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# **Perspectives on High-Risk and Other Challenges Facing Government**

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**Board of Directors  
American Academy of Actuaries  
May 8, 2013  
Washington, DC**

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Comptroller General of the United States**

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# Outline

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- I. GAO Overview
- II. Context – Budget Environment
  - Federal
- III. Examples from GAO's High-Risk List
- IV. Selected Additional Areas of GAO Work

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# GAO Overview

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## GAO's Mission:

GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people.

## Established in 1921 under the Budget and Accounting Act

- GAO was given the statutory authority to “investigate...all matters relating to the receipt, disbursement, and application of public funds”

## Sources of Work

- Congressional Mandates, Congressional Requests and Comptroller General's Statutory Authority
- Informed by strategic planning and ongoing dialogue with Congress.

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# GAO Accomplishments in FY 2012

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GAO's FY 2012 achievements included, among others;

- \$55.8 billion in financial benefits
- 1,440 improvements in broad program and operational areas across government
- 159 congressional testimonies
- Over 1,800 new recommendations made
- 80 percent of recommendations GAO made were implemented

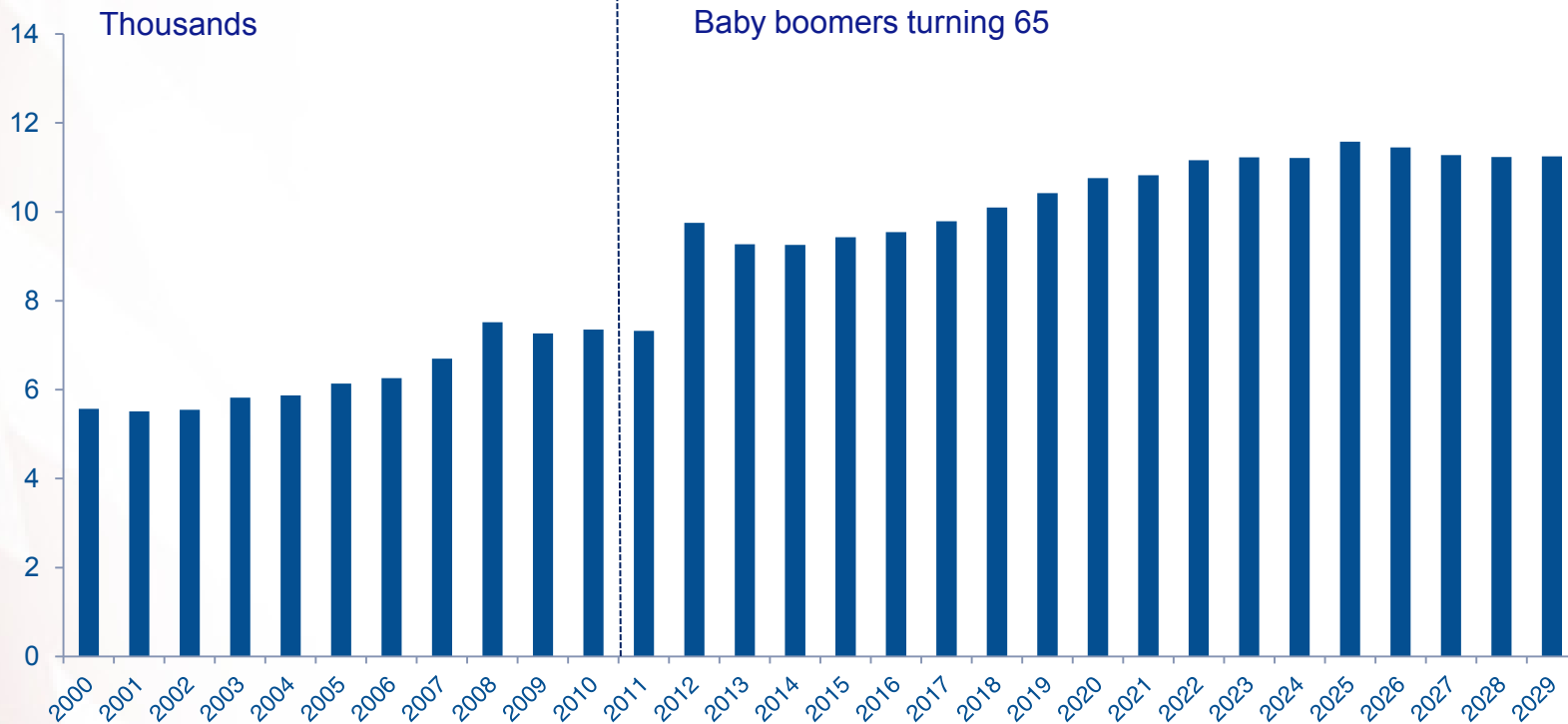
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## Context: Overall Budget Environment in the Near and Long Term

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- Budget Control Act and the American Taxpayer Relief Act will help in the near term
- Currently face competing demands:
  - Need to sustain economic growth
  - Need for significant actions to change the long-term fiscal path
- Long-term path is still unsustainable
  - Spending side driven by demographics and health care cost growth

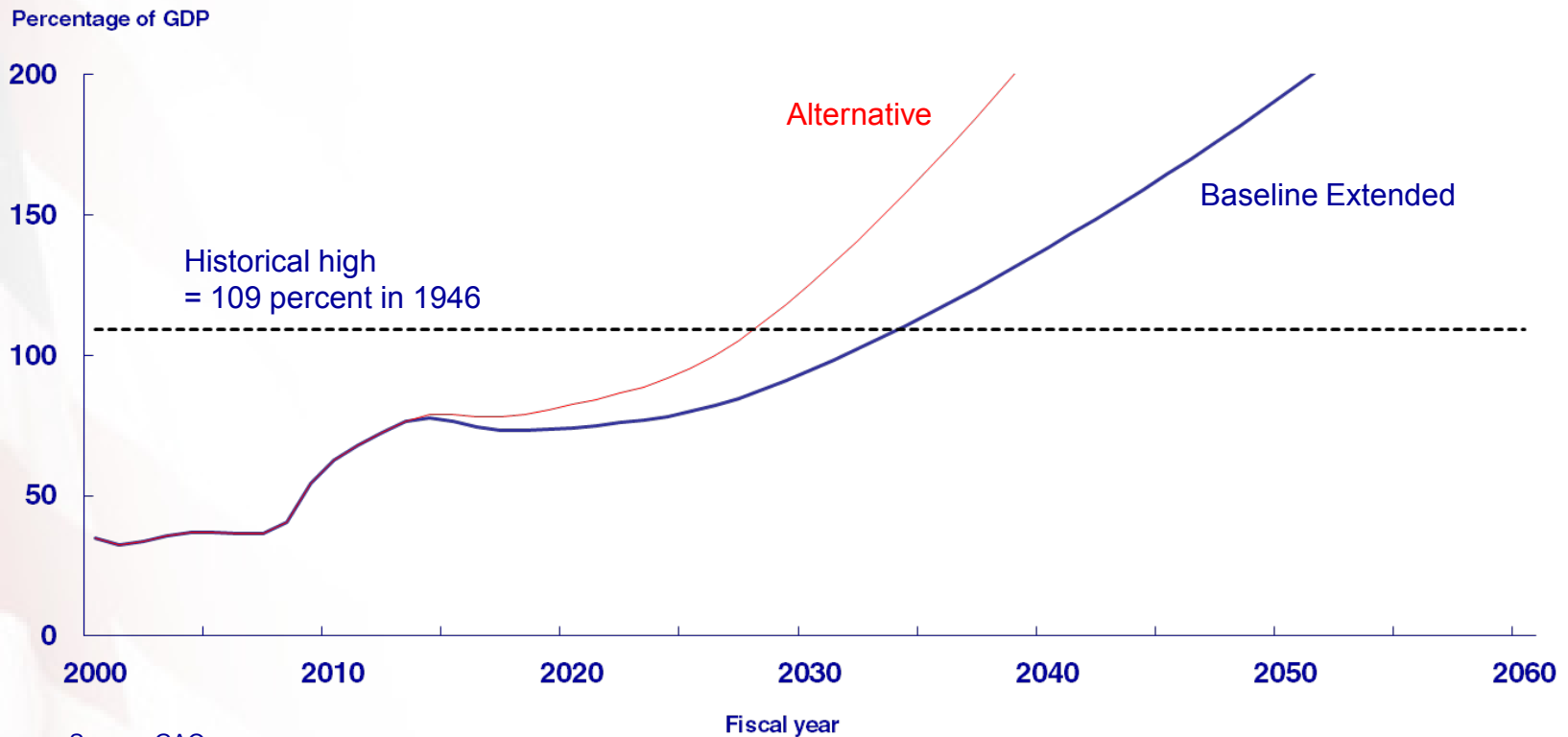
# Daily Average Number of People Turning 65 Each Year



Source: GAO analysis of U.S. Census Bureau data.

Note: Based on years ending July 1.

# Debt Held by the Public Under Two Fiscal Policy Simulations



Source: GAO.

Note: Data are from GAO's Spring 2013 simulations based on the Trustees' assumptions for Social Security and the Trustees' and CMS Actuary's assumptions for Medicare.

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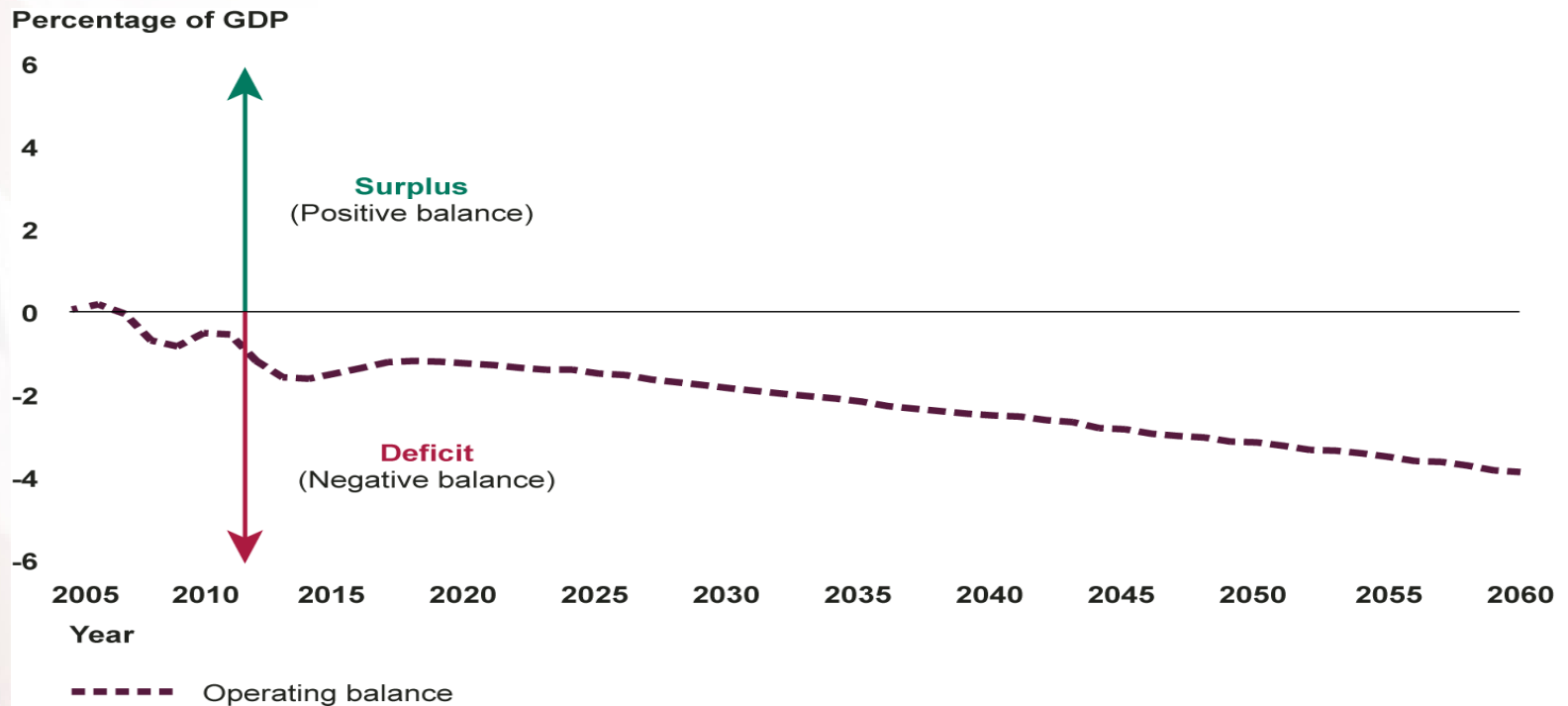
## Debt Limit: What it is and What it isn't

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- Debt limit does not limit the ability to enact spending and tax laws; not a limit on running deficits or incurring obligations.
- Debt limit is an after-the-fact measure: it imposes a limit on ability to pay obligations already incurred
- GAO analysis shows delays in raising debt limit have led to higher borrowing costs; delays in 2011 - \$1.3 billion increase for the year.
- Treasury uses extraordinary actions to manage near the debt limit: where provided for under law, principal and interest is restored; GAO tests this as part of its routine annual audit of federal debt.
- We have suggested linking decisions about the debt limit with spending and revenue decisions that create debt—at the time those decisions are made.



# State and Local Operating Balance, as a Percentage of Gross Domestic Product



Source: GAO simulations, updated April 2013.

Note: Historical data are from BEA's National Income and Product Accounts. Data in 2012 are GAO estimates aligned with published data where available. GAO simulations are from 2013 to 2060, using many CBO projections and assumptions, particularly for the next 10 years.

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## GAO's High-Risk List

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- Focuses on areas most in need of reform or most vulnerable to fraud, waste, abuse, and mismanagement
- 30 areas currently on the list
- Helps focus attention of agencies and Congress
- Began in the 1990s. Issued with each new Congress, most recent in February, 2013.

For the full list of areas on the High-Risk List see [www.gao.gov/highrisk](http://www.gao.gov/highrisk)

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## Examples from GAO's High-Risk List

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- Limiting the Federal Government's Fiscal Exposure by Better Managing Climate Change Risks (added in 2013)
- National Flood Insurance Program (2006)
- Improving and Modernizing Federal Disability Programs (2003)
- Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability (2009)
- Pension Benefit Guaranty Corporation Insurance Programs (2003)
- Modernizing the U.S. Financial Regulatory System and Federal Role in Housing Finance (2009)

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# Limiting the Federal Government's Fiscal Exposure by Better Managing Climate Change Risks

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- GAO's work on climate change funding found no coherent strategic government-wide approach to climate change.
- Climate change creates significant financial risks for the federal government in 4 areas:
  1. Owner of Property (e.g., defense facilities)
  2. Insurer (e.g., National Flood Insurance Program)
  3. Provider of Technical Assistance to state and local officials
  4. Provider of Disaster Aid
- Federal government would be better positioned to respond to risks posed by climate change if federal efforts were more coordinated and directed toward common goals.

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# Limiting the Federal Government's Fiscal Exposure by Better Managing Climate Change Risks

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Government wide strategic approach is necessary.

- Strong leadership for more focus and coordination at the federal level to set priorities.
- Develop and incorporate climate information into flood and crop insurance.
  - Develop the information needed to consider sea level rise and long-term erosion when updating flood maps.
- Provide technical assistance to state and local governments.
  - Translate best available climate-related data for making state and local decisions.
- Disaster aid decision making.
  - Improve criteria to assess jurisdiction's capacity for response.
  - Failure to track or report on all disaster spending and to budget adequately for disasters hinders analysis.
  - Better apply lessons from past experience when developing disaster cost estimates so decision makers have a comprehensive view of overall funding claims and trade-offs.

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# National Flood Insurance Program

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- Placed on High Risk List due to losses from the 2005 Hurricanes and the financial exposure the program creates for the federal government.
- Currently over \$20 billion in debt to the Treasury, including funds borrowed to pay claims from Superstorm Sandy.
- Financial condition highlights weaknesses in how the program has been structured, primarily inadequate premium rates.
- FEMA has begun to implement the 2012 Biggert-Waters Act, which will help improve financial stability, and also taken steps to address management weaknesses in several areas, including acquisition management and contractor oversight.

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# National Flood Insurance Program

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## What Remains to Be Done

- Fully implement the Biggert-Waters Flood Insurance Reform Act of 2012 requirements:
  - Develop a rate-making methodology that is based on accepted actuarial principles.
  - Phase out subsidized and grandfathered premium rates
  - Establish a catastrophic loss fund and develop a plan for repaying the current debt to Treasury
- Continue to address management and operational weaknesses identified by GAO including:
  - strategic and human capital planning, acquisition management, policy and claims management systems, financial management, collaboration, and records management.

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# Improving and Modernizing Federal Disability Programs

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## Remain in need of modernization:

- Numerous federal policies and programs—including 45 providing employment support for people with disabilities—lack a unified strategy or set of national goals.
- Three largest disability benefit programs (at SSA and VA) rely on out-of-date criteria in making disability benefit decisions.
- These benefit programs face growing claim workloads

## Key agencies have taken important steps:

- Domestic Policy Council: reviewing ways to improve coordination and alignment of priorities and strategies among disability programs, with some limited progress to date.
- SSA and VA: updating eligibility criteria to reflect more current medical and labor market information.
- SSA and VA: increased the number of disability claims processed at initial levels of decision-making.



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# Improving and Modernizing Federal Disability Programs

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## What Remains to Be Done

- OMB: maintain and expand role in improving coordination across programs, including development of measurable government-wide goals to improve outcomes.
- SSA and VA: more strategically manage efforts to update disability criteria, and address GAO-identified deficiencies in their planning and research efforts.
- SSA: sustain management attention on backlog reduction efforts
- VA: develop a robust backlog reduction plan.

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# Restructuring the U.S. Postal Service (USPS) to Achieve Sustainable Financial Viability

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- USPS's financial situation is deteriorating
  - Insufficient revenues to cover expenses and financial obligations.
    - Financial liabilities totaling \$96 billion at the end of fiscal year 2012
    - Failure to make \$11 billion in mandated payments to prefund retiree health benefits
    - Has reached its \$15 billion borrowing limit
    - Declining mail volume—particularly first-class mail
  - Faces a critical shortage of liquidity
- Congress needs to approve a comprehensive package of actions to improve the USPS's financial viability

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# Restructuring the U.S. Postal Service (USPS) to Achieve Sustainable Financial Viability

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- GAO has analyzed consequences and made recommendations on key USPS benefit liabilities
  - Allocation between USPS and rest of federal government of responsibility for pension benefits
  - Wisdom of refunding pension surplus
  - Reasonability of prefunding retiree health benefits
    - Support switching to actuarial approach
    - Support prefunding, with 100% funding target
  - Support appropriate assumption changes for both pension and retiree health care benefits

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# Pension Benefit Guaranty Corporation Insurance Programs

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GAO designated PBGC's programs high risk because:

- Governance and funding structure pose long-term challenges.
- Net accumulated financial deficit = \$34 billion (end of FY 2012).
- Financial risk for potential terminations = \$295 billion (estimate).

Recent GAO reports have addressed risk-based premium options, and the threat of insolvency of the multiemployer trust fund.

July 2012 legislation<sup>1</sup> included provisions to increase premium rates, and improve PBGC governance.

PBGC steps to address areas of weakness identified by GAO include:

- adopting a new investment policy statement,
- implementing new practices to strengthen contract management, and
- modeling more risk-based premium options.

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<sup>1</sup>The Moving Ahead for Progress in the 21st Century Act (Pub. L. No. 112-141), referred to as "MAP-21."

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# Pension Benefit Guaranty Corporation Insurance Programs

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Financial future continues to be uncertain due to:

- ongoing threat of losses from the termination of underfunded plans
- steady decline in the sources of revenue to finance future claims.

To improve the stability of PBGC's insurance programs, further congressional action that might be considered includes:

- Expand and diversify PBGC's Board of Directors;
- Redesign PBGC's premium structure (one option is risk-based premiums); and
- Develop a strategy for PBGC's long-term financial solvency.

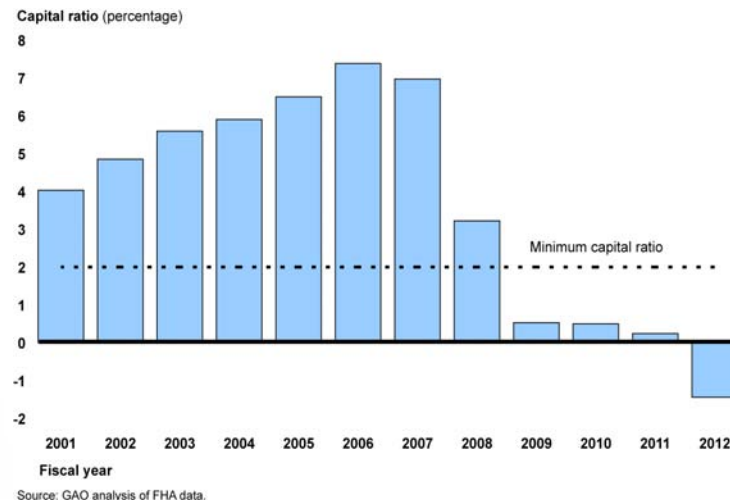
Successful implementation of these proposed actions will require actuarial expertise integrated throughout the process.

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# Modernizing the U.S. Financial Regulatory System and Federal Role in Housing Finance

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- Fannie Mae, Freddie Mac, and the Federal Housing Administration (FHA) face interconnected and unresolved challenges about their future roles.
- FHA's primary insurance fund is not meeting its 2% capital ratio requirement and may require funding from Treasury.



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# Modernizing the U.S. Financial Regulatory System and Federal Role in Housing Finance

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- FHA has enhanced its actuarial models in response to recommendations by GAO and others.
- A minimum capital ratio is not necessarily the most appropriate benchmark for actuarial soundness for all circumstances.
- GAO previously recommended that Congress or FHA specify the economic conditions that FHA's insurance fund would be expected to withstand without drawing on Treasury.
- Implementing this recommendation would help to address FHA's long-term financial viability and clarify FHA's future role.

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## Selected Additional GAO Work

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- Pension – new work in progress
  - Pension discount rate controversy
  - Impact of pension de-risking (annuity buy-outs and lump sums)
- Financial literacy
- Consolidated financial statements of the U.S. government
- Health Care
  - Implementing PPACA insurance reforms, including federal and state readiness for exchanges
  - Actuarial soundness of Medicaid managed care rates



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## **GAO on the Web**

Web site: <http://www.gao.gov/>

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