

THE NATION'S FISCAL HEALTH

Strategy Needed
as Debt Levels
Accelerate

Annual Report to Congress

FEBRUARY 2025

Accessible Version

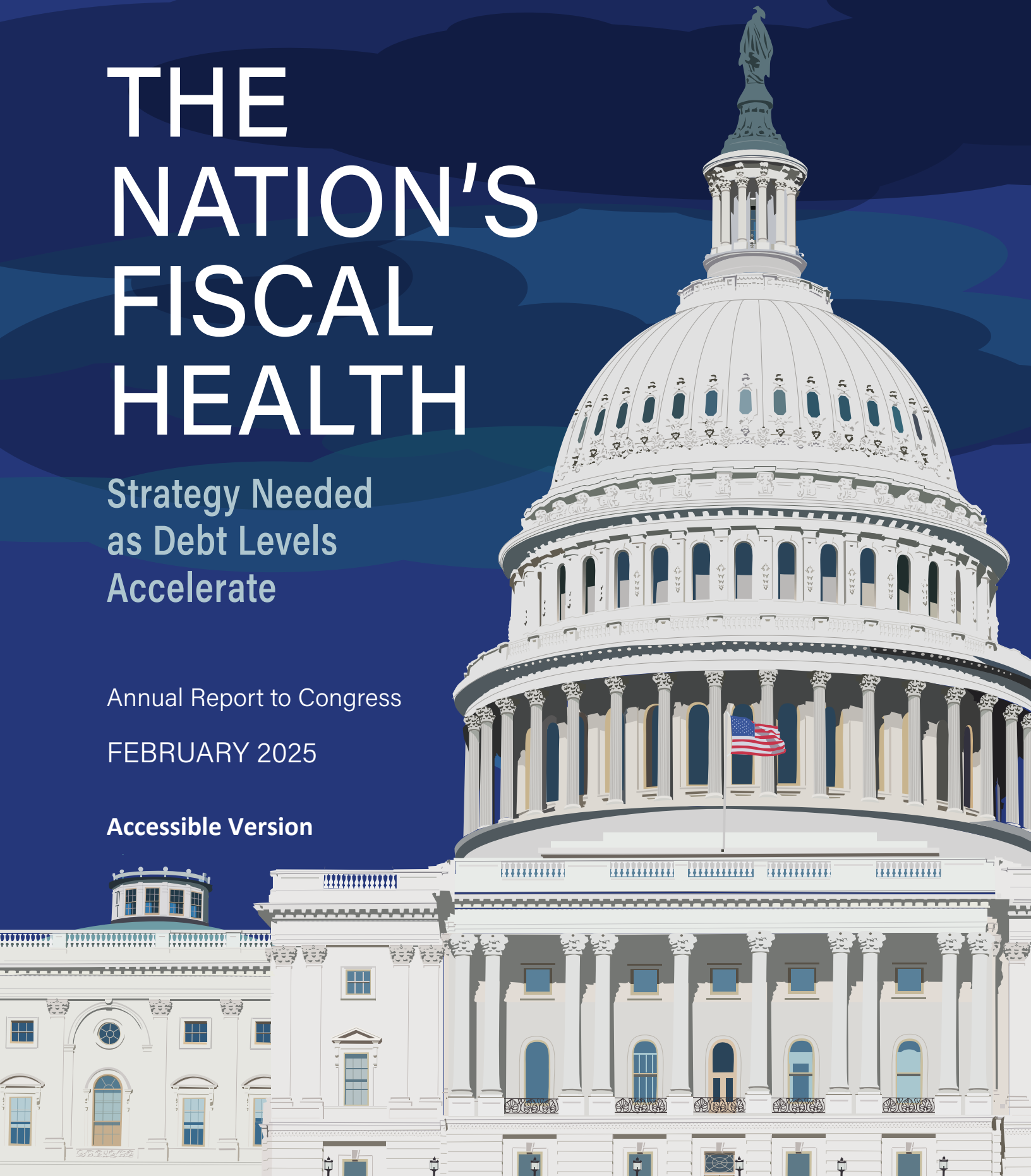


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February 5, 2025

The President

The President of the Senate

The Speaker of the House of Representatives

The federal government is on an unsustainable fiscal path. We project that debt held by the public will grow faster than the economy each year if current revenue and spending policies are not changed. This unsustainable outlook is consistent with projections from the [Congressional Budget Office](#) and the [2024 Financial Report of the United States Government](#).

The unsustainable fiscal outlook poses serious economic, security, and social challenges if not addressed. Many of the negative effects of growing debt are projected to intensify over time and create additional challenges for fiscal management. The sooner actions are taken to change the fiscal path, the less drastic they will need to be. Congress and the administration will need to make difficult budgetary and policy decisions to address the key drivers of the debt and improve the government's fiscal trajectory.

We continue to recommend that Congress and the administration develop a strategy to address the government's unsustainable fiscal outlook. A sustainable fiscal policy would lead to debt held by the public growing at the same—or slower—rate as the economy. To achieve this, spending and revenue policies will need to be aligned to address persistent deficits and reduce the nation's borrowing needs.

We produce this annual fiscal health report to examine the current fiscal condition of the federal government and its fiscal outlook based on current policy. Current policy can, in some cases, differ from current law. The following sections highlight the results of our fiscal simulation using information available as of December 2024. The methodology and selected assumptions that underlie our simulation are described in appendix I.

SECTION 1

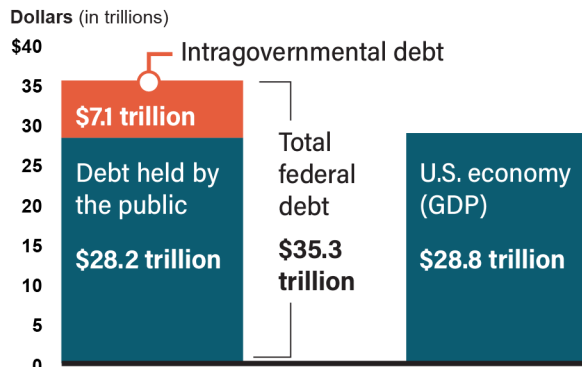
Trends in Federal Debt

The federal debt is composed of debt held by the public and intragovernmental debt. Debt held by the public is considered a useful measure of debt’s effect on the economy because it reflects the demands that the government is placing on private credit markets. In other words, investors who buy federal debt are not investing that money in other parts of the economy.

Current Condition

At the end of fiscal year 2024 (September 30, 2024), debt held by the public was \$28.2 trillion, \$2 trillion higher than the prior fiscal year and almost 98 percent of gross domestic product (GDP). As of December 31, 2024, debt held by the public was \$28.7 trillion.

Figure 1: Federal Debt as of September 30, 2024, and Fiscal Year 2024 Gross Domestic Product (GDP)



Source: GAO analysis of data from the Department of the Treasury and Bureau of Economic Analysis. | GAO-25-107714

Debt held by the public

measures borrowing from sources outside the federal government—including the private sector (e.g., banks and investors), state and local governments, and foreign entities—as well as the Federal Reserve.

Intragovernmental debt represents balances of Treasury securities held by federal government accounts—for example, trust funds for Social Security and Medicare. These trust funds are typically required to invest excess revenue in federal securities. When federal government accounts redeem Treasury securities, Treasury usually borrows from the public to finance the redemptions.

Source: GAO and the Department of the Treasury. | GAO-25-107714

We compare debt held by the public to GDP because it helps relate the debt to the size of the economy supporting it (in this report when we refer to the debt-to-GDP ratio, we are comparing debt held by the public to GDP). The debt-to-GDP ratio increases when debt grows at a faster rate than GDP and it decreases when GDP grows at a faster rate than debt.

Why is debt growing so much?

Debt is growing because of increasingly large annual budget deficits, where spending exceeds revenue. When the government spends more than it collects in revenue, it typically borrows from the public to finance the resulting deficit. Debt held by the public is generally equal to the accumulated budget deficits over time.

Despite strong economic growth, the fiscal year 2024 deficit was more than \$1.8 trillion, **the fifth year in a row the deficit exceeded \$1 trillion.**

During fiscal years 2017–2024, the federal government added \$14 trillion to the debt. That is 50 percent of the total \$28.2 trillion debt held by the public as of September 30, 2024.



Historical Trends

For most of the nation’s history, debt held by the public relative to GDP increased during wartime and recessions but then decreased during peacetime and periods of economic growth. More recently, this pattern has changed, as the debt has grown even during times of economic growth.

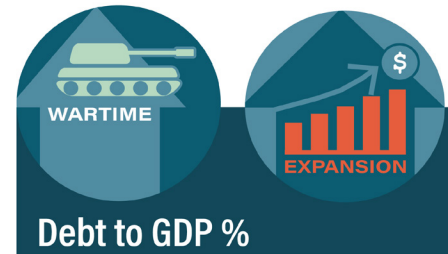
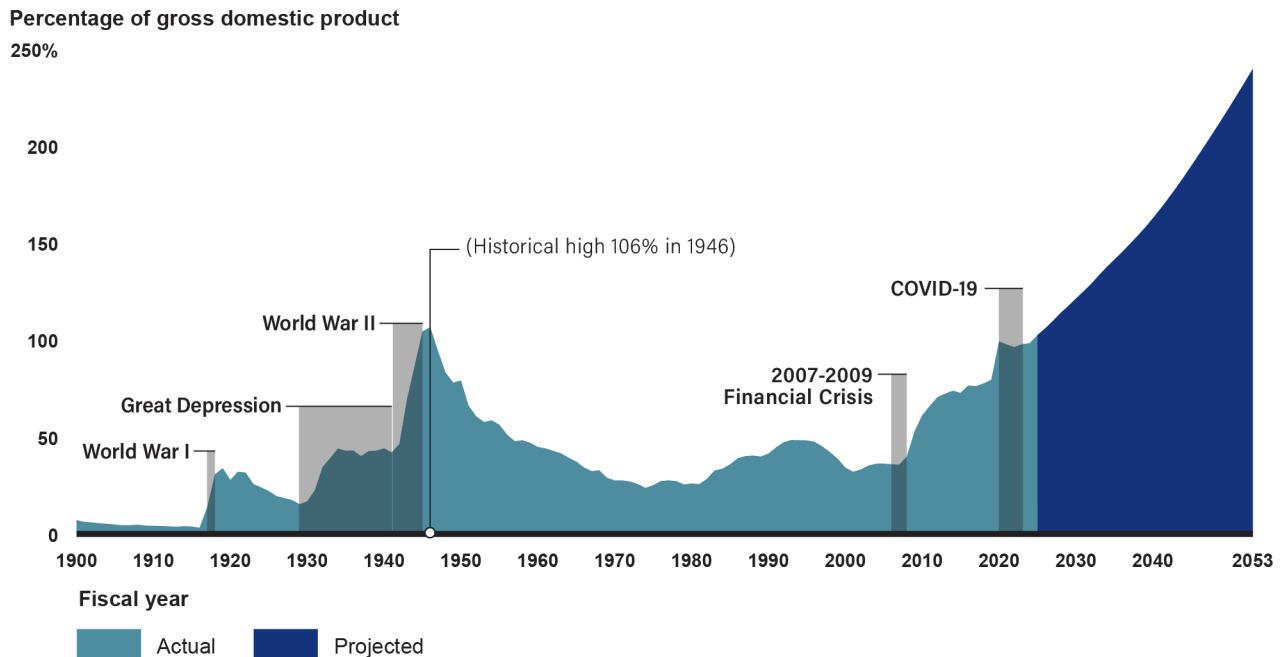


Figure 2: Debt Held by the Public as a Share of the U.S. Economy (GDP)



Source: Congressional Budget Office data and GAO simulation. | GAO-25-107714

Projections

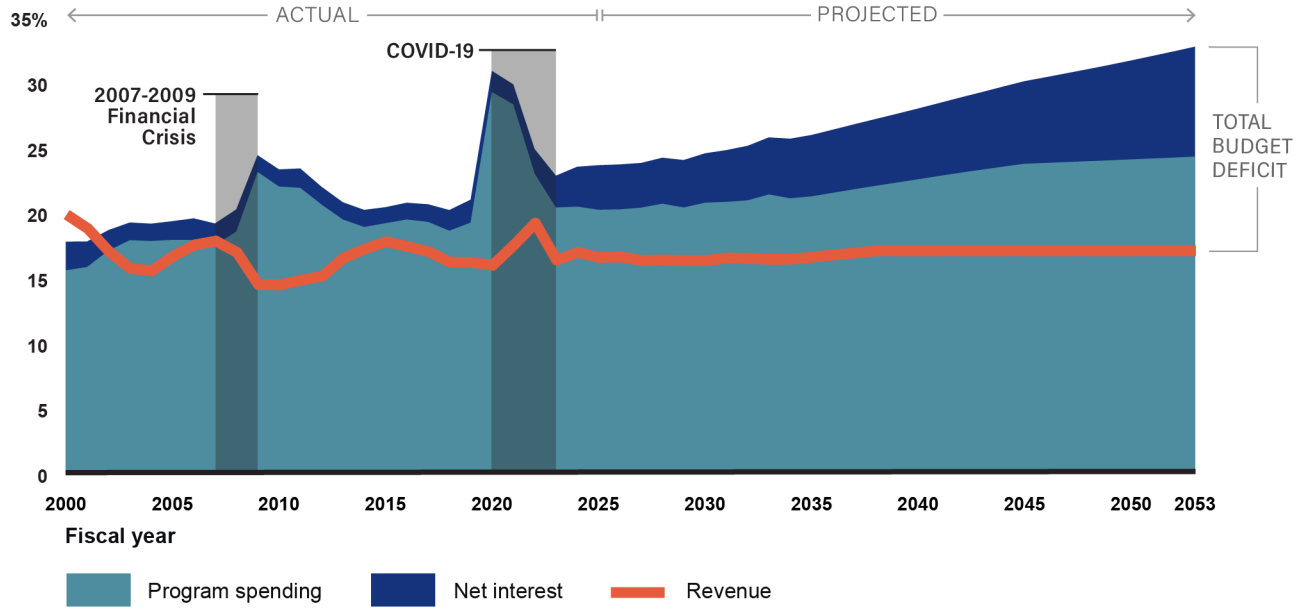
The nation’s fiscal outlook is projected to deteriorate as debt accumulates at a faster rate than the economy grows. Our simulation shows that under current revenue and spending policies:

- Debt held by the public will reach its historical high of 106 percent of GDP by 2027 (1 year earlier than we projected last year).
- Debt held by the public grows more than twice as fast as the economy over a 30-year period and reaches 200 percent of GDP by 2047 (3 years earlier than we projected last year).

In our simulation, based on current policies, the gap between spending and revenue increases over the long term, generating larger deficits relative to GDP each year (see app. I for more information). These increasing deficits require more borrowing, causing debt held by the public to grow at a faster rate than the economy. In our projections, spending increases in part because of higher interest costs resulting from larger debt balances.

Figure 3: Federal Government Spending and Revenue, Actual and Projected

Percentage of gross domestic product



Source: Congressional Budget Office data and GAO simulation. | GAO-25-107714

Implications

Perpetually rising debt as a share of GDP creates additional challenges and risks for federal fiscal management as well as for American households and individuals. For example:

Potential policy constraints. Borrowing (in lieu of higher taxes or lower government spending) may be appropriate during temporary challenges such as economic recessions, military conflicts, or public health crises. However, all else equal, as debt rises, interest costs rise and take up a greater share of federal spending, which may reduce policymakers' flexibility to respond to future economic downturns and other unexpected events.

Risks to economic growth. As [CBO has reported](#), perpetually rising debt as a share of GDP has many direct and indirect implications for the economy and individuals. For example, as the government's borrowing needs grow, interest rates could rise, causing investors to dedicate more of their capital to buying [Treasury securities](#)—such as bills, notes, and bonds. As a result, less capital may be available to invest in factories, new technologies, and other productive uses. As such investment falls, so too would workers' wages due to losses in productivity. Ultimately, economic growth could slow and federal income tax revenue could fall, requiring even more borrowing.

Risks to the nation's credit. The three main credit rating agencies have reduced their assessments of the federal government's creditworthiness. This change could affect the country's ability to borrow at affordable rates. According to the rating agencies, the federal government's rising publicly held debt burden and repeated debt limit impasses have eroded confidence in the nation's fiscal management.

Risk of a fiscal crisis. [CBO has stated](#) that high and rising federal debt as a share of the economy increases the risk of a fiscal crisis. If debt continues to accumulate and grow faster than the economy year over year, [investors may lose confidence](#) in the federal government's fiscal management and the U.S. economy. If interest rates rise abruptly as a result, Treasury may not be able to borrow money at affordable rates to finance government operations, benefit payments, and other critical spending. This outcome likely would necessitate drastic tax increases and decreases in government services and pose significant challenges to policymakers and the public.



SECTION 2

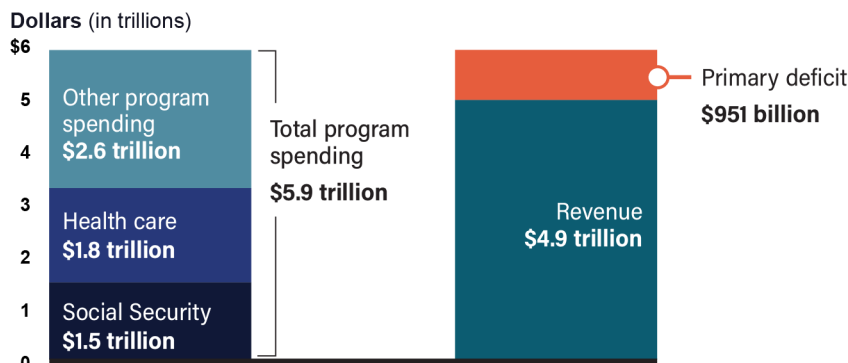
Trends in Primary Deficits

A primary deficit arises when the government spends more on programs than it collects in revenue during a fiscal year. The primary deficit does not include interest spending. The size and persistence of a primary deficit is a key indicator of a fiscal imbalance. Policymakers have more control over primary deficits because program spending and revenue are based on policy decisions. Interest spending is based on the debt that finances deficits resulting from the program spending and revenue decisions.

Current Condition

During fiscal year 2024, federal program spending was almost \$5.9 trillion, compared to revenue of around \$4.9 trillion, resulting in a primary deficit of almost \$1 trillion.

Figure 4: Federal Spending, Revenue, and Primary Deficit, Fiscal Year 2024



Source: GAO analysis of Monthly Treasury Statements. | GAO-25-107714

Components of program (non-interest) spending

Social Security spending includes the cost of Social Security benefits for the Old-Age and Survivors Insurance and the Disability Insurance programs.

Health care spending includes Medicare, the federal share of Medicaid, the Children’s Health Insurance Program, and subsidies for the health insurance exchanges established by the Patient Protection and Affordable Care Act.

Other program spending includes spending related to national defense, veterans’ benefits, homeland security, and transportation, among other areas.

Source: Department of the Treasury and GAO. | GAO-25-107714

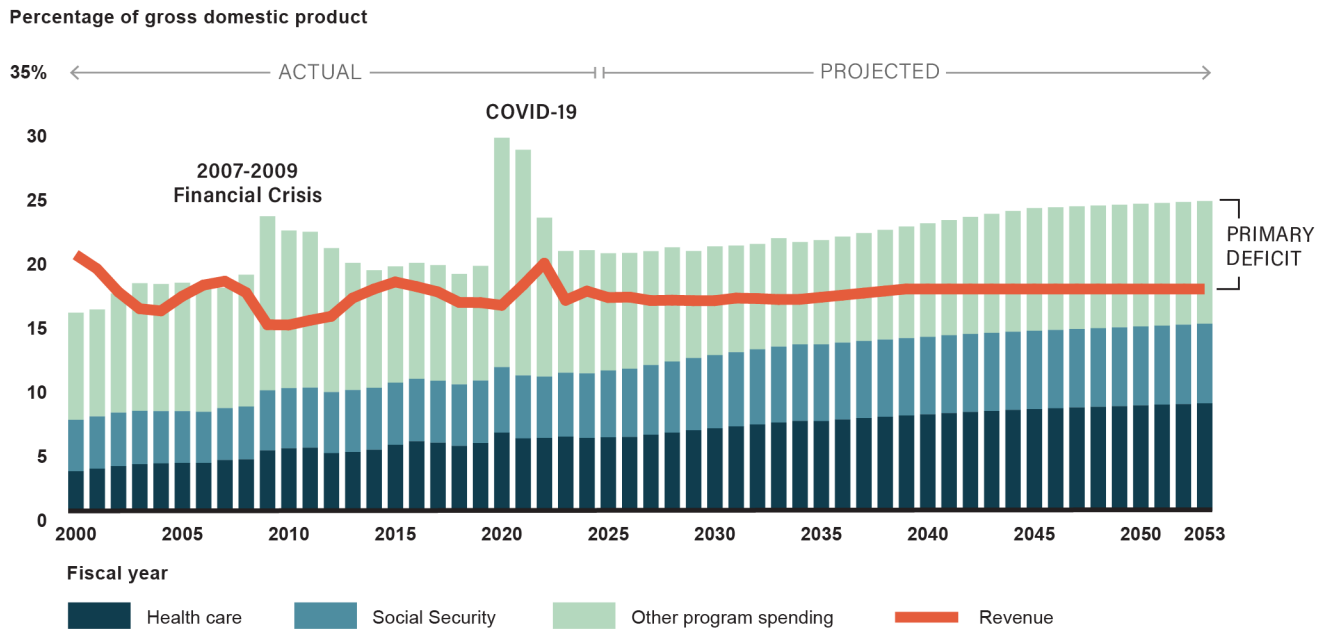
Historical Trends

Figure 5 shows the history of the primary deficit since fiscal year 2000, along with projections into the future. Notable trends include:

- Program spending has exceeded revenue each fiscal year since 2008.
- Federal health care programs—particularly Medicare—and Social Security made up about half of all program spending on average between 2008 and 2024.
- Spending on federal health care programs and Social Security increased markedly after 2008, when the first members of the baby boom generation became eligible for retirement benefits. As the U.S. population has aged, more individuals have begun receiving Medicare and Social Security benefits.



Figure 5: Composition of Federal Program Spending and Revenue







Source: Congressional Budget Office data and GAO simulation. | GAO-25-107714

In certain years, primary deficits increased suddenly and dramatically because of unexpected events that resulted in substantial revenue decreases, spending increases, or both. These events highlight the risk of fiscal exposures—responsibilities, programs, and activities that may legally commit the federal government to future spending or create expectations for future spending based on current policy, past practices, or other factors. For example, the country faced two extraordinary economic shocks caused by the 2007–2009 financial crisis and the COVID-19 pandemic. These emergencies sharply increased primary deficits because of reduced revenue and increased spending.

Such increases in primary deficits can result in substantial increases in debt. For example, debt held by the public increased from 79 percent of GDP in fiscal year 2019 to about 100% of GDP in fiscal year 2020, largely due to the federal government’s response to the COVID-19 pandemic. Table 1 lists examples of fiscal exposures and the scope and magnitude of recent responses.

Table 1: Examples of Fiscal Exposures and Their Implications

Fiscal Exposure	Implication
 <p>Natural Disasters and Climate Change</p>	<p>The federal government provides billions of dollars to help communities damaged by disasters—such as hurricanes, floods, wildfires, droughts, and earthquakes—rebuild infrastructure and improve their resilience to future damages. From 2015 to 2024, selected appropriations for disaster assistance were more than \$448 billion. Extreme weather events are expected to become more frequent and intense in parts of the U.S. due to changes in the climate.</p>
 <p>Global or Regional Military Conflicts</p>	<p>Military conflicts generally require substantial federal spending over time—both during and after a conflict. The scope and magnitude of any future military conflict could be large. From 2001 to 2021, Congress provided \$2 trillion primarily for contingency operations in Iraq and Afghanistan. More recently, Congress responded to Russia's invasion of Ukraine with funding of more than \$174 billion for U.S. agencies to provide arms to Ukraine, aid civilians, and more.</p>
 <p>Financial Crisis Risk</p>	<p>The 2007–2009 financial crisis threatened the stability of the U.S. financial system and economy. Many households suffered as a result of falling asset prices, tightening credit, and increasing unemployment. The Department of the Treasury provided hundreds of billions of dollars of capital and the Federal Reserve Banks provided more than \$1 trillion in emergency loans to financial institutions. While most of the capital and loans were repaid, the federal government continues to have substantial exposure to potential mortgage losses due to its financial support for Fannie Mae and Freddie Mac.</p>
 <p>Public Health Crises</p>	<p>Widespread public health crises can result in catastrophic loss of life and have devastating effects on the economy, costing trillions of dollars to mitigate. For example, in response to the COVID-19 pandemic, the federal government provided almost \$4.7 trillion in federal funds to protect public health and reduce economic impacts on individuals and businesses.</p>

Source: GAO. | GAO-25-107714

Spending and Revenue Projections

We project that the primary deficit will persist and widen over time, requiring more borrowing and adding to the debt. For example, in our simulation, the primary deficit in 30 years (2054) is 7.1 percent of GDP compared to 3.3 percent of GDP in 2024.

These projections reflect assumptions of spending and revenue levels that are consistent with current policy and historical trends (see appendix I for more details). The projections do not fully reflect fiscal exposures or economic shocks, which would worsen the government’s fiscal condition.

The fiscal outlook is unsustainable largely because spending is projected to increase faster than revenue.

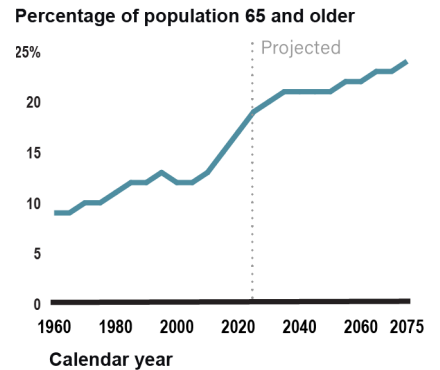
Program (non-interest) spending. Spending on Social Security, Medicare, and other federal health care programs is driving the projected growth in program spending. We project that in 30 years, federal spending on health care will reach 8.5 percent of GDP (up from 5.8 percent in 2023). We also project that spending on Social Security will reach 6.2 percent of GDP in 2054 (up from 5 percent in 2023).

The primary driver of the growth in these programs is the increase in the number of beneficiaries relative to the overall population as the population ages. In the next 5 years, more than 20 percent of the population will be 65 and older, according to projections from the Social Security Board of Trustees (see fig. 6). In addition, Medicare and other federal health care programs face increasing health care costs per beneficiary.

Revenue. Over the last 30 years, revenue has averaged 17.2 percent of GDP annually, whereas program spending has averaged 19.1 percent of GDP. The gap has been wider in the last 20 years, with revenue averaging 16.6 percent of GDP annually compared to annual average program spending of 20.4 percent of GDP. In our simulation, we assume that over the next 30 years revenue as a percent of GDP will match that of the prior 30 years. This level of revenue falls below projected spending levels, leading to annual primary deficits that persist and widen.

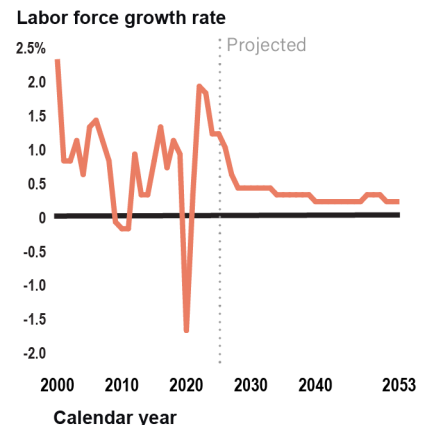
The main source of government revenue is tax receipts, primarily individual income taxes and payroll taxes (which fund Social Security and, in part, Medicare). Both taxes are affected by trends in the labor force. Higher rates of participation in the labor force tend to increase revenue as more people are working and paying payroll and income taxes. However, the labor force has been growing more slowly in recent years, and this trend is expected to continue (see fig. 7). This is due to the expected effects of lower fertility rates and, in the shorter term, the retirement of most of the remaining baby boomers. When individuals leave the workforce, in general, they are no longer earning income subject to payroll taxes and therefore do not owe payroll taxes and may owe less in income tax than when they were working.

Figure 6: Older Americans Are a Greater Share of the Total Population



Source: GAO analysis of Board of Trustees data. | GAO-25-107714

Figure 7: Actual and Projected Labor Force Growth



Source: GAO analysis of Congressional Budget Office data as of March 2024. | GAO-25-107714

Implications

The federal government’s revenue and spending policies currently are structurally unbalanced. Absent a change in fiscal policy, this imbalance is projected to worsen over time. This would require increasing levels of borrowing and, ultimately, more interest spending.

Reducing primary deficits—or having a primary surplus—during times of economic growth would give the nation flexibility to address fiscal exposures when they occur and slow the government’s growing interest obligations.

SECTION 3

Trends in Interest Spending

Interest spending is the product of the size of accumulated debt and interest rates. Interest spending can increase when the amount of debt grows, interest rates rise, or both. Net interest spending as a share of GDP is a key measure of fiscal sustainability.

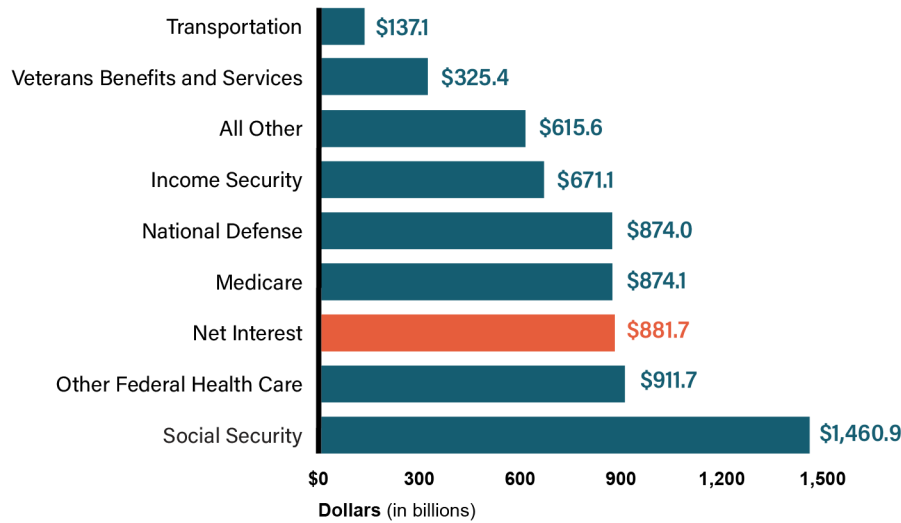
Current Condition

In fiscal year 2024, federal spending on net interest (primarily interest on debt held by the public) was \$881.7 billion, 3.1 percent of GDP. The government’s annual spending on net interest has more than tripled since 2017, when it was \$262.6 billion. Spending on net interest in fiscal year 2024 exceeded spending on some of the largest categories of federal spending—including Medicare and national defense—and is projected to continue to grow.

Net interest spending largely reflects the interest paid to holders of the debt that Treasury issues to the public. It is the government’s cost of financing the debt held by the public minus certain income from loans and other sources.

Source: GAO. | GAO-25-107714

Figure 8: Federal Spending Categories in Fiscal Year 2024



Source: GAO analysis of Department of the Treasury information. | GAO-25-107714

Note: These spending categories are reported by the Department of the Treasury as budget classifications. Income Security includes retirement, disability, unemployment, welfare, and similar programs (excluding Social Security and veterans’ retirement). The other federal health care category includes the federal share of Medicaid spending and all other federal spending on health care services (other than Medicare and veterans’ health benefits). For our purposes, the “All Other” spending category includes all other budget classifications not otherwise listed.

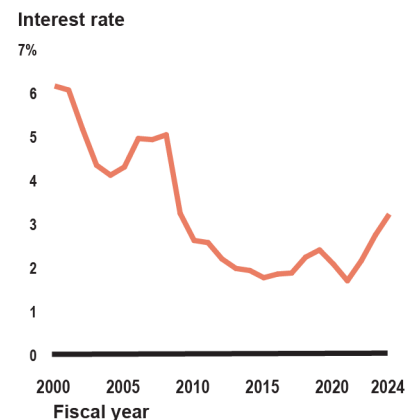
Historical Trends

Over the last 20 years, the government’s spending on net interest averaged about 1.5 percent of GDP (see fig. 10). That trend persisted even as the debt grew from 35 percent of GDP in 2003 to 97 percent of GDP in 2023.

Starting in 2009, interest rates dropped and remained at historically low levels until 2022 when they started to rise. Figure 9 shows average interest rates on debt held by the public from 2000 to 2024. We calculated that the average interest rate on debt held by the public was 3.2 percent as of September 30, 2024.

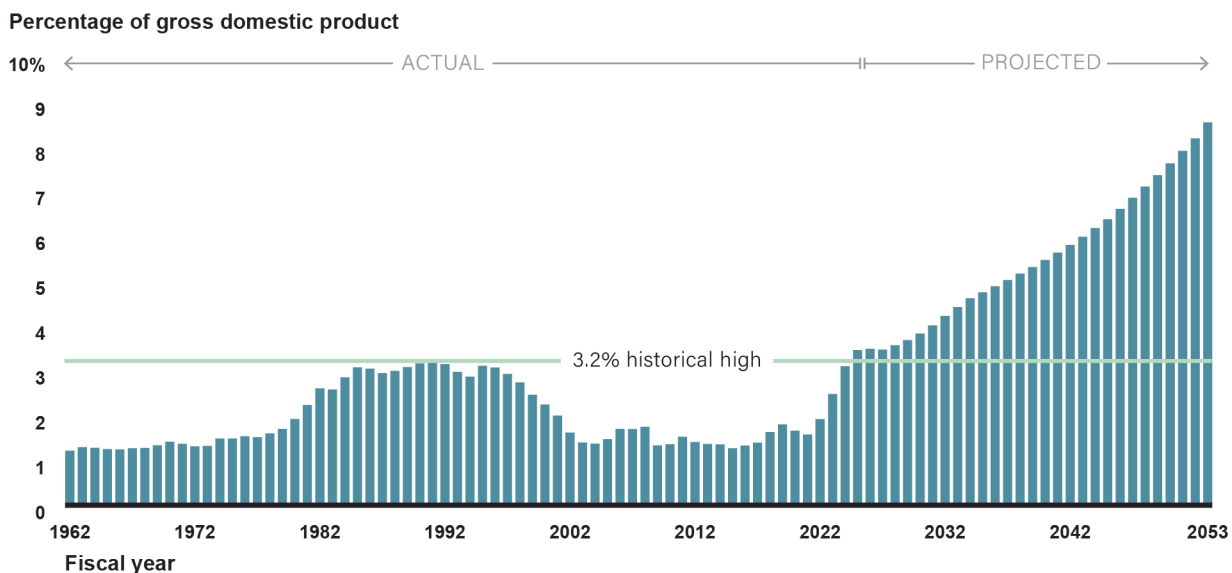
With a large balance of debt, moderate increases in interest rates can lead to significantly higher net interest spending. Spending on net interest is now approaching the historical high of 3.2 percent of GDP.

Figure 9: Average Interest Rate on Debt Held by the Public, Fiscal Years 2000 to 2024



Source: GAO analysis of Congressional Budget Office data. | GAO-25-107714

Figure 10: Annual Net Interest Spending as a Share of Gross Domestic Product



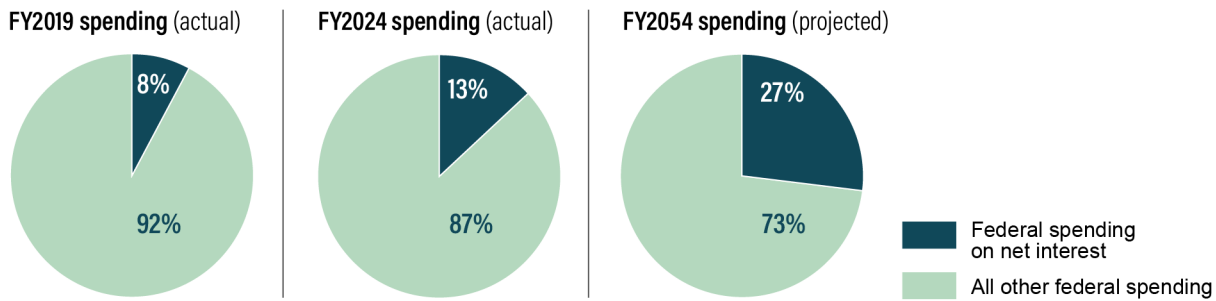
Source: Congressional Budget Office data and GAO simulation. | GAO-25-107714

Projections

In our simulation, federal spending on net interest grows faster than the economy—and reaches almost 9 percent of GDP in 30 years (2054)—three times the current historical high of 3.2 percent (see fig. 10). The driver of this increase is that the projected growing primary deficits require more borrowing, leading to the accumulation of more debt. With higher interest rates, each dollar the government needs to borrow will cost more.

We project that in 20 years (2045) spending for net interest will exceed Social Security (the largest federal program). Figure 11 shows that by 2054 spending on net interest will account for 27 percent of all federal spending (up from 8 percent in 2019).

Figure 11: Federal Spending on Interest Relative to Other Spending, Fiscal Years 2019, 2024, and 2054



Source: Congressional Budget Office and GAO simulation. | GAO-25-107714

Implications

All else equal, debt consistently growing faster than the economy may increase interest rates for the federal government (the cost of borrowing). **If investors lose confidence** in the federal government’s fiscal management and the U.S. economy, they would likely demand higher interest rates to offset the increased risks of holding U.S. debt.

Higher interest rates have implications for the government and for individuals and households. For example:

- The federal government will pay more interest on refinanced debt. Treasury regularly refinances the government’s maturing debt and issues more debt to finance new deficits at market interest rates. When interest rates on new debt are higher than those on the maturing debt, the interest cost to the government will be higher for the same amount of debt. As of December 31, 2024, \$17.2 trillion (61 percent) of outstanding marketable debt will mature within the next 4 years.

Higher interest rates for the U.S. government mean higher interest rates for individuals, households, and businesses. While benefiting savers, higher interest rates usually hurt Americans’ personal finances.

- The cost to individuals to borrow money—for example to purchase a car or home—will likely be higher. Someone taking out a loan will likely have less money to spend on other priorities.
- All else equal, higher interest rates for businesses result in less investment. Less business investment can lead to lower wages. Likewise, when businesses invest less in technologies that make it easier and cheaper to produce goods and services, prices are likely to increase, and shortages may be more likely.



SECTION 4

A Strategy Is Needed

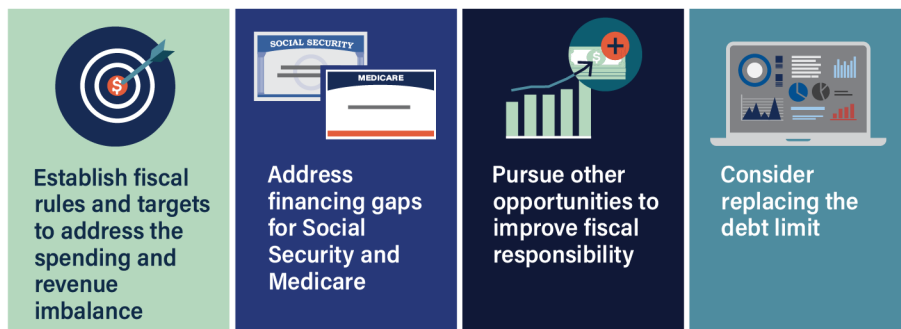
Since 2017, we have suggested that Congress develop a strategy to place the government on a sustainable fiscal path—where government spending and revenue result in a stable or declining ratio of debt held by the public to GDP over the long term.

A strategy can provide a cohesive picture of the government’s long-term goals. It can also serve as a mechanism for building consensus around these goals, as well as a road map for achieving them. We have reported on four elements the strategy could include (see fig. 12).

In the 118th Congress, six pieces of legislation were introduced that, if passed, would have created a commission to address the federal government’s long-term fiscal outlook: H.R. 710 (2023); H.R. 5779 (2023); S.3262 (2023); H.R. 6927 (2024); S.Amdt.2120 to S.4638 (2024); S.Amdt.1997 to H.R. 3935 (2024).

Source: GAO analysis of legislation proposed in the 118th Congress. | GAO-25-107714

Figure 12: Potential Elements of a Long-term Fiscal Strategy



Source: GAO analysis and illustrations. | GAO-25-107714

Establish fiscal rules and targets to address the spending and revenue imbalance

Well-designed fiscal rules and targets should be included as part of any strategy to put the federal government on a sustainable fiscal path. [As we reported in 2020](#), clear, transparent fiscal rules and targets can contribute to a culture of fiscal transparency and promote fiscal sustainability for the country. Table 2 lists several examples of broad fiscal rules.

Table 2: Examples of Fiscal Rules

Rule	Description
Budget balance rules	Constrains deficit levels or targets a budget surplus. This could include a rule that targets a specific primary deficit or surplus over a specified period.
Debt rules	Sets a target for debt held by the public, typically as a share of gross domestic product (a debt-to-GDP target).
Revenue rules	Sets ceilings or floors on revenues and aims to increase revenue collection or prevent excessive tax burdens.
Expenditure rules	Limits spending, typically in absolute terms or growth rates, and occasionally as a share of GDP.

Source: GAO. | GAO-25-107714

Within these broad rules, there are many considerations for the design, implementation, and enforcement of any combination of fiscal rules. The weight given to these considerations depends on the strategy's specific goals. For example, a rule could require changes to fiscal policy to achieve a specific ratio of debt held by the public-to-GDP. The magnitude of the required changes—which we refer to as the fiscal gap—will vary with the goal selected and with the time horizon chosen.

For the purposes of this report, we show the fiscal gap and measures of policy change needed to reach three different debt-to-GDP targets over a 30-year period (see table 3). We provide this analysis not to suggest or endorse any particular path but to illustrate the magnitude of change needed to achieve a particular outcome.

The fiscal gap is a measure of how much primary deficits must be reduced through policy changes (some combination of revenue increases or spending cuts) over a period to reach a target ratio of debt-to-GDP.

For example, based on our simulation, in order to have a 100 percent debt-to-GDP ratio in 2053 (close to 2024 levels), primary deficits would need to be reduced by \$42.6 trillion (in present value dollars) over the 30-year period. According to our analysis, this debt-to-GDP ratio could be achieved by increasing projected annual revenues by 27.9 percent, cutting projected annual program spending by 21.3 percent annually, or making some combination of both revenue increases and program spending cuts that achieves the \$42.6 trillion reduction in primary deficits.

Source: GAO. | GAO-25-107714

Table 3: Deficit Reduction Needed to Close the Fiscal Gap in 30 Years

Projected debt-to-GDP ratio at the end of 30 years (2053) assuming no policy changes	Target debt-to-GDP ratio at the end of 30 years (2053)	Total deficit reduction needed over 30 years to meet target (present value dollars)	Projected annual revenue increase needed (if no change in spending) (percentage)	Projected annual program spending reduction needed (if no change in revenue) (percentage)
	80%	\$48.8 trillion	32.0%	24.4%
240% debt/GDP	100%	\$42.6 trillion	27.9%	21.3%
	120%	\$36.3 trillion	23.8%	18.2%

Source: GAO simulation. | GAO-25-107714

This type of analysis also underscores the urgency to act sooner rather than later. Closing the fiscal gap will require difficult policy decisions to address the structural imbalance between revenue and spending. All else equal, enacting options that reduce the primary deficit would also reduce interest costs. The amount would depend on when the options were implemented. The sooner the primary deficit is reduced, the greater the savings on interest costs would be.

Narrowing the fiscal gap with revenue increases

Revenue to the federal government is mostly collected through individual income taxes, payroll taxes, and corporate taxes. All else equal, an increase in tax rates usually results in an increase in revenues. CBO has identified other options that could increase revenue, such as increasing the maximum taxable earnings that are subject to the Social Security payroll tax or imposing a federal tax on the consumption of goods and services, such as a value added tax.

Likewise, a reduction in tax expenditures—deductions, exclusions, and credits—generally will result in an increase in revenues. We estimated that in fiscal year 2024 tax expenditures reduced income tax revenue by approximately \$1.6 trillion (although the total change in tax revenues from repealing tax expenditures could differ from the sum of the estimates because of possible interactions among individual tax expenditures or outlay effects from refundable tax credits). We continue to emphasize the importance of reviewing these types of tax policies to determine how, if at all, they are achieving their intended policy goals.

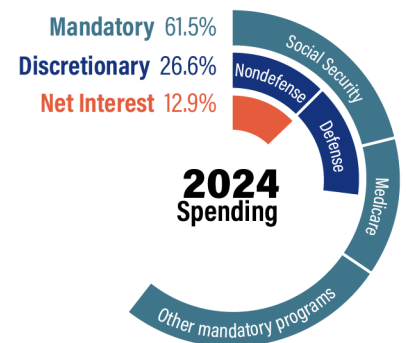
Narrowing the fiscal gap with program spending reductions

Federal program spending can be grouped into discretionary and mandatory spending.

- Mandatory spending** makes up over 60 percent of all federal spending. It refers to budget authority that is typically provided in laws other than appropriation acts and may not undergo congressional review as part of the annual appropriations process. Changing mandatory programs—like Social Security and Medicare—requires amending the relevant authorizing laws to modify eligibility or benefits or to adjust funding levels.
- Discretionary spending** is provided and controlled by appropriation acts. These appropriation acts fund an array of federal activities: almost all defense spending, agencies’ operating budgets, medical care for veterans, grant programs including education and medical and scientific research, transportation, and homeland security. As a share of federal spending, discretionary spending has been declining.

CBO has also identified options for reducing mandatory and discretionary spending.

Figure 13: 2024 Spending



Source: Congressional Budget Office. | GAO-25-107714



Address financing gaps for Social Security and Medicare

The federal government maintains trust funds to finance Social Security's Old Age and Survivors Insurance and Disability Insurance programs and Medicare's Hospital Insurance program (Medicare Part A). In recent years, program revenue (mostly from payroll taxes) for the Old Age and Survivor's Insurance program and Medicare Part A has not been enough to cover benefit payments and the programs have been drawing on the trust fund reserves to pay benefits. [These two trust funds are projected](#) to be depleted in 2033 and 2036, respectively.

Once these trust funds' reserves are depleted, the programs would be financed only by annual program revenue, which will not be enough to support the full amount of promised benefits. Absent new legislation:

- Starting in 2033, Social Security's Old Age and Survivor's Insurance program revenue will be sufficient to pay about 79 percent of scheduled retirement and survivor benefits.
- Starting in 2036, Medicare Part A's program revenue will be sufficient to pay about 89 percent of scheduled benefits for inpatient hospital and post-acute care.
- The Social Security Disability Insurance trust fund is projected to be able to pay full benefits through the end of the projection period.

Changing the trajectory of the programs' finances will require some additional income, cost reductions, or a combination of both. [We developed](#) a broad framework to help evaluate Social Security reform proposals.

Almost all Americans have a stake in the financial condition of Medicare and Social Security.

In 2023, more than 183 million people contributed to the programs through payroll taxes and about 67 million people were covered by Medicare and received Social Security benefit payments.

Source: Centers for Medicare & Medicaid Services and Social Security Administration. | GAO-25-107714



Pursue other opportunities to improve fiscal responsibility

Addressing the following areas could help reduce the deficit by hundreds of billions of dollars. These actions would not require major changes to spending and revenue policies, but they alone are not sufficient to address the nation's fiscal imbalance.

Reduce improper payments and improve fraud risk management.

Improper payments—payments that should not have been made or that were made in an incorrect amount, whether due to fraud or error—have consistently been a government-wide issue. Since fiscal year 2003, cumulative improper payment estimates have totaled about \$2.9 trillion, including \$162 billion for fiscal year 2024, which does not include

Improper payments and fraud are two distinct concepts that are related but not interchangeable. Improper payments are payments that should not have been made or that were made in an incorrect amount. We define fraud as the act of obtaining something of value through willful misrepresentation. While all fraudulent payments are considered improper, not all improper payments are due to fraud.

Source: GAO. | GAO-25-107714

estimates for certain risk-susceptible programs. We have identified [a number of steps](#) that Congress and federal agencies could take to help reduce the likelihood of federal improper payments and save taxpayer funds.

All federal programs and operations are at risk of fraud. For example, [in April 2024](#), we estimated that the federal government lost between \$233 billion and \$521 billion annually from fraud, based on data from fiscal years 2018 through 2022. Although this estimate was not based on a predictive model, it provides some indication of the scope and magnitude of the problem and underscores the need for a government-wide approach. We made recommendations to the Office of Management and Budget and Treasury to support fraud estimation in order to help strengthen antifraud efforts and promote fiscal sustainability government-wide.

Increase tax compliance. The tax gap—the difference between what taxpayers owe and the amount they pay voluntarily and on time—has also been a persistent challenge. In October 2024, [the Internal Revenue Service projected](#) that the net tax gap was \$606 billion during the 2022 tax year. We have identified [various actions](#) that could reduce the tax gap.

Reduce and better manage fragmentation, overlap, and duplication. In 2024, we issued our [14th annual report](#) to the Congress on federal programs, agencies, offices, and initiatives that have duplicative goals or activities, as well as opportunities to achieve greater efficiency and effectiveness that result in cost savings or enhanced revenue collection. Actions taken by federal agencies and Congress on these issues have resulted in [\\$667 billion in financial benefits](#) since fiscal year 2010. We estimate that fully addressing unimplemented [matters for congressional consideration](#) and [recommendations to federal agencies](#) could result in additional savings of tens of billions of dollars and improved government services, among other benefits.



Consider replacing the debt limit

The current debt limit process separates decisions on revenue and spending from decisions on debt. As a result, the government periodically runs out of borrowing authority needed to pay existing, legally committed obligations. Predictions about when this will happen—the “X-date”—are inherently imprecise due to the unpredictable size and timing of federal cash flows. Consequently, last-minute negotiations on the debt limit can increase the risk of a default on the government debt and other obligations. Further, these negotiations do not directly address structural imbalances between spending and revenue.

A default would disrupt financial markets with immediate, potentially severe consequences for businesses and households. A default could also inflict long-lasting damage on the economy and could worsen the fiscal outlook.

Our work has shown that even without a default, a debt limit impasse can be costly. For example, during prior impasses, financial indicators showed that investors demanded a greater return for the increased risk of default. In 2015, we identified [alternative approaches to the debt limit process](#) and in December 2024 [recommended that Congress](#) consider immediately replacing it with an approach that links debt decisions to spending and revenue decisions at the time they are made.

The current debt limit is a legal limit on the total amount of outstanding federal debt. It is not a fiscal rule because it is an after-the-fact measure that restricts the Department of the Treasury's authority to borrow and finance the spending and revenue decisions that Congress and the President have already enacted. Raising the debt limit does not authorize new spending.

Source: GAO. | GAO-25-107714

This report summarizing the fiscal health of the federal government was conducted under the authority of the Comptroller General.

We conducted our work from July 2024 to January 2025 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product.

We are sending copies of this report to the Senate Majority and Minority leaders; House of Representatives Majority and Minority leaders; Senate Committee on Appropriations; Senate Committee on the Budget; House Committee on Appropriations; House Committee on the Budget; the Secretary of the Treasury, and the Director of the Office of Management and Budget. In addition, this publication will be available at no charge on GAO's website at <http://www.gao.gov>.

This publication was prepared under the direction of Jeff Arkin, Director, Strategic Issues, who may be reached at (202) 512-6806 or arkinj@gao.gov; Robert F. Dacey, Chief Accountant, who may be reached at (202) 512-3406 or dacey@gao.gov; and Dawn B. Simpson, Director, Financial Management and Assurance, who may be reached at (202) 512-3406 or simpsondb@gao.gov if there are any questions. GAO staff who made key contributions to this publication are listed in appendix II. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this publication.

Gene L. Dodaro

A handwritten signature in black ink that reads "Gene L. Dodaro". The signature is written in a cursive, flowing style with a long horizontal stroke extending to the right.

Comptroller General of the United States

APPENDIX I

Methodology and Design of GAO's Fiscal Simulation

GAO's simulation illustrates the nation's fiscal outlook under current policy, which reflects recent trends in policy and budget that in some cases differ from current law. Despite uncertainty about the future, projections can help policymakers and the public assess the urgency and magnitude of reforms necessary to make fiscal policy sustainable. A sustainable fiscal policy is one where government spending and revenue policy cause debt held by the public to grow at the same or slower rate than the economy.

Simulation Assumptions and Methodology

For this 2025 update, the first projection year in our simulation is 2024. The assumptions and values reflect information available as of December 2024. For certain key fiscal year 2024 values, we used actual data from the Department of the Treasury and the Bureau of Economic Analysis.

GAO's simulation uses projection values from the [Congressional Budget Office's \(CBO\) budget and economic projections as of June 2024](#). In January 2025, CBO released an update of its [10-year outlook](#). We reviewed the changes in the values of key economic assumptions from the June 2024 outlook and determined that the updates would not materially affect the outcome of GAO's simulation.

The simulation also uses projection values from [the May 2024 reports](#) by the Boards of Trustees of the Social Security and Medicare trust funds. The Social Security Act established the Social Security and Medicare Boards of Trustees to oversee the financial operations of the Social Security and Medicare trust funds. They are required to report annually to Congress on the financial and actuarial status of the trust funds. The boards are composed of the Secretaries of the Treasury, Health and Human Services, and Labor; the Commissioner of Social Security; and two public trustees who are appointed by the President and confirmed by the Senate. The public trustee positions have been vacant since 2015.

We construct our simulation based on recent trends in policy and budget, which in some cases differs from current law. For example, we assume that:

- Social Security and Medicare will continue to pay benefits as scheduled under current law, regardless of the status of the programs' trust funds.
- Certain expiring tax provisions will be extended or made permanent. To do this, we use revenue estimates from [CBO's Policy Alternatives report](#). For example, most of the individual income tax provisions of the 2017 tax act (Pub. L. No. 115-97, 131 Stat. 2054 (2017)) expire at the end of calendar year 2025.

- Budgetary caps (sequestration) are not implemented. To do this we add back in CBO’s estimates of the effects of sequestration on Medicare and other mandatory spending.
- Projected spending and borrowing levels are not constrained by potential debt limit considerations.
- In later projection years, some variables remain constant as a percentage of GDP, including revenue and some spending variables. This may imply tax increases or decreases relative to current policy. Because we assume real GDP grows over time, this also implies an increase in real spending over time.

Table 4 lists key projection values for certain fiscal and economic variables in GAO’s simulation (as of December 2024). Tables 5 and 6 summarize key budget and economic assumptions in the simulation, from which we derive the key sustainability metrics highlighted in this annual report:

- **Primary balance (deficit or surplus)** is the difference between program spending and revenue in a fiscal year. A primary deficit occurs if program spending is more than revenue collected. A primary surplus will occur if revenue exceeds program spending.
- **Debt held by the public** is the prior year’s debt held by the public (the value of cumulative debt held by the public as of September 30 of that year) plus the projected deficit and other means of financing in that year.
- **Net interest spending** is derived by multiplying the projected interest rate by the prior year’s debt held by the public.

Table 4: GAO Simulation as of December 2024: Summary of Key Projections

Variable	2024	2025-2034 (annual average)	2035-2054 (annual average)	2055-2098 (annual average)
Revenue (percent of gross domestic product (GDP))	17.1	16.5	17.1	17.2
Program spending (percent of GDP) ^a	20.4	20.7	23.2	25.9
<i>Federal health care (percent of GDP)^b</i>	5.7	6.5	7.9	9.7
<i>Social Security (percent of GDP)</i>	5.0	5.6	6.1	6.6
Total spending (percent of GDP) ^c	23.4	24.5	29.6	41.1
Nominal interest rate on debt held by the public (percent)	3.4	3.5	3.6	3.8
Inflation rate (percent)	2.4	2.0	2.0	2.0
Real GDP growth rate (percent)	3.0	1.8	1.9	1.9

Source: GAO simulation. | GAO-25-107714

Notes:

^aProgram spending is total spending less net interest spending. Federal health care and Social Security spending are key categories of program spending.

^bFederal health care spending consists of Medicare, Medicaid, the Children’s Health Insurance Program, and subsidies for insurance purchased through the health insurance exchanges.

^cTotal spending (outlays) is program spending plus net interest spending in a fiscal year.

Table 5: GAO’s Long-Term Simulation: Selected Budget Assumptions

Variable	Assumption
Revenue	<p>Revenue consists of revenue from individual income taxes, Social Security and Medicare payroll taxes, corporate income taxes, and other revenue.</p> <p>For the first 11 years of projections, GAO adjusts the Congressional Budget Office’s (CBO) baseline revenue projections based on the assumption that certain temporary tax provisions will be extended. In year 12 of the projection, GAO phases to the 30-year historical average (17.4 percent of gross domestic product (GDP)).</p>
Program spending	
Discretionary spending	<p>For the first 11 years of projections, GAO uses CBO’s baseline 10-year projections. In year 12 of the projection, GAO phases to the 30-year historical average for discretionary spending as a share of GDP (7.2 percent). This includes defense and nondefense discretionary spending.</p>
Social Security spending	<p>For the first 11 years of projections, GAO uses CBO’s baseline 10-year projections. Starting in year 12 of the projection, GAO phases to the Social Security Board of Trustees’ intermediate cost projections.</p>
Medicare spending	<p>Medicare spending is net of premiums and other offsetting revenue.</p> <p>Gross Medicare spending: GAO uses the Medicare Board of Trustees’ alternative projections for the 75-year projection period.</p> <p>Offsetting revenue: GAO uses the Medicare Board of Trustees’ projections.</p>
Federal spending on other health care	<p>This spending category includes Medicaid, the Children’s Health Insurance Program, and subsidies for insurance purchased through the health insurance exchanges.</p> <p>For the first 11 years of projections, GAO uses CBO’s baseline 10-year projections.</p> <p>For years 12 through 31, GAO phases to CBO’s 30-year projections for spending as a percent of GDP. In year 32 of the projection, GAO extends the data by continuing the growth of spending as a percent of GDP at the implied growth rate between the last 2 years of CBO’s 30-year projection data.</p>
Other mandatory spending	<p>For the first 11 years of projections, GAO uses CBO’s baseline 10-year projections. Starting in year 12 of the projection, GAO holds other mandatory spending constant as a percent of GDP using the last year of CBO’s baseline 10-year projections.</p>

Source: GAO. | GAO-25-107714

Note: The Congressional Budget Office’s 10-Year Budget Projections span the years 2024-2034 and thus contain 11 years of projections.

Table 6: GAO’s Long-Term Simulation: Selected Economic Assumptions

Variable	Assumption
Real gross domestic product (GDP) growth rate	For the first 11 years of projections, GAO uses the nominal GDP and GDP price index projections from the Congressional Budget Office’s (CBO) baseline 10-year projections from June 2024. Starting in year 12, GAO grows real GDP at the rate underlying the Social Security Board of Trustees’ intermediate scenario projections.
Nominal average interest rate (on debt held by the public)	For the first 11 years of projections, GAO derives the rate implied by CBO’s projected net interest payments and debt held by the public. For years 12-31, GAO phases to CBO’s 30-year projections for nominal interest rates. Starting in year 32 of the projection period, GAO holds the interest rate constant at 3.8 percent, which is the rate in the last year of CBO’s 30-year projections from June 2024.
Rate of inflation (as percentage change in GDP price index)	For the first 11 years of projections, GAO uses the projected percent change in the GDP price index from CBO’s baseline 10-year projections. Starting in year 12 of the projection, GAO grows the price index at 2.0 percent per year, which is the inflation rate implied by the last 2 years of CBO’s baseline 10-year projections from June 2024.

Source: GAO. | GAO-25-107714

Note: The Congressional Budget Office’s 10-Year Budget Projections span the years 2024–2034 and thus contain 11 years of projections.

APPENDIX II

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