

Comptroller General's
REMARKS to the
Senate Centrist Coalition

The Honorable David M. Walker
Comptroller General of the United States
February 1, 2005
Washington, DC

GAO's Strategic Plan



SERVING THE CONGRESS AND THE NATION GAO'S STRATEGIC PLAN FRAMEWORK

MISSION

GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people.

THEMES

Long-Term Fiscal Imbalance

National Security

Global Interdependence

Changing Economy

Demographics

Science and Technology

Quality of Life

Governance

GOALS & OBJECTIVES

Provide Timely, Quality Service to the Congress and the Federal Government to ...

Address Current and Emerging Challenges to the Well-Being and Financial Security of the American People *related to ...*

- Health care needs and financing
- Education and protection of children
- Work opportunities and worker protection
- Retirement income security
- Effective system of justice
- Viable communities
- Natural resources use and environmental protection
- Physical infrastructure

Respond to Changing Security Threats and the Challenges of Global Interdependence *involving ...*

- Emerging threats
- Military capabilities and readiness
- Advancement of U.S. interests
- Global market forces

Help Transform the Federal Government's Role and How It Does Business to Meet 21st Century Challenges *by assessing ...*

- Roles in achieving federal objectives
- Government transformation
- Key management challenges and program risks
- Fiscal position and financing of the government

Maximize the Value of GAO by Being a Model Federal Agency and a World-Class Professional Services Organization *in the areas of ...*

- Client and customer satisfaction
- Strategic leadership
- Institutional knowledge and experience
- Process improvement
- Employer of choice

CORE VALUES

Accountability

Integrity

Reliability

GAO's High-Risk List 2005

High-Risk Areas	Designated High Risk
Addressing Challenges in Broad-based Transformations	
Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures	1997
Strategic Human Capital Management ^a	2001
U.S. Postal Service Transformation Efforts and Long-Term Outlook ^a	2001
Managing Federal Real Property ^a	2003
Implementing and Transforming the Department of Homeland Security	2003
Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security	2005
DOD Approach to Business Transformation ^a	2005
DOD Supply Chain Management (formerly Inventory Management)	1990
DOD Weapon Systems Acquisition	1990
DOD Business Systems Modernization	1995
DOD Financial Management	1995
DOD Support Infrastructure Management	1997
DOD Personnel Security Clearance Program	2005
Managing Federal Contracting More Effectively	
DOE Contract Management	1990
NASA Contract Management	1990
DOD Contract Management	1992
Management of Interagency Contracting	2005
Assessing the Efficiency and Effectiveness of Tax Law Administration	
Enforcement of Tax Laws ^{a, b}	1990
IRS Business Systems Modernization ^c	1995
Modernizing and Safeguarding Insurance and Benefit Programs	
Medicare Program ^a	1990
HUD Single-Family Mortgage Insurance and Rental Housing Assistance Programs	1994
Medicaid Program ^a	2003
Modernizing Federal Disability Programs ^a	2003
Pension Benefit Guaranty Corporation Single-Employer Insurance Program ^a	2003
Other	
FAA Air Traffic Control Modernization	1995

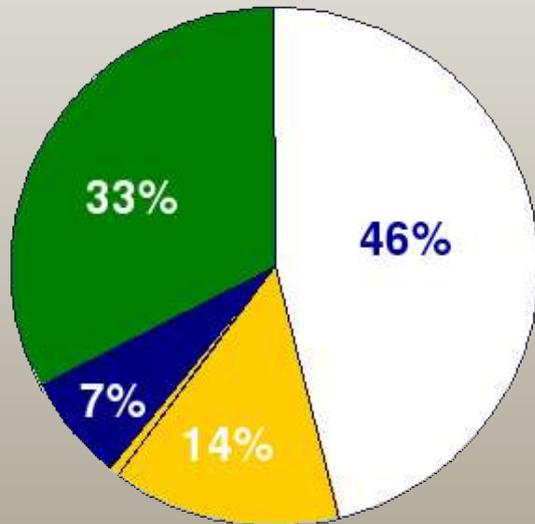
^aLegislation is likely to be necessary, as a supplement to actions by the executive branch, in order to effectively address this high-risk area.

^bTwo high-risk areas—Collection of Unpaid Taxes and Earned Income Credit Noncompliance—have been consolidated to make this area.

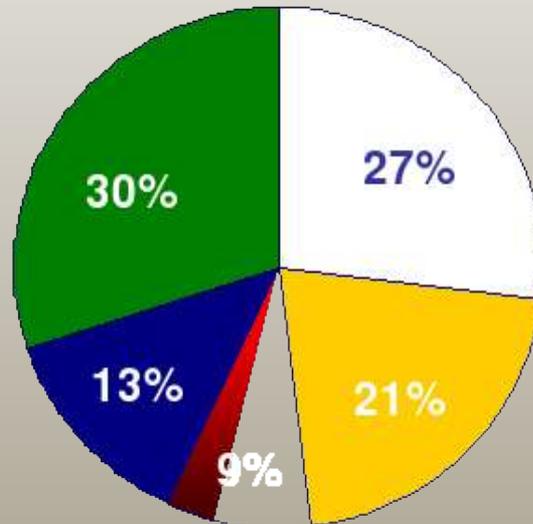
^cThe IRS Financial Management high-risk area has been incorporated into this high-risk area.

Composition of Federal Spending

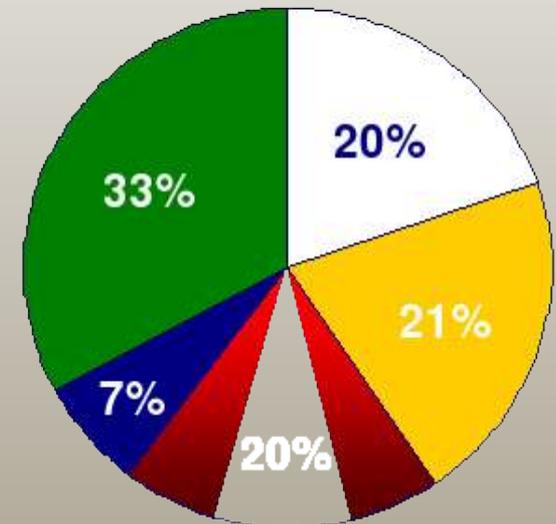
1964



1984



2004*



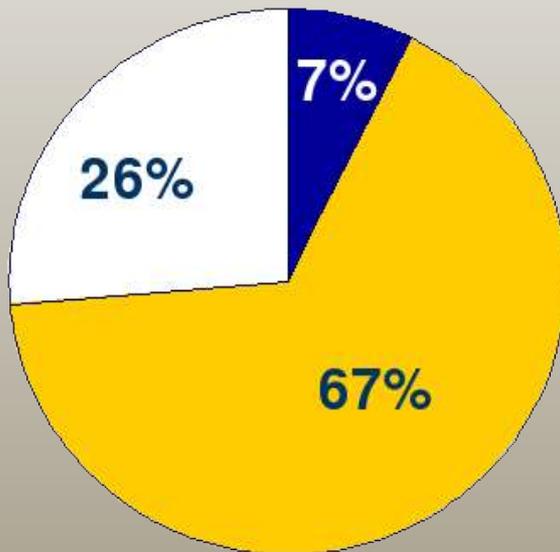
*Current services estimate.

Note: Numbers may not add to 100 percent due to rounding.

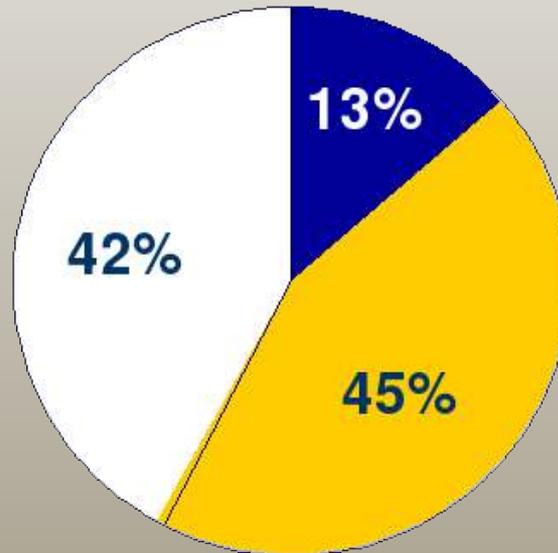
Source: *Budget of the United States Government, Fiscal Year 2005* (February 2004) and *Budget of the United States Government, Fiscal Year 2005, Mid-session Review* (July 2004), Office of Management and Budget.

Federal Spending for Mandatory and Discretionary Programs

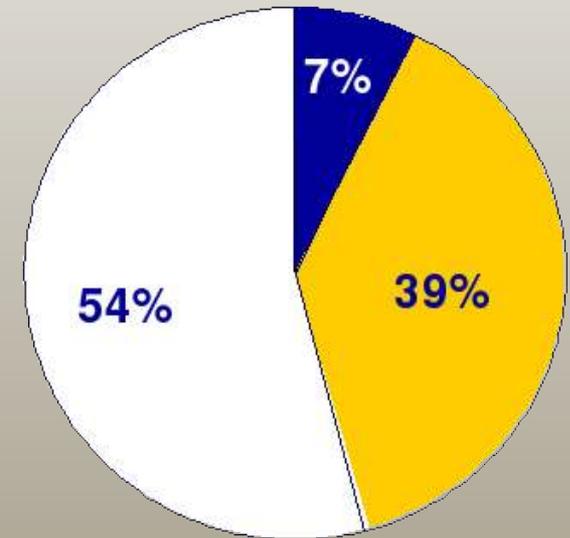
1964



1984



2004*



 Net Interest

 Discretionary

 Mandatory

*Current services estimate.

Note: Numbers may not add to 100 percent due to rounding.

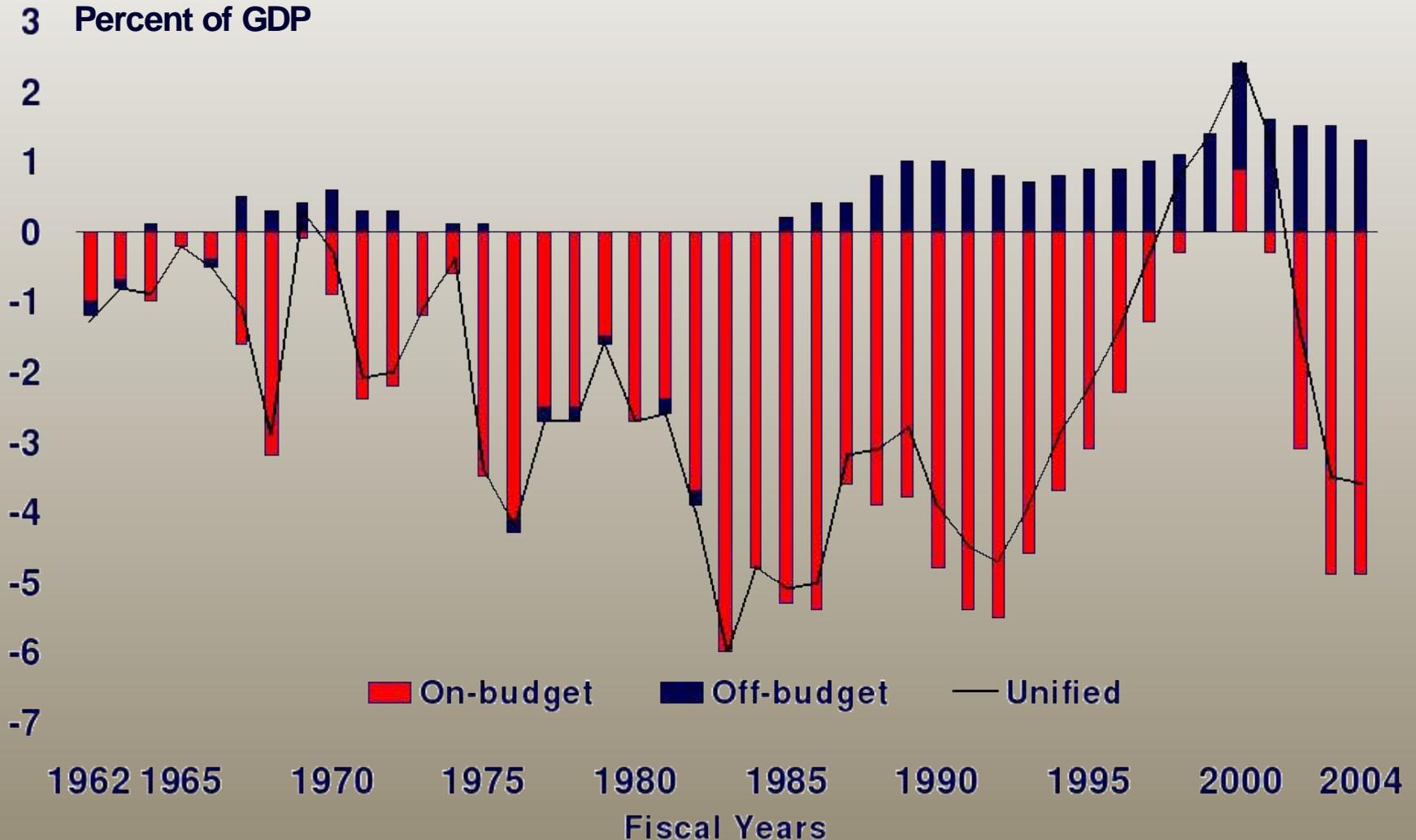
Source: *Budget of the United States Government, Fiscal Year 2005* (February 2004) and *Budget of the United States Government, Fiscal Year 2005, Mid-session Review* (July 2004), Office of Management and Budget.

Fiscal Year 2004 Deficit Numbers

	\$ Billion	% of GDP
On-Budget Deficit	(568)	(4.9)
Social Security Surplus	151	1.3
Unified Deficit	(413)	(3.6)

Surplus or Deficit as a Share of GDP

Fiscal Years 1962-2004



Source: Office of Management and Budget and Congressional Budget Office.

Selected Fiscal Exposures: Sources and Examples 2004^a

Type	Example (dollars in billions)
Explicit liabilities	Publicly held debt (\$4,297)
	Military and civilian pension and post-retirement health (\$3,059)
	Veterans benefits payable (\$925)
	Environmental and disposal liabilities (\$249)
	Loan guarantees (\$43)
Explicit financial commitments	Undelivered orders (\$596)
	Long-term leases (\$39)
Financial contingencies	Unadjudicated claims (\$4)
	Pension Benefit Guaranty Corporation (\$96)
	Other national insurance programs (\$1)
	Government corporations e.g., Ginnie Mae
Exposures implied by current policies or the public's expectations about the role of government	Debt held by government accounts (\$3,071) ^b
	Future Social Security benefit payments (\$3,699) ^c
	Future Medicare Part A benefit payments (\$8,236) ^c
	Future Medicare Part B benefit payments (\$11,416) ^c
	Future Medicare Part D benefit payments (\$8,119) ^c
	Life cycle cost including deferred and future maintenance and operating costs (amount unknown)
	Government Sponsored Enterprises e.g., Fannie Mae and Freddie Mac

^a All figures are for end of fiscal year 2004, except Social Security and Medicare estimates, which are as of January 1, 2004.

^b This amount includes \$845 billion held by military and civilian pension funds that would offset the explicit liabilities reported by those funds.

^c Figures for Social Security and Medicare are net of debt held by the trust funds (\$1,531 billion for Social Security, \$256 billion for Medicare Part A, and \$24 billion for Medicare Part B) and represent net present value estimates over a 75-year period. Over an infinite horizon, the estimate for Social Security would be \$10.4 trillion, \$21.8 trillion for Medicare Part A, \$23.2 trillion for Medicare Part B, and \$16.5 trillion for Medicare Part D.

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

Another Way to Think About These Numbers

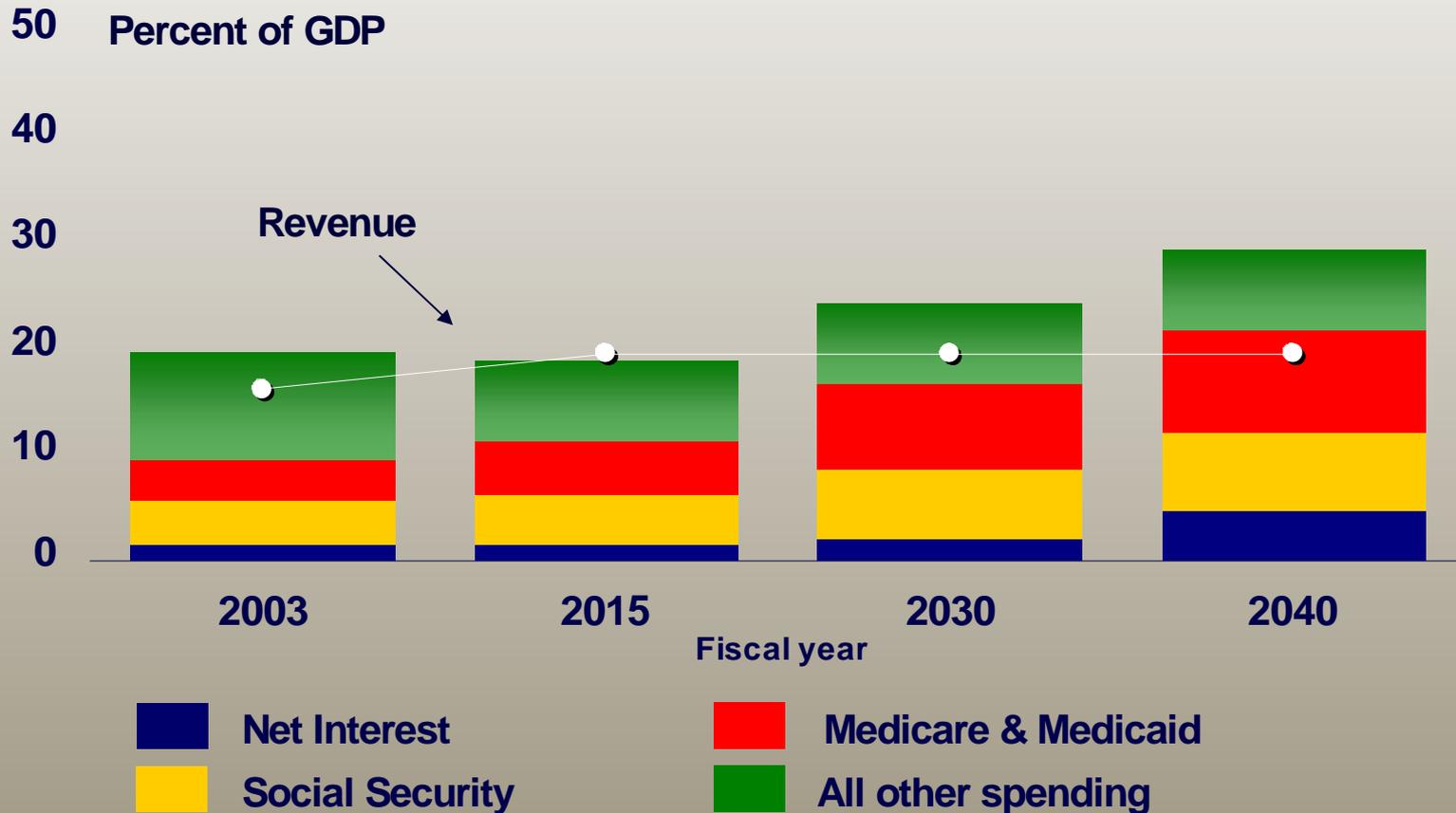
- Debt held by the public—\$4.3T
- Trust fund debt—\$3.1T
- Gross debt—\$7.4T
- Gross debt per person—about \$25,000
- If we add everything on the previous slide that is not included in gross debt, the burden rises to more than \$145,000 per person or more than \$350,000 per full-time worker. Alternatively, it amounts to a total unfunded burden of more than \$43 trillion in current dollars, which is about 19 times the current annual federal budget or about 4 times the current annual GDP.

Note: The calculations are based on 75-year projections for Social Security and Medicare.

Updated 12/17/04

Composition of Spending as a Share of GDP

Under Baseline Extended

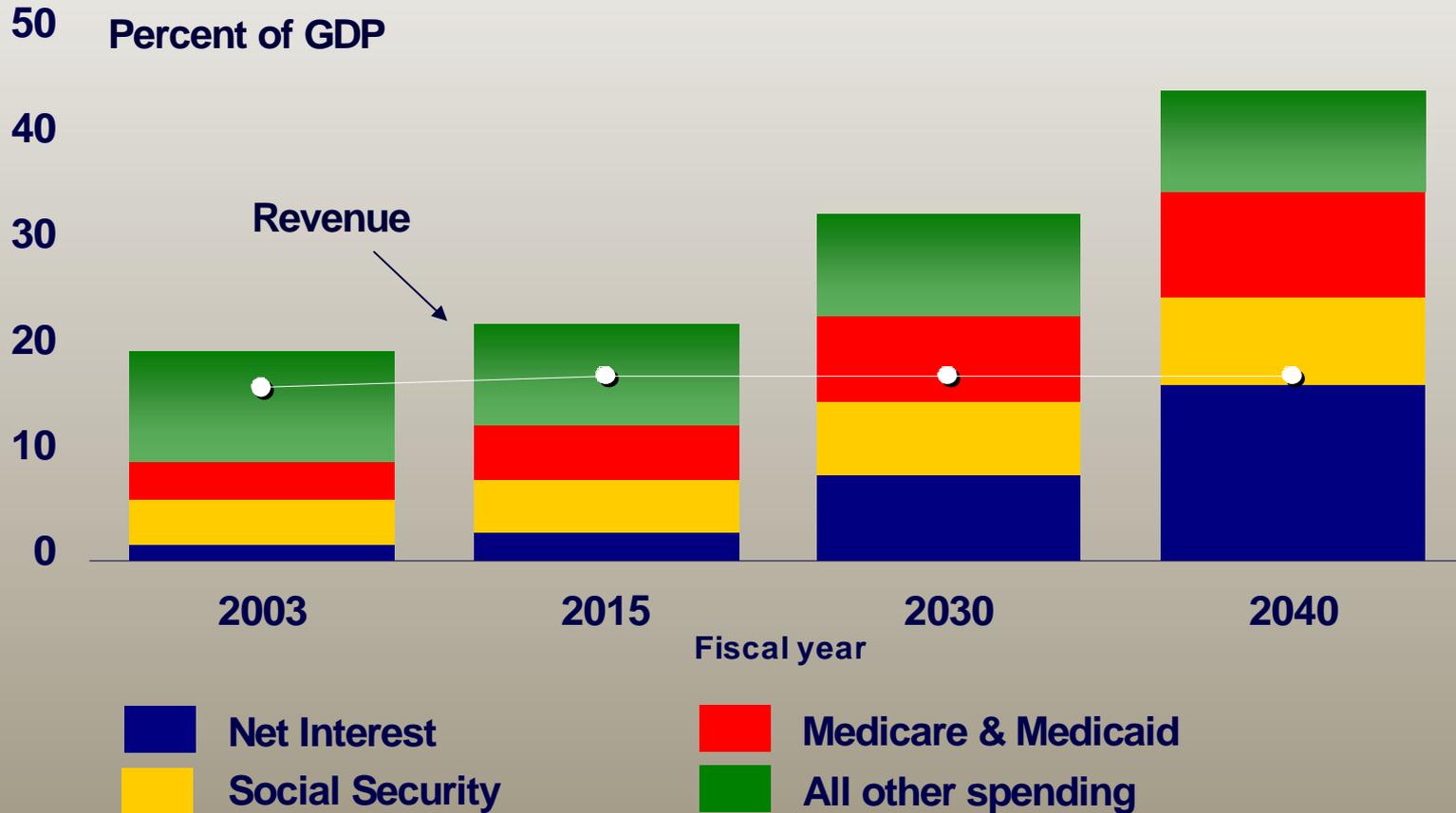


Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

Source: GAO's January 2005 analysis.

Composition of Spending as a Share of GDP

Assuming Discretionary Spending Grows with GDP after 2005
and All Expiring Tax Provisions are Extended



Notes: Although expiring tax provisions are extended, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

Source: GAO's January 2005 analysis.

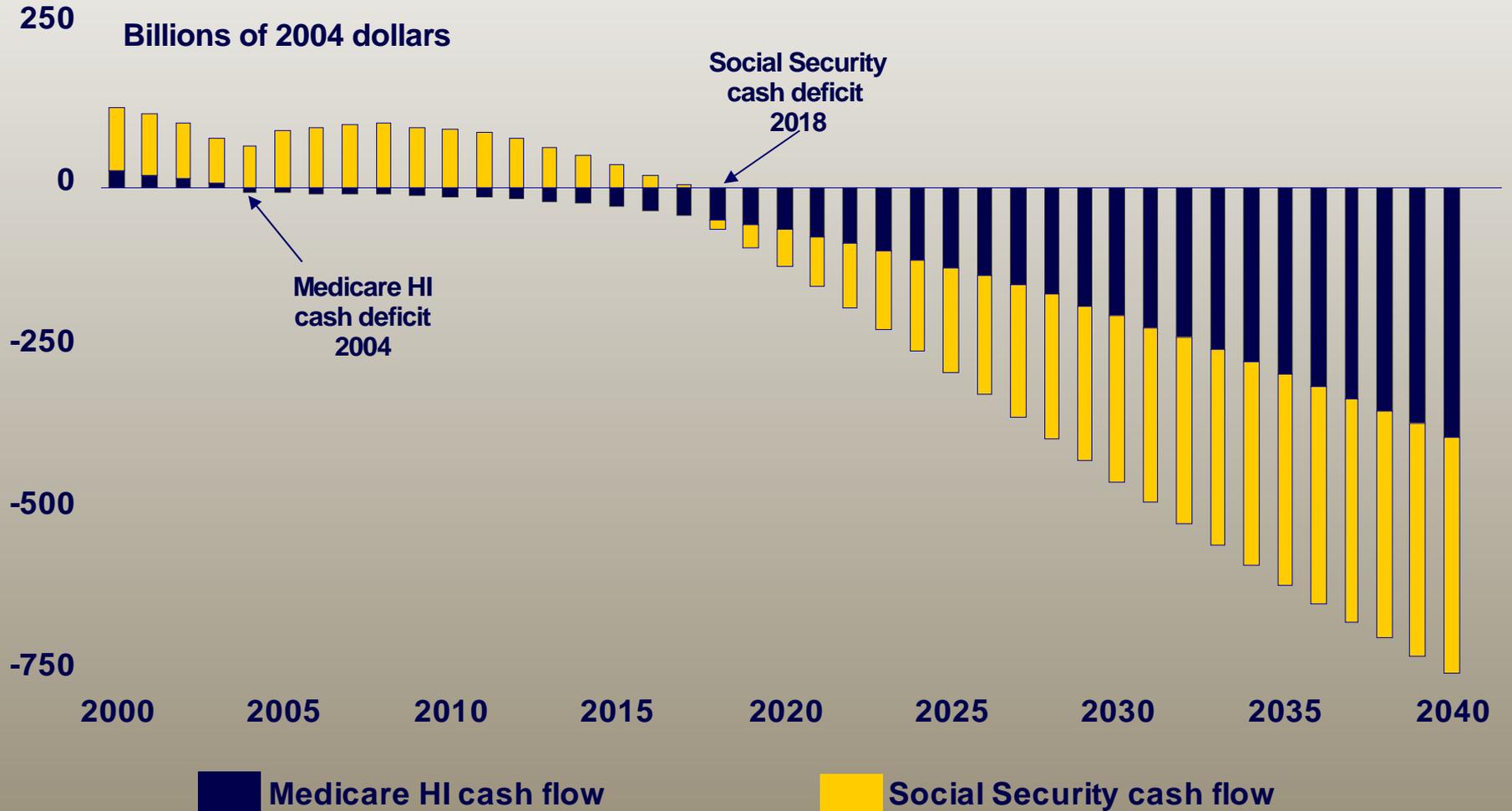
Current Fiscal Policy Is Unsustainable

- **The “Status Quo” is Not an Option**
 - We face large and growing structural deficits largely due to known demographic trends and rising health care costs.
 - GAO's simulations show that balancing the budget in 2040 could require actions as large as
 - Cutting total federal spending by about 60 percent or
 - Raising taxes to about 2.5 times today's level
- **Faster Economic Growth Can Help, but It Cannot Solve the Problem**
 - Closing the current long-term fiscal gap based on responsible assumptions would require real average annual economic growth in the double digit range every year for the next 75 years.
 - During the 1990s, the economy grew at an average 3.2 percent per year.
 - As a result, we cannot simply grow our way out of this problem. Tough choices will be required.
- **The Sooner We Get Started, the Better**
 - Less change would be needed, and there would be more time to make adjustments.
 - The miracle of compounding would work with us rather than against us.
 - Our demographic changes will serve to make reform more difficult over time.

The Way Forward

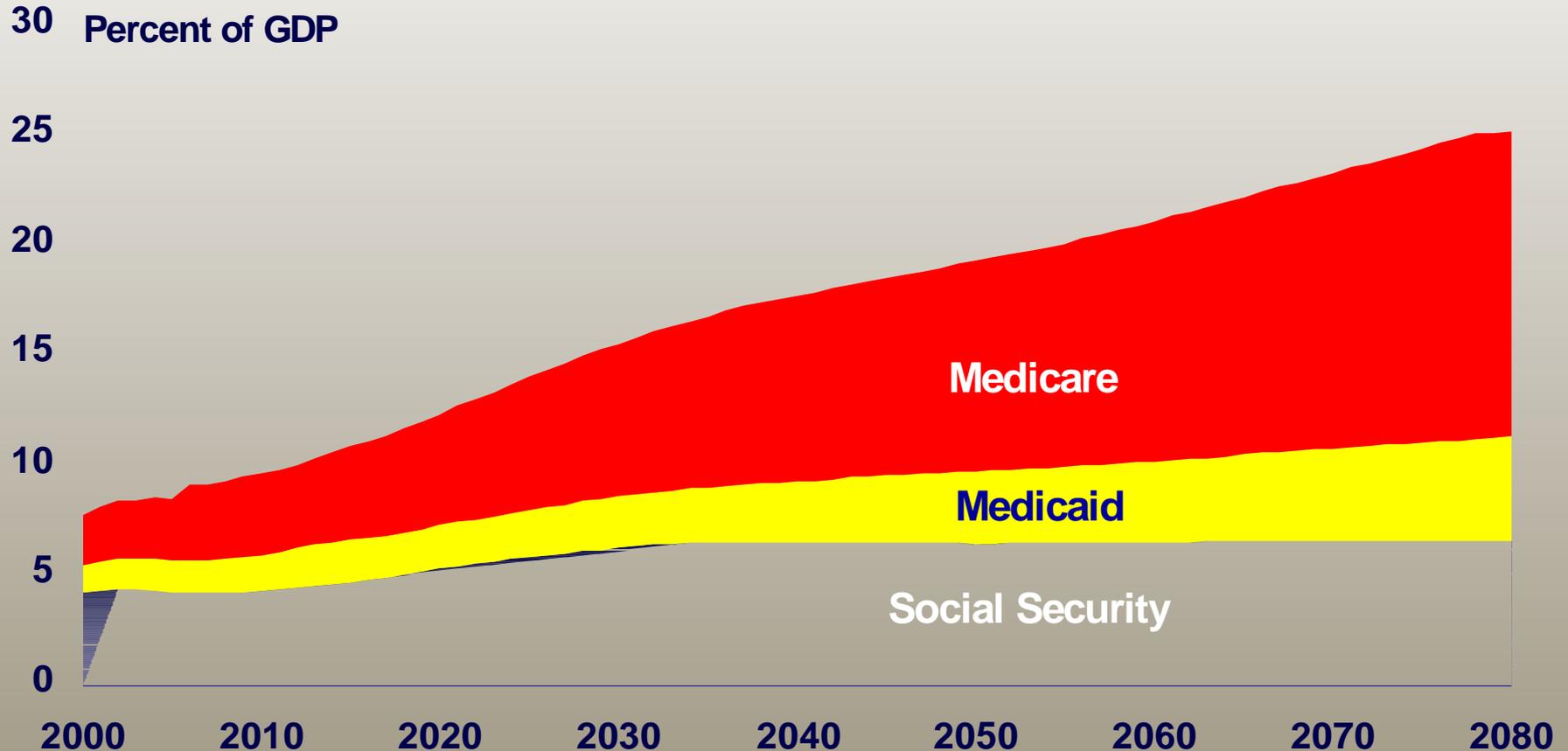
- Implement new accounting and reporting approaches and new budget control mechanisms for considering the impact of spending and tax policies and decisions over the long term
- Develop new metrics for measuring the impact of policies and decisions over the long term (e.g., key national indicators to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

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



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

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

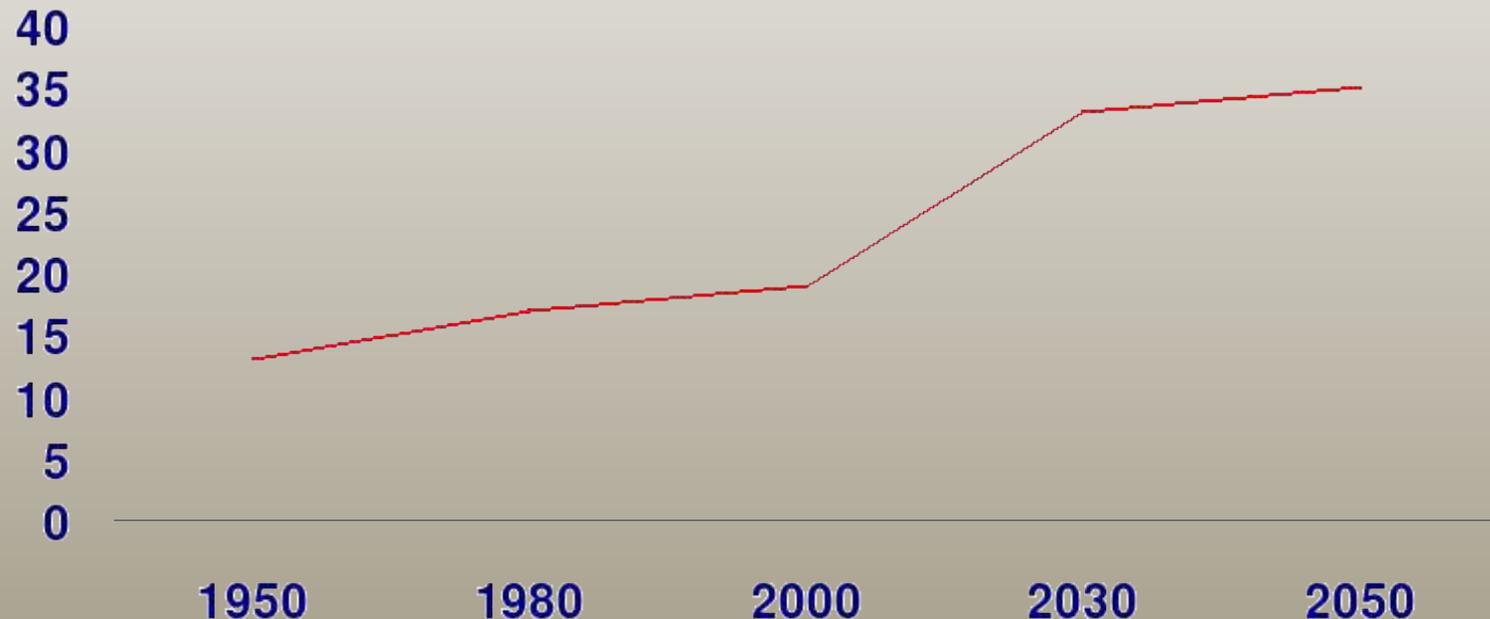


Note: Social Security and Medicare projections based on the intermediate assumptions of the 2004 Trustees' Reports. Medicaid projections based on CBO's January 2004 short-term Medicaid estimates and CBO's December 2003 long-term Medicaid projections under mid-range assumptions.

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

U.S. Elderly Dependency Ratio Expected to Continue to Increase

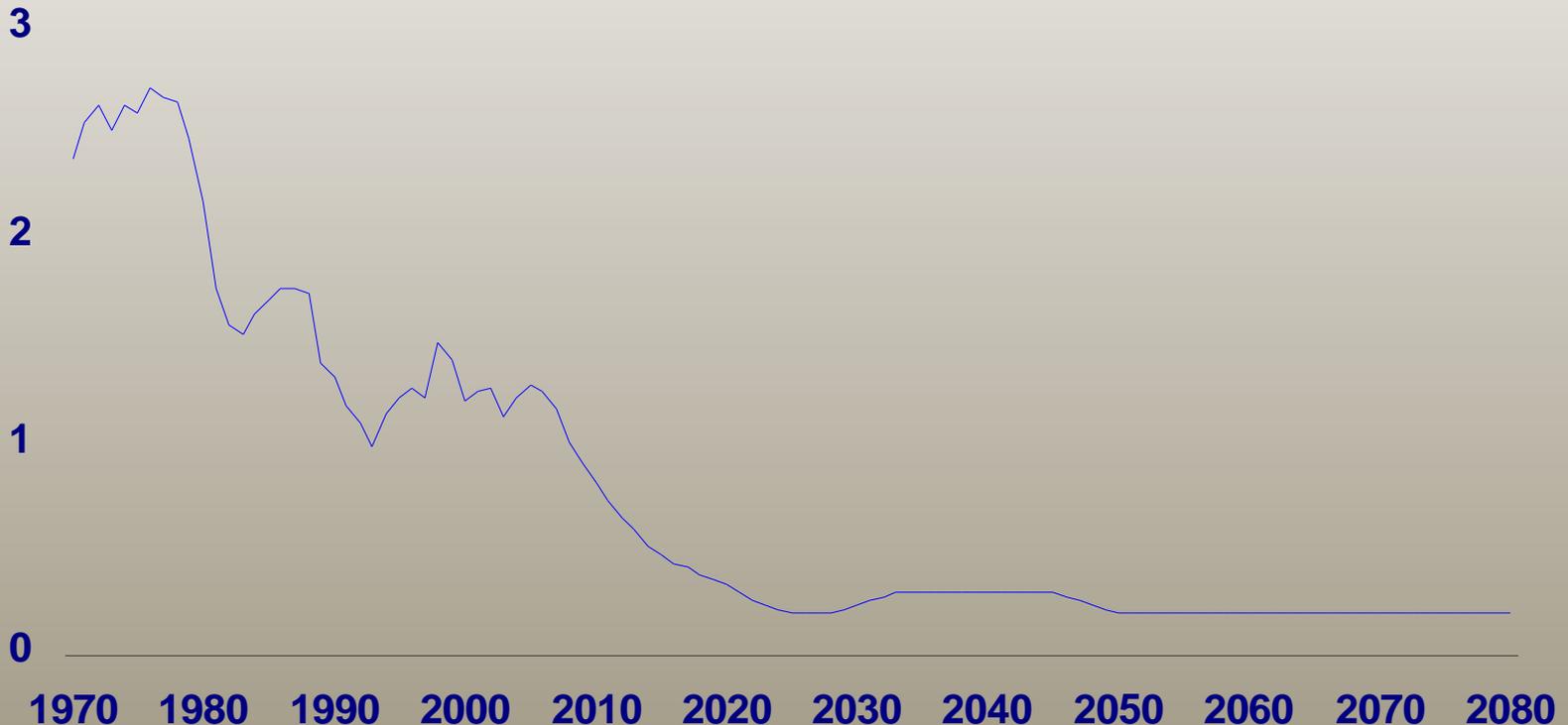
Elderly Dependency Ratio (in percent)



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: 2000 Revision and World Urbanization Prospects: 2001 Revision. Data for 2030 - 2050 are projected.

U.S. Labor Force Growth Will Continue to Decline

Percentage change (5-yr moving average)



Note: Percentage change is calculated as a centered 5-yr moving average of projections based on the intermediate assumptions of the 2004 Trustees Reports.

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

Key Dates Highlight Long Term Challenges of the Social Security System

Date	Event
2008	Social Security cash surplus begins to decline
2018	Annual benefit costs exceed cash revenue from taxes
2028	Trust fund ceases to grow because even taxes plus interest fall short of benefits
2042 (SSA) 2052 (CBO)	Trust fund exhausted, annual revenues sufficient to pay about 73% – 81% of promised benefits

Sources: Social Security Administration, *The 2004 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*. Washington, DC, March 2004. Congressional Budget Office, *The Outlook for Social Security: Potential Range of Social Security Outlays and Revenues Under Current Law*. Washington, DC, June 2004.

Different Measures, Same Challenge

- 75-year projection of funding shortfall:
 - \$3.7 trillion in present value
 - 0.7% of GDP
 - 1.8% of taxable payroll

- Infinite horizon projection of funding shortfall:
 - \$10.4 trillion in present value
 - 1.2% of GDP
 - 3.5% of taxable payroll

Source: Social Security Administration, *The 2004 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (Washington D.C.: March 2004).

Social Security Reform Elements

Reform proposals should be evaluated as packages that strike a balance among individual reform elements and important interactive effects, including consideration of both funded and promised benefit levels.

Comprehensive proposals can be evaluated against three basic criteria:

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

Key Elements for Economic Security in Retirement

- Adequate retirement income
 - Social Security
 - Pensions
 - Savings
 - Earnings from continued employment (e.g., part-time)
- Affordable health care
 - Medicare
 - Retiree health care
- Long-term care (a hybrid)
- Major Players
 - Employers
 - Government
 - Individuals
 - Family
 - Community

Social Security: The Bottom Line

Illustrative Questions and Answers Based on the Latest Trustees' Reports

- Does Social Security have a financing problem? [Yes]
- Will the Social Security program ever go bust? [No]
- Will the Social Security trust fund balance ever be exhausted? [Yes]
- Should the trust fund solvency date be the primary action-forcing event for Social Security reform? [No]
- What other factors should be considered?
 - Cash flow
 - Total unfunded commitments
 - Percent of the budget and GDP
 - Percent of taxable payroll

Questions and Answers (cont'd)

- Should we act sooner rather than later to reform Social Security? [Yes]
 - Time is working against us
 - We have an opportunity to exceed the expectations of every generation of Americans
 - We have bigger problems that we ultimately will have to address
 - A successful reform effort would help to improve the credibility of government and enhance confidence in government

Questions and Answers (cont'd)

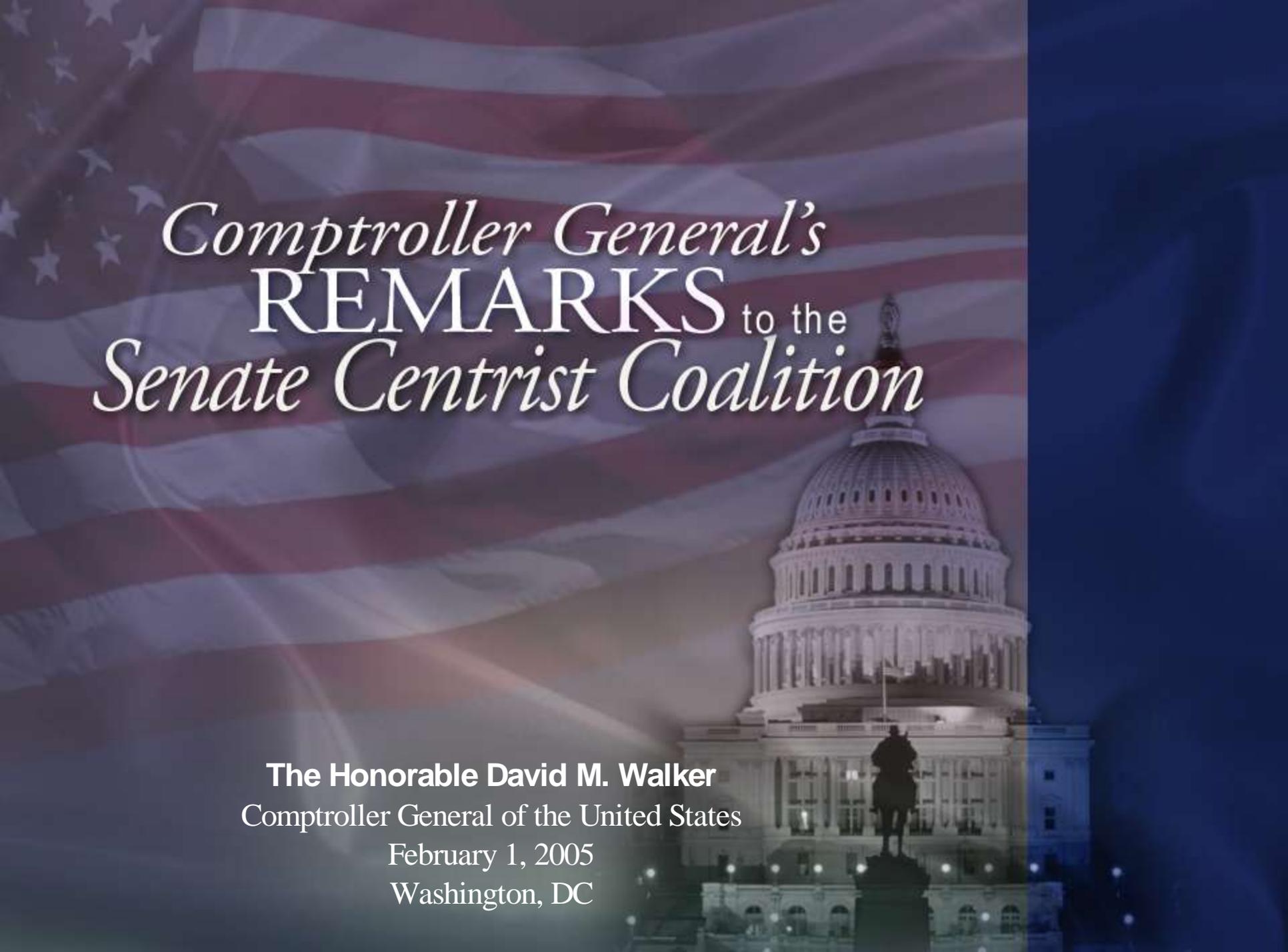
- Will individual accounts solve the problem by themselves?
[No]
- Should they be considered as part of a more comprehensive reform proposal? [Yes]
- What other types of reforms need to be considered?
 - Strengthening progressivity (e.g., replacement rates)
 - Indexing formulas
 - Retirement ages
 - Tax base and rates

Questions and Answers (cont'd)

- What is an example of a government retirement system that includes private accounts? [The Federal Thrift Savings Plan]
- Would individual accounts involve significant transition costs? [Yes]
- What other possible implications would individual accounts have?
 - Personal savings rate
 - Rates of return on Social Security payroll taxes
 - Pre- and post-retirement survivors' benefits
 - Savings and investment education
 - Supplemental retirement savings vehicle

Questions and Answers (cont'd)

- Should we consider both promised and funded benefits in analyzing Social Security Reform proposals? [Yes]
- Should we consider both cash and present value related costs and implications of Social Security reform proposals? [Yes]
- Can Social Security reform exceed the expectations of all generations of Americans? [Yes]
- Does the Social Security reform process matter? [Yes]
- Should Social Security be about the public good versus political gain? [Yes]



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