



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548



B-114802

FEB 23 1978

The Honorable Richard Kelly  
House of Representatives

Dear Mr. Kelly:

In your letter of April 27, 1977, you asked the General Accounting Office to prepare a statement of the total contingent liability of the United States. In the request you asked that we include unfunded pensions, Social Security obligations and loan guarantees.

We were able to assemble a comprehensive set of estimates of loan guarantees, insurance commitments, unadjudicated claims and international commitments outstanding as well as estimated actuarial deficits of the Social Security system and Federal pensions systems as of September 30, 1976. These estimates are reported by the Fiscal Service, Bureau of Government Financial Operations, Department of Treasury.

There is a difference between the contingent liabilities resulting from loan guarantees, insurance commitments, etc., and the estimated actuarial deficits of the Social Security and Federal pension systems. Contingent liabilities are conditional commitments which may become actual liabilities if an event over which the government does not have complete control takes place. Actuarial deficits of Social Security and Federal Pension systems are known to exist, but their exact size in future years cannot be determined with complete certainty. Actuarial techniques are used to estimate differences between present and future system benefit payments (Actuarial liabilities) and present and future contributions to the system for the provision of those benefits (Actuarial assets). If a pension system's actuarial liabilities exceed its actuarial assets, an actuarial deficit is said to exist. There are differences in the way such actuarial deficits are calculated, but the underlying concept and its fundamental difference from the concept of contingent liabilities is of particular importance.

CONTINGENT LIABILITIES

Since each of the contingent liability commitments has its special character and is incurred under particular circumstances, they are, for the most part, presented as

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separate items below with a brief description of each. In most cases, the dollar figure for each category represents the maximum liability of the U.S. Government and is not intended to be a realistic indication of the actual liability that would fall upon the Federal Government in the normal course of events.

#### Loan Guarantees

These contingent liabilities include Federally guaranteed housing loans, student loans, Amtrak guarantees, rural loans, and other types of transactions. They are reported by the Treasury to total \$190.6 billion. Although it is possible to estimate defaults on some Federally guaranteed programs because individual loans are small in relation to the size of the program and because the programs have been in existence for a number of years, it is not possible to accurately estimate losses from all guaranteed loans. This is particularly true where loan guarantees are written for large ventures dealing with a single entity such as the Lockheed loan guarantee.

#### Insurance Commitments

These commitments include insurance coverage of deposits in commercial banks, savings and loans and insured credit unions; life insurance; flood and crop failure insurance; some loan insurance and other insurance commitments. They are reported by the Treasury to total \$1,629.1 billion. The combined contingent liability of the Federal Government for providing insurance on bank deposits and loss of life represents nearly 60 percent of these commitments. For bank deposit insurance and loss of life insurance it is possible to estimate expected losses, using actuarial techniques, with reasonable confidence. The other major insurance commitment written by the Federal Government is against damage caused by riots. In this case, the expected value of claims is more difficult to estimate, but the likelihood of claims in the full amount of the insurance in force is highly unlikely.

Loan guarantees and insurance commitments comprise the great bulk of reported contingent liabilities (97 percent). In these cases, two additional factors should be considered:

- Many of these programs are funded for their expected (as opposed to maximum theoretical) liability through some combination of appropria-

tions, statutory borrowing authority and premiums paid by those benefiting from the program. The theoretical liability figures should be considered in connection with reserves representing premiums paid by beneficiaries to calculate maximum net theoretical losses to taxpayers.

- The Federal Government has varying amounts of recourse to the assets of credit assisted or insured program participants. In the case of credit assistance for housing (which occupies a large portion of the guaranteed loan category) there is substantial recourse to marketable assets. For example, as of September 30, 1976, out of \$2.2 billion worth of guaranteed loan claims paid by the Veterans Administration, all but \$158.4 million has been recovered through acquisition and sale of secured properties. This recourse to assets is not reflected in the theoretical exposure figures.

#### Unadjudicated Claims, International Commitments and Other Contingencies

Unadjudicated claims information includes estimates of maximum liabilities in some cases and, in other cases, the expected costs associated with such claims. The total figure for unadjudicated claims is reported by the Treasury to be \$14.0 billion, but this figure is not representative of either the maximum or expected liability. International commitments liabilities of the Federal Government total \$10.3 billion and for the most part represent unpaid U.S. contributions to the equity base of international financial institutions. These figures, therefore, seem to be actual rather than contingent liabilities. Other contingencies are estimated to total \$28.9 billion and range from unsigned loan agreements to the estimated costs of providing Veterans readjustment benefits through 1982. These "contingencies" are generally estimates of expected costs rather than of maximum liability.

In summary, the maximum theoretical contingent liability figures are not realistic estimates because the likelihood that all the contingencies would come to pass is very, very small. Even if these contingencies occurred, losses to be financed by the taxpayers would still be less than the theoretical maximum because of the existence of reserves financed by fees and because of the government's recourse to marketable assets.

## ACTUARIAL DEFICITS

### The Social Security System

The estimated actuarial deficit of the Social Security System as of September 30, 1976, is shown in Attachment I (along with similar estimates for Federal Retirement Systems). However, the provisions of recently enacted legislation will dramatically reduce this deficit.

The estimates for the actuarial deficit of the Social Security system are based on estimates of benefit and contribution streams for the next 75 years. These estimates, in turn, are based on assumptions about such factors as fertility rates and rates of increase in wages and prices. Because of changes in the demographic and economic outlook, such estimates are bound to change from year to year--sometimes up and sometimes down.

It should be emphasized that there is nothing in the law that legally binds the Federal Government for payment of any shortfall which may occur in the Social Security Fund. The system was intended to be self supporting with benefits financed from earmarked contributions of employees and employers. The liability for any shortfall legally rests with the Social Security Trust Fund; not with the General Fund of the Treasury.

### Federal Retirement Systems

As shown in Attachment I, there are also substantial actuarial deficits for the two major Federal retirement systems (Civil Service and Uniformed Services). In a recent GAO report, we recommended that Congress enact legislation requiring recognition of the full costs of Federal retirement systems, computed on a basis that recognizes future pay increases and annuity adjustments so that such benefit costs may be funded through present and future contributions. In addition, it was recommended that such differences between currently accruing benefit costs and employee contributions be charged to agency operations.

### CAUTIONS ON USING THE DATA

These aggregate estimates should be used with caution. It could be very misleading to add together the amounts in the various categories. The actuarial deficits of the retirement programs are conceptually very different from the contingent liabilities of the loan guarantee programs.

They cannot be meaningfully added together because of these differences.

As arranged with your office, copies of this letter will be available to other interested parties who request them.

We hope that this information will be useful to you. Let us know if we can be of further assistance.

Sincerely yours,

A handwritten signature in cursive script that reads "Homer B. Stearns". The signature is written in black ink and is positioned to the right of the typed name.

Comptroller General  
of the United States

## ATTACHMENT I

Estimated Actuarial Deficits  
Of Annuity Programs  
As of September 30, 1976

(\$ billions)

Federal Retirement PlansMajor Plans

|                    |          |
|--------------------|----------|
| Uniformed Services | \$ 170.0 |
| Civil Service      | 107.0    |
| Foreign Service    | 1.1      |

Other Plans

|   |       |
|---|-------|
| Pension Benefit Guarantee Corporation           | .10   |
| Railroad Retirement System                      | 8.20  |
| Veterans Administration                         | 53.90 |
| Tennessee Valley Authority                      | .70   |
| National Oceanic and Atmospheric Administration | .30   |

Social Security Administration

|   |         |
|---|---------|
| Federal Old Age and Survivors Insurance | 3,073.0 |
| Federal Disability Insurance            | 1,104.0 |

|  |     |
|--|-----|
| <u>Federal Employees' Compensation Act</u> | 6.4 |
|--|-----|

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Source: Statement of Liabilities and Other Financial Commitments of the United States Government as of September 30, 1976; Department of the Treasury Fiscal Service, Bureau of Government Financial Operations, January 1977.