

THE FUTURE SUSTAINABILITY *of Social Insurance Programs*



28th General Assembly of the
International Social Security Association

Beijing China

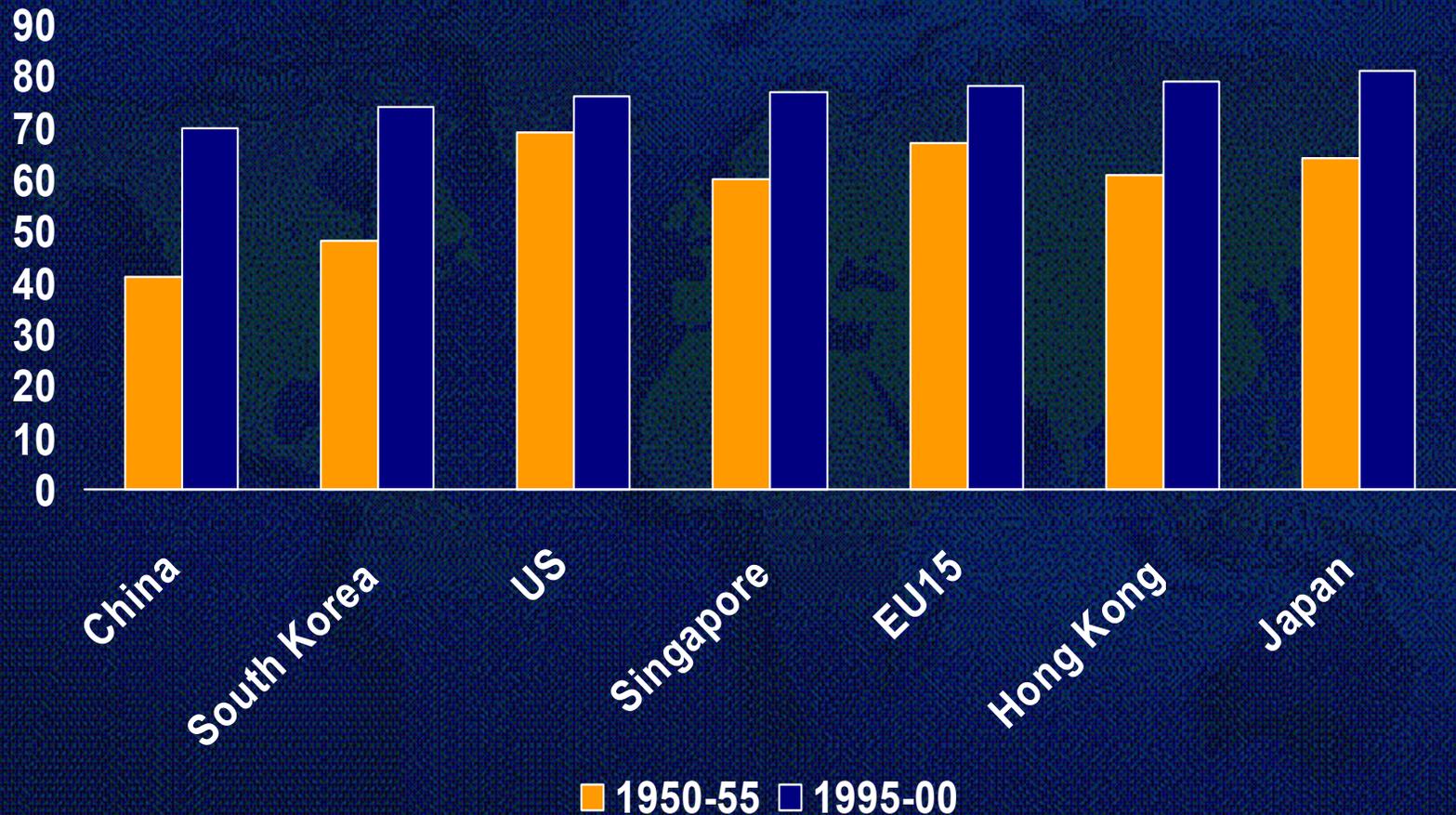
The Honorable David M. Walker
Comptroller General of the United States

September 17, 2004

The Case for Change

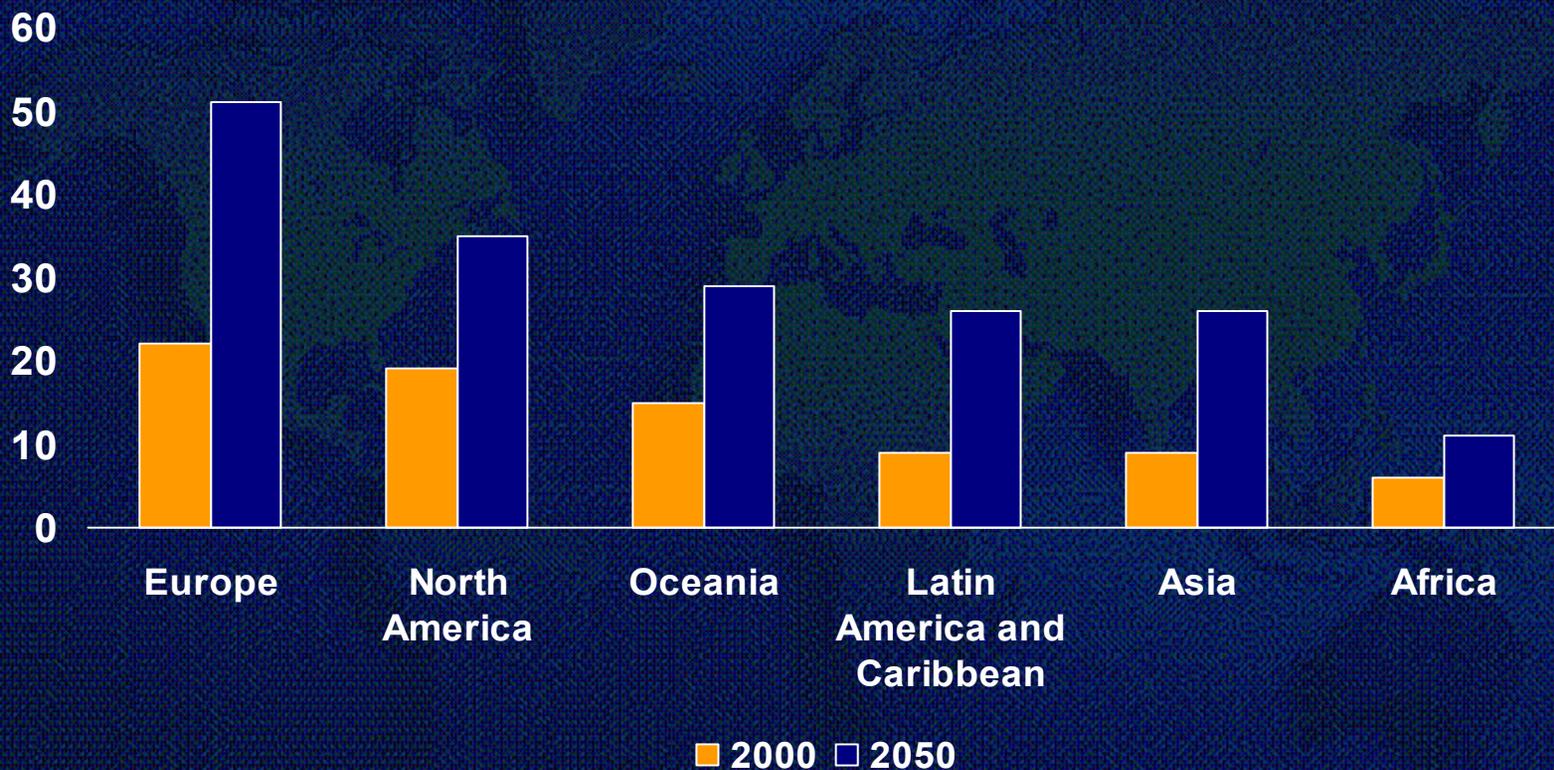
- **Government is on a “burning platform,” and the status quo way of doing business is unacceptable for a variety of reasons, including:**
 - Zero tolerance for corruption
 - Desire for enhanced results and improved responsiveness
 - Selected trends and challenges that have no boundaries
 - Long-Term Fiscal Imbalances
 - Security Concerns
 - Global Interdependence
 - Changing Economy
 - Demographics
 - Science and Technology
 - Quality of Life
 - Governance

Life Expectancy at Birth Has Risen Around the World



The Elderly Dependency Ratio is Projected to Increase Rapidly in Many Parts of the World

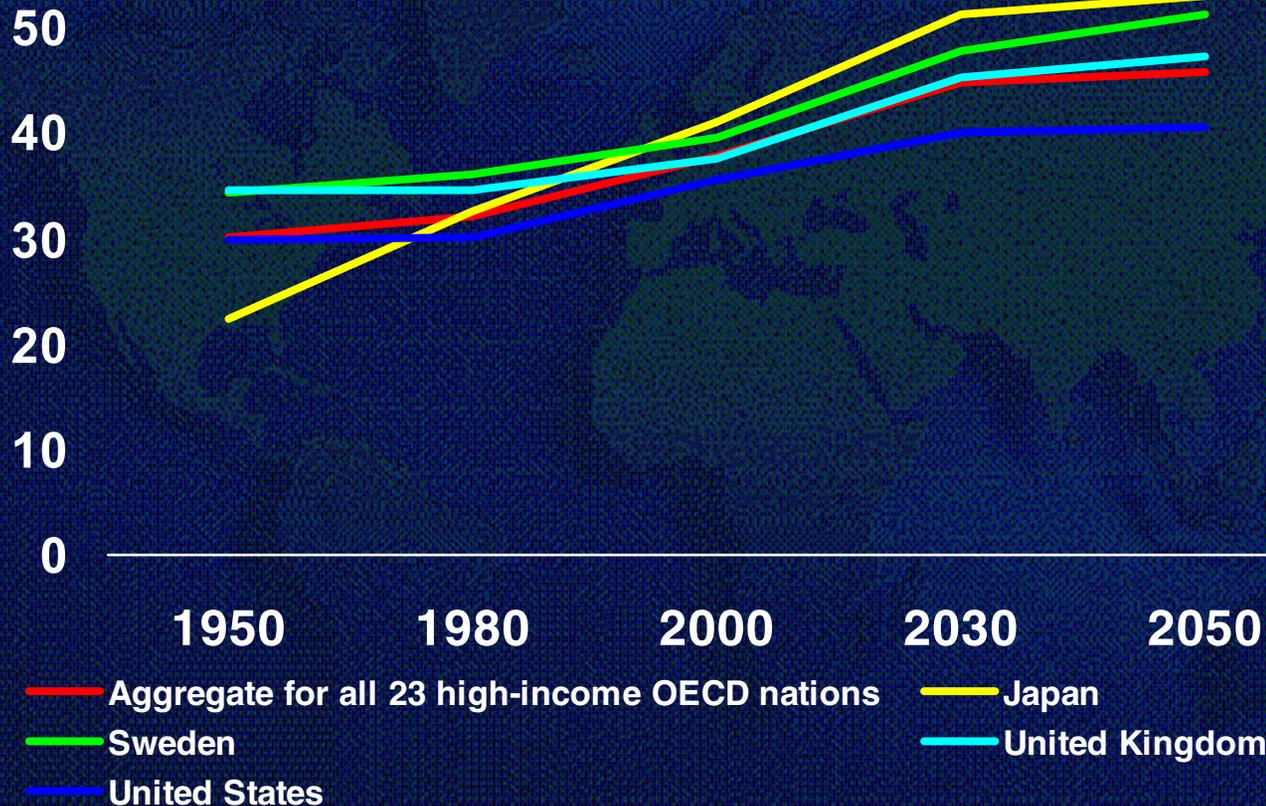
Elderly Dependency Ratio (in percent)



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, *World Population Ageing 1950-2050*

Many Other Industrialized Nations Aging More Rapidly Than the United States

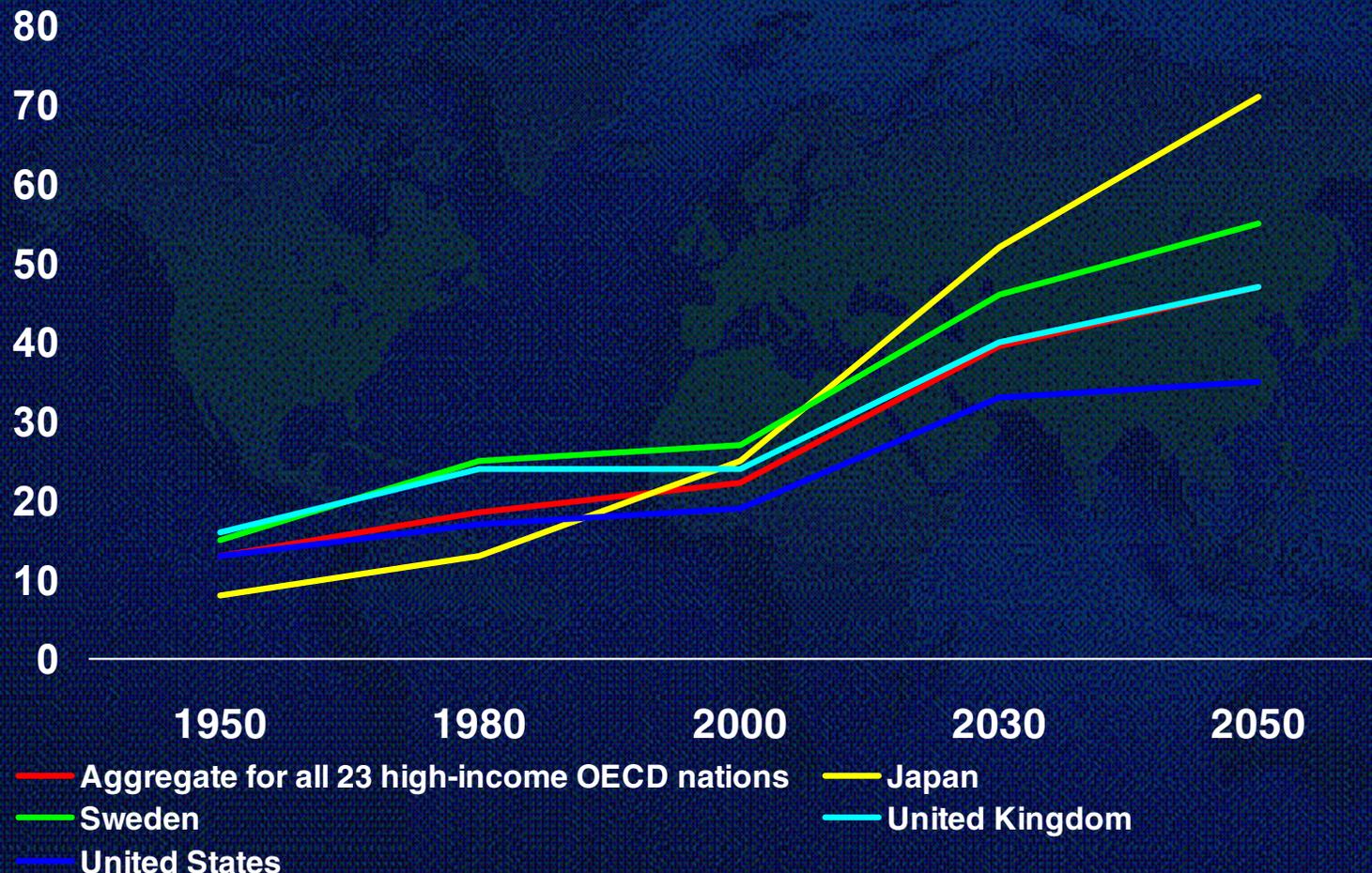
60 Median Age



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: 2000 Revision and World Urbanization Prospects: 2001 Revision. Data for 2030 - 2050 are projected.

Elderly Dependency Ratio Expected to Increase Faster in Most Other Industrialized Nations

Elderly Dependency Ratio (in percent)



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: 2000 Revision and World Urbanization Prospects: 2001 Revision. Data for 2030 - 2050 are projected.

U.S. and China Benchmarks

	United States 2000	China 2000	United States 2050*	China 2050*
Total Population (thousands)	285,003	1,275,215	408,695	1,395,182
Population 65 and Over (thousands)	34,999	87,295	81,665	319,262
Percent of Population 65 and Over	12.3	6.8	20.0	22.9
Elderly Dependency Ratio (per 100 workers)	19	10	32	37

Source: World Population Prospects: The 2002 Revision, Population Database (United Nations Population Division; 2003).

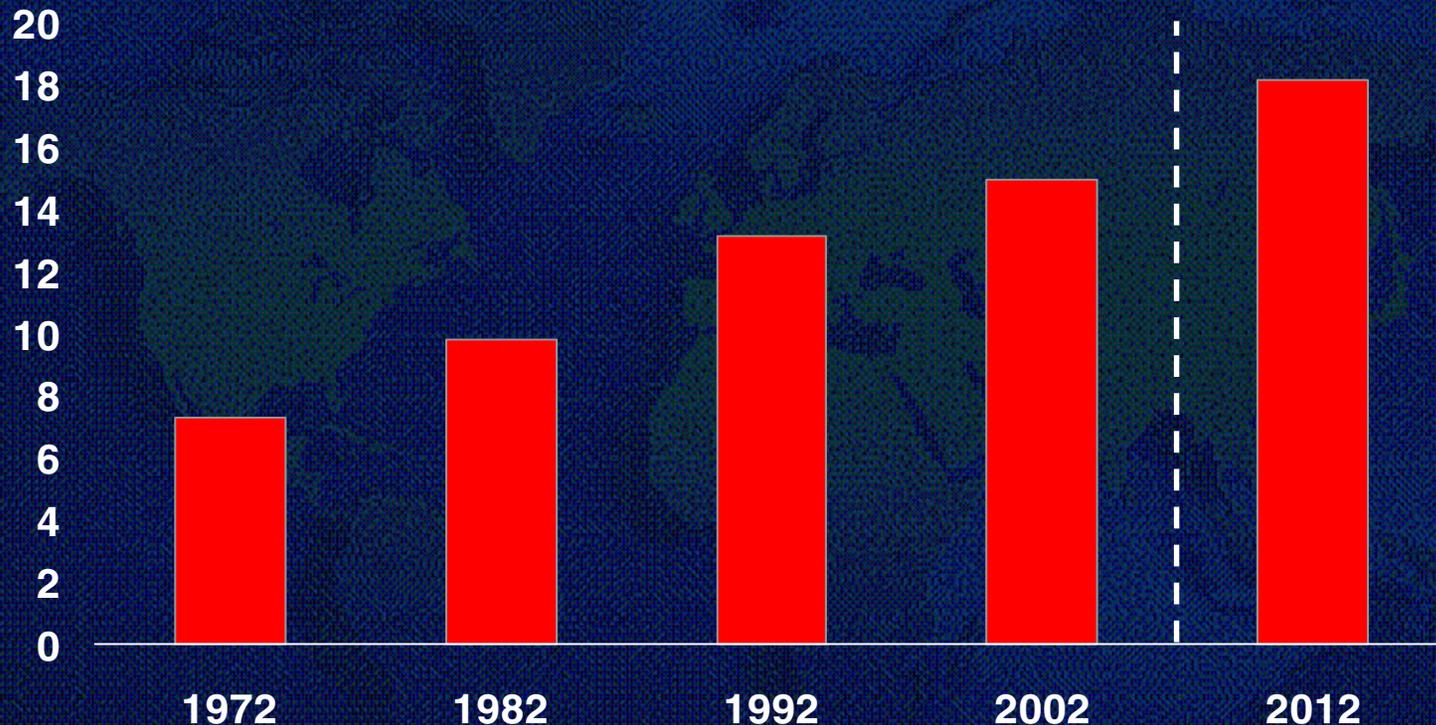
*Projected.

Implications of Demographic Challenges

- Fiscal challenges
- Potential adverse effects on real economic growth and overall living standards

Health Expenditures Will Continue to Absorb an Increasing Share of GDP

National health expenditures as a percentage of GDP



Source: CMS, OACT, National Health Statistics Group and U.S. Department of Commerce, Bureau of Economic Analysis.

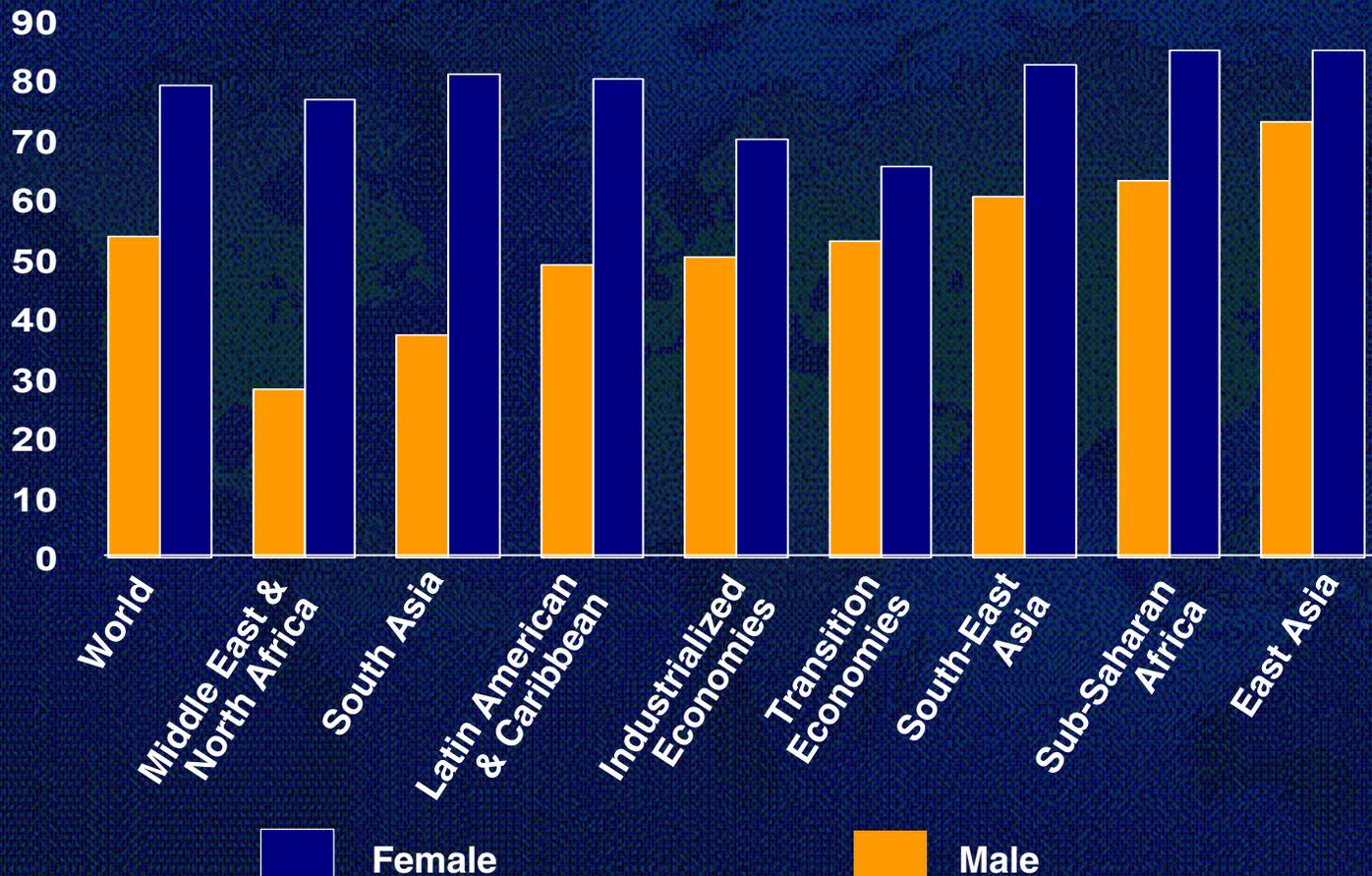
Note: The figure for 2012 is projected. These projections do not include the impacts of the MMA.

Policy Levers

- Social insurance reform
- Health care reform
- Labor policy reform
- Tax policy reform
- Immigration reform
- Pension policy reform
- Public education efforts

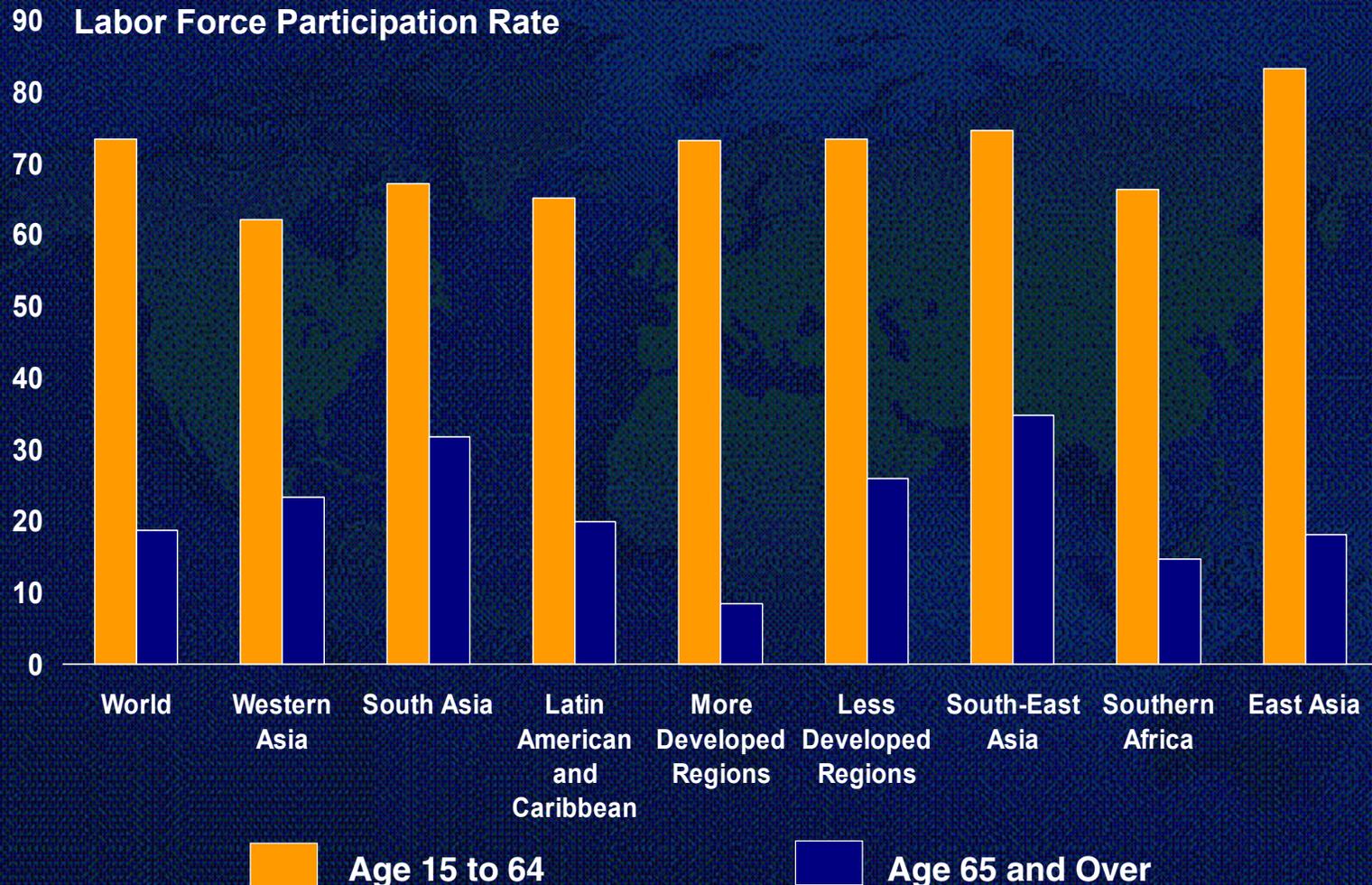
Options for Change: Increasing Female Labor Force Participation

Labor Force Participation Rate



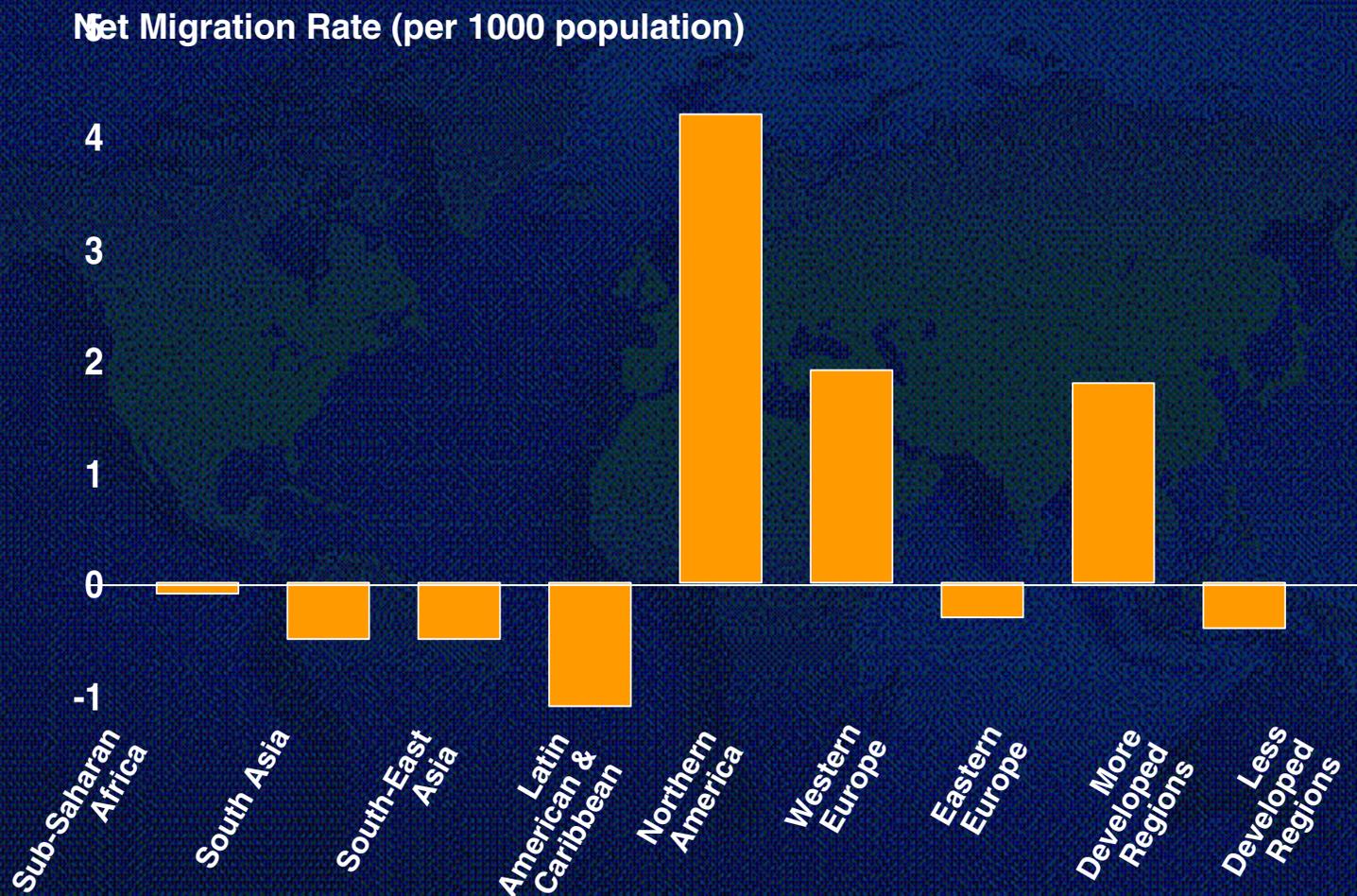
Source: Global Employment Trends for Women 2004, International Labour Office

Options for Change: Increasing Labor Force Participation at Older Ages



Source: GAO analysis based on data from the International Labour Organization, LABORSTA database

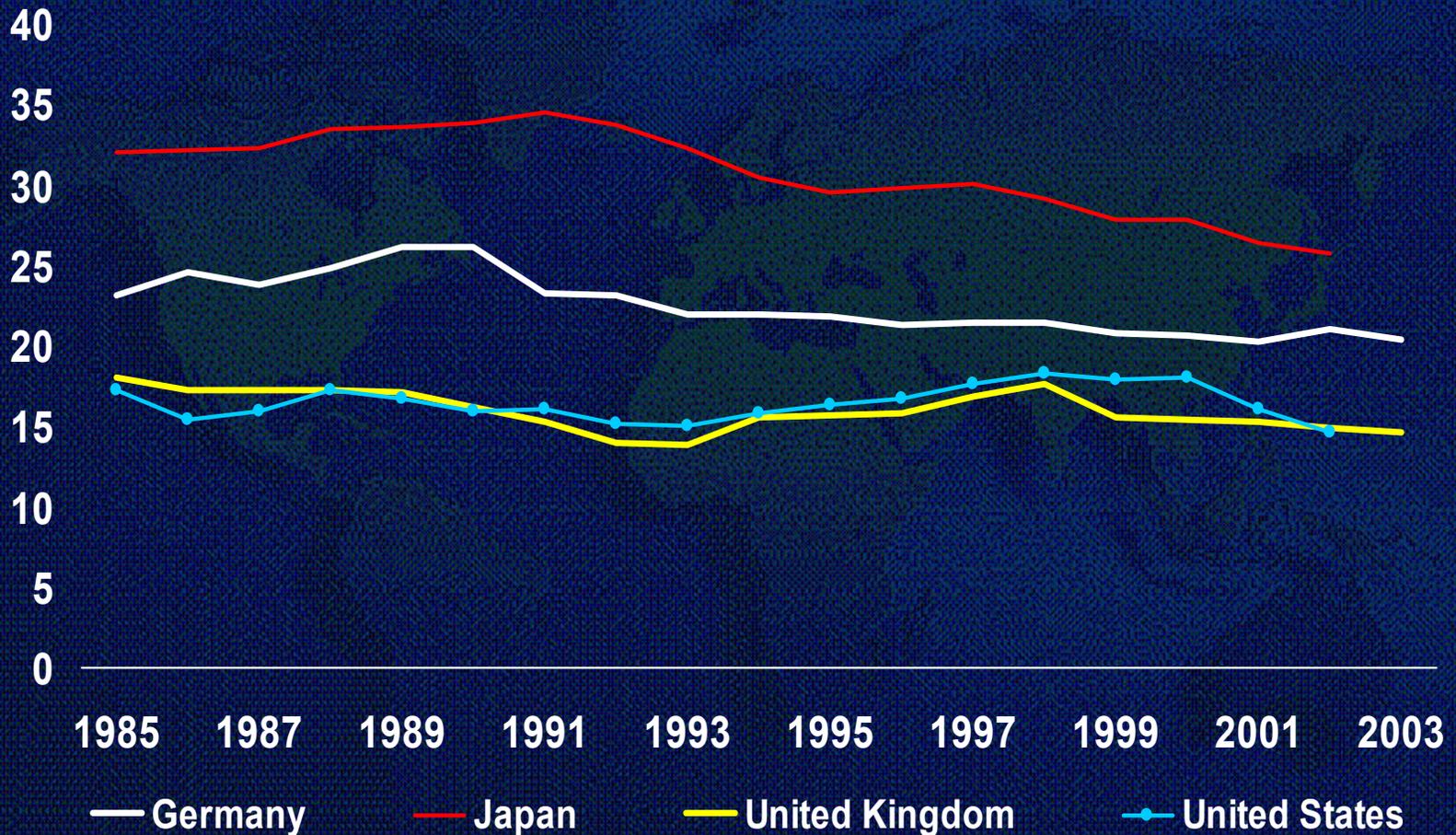
Options for Change: Increasing Immigration



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2002 Revision and World Urbanization Prospects: The 2001 Revision. Data projected for 2000 - 2005.

Options for Change: Increasing Private Saving

Gross National Saving (Percent of GDP)



Source: OECD June 2004 Economic Outlook.

GAO's Role: Addressing Current and Emerging Challenges

- GAO's Strategic Plan
- Selected Fiscal Exposures and Trends
- 21st Century Questions

GAO's Strategic Plan

SERVING THE CONGRESS AND THE NATION GAO'S STRATEGIC PLAN FRAMEWORK

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.

THEMES



Long-Term Fiscal Imbalance

National Security

Global Interdependence

Changing Economy

Demographics

Science and Technology

Quality of Life

Governance

GOALS & OBJECTIVES



Provide Timely, Quality Service to the Congress and the Federal Government to ...

Address Current and Emerging Challenges to the Well-Being and Financial Security of the American People *related to ...*

- Health care needs and financing
- Education and protection of children
- Work opportunities and worker protection
- Retirement income security
- Effective system of justice
- Viable communities
- Natural resources use and environmental protection
- Physical infrastructure

Respond to Changing Security Threats and the Challenges of Global Interdependence *involving ...*

- Emerging threats
- Military capabilities and readiness
- Advancement of U.S. interests
- Global market forces

Help Transform the Federal Government's Role and How It Does Business to Meet 21st Century Challenges *by assessing ...*

- Roles in achieving federal objectives
- Government transformation
- Key management challenges and program risks
- Fiscal position and financing of the government

Maximize the Value of GAO by Being a Model Federal Agency and a World-Class Professional Services Organization *in the areas of ...*

- Client and customer satisfaction
- Strategic leadership
- Institutional knowledge and experience
- Process improvement
- Employer of choice

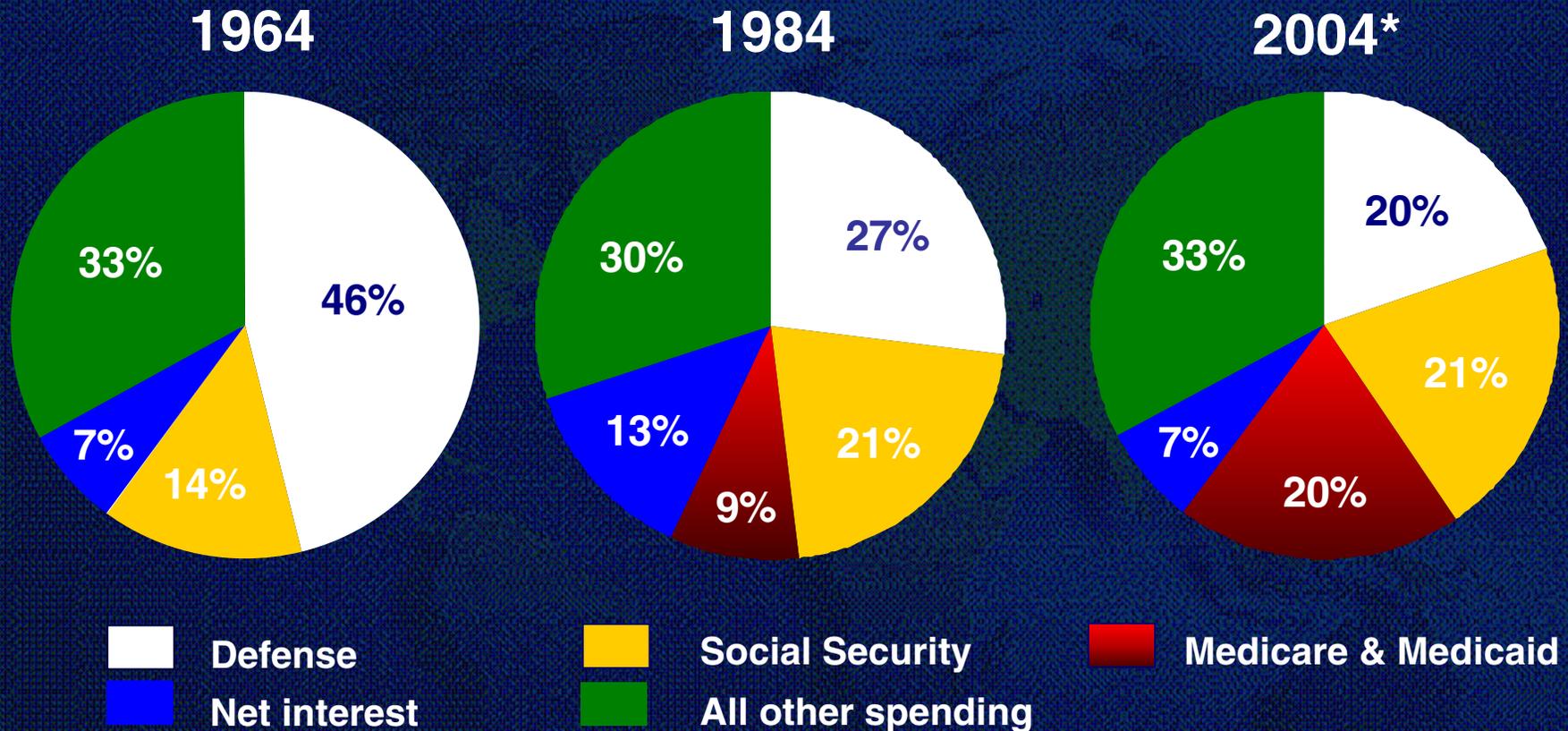
CORE VALUES

Accountability

Integrity

Reliability

Composition of Federal Spending



*Current services estimate.

Note: Numbers may not add to 100 percent due to rounding.

Source: *Budget of the United States Government, Fiscal Year 2005* (February 2004) and *Budget of the United States Government, Fiscal Year 2005, Mid-session Review* (July 2004), Office of Management and Budget.

Selected Fiscal Exposures: Sources and Examples

(End of 2003)^a

Type	Example (dollars in billions)
Explicit Liabilities	Publicly held debt (\$3,913) Military and civilian pension and post-retirement health (\$2,857) Veterans benefits payable (\$955) Environmental and disposal liabilities (\$250) Loan guarantees (\$35)
Explicit Financial commitments	Undelivered orders (\$596) Long-term leases (\$47)
Financial contingencies	Unadjudicated claims (\$9) Pension Benefit Guaranty Corporation (\$86) Other national insurance programs (\$7) Government corporations e.g., Ginnie Mae
Exposures implied by current policies or the public's expectations about the role of government	Debt held by government accounts (\$2,859) ^b Future Social Security benefit payments (\$3,699) ^c Future Medicare Part A benefit payments (\$8,236) ^c Future Medicare Part B benefit payments (\$11,416) ^c Future Medicare Part D benefit payments (\$8,119) ^c Life cycle cost including deferred and future maintenance and operating costs (amount unknown) Government Sponsored Enterprises e.g., Fannie Mae and Freddie Mac

^a All figures are for end of fiscal year 2003, except Social Security and Medicare estimates, which are end of calendar year 2003.

^b This amount includes \$774 billion held by military and civilian pension funds that would offset the explicit liabilities reported by those funds.

^c Figures for Social Security and Medicare are net of debt held by the trust funds (\$1,531 billion for Social Security, \$256 billion for Medicare Part A, and \$24 billion for Medicare Part B) and represent net present value estimates over a 75-year period. Over an infinite horizon, the estimate for Social Security would be \$10.4 trillion, \$21.8 trillion for Medicare Part A, \$23.2 trillion for Medicare Part B, and \$16.5 trillion for Medicare Part D.

Source: GAO analysis of data from the Department of the Treasury, the Office of the Chief Actuary, Social Security Administration, and the Office of the Actuary, Centers for Medicare and Medicaid Services.

Updated 3/30/04.

Composition of Spending as a Share of GDP

Assuming Discretionary Spending Grows With the Economy After 2014 and All Expiring Tax Provisions are Not Extended

50 Percent of GDP

40

30

20

10

0

Revenue

2003

2015

2030

2040

Fiscal year



Net Interest



Social Security



Medicare & Medicaid



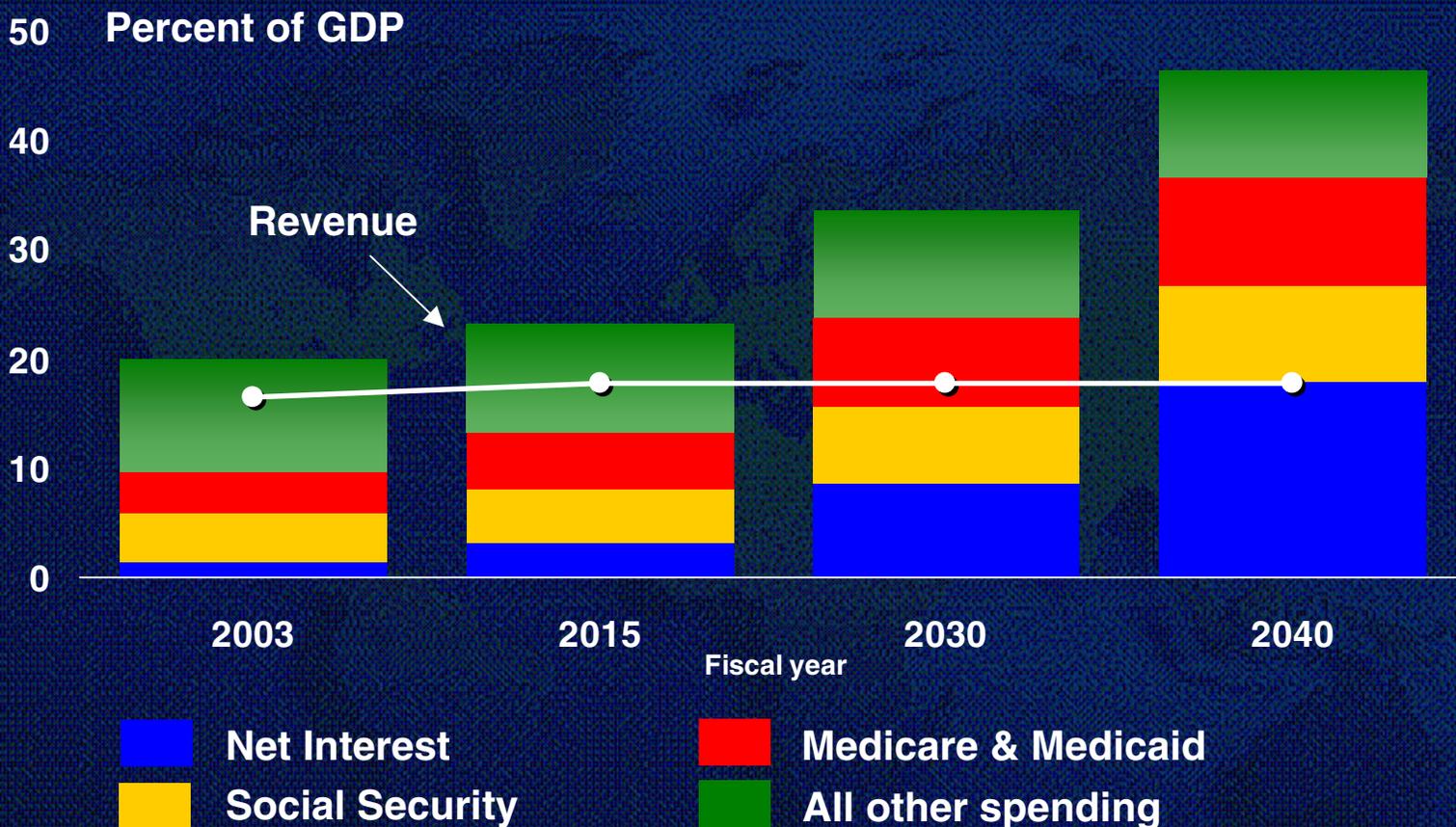
All other spending

Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2014 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2014, revenue as a share of GDP is held constant.

Source: GAO's March 2004 analysis.

Composition of Spending as a Share of GDP

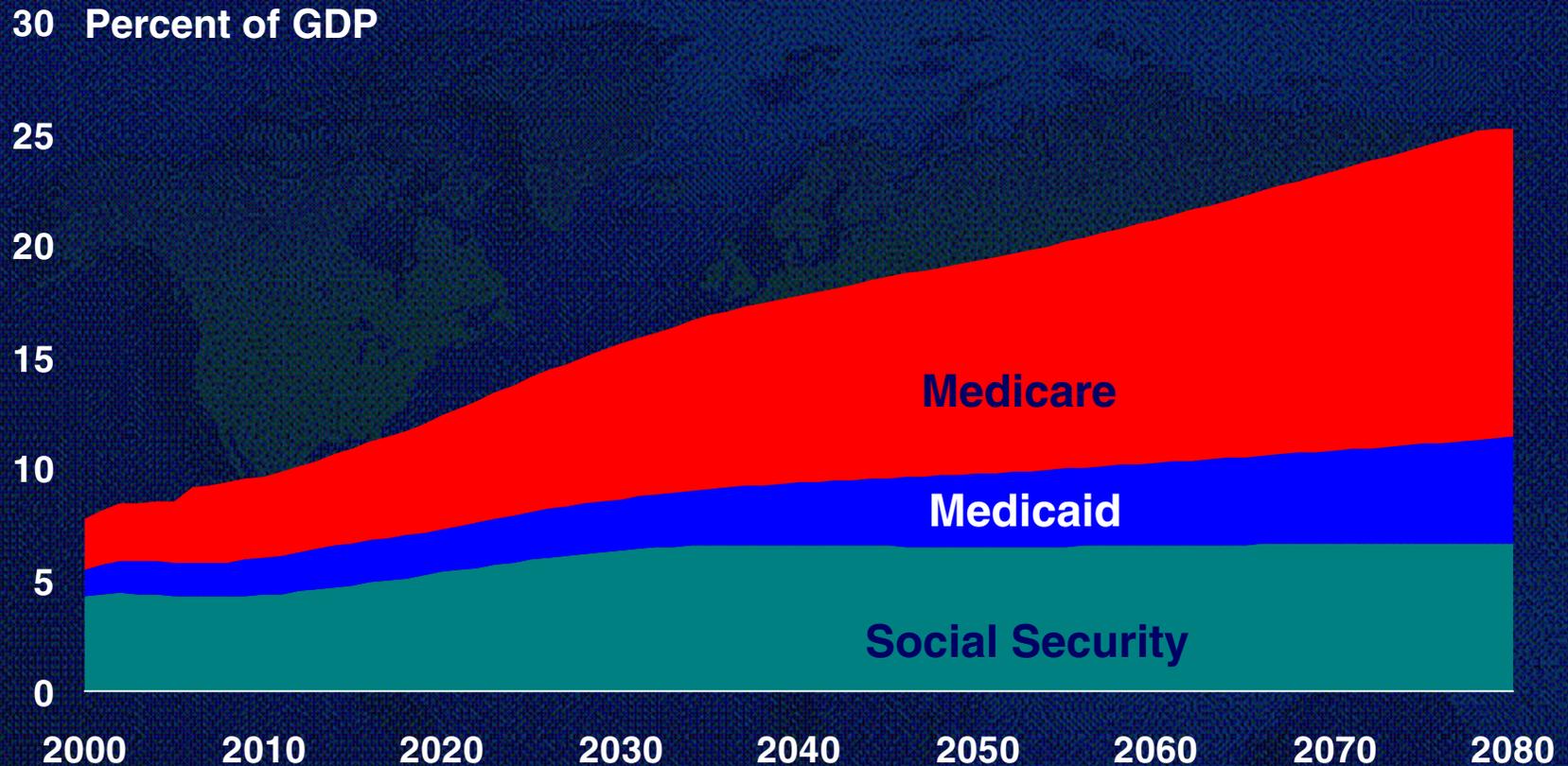
Assuming Discretionary Spending Grows With GDP After 2004 and All Expiring Tax Provisions Are Extended



Notes: Although expiring tax provisions are extended, revenue as a share of GDP increases through 2014 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2014, revenue as a share of GDP is held constant.

Source: GAO's March 2004 analysis.

Social Security and Health Spending as a Percent of GDP



Note: Social Security and Medicare projections based on the intermediate assumptions of the 2004 Trustees' Reports. Medicaid projections based on CBO's January 2004 short-term Medicaid estimates and CBO's December 2003 long-term Medicaid projections under mid-range assumptions.

Source: GAO analysis based on data from the Office of the Chief Actuary, Social Security Administration, Office of the Actuary, Centers for Medicare and Medicaid Services, and the Congressional Budget Office.

Current Fiscal Policy Is Unsustainable

- **The “Status Quo” is Not an Option**
 - We face large and growing structural deficits largely due to known demographic trends and rising health care costs.
 - GAO’s simulations show that balancing the budget in 2040 could require actions as large as
 - Cutting total federal spending by about 60 percent or
 - Raising taxes to about 2.5 times today's level
- **Faster Economic Growth Can Help, but It Cannot Solve the Problem**
 - Closing the current long-term fiscal gap based on responsible assumptions would require real average annual economic growth in the double digit range every year for the next 75 years.
 - During the 1990s, the economy grew at an average 3.2 percent per year.
 - As a result, we cannot simply grow our way out of this problem. Tough choices will be required.
- **The Sooner We Get Started, the Better**
 - Less change would be needed, and there would be more time to make adjustments.
 - The miracle of compounding would work with us rather than against us.
 - Our demographic changes will serve to make reform more difficult over time.

We Need a 3-Pronged Approach

- Restructure existing entitlement programs
- Reexamine the base of discretionary and other spending
- Review and revise our tax policy and enforcement programs

21st Century Questions

- How should Social Security be reformed to make it both solvent and sustainable while better aligning it with 21st Century economic, demographic and fiscal realities?
- Should the current criteria and process for determining disability be revised in light of substantial changes in health care and real enhancements in work prospects for many who are disabled?
- What changes should be made to existing pension laws in order to enhance the retirement income security of workers and help assure the financial integrity of the Pension Benefit Guaranty Corporation?
- How should federal programs and policies be revised to encourage people to work longer and to facilitate phased retirement approaches?

21st Century Questions

- How should our overall health care system be reformed to make it more successful and sustainable over time (e.g., focusing on certain defined needs versus unlimited wants; addressing the division of responsibilities between levels of government, employers, and individuals; and facilitating individual choice, cost control and quality improvement)?
- Which tax incentives and preferences need to be reconsidered given their costs and effects, failure to achieve goals intended by Congress, or their unintended consequences? For example, can adequate health care coverage be achieved at less cost and greater distributional equity through a fundamental redesign of the current health tax preferences, or through their elimination and the use of other means to provide for coverage?

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