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## Log-term Fiscal Challenges Deman New Metics, Mechanisms, & Processes

### Presentation

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

Composition of Federal PowerPoint Presentation

Aged Population as a Share of Total U.S. Population Will Continue to Grow

U.S. Labor Force Growth Will Continue to Decline

Composition of Spending as a Share of GDP Under Baseline Extended (Assuming Discretionary Spending Grows with Inflation through 2013 and the 2001 Tax Cuts Do Sunset)

Composition of Spending as a Share of GDP Assuming Discretionary Spending Grows with GDP after 2003 and the 2001 Tax Cuts Do Sunset

Composition of Spending as a Share of GDP Assuming Discretionary Spending Grows with GDP after 2003 and the 2001 Tax Cuts Do Not Sunset

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

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Current Treatment of Fiscal Exposures Varies

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Potential Additional Actions



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# **Long-term Fiscal Challenges**

## **Demand New Metrics, Mechanisms, & Processes**

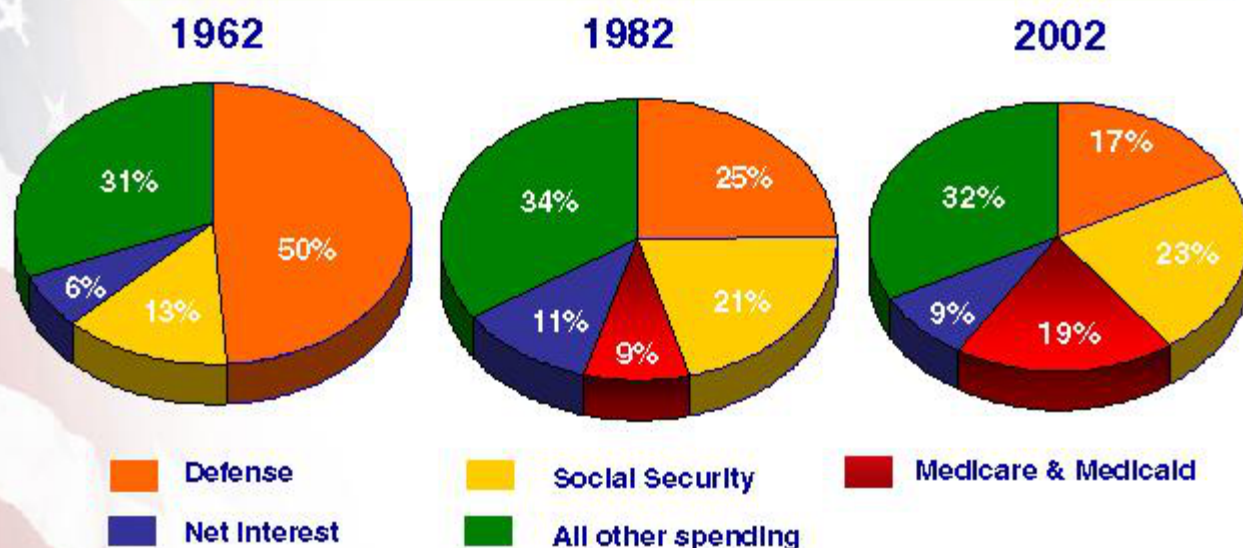
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**The Honorable David M. Walker**  
**Comptroller General of the United States**  
**May 8, 2003**

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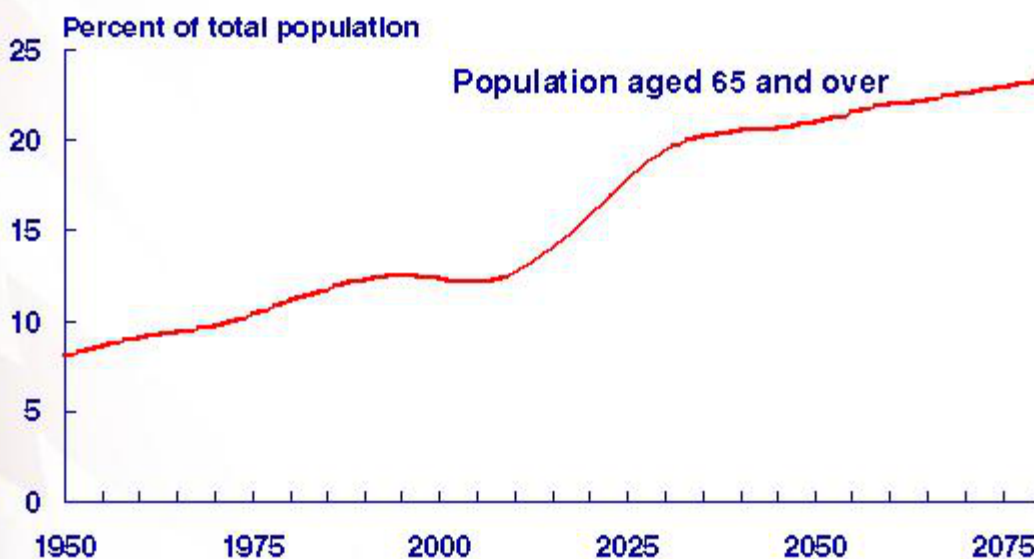
## Composition of Federal Spending



Source: *Budget of the United States Government, FY2004*, Office of Management and Budget.



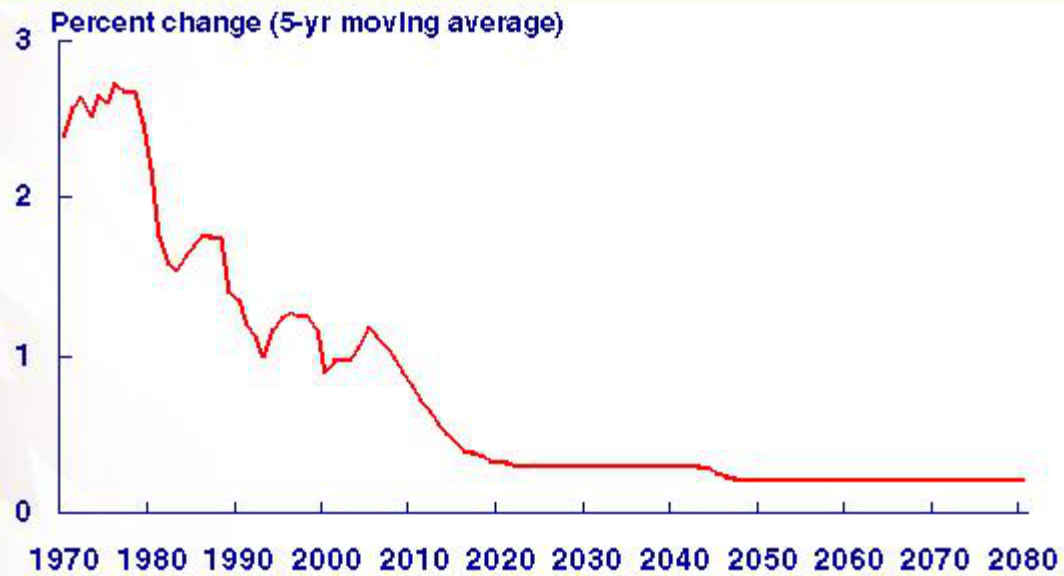
## Aged Population as a Share of Total U.S. Population Will Continue to Grow



Source: Projections based on the intermediate assumptions of the 2003 Trustees' Reports.



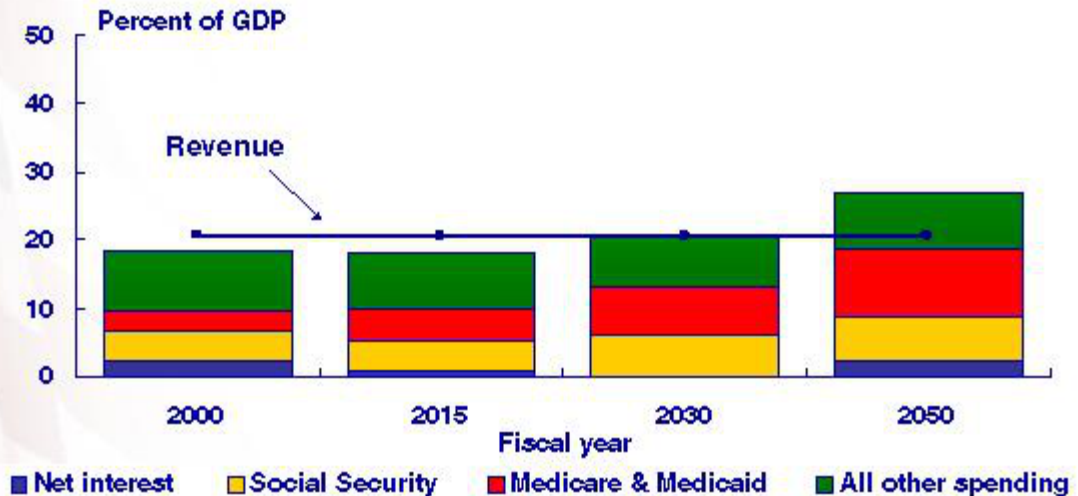
## U.S. Labor Force Growth Will Continue to Decline



Note: Percent change is calculated as a centered 5-yr moving average. Data from 2003 through 2080 are projections.  
Source: GAO analysis based on the intermediate assumptions of *The 2003 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance Trust Funds*.



## Composition of Spending as a Share of GDP Under Baseline Extended (Assuming Discretionary Spending Grows with Inflation through 2013 and the 2001 Tax Cuts Do Sunset)

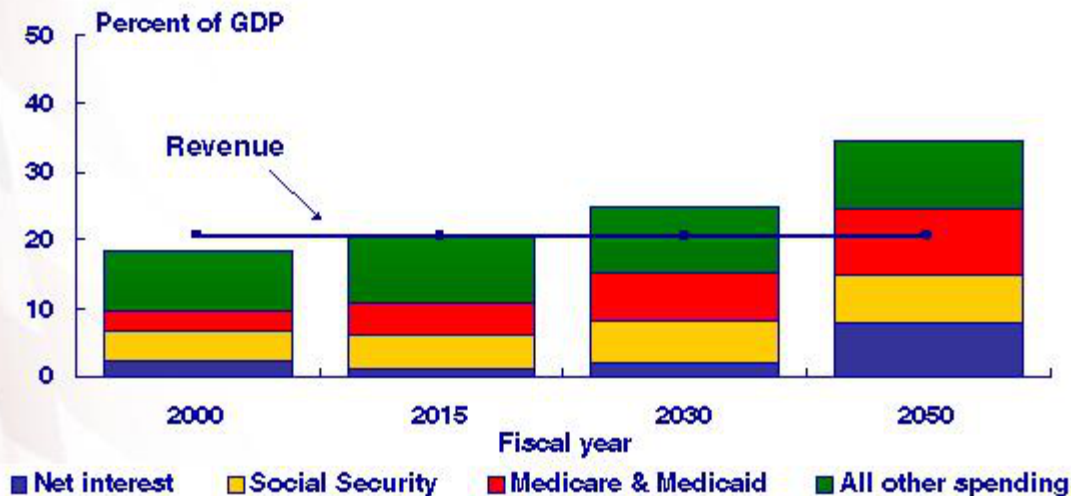


Note: Assumes the 2001 tax cuts sunset as scheduled, discretionary spending grows with inflation through 2013 and GDP thereafter, and currently scheduled Social Security benefits are paid in full throughout the simulation period.  
Source: GAO's March 2003 analysis.



## Composition of Spending as a Share of GDP

Assuming Discretionary Spending Grows with GDP after 2003 and the 2001 Tax Cuts Do Sunset

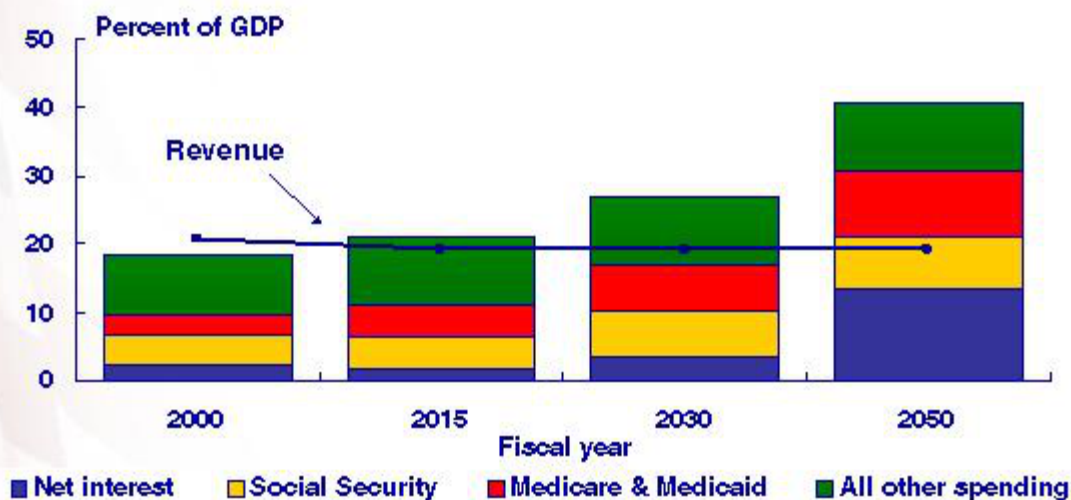


Note: Assumes the 2001 tax cuts sunset as scheduled and currently scheduled Social Security benefits are paid in full throughout the simulation period.  
 Source: GAO's March 2003 analysis.



## Composition of Spending as a Share of GDP

### Assuming Discretionary Spending Grows with GDP after 2003 and the 2001 Tax Cuts Do Not Sunset

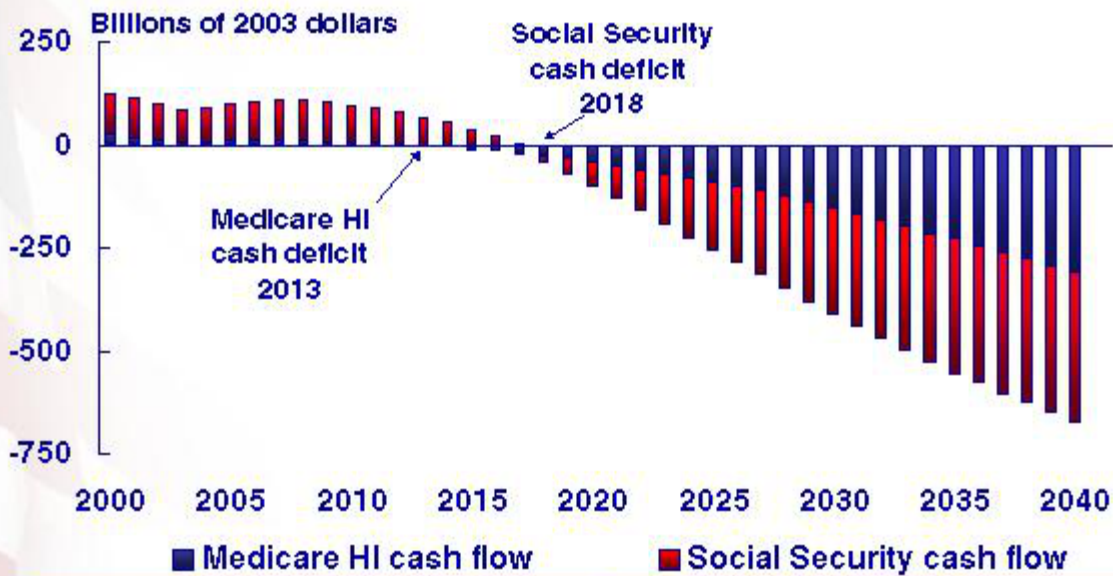


Note: Assumes currently scheduled Social Security benefits are paid in full throughout the simulation period.  
 Source: GAO's March 2003 analysis.





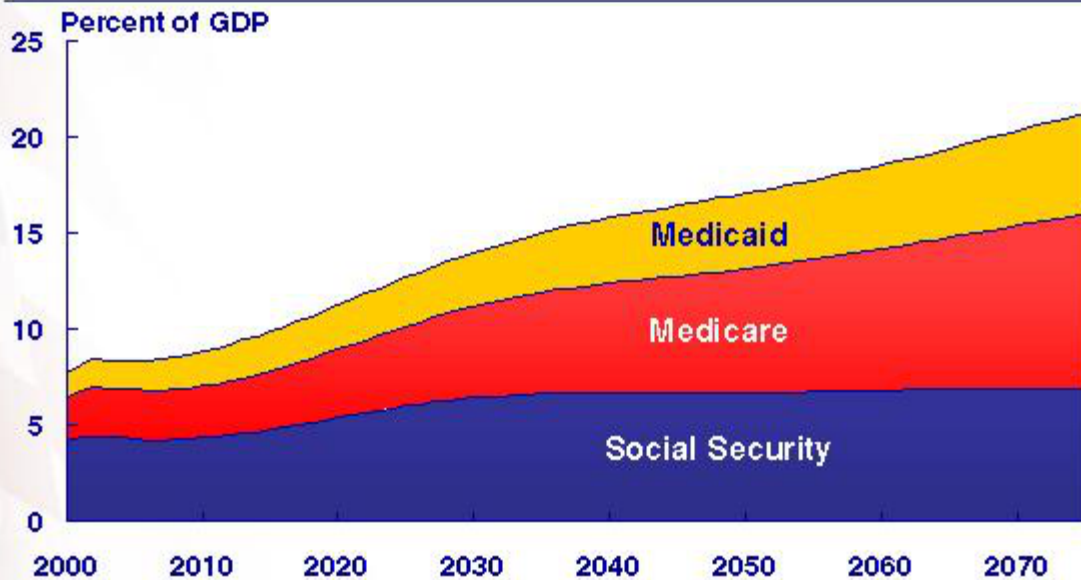
## Social Security and Medicare's Hospital Insurance Trust Funds Face Cash Deficits As Population Ages



Source: GAO analysis based on the intermediate assumptions of *The 2003 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance Trust Funds* and *The 2003 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*.



## Social Security, Medicare, and Medicaid Spending Are Projected to Grow as a Percent of GDP



Source: Projections based on the intermediate assumptions of the 2003 Trustees' Reports, GAO's March 2003 short-term Medicaid estimates, and GAO's June 2002 Medicaid long-term projections under midrange assumptions.



## Social Security and Medicare HI Sustainability Measures

	Social Security	Medicare HI
Trust Fund Exhaustion	2042	2026
Outgo Exceeds Tax Income	2018	2013
Cash Surplus Begins Permanent Decline	2009	2008

Note: Based on the 2003 Trustees' intermediate assumptions.

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



## Selected Fiscal Exposures: Sources and Examples (End of FY2002)

Type	Example (dollars in billions)
Explicit liabilities	☐ Publicly held debt (\$3,540)
	☐ Military & civilian pension & postretirement health (\$2,673)
	☐ Veterans benefits payable (\$849)
	☐ Environmental and disposal liabilities (\$273)
	☐ Loan guarantees (\$28)
Explicit financial commitments	☐ Undelivered orders (\$539)
	☐ Long-term leases (\$50)
Explicit financial contingencies	☐ Unadjudicated claims (\$9)
	☐ National insurance programs (\$43)
Implicit exposures implied by current policies or the public's expectations about the role of government	☐ Debt held by government accounts (\$2,674)
	☐ Future Social Security benefit payments (\$3,549)*
	☐ Future Medicare Part A benefit payments (\$5,931)*
	☐ Life cycle costs including deferred & future maintenance and operating costs (amount unknown)

\*These amounts represent NPV over 75 years and are net of debt held by the Trust Funds (\$1,378 billion for Social Security and \$235 billion for Medicare Part A). Figures for Social Security and Medicare Part A are as of January 1, 2003.



## Current Treatment of Fiscal Exposures Varies

	Budget Authority	Balance Sheet
Environmental Cleanup Liabilities	No <sup>1</sup>	Yes
Federal Employee Civilian Pensions Payable	Partial	Yes
Federal Retiree Civilian Health Benefits Payable	No	Yes
Future Medicare Benefit Payments	No	No
Future Social Security Benefit Payments	No	No
Insurance (risk assumed) <sup>2</sup>	No	No

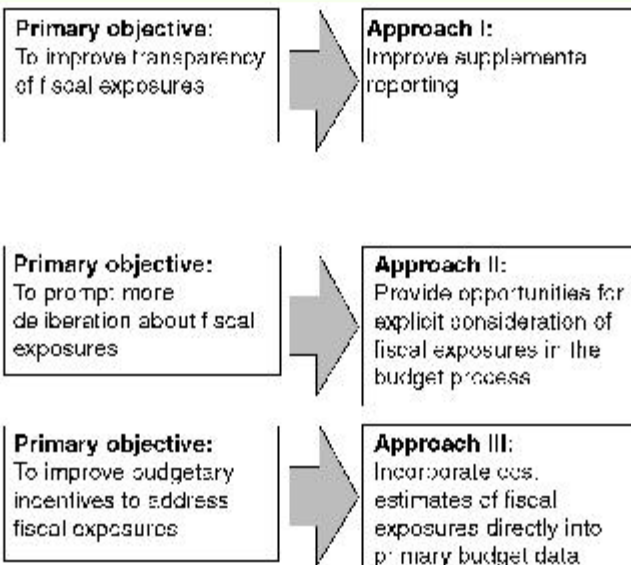
<sup>1</sup>Budget includes funding for immediate cleanup activities.

<sup>2</sup>The risk-assumed concept would approximate the portion of the full risk premium based on the expected cost of losses inherent in government commitments not charged to the insured.

Note: For a fuller discussion, see *Fiscal Exposures: Improving the Budgetary Focus on Long-Term Costs and Uncertainties* (GAO-03-213, January 24, 2003).



## New Metrics, Measures, and Processes Needed



Source: GAO analysis.



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## Potential Additional Actions

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- **FASAB** – Continue to make progress on the accounting and reporting front (e.g., trust funds and social insurance).
  - **Treasury** – Enhance disclosures in the annual government-wide performance and accountability report.
  - **OMB** – Where possible, add fiscal exposure information in the annual budget appendix. Publish an annual fiscal exposures report.
  - **GAO** – Continue to emphasize the issue in existing reports and testimonies. Comment on any annual fiscal exposures report published by OMB.
  - **Congress** – Consider requiring that discounted present value numbers be considered for major revenue and spending related legislative proposals before legislation is enacted.
  - **Other** – Increase visibility relating to tax preferences.
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