LONG-TERM FISCAL OUTLOOK

Long-Term Federal Fiscal Challenge Driven Primarily by Health Care

What GAO Found

Long-term fiscal simulations by GAO, the Congressional Budget Office (CBO), and others all show that despite a decline in the federal government’s unified budget deficit between fiscal years 2003 and 2007, it still faces large and growing structural deficits driven primarily by rising health care costs and known demographic trends. Simply put, the federal government is on an unsustainable long-term fiscal path. Although Social Security is important because of its size, over the long term health care spending is the principal driver—Medicare and Medicaid are both large and projected to continue growing rapidly in the future.

Rapidly rising health care costs are not simply a federal budget problem. Growth in health-related spending is the primary driver of the fiscal challenges facing state and local governments as well. Unsustainable growth in health care spending also threatens to erode the ability of employers to provide coverage to their workers and undercuts their ability to compete in a global marketplace. Public and private health care spending continues to rise because of several key factors: (1) increased utilization of new and existing medical technology; (2) lack of reliable comparative information on medical outcomes, quality of care, and cost; and (3) increased prevalence of risk factors such as obesity that can lead to expensive chronic conditions.

Addressing health care costs and demographics—and their interaction—will be a major societal challenge. The longer action on reforming health care and Social Security is delayed, the more painful and difficult the choices will become. The federal government faces increasing pressures yet a shrinking window of opportunity for phasing in needed adjustments. In fact, the oldest members of the baby-boom generation are now eligible for Social Security retirement benefits and will be eligible for Medicare benefits in less than 3 years. Additionally, in addressing this fiscal challenge it will be important to review other programs and activities on both the spending and revenue sides of the budget.