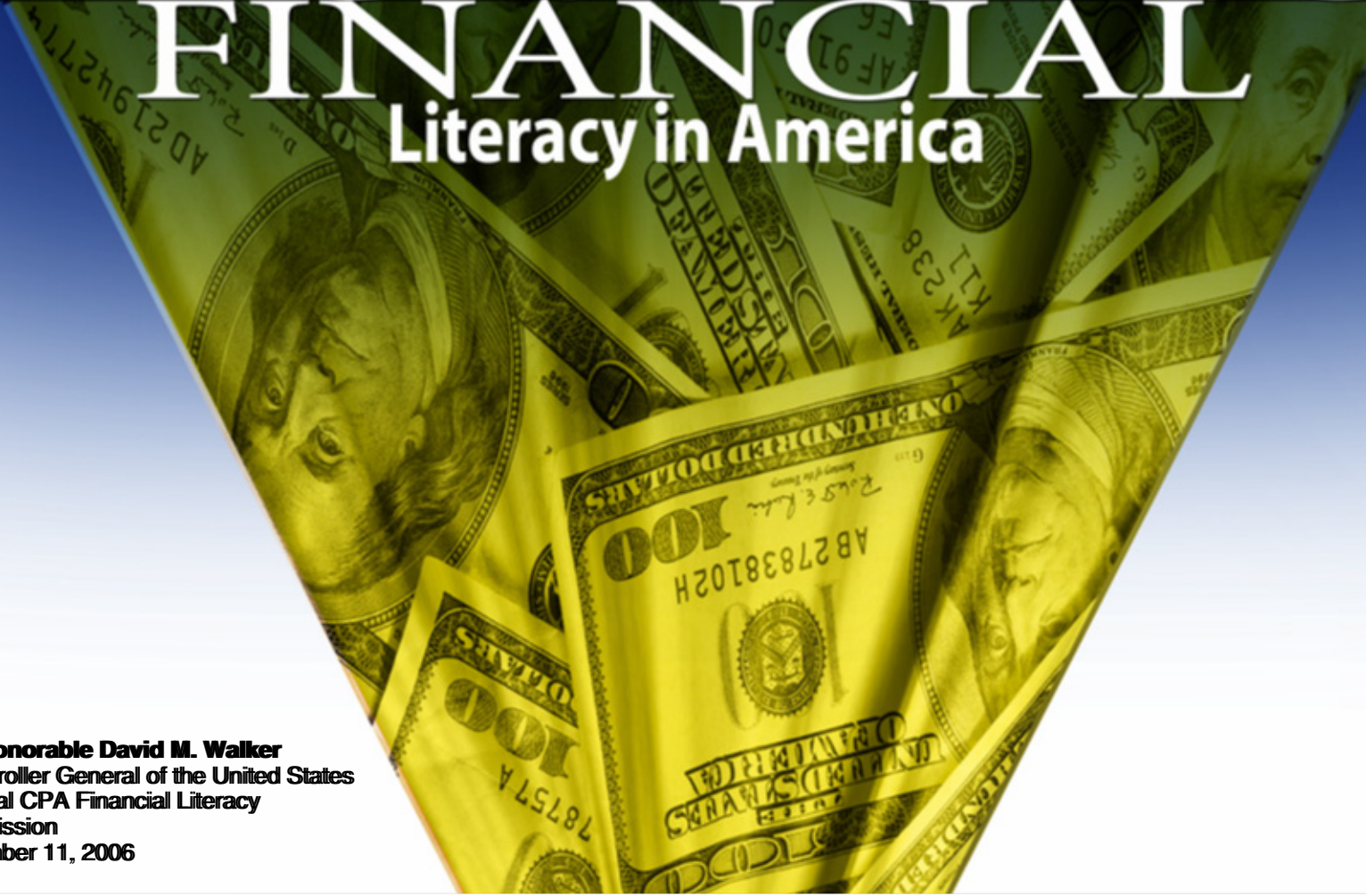


United States Government Accountability Office

INCREASING FINANCIAL Literacy in America



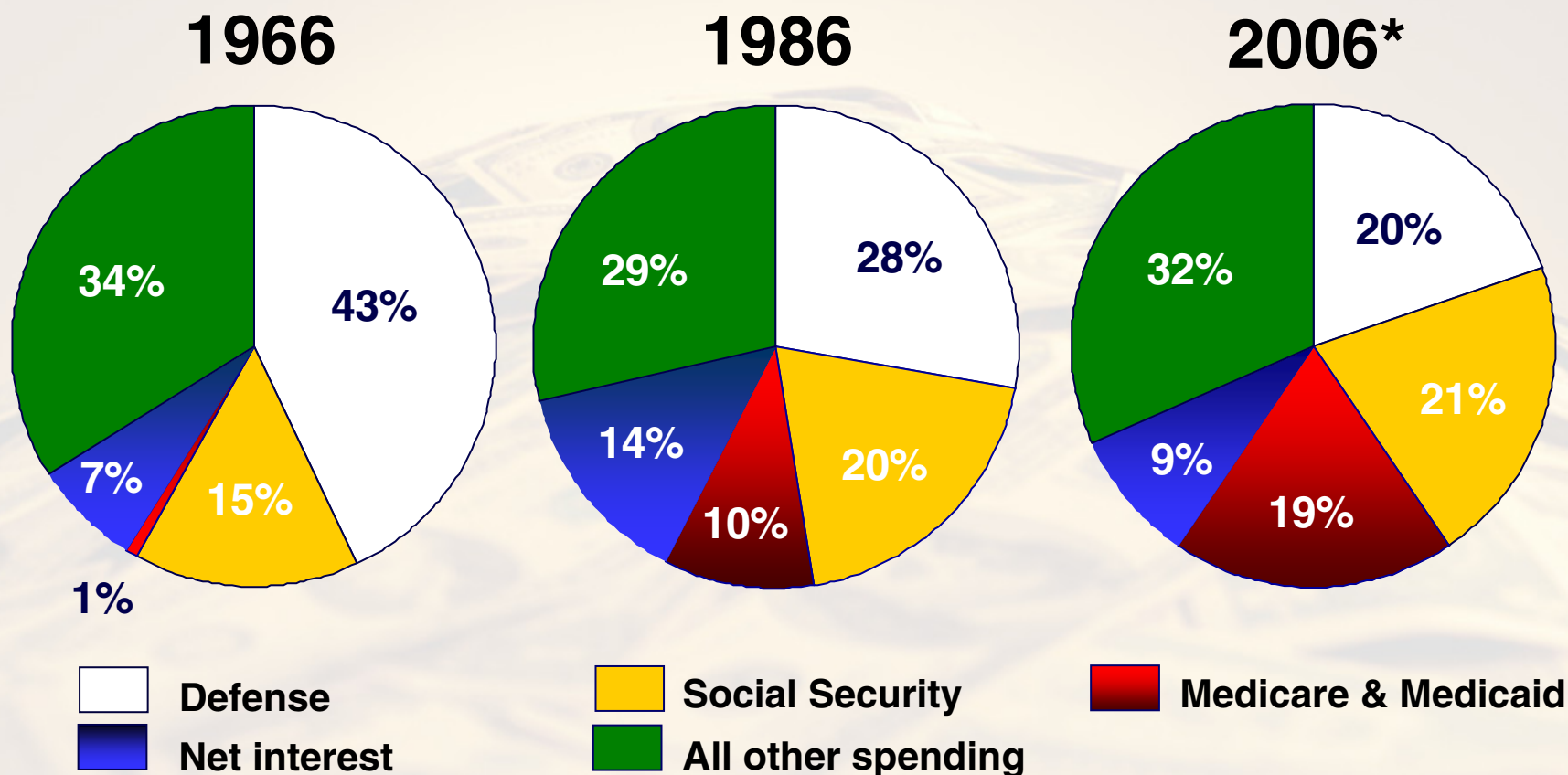
The Honorable David M. Walker
Comptroller General of the United States
National CPA Financial Literacy
Commission
December 11, 2006

The Case for Change

The federal government is on a “burning platform,” and the status quo way of doing business is unacceptable for a variety of reasons, including:

- Past fiscal trends and significant long-range challenges
- Rising public expectations for demonstrable results and enhanced responsiveness
- Selected trends and challenges having no boundaries
- Additional resource demands due to Iraq, Afghanistan, incremental homeland security needs, and recent natural disasters in the United States
- Numerous government performance/accountability and high risk challenges
- Outdated federal organizational structures, policies, and practices

Composition of Federal Spending



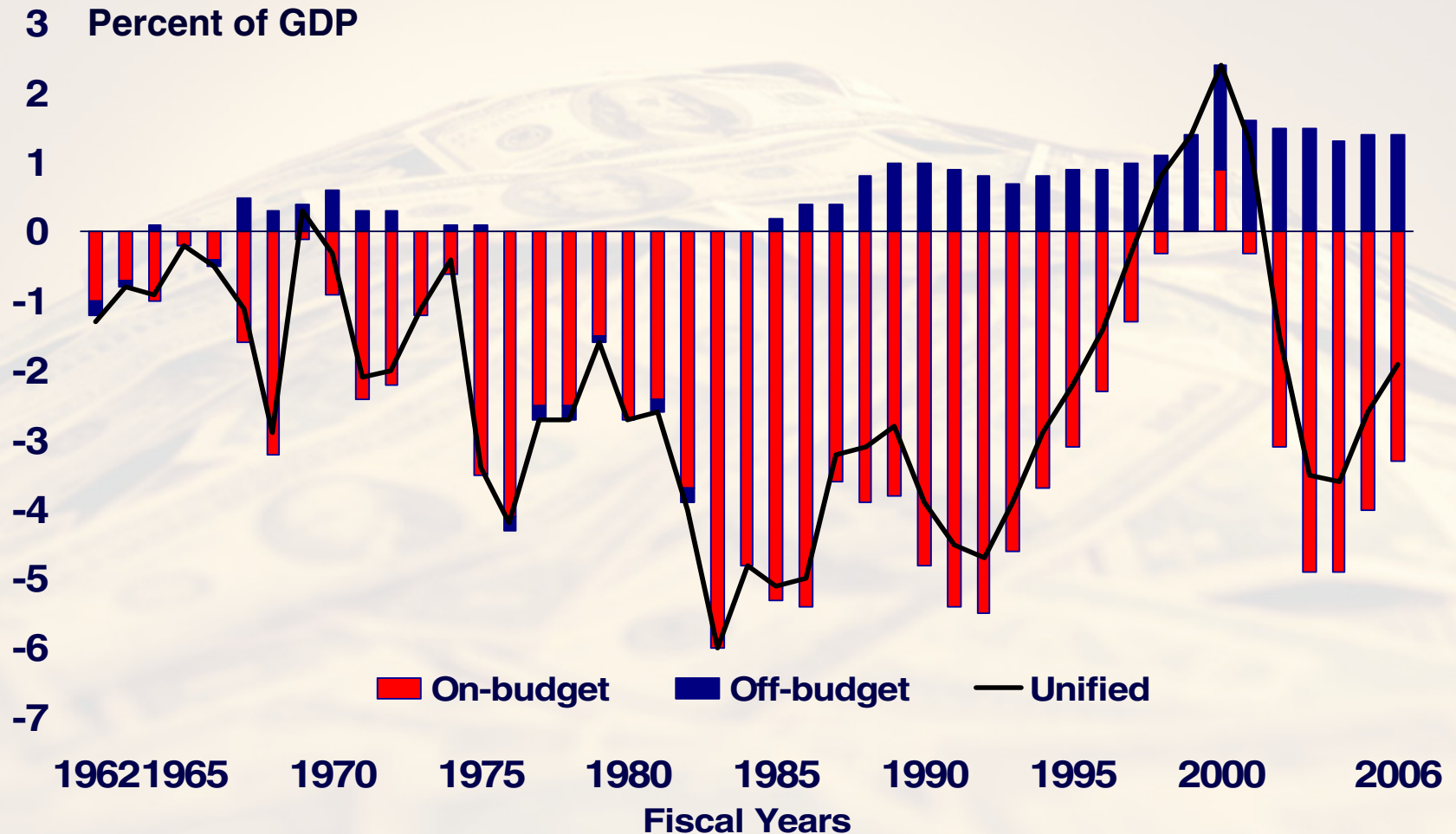
*Preliminary.

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

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

Surplus or Deficit as a Share of GDP

Fiscal Years 1962-2006



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

Fiscal Year 2005 and 2006 Deficits and Net Operating Costs

	Fiscal Year 2005	Fiscal Year 2006
	(\$ Billion)	
On-Budget Deficit	(494)	(434)
Off-Budget Surplus*	175	186
Unified Deficit	(318)	(248)
Net Operating Cost	(760)	Not available

*Includes \$173 billion in Social Security surpluses for fiscal year 2005 and \$185 billion for fiscal year 2006; \$2 billion in Postal Service surpluses for fiscal year 2005 and \$1 billion for fiscal year 2006.

Sources: The Office of Management and Budget and the Department of the Treasury.

Estimated Fiscal Exposures

(\$ trillions)

	2000	2006
• Explicit liabilities	\$6.9	\$10.2
• Publicly held debt • Military & civilian pensions & retiree health • Other		
• Commitments & contingencies	0.5	0.9
• E.g., PBGC, undelivered orders		
• Implicit exposures	13.0	38.8
• 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	--	8.0
Total	\$20.4	\$49.9

Source: U.S. government's consolidated financial statement, Social Security and Medicare Trustees reports and Monthly Treasury Statement, September 30, 2006.

Note: 2006 estimates are preliminary. 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?

Our total fiscal burden can be translated and compared as follows:

Total fiscal exposures	\$49.9 trillion
Total household net worth¹	\$53.3 trillion
Burden/Net worth ratio	94 percent
Burden²	
Per person	\$165,000
Per full-time worker	\$395,000
Per household	\$435,000
Income	
Median household income³	\$46,326
Disposable personal income per capita⁴	\$32,392

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: September 2006, table 2, 2006:Q3, (Oct. 30, 2006).

Sources: GAO analysis.

Composition of Spending as a Share of GDP

Under Baseline Extended (January 2001)

Percent of GDP

50

40

30

20

10

0

Revenue

2005

2015*

2030*

2040*

Fiscal year

■ Net interest ■ Social Security ■ Medicare & Medicaid ■ All other spending

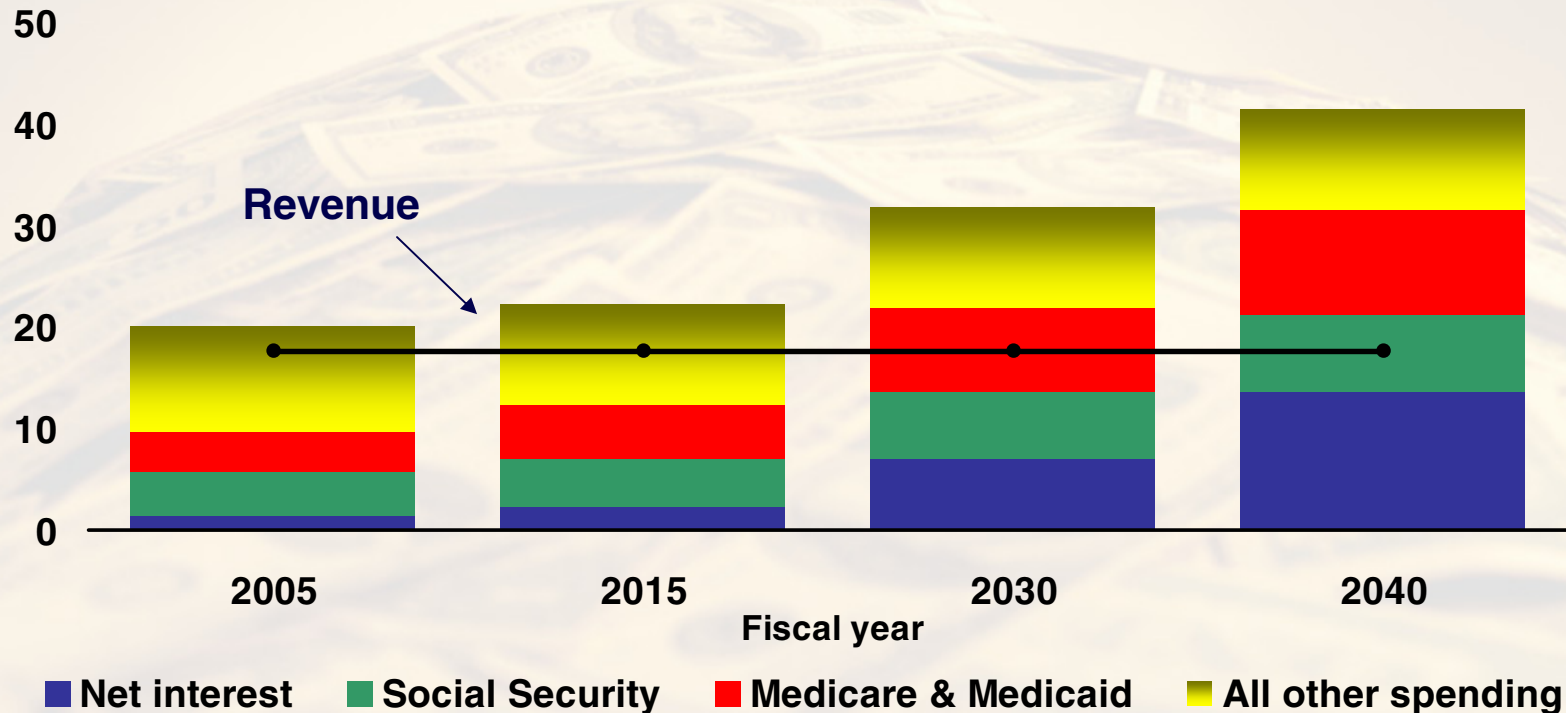
*All other spending is net of offsetting interest receipts.

Source: GAO's January 2001 analysis.

Composition of Spending as a Share of GDP

(Assuming Discretionary Spending Grows with GDP
After 2006 and All Expiring Tax Provisions are Extended)

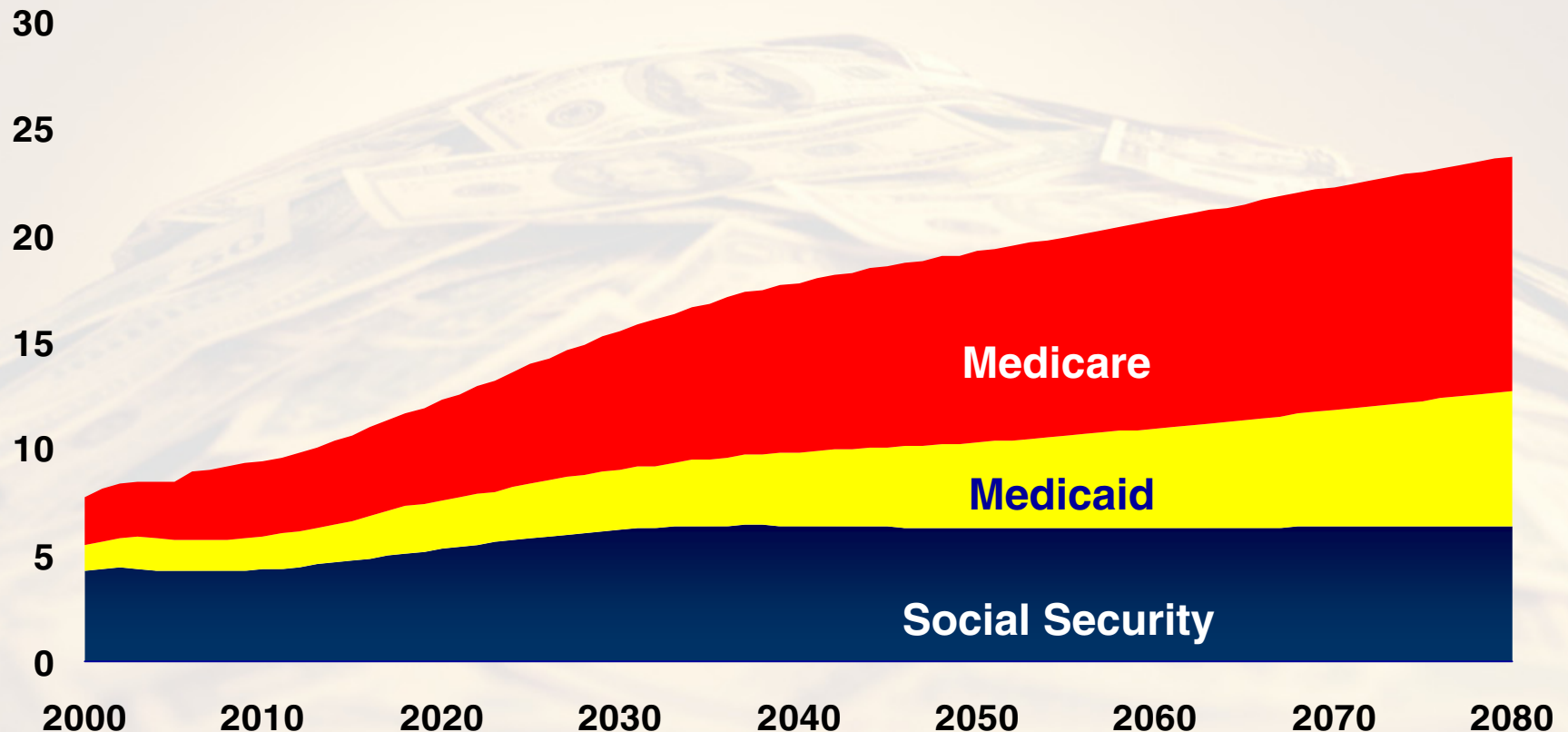
Percent of GDP



Source: GAO's August 2006 analysis.

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

Percent of GDP



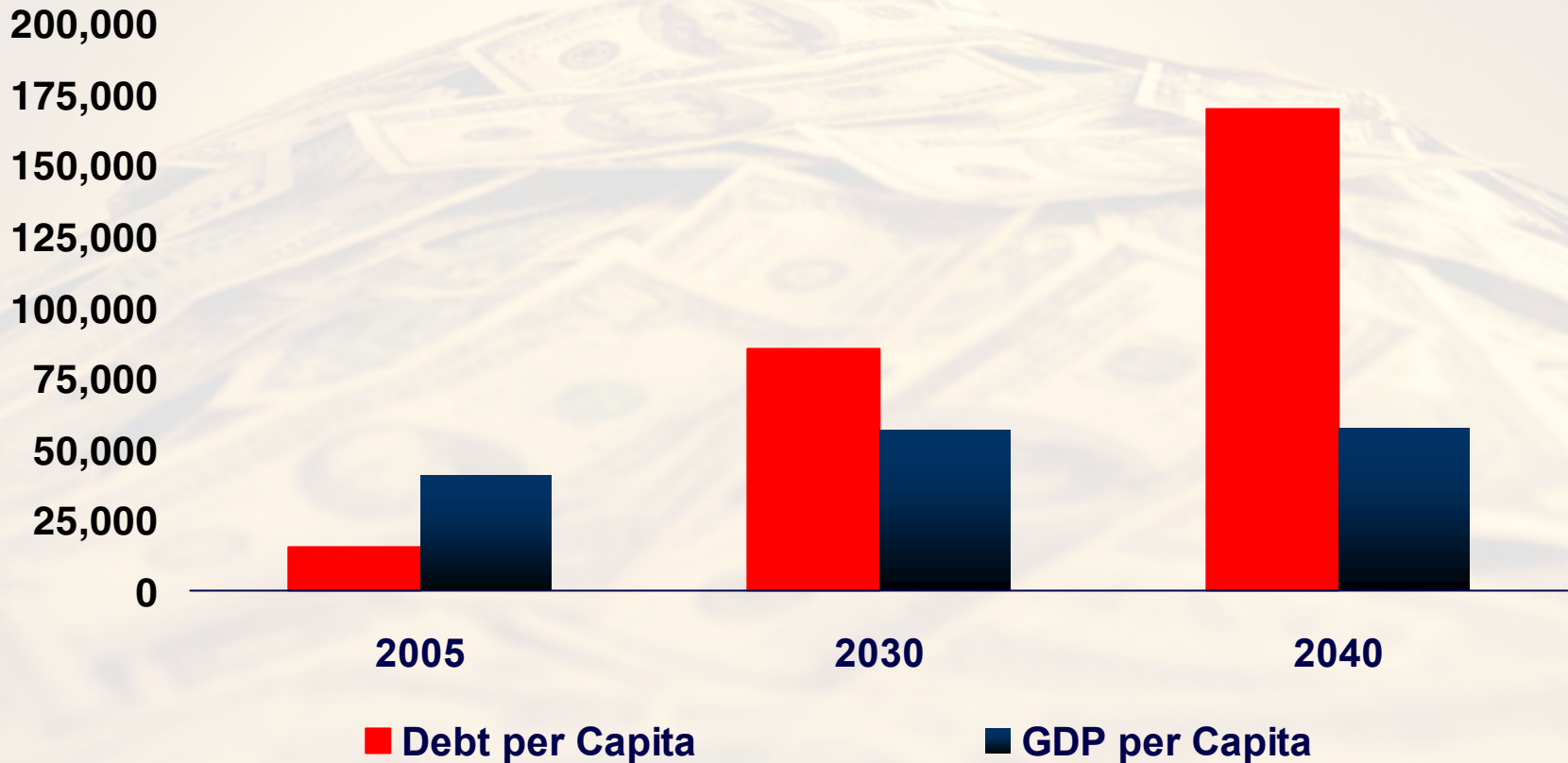
Source: GAO analysis based on data from the Office of the Chief Actuary, Social Security Administration, Office of the Actuary, Centers for Medicare and Medicaid Services, and the Congressional Budget Office.

Notes: Social Security and Medicare projections based on the intermediate assumptions of the 2006 Trustees' Reports. Medicaid projections based on CBO's August 2006 short-term Medicaid estimates and CBO's December 2005 long-term Medicaid projections under mid-range assumptions.

Debt per Capita Could Exceed GDP Per Capita by 2030

Assuming Discretionary Spending Grows with GDP after 2006 and All Expiring Tax Provisions are Extended

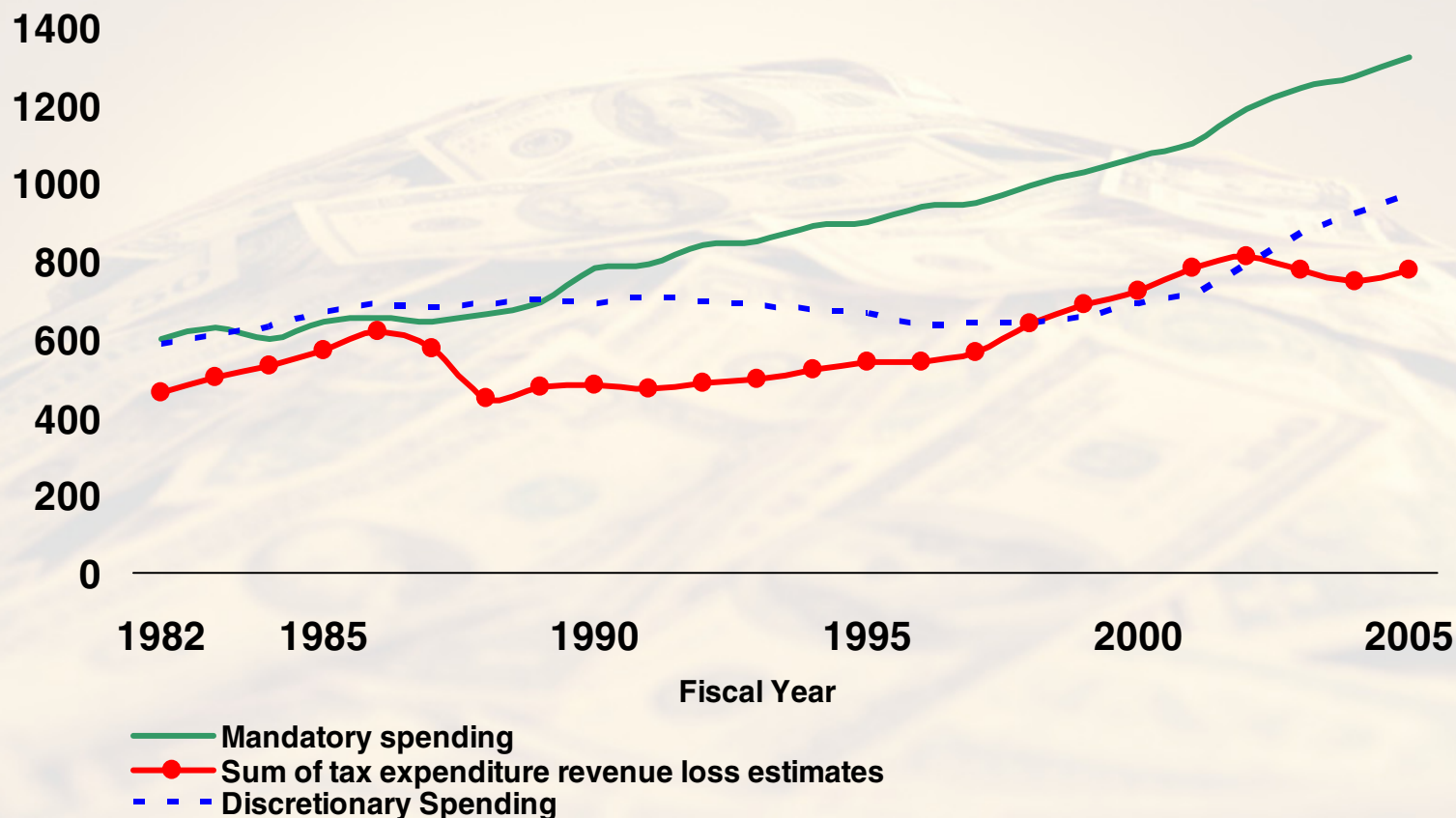
Per capita 2005 dollars



Source: GAO's August 2006 analysis.

Federal Tax Expenditures Exceeded Discretionary Spending for Half of the Last Decade

Dollars in billions (in real 2005 dollars)

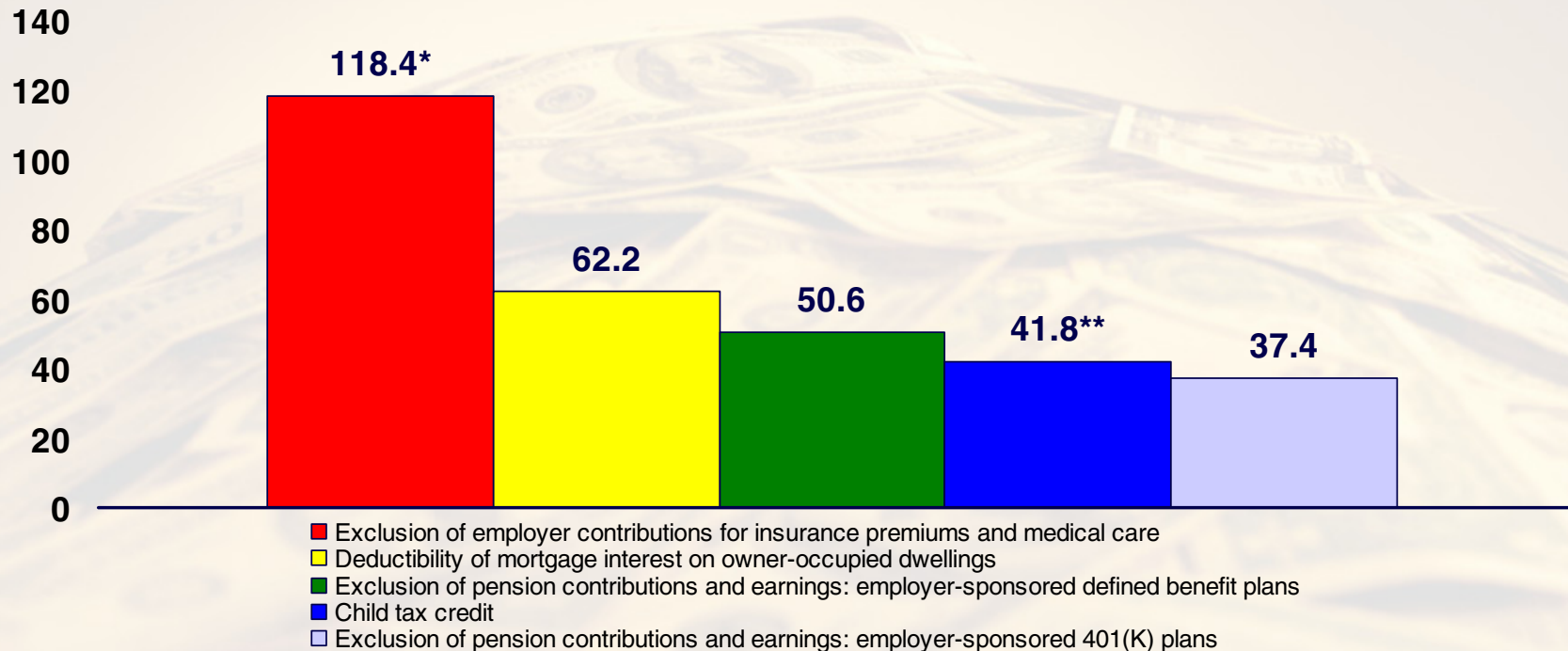


Note: Summing tax expenditure estimates does not take into account interactions between individual provisions. Outlays associated with refundable tax credits are included in mandatory spending.

Source: GAO analysis of OMB budget reports on tax expenditures, fiscal years 1976-2007.

Health Care Is the Nation's Top Tax Expenditure in Fiscal Year 2005

Estimated dollars in billions



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

*If 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 \$177.6 billion.

**This is the revenue loss and does not include associated outlays of \$14.6 billion.

Source: Office of Management and Budget (OMB), *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2007*.

Current Fiscal Policy Is Unsustainable

- **The “Status Quo” is Not an Option**

- We face large and growing structural deficits largely due to known demographic trends and rising health care costs.
- GAO’s simulations show that balancing the budget in 2040 could require actions as large as
 - Cutting total federal spending by 60 percent or
 - Raising federal taxes to 2 times today's level

- **Faster Economic Growth Can Help, but It Cannot Solve the Problem**

- Closing the current long-term fiscal gap based on reasonable assumptions would require real average annual economic growth in the double digit range every year for the next 75 years.
- During the 1990s, the economy grew at an average 3.2 percent per year.
- As a result, we cannot simply grow our way out of this problem. Tough choices will be required.

The Way Forward: A Three-Pronged Approach

- 1. Improve Financial Reporting, Public Education, and Performance Metrics**
- 2. Strengthen Budget and Legislative Processes and Controls**
- 3. Fundamental Reexamination & Transformation for the 21st Century (i.e., entitlement programs, other spending, and tax policy)**

*Solutions Require Active Involvement from
both the Executive and Legislative Branches*

The Way Forward

Improve Financial Reporting, Public Education, and Performance Metrics

- **Improve transparency & completeness of President's budget proposal:**
 - Return to 10-year estimates in budget both for current policies and programs and for policy proposals
 - Include in the budget estimates of long-term cost of policy proposals & impact on total fiscal exposures
 - Improve transparency of tax expenditures
- **Consider requiring President's budget to specify a path to on-budget balance within 10-year window or explain the selection of an alternative deadline**
- **Require annual OMB report on existing fiscal exposures [liabilities, obligations, explicit & implied commitments]**
- **Require enhanced financial statement presentation and preparation of summary annual report that is both useful and used**
- **Develop key national (outcome-based) indicators (e.g., economic, security, social, environmental) to chart the nation's position, progress, and position relative to the other major industrial countries**

The Way Forward:

Strengthen Budget and Legislative Processes and Controls

- Restore discretionary spending caps & PAYGO rules on both sides of the ledger
- Develop mandatory spending re-examination triggers and other action-forcing provisions (e.g., sunsets) for both direct spending programs and tax preferences
- Develop, impose & enforce modified rules for selected items (e.g., earmarks, emergency designations, and use of supplementals)
- Require present value cost estimates for any legislative debate on all major tax and spending bills, including entitlement programs. Cost estimates should usually assume no sunset
- Extend accrual budgeting to insurance & federal employee pensions; develop techniques for extending to retiree health & environmental liabilities
- Consider biennial budgeting
- Consider expedited line item rescissions from the President that would only require a majority vote to override the proposed rescission(s)

The Way Forward: Fundamental Reexamination & Transformation

- Restructure existing entitlement programs
- Reexamine and restructure the base of all other spending
- Review & revise existing tax policy, including tax preferences and enforcement programs
- Expand scrutiny of all proposed new programs, policies, or activities
- Reengineer internal agency structures and processes, including more emphasis on long-term planning, integrating federal activities, and partnering with others both domestically and internationally
- Strengthen and systematize Congressional oversight processes
- Increase transparency associated with government contracts and other selected items
- Consider a capable, credible, bi-partisan entitlement and tax reform commission along the lines proposed by Sen. Voinovich and Cong. Wolf

Financial Literacy: The Ability to Make Informed Judgments and Manage Money Effectively

Financial Literacy is important to understanding one's own finances as well as the government's

What does financial literacy mean in the context of one's own finances?

- Developing a personal budget and sticking to it
- Understanding certain basic concepts, such as not consistently spending more than you make and the power of compounding
- Understanding basic banking options and principles (e.g., checking v. savings accounts, differences in interest rates and bank fees)
- Making prudent use of credit and minimizing interest accumulation on credit card debt
- Having adequate savings for unexpected health shocks or life crises (e.g., job loss)
- Recognizing when to file a longer tax form, including which tax deductions (e.g., mortgage interest, property taxes, charitable contributions) and credits (e.g., child care) apply; understanding how tax forms are prepared; and knowing when to seek professional help
- Understanding student loan options and repayment plans
- Understanding and maximizing savings (e.g., health, college) and investment vehicles, including related tax provisions and when to seek professional help
- Knowing about, participating in, and preserving savings from retirement accounts
- Building equity through real-estate and understanding the various financing options and related risks
- Caring for dependents today and in the future (e.g., financing child care and/or long-term care)
- Understanding when to seek assistance for estate planning

Financial Literacy: The Ability to Make Informed Judgments and Manage Money Effectively

What does financial literacy mean in the context of the government's finances?

- Understanding how the budget is formulated
- Understanding the basic make-up of the budget, including major and minor revenue sources and spending programs
- Recognizing the difference between discretionary and mandatory spending
- Knowing the impact of earmarks and supplementals
- Being cognizant of the short and long term fiscal forecasts
- Knowing the difference between the unified cash based-deficit, the operating deficit, and the accrual deficit
- Understanding what federal “trust funds” are and are not
- Understanding the difference between tax cuts that stimulate the economy and those that pay for themselves
- Being mindful of the potential implications of excessive debt finance
- Recognizing the additional risk imposed on foreign investors
- Understanding inflation and the impact of changing interest rates

Why Improving Financial Literacy is Important

Financial literacy is important for three key reasons:

- The number and complexity of financial products have grown tremendously, and consumers face an increasing array of options for managing their personal finances
- Technological advances have increased the capacity for targeted marketing to consumers, which may increase some consumers' vulnerability to fraudulent financial products
- Workers today are increasingly responsible for managing their own retirement savings—yet at the same time, the nation's personal saving rate has fallen dramatically in recent decades, and household debt hovers at record high levels

Ensuring that Americans have the knowledge and skills to manage their money wisely is a key element in improving the economic health of our nation in current and future generations

The Financial Literacy and Education Commission

- The Financial Literacy and Education Commission was created by the 2003 Financial Literacy and Education Improvement Act
- The Commission is chaired by the Treasury Department, is comprised of 20 federal agencies, and was charged with developing and implementing a national strategy for financial literacy
- In fiscal year 2005, Congress provided the Commission \$1 million to develop and implement the national strategy
- The act also mandated that GAO assess the Commission's effectiveness in promoting financial literacy and education

GAO's Recent Report on the Financial Literacy and Education Commission

GAO's December 2006 report on the Commission (GAO-07-100) found that:

- **The strategy is comprehensive in scope and serves as a useful first step in focusing the public's attention on this issue, but it does not:**
 - Set clear and specific goals or performance measures by which to benchmark progress
 - Address the resources needed to accomplish these goals
 - Fully discuss appropriate roles, responsibility, and accountability for achieving them
- **The Commission's website and telephone hotline offer financial information from federal agencies, but the Commission has not tested its public website for usability and has not measured users' satisfaction**
- **The Commission has taken steps to promote partnerships but the impact of these efforts is unclear**

Extent to Which *The National Strategy for Financial Literacy* Addresses GAO's Desirable Characteristics of a National Strategy

Desirable Characteristic	Generally Addresses	Partially Addresses	Does Not Address
Clear purpose, scope, and methodology	X		
Detailed discussion of problems and risks		X	
Desired goals, objectives, activities, and performance measures		X	
Description of future costs and resources needed		X	
Organizational roles, responsibilities, and coordination		X	
Description of integration with other entities		X	

GAO's Recent Report on the Financial Literacy and Education Commission (cont'd)

GAO recommends that the Commission:

- **Incorporate additional elements into the national strategy to help measure results and ensure accountability** (e.g., a concrete definition for financial literacy and education to help define the scope of work and clear, specific goals and performance measures that would serve as indicators of the nation's progress in improving financial literacy)
- **Conduct usability tests of and measure customer satisfaction with its Web site** (e.g., measure the quality of users' experiences with the site and consider online surveys, focus groups, or email feedback forms)
- **Independently review for duplication and evaluate the effectiveness of federal activities** (e.g., provide for an independent third party assessment)
- **Expand upon current efforts to cultivate sustainable partnerships with nonprofit and private entities** (e.g., expand current relationships or develop new ones and engage state and local governments as well)

GAO's Efforts to Increase Financial Literacy

- Conducting sessions and providing materials to new and current members of Congress to emphasize the need for fiscal responsibility
- Testifying before Congress
- Participating in interviews with C-SPAN, Bloomberg, Marketplace, CNBC, Federal News Radio, and others on key budget and oversight concepts
- Discussing the fiscal condition during speeches and presentations
- Meeting with editorial boards across the country and writing opinion pieces for major newspapers
- Hosting a Comptroller General Forum on Financial Literacy in November 2004, which resulted in a written product, GAO-05-93SP
- Supporting the efforts of the AICPA's *360° of Financial Literacy Campaign*
- Coordinating with Public Agenda and Viewpoint Learning
- Participating in the Fiscal Wake-up Tour

The Fiscal Wake-up Tour

Objectives: To state the facts and speak the truth regarding the nation's current financial condition and long-term fiscal outlook in order to increase public awareness and accelerate actions by appropriate federal, state, and local officials

Structure: A partnership with the Concord Coalition, the Heritage Foundation, the Brookings Institute, GAO, and others

Timing: Began in September, 2005 and expected to continue at least through the 2008 Presidential elections

An upcoming segment of 60 Minutes is planned for early 2007 to highlight the tour

Fiscal Wake-up Tour: Where We've Been

2005

Richmond, VA • Minneapolis, MN • Portland, OR

2006

Atlanta, GA • Raleigh, NC • Omaha, NE • Kansas City, KS

Wilmington, DE • Philadelphia, PA • San Diego, CA

Washington, DC • Nashville, TN • Austin, TX • Chicago, IL

Denver, CO • Seattle, WA

***Details on our website - <http://www.gao.gov>
under “Fiscal Wake-up Tour”***

Fiscal Wake-up Tour: Where We're Headed

Date	Location	Host
January 10	Columbus, Ohio	The John Glenn Institute for Public Service and Public Policy at The Ohio State University
February 1	Des Moines, Iowa	Drake University
Mid-February	Manchester, New Hampshire	St. Anselm College
February 21 - 22	Miami and "Treasure Coast," Florida	The new Bob Graham Institute at the University of Miami
Early March	Charleston, South Carolina	The League of Women Voters of Greater Charleston
March 14 - March 17	Sacramento and San Francisco, California	TBD

Steps the CPA Community Can Take

Individuals need to be informed about ways to 1) better manage their own finances and 2) understand the fiscal imbalance that our federal government faces

- **What the government can do:**

- Improve its financial reporting
- Prepare and disclose a summary annual report
- Conduct education and discussion forums

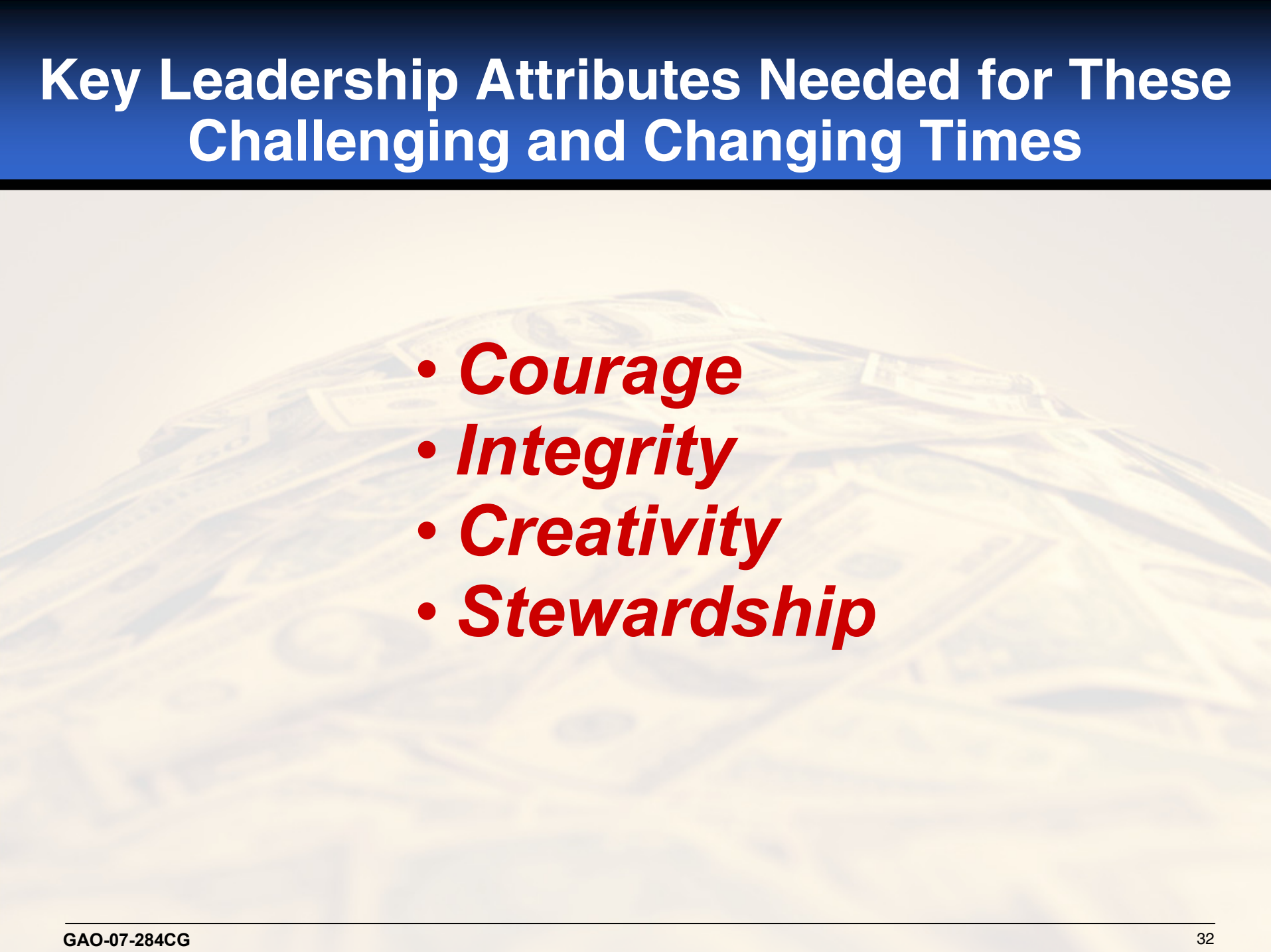
- **What the CPA profession can do**

- Get informed and involved on the current and projected fiscal imbalance
- Communicate with key opinion leaders and elected officials on the importance of fiscal responsibility
- Help your clients and the community revisit their personal financial plans
- Consider the recommendations GAO has made to Treasury on their national strategy and apply GAO's findings and recommendations to your own projects such as *360 Degrees of Financial Literacy* and other web tools

Moving the Debate Forward

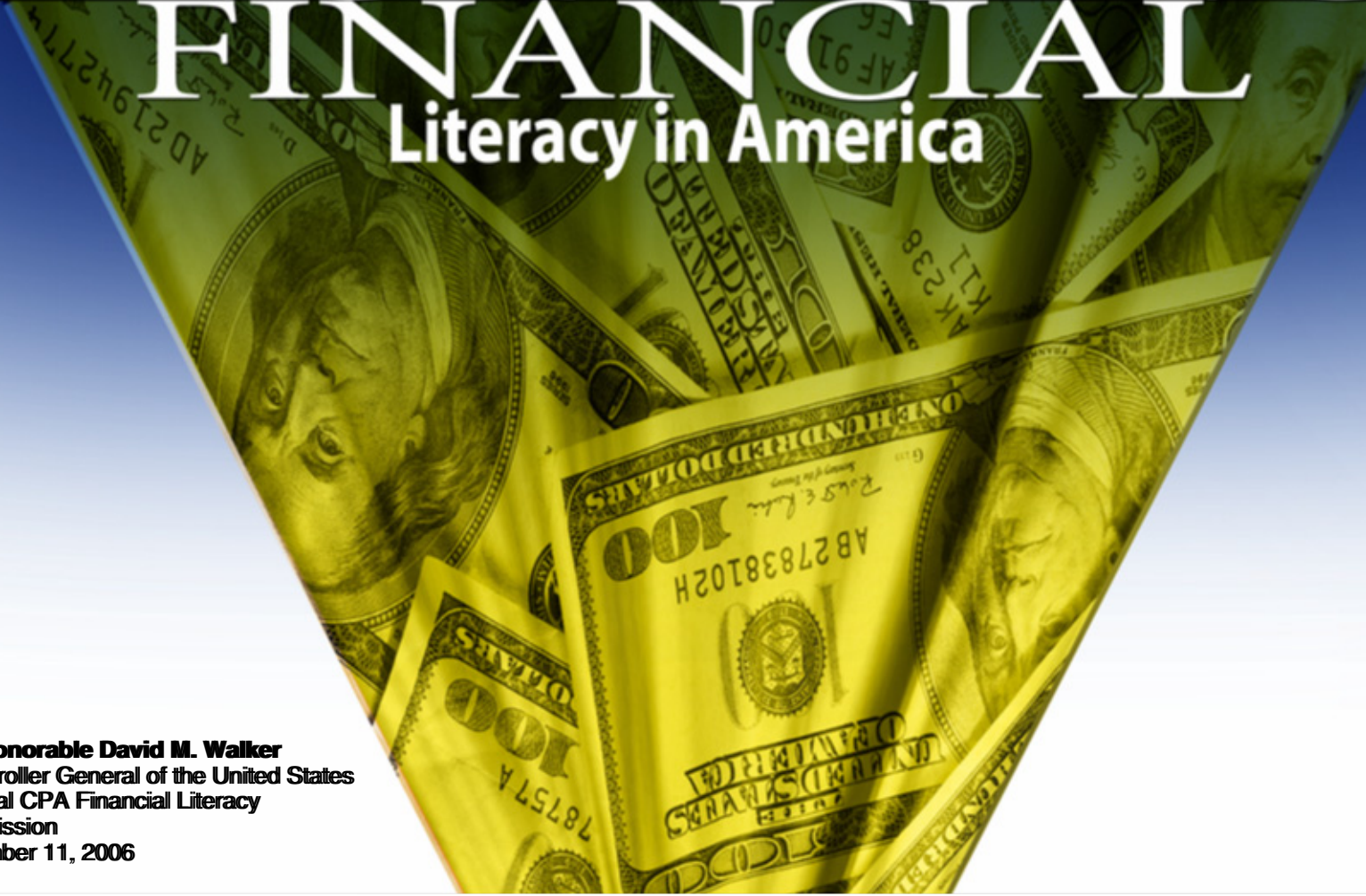
- **The Sooner We Get Started, the Better**
 - The miracle of compounding is currently working against us
 - Less change would be needed, and there would be more time to make adjustments
 - Our demographic changes will serve to make reform more difficult over time
- **Need Public Education, Discussion, and Debate**
 - The role of government in the 21st Century
 - Which programs and policies should be changed and how
 - How government should be financed

Key Leadership Attributes Needed for These Challenging and Changing Times

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

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The Honorable David M. Walker
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On the Web

Web site: www.gao.gov/cghome.htm

Contact

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