

THE NATION'S FISCAL HEALTH

Federal Action Critical to Pivot toward
Fiscal Sustainability

Annual Report to Congress

MAY 2022

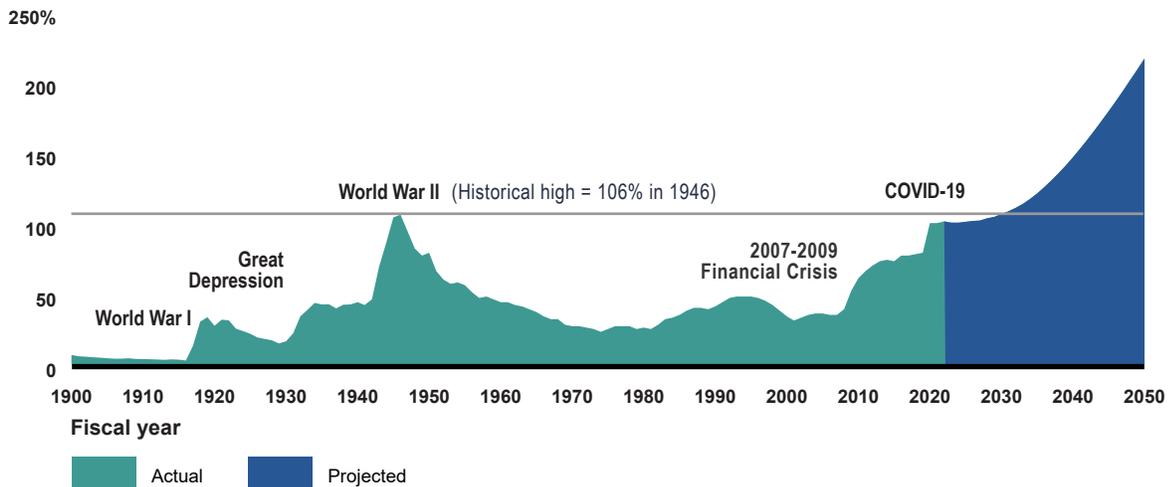


UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

The federal government faces an unsustainable fiscal future. At the end of fiscal year 2021, debt held by the public was about 100 percent of gross domestic product (GDP), a 33 percent increase from fiscal year 2019. Projections from the Office of Management and Budget and the Department of the Treasury, the Congressional Budget Office, and GAO all show that current fiscal policy is unsustainable over the long term. Debt held by the public is projected to reach its historical high of 106 percent of GDP within 10 years and continue to grow at an increasing pace. This ratio could reach 217 percent of GDP by 2050, absent any change in fiscal policy.

Debt Held by the Public Projected to Grow Faster Than GDP

Percentage of gross domestic product



Source: GAO analysis of Congressional Budget Office historical data and GAO simulation. | GAO-22-105376

The underlying conditions driving this unsustainable fiscal outlook existed well before the COVID-19 pandemic and continue to pose serious challenges if not addressed.

Federal Budget Deficit in Fiscal Year 2021 was Second Largest in History

The fiscal year 2021 federal budget deficit of \$2.8 trillion was the second largest in history, after the fiscal year 2020 deficit of \$3.1 trillion. These historically large deficits were due primarily to economic disruptions caused by the COVID-19 pandemic—which decreased revenues in fiscal year 2020—and the additional spending by the federal government in response to the pandemic. Federal debt held by the public grew by about \$5.5 trillion during fiscal years 2020 and 2021, reaching \$22.3 trillion at the end of fiscal year 2021.

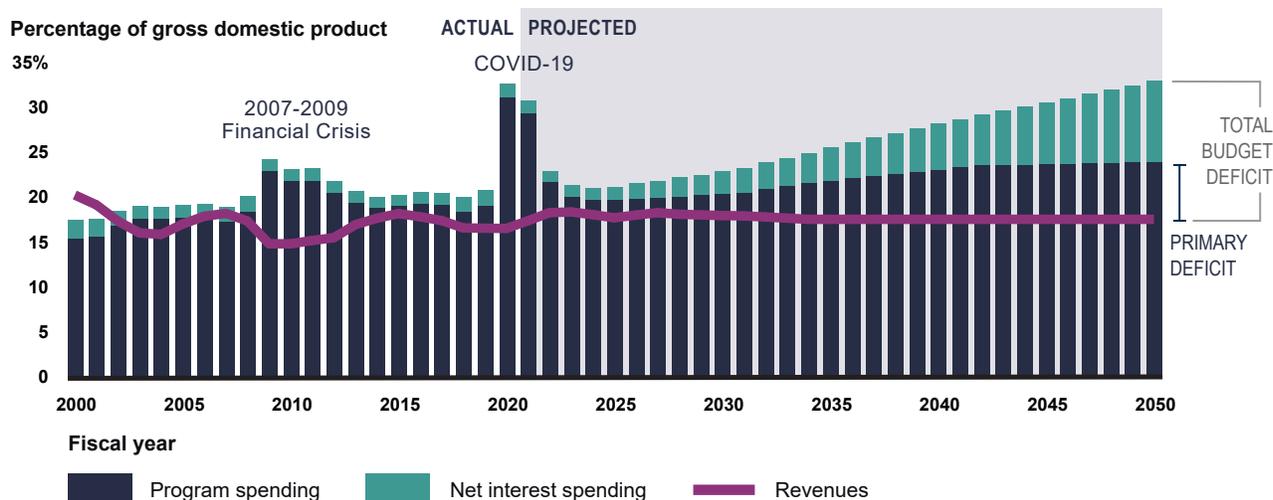
Increasingly Large Deficits Drive Unsustainable Debt Levels

In GAO's simulation, starting in 2024, debt held by the public grows faster than GDP in every year. In most years, debt held by the public grows more than twice as fast as the economy, in real terms. The growing debt is a consequence of borrowing to finance increasingly large annual budget deficits.

The total budget deficit is composed of two parts:

- **The primary deficit:** the gap between non-interest (program) spending and revenue and
- **Spending on net interest:** primarily the cost to service the debt.

Primary Deficit and Total Budget Deficit, Actual and Projected



Source: Congressional Budget Office data and GAO simulation. | GAO-22-105376

In GAO's simulation, increasing primary deficits are driven by spending and revenue trends.

- **Spending:** Medicare, other federal health care programs, and Social Security are requiring an increasingly large share of federal resources. Under GAO's simulation, total spending for major federal health care programs and Social Security would account for 85 percent of projected revenue in 2050, up from 63 percent in 2019.
- **Revenue:** Average annual revenue as a share of GDP was lower over the last 20 years than in prior decades. From 2000 to 2021, revenue averaged 16.8 percent of GDP annually, compared to an annual average of 17.9 percent of GDP between 1980 and 2000.

Further, certain fiscal risks are not fully accounted for in the simulations. Consistent with CBO projections, GAO's simulations assume that interest rates will increase over the next 30 years to 4.6 percent in 2051, from the historically low levels over the last 20 years. Interest rates higher than projected would further increase interest costs and debt. Other fiscal risks include potential delays in raising the [debt limit](#) and additional potential spending from certain [fiscal exposures](#), such as such as potential global or regional military conflicts, public health crises, and natural disasters and climate change.

Action Is Needed to Change the Unsustainable Fiscal Path

An effective fiscal plan would support the difficult policy decisions needed to achieve a more sustainable fiscal policy, one where publicly-held debt is stable or declining relative to the size of the economy. GAO's work has identified several components of an effective fiscal plan:

- **Incorporate well-designed fiscal rules and targets** to help manage debt by controlling factors such as spending and revenue;
- **Assess the drivers of the primary deficit**, such as mandatory and discretionary spending and tax policy—including tax expenditures;
- **Consider alternative approaches to the debt limit;** and
- **Address financing gaps for Medicare and Social Security trust funds.**



Table of Contents

Background	4
Federal Budget Deficit in Fiscal Year 2021 Was Second Largest in History	7
Increasingly Large Budget Deficits Drive Unsustainable Outlook.....	11
Rising Interest Rates, Disruptions in Treasury Markets, and Fiscal Exposures Pose Risks to Fiscal Outlook.....	20
Action Is Needed to Change the Unsustainable Fiscal Path.....	27
Action on Open GAO Recommendations Could Yield Significant Fiscal Benefits.....	34
Appendix I: Objectives, Scope, and Methodology	39
Appendix II: Methodology and Design: GAO's 75-Year Fiscal Simulation.....	41
Appendix III: Selected Fiscal Exposures.....	45
Appendix IV: Congressional Action to Strengthen Internal Controls and Financial and Fraud Risk Management Practices.....	51
Appendix V: GAO Contacts and Staff Acknowledgments	52

May 5, 2022

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

The federal government faces an unsustainable fiscal future. Long-term projections from the Office of Management and Budget (OMB) and the Department of the Treasury, the Congressional Budget Office (CBO), and GAO all show that current fiscal policy is unsustainable over the long term.

The underlying conditions driving the unsustainable fiscal outlook existed well before the COVID-19 pandemic and continue to pose serious economic, security, and social challenges if not addressed. The federal government's extensive fiscal response to the COVID-19 pandemic accelerated the growth in federal debt.

To change this unsustainable fiscal outlook, Congress should develop a plan to place the government on a sustainable long-term fiscal path. Congress and the administration will need to pivot and make difficult budgetary and policy decisions to address the key drivers of the debt and change the government's fiscal path.

We produce this annual fiscal health report to examine the current fiscal condition of the federal government and its future fiscal path, absent policy changes in revenue and program spending. This report updates our March 2021 report¹ and discusses the

- federal government's fiscal condition and changes from fiscal years 2019 to 2021;
- outcomes from our 75-year simulation of the federal government's fiscal outlook;
- additional risks to the federal government's fiscal outlook;
- components of a plan for a sustainable long-term fiscal path; and
- actions that Congress and federal agencies could take now to yield financial benefits.

The fiscal condition is a broad concept using both budget and financial information. Fiscal policy refers to decisions on taxes and spending that affect the level, composition, and distribution of the government's revenue and spending.

Source: GAO. | GAO-22-105376



¹ GAO, *The Nation's Fiscal Health: After Pandemic Recovery, Focus Needed on Achieving Long-Term Fiscal Sustainability*, GAO-21-275SP (Washington, D.C.: Mar. 23, 2021).

Our analysis draws from several government sources and our reports.

- To describe the federal government’s current fiscal condition, we summarized key budgeting and financial measures as reported in the *Fiscal Year 2021 Financial Report of the United States Government (2021 Financial Report)* and the *Fiscal Year 2020 Financial Report of the United States Government*,² and from our reports of the consolidated financial statements of the U.S. government for fiscal years 2019, 2020, and 2021.³ We also analyzed federal budget and economic data reported by Treasury and CBO.⁴
- To examine the federal government’s fiscal outlook, we developed our own long-term simulation. We also reviewed other government projections:
 - 10- and 30-year economic and fiscal projections developed by CBO;⁵
 - 75-year economic and fiscal projections developed by OMB and Treasury and reported in the *2021 Financial Report*;⁶ and
 - 75-year economic and fiscal projections developed by the Board of Trustees for Social Security and Medicare.⁷

Projections are not predictions or forecasts of the future, but rather scenarios based on specific assumptions. In our simulation, we use these sources to project ratios of the deficit and debt to gross domestic product (GDP) over a 75-year time horizon. These results are driven by underlying assumptions about real (inflation-adjusted) rates of change related to spending and revenue. For more information on this report’s methodology and sources, see appendix I. For more information on our long-term simulation, see appendix II.

Gross Domestic Product (GDP) is the value of all goods and services produced within the borders of a country in a given period. It is generally used as a proxy for the size of a country’s economy.

Source: Bureau for Economic Analysis. | GAO-22-105376

² The consolidated financial statements of the U.S. government are prepared by the Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget. See Department of the Treasury, *FY21 Financial Report of the United States Government*, (Washington, D.C.: Feb. 17, 2022). For the purposes of this report, we refer to conclusions from the Financial Report as OMB-Treasury analyses.

³ GAO, *Financial Audit: FY 2021 and FY 2020 Consolidated Financial Statements of the U.S. Government*, GAO-22-105122 (Washington, D.C.: Feb. 17, 2022); and *Financial Audit: FY 2020 and FY 2019 Consolidated Financial Statements of the U.S. Government*, GAO-21-340R (Washington, D.C.: Mar. 25, 2021).

⁴ See <https://fiscaldata.treasury.gov/>.

⁵ For CBO we used the most current projections available at the time. For this report, we used CBO’s 10-year projections as of July 2021 and its 30-year projections as of March 2021. See *Additional Information About the Updated Budget and Economic Outlook: 2021 to 2031* (July 2021), and *The 2021 Long-Term Budget Outlook* (March 2021).

⁶ OMB and Treasury prepare the long-term fiscal projections included in the *2021 Financial Report*. In this publication, we refer to these projections as the OMB-Treasury model. See GAO-22-105122. We consider such projections as part of our audit of the consolidated financial statements of the U.S. government.

⁷ Each year the Trustees of the Social Security and Medicare trust funds report on the current and projected financial status of the two programs. See *The 2021 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (Aug. 31, 2021); and *The 2021 Annual Report of the Board of Trustees for the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund* (Aug. 31, 2021). We refer to these reports as the Medicare and Social Security Trustees.

Throughout this report, we measured spending, revenue, and debt as a percentage of GDP. Analyzing these measures as a share of GDP appropriately relates them to the size of the economy supporting these activities and accounts for changes in the labor force, prices, and a variety of other factors that might change over time.

Also, debt—and projections of future debt—are best understood as a share of the economy supporting that debt. Further, it is the path of the debt-to-GDP ratio over time that is critical: a path in which debt grows faster than the economy over the long term is unsustainable.

A sustainable fiscal policy is one where government spending and revenue policies do not cause debt to rise continuously relative to the size of the economy. In other words, the ratio of debt held by the public to GDP (the debt-to-GDP ratio) is ultimately stable or declining over the long term.

Source: GAO, Department of the Treasury, and the Office of Management and Budget. | GAO-22-105376





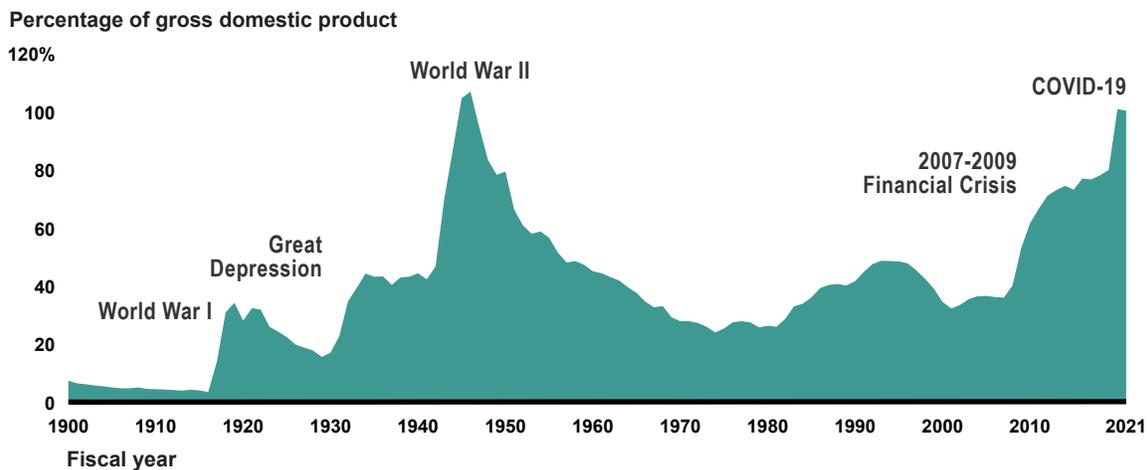
Background

For most of the nation's history, the government's debt held by the public as a share of GDP has increased during wartime and recessions and decreased during peacetime and economic expansions. This pattern is visible in figure 1. For example, publicly held debt as a share of GDP rose significantly during World War II but decreased rapidly in the post-war years.

Debt Held by the Public is all federal debt held by individuals, corporations, state or local governments, the Federal Reserve System, foreign governments, and other entities outside the federal government.

Source: Department of the Treasury. | GAO-22-105376

Figure 1. Federal Debt Held by the Public as a Share of Gross Domestic Product, 1900 to 2021



Source: Congressional Budget Office data. | GAO-22-105376

However, this pattern has changed during more recent times. Debt held by the public as a share of GDP grew during three of the four most recent economic expansions.⁸ The federal government has run a deficit and added to its debt in every fiscal year since 2002.

The federal budget deficit is generally the amount by which spending exceeds its revenues for a given period, usually a fiscal year.

Source: GAO. | GAO-22-105376

⁸ A recession begins when the economy reaches a peak of activity and ends when the economy reaches its trough. Between trough and peak, the economy is in an expansion. Based on our analysis, debt held by the public as a share of GDP grew during economic expansions from November 1982 to July 1990, November 2001 to December 2007, and June 2009 to February 2020. Debt held by the public as a share of GDP did not grow during the economic expansion from March 1991 to March 2001. We obtained quarterly data on publicly held debt as a share of GDP from Federal Reserve Economic Data. We obtained information on business cycle dates from the Business Cycle Dating Committee at the National Bureau of Economic Research.

Treasury Issues Securities to Finance Deficits

Treasury borrows the money to finance annual deficits by selling securities—Treasury bills, notes, and bonds—to the public. These securities Treasury issues to raise needed cash make up debt held by the public.⁹

Treasury issues a wide range of securities to appeal to a diverse group of investors, and in sufficient amounts to promote liquid markets so investors can easily buy and sell Treasury securities. Demand for Treasury securities by different types of investors fluctuates over time, reflecting changes in the investment needs of particular sectors. Since the 2007-2009 financial crisis, changes in monetary policy operations, financial regulation, and foreign central bank needs have changed the composition of demand for Treasury securities across different sectors.¹⁰ Figure 2 shows the primary holders of Treasury securities (debt held by the public) at the end of fiscal year 2021.

Nominal Treasury Securities

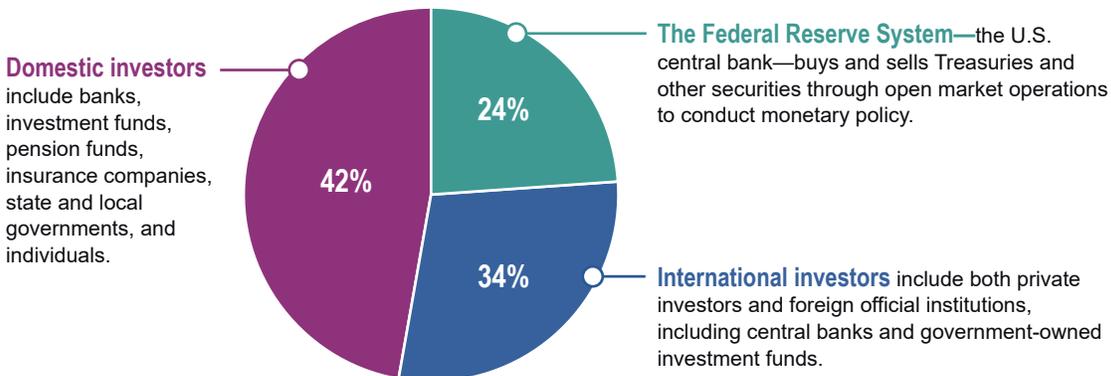
Bills are short-term securities maturing in 1 year or less.

Notes are interest-bearing securities that have a fixed maturity of not less than 1 year and not more than 10 years from their date of issue.

Bonds are interest-bearing securities with maturities over 10 years. Treasury currently issues 20- and 30-year bonds.

Source: GAO. | GAO-22-105376

Figure 2. Debt Held by the Public—by Sector, as of Sept. 30, 2021



Source: GAO analysis of Department of the Treasury data. | GAO-22-105376

Note: Ownership information is estimated primarily because securities are continually resold among investors.

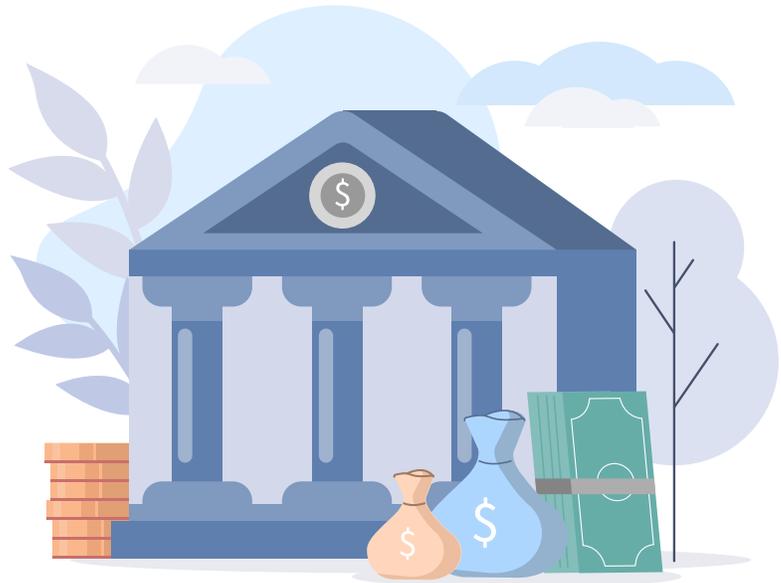
Investors find federal debt—U.S. Treasury securities—an attractive investment because it is considered to be essentially free of default risk. The U.S. Treasury securities market is considered the most liquid and deep fixed-income market in the world—meaning that Treasury securities can be bought and sold quickly and in large quantities without affecting their price. The federal government benefits from strong demand for Treasury securities because it helps to keep borrowing costs low.

⁹ Other factors that affect borrowing—collectively, other means of financing—are not reflected in the budget totals. Those factors include changes in the government’s cash balances and the cash flows of federal programs that provide loans and loan guarantees.

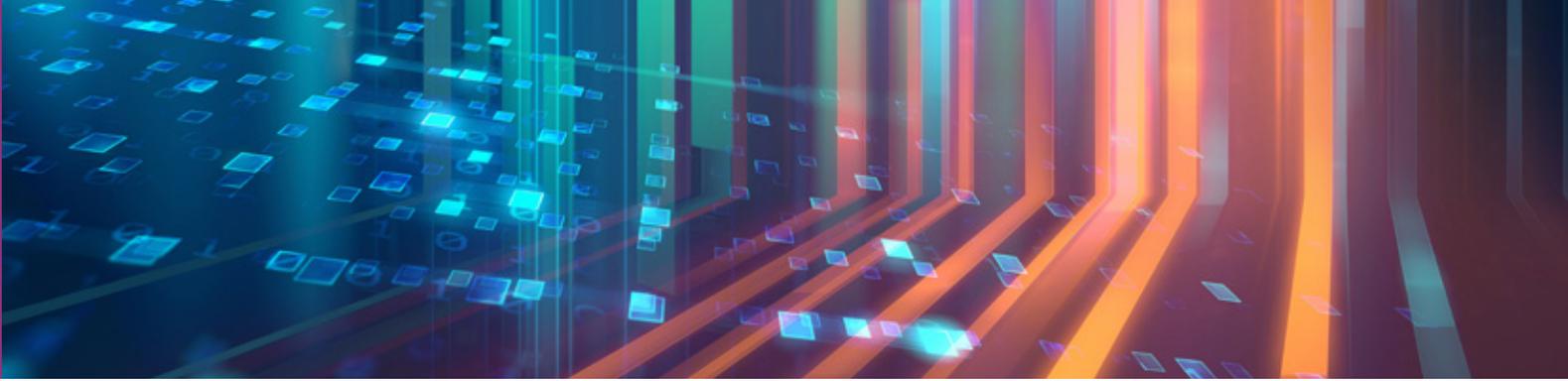
¹⁰ For more information on demand for Treasury securities across different sectors, see GAO, *Federal Debt Management: Treasury Should Strengthen Policies for Market Outreach and Analysis to Maintain Broad-Based Demand for Securities*, GAO-20-131 (Washington, D.C.: Dec. 5, 2019).

Federal debt can both promote and slow economic growth. For example:

- Borrowing, in lieu of higher taxes or lower government spending, may be viewed as appropriate during economic recessions, wars, public health crises, and other temporary challenges or national needs.¹¹
- Debt may also be a cost-effective means of financing federal investment that promotes future economic growth. Public facilities, such as transportation systems and water supplies, are vital to meeting immediate as well as long-term public demands for safety, health, and improved quality of life.
- High levels of debt can lead to lower private investment and a smaller capital stock that the economy can use to grow. Over time, lower productivity and GDP growth ultimately may reduce or slow the growth of the living standards of future generations.



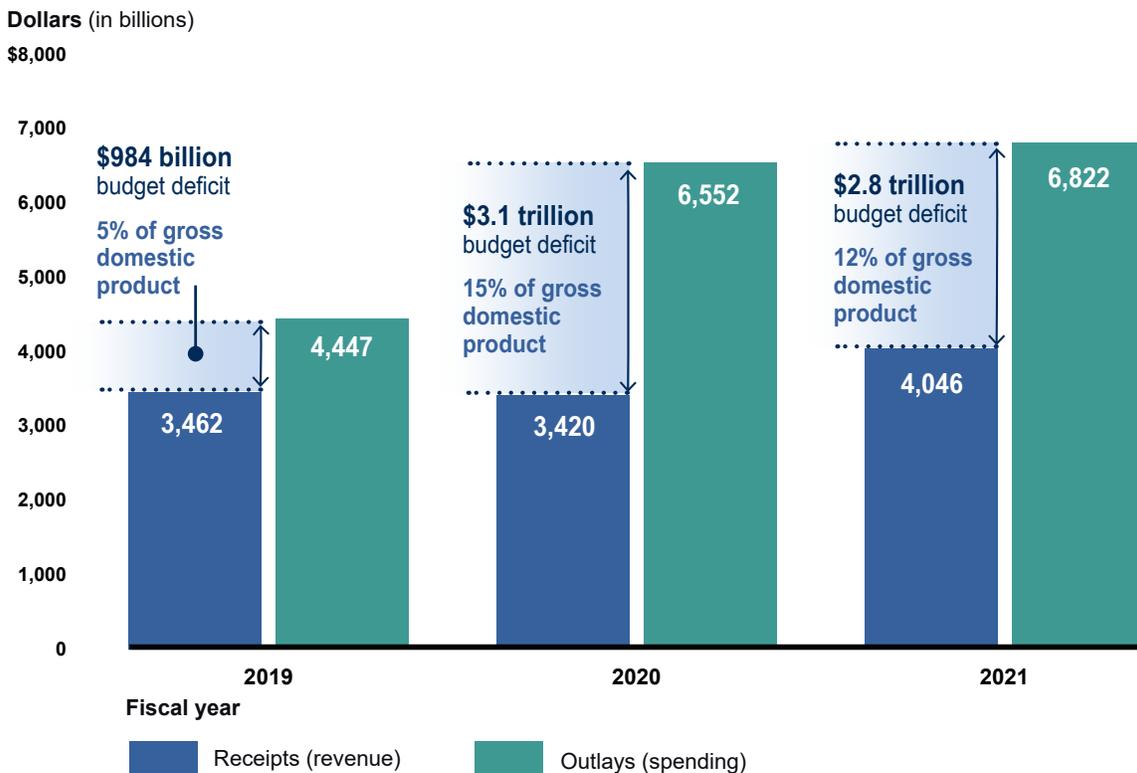
¹¹ Federal borrowing may be higher during a recession because tax revenue declines and federal benefit payments for programs such as unemployment insurance automatically increase. See GAO, *Federal Debt: Answers to Frequently Asked Questions – An Update*, GAO-04-485SP (Washington, D.C.: Aug. 12, 2004).



Federal Budget Deficit in Fiscal Year 2021 Was Second Largest in History

At \$2.8 trillion (12 percent of GDP), the fiscal year 2021 federal budget deficit was the second largest recorded federal deficit in history and was almost three times larger than the deficit in fiscal year 2019 (see fig. 3).

Figure 3. Budget Deficit for Fiscal Years 2019 to 2021



Notes: Outlays (spending) are payments made by the federal government to the public or entities outside the government. Outlays include net interest, which is primarily interest on debt held by the public. Unlike most other costs in the budget, interest costs are recorded as outlays when they accrue, not when they are paid.

Receipts (revenue) refer to funds received by the federal government from taxes and other revenue sources. Main sources of revenue are taxes with some income from user fees and other services the government provides.

The historically large deficits in fiscal years 2020 and 2021 were due primarily to economic disruptions caused by the COVID-19 pandemic—which decreased revenues in fiscal year 2020—and the additional spending by the federal government in response to the pandemic. Through the end of fiscal year 2021, Congress and the President provided about \$4.5 trillion in budgetary resources to protect public health and reduce economic impacts on individuals and businesses.¹² For example, the federal government provided financial assistance to individuals, businesses, and state, local, territorial, and tribal governments. In addition, assistance included funding for the development and purchase of vaccines and other public health measures.¹³

The federal government's fiscal response to the pandemic dramatically increased the government's borrowing needs and Treasury quickly raised trillions of dollars.¹⁴ Cumulative deficits in fiscal years 2020 and 2021 totaled about \$5.9 trillion. Debt held by the public grew by about \$5.5 trillion during those 2 years.¹⁵

At the end of fiscal year 2021 (September 30, 2021), **total federal debt was \$28.4 trillion.**¹⁶ This total was composed of:

- **Debt held by the public: \$22.3 trillion—about 100 percent of GDP**—a 33 percent increase from fiscal year 2019. Debt held by the public grew by \$4.2 trillion in fiscal year 2020—the largest annual dollar increase in history—and by about \$1.3 trillion in fiscal year 2021. Debt held by the public is all federal debt (i.e., Treasury securities) held by individuals, corporations, state or local governments, the Federal Reserve System, foreign governments, and other entities outside the federal government.
- **Intragovernmental debt: \$6.1 trillion**—almost \$250 billion higher than fiscal year 2019. Intragovernmental debt represents debt owed by Treasury to federal government accounts—for example, trust funds for Social Security, Medicare, and civilian and military pensions—that typically have an obligation to invest excess receipts in federal securities.



12 As of February 28, 2022, about \$4.6 trillion in relief funds had been provided to fund response and recovery efforts for the COVID-19 pandemic. Total budgetary resources, reported to Treasury's Governmentwide Treasury Account Symbol Adjusted Trial Balance System, reflect appropriations, as well as transfers, adjustments, recoveries, rescissions, and returns of unused indefinite appropriations at the end of fiscal year 2021. For the purposes of calculating the amount of budgetary resources provided in response to the pandemic, we considered COVID-19 relief laws to include the six laws providing comprehensive relief across federal agencies and programs. We regularly issue government-wide reports on the federal response to COVID-19, available on our website at <https://www.gao.gov/coronavirus>.

13 Because of persistent deficiencies in the Department of Health and Human Services' preparedness and response efforts to the COVID-19 pandemic, we added leadership and coordination of public health emergencies to our High-Risk list in January 2022.

14 For more information on Treasury's debt management response during the COVID-19 pandemic, see GAO, *Federal Debt Management: Treasury Quickly Financed Historic Government Response to the Pandemic and is Assessing Risks to Market Functioning*, GAO-21-606 (Washington, D.C.: Aug. 17, 2021).

15 The growth in debt held by the public for a given fiscal year is approximately equal to the budget deficit for that year, but changes to Treasury's operating cash balance—among other things—can also affect borrowing. For example, in the later part of fiscal year 2021, Treasury had to draw down its operating cash balance as it had to manage debt limit restrictions. Therefore, Treasury borrowed less than the deficit for that year. For more information about Treasury's operating cash balance policy and its implementation during the pandemic, see GAO-21-606.

16 In this report we present amounts from the 2021 *Financial Report*, which is the most recently issued *Financial Report*. As of March 11, 2022, total federal debt has increased to almost \$30.2 trillion, with debt held by the public totaling \$23.7 trillion and \$6.5 trillion of intragovernmental debt. These data are reported daily by Treasury and can be accessed at fiscaldata.treasury.gov.

We calculated that real GDP grew at a 3.6 percent annual rate in fiscal year 2021—higher than the average annual growth of 2.3 percent from 2010 to 2019.¹⁷ The growth in GDP meant that, even with the increase in publicly held debt from fiscal year 2020 to fiscal year 2021, debt held by the public as a share of GDP remained about the same, at about 100 percent. This outcome underscores the importance of evaluating federal debt in relation to the economy that supports it, as discussed above.

The dramatic spending increase in response to the pandemic is expected to be short term and decline as the public health situation improves and the economy continues to recover. As of July 2021, CBO expected the deficit to decrease to \$789 billion—about 3.1 percent of GDP—in 2023.¹⁸

A more complete picture of the government’s fiscal condition emerges from looking at the **Budget** and **The Financial Report of the United States Government** together. In addition to information on the federal budget deficit and debt held by the public, the *Financial Report* provides information about the government’s financial condition. This includes costs incurred that will be paid in the future, such as federal employee and veterans’ benefits—not reflected in the federal budget. For example, the *Financial Report* includes costs for an employee’s pension and other benefits while the employee is working. However, those benefits are not included in the budget until they are paid in the future during the employee’s retirement.

The federal budget is the government’s primary financial planning and control tool. It is largely cash based, with the deficit or surplus being the difference between receipts (cash received by the U.S. government) and outlays (largely payments made by the U.S. government to the public or entities outside of the government). Budgetary data are available each month via the Monthly Treasury Statement.

The Financial Report provides the government’s financial position and condition for the prior two fiscal years. This includes the government’s costs and revenues, assets and liabilities, and other important financial information. It compares the government’s revenues (amounts earned, but not necessarily collected), with costs (amounts incurred, but not necessarily paid) to derive net operating cost. Also, importantly, the Financial Report discusses long-term trends affecting critical social insurance programs, such as Medicare and Social Security, and the government’s fiscal health. The Financial Report is published each year.

Source: Department of the Treasury, the 2021 *Financial Report*. | GAO-22-105376

The following financial measures are reported in the 2021 *Financial Report*:¹⁹

The **government’s net cost** increased since 2019 in both fiscal years 2020 and 2021. It was about \$7.4 trillion for fiscal year 2021, a 45 percent increase from fiscal year 2019. Net cost equals the gross cost of goods produced and services rendered by the government minus revenues earned for goods and services provided to the public, adjusted for gains or losses from changes in actuarial assumptions used to estimate certain liabilities.

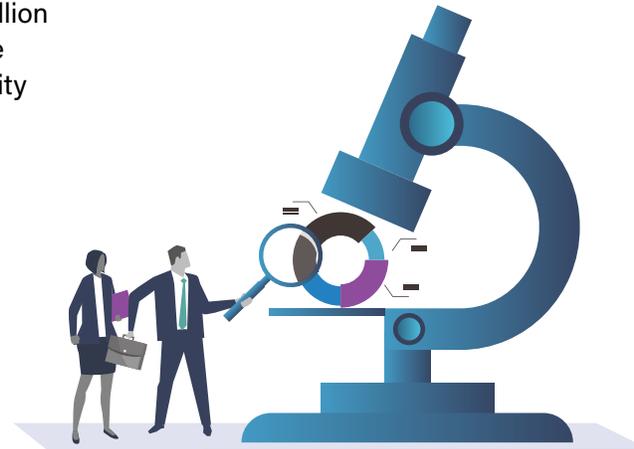
17 We calculated this growth rate from Bureau of Economic Analysis GDP data using fiscal year 2020 as the baseline. The economy contracted in 2020, decreasing by 2.5 percent. In September 2020, CBO said that the government’s pandemic response both resulted in historically large deficits and was also expected to contribute to higher GDP growth in 2021. See *The Effects of Pandemic-Related Legislation on Output*, Congressional Budget Office (September 2020); and *An Update to the Budget and Economic Outlook: 2021 to 2031*, Congressional Budget Office, July 2021.

18 *An Update to the Budget and Economic Outlook: 2021 to 2031*, Congressional Budget Office (July 2021).

19 See the 2021 *Financial Report* and [GAO-22-105122](#) for more information on these key financial measures and how they changed from the prior fiscal year.

The increase in net cost was largely related to the federal government's response to the COVID-19 pandemic, including net costs for fiscal years 2021 and 2020 related to small business loan guarantees of \$297 billion (2021) and \$527 billion (2020), primarily for the Paycheck Protection Program; economic impact payments and recovery rebate credits of \$570 billion (2021) and economic impact payments of \$275 billion (2020); and Department of Labor program costs of \$313 billion (2021) and \$352 billion (2020), primarily related to unemployment benefits.

- **Net operating cost** was almost \$3.1 trillion at the end of fiscal year 2021—a 114 percent increase from fiscal year 2019. Net operating cost is primarily the excess of the government's net cost over its tax revenues.
- **The government's net position** was a negative \$29.9 trillion as of September 30, 2021. Net position is a measure of where we are as a government, representing the excess of liabilities over assets.
- **Assets** were about \$4.9 trillion at the end of fiscal year 2021—an increase of \$900 billion from the end of fiscal year 2019. Significant new assets resulting from the federal government's response to the COVID-19 pandemic included
 - **loans** under the Economic Injury Disaster Loan program, representing almost all of the \$244 billion (2021) and \$181 billion (2020) in net disaster loans;
 - **equity investments** in special purpose vehicles of \$26 billion (2021) and \$108 billion (2020), which the Federal Reserve established during fiscal year 2020 to enhance the liquidity of the U.S. financial system;²⁰ and
 - **advances** of \$254 billion (2021) and \$173 billion (2020), primarily as a result of aid to state, local, territorial, and tribal governments and Medicare providers, for which the recipients had not incurred eligible costs or repaid the funds.
- **Liabilities** were reported to be about \$34.8 trillion at the end of fiscal year 2021, an increase of \$7.9 trillion from the end of fiscal year 2019, and included
 - **federal debt held by the public and interest payable** of \$22.3 trillion;²¹
 - **federal employee and veteran benefits payable** of \$10.2 trillion (up \$1.8 trillion from \$8.4 trillion as of the end of fiscal year 2019); and
 - **loan guarantee liabilities** of \$231 billion (2021) and \$520 billion (2020), primarily related to the Paycheck Protection Program.



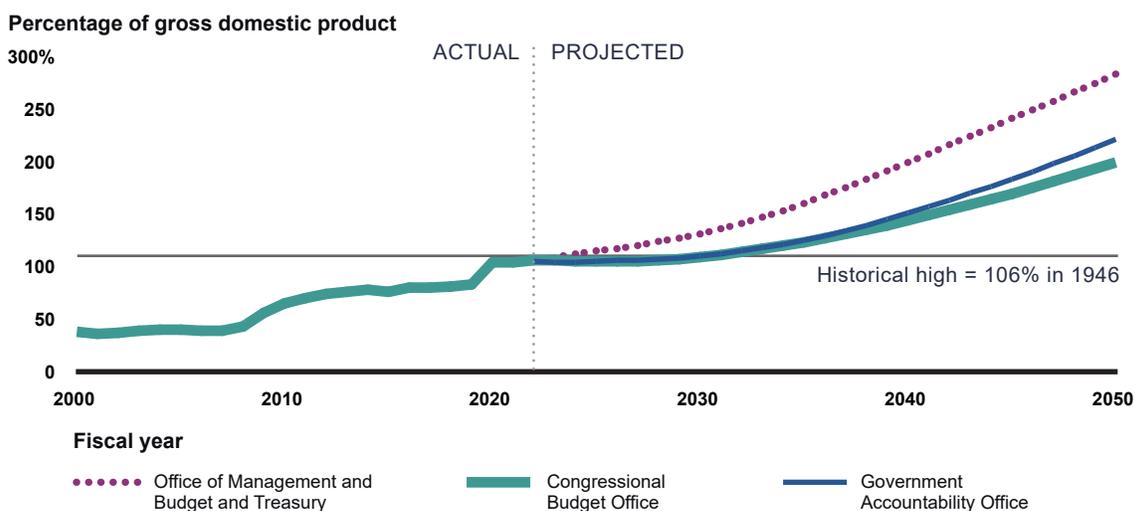
²⁰ Treasury and the Federal Reserve amended several of the special purpose vehicle agreements and the Federal Reserve returned equity investments to Treasury. See Note 8, *Investments in Special Purpose Securities*, in the *2021 Financial Report*.

²¹ When preparing the consolidated financial statements of the U.S. government, intragovernmental debt is eliminated in consolidation because it is an asset to the federal accounts that hold it—such as trust funds—and a liability to Treasury.

Increasingly Large Budget Deficits Drive Unsustainable Outlook

Analyses by OMB-Treasury, CBO, and GAO emphasize that current fiscal policy is unsustainable over the long term. Projections by OMB-Treasury, CBO, and GAO show that debt held by the public would reach its historical high of 106 percent of GDP within 10 years and continue to grow at an increasing pace (see fig. 4).²² Our simulation shows debt held by the public growing to more than 217 percent of GDP—more than twice the size of the economy—by 2050.²³

Figure 4. Debt Held by the Public as Share of GDP under Various Policy Simulations



Source: Congressional Budget Office July 2021 Outlook, 2021 Financial Report of the United States Government, and GAO simulation. | GAO-22-105376

Note: Each of these projections uses different budgetary and economic assumptions to generate the debt-to-GDP ratio in each year. Our simulation incorporates many of CBO’s assumptions, with some adjustments to the discretionary spending and mandatory spending assumptions, which explain the divergence in later years. The OMB-Treasury model assumes higher program spending than CBO and GAO and higher interest rate assumptions in the first 20 projection years. These varying assumptions help explain the different outcomes.

22 CBO, *Additional Information About the Updated Budget and Economic Outlook: 2021 to 2031* (July 21, 2021) and *The 2021 Long-Term Budget Outlook* (March 2021). OMB and Treasury prepare the long-term fiscal projections included in the *Fiscal Year 2021 Financial Report of the United States Government*.

23 Our 75-year simulation starts with fiscal year 2021 through the end of fiscal year 2095. We highlight the fiscal outlook for the next 30 years (through 2050) to underscore the urgency of changing the outlook.

Long-term projections are not predictions or forecasts of the future, but rather scenarios based on assumptions (see appendix II for more details on our simulation’s methodology). Table 1 is a summary of key projections in our simulation for the 75-year projection period.

Table 1. GAO Simulation: Summary of Key Projections

Variable	2021	2022	2023-2031 (annual average)	2032-2051 (annual average)	2052-2095 (annual average)
Revenue ^a (percent of GDP)	17.2	18.1	17.8	17.3	17.3
Outlays (percent of GDP)	30.9	23.1	22.1	28.9	44.9
Major health care programs ^b	6.1	6.1	6.3	8.1	10.2
Medicare ^c	3.4	3.4	4.0	5.3	6.5
Other major health care programs ^d	2.7	2.6	2.4	2.9	3.7
Social Security ^e	5.0	4.9	5.5	6.1	6.1
Other programs	18.3	10.8	8.3	8.9	9.3
Net interest	1.5	1.3	1.9	5.8	19.2
Interest rate on debt held by the public (percent)	1.4	1.3	1.7	3.8	4.6
Real GDP change (percent)	3.5	6.1	1.5	1.9	2.0

Source: GAO simulation. | GAO-22-105376

Note: High projected spending and revenue in 2021 and 2022 are the result of programs enacted in response to the COVID-19 pandemic and expected recovery of the economy from the COVID-19 pandemic, respectively. See appendix II for more details on our simulation’s methodology. Numbers may not add due to rounding.

^a Revenue consists of receipts from individual income taxes, Social Security and Medicare payroll taxes, corporate income taxes, and other receipts. For 2021 to 2031, our simulation uses the Congressional Budget Office’s July 2021 revenue projections.

^b Outlay percentages for major health care programs may not always equal the sum of outlay percentages for Medicare and other major health care program outlays due to rounding.

^c Medicare outlays is net of premiums and other offsetting receipts and reflect our assumption that Medicare will continue to pay benefits as scheduled under current law, regardless of the status of the program’s trust funds.

^d Outlays for other federal health care programs include Medicaid, the Children’s Health Insurance Program, and insurance premium and cost-sharing subsidies for insurance purchased through the federal health insurance exchange.

^e Social Security outlays reflect our assumption that Social Security will continue to pay benefits as scheduled under current law, regardless of the status of the program’s trust funds.

In our simulation, starting in 2024, debt held by the public grows faster than GDP in every year. In most years, debt held by the public grows more than twice as fast as the economy, in real terms.²⁴ Table 2 summarizes these trends over the next three decades.

²⁴ For this comparison, we examined annual growth in real publicly held debt relative to annual growth in real GDP. Real values are values that have been adjusted to remove the effects of inflation.

Table 2. Projected Compound Annual Growth Rates of Real Debt Held by the Public and Real GDP, 2021-2051

	2021-2031	2031-2041	2041-2051
Gross Domestic Product (GDP) annual growth (percentage)	2.0	2.0	2.0
Debt held by the public annual growth (percentage)	2.5	5.5	6.0

Source: GAO simulation. | GAO-22-105376

Notes: These are compound annual growth rates calculated using real (inflation-adjusted) values of our simulation. Our simulation uses the Congressional Budget Office’s (CBO) GDP projection for years 2021 to 2031.

Starting in 2032, we use Social Security Trustees’ intermediate scenario projections.

The growing debt is a consequence of borrowing to finance increasingly large annual budget deficits, which reflects

- **the primary deficit:** the gap between program spending and revenue, and
- **net interest spending:** primarily the cost to service the growing debt.

A primary deficit has been a persistent feature of the federal government’s financial condition over the last 20 years (see fig. 5). According to CBO, OMB-Treasury, and GAO projections, the gap between non-interest spending and revenue increases over the long term, generating larger primary deficits each year. These increasing deficits require more borrowing and growing spending on net interest.

Our simulation shows that by 2050 the primary deficit would be 6.8 percent of GDP, compared to 2.9 percent in 2019 (before the pandemic). Likewise, our simulation shows that the total budget deficit—including interest spending—would reach 15.8 percent of GDP in 2050, up from 4.6 percent in 2019.

The total budget deficit is composed of two parts.

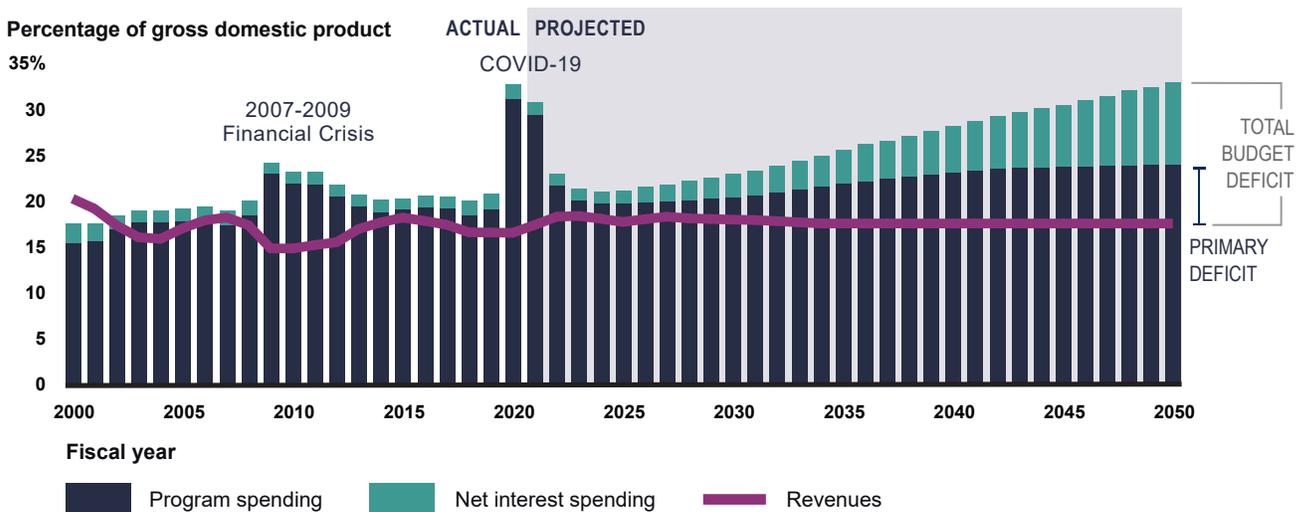
The primary deficit is the difference between government revenues and program spending. It excludes net interest.

Net interest consists of the interest the government pays minus the interest it receives. The outlays largely reflect the interest paid to holders of the debt that Treasury issues to the public.

Source: The Department of the Treasury and Congressional Budget Office. | GAO-22-105376



Figure 5. Primary Deficit and Total Budget Deficit, Actual and Projected



Source: Congressional Budget Office data and GAO simulation. | GAO-22-105376

Note: Our simulation assumes that starting in 2032, total revenue will remain constant at 17.3 percent of GDP, the 50-year historical average as of 2021.

The primary deficit is a key determinant of growth in the debt-to-GDP ratio and therefore fiscal sustainability. It is also the driver of the debt-to-GDP ratio over which policymakers have the most control—non-interest spending and revenue reflect policy decisions, whereas net interest spending is based on the composition of issued debt and interest rates.²⁵

Program Spending—Largely on Health Care and Social Security—Exceeds Revenue by Increasingly Large Margins Each Year

Program Spending

OMB-Treasury, CBO, and GAO all have reported that a significant contributor to growing primary deficits is the projected increase in Medicare, other federal health care, and Social Security program spending compared to relatively lower projected increases in revenue.²⁶

In our simulation, projected revenue is increasingly insufficient to cover spending for federal health care programs, Social Security, and all other federal spending, such as spending to support national defense and homeland security, mass transit and other infrastructure projects, and education, among other critical areas (see fig. 6).

Key Components of Non-Interest Spending

Federal health care programs is spending for key health care programs including Medicare, Medicaid, Children’s Health Insurance Program, and insurance premium and cost-sharing subsidies for insurance purchased through the federal health insurance exchange. More than 60 percent of this spending category is for Medicare.

Social Security is the cost of Social Security benefits for the Old Age and Survivors Insurance program and the Disability Insurance program.

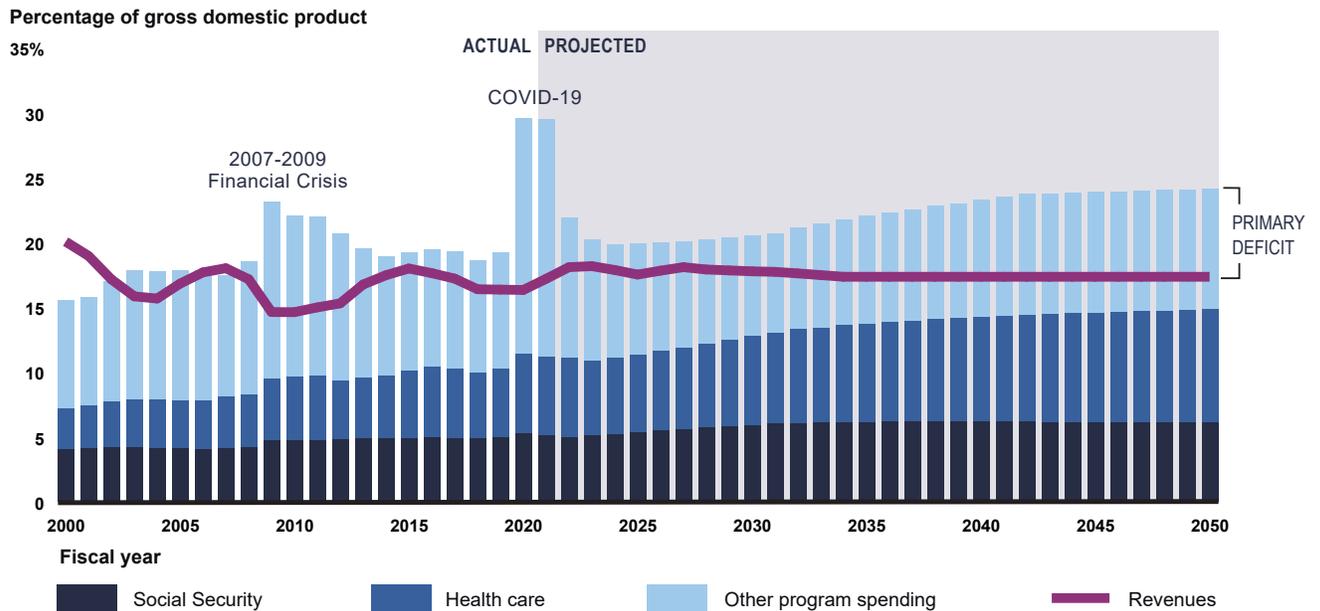
All other spending includes other mandatory spending, such as unemployment compensation and the Supplemental Nutrition Assistance Program, and discretionary spending such as spending related to national defense, homeland security, mass transit, and education, among other areas.

Source: GAO. | GAO-22-105376

²⁵ Economic growth, as measured by GDP, is also a key determinant in the debt-to-GDP ratio, as are interest rates, which are determined by market forces and the Federal Reserve’s monetary policy.

²⁶ See [GAO-21-275SP](#); CBO, *Additional Information About the Updated Budget and Economic Outlook: 2021 to 2031* (July 21, 2021); and Department of the Treasury, *Financial Report of the United States Government Fiscal Year 2021* (Washington, D.C.: Feb. 17, 2022).

Figure 6. Composition of Program Spending and Revenue as a Share of GDP



Source: Congressional Budget Office data and GAO simulation. | GAO-22-105376

Notes: Our simulation assumes that starting in 2032, total revenue will remain constant at 17.3 percent of GDP, the 50-year historical average as of 2021.

Our simulation assumes that spending for Social Security and Medicare continues as scheduled even after their trust funds are exhausted.

In fiscal year 2019 (before the pandemic), spending on major federal health care programs represented 5.3 percent of GDP. Social Security spending was 4.9 percent of GDP. Together, spending for those programs accounted for almost 63 percent of revenue collected that year.²⁷ Our simulation shows that together projected spending for federal health care programs and Social Security combined will reach 14.8 percent of GDP by 2050 and accounts for more than 85 percent of projected revenue in that year.²⁸

Medicare and Social Security

Almost all Americans have a stake in the financial condition of the Medicare and Social Security programs. At the end of 2020, approximately 175 million people contributed to the programs through employment or payroll taxes, more than 62 million people were covered by Medicare and about 65 million people received Social Security benefit payments.

Source: The Medicare and Social Security Trustees. | GAO-22-105376

Aging Population

Demographic factors, such as the aging population, are contributing to the increases in health care and Social Security spending.²⁹ As the U.S. population ages, more individuals begin receiving Medicare and Social Security benefits. Spending on federal health care programs—largely Medicare—and Social Security increased markedly after 2008, when the earliest members of the baby boom generation became eligible for retirement benefits.³⁰ The share

27 These percentages reflect outlays or spending for these programs, net of offsetting receipts. Offsetting receipts include mostly payments of premiums, recoveries of overpayments made to providers, and amounts paid by states from savings on Medicaid’s prescription drug costs. In fiscal year 2019, total government receipts (revenue) was 16.3 percent of GDP.

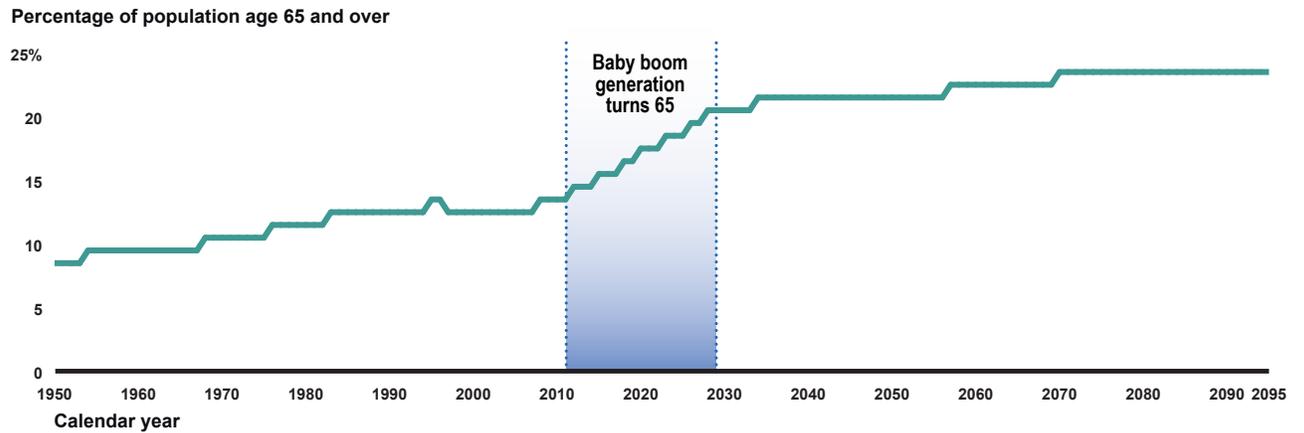
28 Those projections reflect our assumption that Medicare and Social Security will continue to pay benefits as scheduled under current law, regardless of the status of the program’s trust funds. That approach is consistent with CBO, OMB-Treasury, and the Board of Trustees. We examine the trust fund’s financial condition later in this report.

29 See [GAO-21-275SP](#); CBO, *Additional Information About the Updated Budget and Economic Outlook: 2021 to 2031* (July 21, 2021); and Department of the Treasury, *Financial Report of the United States Government Fiscal Year 2021* (Washington, D.C.: Feb. 17, 2022).

30 The baby boom generation is generally described as those born between 1946 and 1964.

of the U.S. population age 65 and older rose from 13 percent of the population in 2008 to 17 percent in 2021. That number is expected to continue to climb, reaching 20 percent by 2028 (see fig 7).

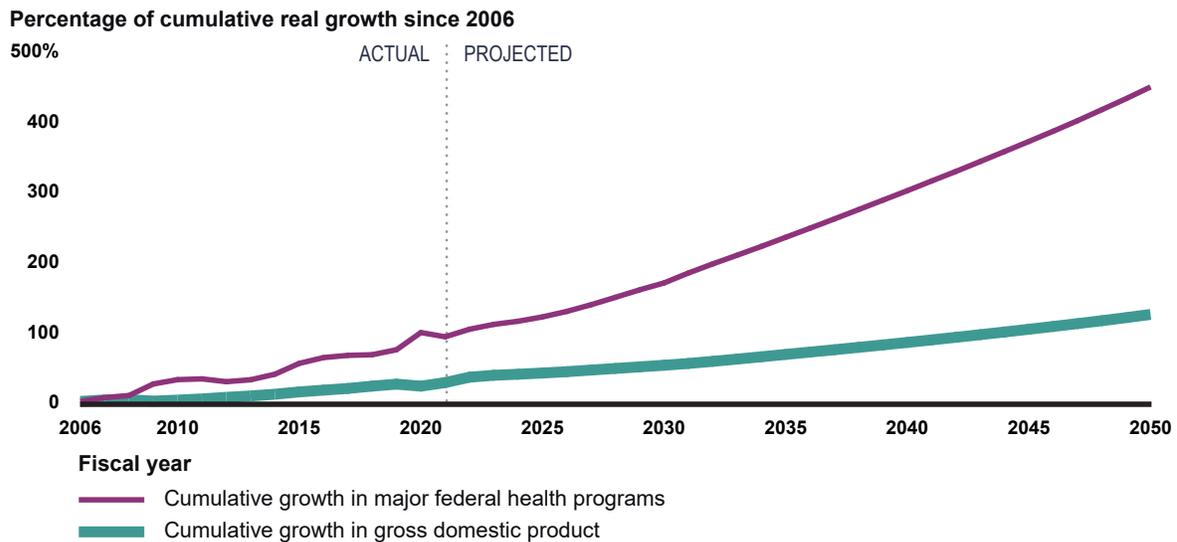
Figure 7. Older Americans Are a Greater Share of the Total Population



Health Care Costs

Over the longer term in our simulation, spending on Social Security is relatively stable as a share of GDP, but spending on health care as a share of GDP continues to increase. OMB-Treasury and CBO report that increasing health care costs, more than the aging population, is the major driver of the projected growth (see fig. 8).³¹

Figure 8. Federal Spending on Major Health Care Programs Grows Faster than GDP



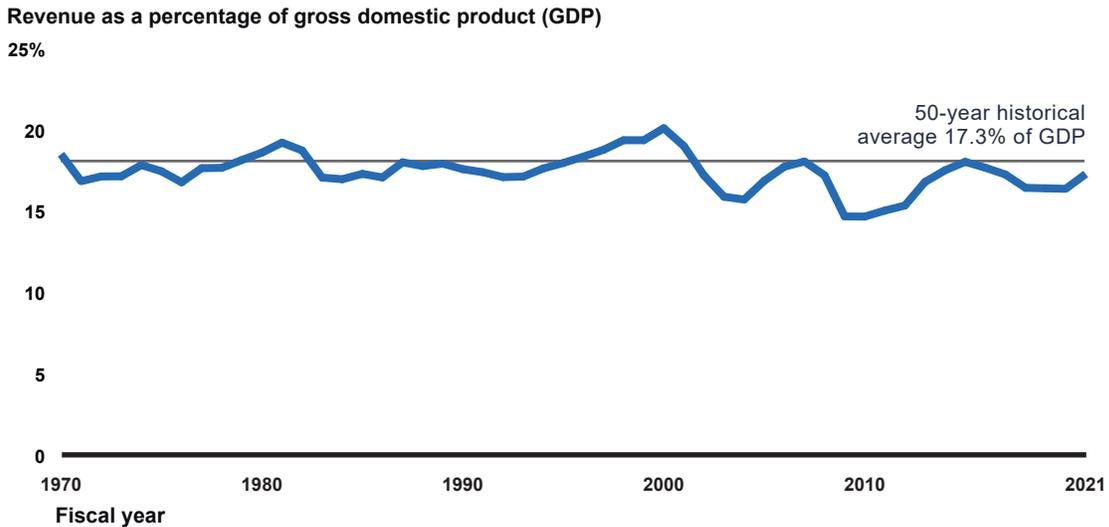
Note: Major federal health programs include Medicare, Medicaid, Children’s Health Insurance Program, and insurance premium subsidies for health care insurance purchased through the federal health insurance exchange.

31 See GAO-21-275SP; CBO, *Additional Information About the Updated Budget and Economic Outlook: 2021 to 2031* (July 21, 2021); and Department of the Treasury, *Financial Report of the United States Government Fiscal Year 2021* (Washington, D.C.: Feb. 17, 2022).

Revenue

Average annual revenue as a share of GDP was lower over the last 20 years than in prior decades (see fig. 9). From 2000 to 2021, revenue averaged 16.8 percent of GDP annually, compared to an annual average of 17.9 percent of GDP between 1980 and 2000.³²

Figure 9. Federal Revenue as a Share of GDP, Fiscal Years 1970 to 2021



Source: GAO analysis of Congressional Budget Office and Office of Management of Budget data. | GAO-22-105376

Tax receipts—the primary source of government revenue—heavily influence trends in the primary deficit. Tax receipts are affected by various factors, such as tax policy, the economy, and labor force trends. For example, the labor force has grown more slowly in recent years. As more workers leave the work force, they no longer pay taxes on their earnings—a major source of federal tax revenue. The trend of lower labor force growth is expected to continue due to the expected effects of lower fertility rates and retiring baby boomers.³³

Labor Force Trends

From 1970 to 1999, labor force growth averaged almost 2.0 percent annually.

From 2000 to 2019, average annual growth dropped to 0.8 percent.

Under the intermediate assumptions of the Board of Trustees for Social Security, the labor force is projected to grow by, on average, 0.5 percent annually through 2029, after which it is projected to average 0.4 percent annually through 2095.

Source: GAO analysis of the Board of Trustees for Social Security data. | GAO-22-105376

³² We calculated the annual average using actual budget data from CBO.

³³ See *The 2021 Annual Report of The Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (Washington, D.C.: Aug. 31, 2021).

Interest Costs Projected to Increase as Borrowing Grows

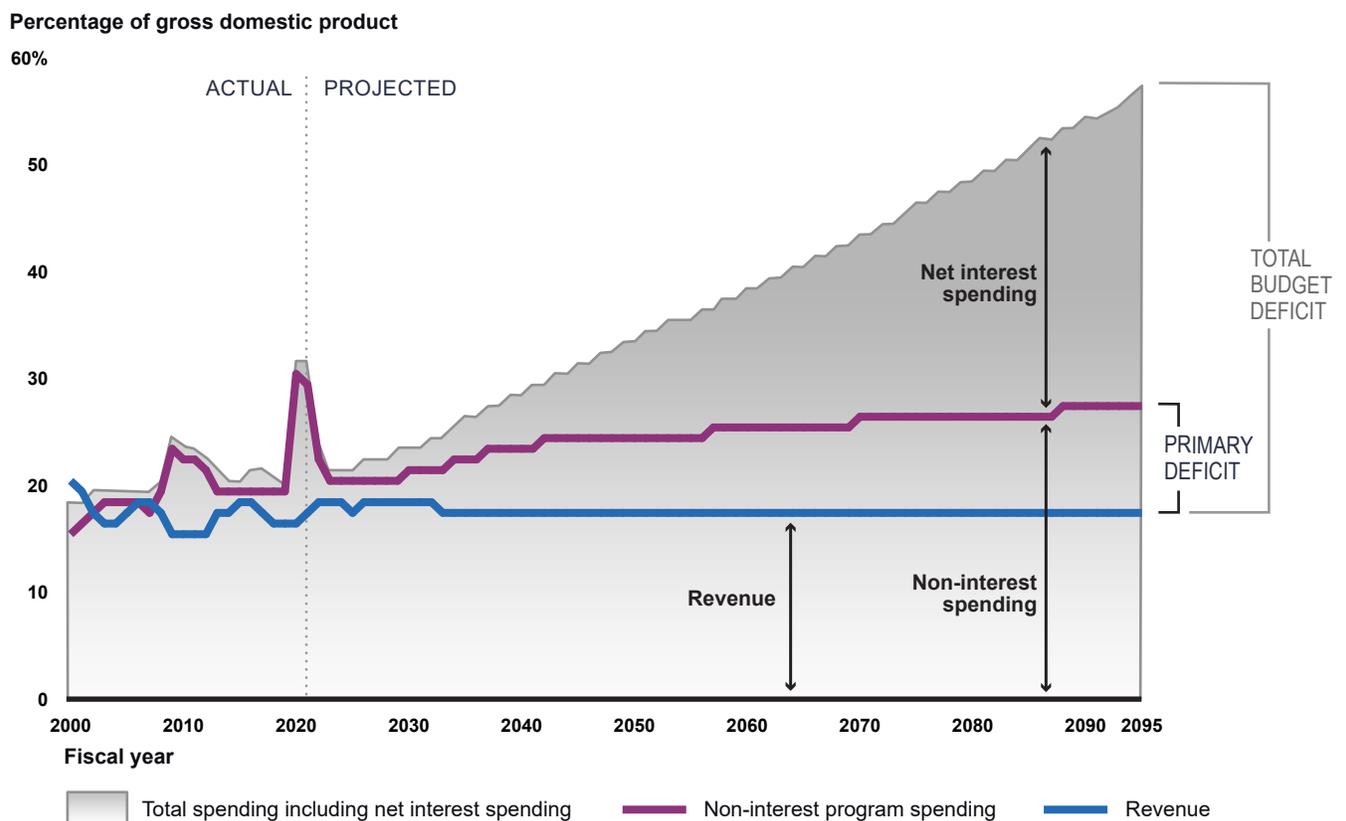
The federal government—like other borrowers—pays interest on its debt. Figure 10 shows that the federal government’s spending on net interest has represented a relatively small share of total federal spending in recent years. Primarily this is because interest rates on publicly held debt have been historically low—as discussed below. However, as debt continues to grow and interest rates rise, federal spending on net interest is projected to increase.

Spending on net interest is one of the drivers of debt affordability—or the government’s ability to afford its debt. The ratio of net interest outlays to GDP is one of the indicators of the capacity of the country’s economy to meet government debt service requirements.

Source: GAO. | GAO-22-105376

In our simulation, spending for net interest would increase steadily over the next 30 years, reaching 9 percent of GDP in 2050, and growing to represent almost 30 percent of GDP in 2095 (see fig 10).

Figure 10. GAO Simulation: Spending on Net Interest Widens the Budget Deficit



Source: GAO analysis of Congressional Budget Office historical data and GAO simulation. | GAO-22-105376

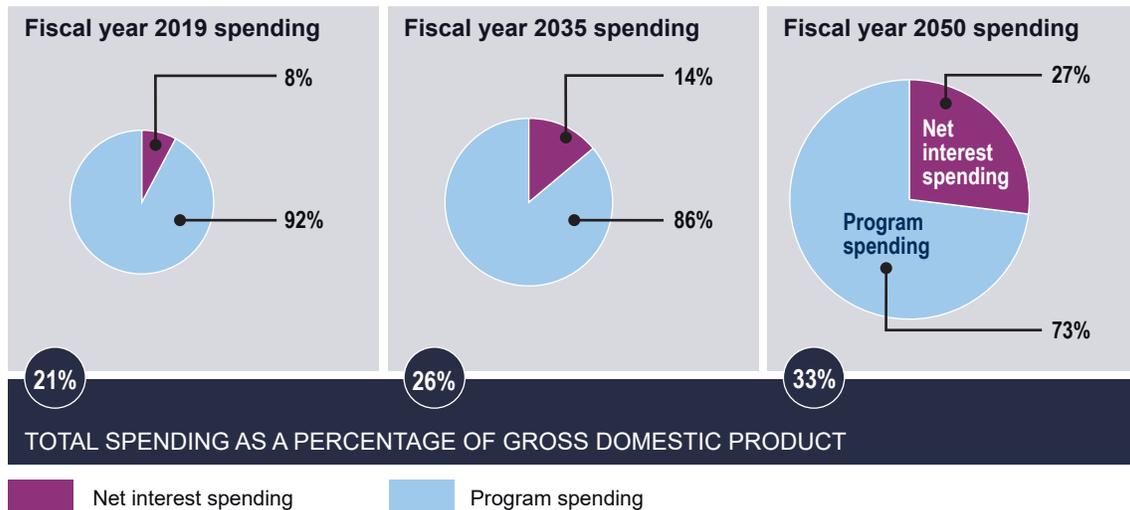
Note: Our simulation incorporates CBO’s long-term nominal interest rate projection for the first 30 years and then we hold that rate constant through the end of our 75-year simulation period. As of March 2021, CBO’s year 30 interest rate is 4.6 percent.

In our simulation, increases in spending on net interest reflect the combined effect of interactions among the following factors:³⁴

- **Accumulated debt.** The amount of debt that the federal government has already incurred and the interest that will need to be paid on that debt.
- **Future deficits.** Projected increasingly large future primary deficits that would require more borrowing for government operations, adding to the government’s debt.
- **Projected interest rate increases.** Under our simulation, not only would newly-issued debt cost the government more, but a significant share of the maturing debt would have to be refinanced at the prevailing interest rate, which may be higher than that for the originally issued debt.³⁵

The result of these factors is increasingly large expenditures for net interest. In our simulation, spending on net interest grows from about 8 percent of all federal spending in fiscal year 2019 to about 27 percent of all federal spending in fiscal year 2050 (see fig. 11).

Figure 11. GAO Simulation: Federal Interest Spending and Program Spending



Source: GAO simulation. | GAO-22-105376

34 Other factors, such as the rate of inflation and the maturity structure of outstanding Treasury securities, also affect interest costs. For example, long-term bonds generally carry higher interest rates than short-term bills. For more information, see CBO, *Federal Net Interest Costs: A Primer* (December 2020) and [GAO-20-131](#).

35 When Treasury securities mature, Treasury may need to issue new debt to raise cash to pay investors the principal for the maturing security. This is called rolling over, or refinancing the debt, as the newly issued security will be subject to the prevailing interest rate at that time, which may be higher than for the original issue. As of September 2021, \$12.2 trillion—more than half of all outstanding marketable Treasury securities—will be maturing between December 2022 and 2031, during which time real interest rates are expected to increase.

Rising Interest Rates, Disruptions in Treasury Markets, and Fiscal Exposures Pose Risks to Fiscal Outlook

Risk to the Long-Term Fiscal Outlook If Interest Rates Rise More than Expected

The government's net interest costs are sensitive to changes in interest rates and depend on the maturities of the Treasury securities issued.³⁶ Interest rates are determined by market forces, such as the supply and demand for Treasury securities, and by the policies of the Federal Reserve.³⁷ All else equal, growing debt is likely to increase the interest rates (yields) on Treasury securities, meaning a higher cost for the government to borrow.³⁸ Interest rates have been relatively low over the last 20 years (see fig. 12). However, our simulation (based on CBO projections) includes increasing interest rates over the next 30 years—reaching 4.6 percent in 2051.³⁹



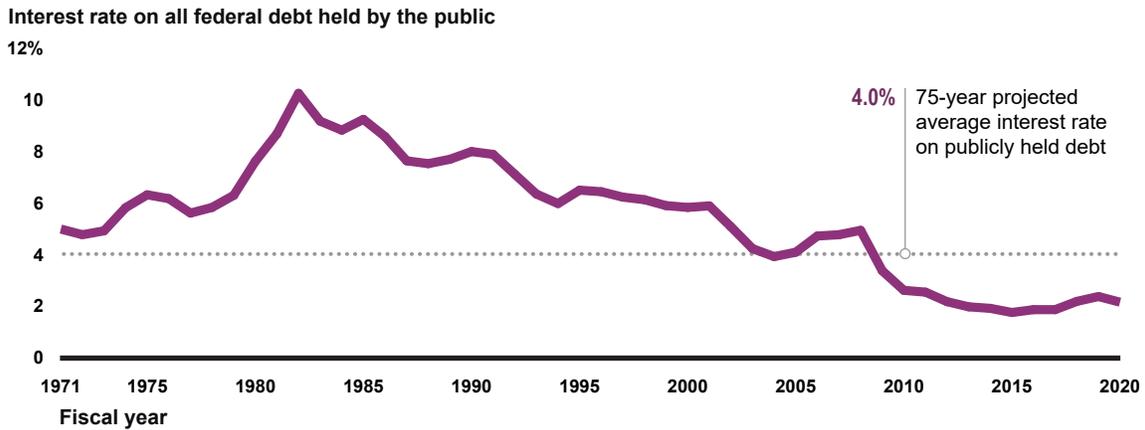
36 Generally, Treasury must pay a higher interest rate for longer-term securities to compensate buyers for waiting longer for principal to be repaid and accepting increased risk due to uncertainty about future market conditions. See [GAO-20-131](#) for information on how Treasury's Office of Debt Management makes issuance decisions.

37 The Federal Reserve has direct control over two overnight interest rates. Changes in these rates are intended to influence other short-term interest rates (including rates on Treasury securities), the availability of credit, and the economy as a whole to assist the Federal Reserve in achieving its statutory monetary policy objectives of low and stable inflation and full employment. For more information on the demand for Treasury securities, see [GAO-20-131](#).

38 CBO, *The Effect of Government Debt on Interest Rates*, Working Paper 2019-01 (Washington, D.C.: March 2019) and Arvind Krishnamurthy and Annette Vissing-Jorgensen, "The Aggregate Demand for Treasury Securities," *Journal of Political Economy*, Vol. 120, No. 2 (April 2012), pp. 233-267.

39 Our simulation incorporates CBO's long-term nominal interest rate projection for the first 30 years and then we hold that rate constant through the end of our 75-year simulation period. As of March 2021, CBO's year 30 interest rate is 4.6 percent. CBO, *The 2021 Long-Term Budget Outlook* (March 2021), <http://www.cbo.gov/publication/56977>.

Figure 12. Average Interest Rate on Federal Debt Held by the Public, 1970 to 2020



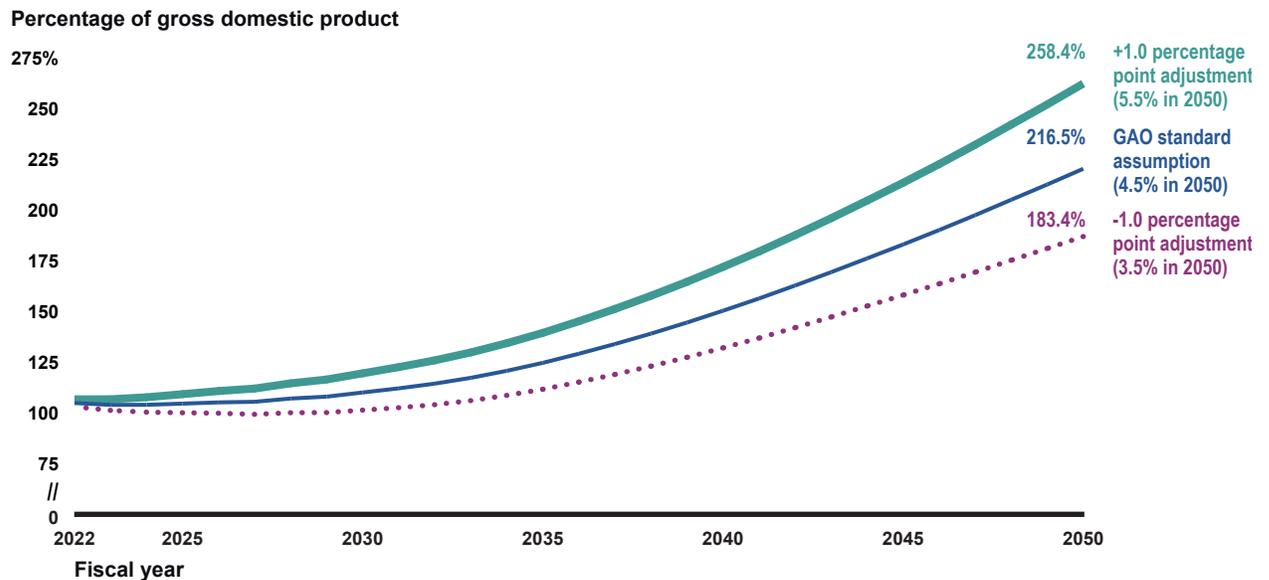
Given the uncertainty surrounding assumptions in these long-term simulations, we run a sensitivity analysis. This analysis provides additional information on how potential changes to our economic and fiscal assumptions can affect the fiscal outlook. Figure 13 shows the effect on the simulated debt-to-GDP ratio of increasing or decreasing our interest rate assumption, with all other variables held constant. In our high and low interest rate scenarios, the interest rate is either increased or decreased by 1 percentage point, relative to our standard assumption, in each year.

Sensitivity analysis

Our simulations are sensitive to assumptions about projected health care costs, interest rates, spending, revenues, and economic growth. We adjust key variables one at a time to project the change in the debt-to-GDP ratio over the time period. See our interactive tool: <https://www.gao.gov/americas-fiscal-future>.

Source: GAO. | GAO-22-105376

Figure 13. GAO Simulation: Debt-to-GDP under Different Interest Rate Assumptions



Note: Our simulation is partial equilibrium, meaning that it holds all other factors constant, as it does not capture other dynamic effects of increased interest rates on the economy, spending, and revenue.

CBO acknowledges that forecasting interest rates is particularly challenging, even during relatively stable periods. For example, interest rates could be higher than CBO's projections included in our simulation if there is a market reaction to large federal budget deficits and debt, actions of the Federal Reserve, and large U.S. current account deficits (net inflows of capital from abroad).⁴⁰

Potential Effects of Higher Inflation and Interest Rates on CBO's 10-Year Projections

CBO recently examined the projected budgetary effects of higher inflation and interest rates from 2022 to 2031. In particular, the agency analyzed how its projections from February 2021 would have changed if assumptions about inflation and interest rates were higher and all other inputs to its projections remained the same.

CBO projects that higher inflation and interest rates would increase budget deficits and the debt in dollar terms throughout the projection period, but that publicly held debt as a share of GDP would be slightly lower after 10 years than in the agency's baseline projections. Under assumptions of higher inflation and interest rates, the average rate of interest on publicly held debt is projected to rise relatively slowly because of the maturity structure of existing debt. In addition, CBO projects that, due to inflation, revenue and noninterest spending would increase by about the same amount. The primary deficit would therefore not differ much from the agency's baseline projections. As a result, CBO projects that higher interest rates and inflation would boost debt at a slower rate than higher inflation would boost GDP, compared to the agency's baseline projections.

Source: Congressional Budget Office, *Budgetary Effects of Higher Inflation and Interest Rates* (Mach 2, 2022). | GAO-22-105376

Debt Limit Impasses Disrupt Treasury Markets and Increase Interest Costs

Many investors accept low interest rates on U.S. Treasury securities because they are considered one of the safest assets in the world—meaning that they are backed by the full faith and credit of the U.S. government.⁴¹ However, delays in raising the debt limit could force Treasury to delay payments on maturing securities and interest until sufficient funds are available, compromising the safety of Treasury securities.⁴² This risk disrupts financial markets, and investors may require higher interest rates to hedge against the increased risks—a risk premium. Higher interest rates, in turn, increase Treasury's borrowing costs—even if action is taken in time to pay investors. Delays in raising the debt limit have occurred in 10 of the last 11 fiscal years.

The debt limit is a legal limit on the total amount of money that the federal government is authorized to borrow, subject to very limited exceptions, to meet its existing legal obligations, including Medicare and Social Security benefits, military salaries, interest on the federal debt, tax refunds, and other payments.

The debt limit does not authorize new spending commitments. It simply allows the government to finance spending and revenue decisions (existing legal obligations) that Congress and the President have made in the past.

Source: GAO and Department of the Treasury. | GAO-22-105376

40 CBO, *Federal Net Interest Costs: A Primer* (December 2020).

41 For more information on demand for Treasury securities, see [GAO-20-131](#).

42 The debt limit is a legal limit on the amount of federal debt that can be outstanding at one time, subject to very limited exceptions. See 31 U.S.C. § 3101.

Delays in raising the debt limit require Treasury to deviate from its normal cash and debt management operations and take extraordinary actions to avoid exceeding the debt limit, such as suspending investments to some federal employees' retirement funds.⁴³ Once it has exhausted all extraordinary actions, Treasury may not issue debt without further action from Congress and the President. If Treasury does not have enough cash on hand to meet its financial commitments, Treasury could be forced to delay payments until sufficient funds become available. Treasury might eventually be forced to default on legal debt obligations.

Implications of a default

A default would have devastating effects on U.S. and global economies and the public.

Treasury securities serve as a close substitute to cash for financial institutions and corporate treasurers, and are one of the cheapest and one of the most widely used forms of collateral for financial transactions. They are also used as a benchmark for pricing many other financial products, such as corporate bonds, derivatives, and mortgages.

It is generally recognized that a default would prevent the government from honoring all of its obligations to pay for such things as program benefits; contractual services and supplies; employees' salaries, wages, and retirement benefits; and principal on maturing securities.

Source: GAO. | GAO-22-105376

However, our work has shown that even without a default, a debt limit impasse can be costly. For example, we found that during the 2013 debt limit impasse, investors took the unprecedented action of systematically avoiding certain Treasury securities—those that matured around the dates when Treasury projected it would exhaust extraordinary actions.⁴⁴

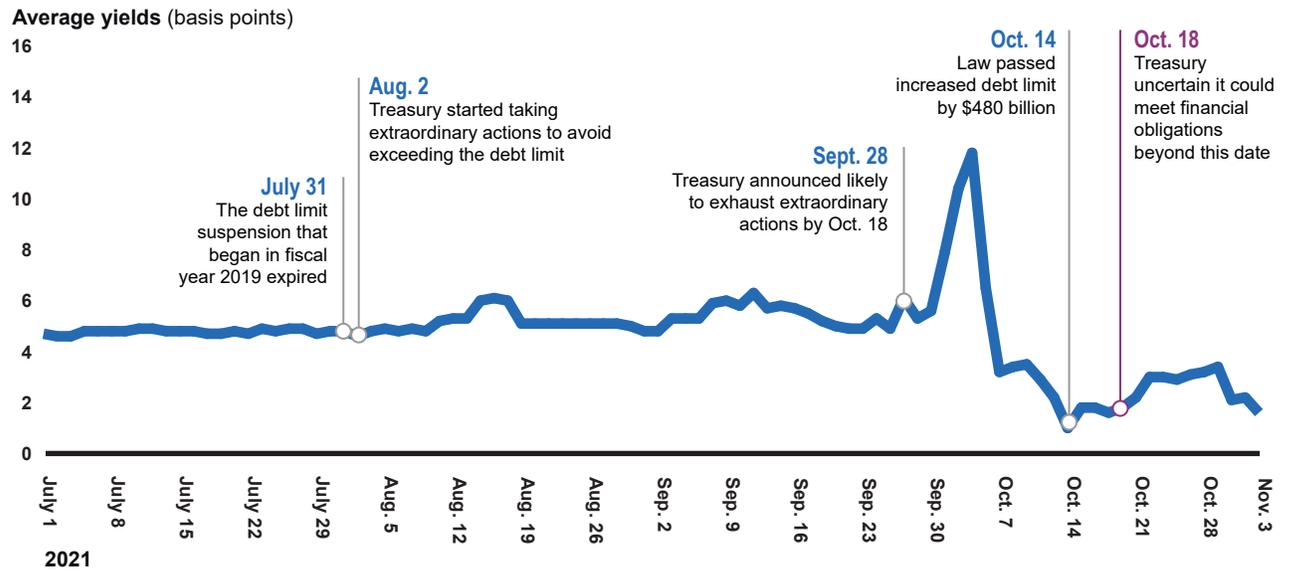
Investors behaved the same way in 2021. On September 28, 2021, the Secretary of the Treasury estimated that Treasury would likely exhaust its extraordinary actions by October 18, 2021, at which point Treasury's ability to meet its financial commitments would be uncertain.⁴⁵ Figure 14 shows a spike in yields for Treasury bills that were maturing in early October 2021 indicating that investors demanded a greater return for the increased risk.

43 Extraordinary actions are actions that Treasury takes as it nears the debt limit to avoid exceeding the limit. These actions are not part of Treasury's normal cash and debt management operations. For more information, see GAO, *Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches*, GAO-15-476 (Washington, D.C.: July 9, 2015).

44 GAO-15-476.

45 See Department of the Treasury, *Debt Limit Letter to Congress* (Washington, D.C.: Sept. 28, 2021).

Figure 14. Average Secondary Market Yields on Treasury Bills Maturing in Oct.-Nov. 2021



Source: GAO analysis of Bloomberg data. | GAO-22-105376

Notes: A basis point equals 0.01 percent.

This figure represents the average secondary market yield for eight Treasury bills maturing close to Treasury’s estimated date it would exhaust extraordinary actions—October 18, 2021. When Treasury has exhausted all extraordinary actions, it may not issue debt without further action from Congress and the President.

The debt limit suspension that began in August 2019 expired on July 31, 2021. Bipartisan Budget Act of 2019, Pub. L. No. 116-37, § 301, 133 Stat. 1049, 1057 (2019).

On October 14, 2021 and December 15, 2021, the President signed legislation into law increasing the debt limit by \$480 billion and \$2.5 trillion, respectively. Pub. L. No. 117-50, 135 Stat. 407 (2021); and Pub. L. No.: 117-73, 135 Stat. 1514 (2021).

Debt limit impasses also can affect the U.S. sovereign credit rating, which can increase borrowing costs. In August 2011, after a lengthy impasse, Standard & Poor’s (S&P) lowered its long-term sovereign credit rating on the United States from its highest rating level (AAA) to its second-highest rating level (AA+), citing the United States’ rising public debt burden and greater uncertainty around the debt limit.⁴⁶ As of February 2022, the major credit rating agencies have maintained their ratings of U.S. debt at high levels (AAA for Moody’s and Fitch—their highest rating level—and AA+ for S&P).⁴⁷ The agencies note the continued strength and resilience of the U.S. economy and institutions. However, Fitch maintains its negative U.S. outlook, reflecting the ongoing risks to public finances, compounded by the debt limit, the debt trajectory, and the absence of a credible fiscal plan.⁴⁸

46 See Standard & Poor’s *United States of America Long-Term Rating Lowered To ‘AA+’ Due to Political Risks, Rising Debt Burden; Outlook Negative* (Aug. 5, 2011).

47 The most current rating announcements as of February 2022. See S&P Global, *Global Sovereign Rating: Outlook 2022* (New York: Jan. 27, 2022); Moody’s Investors Service, *Research Announcement: FAQ on US Government’s Debt Limit* (New York: Nov. 16, 2021); and Fitch Ratings, *Rating Action Commentary: Fitch Affirms United States at ‘AAA’; Outlook Negative* (New York: July 13, 2021).

48 Fitch revised its U.S. outlook to negative in July 2020. A stable outlook indicates a low likelihood of a rating change over the medium term. A negative, positive, or developing outlook indicates a higher likelihood of a rating change over the medium term. See Fitch Ratings, *Fitch Revises United States’ Outlook to Negative; Affirms at ‘AAA’* (New York: July 31, 2020).

Fiscal Exposures Pose Additional Risks to Government’s Fiscal Condition

Certain fiscal exposures—such as potential public health crises, natural disasters and climate change, and global or regional military conflicts—create additional fiscal risks, as any future support for these areas is not fully accounted for in GAO’s long-term fiscal simulation. A more complete understanding of fiscal exposures can help policymakers anticipate or take steps to mitigate the need for an increase in federal spending to respond to or support these areas. Table 3 lists examples of fiscal exposures and their implications for the federal government’s fiscal condition. We discuss each of these exposures in greater detail in appendix III.

Fiscal exposures are 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.

Source: GAO. | GAO-22-105376

Table 3. Selected Fiscal Exposures

Fiscal Exposure	Implication
 <p>Public Health Crises</p>	<p>Widespread public health crises are among the large-scale fiscal exposures that can result in catastrophic loss of life and have devastating effects on the economy, costing trillions of dollars to mitigate.</p>
 <p>Natural Disasters and Climate Change</p>	<p>Extreme weather events are expected to become more frequent and intense in parts of the U.S. due to changes in the climate, potentially resulting in increased costs to the federal government. Key sources of exposure include supplemental appropriations to provide disaster assistance, federal insurance programs, and federal property that might be affected.</p>
 <p>Global or Regional Military Conflicts</p>	<p>Military conflicts are uncertain, and they 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, and resulting costs, while unknown, could be significant, further complicating the government’s unsustainable fiscal outlook.</p>
 <p>Housing Finance</p>	<p>The financial condition of government and government-sponsored mortgage entities (e.g., Fannie Mae and Freddie Mac) has strengthened in recent years, but the federal government continues to have substantial exposure to potential mortgage losses due to its large market role.</p>

Source: GAO. | GAO-22-105376

Unsustainable Debt Levels Increase Risk of a Fiscal Crisis

CBO has stated that high and rising federal debt as a percentage of GDP increases the risk of a fiscal crisis.⁴⁹ Even if there is no fiscal crisis, rising debt, relative to the economy, could still have negative effects, such as the following examples:

- **Increased borrowing costs** for both the federal government and private borrowers. Unsustainable levels of federal debt could cause investors to demand a risk premium and seek out alternatives to Treasury securities.⁵⁰
- **Slower GDP growth.** High levels of debt can lead to lower private investment and a smaller capital stock that the economy can use to grow. Over time, lower productivity and GDP growth ultimately may reduce or slow the growth of the living standards of future generations.⁵¹

A failure to address the nation's unsustainable fiscal path over the long term could make it difficult to maintain the federal government's credit ratings.

A fiscal crisis is a situation in which investors lose confidence in the government's ability to manage the budget, and interest rates increase abruptly. In such a situation, policymakers might feel the need to adopt more drastic spending cuts and/or tax increases than would be required had action been taken earlier. These larger and more abrupt changes also would be more painful and more difficult for people to absorb.

Source: Congressional Budget Office. | GAO-22-105376

⁴⁹ CBO, *Federal Debt and the Risk of a Fiscal Crisis* (July 27, 2010).

⁵⁰ See GAO-20-131.

⁵¹ GAO-04-485SP.



Action Is Needed to Change the Unsustainable Fiscal Path

Our examination of the government’s current fiscal condition and the long-term fiscal outlook highlights both short-term and long-term challenges that require action to alter the government’s fiscal path. Managing the nation’s complex challenges requires effective strategies to better plan for and manage risks in highly uncertain environments and changing conditions.

A fiscal plan would provide policymakers with a framework to help manage such uncertainty and support difficult policy decisions that will help to achieve a more sustainable fiscal policy. Further, addressing the financial condition of the Medicare and Social Security trust funds is becoming more urgent. OMB-Treasury, CBO, and GAO all have reported that the sooner actions are taken to change policy to alter the fiscal path, the less drastic the changes will need to be.⁵²

Fiscal Plan Needed to Put Nation on a Sustainable Path

Since 2017, we have stated that a plan is needed to address the government’s fiscal outlook and promote fiscal sustainability. A long-term plan can provide a cohesive picture of the government’s long-term goals and serve as a mechanism for building consensus around these goals, as well as a road map for achieving them. Our work in recent years has identified several components of an effective fiscal plan.

Incorporate well-designed fiscal rules and targets. In September 2020, we suggested that as part of a long-term fiscal plan, Congress consider including fiscal rules and targets.⁵³ Fiscal rules and targets can help manage debt by controlling factors such as spending and revenue to meet a deficit or debt-to-GDP target. For example, a primary balance rule would establish a target for the primary deficit or surplus each year. We identified key considerations for the design, implementation, and enforcement of fiscal rules and targets (see table 4).



52 *The 2021 Financial Report.*

53 GAO, *The Nation’s Fiscal Health: Effective Use of Fiscal Rules and Targets*, GAO-20-561 (Washington, D.C.: Sept. 23, 2020).

Table 4. Key Considerations for the Design, Implementation, and Enforcement of Fiscal Rules and Targets

Key consideration	Supporting explanation
 <p>Alignment with Fiscal Policy Goals and Objectives</p>	<p>Setting clear goals and objectives can anchor a country’s fiscal policy. Fiscal rules and targets can help ensure that spending and revenue decisions align with agreed-upon goals and objectives.</p>
 <p>Design Tradeoffs and Features</p>	<p>The weight given to tradeoffs among simplicity, flexibility, and enforceability depends on the goals a country is trying to achieve with a fiscal rule. In addition, there are tradeoffs between the types and combinations of rules, as well as the time frames over which the rules apply.</p>
 <p>Legal Framework and Permanence</p>	<p>The degree to which fiscal rules and targets are binding, such as being supported through a country’s constitution or non-binding political agreements, can impact their permanence, as well as the extent to which ongoing political commitment is needed to uphold them.</p>
 <p>Integration with Budgetary Processes</p>	<p>Integrating fiscal rules and targets into budget discussions can contribute to their ongoing use and provide for a built-in enforcement mechanism. The budget process can include reviews of fiscal rules and targets.</p>
 <p>Flexibility to Address Emerging Issues</p>	<p>Fiscal rules and targets with limited, well-defined exemptions, clear escape clauses for events such as national emergencies, and adjustments for the economic cycle can help a country address future crises.</p>
 <p>Clear Roles for Supporting Institutions</p>	<p>Institutions supporting fiscal rules and targets need clear roles and responsibilities for supporting their implementation and measuring their effectiveness. Independently analyzed data and assessments can help institutions monitor compliance with fiscal rules and targets.</p>
 <p>Transparency and Communication</p>	<p>Having clear, transparent fiscal rules and targets that a government communicates to the public and that the public understands can contribute to a culture of fiscal transparency and promote fiscal sustainability for the country.</p>

Source: GAO. | GAO-22-105376

Assess the drivers of the primary deficit, both revenue and spending. To change the long-term fiscal path, policymakers will need to consider policy changes to the entire range of federal activities—both revenue and spending. For example, if primary deficits are smaller than projected—either because of increased revenue, decreased spending, or a combination of both—the government’s net interest costs and debt would be correspondingly lower.

When difficult decisions about spending and revenues must be made, policymakers should have both the information about the various policy tools—mandatory spending, discretionary spending, and tax expenditures—in any given area and the ability to compare them.

- **Revenue—including tax expenditures.** Tax policy under current law establishes tax rates for individual income, corporate income, payroll, and other sources. Tax expenditures—which are certain tax credits, deductions, exclusions, exemptions, deferrals, and preferential tax rates—reduce individual or corporate taxpayers' liability—and therefore the amount of tax revenue the federal government collects.⁵⁴

Tax expenditures can help achieve social and economic goals, but substantially reduce federal revenue. In fiscal year 2021, tax expenditures reduced income tax revenues by approximately \$1.4 trillion based on our calculation summing Treasury estimates for each tax expenditure.⁵⁵ Likewise, it is not always clear how successful tax expenditures are in achieving their intended policy goals. In July 2016, we recommended that OMB work with agencies to identify which tax expenditures contribute to agency goals. OMB generally agreed but had taken no action as of March 2022.⁵⁶ Absent such analysis, policymakers have little way of knowing whether these tax provisions advance their intended outcomes and have limited information to compare their cost and efficacy with other policy tools.

- **Spending, including entitlement programs, other mandatory spending, and discretionary spending.** Authority for discretionary spending stems from annual appropriation acts and is therefore subject to review and assessment each year.⁵⁷ In contrast, mandatory—or direct—spending is generally governed by statutory criteria and therefore is not set by annual appropriation acts. In fiscal year 2021, mandatory spending represented more than 70 percent of all federal spending. Routinely assessing mandatory spending will be an important part of an effective fiscal plan.

One way to quantify the policy changes required to meet any given goal is to calculate the fiscal gap—a measure of how much primary deficits must be reduced through policy changes (some combination of revenue increases or spending cuts) over a period of time to reach a target ratio of debt to GDP (see table 5). Even to maintain the current ratio of debt at 100 percent of GDP over the next 30 years, Congress would need to make changes to spending or revenue of \$33.7 trillion in present value dollars.

Tax expenditures may include

- deductions and exclusions which reduce the amount of income subject to tax (e.g., deductions for personal residence mortgage interest), and
- tax credits, which reduce tax liability dollar for dollar for the amount of credit (e.g., child tax credit).

Source: Department of the Treasury. | GAO-22-105376

Mandatory (direct)

spending includes spending for entitlement programs and certain other payments to people, businesses, and state and local governments. Mandatory spending is generally governed by statutory criteria; it is not normally set by annual appropriation acts. For example, spending for entitlement programs (e.g., Medicare and Social Security) is controlled through those programs' eligibility criteria and benefit or payment rules.

Discretionary spending is the outlays from budget authority that are provided and controlled by appropriation acts. Most defense, education, and transportation programs, for example, are funded that way, as are a variety of other federal programs and activities.

Source: GAO. | GAO-22-105376

54 Tax expenditures are defined by law as revenue losses attributable to provisions of the federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability. 2 U.S.C. § 622(3). For more information on our work on tax expenditures, see *GAO, Key Issues: Tax Expenditures*.

55 We calculate this estimate based on Treasury data. The sum of the specific tax expenditure estimates is useful for gauging the general magnitude of reduced revenue through provisions of the tax code, but aggregate tax expenditure estimates must be interpreted carefully. Summing revenue loss estimates does not take into account possible interactions between individual provisions or potential behavioral responses to changes in these provisions on the part of taxpayers. Additionally, Treasury's tax expenditure estimates include the effect of certain tax credits on receipts only and not the effect of the credits on outlays, which Treasury reports separately, but does not take into account interactions between individual provisions.

56 GAO, *Tax Expenditures: Opportunities Exist to Use Budgeting and Agency Performance Processes to Increase Oversight*, GAO-16-622 (Washington, D.C.: July 7, 2016).

57 For example, as the Congress considers appropriation acts, CBO tallies the budget authority those acts would provide and estimates the outlays that would result.

Table 5. Illustrative Examples of Changes Needed to Achieve Debt-to-Gross Domestic Product Targets

Debt target, percent of GDP (end of 30 years)	Spending and revenue: total change over 30 years ^a	Program spending alone: annual decrease needed ^b	Revenue alone: annual increase needed ^c
Percent	Present value dollars in trillions	Percent	Percent
120	\$ 27.9	14.8	18.9
100	\$ 33.7	17.9	22.9
80	\$ 39.6	21.0	26.9

Source: GAO simulation. | GAO-22-105376

^a Represents the present value of combined spending and revenue changes that are needed to meet the specified debt-to-GDP target at the end of 30 years in fiscal year 2021 dollars.

^b Represents the immediate and permanent change in projected program spending needed to meet the specified debt-to-GDP target at the end of 30 years. Program spending consists of all spending except net interest spending on debt held by the public.

^c Represents the immediate and permanent change in projected revenue needed to meet the specified debt-to-GDP target at the end of 30 years.

Consider alternative approaches to the debt limit to avoid disrupting the Treasury market and increasing borrowing costs and to improve federal debt management. We have identified alternative approaches, each of which has strengths and weaknesses; but all would maintain congressional control and oversight of federal borrowing and better align decisions about the level of debt with decisions on spending and revenue.⁵⁸ We do not endorse a specific option, but have suggested Congress consider such approaches.

The 116th Congress considered legislation that, if enacted, could have helped avoid the 2021 impasses on the debt limit.⁵⁹ The 117th Congress is currently considering several pieces of legislation. For example, H.R. 6393 would, among other things, allow the President to suspend the statutory debt limit unless a joint resolution of disapproval was passed by Congress. H.R. 5415 would allow Treasury to increase the public debt limit. In addition, under S.3654 additional debt may be issued after the President sends Congress certification whenever the debt amount is within \$100 billion of reaching a new trillion-dollar increment, subject to a resolution of disapproval.

Alternative Approaches to Avoid Impasses on the Debt Limit

- Link action on the debt limit to the budget resolution.
- Provide the administration with the authority to propose a change in the debt limit that would take effect absent enactment of a joint resolution of disapproval within a specified time frame.
- Delegate broad authority to the administration to borrow as necessary to fund enacted laws.

Source: GAO. | GAO-22-105376

⁵⁸ See GAO-15-476.

⁵⁹ For example, the 116th Congress considered, but did not vote out of committee, S. 2765, bipartisan legislation that included a provision that would have automatically adjusted the debt limit to conform to levels established in the budget resolution. S. 2765, 116th Cong. (2019).

Address Financing Gaps for Medicare and Social Security

Increased spending due to increasing health care costs and the aging of the population and decreased revenue growth due to slower growth in the labor force are straining the financial outlook for Medicare and Social Security. The federal government maintains four separate trust funds to finance key aspects of the Medicare and Social Security programs. Federal trust funds are able to retain accumulated balances, meaning that any surpluses are credited to the trust funds and invested in Treasury securities.⁶⁰ For decades, the trust funds for Medicare Hospital Insurance (Medicare Part A) and Social Security received more in revenue than they paid out in benefits and the trust funds built up reserves.⁶¹

However, Medicare and Social Security costs (mostly benefit payments) are projected to exceed annual trust fund revenue. As the U.S. population ages, more individuals begin receiving Medicare and Social Security benefits and exiting the workforce, meaning that they no longer make payroll tax contributions to the programs. Slower labor force growth makes it less likely that payroll tax income for the programs will keep up with the growth in spending for the increased number of beneficiaries. As a result, the programs have been drawing on their trust fund reserves to continue making full benefit payments.⁶² Figure 15 illustrates this and shows the estimated trust fund depletion dates—when the reserves in the trust funds reach zero.

Medicare and Social Security Trust Funds

The Hospital Insurance Trust Fund (Medicare Part A) pays for inpatient hospital services and other related care, such as home health services following hospital stays, services provided in skilled nursing facilities, and hospice. The primary source of trust fund revenue is payroll taxes.

The Supplementary Medical Insurance Trust Fund covers Part B (physician and outpatient services) and Part D (prescription drug benefits). The primary sources of trust fund revenue are monthly insurance premiums (set to cover 25 percent of expected costs) and general revenues financing remaining program costs.

Social Security is financed through the **Old Age and Survivors Insurance Trust Fund**—which pays retirement and survivor benefits—and the **Disability Insurance Trust Fund**—which pays disability benefits. The primary source of trust fund revenue is payroll taxes.

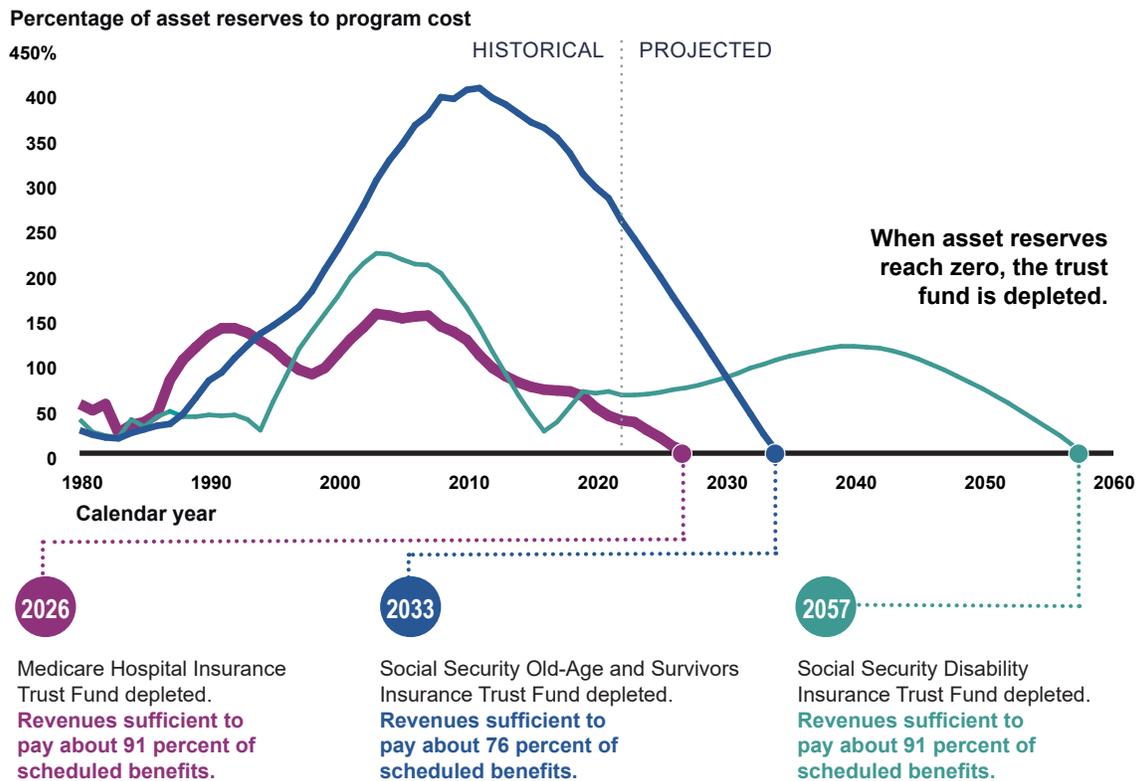
Source: The Medicare and Social Security Trustees. | GAO-22-105376

60 For more information on trust funds, see GAO, *Federal Trust Funds and Other Dedicated Funds: Fiscal Sustainability is Growing Concern for Some Key Funds*, GAO-20-156 (Washington, D.C.: Jan. 16, 2020).

61 Trust fund reserves are the cumulative excess of trust fund income over trust fund cost over all years to date. These reserves are held by trust funds in the form of Treasury notes and bonds and cash.

62 The Supplementary Medical Insurance Trust Fund receives annual transfers from general revenue to finance program costs not covered by monthly premiums—which are set to cover 25 percent of expected costs. See GAO-20-156.

Figure 15. Medicare and Social Security Trust Funds: Reserves as a Share of Program Cost



Source: GAO analysis of Board of Trustees Data. | GAO-22-105376

Notes: The trust fund ratio is a measure of trust fund adequacy and represents the asset reserves at the beginning of a year expressed as a percentage of the cost for the year.

A build-up and eventual draw-down of the Social Security trust funds was anticipated in 1983, when major legislative changes were enacted. The payroll tax rate was scheduled at a level that created surpluses (income in excess of outflows) while the baby boom generation was in the workforce and an expectation of future deficits (outflows in excess of income) as the baby boom generation retired. The accumulated surpluses built a reserve in the trust funds that the deficits were expected to draw down.

Medicare’s Supplemental Medical Insurance (SMI) trust fund, which covers Part B (physician and outpatient services) and Part D (prescription drug benefits) is not reflected in the figure because it receives annual transfers from general revenue to finance program costs not covered by monthly premiums. The Trustees expect growth in SMI Part B and Part D premiums and general fund transfers to continue to outpace GDP growth in the future.

Once the trust funds’ reserves are depleted, the programs would be financed only by annual program revenue, which would be insufficient to support the full amount of promised benefits. Medicare Part A’s and Social Security’s financial shortfalls will need to be addressed with further legislation.

What Happens When a Trust Fund Is Depleted?

Legislation will be needed to continue paying expected benefits in full. Medicare Part A and Social Security programs are restricted from using general fund revenue to make benefit payments. Once the trust fund is depleted, it is projected that the programs will not be able to make full benefit payments from income received from employment taxes and other sources.

Source: GAO. | GAO-22-105376

Changing the trajectory of the programs' finances would require some combination of:

- **Additional income.** Potential sources of additional income include payroll tax rate increases, taxable wage base increases (in the case of Social Security), or more general revenue.
- **Cost reductions.** Potential sources of cost reduction or containment include increasing the age at which individuals can receive benefits, changing the benefit formula, or health care cost controls (in the case of Medicare).

A wide variety of options have been developed and studied for addressing challenges in financing Medicare and Social Security.⁶³ Since evaluating such proposals can be complex, GAO developed a broad framework to help evaluate these complex programs and proposals.⁶⁴

Criteria to Evaluate Options for Medicare and Social Security Reform

- **The extent to which a proposal achieves “sustainable solvency”**—where the projected balance between program assets and costs is positive throughout a 75-year period and stable or rising at the end of the period.
- **The effect on the national economy and the federal budget.** It is important to consider how proposals to achieve solvency would be financed, since this could have important implications for the federal budget and national economy.
- **The relative balance struck between the goals of individual equity and income adequacy.** Individual equity focuses on whether, over the course of a lifetime, individuals receive benefits that bear a reasonable relationship to their past earnings and contributions (for example, the rates of return on contributions). Income adequacy focuses on the level and certainty of benefits for individuals and families.
- **How readily a proposal could be implemented, administered, and explained to the public.** Factors such as feasibility, complexity, and cost of implementation and administration can influence policy choices, and changes that are not well-understood could face difficulties in achieving broad public acceptance and support. A reasonable amount of time will be required for the general public to understand how program changes might affect them and to make adjustments based on these changes. For instance, individuals may decide they need to work longer.

Source: GAO. | GAO-22-105376

63 For more detailed discussion of options for addressing Social Security's challenges, see GAO, *Social Security's Future: Answers to Key Questions*, GAO-16-75SP (Washington, D.C.: Oct. 27, 2015). See also cost estimates for policy at www.ssa.gov/OACT/solvency/provisions/.

64 GAO-16-75SP and *Social Security: Criteria for Evaluating Social Security Reform Proposals*, GAO/T-HEHS-99-94 (Washington, D.C.: March 25, 1999).



Action on Open GAO Recommendations Could Yield Significant Fiscal Benefits

Putting the federal government on a sustainable long-term fiscal path will require difficult decisions on both spending and revenue. In our prior work we have identified numerous actions federal agencies and Congress could take now to contribute toward a sustainable fiscal future, including improving financial management and reducing improper payments; reducing duplication, overlap and fragmentation; and reducing the tax gap.

Reducing Improper Payments Could Yield Significant Savings

Reducing improper payments is critical to safeguarding federal funds. Improper payments—payments that should not have been made or that were made in an incorrect amount—have consistently been a government-wide issue.⁶⁵ Since fiscal year 2003—when federal executive agencies were required by statute to begin reporting estimated improper payments for certain programs and activities—cumulative improper payment estimates have totaled about \$2.2 trillion, including \$281 billion for fiscal year 2021.⁶⁶ Table 6 shows programs that reported improper payments greater than \$5 billion in fiscal year 2021.

Table 6. Selected Programs with Estimated Improper Payments Exceeding \$5 Billion

Program or Activity	Fiscal Year 2021 Estimated Improper Payments (billions)
Medicaid	\$ 98.7
Unemployment Insurance	\$ 78.1
Medicare Parts A and B (Medicare Fee-for-Service)	\$ 25.0
Medicare Part C (Medicare Advantage)	\$ 23.2
Earned Income Tax Credit	\$ 19.0
Social Security Supplemental Security Income	\$ 5.7

Source: Office of Management and Budget's Paymentaccuracy.gov. | GAO-22-105376

⁶⁵ An improper payment is defined in statute as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. 31 U.S.C. § 3351(4).

⁶⁶ Prior-year improper payment estimates have not been adjusted for inflation.

Medicaid and Medicare improper payments are both on our [High-Risk List](#). We have identified a number of strategies and specific actions to reduce related improper payments, which address the full portfolio of fraud and other financial risks for these programs.⁶⁷

Our work on improper payments, financial management, and the federal government's response to the pandemic has provided suggested actions for Congress and federal agencies to increase transparency and accountability of federal spending by strengthening federal financial and fraud risk management. These actions include improving the following:

- **Financial management and reporting.** Federal agencies' financial information is an important component of decision-making. It is critical that the information be reliable and high quality. Management assessment and reporting on the effectiveness of internal controls over financial reporting and other key financial management information, including spending data and improper payment information, would enhance agency leaders' access to accurate and reliable financial data and, in turn, their ability to make more informed financial decisions.⁶⁸
- **Complete and reliable improper payment estimates.** The federal government's estimates of improper payments are incomplete and unreliable, making it difficult to reasonably assure that appropriate corrective actions are taken to reduce them. As agencies improve their processes for identifying and estimating improper payments, estimated improper payment amounts may increase in the short-term. For example, the Medicaid program's estimated improper payment totals increased from \$36 billion in fiscal year 2018 to \$99 billion in fiscal year 2021. This was due, in part, to the Department of Health and Human Services phasing in a new eligibility estimation methodology process into its improper payment estimates. Developing reliable improper payment estimates is essential for understanding and addressing financial vulnerabilities.
- **Internal controls.** An effective, robust internal control system helps agencies adapt to shifting environments, evolving demands, changing risks, and new priorities throughout the lifecycle of federal programs. Agencies' planning for and establishment of strong back-end controls, such as post payment reviews and recovery audits, are critical when the quick disbursement of funds makes front-end controls difficult.
- **Fraud risk management.** Reinstating the requirement that agencies report on their antifraud controls and fraud risk management efforts in their annual financial reports will increase congressional oversight to better ensure fraud prevention during normal operations and emergencies.
- **Data sharing across the government.** Payments to deceased individuals are a source of improper payments across the government. Sharing SSA's full death data with certain agencies, including Treasury, can be an important step to reducing improper payments.

67 GAO, *Priority Open Recommendations: Department of Health and Human Services*, [GAO-21-527PR](#) (Washington, D.C.: May 26, 2021), and *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, [GAO-21-119SP](#) (Washington, D.C.: Mar. 2, 2021).

68 See GAO, *Emergency Relief Funds: Significant Improvements Are Needed to Ensure Transparency and Accountability for COVID-19 and Beyond*, [GAO-22-105715](#) (Washington, D.C.: Mar. 17, 2022) and *Federal Financial Management: Substantial Progress Made Since Enactment of the 1990 CFO Act; Refinements Would Yield Added Benefits*, [GAO-20-566](#) (Washington, D.C.: Aug. 6, 2020).

We have made many recommendations to agencies and suggestions for congressional action to improve these areas. See appendix IV for the list of matters for congressional consideration recently highlighted in our testimony on COVID-19 relief funds.⁶⁹

Addressing Duplication, Overlap, and Fragmentation Could Potentially Achieve Billions in Financial Benefits

Since 2011, we have annually reported 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.⁷⁰ As of September 2021, we have presented 1,200 actions for executive branch agencies or Congress to reduce, eliminate, or better manage fragmentation, overlap, or duplication; achieve cost savings; or enhance revenue. As of August 2021, 873 actions have been fully or partially implemented, resulting in roughly \$515 billion in financial benefits.⁷¹

However, we estimate that tens of billions more dollars could be saved by fully implementing our remaining 441 open actions, some of which may require legislative action. For example:

- **Medicare could save billions of dollars annually** if Congress equalized the rates Medicare pays for certain health care services, which often vary depending on where the service is performed.
- **The Department of Labor could save \$2.2 billion over 10 years** if Congress required SSA to offset Disability Insurance benefits for any Unemployment Insurance benefits received in the same period.
- **OMB and the General Services Administration could save \$2 billion over 10 years** by strengthening their implementation of selected federal shared service reform efforts.

⁶⁹ See [GAO-22-105715](#).

⁷⁰ See GAO's Duplication and Cost Savings webpage for links to our annual reports: <https://www.gao.gov/duplication/overview>.

⁷¹ In calculating our total estimated realized and potential financial benefits, we relied on individual estimates from a variety of sources, which considered different time periods and used different data sources, assumptions, and methodologies. These totals represent a rough estimate of financial benefits. Realized benefits have been rounded down to the nearest \$1 billion. Estimated potential benefits are subject to increased uncertainty, depending on whether, how, and when they are addressed, and are presented using a notional statement of magnitude.

Improving Tax Compliance Can Reduce the Tax Gap

Improving tax compliance could help to narrow the tax gap—the difference between what taxpayers owe and the amount they actually pay voluntarily and on time. Given the size of the tax gap each year, even modest increases in compliance could yield significant financial benefits and help improve the government’s fiscal condition.

Improving tax enforcement and addressing the tax gap is a persistent issue and has been on our High-Risk List since 1990. Our work has identified a number of strategies and specific actions the Internal Revenue Service (IRS) can take to reduce the tax gap, including actions to help:⁷²

- **enhance taxpayer services and expand third-party information** reporting in an effort to improve tax reporting and compliance;⁷³ and
- **strategically allocate resources for enforcement efforts**, including expanding systems that can help streamline the detection of fraud and increase taxpayer compliance.⁷⁴

We have also previously suggested targeted legislative actions to reduce the tax gap, such as

- **providing IRS with authority to correct math errors** and to correct errors in cases where information provided by the taxpayer does not match information in government databases and
- **establishing requirements for paid tax return preparers** to help improve the accuracy of the tax returns they prepare.

As of March 2022, these recommendations had not been fully implemented. Given the size of the tax gap, even modest reductions would yield significant financial benefits and help improve the government’s fiscal condition.

The tax gap arises when taxpayers intentionally or inadvertently fail to: (1) accurately report tax liabilities, (2) pay taxes due from filed returns, or (3) timely file a required tax return.

IRS estimated that the gross tax gap was \$441 billion per year based on analysis of tax years 2011 to 2013. IRS estimated it would eventually collect \$60 billion of that amount through late payments and enforcement actions, leaving **an estimated net tax gap of \$381 billion per year** for tax years 2011 to 2013.

Source: Internal Revenue Service. | GAO-22-105376

⁷² See our tax gap key issues page for a list of related [reports](#).

⁷³ See for example, GAO, *Tax Administration: Better Coordination Could Improve IRS’s Use of Third-Party Information Reporting to Help Reduce the Tax Gap* [GAO-21-102](#) (Washington, D.C.: Dec. 15, 2020).

⁷⁴ See for example, GAO, *Tax Fraud and Noncompliance: IRS Could Further Leverage the Return Review Program to Strengthen Tax Enforcement*, [GAO-18-544](#) (Washington, D.C.: July 24, 2018).

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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.

Gene L. Dodaro
Comptroller General of the United States



APPENDIX I

Objectives, Scope, and Methodology

This report summarizing the fiscal health of the federal government was conducted under the authority of the Comptroller General. In this report, we discuss the following:

- **The change in the government's fiscal condition from fiscal years 2019 to 2021.** We summarized budgetary data reported by the Congressional Budget Office (CBO) and Department of the Treasury (Treasury).⁷⁵ We also summarized financial data reported in the *Fiscal Year 2021 Financial Report of the United States Government (2021 Financial Report)*, the *Fiscal Year 2020 Financial Report of the United States Government*, and our audits of the consolidated financial statements of the U.S. government for fiscal years 2019, 2020, and 2021.⁷⁶ We also reviewed our ongoing work on the government's COVID-19 pandemic response.
- **Outcomes from our 75-year simulation of the government's fiscal outlook.** We produced a simulation using the most current projections developed by CBO and the Boards of Trustees for Social Security and Medicare programs. For more information on the design and methodology of our simulation, see appendix II. We also reviewed CBO's 30-year projections and 75-year projections by the Office of Management and Budget and Treasury.⁷⁷
- **Additional risks to the fiscal outlook.** To highlight the sensitivity of our simulation, we adjust key assumptions, such as interest rates, to see how they affect the debt-to-GDP ratio over the projection period.⁷⁸ We also reviewed CBO reports and other economic literature.

To highlight the debt limit's disruption on the Treasury market, we analyzed Bloomberg data on yields for certain Treasury bills that were affected by the October 2021 debt limit impasse. We also reviewed our prior reports on federal debt management and the debt limit.

⁷⁵ See <https://fiscaldata.treasury.gov/>. Treasury's Monthly and Daily Treasury Statements provide current data on government receipts, outlays, deficits, and federal debt, among other measures. CBO provides historical budgetary and economic data on its website.

⁷⁶ GAO, *Financial Audit: FY 2021 and FY 2020 Consolidated Financial Statements of the U.S. Government*, GAO-22-105122 (Washington, D.C.: Feb. 17, 2022) and *Financial Audit: FY 2020 and FY 2019 Consolidated Financial Statements of the U.S. Government*, GAO-21-340R (Washington, D.C.: Mar. 25, 2021).

⁷⁷ For CBO we used the most current projections available at the time. For this report, we used CBO's 10-year projections as of July 2021 and its 30-year projections as of March 2021. See, *Additional Information About the Updated Budget and Economic Outlook: 2021 to 2031* (July 2021) and *The 2021 Long-Term Budget Outlook* (March 2021).

⁷⁸ For more information on the sensitivity analysis, see appendix II.

To highlight the risk of certain events or programs affecting the government's fiscal outlook, we drew from our large body of work on these fiscal exposures, such as public health crises, extreme weather events, and military conflicts. See appendix III for detailed summaries of these exposures.

- **Components of a plan for a sustainable long-term fiscal path** based on our prior fiscal health reports and prior work on the use of fiscal rules and targets. To illustrate the magnitude and scale of reforms needed to meet certain fiscal targets, we presented a fiscal gap analysis based on our long-term simulation.
- **Actions that Congress and agencies could take now to yield financial benefits** derived from our High Risk List; annual Fragmentation, Overlap, and Duplication reports; and our audits of the Consolidated Financial Statements of the United States government. We highlight open recommendations related to improper payments, improving financial management, and tax enforcement.

We conducted our work from August 2021 to April 2022 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 to 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.

APPENDIX II

Methodology and Design: GAO's 75-year Fiscal Simulation

We updated our 75-year fiscal simulation with the most current projections available from the Congressional Budget Office (CBO) and the Boards of Trustees for Social Security and Medicare. These projections can help policymakers and the public assess the urgency and magnitude of policy reforms necessary to make fiscal policy sustainable. A sustainable fiscal policy is one where government spending and revenue policy does not cause debt to rise continuously relative to the economy.

GAO's simulation—referred to as the “alternative simulation” in previous GAO reports⁷⁹—is designed to illustrate the nation's potential fiscal path under current policy. Current policy can differ from current law in cases where policymakers have in the past periodically changed the law in a consistent way, as described below. The methodology and selected assumptions that underlie our simulation are described below.

Simulation Assumptions and Methodology

GAO's 75-year simulation incorporates the most current projections from CBO (30-year projections) and the Social Security and Medicare Boards of Trustees (75-year projections). The Boards of Trustees and the Department of the Treasury and Office of Management and Budget develop fiscal projections for 75 years to cover the working and retirement years for current workforce participants.⁸⁰

For this 2022 update, we used CBO's 2021 budget and economic updates.⁸¹ The Trustees' data reflects events through calendar year 2020 and was published in August 2021.⁸² The projections from CBO and the Trustees used for this update to our simulation reflect the effects of the COVID-19 pandemic and economic downturn. Any legislation or economic developments occurring after these reports is not reflected in our simulation.⁸³

79 In previous GAO reports, we reported on two different GAO simulations; (1) the baseline or “current law” simulation, and (2) the alternative or “recent trends” simulation. For the purposes of this report, we refer to the alternative simulation as the GAO simulation. See [GAO-21-275SP](#).

80 See Federal Accounting Standards Advisory Board, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government* (Sept. 28, 2009).

81 For CBO we used the most current projections available at the time. For this report, we used CBO's 10-year projections as of July 2021 and its 30-year projections as of March 2021. See, *Additional Information About the Updated Budget and Economic Outlook: 2021 to 2031* (July 21, 2021) and *The 2021 Long-Term Budget Outlook* (March 2021).

82 The Trustees projections were published on Aug. 31, 2021. Social Security and Medicare Trustees' Reports can be found at <https://www.ssa.gov/OACT/TR/>.

83 For example, the *Infrastructure Investment and Jobs Act* was enacted on November 15, 2021, and its expected economic and budgetary effects are therefore not reflected in our simulation. Pub. L. No. 117-58, 135 Stat. 429 (2021).

We construct our simulation based on recent trends in policy and budget, which in some cases are assumed to be different from current law. The notable differences between recent policy trends that underlie our simulation and current law are:

- **Spending:** We adjust CBO’s 2021-2031 projections of mandatory spending to reflect the assumption that automatic enforcement procedures (sequestration) will not be fully implemented, consistent with recent trends. Starting in year 12 of the projection period, we phase to the 20-year historical average for discretionary spending as a share of GDP, and we hold other mandatory spending as a share of GDP constant at its level in year 11 of CBO’s projections.⁸⁴
- **Revenue:** We incorporate CBO’s 2021-2031 revenue projections, which reflect current law (e.g., they reflect that certain temporary reductions in income tax rates expire). Starting in year 12 of the projection period, we phase to the 50-year historical average for revenue as a share of GDP, irrespective of current tax law.
- **Social Security and Medicare:** For the 75-year projection period, we assume that Social Security and Medicare Part A benefit payments will be made as scheduled beyond the projected point of trust fund depletion.
- **Debt Limits:** Projected spending and borrowing levels are assumed without potential debt limit considerations.

Selected budget and economic assumptions are summarized in tables 7 and 8.

Table 7. GAO’s Long-Term Simulation: Selected Budget Assumptions

Variable	Assumption
Revenue	2021 to 2031 uses the Congressional Budget Office’s (CBO) revenue projections. Starting in 2032, GAO phases to a 50-year historical average for revenue as a percent of gross domestic product (GDP) (17.3 percent of GDP). This revenue assumption includes Social Security and Medicare payroll taxes.
Discretionary spending	2021 to 2031 uses CBO’s discretionary spending projections. Starting in 2032, GAO phases to a 20-year historical average for discretionary spending (7.2 percent of GDP).
Other mandatory spending	2021 to 2031, GAO adjusts CBO’s baseline projections by adding back in sequestration reductions, consistent with our assumption that sequestration will not be fully implemented. Starting in 2032, GAO uses CBO’s 2031 projection (2.7 percent of GDP).
Social Security spending	2021 to 2031 uses CBO’s projection. Starting in 2032, GAO phases to Social Security Trustees’ intermediate cost projection (average of 6.1 percent of GDP).

continued

⁸⁴ Other mandatory spending excludes Social Security and major health care spending. In our 75-year simulations, we sometimes switch from one set of projections to another using a stepped algorithm to phase changes in smoothly.

Variable	Assumption
Medicare spending	<p>Gross Medicare spending: 2021 to 2030, GAO adjusts Medicare Trustees' alternative projections to remove sequestration reductions to Medicare spending.</p> <p>Starting in 2031, GAO phases to Medicare Trustees' alternative projections.</p> <p>Offsetting receipts: 2021 to 2030, GAO uses Medicare Trustees' projections.</p> <p>Starting in 2031, GAO phases to hold constant Trustees' 2030 projection for Part D premiums and transfers as a share of Part D outlays, and phases Part B premiums to a constant 25 percent of part B outlays.</p> <p>Excess cost growth averages 0.5 percent. Excess cost growth refers to the annual growth rate of health care spending per enrollee in excess of the annual growth rate of potential GDP per capita, adjusted for demographic characteristics.</p>
Medicaid and other health care spending	<p>2021 to 2051 uses CBO's projection. After 2051, GAO holds CBO's 2051 projection constant. Excess cost growth averages 1.0 percent.</p>

Source: GAO. | GAO-22-105376

Table 8. GAO's Long-Term Simulation: Selected Economic Assumptions

Variable	Assumption
Real Gross Domestic Product (GDP) Growth Rate	<p>2021 to 2031 uses the Congressional Budget Office's (CBO) GDP projection. Starting in 2032, GAO uses Social Security Trustees' intermediate scenario projections.</p>
Interest rate (on debt held by the public)	<p>2021 to 2031 uses the rate implied by CBO's baseline net interest payment projections. For 2032 to 2051, GAO uses CBO's long-term nominal interest rate projection.</p> <p>After 2051, GAO holds CBO's 2051 projection constant.</p>
Rate of inflation (as percentage change in GDP price index)	<p>2021 to 2031 uses CBO's baseline GDP price index percent change data.</p> <p>Starting in 2032, GAO grows the price index at the same rate as the growth between 2031 and 2032 implied by the CBO projections.</p>

Source: GAO. | GAO-22-105376

Sensitivity Analyses

Given the uncertainty surrounding assumptions in these long-term simulations, we run a sensitivity analysis to provide additional information on how potential economic and fiscal changes to our assumptions about the variables can affect the fiscal outlook. We adjust the following variables one at a time to examine how changes in these underlying assumptions affect the debt-to-GDP ratio in our simulation (see table 9). These partial equilibrium adjustments show only the effect on the debt-to-GDP ratio of changing a single variable in our simulation holding all other variables constant.

Table 9. GAO Simulation: Independent Variable Adjustments

Variable	Analyses conducted
Average interest rate	+/- 0.5 percentage point
	+/- 1.0 percentage point
	+ 1.5 percentage points
Revenue	+/- 5.0 percent
Discretionary spending	+/- 5.0 percent
Social Security spending	+/- 3.0 percent
Health care excess cost growth rate	+/- 1.0 percentage point
Gross domestic product growth rate	+/- 0.5 percentage point

Source: GAO. | GAO-22-105376

Limitations

This simulation is not a prediction or forecast of the future, but rather scenarios of outcomes given specific assumptions. Forward-looking, long-term projections rely heavily on assumptions and projections relating to future events, conditions, and trends. In addition, future policy decisions about federal spending, revenues, the federal role in the delivery of health care, and other areas would change the outcomes.

APPENDIX III

Selected Fiscal Exposures

Fiscal exposures are 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. We have a wide-ranging body of work examining selected fiscal exposures and their implications for the federal government's fiscal outlook.

Additional spending to respond to these fiscal exposures is not fully reflected in long-term simulations of the government's fiscal outlook. A more complete understanding of fiscal exposures can help policymakers anticipate or take steps to mitigate the need for increases in federal spending to respond to or support these areas.





FISCAL EXPOSURE

Public Health Crises

Widespread public health crises are among the large-scale fiscal exposures that can result in catastrophic loss of life and have devastating effects on the economy, costing trillions of dollars to mitigate.

Widespread public health crises—including those caused by infectious disease outbreaks, pandemics, or intentional acts of terrorism—are among the large-scale fiscal exposures that can result in catastrophic loss of life and have devastating effects on the economy, costing trillions of dollars to mitigate. For example, to help address the COVID-19 pandemic, Congress and the President have provided about \$4.6 trillion in budgetary resources through February 28, 2022, to protect public health and reduce economic impacts on individuals and businesses. The efforts to support the public and the economy through this public health crisis are far reaching. For example, the government provided

- direct payments to citizens and families;
- forgivable loans to small businesses and assistance to especially hard-hit industries;
- expanded unemployment insurance;
- financial assistance to state, local, territorial, and tribal governments; and
- funding for the development and purchase of vaccines, therapeutic treatment, testing, and medical supplies.

We have made many recommendations to federal agencies and suggestions for congressional action as part of our oversight of the federal government's efforts to prepare for, respond to, and recover from the pandemic.⁸⁵ Several recommendations aim to improve the government's resiliency in the event of a future public health crisis. We recommended that agencies develop plans to limit the spread of communicable diseases in air travel, stabilize the medical supply chain, and ensure vaccine access. We also recommended the development of a comprehensive national testing strategy, as well as coordination with appropriate stakeholders to enhance laboratory surge testing capacity.

Because of persistent deficiencies in the Department of Health and Human Services' preparedness and response efforts to the COVID-19 pandemic, we added leadership and coordination of public health emergencies to our High-Risk List in January 2022. We will continue to monitor HHS's actions in this area. Implementing these recommendations could help the federal government better prepare for future public health crises and mitigate the extent of federal fiscal interventions.

⁸⁵ We regularly issue government-wide reports on the federal response to COVID-19, available on GAO's website at <https://www.gao.gov/coronavirus>.



FISCAL EXPOSURE

Natural Disasters and Climate Change

Extreme weather events are expected to become more frequent and intense in parts of the U.S. due to changes in the climate, potentially resulting in increased costs to the federal government. Key sources of exposure include supplemental appropriations to provide disaster assistance, federal insurance programs, and federal property that might be affected.

The rising number of natural disasters and increasing reliance on the federal government for related assistance is a key source of federal fiscal exposure. Major sources of fiscal exposures include (1) supplemental appropriations for disaster assistance; (2) federal insurance for property and crops; and (3) operation and management of federal property and lands.

- **Disaster assistance.** Each year, the federal government provides billions of dollars through programs and activities that support state, local, territorial, and tribal governments and certain nonprofit organizations and individuals that have suffered injury or damages from major disaster or emergency incidents, such as hurricanes, tornadoes, or fires. Between fiscal years 2015 and 2021, selected appropriations for disaster assistance totaled \$315 billion.⁸⁶ Much of this assistance has been provided through supplemental appropriations rather than the annual appropriations process.
- **Federal insurance for property and crops.** The federal government provides financial support to the Federal Crop Insurance Corporation and the National Flood Insurance Program. These programs are expected to face increased costs in the future, as the insured properties and crops are vulnerable to climate change. For example, CBO estimated in March 2020 that federal crop insurance would cost the federal government an average of about \$8 billion annually from 2020 through 2030: almost two times more than in the prior decade. The U.S. Department of Agriculture estimated in 2019 that climate change could increase the cost of the crop insurance program by an average range of 3.5 to 22 percent, depending upon assumptions about the severity of climate change and other factors. As of October 2021, the National Flood Insurance Program was about \$20.5 billion in debt to the U.S. Treasury. Consistent with our recommendation, in October 2021, the flood insurance program implemented an updated risk rating system to help its premium rates better reflect a property's risk of flooding. It is too soon to know the effect of this change, but we will continue to monitor this federal insurance program.

⁸⁶ This total includes \$240 billion in selected supplemental appropriations to federal agencies for disaster assistance and approximately \$75 billion in annual appropriations to the Disaster Relief Fund for fiscal years 2015 through 2021. It does not include other annual appropriations to federal agencies for disaster assistance. Of the supplemental appropriations, \$97 billion was included in supplemental appropriations acts that were enacted primarily in response to the COVID-19 pandemic.

- **Operation and management of federal property and lands.** The federal government owns and operates hundreds of thousands of facilities and manages millions of acres of land that might be vulnerable to climate change. For example, in 2018 Hurricanes Florence and Michael resulted in extensive damage to Marine Corps facilities in North Carolina and Tyndall Air Force Base in Florida. In September 2021, the Department of Defense reported that extreme weather events such as these have cost the U.S. government billions of dollars in damages.

Limiting the federal government's fiscal exposures to climate change has been on GAO's High-Risk List since 2013. Over the years we have made many recommendations to federal agencies and raised matters for congressional consideration related to enhancing climate resilience and limiting the federal government's fiscal exposure to climate change.

For example:

- **Federal agencies should develop a national strategic plan to manage climate risks.** However, as of March 2022, the federal government had not undertaken strategic efforts to manage climate risks. We are monitoring the implementation of executive orders that relate to this recommendation.
- **In October 2019, we developed the Disaster Resilience Framework** to support agencies' analysis of federal opportunities to facilitate and promote resilience to extreme weather events. This framework provides a set of high-level principles to help federal agencies and policymakers consider actions to reduce disaster risk.

Implementing these recommendations could reduce the federal government's exposure to increased reliance on disaster assistance and the need for far more costly steps to respond to extreme weather events in the decades to come.



FISCAL EXPOSURE

Global or Regional Military Conflicts

Military conflicts are uncertain, and they 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, and resulting costs, while unknown, could be significant, further complicating the government's unsustainable fiscal outlook.

The timing, scope, and magnitude of military conflicts are uncertain and difficult to plan for. Federal spending for military conflicts that might occur in the future are by definition not reflected in our long-term fiscal simulations. Therefore, increased defense spending and other enduring costs related to a military conflict would likely accelerate the projected widening budget deficits and unsustainable debt path.

Military conflicts generally require substantial spending outside of the Department of Defense's (DOD) base budget both during and after a conflict.

- **Military conflict costs:** According to DOD, \$2 trillion was appropriated between fiscal years 2001 and 2021, primarily for contingency operations in Iraq and Afghanistan.⁸⁷ In March 2022, Congress and the President provided about \$13.6 billion in funding to respond to the situation in Ukraine.⁸⁸
- **Enduring costs:** Military conflicts can also result in enduring costs after those conflicts end. For example, while U.S. troops have been withdrawn from Iraq and Afghanistan, DOD's fiscal year 2022 budget request includes more than \$42 billion for direct war and enduring requirements, which reflects DOD's estimates of enduring costs related to overseas basing, depot maintenance, ship operations, and weapons system sustainment, among other costs.

The scope and magnitude of any future military conflict could be large, and resulting costs, while unknown, could be significant, further complicating the government's unsustainable fiscal outlook. Providing DOD with needed fiscal flexibility to respond to these military conflicts and maintaining congressional oversight of contingency spending once these conflicts commence will be important.

⁸⁷ Contingency operations are small, medium, or large-scale campaign level military operations, including support for peacekeeping operations, foreign disaster relief efforts, and noncombatant evacuation operations.

⁸⁸ Ukraine Supplemental Appropriations Act, 2022, Pub. L. No. 117-103, Div. N, 136 Stat. 49, 776 (2022).



FISCAL EXPOSURE

Housing Finance

The financial condition of government and government-sponsored mortgage entities has strengthened in recent years, but the federal government continues to have substantial exposure to potential mortgage losses due to its large market role.

The federal role in housing finance expanded during the 2007–2009 financial crisis. For example, the federal government placed Fannie Mae and Freddie Mac—two government-sponsored enterprises that purchase and securitize mortgages into mortgage-backed securities—under conservatorship in 2008, creating an explicit fiscal exposure where the government would cover losses incurred by the entities. In recent years, federal actions and strong housing market conditions have strengthened the financial condition of government and government-sponsored mortgage entities, but the large federal role in housing finance leaves the federal government vulnerable to potential mortgage losses. For example, as of September 30, 2021, the following entities supported about \$8 trillion, or two-thirds, of the \$12 trillion single-family mortgage market:

- **Fannie Mae and Freddie Mac** together guaranteed about \$6 trillion in mortgage-backed securities.
- **Ginnie Mae**—a federally owned corporation that guarantees mortgage-backed securities of federally-insured mortgages—guaranteed about \$2 trillion in securities backed by mortgages with Federal Housing Administration insurance or other federal agency support.

In the event of a severe and extended economic downturn, the government could be required to provide substantial support to these mortgage entities if their mortgage losses exceed their capital reserves. Mortgage losses occur when people default on their mortgages, as many did in the 2007–2009 financial crisis. While Fannie Mae and Freddie Mac have not required supplemental funds from the federal government during the COVID-19 pandemic, the full extent of mortgage losses for the large number of borrowers who fell behind on mortgage payments in the pandemic is not yet known.

In 2013 we designated resolving the federal role in housing finance as a high-risk area and have made many recommendations related to improving oversight of mortgage-related risk and defining federal responsibilities going forward. For example, we have suggested that Congress establish objectives for the future federal role in housing finance, and provide a transition plan to a reformed system that allows Fannie Mae and Freddie Mac to exit conservatorship. Prolonged conservatorships could hinder development of the broader mortgage securities market by creating uncertainty and crowding out private investment.

Additionally, until the federal role in housing finance and the future of the enterprises are resolved, the federal government will continue to bear the substantial financial risks of its expanded market presence.

APPENDIX IV

Congressional Action to Strengthen Internal Controls and Financial and Fraud Risk Management Practices

In March 2022, we made several matters for congressional consideration to strengthen internal controls and financial and fraud risk management practices across the government.⁸⁹

- Congress should pass legislation requiring the Office of Management and Budget (OMB) to provide guidance for agencies to develop plans for internal control that would then immediately be ready for use in, or adaptation for, future emergencies or crises and requiring agencies to report these internal control plans to OMB and Congress.
- Congress should amend the Payment Integrity Information Act of 2019 to designate all new federal programs making more than \$100 million in payments in any one fiscal year as “susceptible to significant improper payments” for their initial years of operation.
- Congress should amend the Payment Integrity Information Act of 2019 to reinstate the requirement that agencies report on their antifraud controls and fraud risk management efforts in their annual financial reports.
- Congress should establish a permanent analytics center of excellence to aid the oversight community in identifying improper payments and fraud.
- Congress should clarify that (1) chief financial officers (CFO) at CFO Act agencies have oversight responsibility for internal controls over financial reporting and key financial management information that includes spending data and improper payment information; and (2) executive agency internal control assessment, reporting, and audit requirements for key financial management information, discussed in an existing matter for congressional consideration in our August 2020 report, include internal controls over spending data and improper payment information.⁹⁰
- Congress should require agency CFOs to (1) submit a statement in agencies’ annual financial reports certifying the reliability of improper payments risk assessments and the validity of improper payment estimates, and describing the actions of the CFO to monitor the development and implementation of any corrective action plans; and (2) approve any methodology that is not designed to produce a statistically valid estimate.
- Congress should consider legislation to require improper payment information required to be reported under the Payment Integrity Information Act of 2019 to be included in agencies’ annual financial reports.
- Congress should amend the Social Security Act to accelerate and make permanent the requirement for the Social Security Administration to share its full death data with the Department of the Treasury’s Do Not Pay working system.

⁸⁹ GAO-22-105715.

⁹⁰ GAO-20-566.

APPENDIX V

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In addition to the contacts named above, Barbara Lancaster (Assistant Director), Margaret McKenna Adams (Analyst-in-Charge), Bridget Chan, Robert Gebhart, Evan Ismail, Sherrice Kerns, Meredith Moles, Ardith Spence, Farrah Stone, Alicia White, and Chris Woika, made key contributions to this report.

Additional assistance in their areas of expertise was provided by Claudia Becker, Michael Collins, Jazzmin Cooper, Richard Geiger, Michael Hoffman, Aaron Holling, Susan J. Irving, Samantha Lalisian, Janice Latimer, Thomas McCabe, Joseph O'Neill, Laura Pacheco, Kathleen Padulchick, Bryan Sakakeeny, Marylynn Sergeant, Joseph Silvestri, Justin Snover, Tyler Spunaugle, Joseph Thompson, Frank Todisco, Robyn Trotter, Matthew Valenta, Jason Vassilicos, Patrick Ward, and Steve Westley.

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