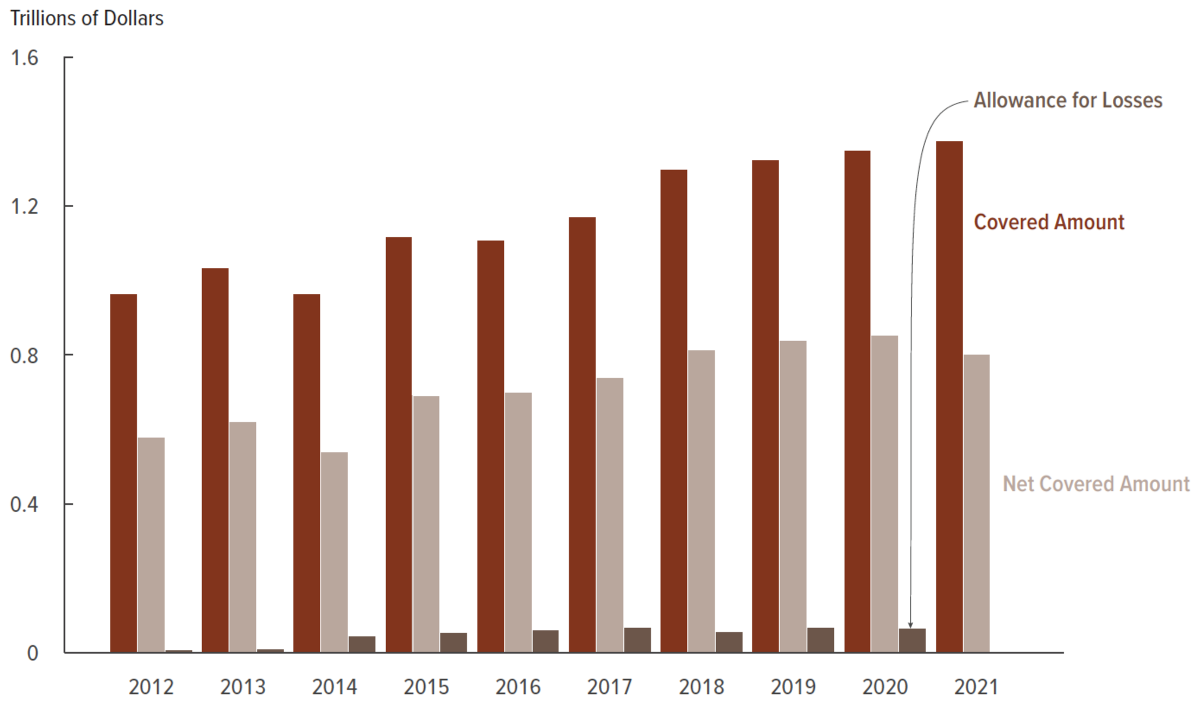
a. CBO used data reported for 2018 (the latest data available) to estimate the values for the covered amount and net covered amount for insurance for private pensions.

Financial Position of PBGC's Single-Employer and Multiemployer Pension Programs, 2012 to 2021

Single-Employer Program

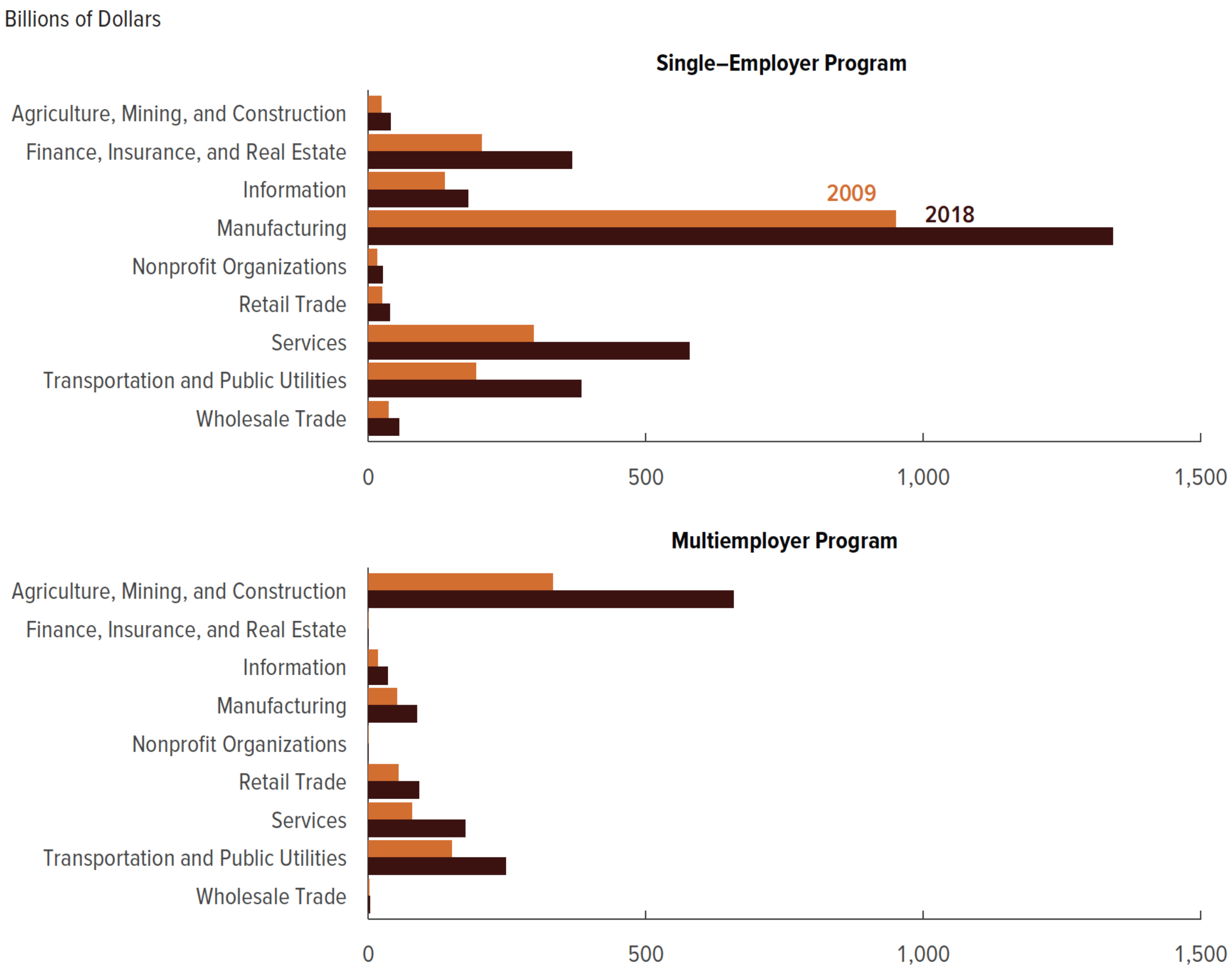


Multiemployer Program



PBGC = Pension Benefit Guaranty Corporation.

Liabilities of PBGC-Insured Pension Plans, 2009 and 2018

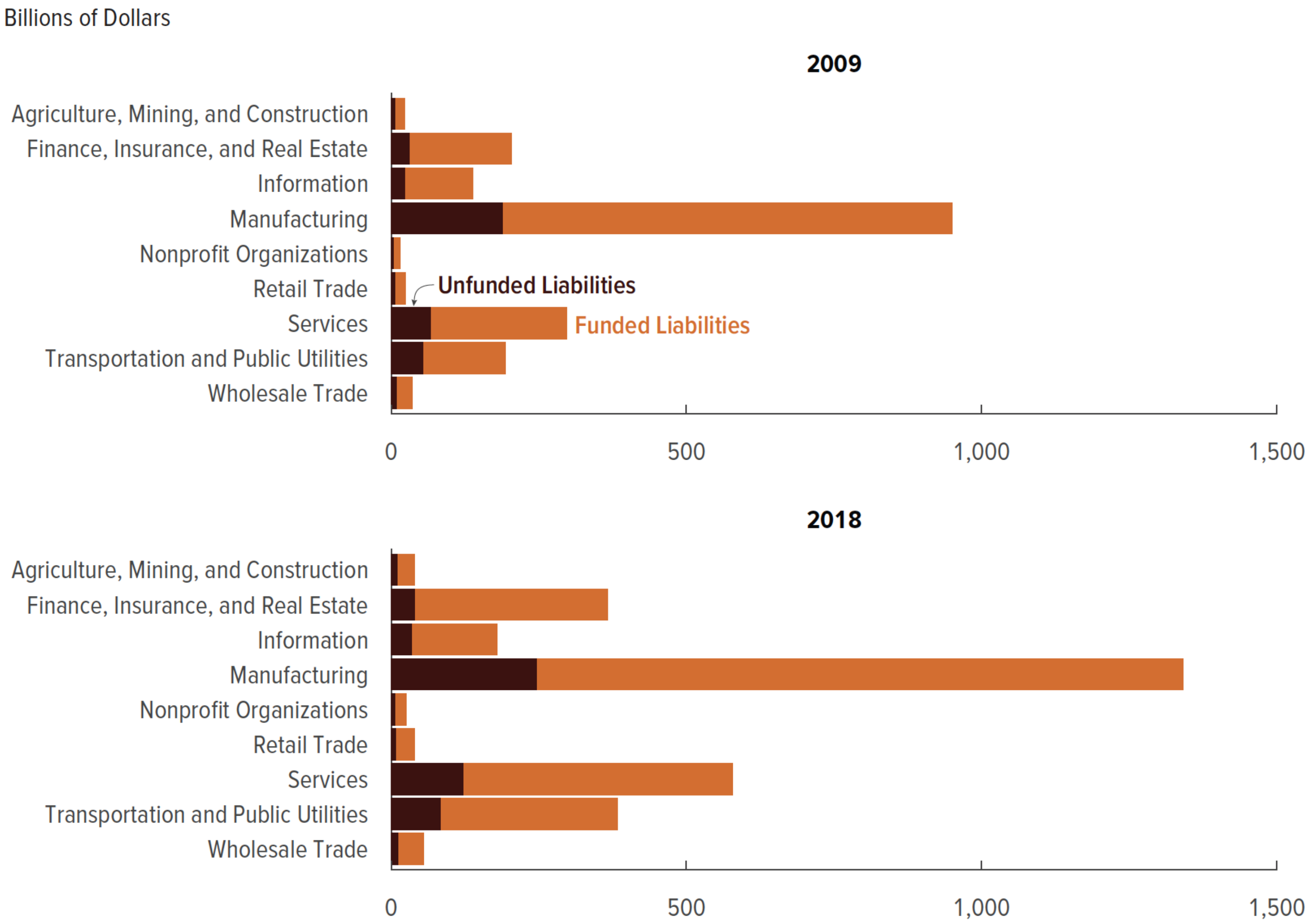


In the single-employer program, liabilities grew fastest (at an average annual rate of 8 percent from 2009 to 2018) for plans in the transportation and public utilities industry.

In the multiemployer program, liabilities grew fastest (by 9 percent a year, on average) for plans in the services industry.

PBGC = Pension Benefit Guaranty Corporation.

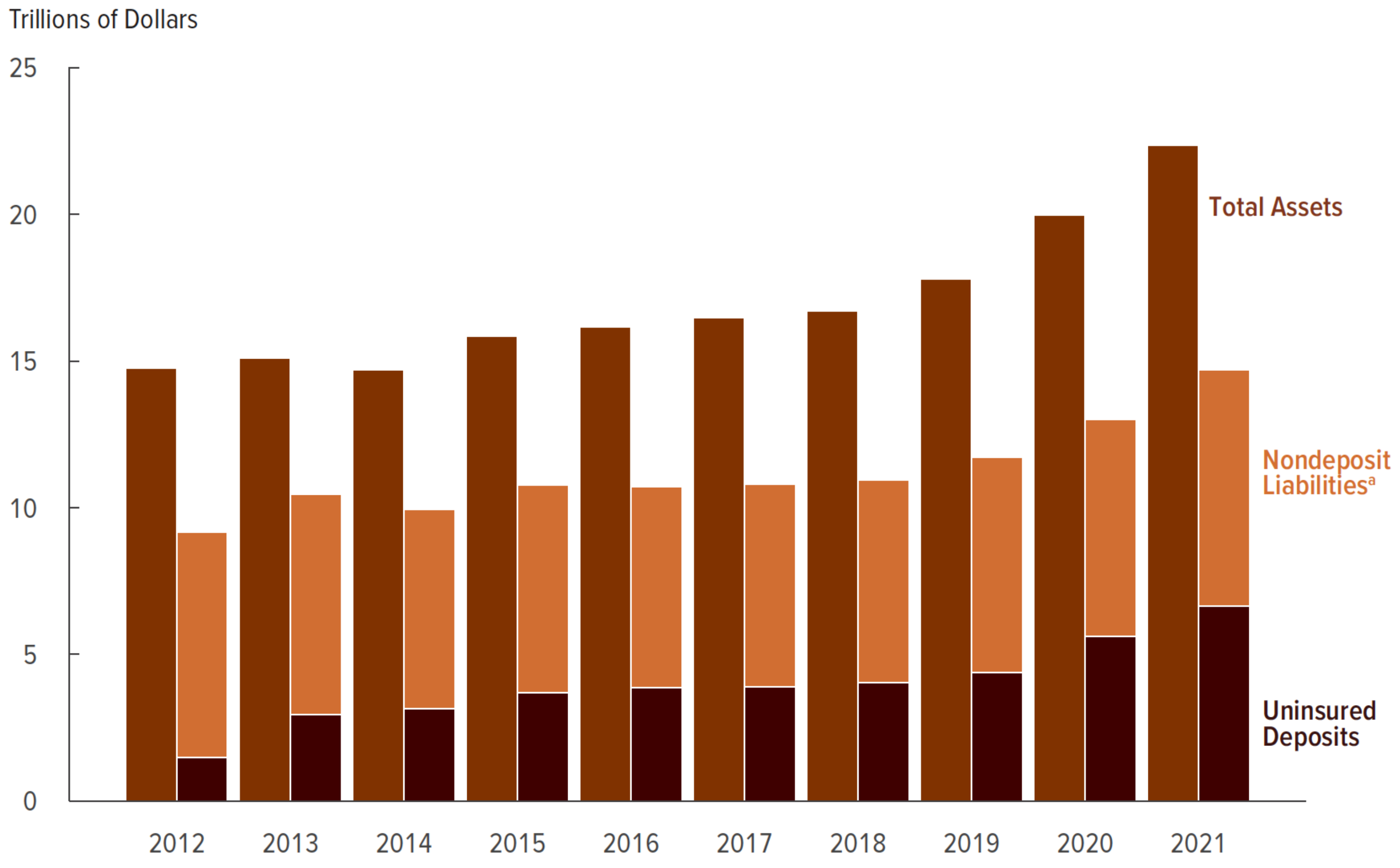
Funded and Unfunded Liabilities of PBGC-Insured Single-Employer Pension Plans, 2009 and 2018



In 2018, about two-thirds of the unfunded liabilities in the single-employer program were for plans in the manufacturing and services industries.

PBGC = Pension Benefit Guaranty Corporation.

Assets and Liabilities of SIFIs Under the FDIC’s Orderly Liquidation Authority, 2012 to 2021



If a large, systemically important financial institution (SIFI) failed, both the FDIC’s deposit insurance fund and its orderly liquidation authority would be used to resolve the failed institution.

Uninsured deposits grew at a faster annual rate from 2012 to 2021 (18 percent) than nondeposit liabilities (0.5 percent) and total assets (5 percent).

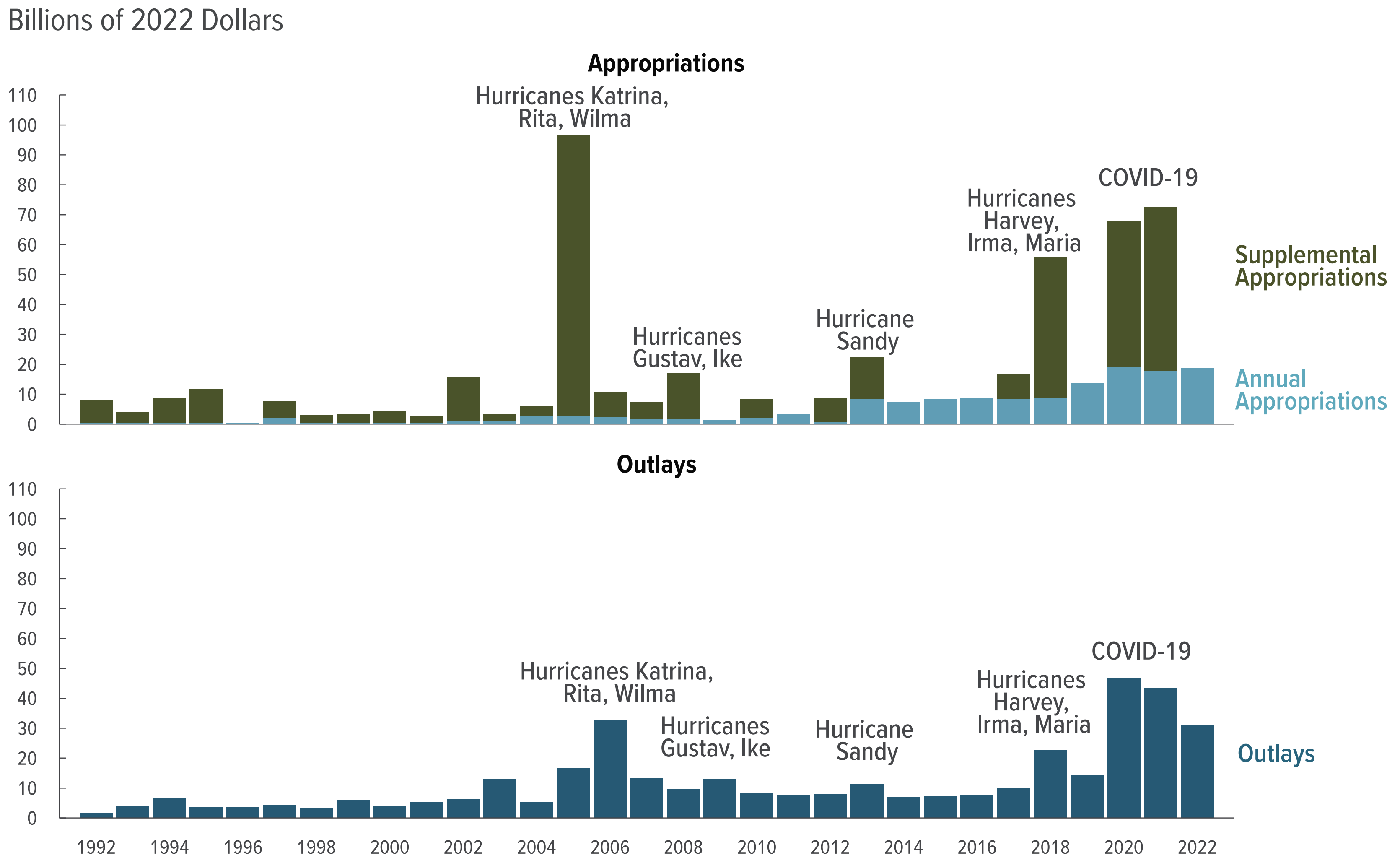
2021:

- Assets: $22.4 trillion
- Nondeposit liabilities: $8.0 trillion
- Uninsured deposits: $6.7 trillion

FDIC = Federal Deposit Insurance Corporation. Deposits insured by the FDIC are not included in this figure.

a. Nondeposit liabilities include liabilities such as debt, taxes, and allowances for expected credit.

FEMA's Supplemental Appropriations for Disasters



Supplemental appropriations for a handful of very severe disasters have been the main driver of the increased amounts of funding for, and spending from, the Disaster Relief Fund over the past 30 years.

FEMA = Federal Emergency Management Agency.

Examples of the Immediate Effects of Losses on Three Measures of Federal Debt

Type of Loss	**Debt Net of Financial Assets** (Debt held by the public minus the estimated value of assets)	**Debt Held by the Public**	**Gross Debt** (Debt held by the public plus intragovernmental debt, such as the Deposit Insurance Fund)
Direct student loan write-offs	Increases because the value of financial assets is written down	Does not immediately increase	Does not immediately increase
Higher claims on mortgage guarantees	Increases because debt must be issued to pay claims	Increases because debt must be issued to pay claims	Increases because debt must be issued to pay claims
Higher losses on deposit insurance	Increases because debt must be issued to cover costs	Increases because debt must be issued to cover costs	May not increase if losses are covered by the Deposit Insurance Fund (intragovernmental debt goes down as debt held by the public goes up)