



UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

The Challenges and Opportunities of Demographic Change in America

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

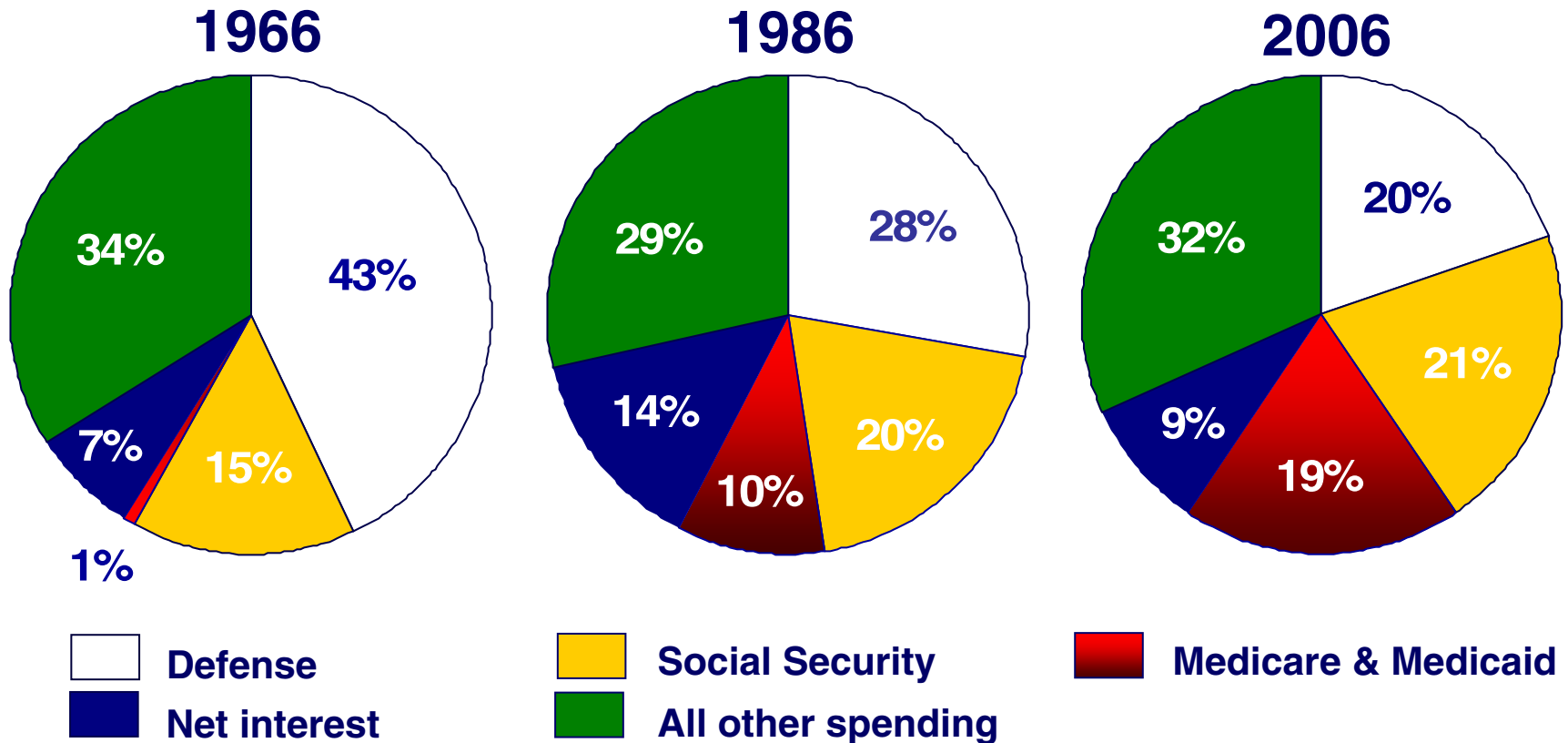
**National Conference on the New Human
Resources Frontier: Utilizing Older Workers for
Competitive Advantage**

Center for Productive Longevity

June 7, 2007



Composition of Federal Spending



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

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

Major Fiscal Exposures

(\$ trillions)

	2000	2006	% Increase
• Explicit liabilities	\$6.9	\$10.4	52
<ul style="list-style-type: none"> • Publicly held debt • Military & civilian pensions & retiree health • Other 			
• Commitments & contingencies	0.5	1.3	140
<ul style="list-style-type: none"> • E.g., PBGC, undelivered orders 			
• Implicit exposures	13.0	38.8	197
• Future Social Security benefits	3.8	6.4	
• Future Medicare Part A benefits	2.7	11.3	
• Future Medicare Part B benefits	6.5	13.1	
• Future Medicare Part D benefits	--	7.9	
Total	\$20.4	\$50.5	147

Source: 2000 and 2006 Financial Report of the United States Government.

Note: Totals and percent increases may not add due to rounding. Estimates for Social Security and Medicare are at present value as of January 1 of each year and all other data are as of September 30.

How Big is Our Growing Fiscal Burden?

This fiscal burden can be translated and compared as follows:

Total –major fiscal exposures	\$50.5 trillion
Total household net worth¹	\$53.3 trillion
Burden/Net worth ratio	95 percent
Burden²	
Per person	\$170,000
Per full-time worker	\$400,000
Per household	\$440,000
Income	
Median household income³	\$46,326
Disposable personal income per capita⁴	\$31,519

Source: GAO analysis.

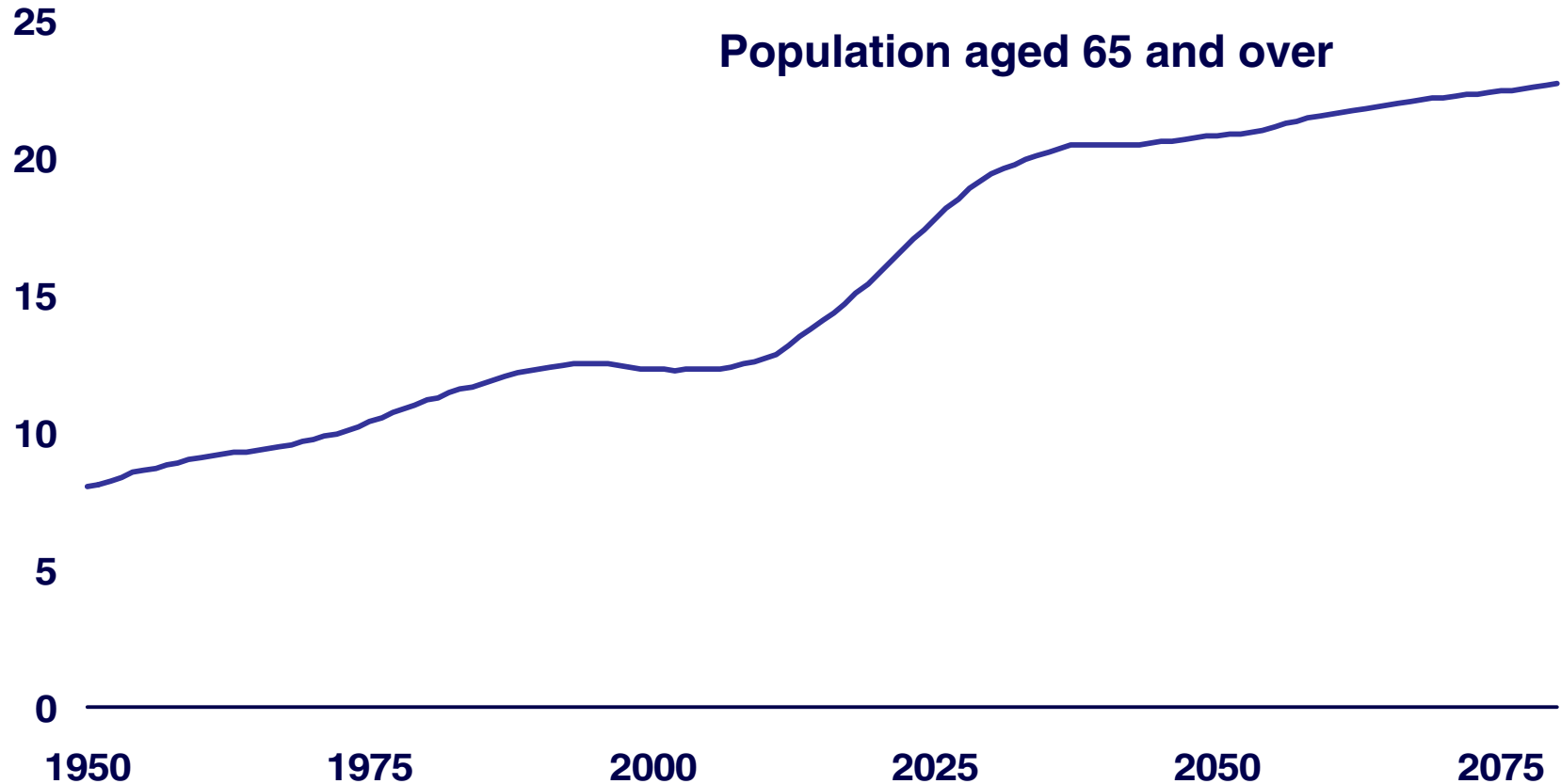
Notes: (1) Federal Reserve Board, Flow of Funds Accounts, Table B.100, 2006:Q2 (Sept. 19, 2006); (2) Burdens are calculated using estimated total U.S. population as of 9/30/06, from the U.S. Census Bureau; full-time workers reported by the Bureau of Economic Analysis, in NIPA table 6.5D (Aug. 2, 2006);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

Demographic Trends Pose Challenges for Employers and Workers (GAO-02-85)

- The combination of increasing life expectancy and declining birth rates is expected to reduce the number of workers per retiree, a trend that will strain the finances of national pension and health programs and may affect productivity and economic growth
- The impending retirement of the baby boom generation and slower labor force growth will result in the loss of many experienced workers and possible skill gaps in certain occupations
- Many older workers face the possibility of less secure retirements. While longer life spans have increased the number of years individuals spend in retirement, pension plans have increasingly shifted financial and longevity risk to individuals and health care costs have risen rapidly
- The increasing ratio of the elderly to younger workers will place added pressure on public benefits such as Social Security and Medicare, both of which face long-term financial problems

Aged Population as a Share of Total U.S. Population Will Continue to Increase

Percent of total population

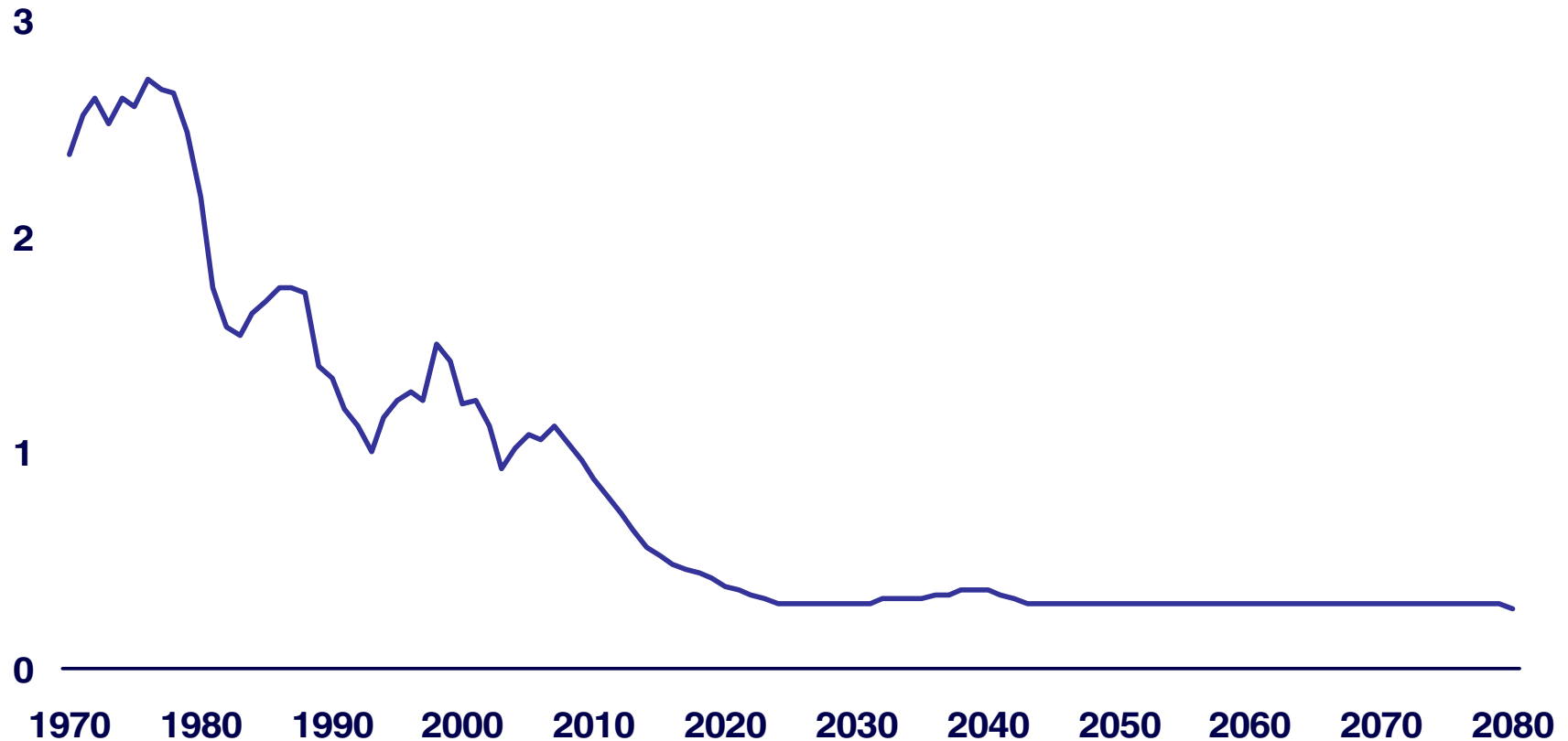


Source: Office of the Chief Actuary, Social Security Administration.

Note: Projections based on the intermediate assumptions of the 2007 Trustees' Reports.

U.S. Labor Force Growth Will Continue to Decline

Percentage change (5-yr moving average)

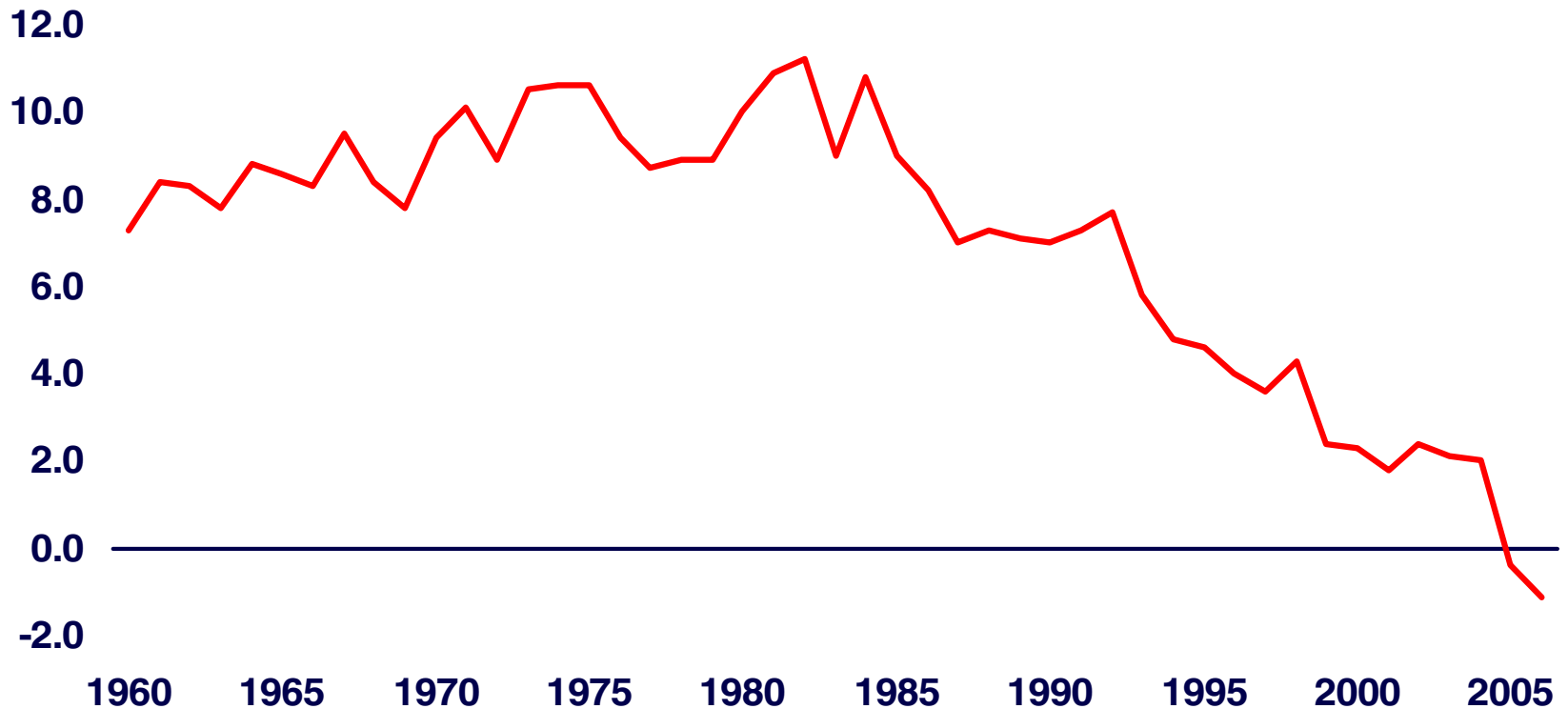


Source: GAO analysis of data from the Office of the Chief Actuary, Social Security Administration.

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

Personal Savings Rate Became Negative in 2006

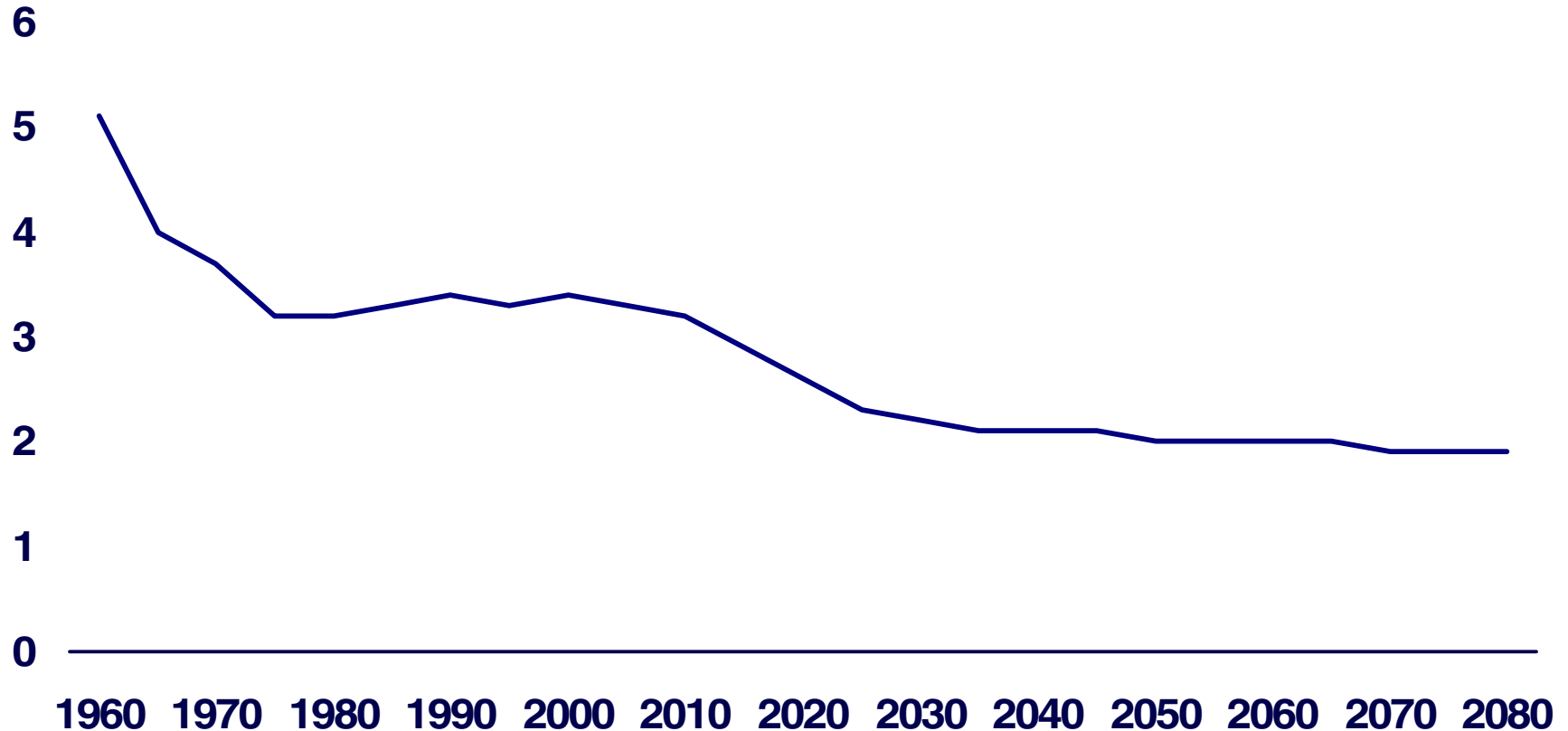
Percent of disposable personal income



Source: Bureau of Economic Analysis, Department of Commerce.

Social Security Workers Per Beneficiary Will Continue to Decline

Covered workers per OASDI beneficiary

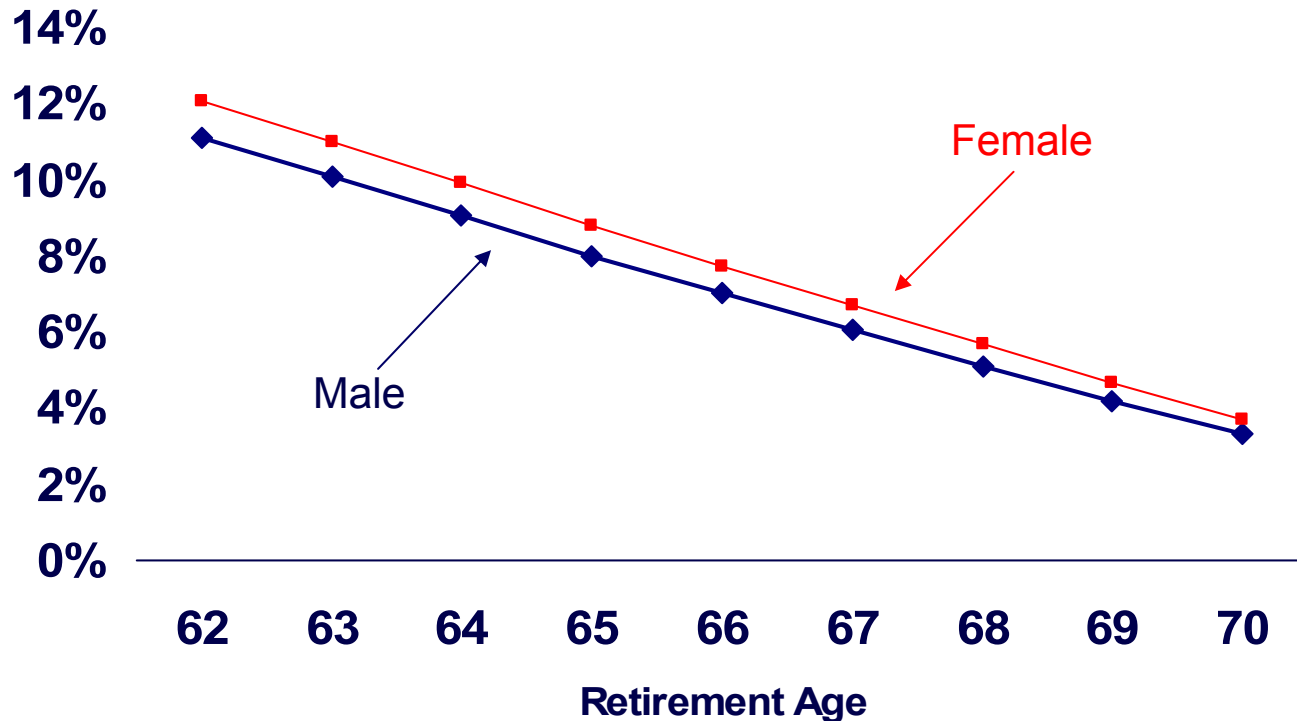


Source: Office of the Chief Actuary, Social Security Administration.

Note: Projections based on the intermediate assumptions of the 2007 Trustees' Reports.

Annual Saving Required for a 35-Year Old, with Social Security

Required Contribution: Percentage of Gross Income



Source: GAO analysis, based on Social Security Administration data.

Note: The chart shows the percentage of gross salary 35-year old male and female earning an average wage in 2005 would need to withhold so that the individual would accumulate funds sufficient, along with scheduled social security benefits, to provide retirement income equal to 75% of his or her pre-retirement income. The projections are based on economic assumptions from the 2005 Social Security Trustees Report for inflation (2.8%), real wage growth (1.1%), real interest rate (3%), and nominal interest rate (5.8%).

Key Elements for Economic Security in Retirement

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

Working Longer May Help Address the Challenges of an Aging Population

- **Impact on the Economy**
 - Larger labor force
 - Additional economic growth
- **Impact on the Federal Budget**
 - Additional tax revenue
 - Reduced expenditures: Social Security & Medicare
- **Impact on Individuals**
 - Enhanced retirement security and quality of life

Why Older Americans Don't Work Longer

- **Cultural Expectation to Retire in Mid-60s**
 - Social Security early retirement age is 62
 - Many private pensions have similar or lower eligibility ages
- **Older Americans Perceive Few Opportunities**
 - Few older workers felt they had opportunities for partial retirement
 - Most older workers and retirees saw low wage, low skilled jobs as their primary employment opportunities
- **Most Employers Do Not Make a Special Effort to Hire and Retain Older Workers**
 - Many employers say they are willing to implement policies to recruit and retain older workers, but few have actually done so
 - Employers cite barriers, such as federal pension regulations, to flexible employment options for older workers

See *GAO-06-80* for more details

Comptroller General Forum: Engaging and Retaining Older Workers (GAO-07-438SP)

- GAO convened this forum on December 5, 2006
- Participants included a diverse array of experts, including employers from AARP's "Best Employers for Workers Over 50" program, and representatives from business groups, unions, academia, and federal agencies. Advocates, researchers, and actuaries also participated
- The forum fostered discussion on the role of employers, employees, and the federal government in helping older workers to work longer and better prepare for retirement
- The discussion focused on key obstacles faced by workers who want to work longer, as well as those faced by employers who need to retain or recruit workers who are near or past traditional retirement age; best practices and lessons learned; and strategies going forward

Key Obstacles

- Some employers' perceptions about the cost of hiring and retaining older workers are a key obstacle in older workers' continued employment
- Total compensation and training costs were seen as primary concerns
- Workplace age discrimination, the mismatch of workers' skills and availability of jobs because of changes in the economy, as well as the need to keep skills up to date, are all challenges facing older workers
- There is a more limited pool of interested workers because of financial incentives to retire as soon as possible, workers' desire to retire or change careers, and some jobs' requirements that make continued work unappealing or unfeasible because of health issues
- Legal and regulatory requirements hinder hiring and retaining older workers

Best Practices and Lessons Learned

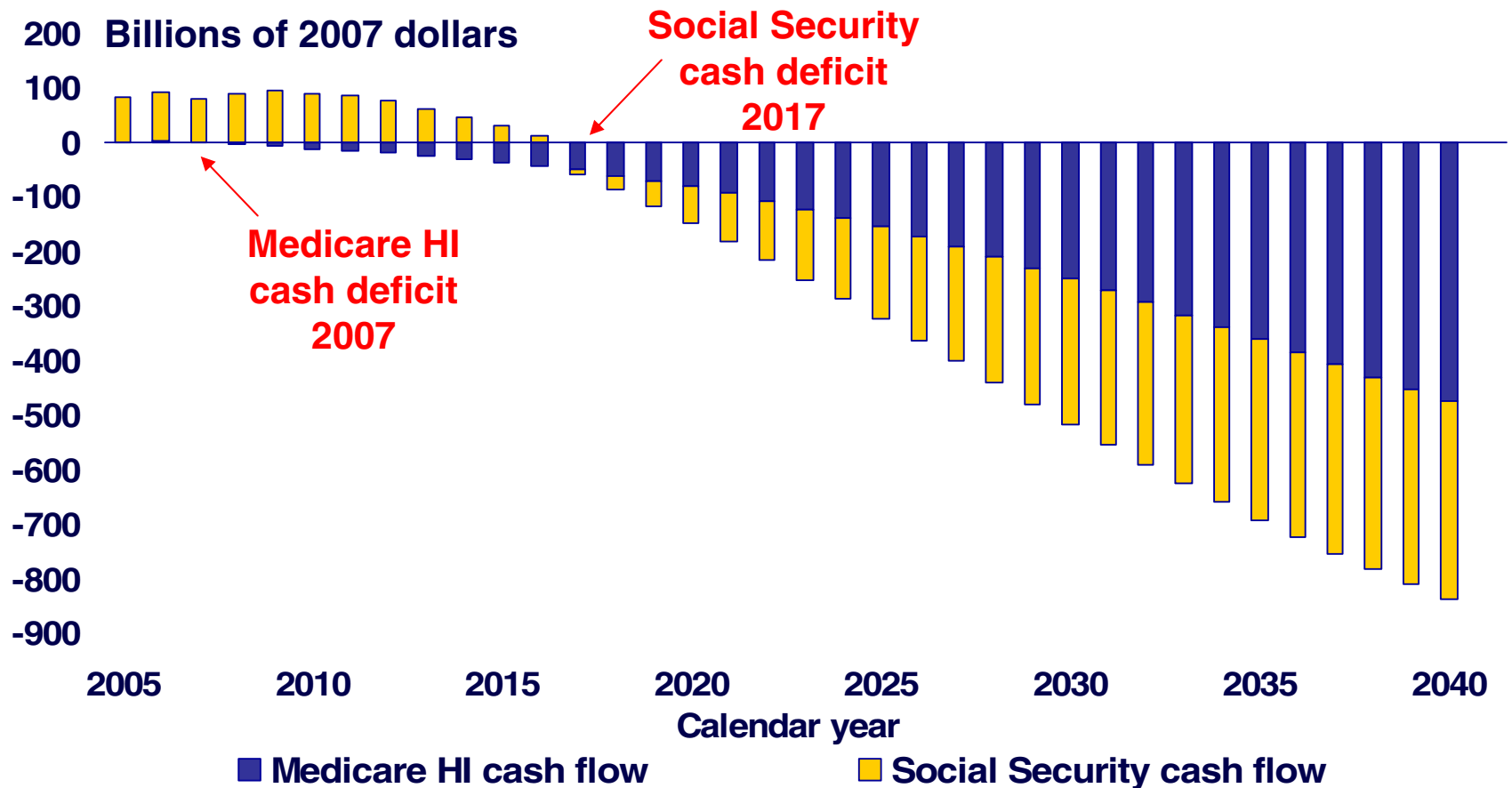
Participants shared examples of best practices and lessons learned, such as:

- Using nontraditional recruiting techniques, such as partnerships to help identify and recruit older workers
- Employing flexible work situations and adapting job designs to meet the preferences and physical constraints of older workers
- Offering the right mix of benefits and incentives to attract older workers, such as tuition assistance, time off for elder care, and employee discounts
- Treating all employees in a fair and consistent manner and employing a consistent performance management system to prevent age discrimination complaints
- Providing employees with financial literacy skills to ensure they have a realistic plan to provide for retirement security

Strategies

- Conduct a national campaign to help change the national mindset about work at older ages
- Hold a national discussion about what “old” is to help change the culture of retirement
- Strengthen financial literacy education to help workers prepare to retire
- Create a clearinghouse of best recruiting, hiring, and retention practices for older workers
- Make the federal government a model employer for the nation in how it recruits and retains older workers
- Create a key federal role in partnerships to implement these strategies
- Consider specific legislation or regulations to increase flexibility for employers and employees to create new employment models

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



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

Note: Projections based on the intermediate assumptions of the 2007 Trustees' Reports. The CPI is used to adjust from current to constant dollars.

Key Dates Highlight Long Term Challenges of the Social Security System

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

Source: Social Security Administration, *The 2007 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (Washington, DC: April 2007).

Possible Way Forward on Social Security Reform

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

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

Pension System Faces Variety of Challenges

- Significant coverage gaps and pre-retirement leakage
- Long term decline in the number of DB plans and active participants and change in the nature of DB plans
- Recent DB freezes and retiree health plan limitations are likely to accelerate due to prospective changes in current accounting for pension and post-employment benefits
- Recent and prospective large plan terminations by bankrupt sponsors have placed Pension Benefit Guaranty Corporation (PBGC), the federal agency insuring benefits, in financial jeopardy
 - Stock market, interest rate declines earlier this decade worsened overall plan funding
 - Demographics, global competition (steel, auto), industry deregulation restructuring (airlines) have contributed to both plan and corporate weakness
- Plan funding rules and PBGC premiums have proven to be inadequate

Pension Protection Act of 2006: An Important Reform with Unfinished Business

- PPA shrinks, but does not close, many loopholes regarding DB plan funding
- PBGC deficit expected to continue to grow
- Ultimately does not address fundamental mismatch between DB plan assets and liabilities
- Will likely not reverse long-term decline in DB system
- Long phase-in period and uncertain effects suggest that careful ongoing monitoring of DB plans and PBGC deficit is needed.
- Financing of adequate retirement for all Americans continues to pose a major national challenge
 - Issues of coverage remain largely unanswered
 - Appropriate balance of responsibility for retirement among employers, government and workers remains unclear

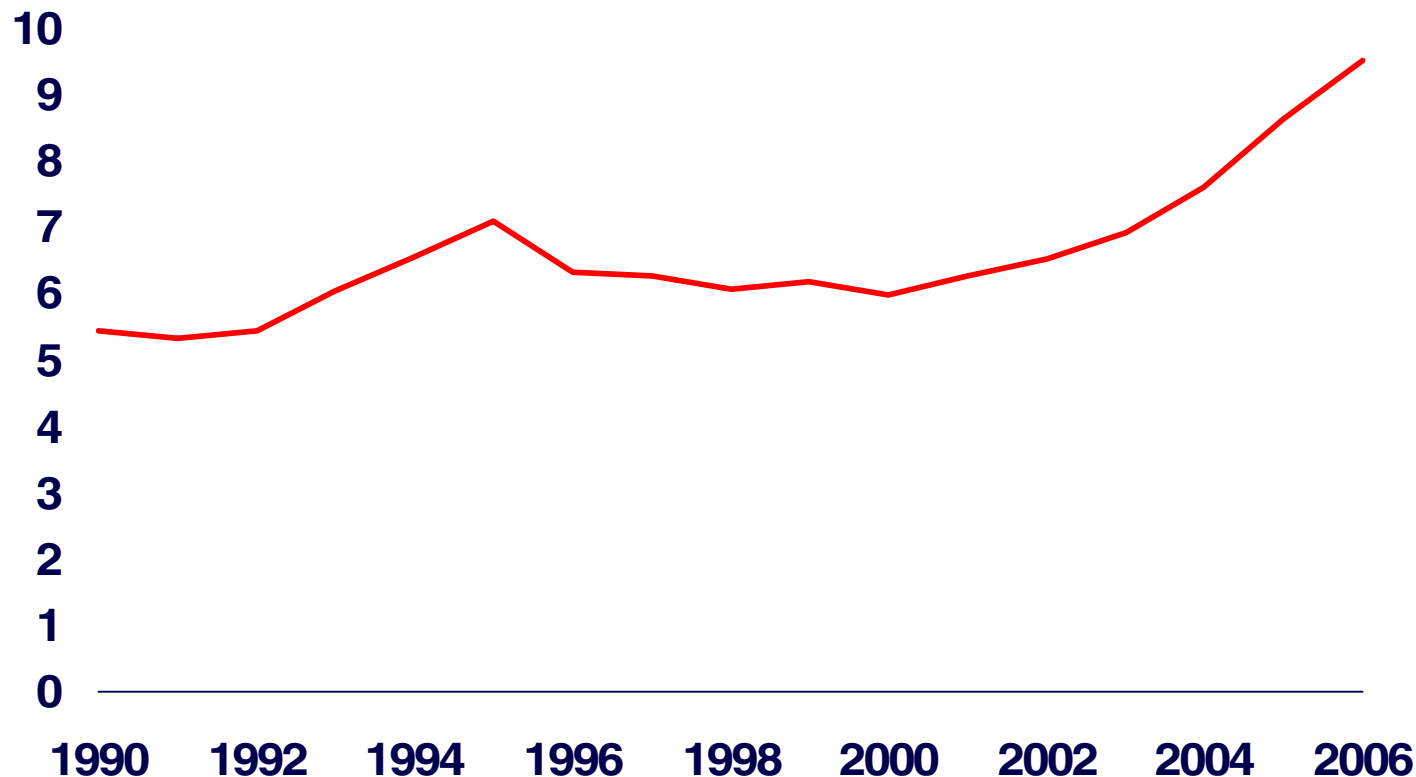
Key Dates Highlight Long Term Challenges of the Medicare Program

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

Source: 2007 Annual Report of The Boards of Trustees of The Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds (Washington, DC, April 2007).

SMI Premium as Share of Average Social Security (OASI) Benefit

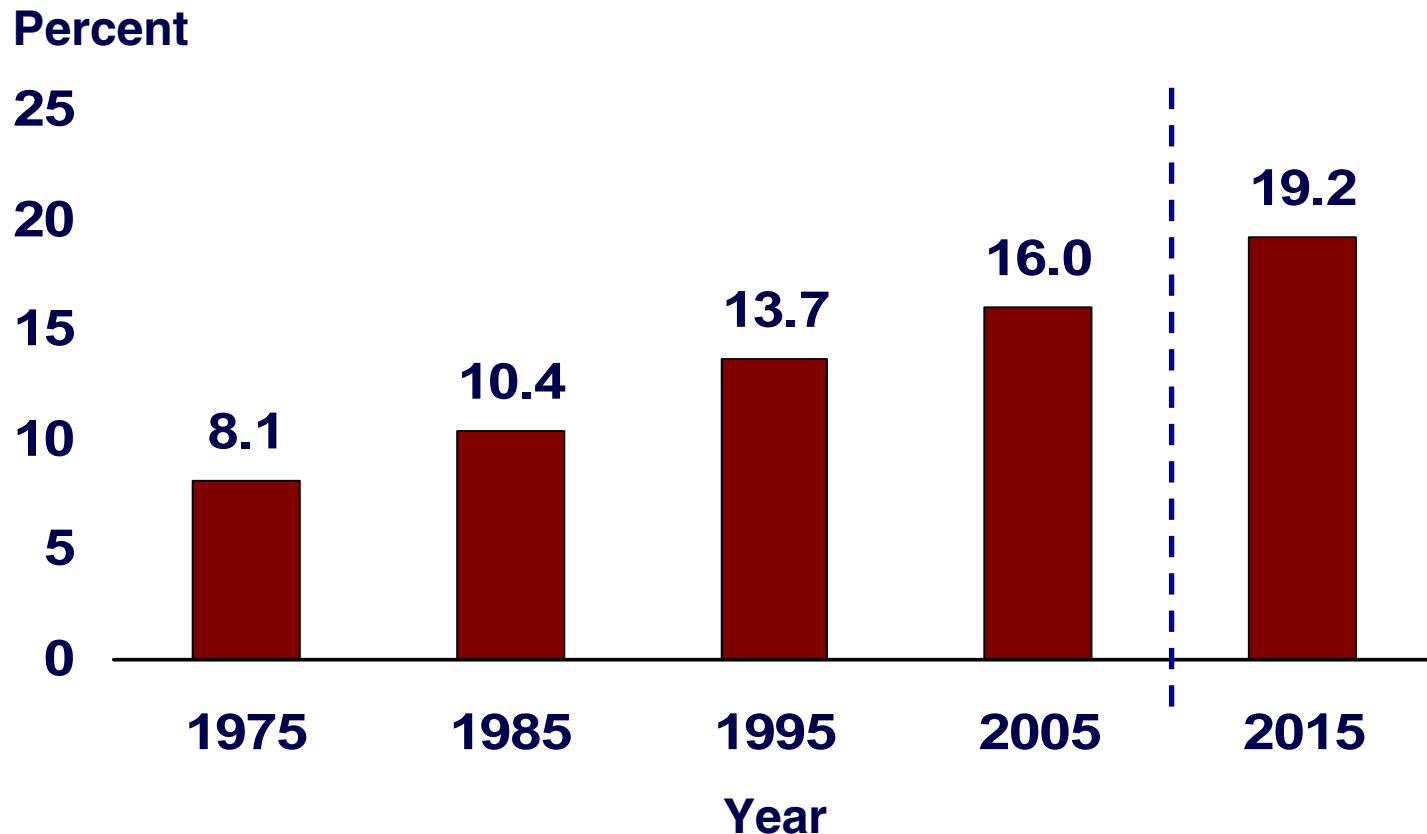
Percent of average OASI benefit



Source: CMS, Office of the Actuary.

Note: Data for 2006 are based on the announced SMI monthly premium of \$88.50 and do not include the Medicare Prescription Drug premium. In August, the Centers for Medicare & Medicaid Services estimated that the national average monthly premium for prescription drug coverage equivalent to the Medicare standard coverage would be \$32.20.

Growth in Health Care Spending: Health Care Spending as a Percentage of GDP

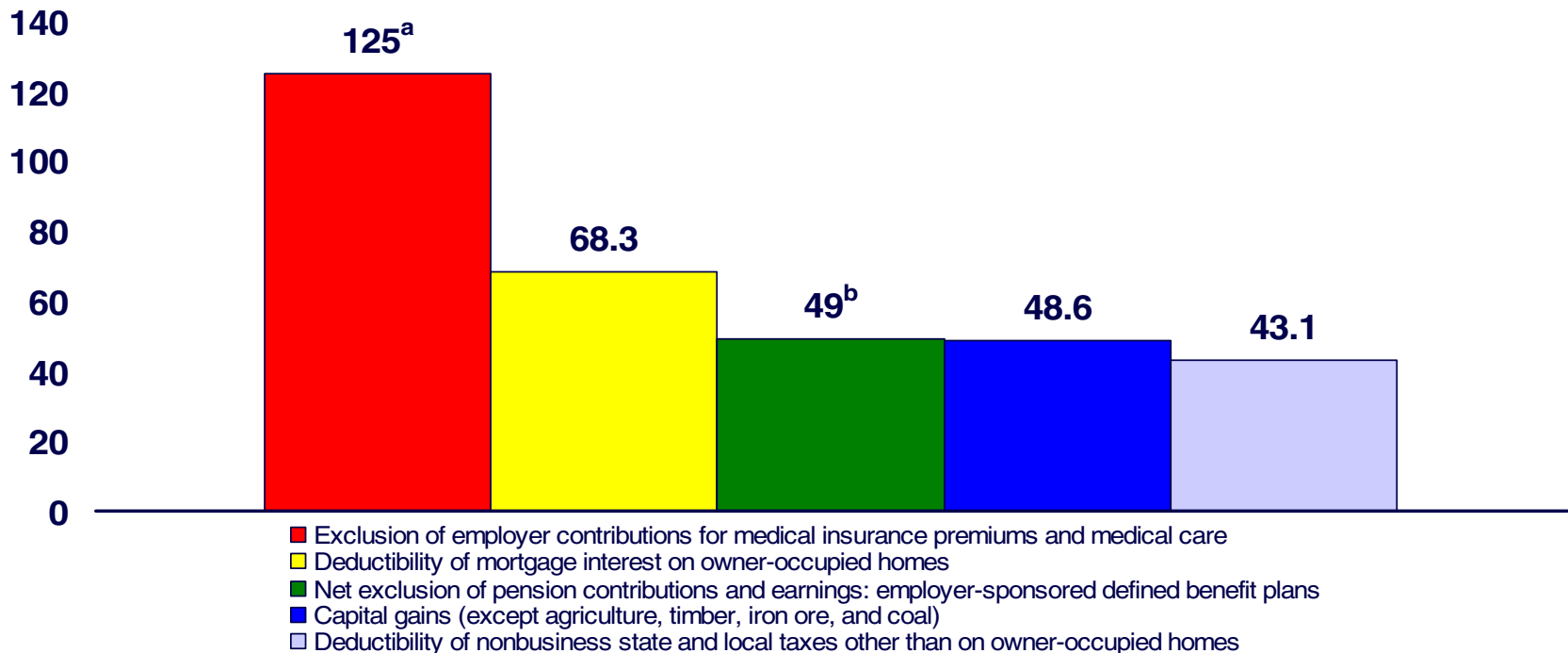


Source: The Centers for Medicare & Medicaid Services, Office of the Actuary.

Note: The figure for 2015 is projected.

Health Care Is the Nation's Top Tax Expenditure in Fiscal Year 2006

Estimated dollars in billions



Source: Office of Management and Budget (OMB), *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2008*.

Note: "Tax expenditures" refers to the special tax provisions that are contained in the federal income taxes on individuals and corporations. Treasury does not include forgone revenue from other federal taxes such as Social Security and Medicare payroll taxes.

^aIf the payroll tax exclusion were also counted here, the total tax expenditure for employer contributions for health insurance premiums would be about 50 percent higher or \$187.5 billion.

^bThis tax expenditure does not include \$40.8 billion in revenue losses due to defined contribution plans.

Where the United States Ranks on Selected Health Outcome Indicators

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

Source: *OECD Health Data 2006*.

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

Issues to Consider in Examining Our Health Care System

- The public needs to be educated about the differences between **wants, needs, affordability, and sustainability** at both the individual and aggregate level
- Ideally, health care reform proposals will:
 - **Align Incentives** for providers and consumers to make prudent decisions about the use of medical services,
 - **Foster Transparency** with respect to the value and costs of care, and
 - **Ensure Accountability** from insurers and providers to meet standards for appropriate use and quality.
- Ultimately, we need to address four key dimensions: **access, cost, quality, and personal responsibility**

Selected Potential Health Care Reform Approaches

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

Selected Potential Health Care Reform Approaches

Reform Approach	Short-term action	Long-term action
Revise certain federal tax preferences for health care to encourage more efficient use of health care products and services.	✓	✓
Foster more preventative care and wellness services and capabilities, including fighting obesity and encouraging better nutrition	✓	✓
Promote more personal responsibility in connection with health care	✓	✓
Limit spending growth for government-sponsored health care programs (e.g., percentage of the budget and/or economy)		✓
Develop a core set of basic and essential services. Create insurance pools for alternative levels of coverage, as necessary		✓
Develop a set of evidence-based national practice standards to help avoid unnecessary care, improve outcomes, and reduce litigation		✓
Pursue multinational approaches to investing in health care R&D		✓

The Importance of Seasoned Workers

Seasoned workers are our nation's most underutilized asset. This must change for their sake and the sake of our country

Four National Deficits

- *Budget*
- *Balance of Payments*
- *Savings*
- *Leadership*

Key Leadership Attributes Needed for These Challenging and Changing Times

- ***Courage***
- ***Integrity***
- ***Creativity***
- ***Partnership***
- ***Stewardship***



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On the Web

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