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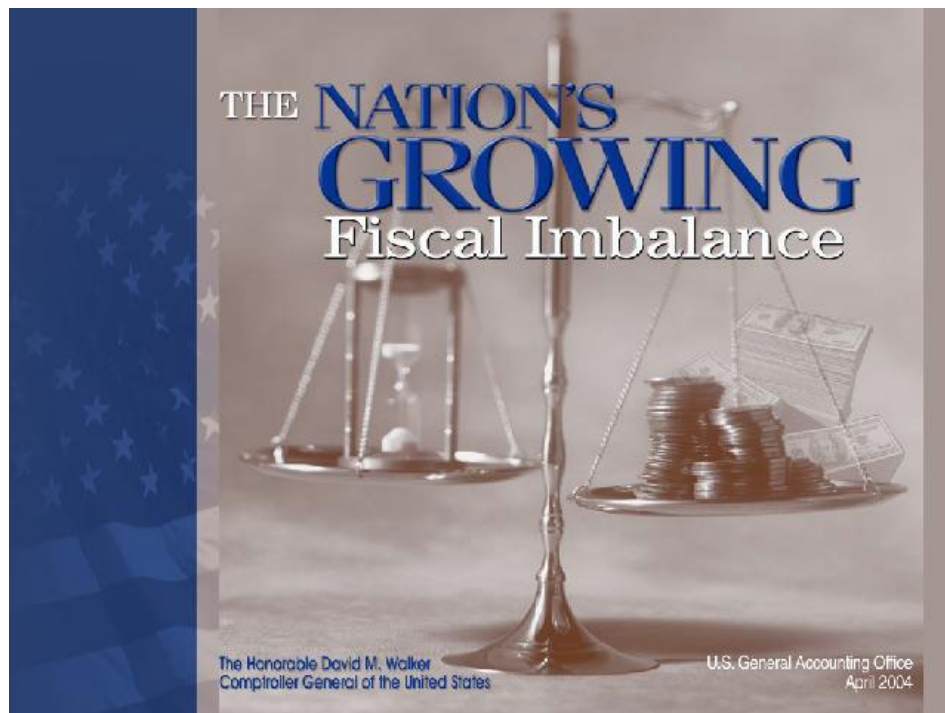
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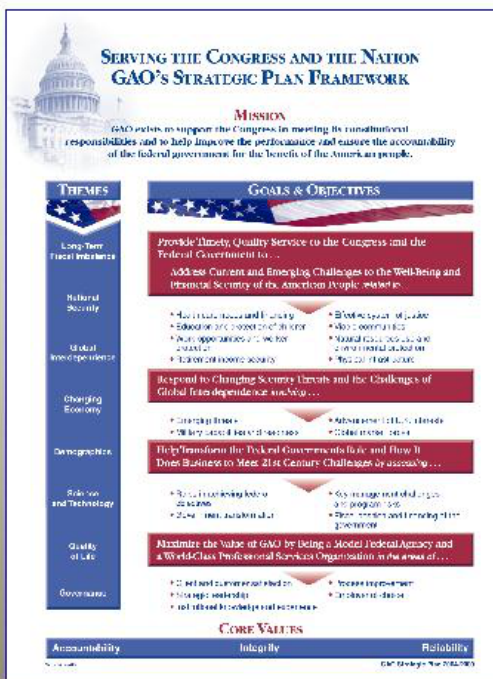




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GAO's Strategic Plan



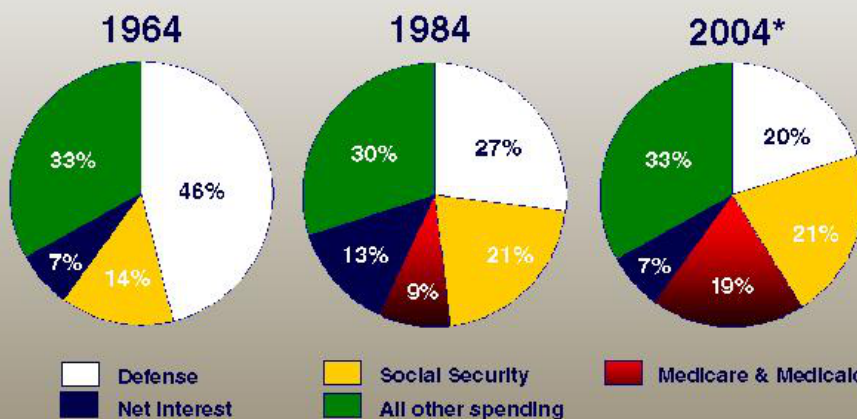
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Composition of Federal Spending



Composition of Federal Spending



*Current services estimate.

Source: Budget of the United States Government, FY2005, Office of Management and Budget.

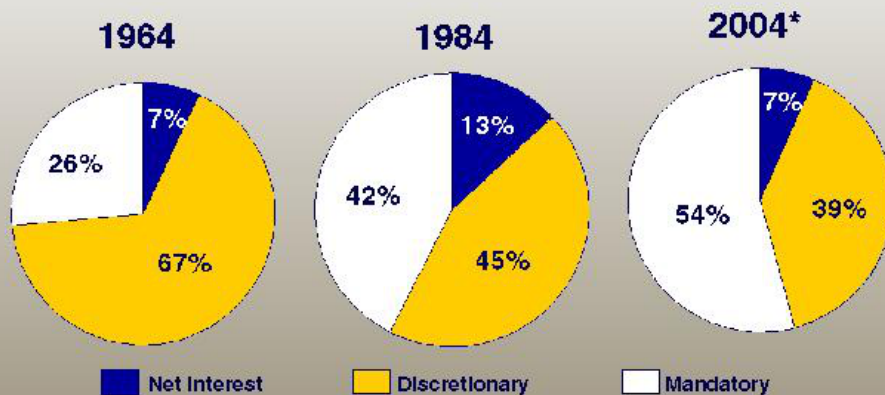
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Federal Spending for Mandatory and Discretionary Programs



Federal Spending for Mandatory and Discretionary Programs



*Current services estimate.

Source: Budget of the United States Government, FY2005, Office of Management and Budget.



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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 (\$956) Environmental and disposal liabilities (\$250) Loan guarantees (\$35)
Explicit financial commitments	Undelivered orders (\$596) Long-term leases (\$47)
Explicit financial contingencies	Unadjudicated claims (\$9) Pension Benefit Guaranty Corporation (\$86) Other national insurance programs (\$7) Government corporations e.g., Ginnie Mae
Implicit 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 \$74 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 (\$1,831 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 billion, \$21.8 billion for Medicare Part A, \$25.2 billion for Medicare Part B, and \$16.5 billion 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 3/3/04.

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Another Way to Think About These Numbers



Another Way to Think About These Numbers

As of the End of FY 03

- Debt held by the public—\$3.9T
- Trust fund debt—\$2.9T
- Gross debt—\$6.8T
- Gross debt per person—about \$24,000
- If we add everything on the previous slide that is not included in gross debt, the burden per person rises to over \$140,000. Alternatively, it amounts to a total unfunded burden of more than \$40 trillion in current dollars, which is about 18 times the current annual federal budget or more than 3 ½ times the current annual GDP.

Note: The calculations only consider a 75-year horizon for Social Security and Medicare.

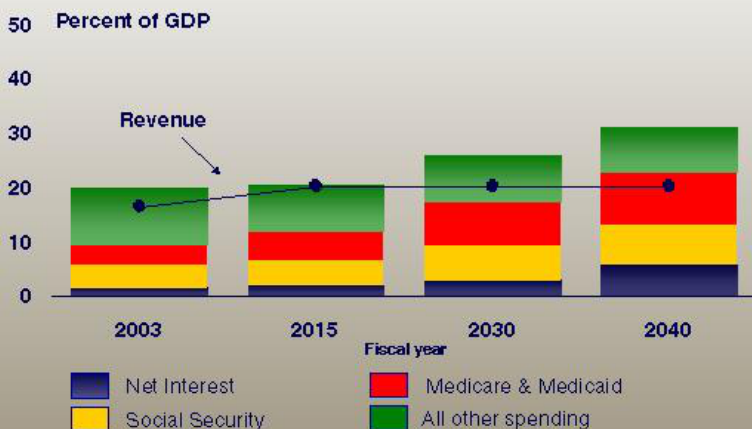
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Composition of Spending as a Share of GDP Under Baseline Extended



Composition of Spending as a Share of GDP Under Baseline Extended



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.

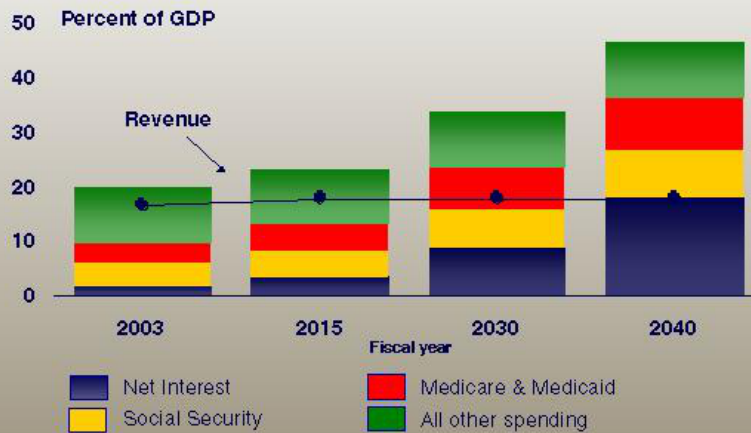
Source: GAO's March 2004 analysis.



Composition of Spending as a Share of GDP Assuming Discretionary Spending Grows with GDP after 2004 and All Expiring Tax Provisions Are Extended



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.



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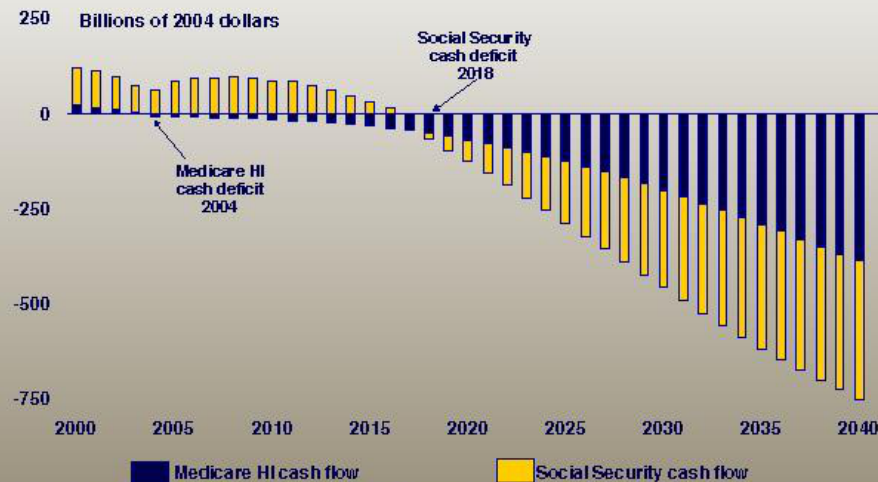
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Composition of Spending as a Share of GDP Assuming Discretionary Spending Grows with GDP after 2004 and All Expiring Tax Provisions Are Extended



Social Security and Medicare's Hospital Insurance Trust Funds Face Cash Deficits



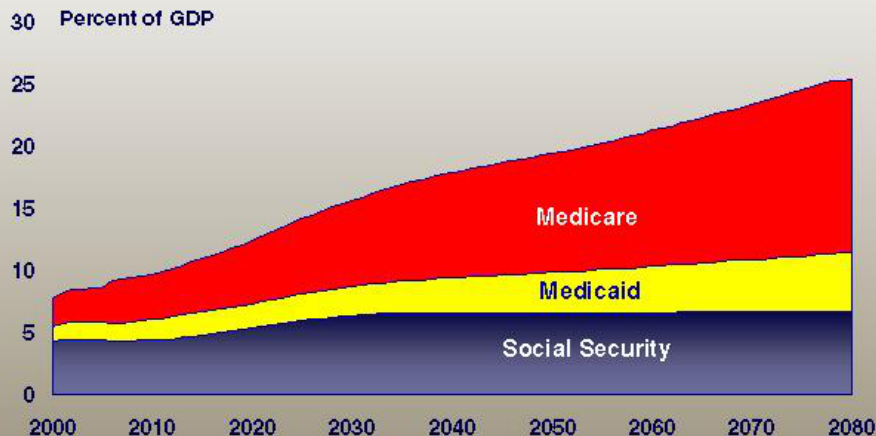
Source: GAO analysis based on the intermediate assumptions of *The 2004 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance Trust Funds* and *The 2004 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*. The above excludes Medicare Part B and the newly enacted Medicare Part D benefit.



Social Security, Medicare, and Medicaid Spending as a Percent of GDP



Social Security, Medicare, and Medicaid 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



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 on 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.

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We Need a 3-Pronged Approach



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

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GAO Criteria for Evaluating Social Security Reform Proposals



GAO Criteria for Evaluating Social Security Reform Proposals

Reform proposals should be evaluated as packages that strike a balance among individual reform elements and important interactive effects.

Comprehensive proposals can be evaluated against three basic criteria:

- Financing sustainable solvency
- Balancing adequacy and equity in the benefits structure
- Implementing and administering reforms

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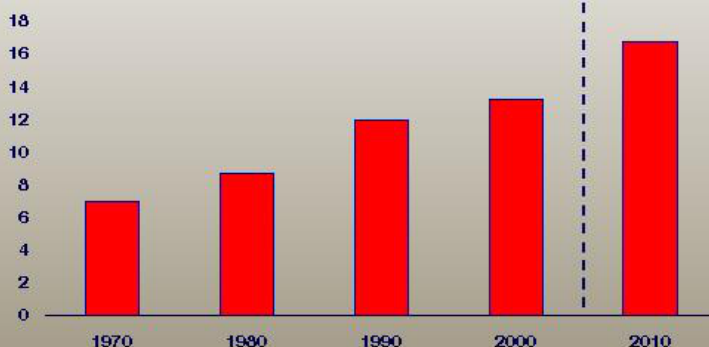


Health Expenditures Will Continue to Absorb an Increasing Share of GDP



Health Expenditures Will Continue to Absorb an Increasing Share of GDP

National health expenditures as a percentage of GDP



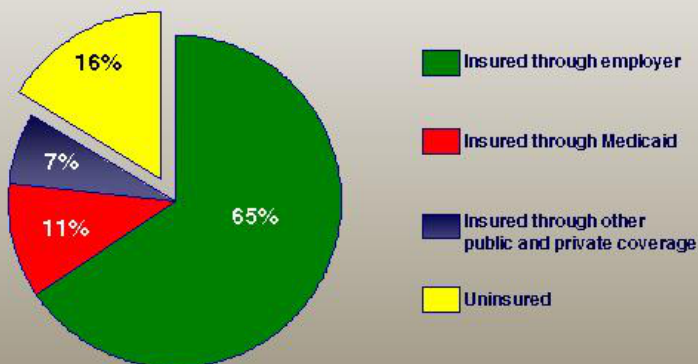
Source: CMS, OACT, National Health Statistics Group and U.S. Department of Commerce, Bureau of Economic Analysis.
Note: The figure for 2010 is projected.



In 2001, 16 Percent of the Nonelderly Population was Uninsured



In 2001, 16 Percent of the Nonelderly Population was Uninsured



Source: GAO analysis of March 2002 Current Population Survey.
Note: Percentages may not add to 100 due to rounding.

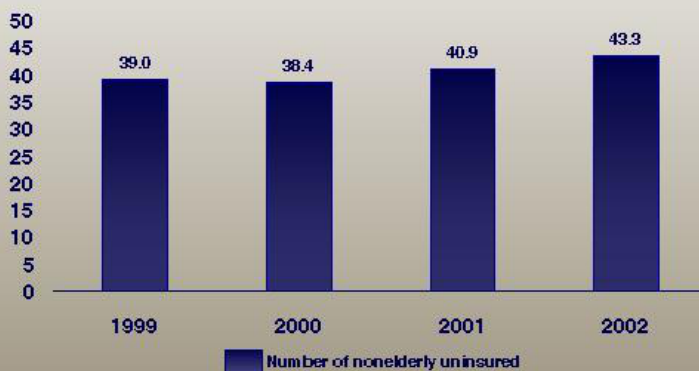


In Recent Years, Roughly 40 million Americans Have Been Uninsured



In Recent Years, Roughly 40 million Americans Have Been Uninsured

Population in millions



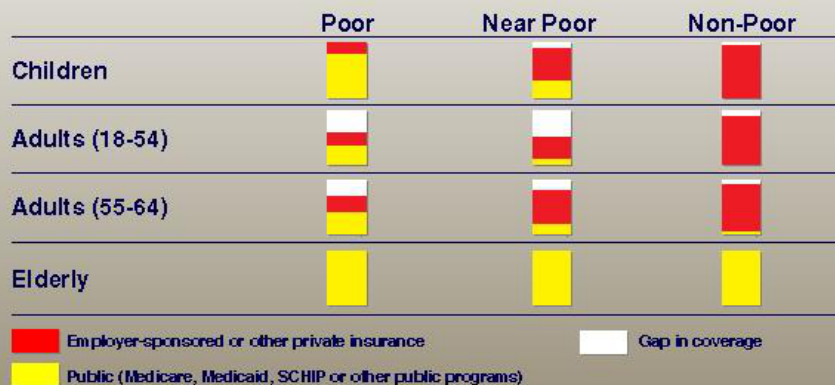
Source: GAO, Urban Institute and Kaiser Commission on Medicaid and the Uninsured, analyses of the Bureau of the Labor Statistics and the Bureau of the Census Current Population Survey, Annual Demographic Supplements and Annual Social and Economic Supplement.
 Note: Figures for 1999-2000 are from Urban Institute and Kaiser Commission on Medicaid and the Uninsured. The figures for 2001-2002 are from GAO analyses of the Current Population Survey.



Simplified View of Access to and Gaps in Health Care Coverage



Simplified View of Access to and Gaps in Health Care Coverage



Source: GAO analysis based on March 2002 Current Population Survey.

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Simplified View of Coverage Gaps by Payer and Benefit Type



Simplified View of Coverage Gaps by Payer and Benefit Type

	Acute care services	Long-term care services	Prescription drug coverage*	Catastrophic coverage
Medicare	●	○	○	○
Medicaid[†]	●	●	●	●
Private insurance	●	○	▨	▨

● Covered by payer
 ○ Not covered by payer
 ▨ Coverage may be substantially limited

* Medicare will introduce a voluntary prescription drug benefit in 2006.
 † While Medicaid coverage includes a broad range of services, access to these services may be limited. For example, some providers may be unwilling to accept Medicaid's fees, which are generally lower than those of other payers.



Need for Framework to Evaluate Health Care System Reforms



Need for Framework to Evaluate Health Care System Reforms

- Cost, access, and quality challenges—together with obstacles to achieving efficiency—argue for both comprehensive and fundamental health care system reform.
- Comprehensive reform may need to be accomplished on an installment basis in order to minimize disruptions and facilitate political consensus.
- A framework can guide an orderly process for setting common goals and assessing proposed reforms.

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Health Care System Elements: Incentives, Transparency, and Accountability



Health Care System Elements: Incentives, Transparency, and Accountability

- **Ideally, health care system reforms will**
 - align incentives for providers and consumers to make prudent choices about health insurance coverages and prudent decisions about the use of medical services,
 - foster transparency with respect to the value and costs of care, and
 - ensure accountability from health plans and providers to meet standards for appropriate use and quality.

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The Way Forward



The Way Forward

- Reexamine the base—question existing programs, policies and activities
- Implement new accounting and reporting approaches and new budget control mechanisms for considering the impact of spending and tax policies and decisions over the long term
- Develop new metrics for measuring the impact of policies and decisions over the long term (e.g., key national indicators to measure our Nation's position and progress over time and in relation to other countries)

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Illustrative Generic Re-examination Questions



Illustrative Generic Re-examination Questions

- Is the program, policy, function or activity a direct result of specific legislation?
- Is the current mission fully consistent with the initial or updated statutory mission (e.g., no significant mission creep or morphing)?
- Does it relate to an issue of nationwide interest? If so, is a federal role warranted based on the likely failure of private markets or state and local governments to address the underlying problem or concern? Does it encourage or discourage these other sectors from investing their own resources to address the problem?
- Have there been significant changes in the country or the world that relate to the reason for initiating it?

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Illustrative Generic Re-examination Questions

- If the answer to the last question is yes, would we enact it the same way if we were starting over today? Has it been subject to a comprehensive review, reassessment and re-prioritization by a qualified and independent entity? If so, when? Have there been significant changes since then? If so, is another review called for?
- How does it measure success? Are the measures reasonable and consistent with the applicable statutory purpose? Are the measures outcome-based, and are all applicable costs being considered? If not, what is being done to do so?
- If there are outcome-based measures, how successful is it based on these measures?
- Is it well targeted to those with the greatest needs and the least capacity to meet those needs?

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Illustrative Generic Re-examination Questions

- Is it affordable and financially sustainable over the longer term, given known cost trends and future fiscal imbalances?
- Is it using the most cost effective approaches when compared to other tools and program designs?
- If it fares well after considering all of these questions, is the responsible entity employing prevailing best practices to discharging its responsibilities and achieving its mission (e.g., strategic planning, organizational alignment, human capital strategy, financial management, technology management, acquisitions/sourcing strategy, change management, knowledge management, client/customer service)?
- What would be the likely consequences of eliminating the program, policy, function or activity? What would be the likely implications if its total funding was cut by 25%?

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Long-term Fiscal Challenges Demand New Metrics, Mechanisms, & Processes



Long-term Fiscal Challenges Demand New Metrics, Mechanisms, & Processes

- Accounting and reporting policies for trust funds, Social Security, Medicare, Veterans benefits, among other things, need to be reviewed and revised.
- The current budget time horizon [2-year, 5-year, 10-year] does not capture many long-term costs—e.g. Social Security, Medicare, pension insurance—and other major tax and spending provisions
- Cash and obligations-based budgeting is misleading for insurance and some benefit programs
- Budget controls have expired—and we need to go beyond “holding the line” to “changing the base” in spending and tax policies

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Improved Metrics, Measures & Processes: Some Ideas



Improved Metrics, Measures & Processes: Some Ideas

- Provide information on long-term costs of major spending and tax proposals before they are voted on, including showing long-term costs even for proposals that sunset
- Establish an OMB annual report on fiscal exposures, including appropriate measures and how to address them
- Consider fiscal targets, triggers, and points of order with focus on limiting growth of long-term commitments
- Move to accrual budgeting for employee pension, retiree health; disclose "risk assumed" [missing premium] for insurance
- Reinststitute budget controls (caps & PAYGO)

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