



Highlights of [GAO-08-912T](#), a testimony to the Committee on Finance, U.S. Senate

Why GAO Did This Study

GAO was asked to provide its views on the long-term fiscal outlook. This statement addresses four key points: (1) the federal government’s long-term fiscal outlook is a matter of utmost concern; (2) this challenge is driven primarily by health care cost growth; (3) reform of health care is essential but other areas also need attention which requires a multipronged solution; and (4) the federal government faces increasing pressures yet a shrinking window of opportunity for phasing in needed adjustments.

GAO’s simulations of the federal government’s long-term fiscal outlook were updated with the Trustees 2008 intermediate projections and continue to indicate that the long-term outlook is unsustainable. This update combined with GAO’s analysis of the fiscal outlook of state and local governments demonstrates that the fiscal challenges facing all levels of government are linked and should be considered in a strategic and integrated manner.

Since 1992, GAO has published long-term fiscal simulations of what might happen to federal deficits and debt levels under varying policy assumptions. GAO developed its long-term model in response to a bipartisan request from Members of Congress who were concerned about the long-term effects of fiscal policy. Information about GAO’s model and assumptions can be found at <http://www.gao.gov/special.pubs/longterm/>.

To view the full product, including the scope and methodology, click on [GAO-08-912T](#). For more information, contact Susan J. Irving at (202) 512-9142 or irvings@gao.gov or Marjorie Kanof at (202) 512-7114 or kanofm@gao.gov.

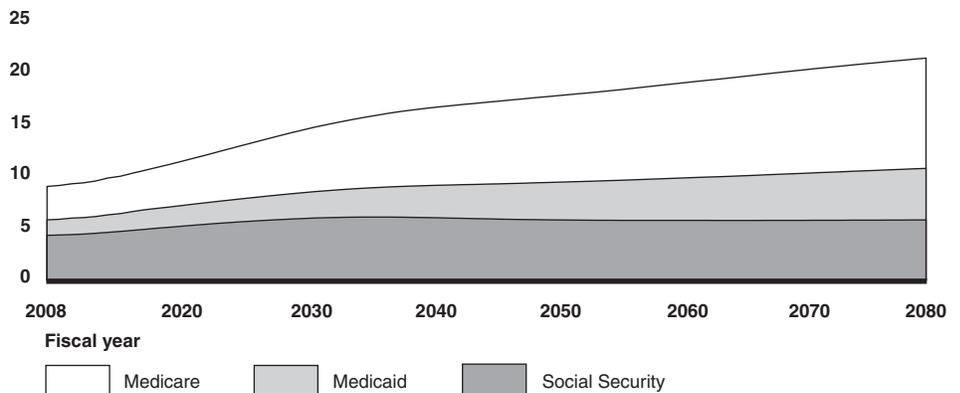
LONG-TERM FISCAL OUTLOOK

Long-Term Federal Fiscal Challenge Driven Primarily by Health Care

What GAO Found

Long-term fiscal simulations by GAO, the Congressional Budget Office (CBO), and others all show that despite a decline in the federal government’s unified budget deficit between fiscal years 2003 and 2007, it still faces large and growing structural deficits driven primarily by rising health care costs and known demographic trends. Simply put, the federal government is on an unsustainable long-term fiscal path. Although Social Security is important because of its size, over the long term health care spending is the principal driver—Medicare and Medicaid are both large and projected to continue growing rapidly in the future.

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



Source: GAO analysis.

Rapidly rising health care costs are not simply a federal budget problem. Growth in health-related spending is the primary driver of the fiscal challenges facing state and local governments as well. Unsustainable growth in health care spending also threatens to erode the ability of employers to provide coverage to their workers and undercuts their ability to compete in a global marketplace. Public and private health care spending continues to rise because of several key factors: (1) increased utilization of new and existing medical technology; (2) lack of reliable comparative information on medical outcomes, quality of care, and cost; and (3) increased prevalence of risk factors such as obesity that can lead to expensive chronic conditions.

Addressing health care costs and demographics—and their interaction—will be a major societal challenge. The longer action on reforming health care and Social Security is delayed, the more painful and difficult the choices will become. The federal government faces increasing pressures yet a shrinking window of opportunity for phasing in adjustments. In fact, the oldest members of the baby-boom generation are now eligible for Social Security retirement benefits and will be eligible for Medicare benefits in less than 3 years. Additionally, in addressing this fiscal challenge it will be important to review other programs and activities on both the spending and revenue sides of the budget.