America’s Fiscal Future

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

The Annual Not For Profit Organization Symposium
Greater Washington Society of CPAs
Washington, D.C.

December 5, 2007
The Case for Change

The federal government is on a “burning platform,” and the status quo way of doing business is unacceptable for a variety of reasons, including:

- Past fiscal trends and significant long-range challenges
- Selected trends and challenges having no boundaries
- Additional resource demands due to Iraq, Afghanistan, incremental homeland security needs, and recent natural disasters in the United States
- Numerous government performance/accountability and high risk challenges
- Outdated federal organizational structures, policies, and practices
- Rising public expectations for demonstrable results and enhanced responsiveness
Composition of Federal Spending

1966
- 34% Defense
- 7% Social Security
- 15% Medicare & Medicaid
- 1% Net interest
- 43% All other spending

1986
- 29% Defense
- 14% Social Security
- 10% Medicare & Medicaid
- 20% All other spending

2006
- 32% Defense
- 9% Social Security
- 19% Medicare & Medicaid
- 21% All other spending

Source: Office of Management and Budget and the Department of the Treasury.
Note: Numbers may not add to 100 percent due to rounding.
Federal Spending for Mandatory and Discretionary Programs

1966
- Net Interest: 7%
- Discretionary: 26%
- Mandatory: 67%

1986
- Net Interest: 14%
- Discretionary: 42%
- Mandatory: 44%

2006
- Net Interest: 9%
- Discretionary: 53%
- Mandatory: 38%

Source: Office of Management and Budget.
## Fiscal Year 2005 and 2006 Deficits and Net Operating Costs

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year 2005 ($ Billion)</th>
<th>Fiscal Year 2006 ($ Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On-Budget Deficit</td>
<td>(494)</td>
<td>(434)</td>
</tr>
<tr>
<td>Unified Deficit&lt;sup&gt;a&lt;/sup&gt;</td>
<td>(318)</td>
<td>(248)</td>
</tr>
<tr>
<td>Net Operating Cost&lt;sup&gt;b&lt;/sup&gt;</td>
<td>(760)</td>
<td>(450)</td>
</tr>
</tbody>
</table>

Sources: Office of Management and Budget and Department of the Treasury.

<sup>a</sup>Includes $173 billion in Social Security surpluses for fiscal year 2005 and $185 billion for fiscal year 2006; $2 billion in Postal Service surpluses for fiscal year 2005 and $1 billion for fiscal year 2006.

<sup>b</sup>Fiscal year 2005 and 2006 net operating cost figures reflect significant but opposite changes in certain actuarial costs. For example, changes in interest rates and other assumptions used to estimate future veterans’ compensation benefits increased net operating cost by $228 billion in 2005 and reduced net operating cost by $167 billion in 2006. Therefore, the net operating costs for fiscal years 2005 and 2006, exclusive of the effect of these actuarial cost fluctuations, were ($532) billion and ($617) billion, respectively.
## Major Fiscal Exposures ($ trillions)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Explicit liabilities</strong></td>
<td>$6.9</td>
<td>$10.4</td>
<td>52</td>
</tr>
<tr>
<td>• Publicly held debt</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Military &amp; civilian pensions &amp; retiree health</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Commitments &amp; contingencies</strong></td>
<td>0.5</td>
<td>1.3</td>
<td>140</td>
</tr>
<tr>
<td>• E.g., PBGC, undelivered orders</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Implicit exposures</strong></td>
<td>13.0</td>
<td>38.8</td>
<td>197</td>
</tr>
<tr>
<td>• Future Social Security benefits</td>
<td>3.8</td>
<td>6.4</td>
<td></td>
</tr>
<tr>
<td>• Future Medicare Part A benefits</td>
<td>2.7</td>
<td>11.3</td>
<td></td>
</tr>
<tr>
<td>• Future Medicare Part B benefits</td>
<td>6.5</td>
<td>13.1</td>
<td></td>
</tr>
<tr>
<td>• Future Medicare Part D benefits</td>
<td>--</td>
<td>7.9</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$20.4</td>
<td>$50.5</td>
<td>147</td>
</tr>
</tbody>
</table>

Note: Totals and percent increases may not add due to rounding. Estimates for Social Security and Medicare are at present value as of January 1 of each year and all other data are as of September 30.
# How Big is Our Growing Fiscal Burden?

This fiscal burden can be translated and compared as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total –major fiscal exposures</td>
<td>$50.5 trillion</td>
</tr>
<tr>
<td>Total household net worth(^1)</td>
<td>$53.3 trillion</td>
</tr>
<tr>
<td>Burden/Net worth ratio</td>
<td>95 percent</td>
</tr>
<tr>
<td>Burden(^2)</td>
<td></td>
</tr>
<tr>
<td>Per person</td>
<td>$170,000</td>
</tr>
<tr>
<td>Per full-time worker</td>
<td>$400,000</td>
</tr>
<tr>
<td>Per household</td>
<td>$440,000</td>
</tr>
<tr>
<td>Income</td>
<td></td>
</tr>
<tr>
<td>Median household income(^3)</td>
<td>$46,326</td>
</tr>
<tr>
<td>Disposable personal income per capita(^4)</td>
<td>$31,519</td>
</tr>
</tbody>
</table>

Source: GAO analysis.

Notes: (1) Federal Reserve Board, Flow of Funds Accounts, Table B.100, 2006:Q2 (Sept. 19, 2006); (2) Burdens are calculated using estimated total U.S. population as of 9/30/06, from the U.S. Census Bureau; full-time workers reported by the Bureau of Economic Analysis, in NIPA table 6.5D (Aug. 2, 2006); and households reported by the U.S. Census Bureau, in Income, Poverty, and Health Insurance Coverage in the United States: 2005 (Aug. 2006); (3) U.S. Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States: 2005 (Aug. 2006); and (4) Bureau of Economic Analysis, Personal Income and Outlays: October 2006, table 2, (Nov. 30, 2006).
Potential Fiscal Outcomes
Under Baseline Extended (January 2001)
Revenues and Composition of Spending as a Share of GDP

Percent of GDP

Revenue

Source: GAO's January 2001 analysis.

*All other spending is net of offsetting interest receipts.
Potential Fiscal Outcomes
Under Alternative Simulation
Revenues and Composition of Spending as a Share of GDP

Percent of GDP

2006 2015 2030 2040

Revenue

Net interest  Social Security  Medicare & Medicaid  All other spending

Source: GAO’s August 2007 analysis.
Notes: AMT exemption amount is retained at the 2006 level through 2017 and expiring tax provisions are extended. After 2017, revenue as a share of GDP returns to its historical level of 18.3 percent of GDP plus expected revenues from deferred taxes, i.e. taxes on withdrawals from retirement accounts. Medicare spending is based on the Trustees April 2007 projections adjusted for the Centers for Medicare and Medicaid Services alternative assumption that physician payments are not reduced as specified under current law.
Social Security, Medicare, and Medicaid Spending as a Percent of GDP

Percent of GDP

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.

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

![Bar chart showing the cash flow of Social Security and Medicare's Hospital Insurance Trust Funds from 2005 to 2040.](chart)


Note: Projections based on the intermediate assumptions of the 2007 Trustees’ Reports. The CPI is used to adjust from current to constant dollars.
Federal Tax Expenditures Exceeded Discretionary Spending for Half of the Last Decade

Dollars in billions (in real 2005 dollars)


Note: Summing tax expenditure estimates does not take into account interactions between individual provisions. Outlays associated with refundable tax credits are included in mandatory spending.
Revenue Loss Estimates for the Largest Tax Expenditures Reported for Fiscal Year 2006

Revenue loss estimates (dollars in billions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Treasury estimated income tax revenue losses</th>
<th>Approximate payroll tax revenue losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclusion of employer contributions for medical insurance premiums and medical care</td>
<td>125</td>
<td>62.5</td>
</tr>
<tr>
<td>Net exclusion of employer-sponsored pension contributions and earnings</td>
<td>89.8</td>
<td>0</td>
</tr>
<tr>
<td>Deductibility of mortgage interest on owner-occupied homes</td>
<td>68.3</td>
<td>0</td>
</tr>
<tr>
<td>Capital gains (except agriculture, timber, iron ore, and coal)</td>
<td>48.6</td>
<td>0</td>
</tr>
<tr>
<td>Deductibility of nonbusiness states and local taxes other than on owner-occupied homes</td>
<td>43.1</td>
<td>0</td>
</tr>
</tbody>
</table>


*The value of employer-provided health insurance is excluded from Medicare and Social Security payroll taxes. Some researchers have estimated that payroll tax revenue losses amounted to more than half of the income tax revenue losses in 2004, and we use this estimate for 2006. The research we are aware of dealt only with health care, therefore the 50 percent figure may not apply to other items that are excluded from otherwise applicable income and payroll taxes.*
State and Local Governments Face Increasing Fiscal Challenges

![Graph showing operating surplus/deficit measure and net-lending/net-borrowing percent of GDP over time from 1980 to 2050.](image)

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 60 percent or
    - Raising federal taxes to 2 times today’s level

• **Faster Economic Growth Can Help, but It Cannot Solve the Problem**
  - Closing the current long-term fiscal gap based on reasonable 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.
1. Improve Financial Reporting, Public Education, and Performance Metrics

2. Strengthen Budget and Legislative Processes and Controls

3. Fundamentally Reexamine & Transform for the 21st Century (i.e., entitlement programs, other spending, and tax policy)

Solutions Require Active Involvement from both the Executive and Legislative Branches

- Improve transparency & completeness of President’s budget proposal:
  - Return to 10-year estimates in budget both for current policies and programs and for policy proposals
  - Include in the budget estimates of long-term cost of policy proposals & impact on total fiscal exposures.
  - Improve transparency of tax expenditures

- Consider requiring President’s budget to specify & explain a fiscal goal and a path to that goal within 10-year window—or justify an alternative deadline

- Require annual OMB report on existing fiscal exposures [liabilities, obligations, explicit & implied commitments]

- Require enhanced financial statement presentation to address fiscal sustainability and intergenerational equity issues

- Prepare and distribute a summary annual report that is both useful and used

- Increase information on long-range fiscal sustainability issues in Congressional Budget Resolution & Budget Process.

- Develop key national (outcome-based) indicators (e.g. economic, security, social, environmental) to chart the nation’s posture, progress, and position relative to the other major industrial countries
The Way Forward:
Strengthen Budget and Legislative Processes and Controls

- Restore discretionary spending caps & PAYGO rules on both spending and tax sides of the ledger
- Develop mandatory spending triggers [with specific defaults], and other action-forcing provisions (e.g., sunsets) for both direct spending programs and tax preferences
- Develop, impose & enforce modified rules for selected items (e.g., earmarks, emergency designations, and use of supplementals)
- Require long-term cost estimates (e.g., present value) for any legislative debate on all major tax and spending bills, including entitlement programs. Cost estimates should usually assume no sunset
- Extend accrual budgeting to insurance & federal employee pensions; develop techniques for extending to retiree health & environmental liabilities
- Consider biennial budgeting
- Consider expedited line item rescissions from the President that would only require a majority vote to override the proposed rescission(s)
The Way Forward: 
*Fundamentally Reexamine & Transform*

- Restructure existing entitlement programs
- Reexamine and restructure the base of all other spending
- Review & revise existing tax policy, including tax preferences and enforcement programs
- Expand scrutiny of all proposed new programs, policies, or activities
- Reengineer internal agency structures and processes, including more emphasis on long-term planning, integrating federal activities, and partnering with others both domestically and internationally
- Strengthen and systematize Congressional oversight processes
- Increase transparency associated with government contracts and other selected items
- Consider a capable, credible, bi-partisan budget, entitlement, and tax reform commission
The Need for Good Governance, Transparency, and Accountability

Good governance, transparency, and accountability are critical in:

- The private sector, to promote efficiency and effectiveness in the capital and credit markets, and overall economic growth, both domestically and internationally
- The public sector, for the effective and credible functioning of a healthy democracy, and in fulfilling the government’s responsibility to citizens and taxpayers
- The independent (not-for-profit) sector, to promote the proper use of resources consistent with the organization’s mission and applicable laws and to maintain the trust and confidence of contributors
- All sectors, to support a healthy economy that provides economic opportunities and benefits to citizens

Sorting out the needs—as well as the effective and appropriate governance and accountability mechanisms for different sectors and types of organizations—will be essential, both on a domestic and international scale
Key National Indicators

- **WHAT**: A portfolio of economic, social, and environmental outcome-based measures that could be used to help assess the nation’s and other governmental jurisdictions’ position and progress.

- **WHO**: Many countries and several states, regions, and localities have already undertaken related initiatives (e.g., Australia, New Zealand, Canada, United Kingdom, Oregon, Silicon Valley (California) and Boston).

- **WHY**: Development of such a portfolio of indicators could have a number of possible benefits, including:
  - Serving as a framework for related strategic planning efforts.
  - Enhancing performance and accountability reporting.
  - Informing public policy decisions, including much needed baseline reviews of existing government policies, programs, functions, and activities.
  - Facilitating public education and debate as well as an informed electorate.

- **WAY FORWARD**: Consortium of key players housed by the National Academies domestically and related efforts by the OECD and others internationally.
The United States may be the only superpower, but compared to most other OECD countries on selected key economic, social, and environmental indicators, on average, the U.S. ranks

16 OUT OF 28

<table>
<thead>
<tr>
<th>OECD Categories for Key Indicators (2006 OECD Factbook)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Population/Migration</td>
</tr>
<tr>
<td>• Energy</td>
</tr>
<tr>
<td>• Environment</td>
</tr>
<tr>
<td>• Quality of Life</td>
</tr>
<tr>
<td>• Macroeconomic Trends</td>
</tr>
<tr>
<td>• Labor Market</td>
</tr>
<tr>
<td>• Education</td>
</tr>
<tr>
<td>• Economic Globalization</td>
</tr>
<tr>
<td>• Prices</td>
</tr>
<tr>
<td>• Science &amp; Tech.</td>
</tr>
<tr>
<td>• Public Finance</td>
</tr>
</tbody>
</table>

Source: 2006 OECD Factbook.
## GAO’s High-Risk List 2007

### Addressing Challenges in Broad-based Transformations

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Year Designated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Human Capital Management&lt;sup&gt;a&lt;/sup&gt;</td>
<td>2001</td>
</tr>
<tr>
<td>Managing Federal Real Property&lt;sup&gt;a&lt;/sup&gt;</td>
<td>2003</td>
</tr>
<tr>
<td>Protecting the Federal Government’s Information Systems and the Nations’ Critical Infrastructures</td>
<td>1997</td>
</tr>
<tr>
<td>Implementing and Transforming the Department of Homeland Security</td>
<td>2003</td>
</tr>
<tr>
<td>Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security</td>
<td>2005</td>
</tr>
<tr>
<td>DOD Approach to Business Transformation&lt;sup&gt;a&lt;/sup&gt;</td>
<td>2005</td>
</tr>
<tr>
<td>DOD Business Systems Modernization</td>
<td>1995</td>
</tr>
<tr>
<td>DOD Personnel Security Clearance Program</td>
<td>2005</td>
</tr>
<tr>
<td>DOD Support Infrastructure Management</td>
<td>1997</td>
</tr>
<tr>
<td>DOD Financial Management</td>
<td>1995</td>
</tr>
<tr>
<td>DOD Supply Chain Management</td>
<td>1990</td>
</tr>
<tr>
<td>DOD Weapon Systems Acquisition</td>
<td>1990</td>
</tr>
<tr>
<td>FAA Air Traffic Control Modernization</td>
<td>1995</td>
</tr>
<tr>
<td>Financing the Nation’s Transportation System&lt;sup&gt;a&lt;/sup&gt; (New)</td>
<td>2007</td>
</tr>
<tr>
<td>Ensuring the Effective Protection of Technologies Critical to U.S. National Security Interests&lt;sup&gt;a&lt;/sup&gt; (New)</td>
<td>2007</td>
</tr>
<tr>
<td>Transforming Federal Oversight of Food Safety&lt;sup&gt;a&lt;/sup&gt; (New)</td>
<td>2007</td>
</tr>
</tbody>
</table>

### Managing Federal Contracting More Effectively

- DOD Contract Management
- DOE Contract Management
- NASA Contract Management
- Management of Interagency Contracting

### Assessing the Efficiency and Effectiveness of Tax Law Administration

- Enforcement of Tax Laws<sup>a</sup>
- IRS Business Systems Modernization

### Modernizing and Safeguarding Insurance and Benefit Programs

- Modernizing Federal Disability Programs<sup>a</sup>
- Pension Benefit Guaranty Corporation Single-Employer Pension Insurance Program
- Medicare Program<sup>a</sup>
- Medicaid Program<sup>a</sup>
- National Flood Insurance Program<sup>a</sup>

<sup>a</sup> Legislation is likely to be necessary, as a supplement to actions by the executive branch, in order to effectively address this high-risk area.
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

Changing Security Threats

Sustainability Concerns

Economic Growth & Competitiveness

Global Interdependency

Societal Change

Quality of Life

Science & Technology

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
- Lifelong learning
- Work benefits and protections
- Financial 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...

- Homeland security
- 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

Source: GAO
Selected Sustainability Challenges

- Fiscal Deficits and Debt Burdens
- Defense, Including Iraq, and Homeland Security Strategies
- Social Insurance Commitments
- Health Care Quality, Access, and Costs
- K-12 Education System
- Energy, Environment, and Resource Protection
- Tax Gaps and Policies
- Immigration Policies
- Infrastructure Needs
21st Century Challenges Report

- Provides background, framework, and questions to assist in reexamining the base

- Covers entitlements and other mandatory spending, discretionary spending, and tax policies and programs

- Based on GAO’s work for the Congress

Source: GAO.
# Twelve Reexamination Areas

## Mission Areas

- Defense
- Education & Employment
- Financial Regulation & Housing
- Health Care
- Homeland Security
- International Affairs
- Natural Resources, Energy & Environment
- Retirement & Disability
- Science & Technology
- Transportation

## Crosscutting Areas

- Improving Governance
- Reexamining the Tax System
Aged Population as a Share of Total U.S. Population Will Continue to Increase

Population aged 65 and over

Source: Office of the Chief Actuary, Social Security Administration.
Note: Projections based on the intermediate assumptions of the 2007 Trustees' Reports.
U.S. Labor Force Growth Will Continue to Decline

Source: GAO analysis of data from the Office of the Chief Actuary, Social Security Administration.

Note: Percentage change is calculated as a centered 5-yr moving average of projections based on the intermediate assumptions of the 2007 Trustees Reports.
Personal Saving Rate Has Declined

Percent of disposable personal income

Source: Bureau of Economic Analysis.
### Key Dates Highlight Long Term Challenges of the Social Security System

<table>
<thead>
<tr>
<th>Date</th>
<th>OASI</th>
<th>DI</th>
<th>OASDI</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>--</td>
<td></td>
<td>2009</td>
<td>Cash surplus begins to decline</td>
</tr>
<tr>
<td>2018</td>
<td>2005</td>
<td>2017</td>
<td></td>
<td>Annual benefit costs exceed cash revenue from taxes</td>
</tr>
<tr>
<td>2028</td>
<td>2013</td>
<td>2027</td>
<td></td>
<td>Trust fund ceases to grow because even taxes plus interest fall short of benefits</td>
</tr>
<tr>
<td>2042</td>
<td>2026</td>
<td>2041</td>
<td></td>
<td>Trust fund exhausted</td>
</tr>
</tbody>
</table>

Possible Way Forward on Social Security Reform

Make little or no changes to those who are near retirement or already retired and make a number of adjustments that would affect younger workers:

- Phase-in an increase in the **normal** retirement age and index it to life expectancy
- Consider phasing-in an increase in the **early** retirement age and index it to life expectancy with a modified disability access provision
- Modify income replacement and/or indexing formulas for middle and upper income earners
- Strengthen the minimum benefit
- Consider a modest adjustment to the COLA formula
- Increase the taxable wage base, if necessary
- Consider supplemental individual accounts and mandatory individual savings on a payroll deduction basis (e.g., a minimum 2 percent payroll contribution and a program designed much like the Federal Thrift Savings Plan with a real trust fund and real investments)
### Key Dates Highlight Long Term Challenges of the Medicare Program

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>Medicare Part A outlays exceed cash income</td>
</tr>
<tr>
<td>2007</td>
<td>Estimated trigger date for “Medicare funding warning”</td>
</tr>
<tr>
<td>2013</td>
<td>Projected date that annual “general revenue funding” for Part B will exceed 45 percent of total Medicare outlays</td>
</tr>
<tr>
<td>2019</td>
<td>Part A trust fund exhausted, annual income sufficient to pay about 80% of promised Part A benefits</td>
</tr>
</tbody>
</table>

Number of Non-elderly Uninsured Americans, 1999-2006

Population in millions

<table>
<thead>
<tr>
<th>Year</th>
<th>Population in Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>38.8</td>
</tr>
<tr>
<td>2000</td>
<td>38.4</td>
</tr>
<tr>
<td>2001</td>
<td>39.8</td>
</tr>
<tr>
<td>2002</td>
<td>42.0</td>
</tr>
<tr>
<td>2003</td>
<td>43.4</td>
</tr>
<tr>
<td>2004</td>
<td>43.5</td>
</tr>
<tr>
<td>2005</td>
<td>44.8</td>
</tr>
<tr>
<td>2006</td>
<td>47.0</td>
</tr>
</tbody>
</table>

Notes: Estimates for 1999-2005 were revised to reflect the results of a change to the survey process that assigns insurance coverage to dependents.
Growth in Health Care Spending:
Health Care Spending as a Percentage of GDP

Source: The Centers for Medicare & Medicaid Services, Office of the Actuary.
Notes: The figure for 2015 is projected. The most current data available on health care spending are for 2005.
Cumulative Growth in Health Care Spending Per Capita, Medical Inflation, GDP Per Capita, and General Inflation, 2000-2005

Note: The most current data available on health care spending per capita are for 2005.
### Where the United States Ranks on Selected Health Outcome Indicators

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life expectancy at birth</td>
<td>23 out of 30 in 2003</td>
</tr>
<tr>
<td><em>U.S. = 77.5 years in 2003</em></td>
<td></td>
</tr>
<tr>
<td>Infant Mortality</td>
<td>25 out of 30 in 2003</td>
</tr>
<tr>
<td><em>U.S. = 6.9 deaths in 2003</em></td>
<td></td>
</tr>
<tr>
<td>Potential Years of Life Lost</td>
<td>23 out of 26 in 2002</td>
</tr>
<tr>
<td><em>U.S. = 5,066 in 2002</em></td>
<td></td>
</tr>
</tbody>
</table>

Source: *OECD Health Data 2006*

Notes: Data are the most recent available for all countries. Life expectancy at birth for the total population is estimated by the OECD Secretariat for all countries, as the unweighted average of the life expectancy of men and women. Infant mortality is measured as the number of deaths per 1,000 live births. Potential years of life lost (PYLL) is the sum of the years of life lost prior to age 70, given current age-specific death rates (e.g., a death at 5 years of age is counted as 65 years of PYLL).
Issues to Consider in Examining Our Health Care System

- The public needs to be educated about the differences between **wants, needs, affordability**, and **sustainability** at both the individual and aggregate level.

- Ideally, health care reform proposals will:
  - **Align Incentives** for providers and consumers to make prudent decisions about the use of medical services,
  - **Foster Transparency** with respect to the value and costs of care, and
  - **Ensure Accountability** from insurers and providers to meet standards for appropriate use and quality.

- Ultimately, we need to address four key dimensions: **access, cost, quality, and personal responsibility**.
## Selected Potential Health Care Reform Approaches

<table>
<thead>
<tr>
<th>Reform Approach</th>
<th>Short-term action</th>
<th>Long-term action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revise the government’s payment systems and leverage its purchasing authority to foster value-based purchasing for health care products and services</td>
<td>✔</td>
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<tr>
<td>Consider additional flexibility for states to serve as models for possible health care reforms</td>
<td>✔</td>
<td></td>
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<tr>
<td>Consider limiting direct advertising and allowing limited importation of prescription drugs</td>
<td>✔</td>
<td></td>
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<tr>
<td>Foster more transparency in connection with health care costs and outcomes</td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>Create incentives that encourage physicians to utilize prescription drugs and other health care products and services economically and efficiently</td>
<td>✔</td>
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<tr>
<td>Foster the use of information technology to increase consistency, transparency, and accountability in health care</td>
<td>✔</td>
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<tr>
<td>Encourage case management approaches for people with chronic and expensive conditions to improve the quality and efficiency of care delivered and avoid inappropriate care</td>
<td>✔</td>
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<tr>
<td>Reexamine the design and operational structure of the nation’s health care entitlement programs—Medicare and Medicaid, including exploring more income-related approaches</td>
<td>✔</td>
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</tbody>
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## Selected Potential Health Care Reform Approaches

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<td>Revise certain federal tax preferences for health care to encourage more efficient use of health care products and services</td>
<td>✔</td>
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</tr>
<tr>
<td>Foster more preventative care and wellness services and capabilities, including fighting obesity and encouraging better nutrition</td>
<td>✔</td>
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<tr>
<td>Promote more personal responsibility in connection with health care</td>
<td>✔</td>
<td>✔</td>
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<tr>
<td>Limit spending growth for government-sponsored health care programs (e.g., percentage of the budget and/or economy)</td>
<td>✔</td>
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<tr>
<td>Develop a core set of basic and essential services. Create insurance pools for alternative levels of coverage, as necessary</td>
<td>✔</td>
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<tr>
<td>Develop a set of evidence-based national practice standards to help avoid unnecessary care, improve outcomes, and reduce litigation</td>
<td>✔</td>
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<tr>
<td>Pursue multinational approaches to investing in health care R&amp;D</td>
<td>✔</td>
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</table>
Financial literacy is important for three key reasons:

- The number and complexity of financial products have grown tremendously, and consumers face an increasing array of options for managing their personal finances.
- Technological advances have increased the capacity for targeted marketing to consumers, which may increase some consumers’ vulnerability to fraudulent financial products.
- Workers today are increasingly responsible for managing their own retirement savings—yet at the same time, the nation’s personal saving rate has fallen dramatically in recent decades, and household debt hovers at record high levels.

Ensuring that Americans have the knowledge and skills to manage their money wisely is a key element in improving the economic health of our nation in current and future generations.
Steps the CPA Community Can Take

Individuals need to be informed about ways to 1) better manage their own finances and 2) understand the fiscal imbalance that our federal government faces

• What the government can do:
  • Improve its financial reporting
  • Prepare and disclose a summary annual report
  • Conduct education and discussion forums

• What the CPA profession can do
  • Get informed and involved on the current and projected fiscal imbalance
  • Communicate with key opinion leaders and elected officials on the importance of fiscal responsibility
  • Help your clients and the community revisit their personal financial plans
Moving the Debate Forward

- **The Sooner We Get Started, the Better**
  - The miracle of compounding is currently working against us
  - Less change would be needed, and there would be more time to make adjustments
  - Our demographic changes will serve to make reform more difficult over time

- **Need Public Education, Discussion, and Debate**
  - The role of government in the 21st Century
  - Which programs and policies should be changed and how
  - How government should be financed
Three Key Illnesses

- Myopia
- Tunnel Vision
- Self-Centeredness
Four National Deficits

- Budget
- Balance of Payments
- Savings
- Leadership
Five Leadership Attributes Needed for These Challenging and Changing Times

- **Courage**
- **Integrity**
- **Creativity**
- **Stewardship**
- **Partnership**
Three Key Groups That Need to Increase Their Influence and Involvement

- **The Business and Professional Community**
- **Young Americans**
- **The Media**
The Honorable David M. Walker
Comptroller General of the United States

The Annual Not For Profit Organization
Symposium
Greater Washington Society of CPAs
Washington, D.C.

December 5, 2007