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BUDGET ISSUES

Budgeting for Federal Insurance Programs

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Mr. Chairman and Members of the Task Force:

I am pleased to be here today to discuss an idea that is clearly worth exploring as a way to improve the information and incentives for budget decision-making. Before turning to the issue you asked me to address—accrual budgeting and its specific application to budgeting for insurance programs—I would like to talk a little about budget reporting—the current cash-based reporting and a different reporting basis, accrual-based reporting.

Budget Reporting Reflects Choices About the Uses of the Budget

The federal budget is the primary financial document of the government. The Congress and the American people rely on it to frame their understanding of significant choices about the role of the federal government and to provide them the information necessary to make informed decisions about individual programs and the collective fiscal policy of the nation. In practice, the budget serves multiple functions—it is used to plan and control resources, assess and guide fiscal policy, measure borrowing needs, and communicate the government's policies and priorities.

All of these uses are important, but they can lead to conflicting criteria for judging a budget. For example, the budget should be understandable to policymakers and the public yet comprehensive enough to fully inform resource allocation decisions. Since no one method of budget reporting can fully satisfy all uses, choosing a reporting method ultimately reflects some prioritization of the various uses—and a judgment about the quality of information and what an acceptable degree of uncertainty might be.

When I refer to reporting methods, I mean how things are measured in the budget. Spending can be measured on different bases, such as cash, accrual, or obligation. The basis of budget reporting influences decision-making because the way transactions are recorded affects our understanding of the relative cost of different activities, the way critical choices are framed, and how the deficit (or surplus) is measured.

For a simple example, suppose the government extends insurance for which it collects $1 million in premiums in the first year but expects total losses of $3 million in future years. If the primary objective of the budget is to track cash flows, then it is appropriate to show the $1 million cash inflow as a reduction in the deficit or increase in the surplus in the first year and to show the payouts as outlays when they occur. But if we want

the budget to show the full cost of a decision, then it might be more appropriate to record a net cost of the present value of $2 million in the year the insurance is extended. Both numbers provide useful information and can be tracked over time. However, they provide very different information to policymakers and may lead to different decisions. Although a comprehensive understanding of this hypothetical program requires knowing both numbers, generally only one has been the primary basis upon which budget decisions are made.

Cash Is Appropriate for Most Purposes

Historically, government outlays and receipts have been reported on a cash basis, i.e., receipts are recorded when received and expenditures are recorded when paid, without regard to the period in which the taxes or fees were assessed or the costs incurred. Although this has the advantage of reflecting the cash borrowing needs of the government, over the years, analysts and researchers have raised concerns that cash-based budgeting does not adequately reflect either the cost of some programs or the timing of their impact on economic behavior.

As a general principle, decision-making is best informed if the government recognizes the costs of its commitments at the time it makes them. For many programs, cash-based budgeting accomplishes this. And, as noted earlier, because it reflects the government's actual borrowing needs (if in a deficit situation), it is a good proxy for the government's effect on credit markets.

In general, then, the arguments for cash-based budgeting are convincing and deviations should not be lightly undertaken. The cash-based budget, however, often provides incomplete or misleading information about cost where cash flows to and from the government span many budget periods, and/or where the government obligates itself to make future payments or incur future losses well into the future. This is true for federal credit, insurance, and retirement programs. The Federal Credit Reform Act of 1990 addressed this mismatch between budget reporting and cost for credit programs. This act changed the budgetary treatment of credit programs by requiring that the budget reflect the programs' costs to the government on a net present value basis. This means that, for example, rather than recording a cash outlay for the full amount of a direct loan, the budget records an estimate of what will ultimately be lost, taking into account repayments, defaults, interest subsidies, and any other cash flows

on a net present value basis.[1] Such accrual-based budgeting is also being done for the government's contribution to pensions for civilian employees covered under the Federal Employees Retirement System and for military personnel. Accrual-based reporting recognizes the cost of transactions or events when they occur regardless of when cash flows take place.

As I will discuss, cash-based budgeting is misleading for insurance programs. Federal insurance programs are diverse, covering a wide range of risks that the private sector has traditionally been unable or unwilling to cover. The risks include natural disasters under the flood and crop insurance programs and bank and employer bankruptcies under the deposit and pension insurance programs. The federal government also provides life insurance for veterans and federal employees, political risk insurance for overseas investment activities, and insurance against war-related risks and adverse reactions to vaccines. The face value of all of this insurance—the total amount of insurance outstanding—is around $5 trillion, but this dollar amount overstates the potential cost to the government because it is very unlikely that it would ever face claims from all outstanding insurance. The fiscal year 1997 Consolidated Financial Statements of the United States Government reported a $14.6 billion liability for insurance programs—payments already owed by the government because of past events.[2] The financial statement records liabilities incurred for events that have already happened. But budgets are forward-looking documents. Decisionmakers need to make decisions about future commitments as they debate them—before insurance is extended. Therefore, a different measure may be more appropriate—the expected net cost to the government of the risk assumed by extending the insurance commitment (i.e., the "missing premium"), which is the difference between the full premium that would be charged based on expected losses and the actual premium to be charged the insured.

[1]Similarly, loan guarantees are no longer shown as having no cost. Rather, the budget records the estimated amount that the government will lose over the life of the loan on a net present value basis, including estimated defaults, interest subsidies, and other payments to and from the government.

[2]This amount does not include the government's life insurance liabilities for federal employees or veterans. In addition, we attempted to audit these statements but were unable to express an opinion on their reliability. See Financial Audit: 1997 Consolidated Financial Statements of the United States Government (GAO/AIMD-98-127, March 31, 1998).

Cash-Based Budgeting Generally Provides Incomplete Information on the Cost of Federal Insurance Programs

At the request of the Chairman, we reported last September on the shortcomings of cash-based budgeting for federal insurance programs and the potential use of accrual concepts in the budget for these programs.[3] In general, cash-based budgeting for insurance programs presents several problems. Its focus on single period cash flows can obscure the program's cost to the government and thus may (1) distort the information and incentives presented to policymakers, (2) skew the recognition of the program's economic impact, and (3) cause fluctuations in the deficit unrelated to long-term fiscal balance.

With the current cash-based reporting, premiums for insurance programs are recorded in the budget when collected and outlays are reported when claims are paid. This focus on annual cash flows generally does not adequately reflect the government's cost for federal insurance programs because the time between the extension of the insurance, the receipt of premiums and other collections, the occurrence of an insured event, and the payment of claims may extend over several budget periods. As a result, the government's cost may be understated in years that a program's current premium and other collections exceed current payments and overstated in years that current claim payments exceed current collections. These distortions occur even if the collections and payments for an insurance commitment are equal over time. This is similar to the problem with loans prior to the Credit Reform Act. The budget showed direct loans as costly in the year they were extended but then as profitable in future years when repayments exceeded new loans being made.

The reasons for the mismatch between insurance premium collections and claim payments vary across the programs. In the case of political risk insurance extended by the Oversees Private Investment Corporation, the length of the government's commitment can run for up to 20 years. Similarly, benefit payments for pension plans assumed by the Pension Benefit Guaranty Corporation (PBGC) may not be made for years or even decades after a plan is terminated. This is because participants generally are not eligible to receive pension benefits until they reach age 65 and, once eligible, they receive the benefits for many years. In other programs, temporary transactions or the erratic occurrence of insured events cause the mismatch between collections and payments and distort the insurance programs' apparent costs in the cash-based budget. For example, during the savings and loan crisis, large temporary cash flows from the acquisition and sale of assets from failed institutions resulted in the

[3]See Budget Issues: Budgeting for Federal Insurance Programs (GAO/AIMD-97-16, September 30, 1997).

government's cost for deposit insurance never being clearly presented in the annual budget. In years when assets were acquired, the full amount of cash required was recorded as an outlay; later, when the assets were sold, the proceeds were recorded as income. Thus, the cash-based budget overstated the cost of the deposit insurance in some years and understated it in others.

The inability of the cash-based budget to capture the cost of the government's insurance commitments at the time decisions are made has significant implications. Cash-based budgeting for federal insurance programs may provide neither the information nor incentives necessary to signal emerging problems, make adequate cost comparisons, control costs, or ensure the availability of resources to pay future claims.

The shortcomings of cash-based budgeting for federal insurance programs became quite apparent during the 1980s and early 1990s as the condition of the two largest programs—deposit insurance and pension insurance—deteriorated while the budget continued to show positive cash flows and did not even recognize failures that had actually happened. Although we and others raised concerns at the time about the government's rapidly accruing deposit insurance costs, the cash-based budget was not effective in signaling policymakers of the emerging problem because it did not show a cost until institutions were closed and depositors paid. This delayed recognition obscured the program's, as well as the government's, underlying fiscal condition and limited the usefulness of the budget process as a means for the Congress to assess the problem. At approximately the same time, PBGC was facing growing losses and sponsors of insured pension plans were coming under severe financial stress, yet the cash-based budget showed large and growing cash income for the program. While the financial condition of PBGC has improved considerably in recent years, the Office of Management and Budget reported in the President's fiscal year 1999 budget that the government's expected liability for current and future pension plan terminations is approximately $30 billion.

Because the cash-based budget delays recognition of emerging problems, it may not provide policymakers with information or incentives to address potential funding shortfalls before claim payments come due. Policymakers may not be alerted to the need to address programmatic design issues because, in most cases, the budget does not encourage them to consider the future costs of federal insurance commitments. Thus, reforms aimed at reducing costs may be delayed. In most cases, by the

time costs are recorded in the budget, policymakers do not have time to ensure that adequate resources are accumulated to pay for them or to take actions to control them. The late budget recognition of these costs can reduce the number of viable options available to policymakers, ultimately increasing the cost to the government.

For example, the National Flood Insurance Program provides subsidized coverage without explicitly recognizing its potential cost to the government. Under current policy, the Congress has authorized the Federal Insurance Administration to subsidize a significant portion (approximately 38 percent) of the total policies in force without providing annual appropriations to cover these subsidies. Although the flood insurance program has been self-supporting since the mid-1980s—either paying claims from premiums or borrowing and repaying funds to the Treasury—the program has not been able to establish sufficient reserves to cover catastrophic losses and, therefore, cannot be considered actuarially sound.

In some cases, the cash-based budget not only fails to provide incentives to control costs, but also may create a disincentive for cost control. Deposit insurance is a key example. Many analysts believe that the cash-based budget treatment of deposit insurance exacerbated the savings and loan crisis by creating a disincentive to close failed institutions. Since costs were not recognized in the budget until cash payments were made, leaving insolvent institutions open avoided recording outlays in the budget and raising the annual deficit but ultimately increased the total cost to the government.

Cash-based budgeting also may not be a very accurate gauge of the economic impact of federal insurance programs. Although discerning the economic impact of federal insurance programs can be difficult, private economic behavior generally is affected when the government commits to providing insurance coverage. At this point, insured individuals or organizations alter their behavior as a result of insurance. However, as I noted above, the cash-budget records costs not at this point but rather when payments are made to claimants. These payments generally have little or no macroeconomic effect because they do not increase the wealth or incomes of the insured. Rather, they are merely intended to restore the insured to his or her approximate financial position prior to the insured event.

The cash flow patterns of some federal insurance programs can result in fluctuations in the federal deficit unrelated to the budget's long-term fiscal balance. As noted earlier, uneven cash flows may result from both the erratic nature of some insured risks or temporary cash flows, as in the case of the acquisition and subsequent sale of assets from failed savings and loan institutions. In addition, insurance programs with long-term commitments, such as pension and life insurance programs, can distort the budget's long-term fiscal balance by reducing the aggregate deficit in years that premium income exceeds payments without recognizing the programs' expected costs.

While annual cash flows for federal insurance programs generally do not provide complete information for resource allocation and fiscal policy, the magnitude of the problem and the implications for budget decision-making vary across the insurance programs reviewed. For example, the implications of the shortcomings of the current budget treatment appear greatest for the largest programs, pension and deposit insurance. Because of their large size, incomplete or misleading information about their cost could distort resource allocation and fiscal policy significantly, making the limitations of cash-based budgeting more pronounced than for other federal insurance programs. In addition, the limitations of cash-based budgeting are most apparent when the government's commitment extends over a long period of time, as with pension insurance, or when the insured events are infrequent or catastrophic in nature, such as severe flooding or depository losses. Conversely, the implications for budget decision-making may be less severe if relatively frequent claim payments prompt policymakers to consider the financial condition and funding needs of the program.

Accrual Concepts Could Improve the Budgetary Information and Incentives for Federal Insurance Programs

The use of accrual-based budgeting for federal insurance programs has the potential to overcome a number of the deficiencies of cash-based budgeting—if the estimating problems I discuss below can be dealt with. Accrual-based reporting recognizes transactions or events when they occur regardless of when cash flows take place. An important feature of accrual-based reporting is the matching of expenses and revenues whenever it is reasonable and practicable to do so. In contrast to cash-based reporting, accrual reporting recognizes the cost for future insurance claim payments when the insurance is extended and provides a mechanism for establishing reserves to pay those costs. Thus, the use of accrual concepts in the budget has the potential to overcome the time lag between the extension of an insurance commitment, collection of

premiums, and payment of claims that currently distorts the government's cost for these programs on an annual cash flow basis.

The use of forward-looking cost measures for federal insurance programs could improve budget reporting. As with the approach taken for credit programs, accrual-based reporting for insurance programs recognizes the cost of the government's commitment when the decision is made to provide the insurance, regardless of when cash flows occur. For federal insurance programs, the key information is whether premiums over the long term will be sufficient to pay for covered losses and, if not, to identify the net cost to the government. The cost of the risk assumed by the government is the difference between the full risk premium, based on the expected cost of losses inherent in the insurance commitment, and the premium charged to the insured (the missing premium). Earlier recognition of the cost of the government's insurance commitments under a risk-assumed accrual-based budgeting approach would (1) allow for more accurate cost comparisons with other programs, (2) provide an opportunity to control costs before the government is committed to making payments, (3) build budget reserves for future claims, and (4) better capture the timing and magnitude of the impact of the government's actions on private economic behavior. It might or might not change the premium charged—that is a separate policy decision. Rather, better information on cost would mean that decisions would be better informed.

Estimating the Cost of the Risk Assumed by the Government for Insurance Commitments Is a Significant Challenge

A crucial component in the effective implementation of accrual-based budgeting for federal insurance programs is the ability to generate reasonable, unbiased estimates of the risk assumed by the federal government. Although the risk-assumed concept is relatively straightforward, generating estimates of these costs is complex and varies significantly across insurance programs. While in some cases, such as life insurance, generating risk-assumed estimates may not be problematic, in most cases, the difficulties faced may be considerably more challenging than those currently faced for some loan programs under credit reform.

For insurance, the accuracy of estimated future claims is determined by the extent to which the probability of all potential outcomes can be determined. Unfortunately, probabilities are not known for certain for most activities more complex than the toss of a fair coin. However, for activities in which data on actual outcomes exist, like the length of a human life, the underlying probabilities can be estimated. When the

probabilities of future events can be inferred, estimates are said to be made under the condition of risk and the risk undertaken by the insurer can be measured. However, when underlying conditions are not fully understood, estimates are said to be made under uncertainty. This is the case for most federal insurance programs due to the nature of the risks insured, program modifications, and other changes in conditions that affect potential losses.

Lack of sufficient historical data for some federal insurance programs also constrains risk assessment. While private insurers generally rely on historical data on losses and claim costs to assess risk, data on the occurrence of insured events over sufficiently long periods under similar conditions are generally not available for federal insurance programs. Frequent program modifications as well as fundamental changes in the activities insured further reduce the predictive value of available data and complicate risk estimation.

These factors, which limit the ability to predict losses and the potential for catastrophic losses, have been cited as preventing the development of commercial insurance markets for risks covered by federal insurance programs. Many federal insurance programs cover complex, case-specific, or catastrophic risks that the private sector has historically been unwilling or unable to cover. As a result, private sector comparisons are generally unavailable to aid in the risk estimation process. Thus, the development and acceptance of risk assessment methodologies for individual insurance programs vary considerably. For some programs, the development of risk-assumed estimates will require refining and adapting available risk assessment models while, for other programs, new methodologies may have to be developed. The degree of difficulty in developing estimates and the uncertainty surrounding these estimates will likely be greatest for programs—such as deposit and pension insurance—that require modeling complex interactions between highly uncertain macroeconomic variables and human behavior. Even after years of research, significant debate and estimation disparity exists in the modeling for these programs.

This means that in practical terms, attempts to improve cost recognition occur on a continuum since insurance programs and insurable events vary significantly. The extent of improvement in information when moving from cash-based to accrual-based information would vary across programs depending on (1) the size and length of the government's commitment, (2) the nature of the insured risks, and (3) the extent to which costs are currently captured in the budget. The diversity of federal insurance

programs also implies that the period used for estimating risk assumed, the complexity of the models, and the policy responses to this new information will vary.

Approaches for Incorporating Accrual-Based Estimates in the Budget

In our report on budgeting for insurance programs, we looked at several different approaches to incorporating risk-assumed estimates into the budget,[4] ranging from the addition of supplemental reporting to incorporation directly into budget authority, outlays, and the deficit. We concluded that although the potential for improved information argued for a risk-assumed approach, the analytic and implementation issues argued for beginning with supplemental information. I will describe the three approaches we explored and then discuss our conclusion.

Supplemental approach: Under this approach, accrual-based cost measures would be included as supplemental information in the budget documents. Ideally, the risk-assumed estimates would be reported annually in a standard format along with the cash-based estimates. Showing the two together would highlight the risk-assumed cost estimates at the time budget decisions are made and also increase the likelihood that serious work on improving these estimates would continue.

This approach has some advantages, particularly that it would allow time to test and improve estimation methodologies and increase the comfort level of users before considering whether to move to a more comprehensive approach. It would highlight the differences in the type of information provided on a cash basis versus an accrual basis without changing the reporting basis of total budget authority, net outlays, or the budget deficit or surplus.

The disadvantage of the supplemental reporting approach is that it may not have a significant effect on the budget decision-making process because the cost information would not directly affect the budget totals and allocations to congressional committees. Therefore, if this approach is selected, it would be important to also create an incentive to improve cost estimates and risk assessment methodologies. For example, demonstrated congressional interest and stated intentions to move toward greater integration into the budget after a period of evaluation might help ensure that agencies and the Office of Management and Budget actively pursue improvements.

[4] Budget Issues: Budgeting for Federal Insurance Programs (GAO/AIMD-97-16, September 30, 1997).

Budget authority approach: Under this approach, accrual-based cost measures—the full cost of the risk assumed by the government—would be included in budget authority for the insurance program account and in the aggregate budget totals. Net outlays—and hence the budget deficit or surplus—would not change. Budget authority would be obligated when an insurance commitment was made and would be held as an interest-earning reserve. Future claims would be paid from the reserve.

A key advantage of this approach is that it would provide earlier recognition of insurance costs directly in the budget while preserving cash-based reporting for net outlays and the budget results. This would incorporate cost estimates directly into the budget debate without potentially subjecting outlays and the deficit or surplus to the uncertainty of the risk-assumed estimates or changing the nature of the outlay and deficit/surplus measure. It might also focus attention on improving the estimates since they will be included in one of the key budget numbers. There are problems with this approach, however. Since the estimates would not be reflected in the deficit or surplus—the numbers that receive the most attention and scrutiny—it is unclear how much more effect this approach would have on the budget decision-making process than the supplemental information approach. In addition, the impact of this approach would be limited by the fact that most insurance programs are mandatory and thus any budget authority needed is automatically provided.

In our report, we discuss a variation of this approach that would increase its impact. For mandatory insurance programs, a discretionary account could be created to record the government's subsidy cost. An appropriation to that account could be required to cover the subsidy costs in the year the insurance is extended, unless alternative actions were taken to reduce the government's cost, such as increasing program collections or reducing future programs costs. Since the discretionary appropriation would be subject to Budget Enforcement Act caps, decisionmakers would have an incentive to reduce the government's costs. However, such a change in budgeting would also fundamentally change the nature of most federal insurance programs and, by changing the locus of decisions to the annual appropriation process, might change program operations.

Outlay approach: Under this approach, accrual-based cost measures would be incorporated into both budget authority and net outlays for the insurance program account and in the budget totals. Thus, the reported

deficit or surplus would reflect the risk-assumed estimate at the time the insurance is extended. Since the government's insurance programs generally provide a subsidy, the deficit would be larger (or the surplus smaller) than when reported on a cash basis, which could prompt action to address the causes of the increased outlays.

Without fundamentally changing the nature of most insurance programs, the outlay approach is the most comprehensive of the three approaches and has the greatest potential to achieve many of the conceptual benefits of accrual-based budgeting. It would recognize the government's full cost when budget decisions are being made, permitting more fully informed resource allocation decisions. Since the cost is recognized in the budget's overall results—the deficit or surplus—incentives for managing costs may be improved. Also, recognizing the costs at the time the insurance commitments are made would better reflect their fiscal effects.

Conceptually, this approach has the appeal of taking the approach currently used for credit programs and applying it to insurance. However, it is important to recognize that developing estimates of the "missing premium" is much more difficult than developing subsidy estimates for credit programs. The uncertainty surrounding the estimates of the risk assumed presents a major hurdle to implementing accrual budgeting for insurance programs. Risk-assumed estimates for most insurance programs are either currently unavailable or not fully accepted. Even if they become more accepted, the Congress and the President would need to be comfortable with the fact that recognizing the risk-assumed estimate in outlays would mean that any reported deficit would depart further from representing the borrowing needs of the government.

Choosing among the three approaches I have presented is further complicated by the fact that the relative implementation difficulties—and the benefits achieved—vary across federal insurance programs. The key implementation issue that I discussed earlier is whether reasonable, unbiased, risk-assumed cost estimates can be developed. The programs for which the risk-assumed estimates are perhaps most difficult to make—deposit and pension insurance—are also the ones for which having the estimates would potentially make the most difference in budget decision-making. While supplemental reporting of risk-assumed estimates would allow time to evaluate the feasibility and desirability of moving to a more comprehensive accrual-based budgeting approach for all insurance programs, the Congress and the President could also consider whether it would be reasonable to phase implementation by type of insurance

program over time. If the latter approach were chosen, life, flood, and crop insurance programs could be the starting points because they have more established methodologies for setting risk-related premium rates. The methodology for life insurance is well established in actuarial science. For flood and crop insurance, some modifications and refinements to existing methodologies and other implementation challenges should be expected.

Beyond generating estimates, there are other challenges that must be addressed, such as the increased uncertainty accrual-based estimates will inject into the budget. For example, while one of the major benefits of accrual-based budgeting is the recognition of the cost of future insurance claims when programmatic and funding decisions are being made, this recognition is dependent on estimates, which are in turn dependent upon many economic, behavioral, and environmental variables. There will always be uncertainty in the reported accrual-based estimates. However, uncertainty in the estimation of insurance program costs should be evaluated in terms of the direction and magnitude of the estimation errors. For budgeting purposes, decisionmakers probably would be better served by information that is more approximately correct on an accrual basis than they are by cash-based numbers that may be exactly correct but misleading. That said, the estimation uncertainty will make periodic evaluation of the risk estimation methodologies used to generate the estimates crucial.

Other challenges to be addressed include how to establish and protect loss reserves, how to handle reestimates, funding shortfalls, previously accumulated program deficits, and administrative costs.

Conclusion

To support current and future resource allocation decisions and be useful in the formulation of fiscal policy, the federal budget needs to be a forward-looking document that enables and encourages users to consider the future consequences of current decisions. The potential benefits of an accrual-based budgeting approach for federal insurance programs warrant continued effort in the development of risk-assumed cost estimates. The complexity of the issues involved and the need to build agency capacity to generate such estimates suggest that it is not feasible to integrate accrual-based costs directly into the budget at this time. Supplemental reporting of these estimates in the budget over a number of years could help policymakers understand the extent and nature of the estimation uncertainty and permit an evaluation of the desirability and feasibility of adopting a more comprehensive accrual-based approach.

Supplemental reporting of risk-assumed cost estimates in the budget has several attractive features. It would allow time to (1) develop and refine estimation methodologies, (2) assess the reliability of risk-assumed estimates, (3) formulate cost-effective reporting procedures and requirements, (4) evaluate the feasibility of a more comprehensive accrual-based budgeting approach, and (5) gain experience and confidence in risk-assumed estimates. At the same time, the Congress and the executive branch will have had several years of experience with credit reform, which can help inform their efforts to apply accrual-based budgeting to insurance. During this period, policymakers should continue to draw on information provided in audited financial statements.

If the risk-assumed estimates develop sufficiently so that their use in the budget will not introduce an unacceptable level of uncertainty, policymakers could consider incorporating risk-assumed estimates directly into the budget. While directly incorporating them in both budget authority and outlays would have the greatest impact on the incentives provided to decisionmakers, it would also significantly increase reporting complexity and introduce new uncertainty in reported budget data. Thus caution is called for in taking steps that move beyond supplemental reporting of risk-assumed estimates. One way to approach the incorporation of risk-assumed estimates in the budget is to start with programs that already have established methodologies for setting risk-assumed premium rates, such as life, flood, and crop insurance.

By drawing attention to the need to change the budget treatment of insurance programs, this task force is moving the process in the right direction. As I have noted on other occasions, action and effort are usually devoted to areas on which light is shined.

Mr. Chairman, this concludes my written statement. I would be happy to answer any questions you or your colleagues may have.

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