THE NATION'S FISCAL HEALTH

Urgent and Sustained Action Needed to Improve the Fiscal Outlook

Accessible Version

Annual Report to Congress
JUNE 2026

U.S. GOVERNMENT ACCOUNTABILITY OFFICE GAO

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June 11, 2026

The President
The President of the Senate
The Speaker of the House of Representatives

The federal government's long-term fiscal outlook presents risks and challenges that must be confronted. Nearly every year this century, the government has spent more than it collected in revenue. To finance these deficits, the government has had to borrow by issuing debt.

The federal government's level of debt—and the annual interest it pays on the debt—are quickly approaching unprecedented levels relative to the size of the economy. If current spending and revenue policies continue, the nation's fiscal outlook is projected to deteriorate as debt accumulates at a faster rate than the economy grows.

This unsustainable fiscal outlook poses serious economic, national security, and societal challenges, potentially including lower wage growth, higher prices, and higher interest rates for household and business loans. It also underscores the importance of addressing other government-wide challenges and programs at high risk for fraud, waste, abuse, and mismanagement.

We continue to recommend that Congress and the administration develop a strategy to address the government's unsustainable fiscal outlook. As part of this strategy, spending and revenue policies should be aligned to reduce persistent deficits and reduce the nation's borrowing needs and associated interest costs. Relatedly, the current debt limit process should be restructured. Congress and the administration will need to make difficult budgetary and policy decisions to address the key drivers of debt and improve the government's fiscal outlook. The longer actions are delayed, the more dramatic they will need to be.

We produce this annual fiscal health report to examine the fiscal outlook of the federal government based on current policy. The following sections highlight the results of our fiscal projections using information available as of February 2026. The methodology and selected assumptions are described in appendix I.

SECTION 1

Debt as a Share of the Economy Is Projected to Grow at an Unsustainable Rate

At the end of fiscal year 2025, debt held by the public was $30.2 trillion, 99 percent of gross domestic product. Our projections show that under current revenue and spending policies, the fiscal outlook will deteriorate as debt held by the public grows faster than GDP:

- Debt held by the public will reach its historical high of 106 percent of GDP by 2029.
- Debt held by the public will grow about twice as fast as the economy over the next 10 years, reaching 123 percent of GDP in 2036. In 30 years, we project debt held by the public will be 251 percent of GDP.

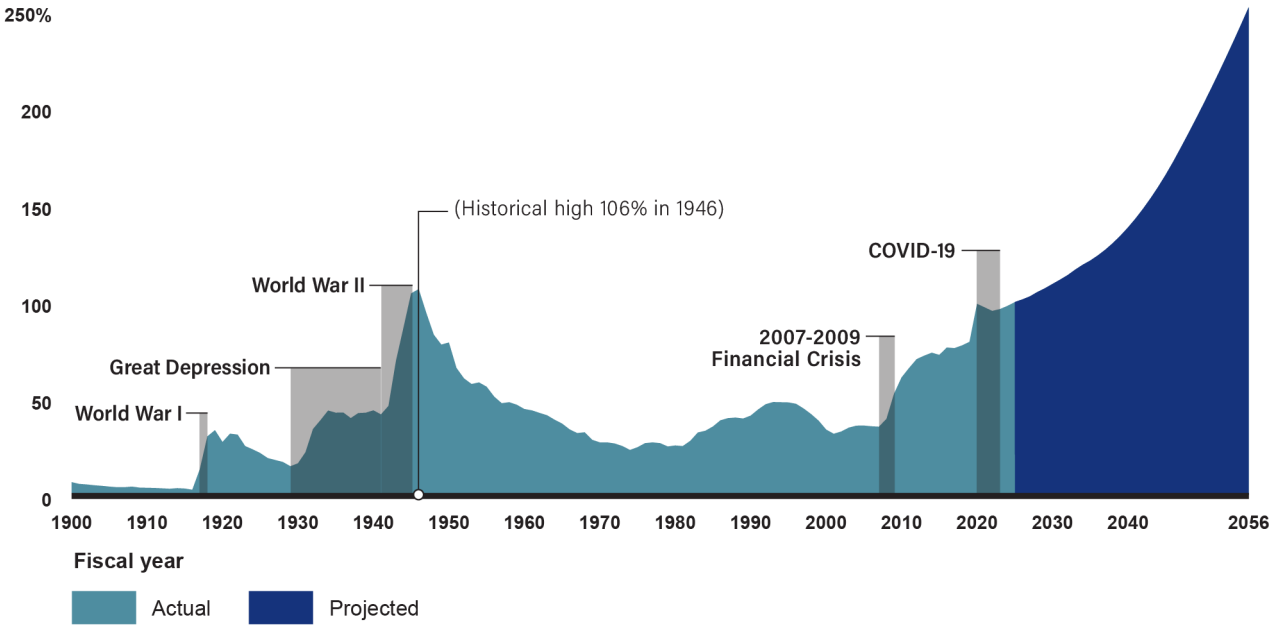
Over the long term, it is unsustainable for debt to grow faster than the economy grows.

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.

Figure 1: Debt Held by the Public Is Projected to Grow Faster Than the Economy

Source: GAO and the Department of the Treasury. | GAO-26-108610



Source: Congressional Budget Office data and GAO simulation. | GAO-26-108610

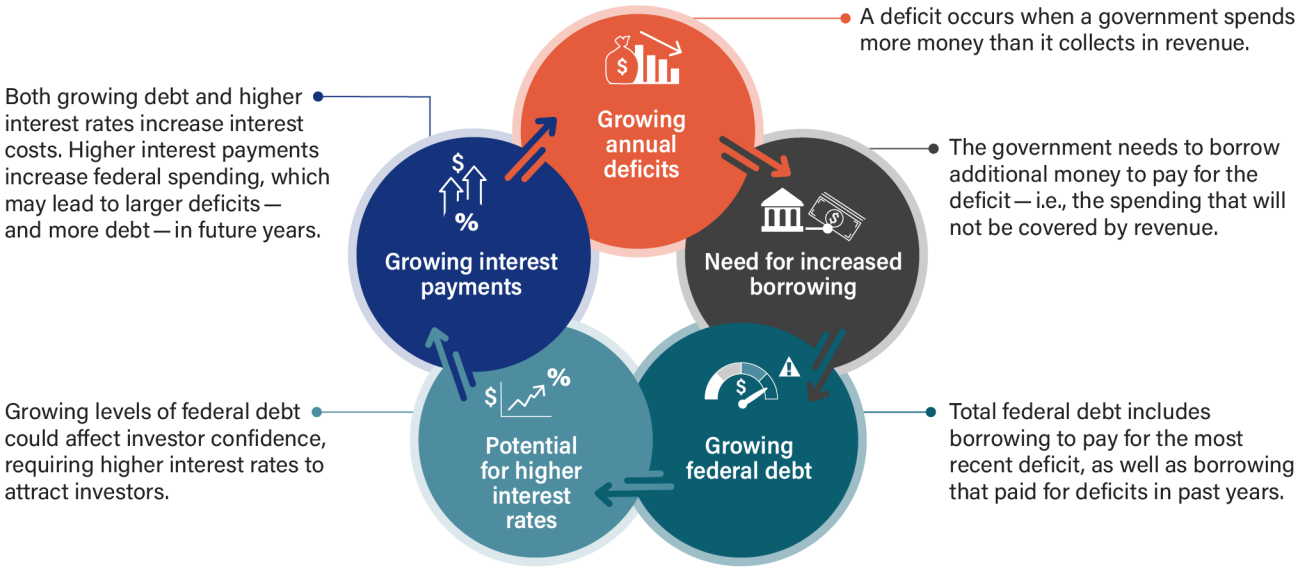
Why is U.S. debt projected to grow so much?

The debt outlook is the result of a **structural imbalance between government spending and revenue**, resulting in persistent and increasing budget deficits. For most of the nation's history, debt held by the public relative to GDP rose during wartime and recessions—when government spending sharply increased or revenue sharply decreased. Debt then fell during peacetime and periods of economic growth—when spending and revenue returned to more typical levels.

Over the past two decades, this pattern has changed, as debt held by the public has grown faster than the economy even during times of economic growth, as shown in figure 1 on the prior page.

The government finances annual deficits by issuing federal debt (Treasury bills, notes, and bonds) to domestic and foreign investors (debt held by the public). The government must pay interest to the investors: this is the cost of borrowing. As debt grows, interest rates can increase, which further increases borrowing costs.

Figure 2: Deficits, Debt, and Interest Payments Are Connected

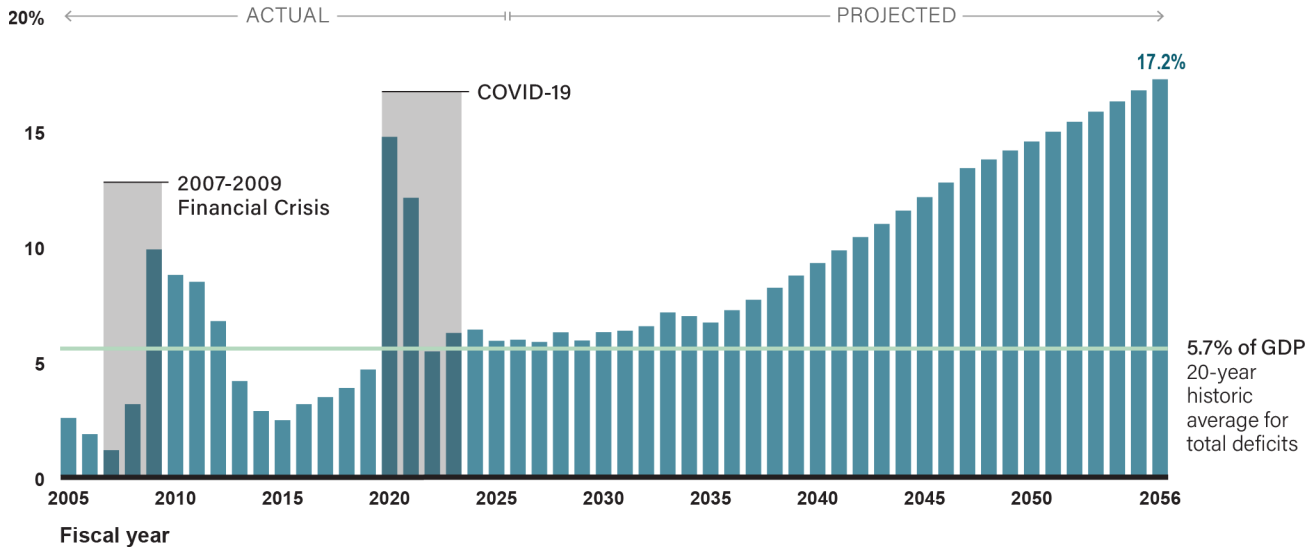


Source: GAO analysis. | GAO-26-108610

Debt held by the public is driven by accumulated budget deficits over time. For over two decades, the government has spent more than it collected in revenue each year. Additionally, the government incurred large deficits while responding to the extraordinary economic shocks of the 2007–2009 Financial Crisis and the COVID-19 pandemic. This resulted in a rapid accumulation of outstanding debt held by the public. Under current spending and revenue policies, deficits are projected to remain well above the historical average indefinitely.

Figure 3: Persistent Budget Deficits Are Projected to Grow

Annual budget deficit as a percentage of gross domestic product



Source: GAO analysis of Congressional Budget Office data and GAO simulation. | GAO-26-108610

Our projections reflect expected government spending and revenue under current policy (see appendix I for more details).

Why does the fiscal outlook matter?

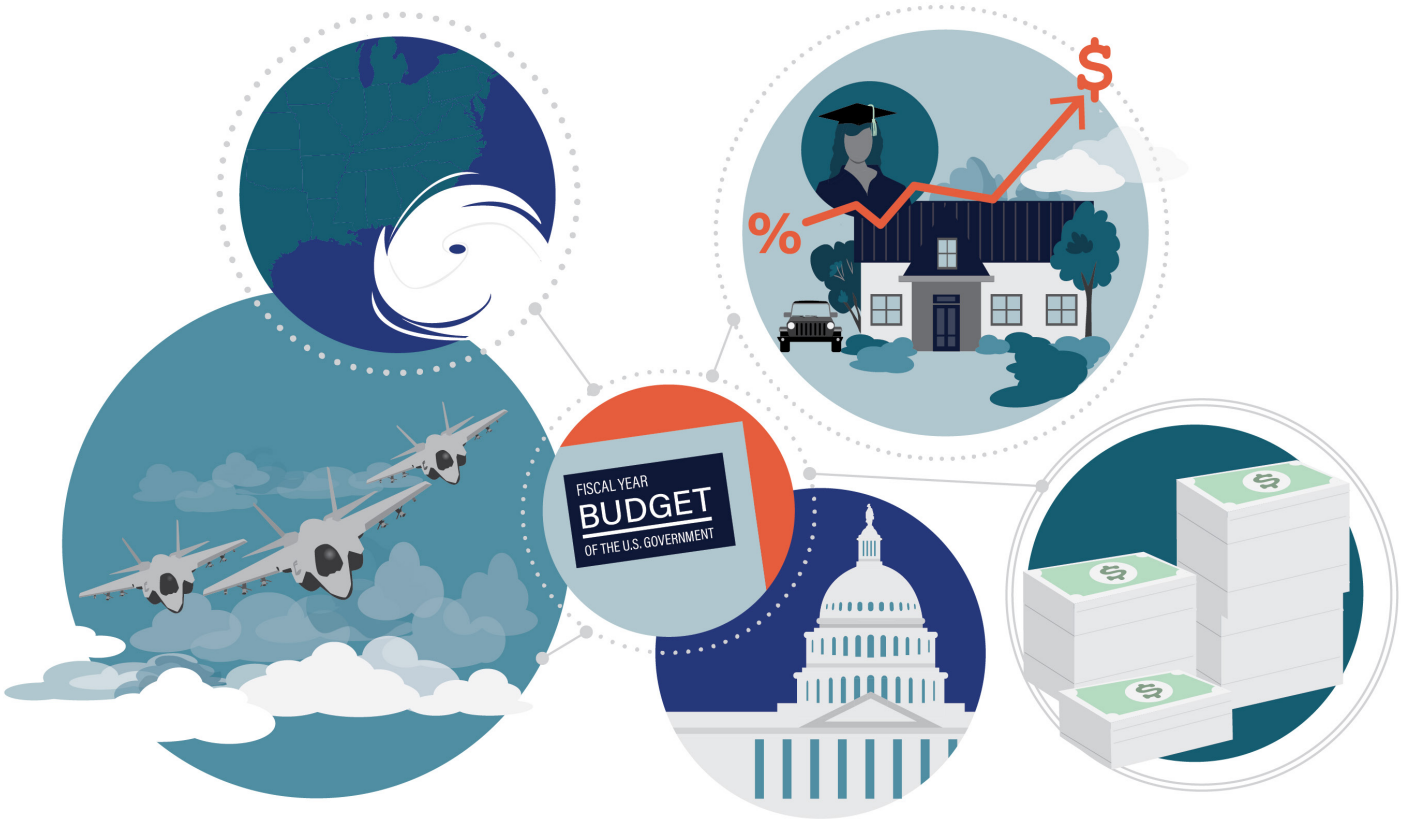
The worsening fiscal outlook could have a range of negative effects on individuals, businesses, and the country as a whole.

- A high and rising debt-to-GDP ratio increases interest rates on U.S. debt as investors demand a higher return to compensate for the increased risk of default.
- The interest rates for certain consumer and business loans are tied to the interest rates for certain federal debt products. Therefore, higher interest rates for the government would mean higher rates for households and businesses as well, which would increase the costs of goods, such as housing and cars, if purchased with a mortgage or loan.
- Higher interest rates for businesses may decrease long-term economic growth by making it more expensive to make productive investments such as factories and new technologies. Less investment could lower productivity, reduce workers' wage growth, and contribute to rising prices for goods and services.
- Increasing levels of debt may affect flexibility to respond effectively to unexpected events, such as a natural disaster, military conflict, or financial crisis.

In the following sections, we analyze historical and future trends of the key indicators of fiscal sustainability:

- **The primary balance.** If government program spending—noninterest spending—exceeds revenue, the result is a primary deficit. If the government collects more revenue than it spends on programs, the result is a primary surplus.
- **Interest costs.** The government must pay interest on the money it has borrowed. The government's interest cost is the product of interest rates and the size of the debt. Interest costs grow as the debt outstanding increases or as interest rates rise.

We conclude by highlighting elements of a strategy that could inform the difficult policy choices needed to address the unsustainable fiscal outlook.



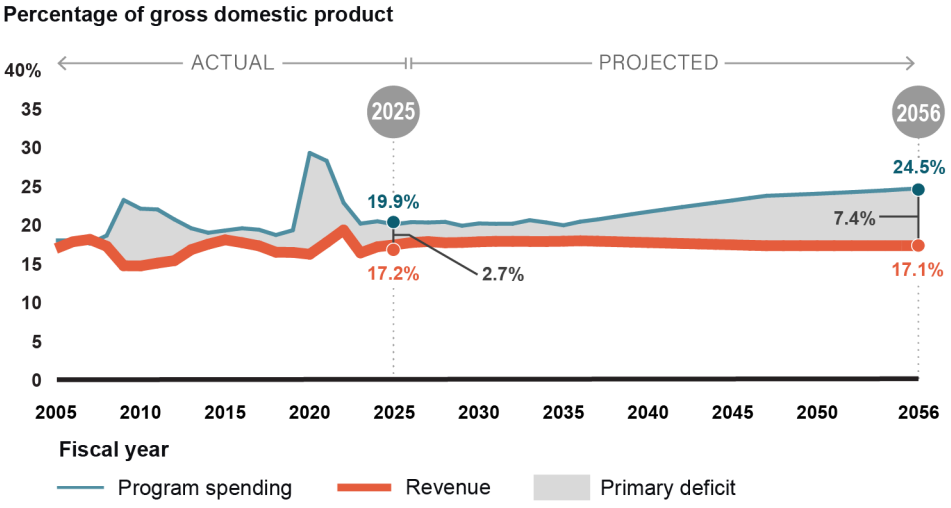
SECTION 2

Primary Deficits Will Grow Absent Policy Changes

For over two decades, the government has consistently run primary deficits (i.e., excluding interest payments), as revenue averaged 16.7 percent of GDP annually compared to annual average program spending of 20.7 percent of GDP. The primary deficit of $805 billion for fiscal year 2025 represented 2.7 percent of GDP.

Under current policies, revenue is projected to increase (as a percentage of GDP) but not enough to keep pace with spending increases, resulting in increasingly large primary deficits.

Figure 4: Primary Deficits Are Projected to Persist and Grow

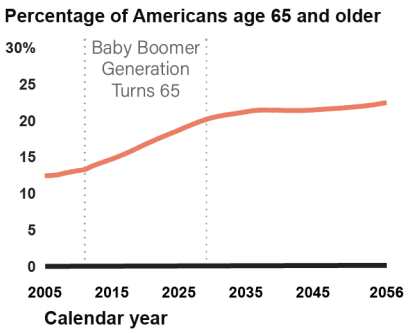


Source: GAO analysis of Congressional Budget Office data and GAO simulation. | GAO-26-108610

Note: Primary deficits exclude outlays for interest.

Projected growth in program spending is largely driven by Social Security, Medicare, and other federal health care programs. The American population is aging, which increases the number of Social Security and Medicare beneficiaries relative to the overall population. In addition, Medicare and other federal health care programs face increasing health care costs per beneficiary. Federal health care spending consists of Medicare, Medicaid, the Children's Health Insurance Program, and subsidies for insurance purchased through the health insurance exchanges.

Figure 5: The U.S. Population Is Aging



Source: GAO analysis of Congressional Budget Office data as of January 2026. | GAO-26-108610

Table 1: Projected Increased Costs of Social Security and Federal Health Care

	2025 (actual)	2040	2056
Social Security outlays (percent of GDP)	5.2%	5.9%	6.4%
Federal health care outlays (percent of GDP)	6.0%	7.5%	8.7%

Source: GAO simulation. | GAO-26-108610

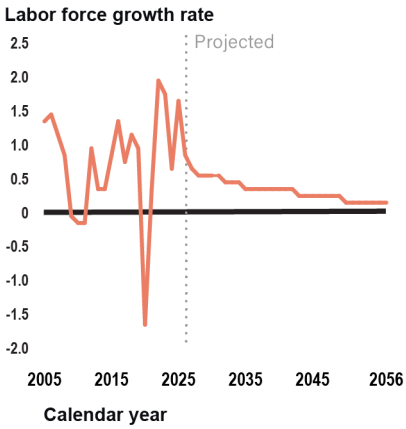
Revenue is not projected to keep pace with spending growth. Federal revenue comes primarily from tax receipts, particularly

- individual income taxes, which account for about 50 percent of all revenue, and
- payroll taxes (which fund Social Security and, in part, Medicare), which account for about 33 percent of total revenue.

Congress and the administration determine tax policy, but tax receipts are also affected by the size and growth of the labor force. A larger labor force tends to increase federal revenue as more people are working and subject to income and payroll taxes. However, the growth of the labor force is expected to continue to slow in the future.

Customs duties—which include revenue from tariffs—are another source of federal revenue. According to Treasury data as of September 30, 2025, the federal government collected $195 billion in customs duties, including tariffs, in fiscal year 2025. Although this amount was 2.5 times more than what was collected in customs duties the prior fiscal year, it represented about 4 percent of total revenue. Projections of tariff revenue continue to be uncertain as they are subject to changes in tariff administration, responses by consumers and businesses, and legal challenges.

Figure 6: Labor Force Growth Is Projected to Grow More Slowly



Source: GAO analysis of Congressional Budget Office data as of February 2026. | GAO-26-108610

SECTION 3

Under Current Policy, Interest Costs Will Continue to Rise Sharply

In fiscal year 2025, the government spent more than $970 billion on interest to domestic and foreign holders of U.S. debt (net of interest income). This cost was equal to 3.2 percent of GDP. Net interest spending is now one of the largest categories of federal spending. For example, the government spent more on interest than on national defense and nearly as much as on Medicare.

Interest costs have increased rapidly since 2021 because

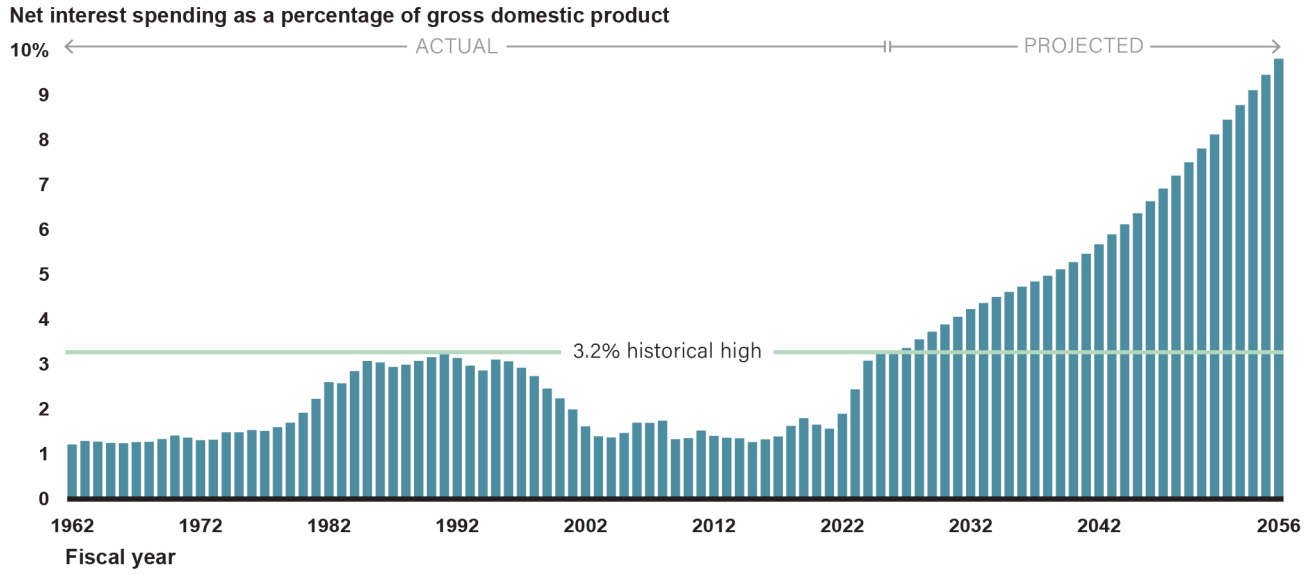
- debt has accumulated quickly as large annual deficits have required more borrowing, and
- higher interest rates have increased the cost of borrowing.

Under current policy, we project that spending on net interest will grow quickly, reaching almost 10 percent of GDP in 2056—more than three times current levels.

Interest costs relative to the size of the U.S. economy and other federal spending are key indicators of the sustainability of the U.S. debt. When interest costs account for an increasing share of the budget and size of the economy, it can be a signal that the government's debt burden is becoming unsustainable.

Source: GAO. | GAO-26-108610

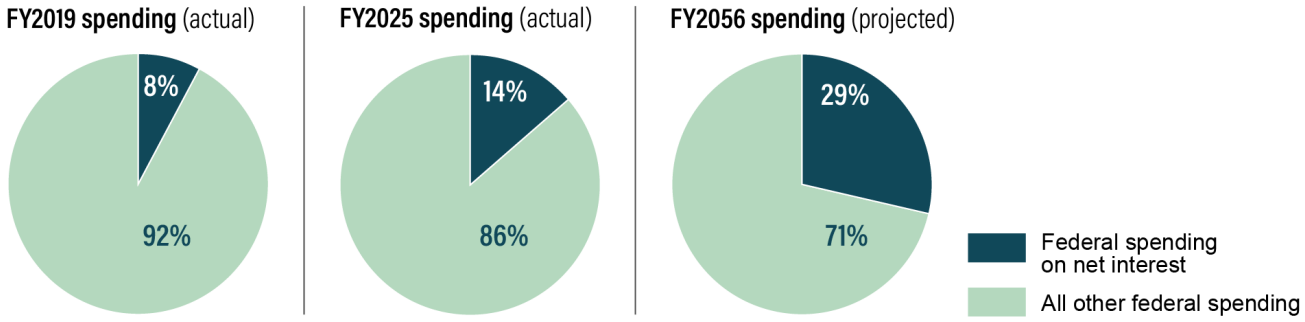
Figure 7: Net Interest Spending Is Projected to Grow Faster Than Gross Domestic Product



Source: Congressional Budget Office data and GAO simulation. | GAO-26-108610

We also project that, under current policy, spending on net interest will be the fastest growing portion of the federal budget and will represent an increasingly large share of total spending. For example, we project that by 2044 the government will spend more on net interest than on Social Security—currently the largest category of federal spending.

Figure 8: Net Interest Makes Up Increasingly Large Share of Projected Spending

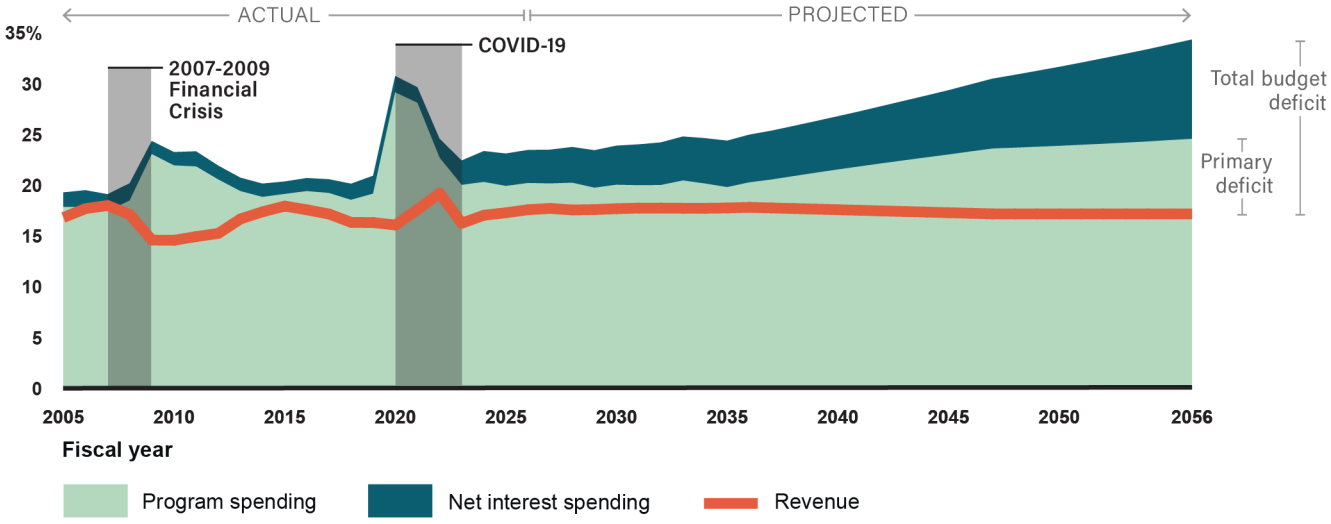


Source: Congressional Budget Office and GAO simulation. | GAO-26-108610

Interest costs in the near term are largely fixed because they are a product of the amount of issued debt and the interest rate on that debt when it was issued. As a result, the government is paying interest today—and will continue to pay interest in the future—on debt that was issued to finance past deficits.

Figure 9: Interest On Debt Held by the Public Contributes to Growing Budget Deficit

Program and net interest spending as a percentage of gross domestic product



Source: Congressional Budget Office data and GAO simulation. | GAO-26-108610

SECTION 4

A Strategy for Fiscal Sustainability Is Needed

Since 2017, we have suggested that Congress develop a strategy to inform the difficult policy choices needed to place the government on a sustainable fiscal path. The magnitude of policy changes needed to create a sustainable fiscal future for the federal government requires a coordinated strategy that

- Includes fiscal rules and targets to promote fiscal discipline,
- Determines how to reduce annual deficits,
- Addresses financing gaps in the Social Security and Medicare trust funds, and
- Considers other opportunities to improve fiscal responsibility.

Establishing Fiscal Rules and Targets Is a Key Element of a Fiscal Strategy

In 2020, we recommended that Congress, as part of a long-term fiscal strategy, consider adopting fiscal targets and rules to promote budgetary discipline, guide budgetary decision-making, and signal its commitment to sound public finances.

- A **fiscal target** is a specific fiscal goal that a government aims to achieve by a certain time period (e.g., a specific debt-to-GDP ratio in 30 years).
- **Fiscal rules** operate as a constraint on the annual budget process, such as a numerical limit on expenditures or deficits to reach the target in the longer term.

As we reported in 2020, there are many considerations for the design, implementation, and enforcement of any combination of fiscal rules. The design and implementation of the rules should reflect the fiscal, economic, and political conditions of the U.S.

Fiscal rules would be an effective alternative to the current debt limit—a statutory limit on the amount the government is authorized to borrow. The current debt limit does not serve as a control on fiscal policy and introduces unnecessary volatility and risks of default. We recommended replacing it with an approach that better links decisions about the debt with decisions about spending and revenue at the time those decisions are made.

What is sustainable fiscal policy?

Fiscal policy is considered sustainable when the relationship between projected government spending and revenue result in a stable or declining ratio of debt held by the public to GDP over the long term.

Source: GAO. | GAO-26-108610

Fiscal Target Scenario: Maintaining Debt Held by the Public at 100 Percent of GDP

Under current policy, we project that by 2056, 30 years from now, debt held by the public will increase from the fiscal year 2025 level of 99 percent of GDP to 251 percent of GDP. This projected increase in debt is driven by substantial primary deficits—where program spending exceeds revenue—in addition to interest costs.

To maintain debt held by the public at 100 percent of GDP in 2056, close to our current level, we estimate that the primary budget (i.e., excluding interest costs) would need to be close to balanced each year. To have a near balanced primary budget and meet a 100 percent debt-to-GDP target in 2056, our projections estimate that the federal government would need to reduce deficits (i.e., reduce the fiscal gap) by

- collecting 26 percent more revenue each and every year,
- spending 21 percent less each and every year on programs, or
- achieving comparable deficit reduction through a combination of revenue increases and spending decreases.

Even with a near balanced primary budget, the federal government still would have a total budget deficit because of spending on interest from accumulated debt.

Different fiscal targets—a lower or higher ratio of debt-to-GDP—would require a different magnitude of changes to revenue and spending to meet the targets.

Source: GAO simulation. | GAO-26-108610

Our analysis also underscores the urgency of acting sooner rather than later. The longer actions are delayed, the more dramatic they will need to be. Our projections show that waiting 5 or 10 years from now to make any policy changes needed to reach a 100 percent debt-to-GDP target in 2056 would require substantially larger adjustments to spending and revenue.

Table 2: Effect of Different Time Frames for Implementing a Fiscal Target Scenario of 100 Percent Debt Held by the Public to Gross Domestic Product (GDP) in 2056

Time Frame for Starting Deficit Reduction	Annual Primary Balance (Excluding Interest Costs) Needed to Achieve Target	Change Needed to Achieve Target Only Through Revenue Increases	Change Needed to Achieve Target Only Through Decreases in Program Spending
Start in 2026	Primary surplus of 0.2% of GDP	26% more revenue each year (2026-2056)	21% less spending each year (2026-2056)
Wait until 2032	Primary surplus of 1.0% of GDP	33% more revenue each year (2032-2056)	26% less spending each year (2032-2056)
Wait until 2037	Primary surplus of 1.7% of GDP	42% more revenue each year (2037-2056)	31% less spending each year (2037-2056)

Source: GAO simulation. | GAO-26-108610

Economic growth plays an important role in improving the government's fiscal outlook. If GDP grows at a faster rate than debt, then the debt-to-GDP ratio will decrease.

Based on our projections, to maintain a ratio of 100 percent debt held by the public-to-GDP in 30 years under current revenue and spending policies, real GDP (i.e., adjusted for inflation) would need to grow at an annual rate of 4.7 percent. The actual growth rate needed could be somewhat lower, depending on the relative growth of future revenues (see appendix I for more information).

Over the past 30 years, real GDP has grown at an average annual rate of 2.5 percent. In February 2026, CBO projected that real GDP would grow at an annual rate of 1.7 percent through 2056.

Reducing the Deficit Requires Significant Changes

An effective strategy to reduce deficits will require policymakers to examine revenue policy and federal spending, including both mandatory and discretionary spending.

Revenue policy. The primary purpose of the tax system is to collect the revenue needed to fund the operations of the federal government. Tax revenues may not fully match government spending each year, but over time, the federal government needs to be able to raise sufficient revenue to cover its current and projected spending obligations.

Our 2005 report discussed considerations for structural tax reform that could include expanding the tax base, increasing current tax rates and tax rates on future generations, or a combination of these. The Congressional Budget office (CBO) has identified options that could increase revenue, such as eliminating or limiting tax deductions or imposing a federal tax on the consumption of goods and services, such as a value added tax.

Eliminating or reducing tax expenditures—such as deductions, exclusions, and credits—generally will result in an increase in revenues. We estimated that in fiscal year 2025 tax expenditures reduced income tax revenue by approximately $1.8 trillion. The total change in tax revenues from repealing tax expenditures could differ from the sum of the estimates for each individual tax expenditure because of possible interactions among individual tax expenditures or outlay effects from refundable tax credits. We continue to emphasize the importance of reviewing tax expenditures to determine how, if at all, they are achieving their intended policy goals.

Scenario: 100% debt-to-GDP in 2056

Assuming no change in spending levels, we project that the government would need to collect 26 percent more revenue each year to meet the target.

In fiscal year 2025, a 26 percent increase would have resulted in collecting an additional $1.4 trillion in revenue above the $5.2 trillion that the federal government collected.

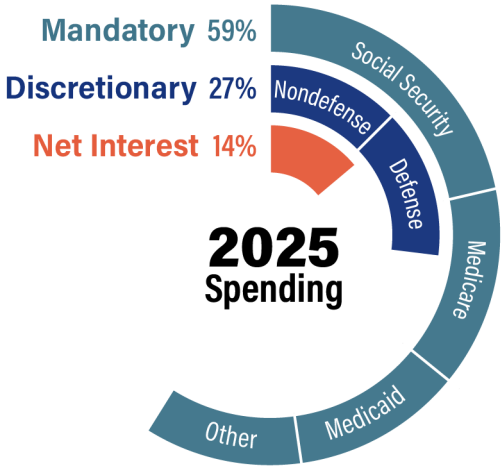
Source: GAO and Congressional Budget Office. | GAO-26-108610

Spending policy. Spending less on federal programs—both mandatory and discretionary—will also reduce deficits.

- **Mandatory spending** makes up about 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, adjust funding levels, or implement program reforms.
- **Discretionary spending** is provided and controlled by appropriation acts. These appropriation acts fund an array of federal activities including almost all defense spending, agencies' operating budgets, medical care for veterans, and homeland security, among other areas.

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

Figure 10: Mandatory Spending Accounts for the Greatest Share of Federal Spending



Source: Congressional Budget Office. | GAO-26-108610

Scenario: 100% debt-to-GDP in 2056

Assuming no change in revenue, we project that the government would need to spend 21 percent less on programs each year to meet the target.

In fiscal year 2025, a 21 percent decrease would have resulted in $1.3 trillion less in program spending than the $6.0 trillion the federal government spent on programs.

That amount is more than nondefense ($980 billion) or defense ($893 billion) discretionary spending in fiscal year 2025.

Source: GAO and Congressional Budget Office. | GAO-26-108610

Financing Gaps In Social Security and Medicare Must Be Addressed

Any viable strategy to achieve fiscal sustainability will need to include options for addressing the serious financial challenges facing the Social Security and Medicare programs. In recent years, program revenue (mostly from payroll taxes) for the Social Security Old Age and Survivor's Insurance program and Medicare Part A (Hospital Insurance) has not been enough to cover full scheduled benefit payments. These programs have been drawing on their trust fund reserves to pay benefits.

These two trust funds are projected to be depleted in 2032 and 2033, respectively, according to June 2026 reports from the Trustees for Social Security and Medicare. Once these trust funds' reserves are depleted, the programs would be financed by only annual program revenue, which will not be enough to pay for full scheduled benefits. Specifically, absent new legislation:

- Starting in 2032, Social Security's Old Age and Survivor's Insurance payroll tax revenue will be sufficient to pay about 78 percent of scheduled retirement and survivor benefits.
- Starting in 2033, Medicare Part A's payroll tax 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 Trustees' 75-year projection period.

Congress will need to address these challenges, which require legislative changes. Changing the trajectory of the programs' finances will require additional income, cost reductions, or a combination of both. In November 2023, 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 2025, 185 million people contributed to the programs through payroll taxes and over 69 million people were covered by Medicare and received Social Security benefit payments.

Source: Centers for Medicare & Medicaid Services and Social Security Administration. | GAO-26-108610

Strategies Should Also Include Other Efforts to Improve Fiscal Responsibility

Our work on High Risk areas and fragmentation, overlap, and duplication within the federal government identified hundreds of congressional and agency actions that could help reduce the deficit by hundreds of billions of dollars. These actions would not require major changes to spending and revenue policy, and they could help improve the government's fiscal trajectory.

- **Increasing tax compliance.** In 2024, the Internal Revenue Service (IRS) most recently projected that the tax gap—the difference between what taxpayers owe and the amount they actually pay—was $606 billion during the 2022 tax year (after late payments and IRS enforcement actions). We have identified numerous actions that could reduce the tax gap.
- **Improving fraud risk management.** In April 2024, we estimated the federal government lost between $233 billion and $521 billion annually from fraud, based on data from fiscal years 2018–2022. We have made recommendations to strengthen antifraud efforts.
- **Reducing improper payments.** Since fiscal year 2003, cumulative improper payment estimates have totaled about $3 trillion, including $186 billion for fiscal year 2025. About $153 billion (approximately 82 percent) of this total was the result of overpayments. The improper payment estimates do not represent the full extent of government-wide improper payments. For example, some programs that agencies have determined are susceptible to significant improper payments did not estimate improper payments. We have identified a number of steps that Congress and federal agencies could take to help reduce instances of improper payments.
- **Reducing and better managing fragmentation, overlap, and duplication.** In May 2026, we issued our 16th annual report on opportunities to reduce duplication, overlap, and fragmentation within federal programs, agencies, offices, and initiatives, as well as opportunities to achieve greater efficiency and effectiveness that result in cost savings or enhanced revenue collection. Actions taken on previously identified opportunities have resulted in $774.3 billion in financial benefits since fiscal year 2010. For example, in December 2015, we recommended that Medicare pay the same rate for evaluation and management office visits whether they occur in a doctor's office or a hospital outpatient department. By doing so, the Medicare program could save **$156.9 billion over 10 years**, according to a CBO estimate.

We define fraud as the act of obtaining something of value through willful misrepresentation.

Improper payments are payments that should not have been made or that were made in an incorrect amount.

While all fraudulent payments are considered improper, not all improper payments are due to fraud.

Source: GAO. | GAO-26-108610

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

We conducted our work from June 2025 to June 2026 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 arkinj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made key contributions to this report are listed in appendix II.

Orice Williams Brown
Acting Comptroller General of the United States

APPENDIX I

Methodology and Design of GAO's Fiscal Simulation

We update our projections every year to highlight the nation's unsustainable fiscal policy and the urgency and magnitude of policy reforms necessary to make fiscal policy sustainable. While GAO, the Congressional Budget Office (CBO), and the Department of the Treasury agree that the government's long-term fiscal outlook is unsustainable, GAO's projections provide an alternative scenario based on recent trends in policy and budgeting. Our projected trends in revenue, spending, and deficits in the context of current policy result in an overall faster deterioration of the country's fiscal position than in CBO's projections. We discuss our assumptions and methodology in more detail below.

Methodology and Design

For GAO's June 2026 update, the first projection year in our simulation is fiscal year 2025 and the last year is 2056 (32 years). GAO starts with CBO's long-term (30-year) budget projections published in February 2026. CBO's projections are based on CBO's economic forecast, which reflects trade policy as of November 20, 2025, and economic developments and laws in place as of December 3, 2025. CBO's, and therefore GAO's, projections do not account for any budgetary or economic effects of the Supreme Court's February 20, 2026, ruling on tariffs (Learning Res., Inc. v. Trump, 146 S. Ct. 628 (2026)).

Underlying Assumptions

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

General

- We assume projected spending and borrowing levels are not constrained by potential statutory debt limit considerations.
- We use CBO's assumptions of annual gross domestic product (GDP) for the entire projection period.
- We use an interest rate that is implied by CBO's projected net interest payments and debt held by the public for the first 12 years of projections. For years 13-32, GAO phases to CBO's 30-year projections for nominal interest rates.

Mandatory Spending

- We assume Social Security and Medicare will continue to pay benefits as scheduled under current law, regardless of the status of the program's trust funds.
- We assume health care cost increases will follow the alternative projection values from the June 2025 reports by the Boards of Trustees of the Social Security and Medicare trust funds.

- We assume that statutory annual spending reductions to certain mandatory spending programs—the mandatory sequester—are not implemented, as Congress often has waived or overridden sequestration. To do this, we add back in CBO's estimates of the effects of sequestration on Medicare and other mandatory spending (see box 3-2). For the 2026 update, we increased total outlays by $248 billion over the 10-year period.

Discretionary Spending

- We assume discretionary spending will remain at the historical average (last 30 years – 7.0 percent of GDP). This assumption reflects current policy and to some extent captures the government's fiscal response to economic shocks and other unexpected events (e.g., public health crises, military conflicts, or natural disasters).

Revenue

- We use CBO's aggregate revenue projections (e.g., income tax, payroll tax, corporate tax, and other nontax revenue) for the first 12 years of projections. If relevant, we may adjust the assumed revenue level downward to assume that certain expiring tax provisions are extended or made permanent, consistent with recent policy experience.
- Starting in year 13, we assume aggregate revenue will hold at the 30-year historical average (17.1 percent of GDP). This assumes some policy changes in the future, in particular tax cuts to avoid real bracket creep, but reflects the typical tax policy over the past 30 years.

These assumptions generate the key sustainability metrics that GAO highlights:

- **Primary (non-interest) 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 occurs if revenue exceeds program spending in that year.
- **Debt held by the public** is the prior year's debt held by the public (as of September 30) plus the projected deficit and other means of financing (such as changes in Treasury's operating cash balance) in that year.
- **Net interest spending** is the product of the prior year's debt held by the public and the projected interest rate for that year.

Table 3 lists projection values for key fiscal variables in GAO's 2026 simulation. All variables are presented as a percentage of GDP to compare over time and account for inflation.

Table 3: GAO 2026 Simulation: Key Projection Values as a Percentage of GDP

Variable	2026	2027-2036 (annual average)	2037-2056 (annual average)
Revenue	17.5%	17.7%	17.3%
Program (non-interest) spending	20.2%	20.1%	23.0%
Net interest spending	3.3%	4.1%	6.9%
Total spending[a]	23.4%	24.1%	29.9%
Total deficit (revenue—total spending)	(5.9%)	(6.5%)	(12.6%)
Primary deficit (revenue—program spending)	(2.6%)	(2.4%)	(5.7%)

Source: GAO simulation. | GAO-26-108610

Notes:
All values are shown as a percentage of gross domestic product (GDP). We use the Congressional Budget Offices' nominal GDP projection. Variables do not always sum to totals due to rounding.

[a]Total spending (outlays) is program spending plus net interest spending in a fiscal year.

Table 4 lists the values for key economic assumptions that inform the fiscal projections.

Table 4: GAO 2026 Simulation: Key Economic Assumptions

Variable	2026	2027-2036 (annual average)	2037-2056 (annual average)
Nominal interest rate on debt held by the public[a]	3.4%	3.8%	4.1%
Inflation rate[b]	2.8%	2.1%	2.0%
Real GDP growth rate[c]	2.2%	1.8%	1.6%

Source: GAO simulation. | GAO-26-108610

Notes:
[a]For the first 12 years of projections, GAO derives the rate implied by the Congressional Budget Office's (CBO) projected net interest payments and debt held by the public. For years 13-32, GAO phases to CBO's 30-year projections for nominal interest rates.

[b]For the first 12 years of projections, GAO uses the projected percent change in the GDP price index from CBO's baseline 10-year projections. Starting in year 13 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 February 2026.

[c]To calculate real gross domestic product (GDP), GAO uses the projections for nominal GDP and changes in the GDP price index from CBO's February 2026 projections along with the price index reported by the Bureau of Economic Analysis for fiscal year 2025.

GAO's Fiscal Gap Calculation

We calculate the constant and permanent increase in the primary deficit or surplus, as a percentage of nominal GDP, that is needed from a start year to a target year to achieve a particular debt target by the beginning of the target year. We call the difference between current policy and what is needed to achieve a target the annualized fiscal gap.

In particular, the annualized fiscal gap is the value, represented by Δ', that solves the below equation, where the present value of the initial debt minus the present value of the stream of future surpluses (or plus the present value of the stream of future deficits) must equal the present value of the target debt at the beginning of the target year. The initial debt and the target debt use the discount rate from the prior period because they occur at the beginning of the year, while the primary surplus (or primary deficit) and nominal GDP use the discount rate from the current period because they occur at the end of the year.

$$(1+r_{b-1})^0 \cdot B_b - \sum_{s=b}^{b+(y-1)} \left[\left(\prod_{j=b}^{s} \left[\left(1+r_j\right)^{-1} \right] \right) \left(S_s^P + \Delta' \cdot GDP_s\right) \right] = \left(\prod_{j=b}^{b+(y-1)} \left[\left(1+r_j\right)^{-1} \right] \right) \cdot B_{b+y}^T$$

The variables in this equation are defined in table 5.

Table 5: Variables in the Fiscal Gap Calculation

Variable	Definition
y	The number of years between the starting debt and the target debt.
r_j	The nominal interest rate, which is used to discount monetary values to beginning-of-year-b dollars.
B_b	The nominal debt at the beginning of year b.
S_S^P	The nominal primary surplus recorded at the end of year s (primary deficits are negative primary surpluses).
Δ'	The constant and permanent increase in the nominal primary deficit/surplus as a percentage of nominal gross domestic product (GDP).
GDP_S	The nominal GDP recorded at the end of year s.
B_{b+y}^T	The nominal target debt to be achieved at the beginning of year $b+y$.

Source: GAO. | GAO-26-108610

The annualized fiscal gap is therefore equal to:

$$\Delta' = \frac{(1+r_{b-1})^0 \cdot B_b - \left(\prod_{j=b}^{b+(y-1)} \left[\left(1+r_j\right)^{-1} \right]\right) \cdot B_{b+y}^T - \sum_{s=b}^{b+(y-1)} \left[\left(\prod_{j=b}^{s} \left[\left(1+r_j\right)^{-1} \right]\right) \cdot S_s^P \right]}{\sum_{s=b}^{b+(y-1)} \left[\left(\prod_{j=b}^{s} \left[\left(1+r_j\right)^{-1} \right]\right) \cdot GDP_s \right]}$$

We use output from GAO's fiscal health model to estimate values for the current (initial) debt, the projected discount rate (nominal average interest rate on debt held by the public), the stream of projected future annual primary surpluses or deficits, and the stream of projected future values of nominal GDP.

We calculate the annualized fiscal gap—the change in the projected primary surplus or deficit needed each year of the time period—setting b equal to fiscal year 2026 and y equal to 31, to reach a debt target of 100 percent of GDP at the end of fiscal year 2056 (see table 2). Different fiscal targets—a lower or higher ratio of debt-to-GDP—would result in different fiscal gap estimates. In order to assess the cost of waiting to make fiscal adjustments (as shown in table 2), we also calculate the annualized fiscal gap for the same scenario (a debt-to-GDP ratio of 1.0 in 2056) but starting in later years. For example, we set b equal to 2032 and y equal to 25 and in another scenario, we set b equal to 2037 and y equal to 20.

GAO's model is based on projected rates of growth in GDP and does not include macroeconomic feedback or other macroeconomic effects that could arise from changes in policy. For example, increases in tax revenues or decreases in federal spending may impact nominal GDP growth or the interest rate on debt held by the public, but our estimation of the fiscal gap does not incorporate these feedback effects.

GDP Growth Calculations

We calculate the constant annual real GDP growth rate that would be necessary to achieve a 100 percent debt-to-GDP ratio in 32 years given nominal GDP in 2024 and the projected level of debt in 2056. This is calculated by first solving the following equation for $NominalGDPGrowthRate$:

$$(NominalGDP_{2024}) * (1 + NominalGDPGrowthRate)^{32} = \frac{Debt_{2056}}{100\%}$$

To calculate the real GDP growth rate, we then divide $NominalGDPGrowthRate$ by the geometric mean of the inflation rate between 2025 and 2056.

This exercise is a partial equilibrium analysis in which the GDP growth rate is allowed to change but the change in the GDP growth rate does not have general equilibrium effects on other macroeconomic variables in the model. While this is an unrealistic assumption, as changes in GDP would affect revenues and would likely affect federal spending, the rate of inflation, and interest rates, the advantage of a partial equilibrium analysis is that it has a closed-form solution that can be solved for in a finite number of steps (that is, it does not require repeatedly iterating until the calculated value converges to a stable solution).

The GDP growth rate in this exercise can be viewed as representing an upper bound on the necessary GDP growth rate to meet a target debt-to-GDP ratio if the calculated GDP growth rate from the exercise is higher than the projected GDP growth rate from our fiscal health model, as is the case with our model's projections. Increases in the GDP growth rate will increase revenues, which, all else equal, will therefore reduce deficits and slow the accumulation of debt. Smaller deficits and higher GDP will create a lower debt-to-GDP ratio, which would likely decrease interest rates and therefore decrease interest costs. While federal spending may also increase as GDP increases, all else equal it is not certain to increase with GDP growth in the same way that revenues are, and our estimate would only cease to be an upper bound if the increases in federal spending were larger than the increases in revenue.

APPENDIX II

GAO Contacts and Staff Acknowledgments

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Staff Acknowledgments

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