

United States Government Accountability Office

Saving
Our Future
requires
Tough Choices Today

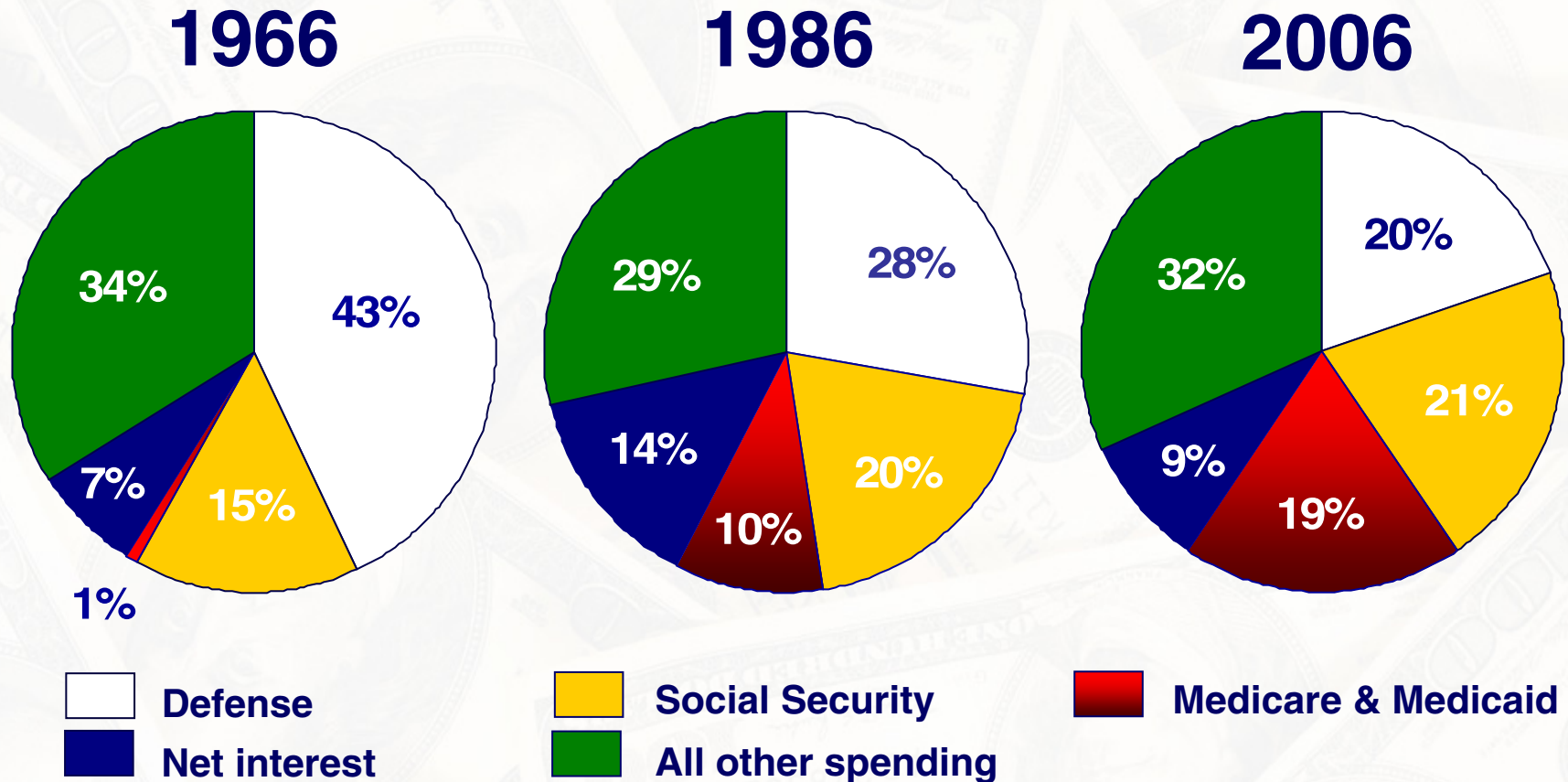
**The Woodrow Wilson School
of Public and International Affairs
Princeton University
Princeton, NJ
February 6, 2008**

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



GAO-08-501CG

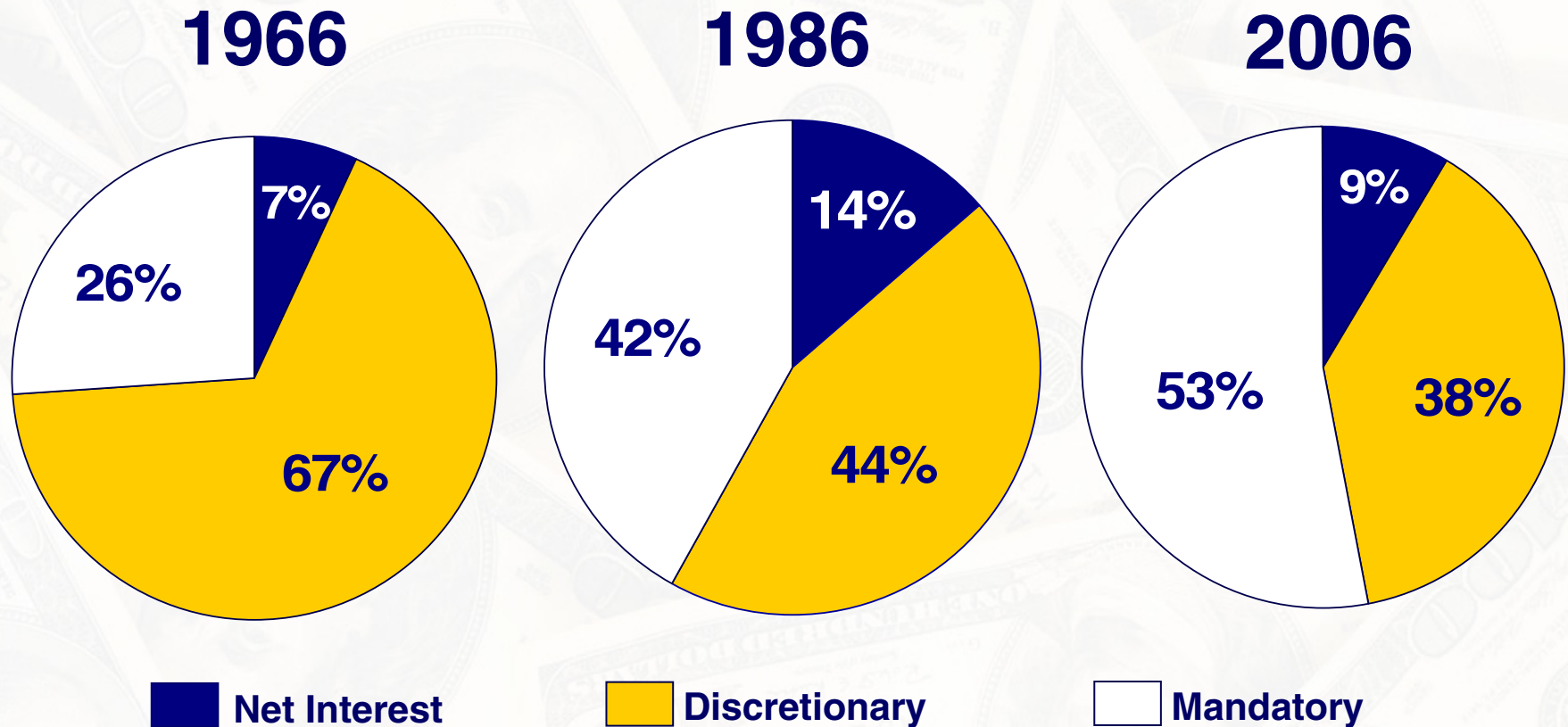
Composition of Federal Spending



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

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

Federal Spending for Mandatory and Discretionary Programs



Source: Office of Management and Budget.

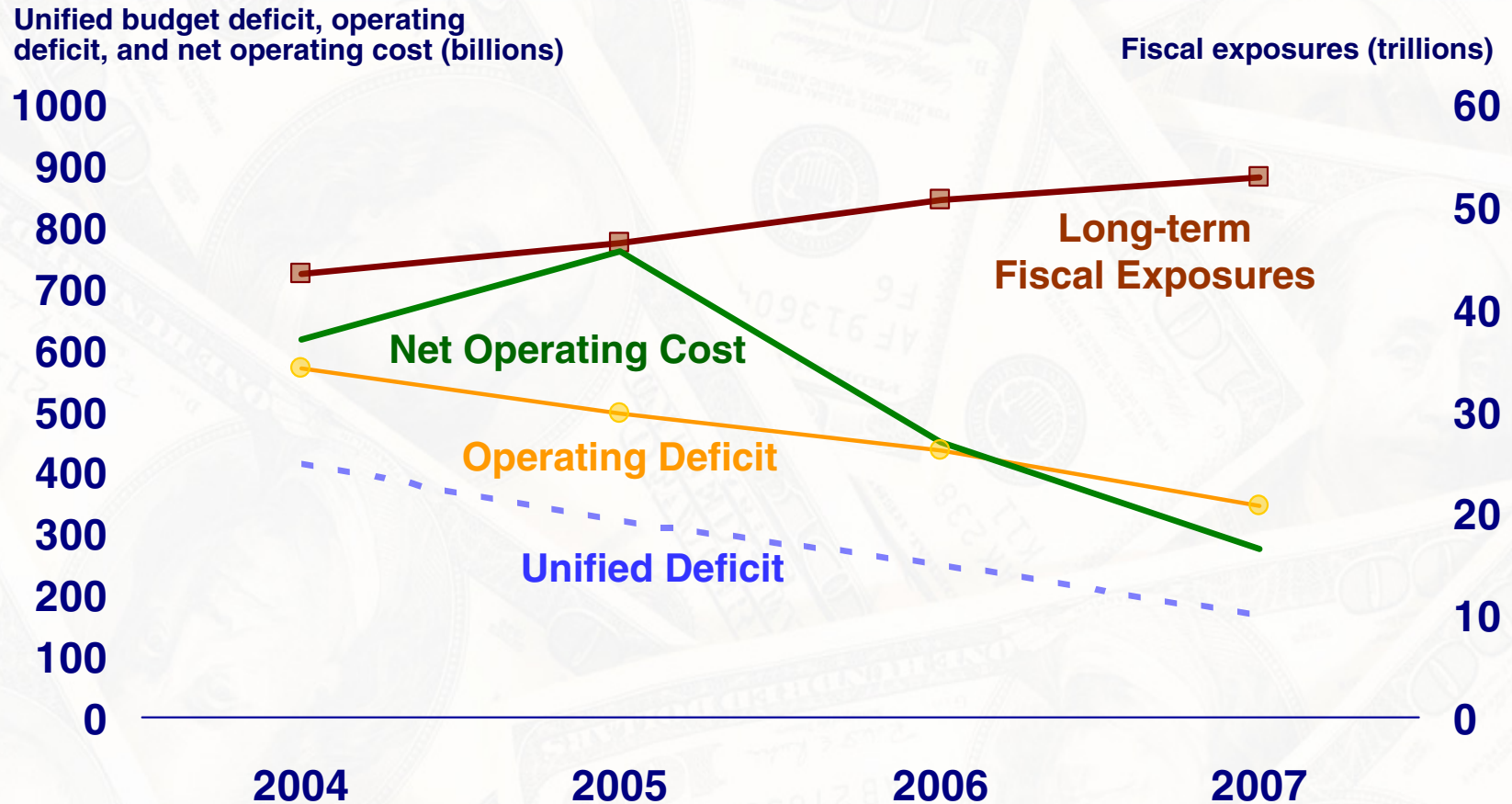
Fiscal Year 2006 and 2007 Deficits and Net Operating Costs

	Fiscal Year 2006	Fiscal Year 2007
	(\$ Billion)	
On-Budget Deficit	(434)	(344)
Unified Deficit^a	(248)	(163)
Net Operating Cost	(450)	(276)

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

^aIncludes \$185 billion in Social Security surpluses for fiscal year 2006 and \$186 billion for fiscal year 2007; \$1 billion in Postal Service surpluses for fiscal year 2006 and a \$5 billion deficit for fiscal year 2007.

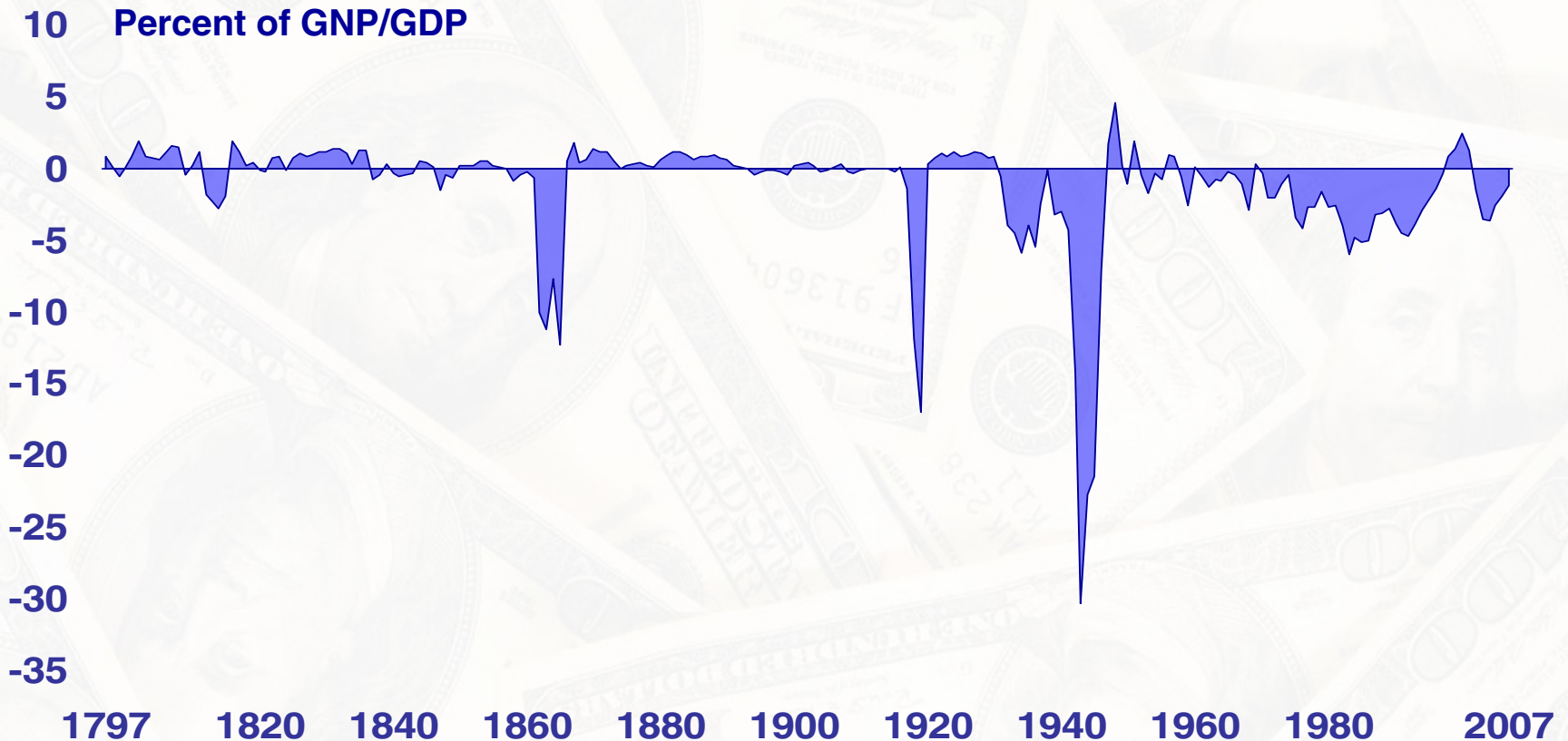
Short-term Fiscal Position versus Long-term Fiscal Exposures



Source: GAO analysis.

Note: Data are from the Congressional Budget Office and the Department of Treasury. Estimates of the federal government's long-term fiscal exposures are based on the Financial Report of the U.S. Government. These estimates include the present value of future social insurance obligations over a 75-year time horizon as of January 1st of the preceding year. These estimates have not been adjusted for inflation.

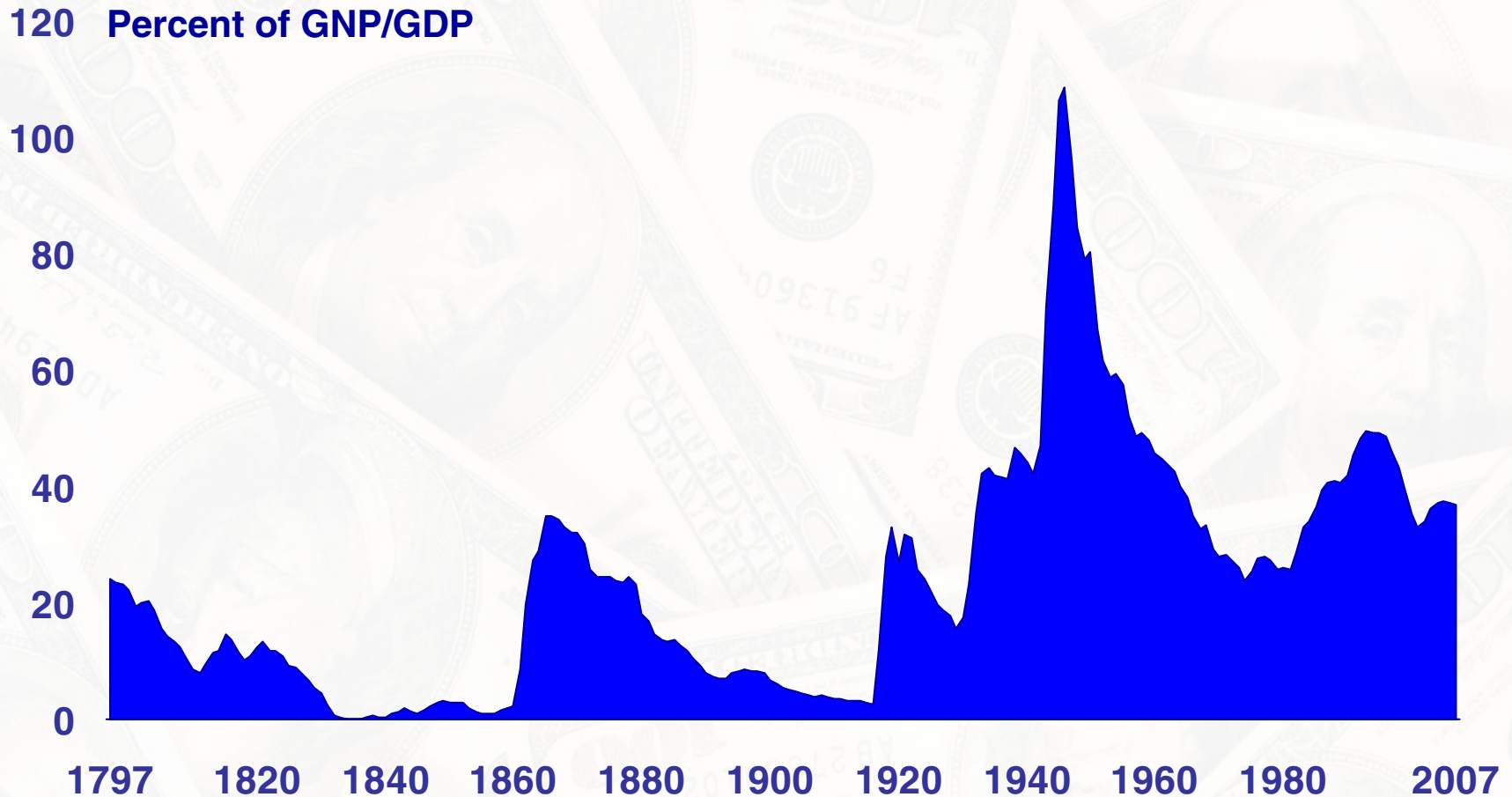
Surplus or Deficit as a Share of GDP (1797-2007)



Source: Department of Commerce, Office of Management and Budget, and Congressional Budget Office.

Note: Data until 1929 are shown as a percent of gross national product (GNP); data from 1930 to present are shown as a percent of GDP.

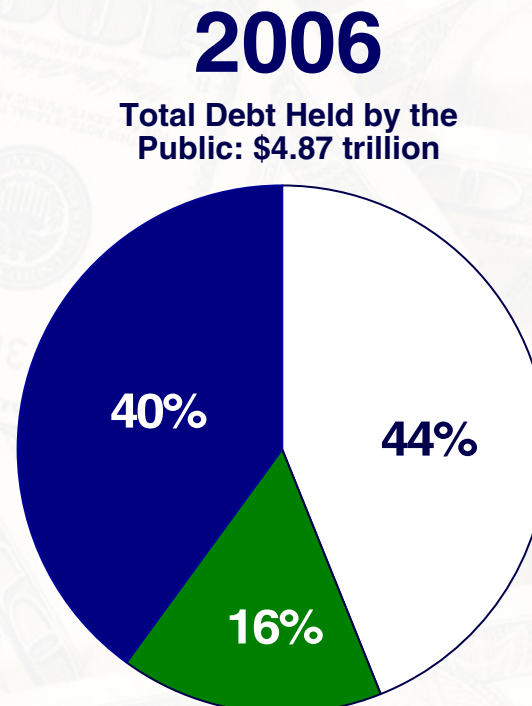
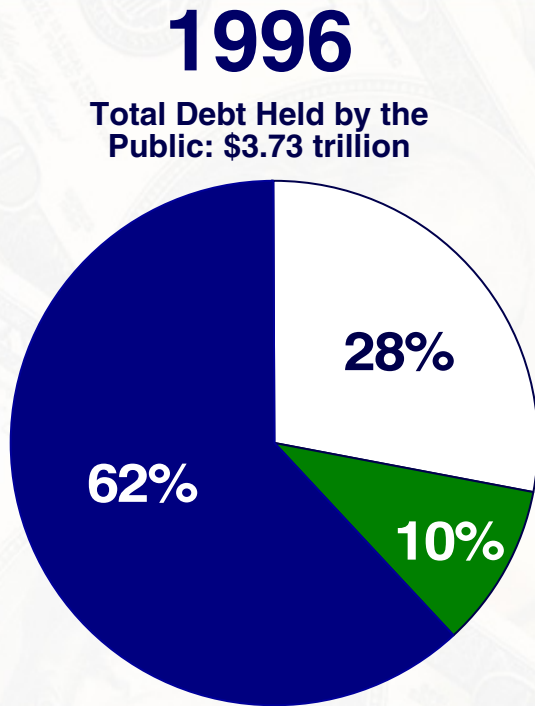
Debt Held by the Public as a Share of GDP (1797-2007)






Source: GAO analysis of data from the Department of Commerce, Office of Management and Budget, and Congressional Budget Office.

Note: Data until 1929 are shown as a percent of gross national product (GNP); data from 1930 to present are shown as a percent of GDP.

Foreign Investors Now Own More of America's Publicly Held Debt



-  Foreign and international investors
-  Federal Reserve
-  Domestic investors and state and local governments

Source: Department of the Treasury.

Major Fiscal Exposures

(\$ trillions)

	2000	2007	% Increase
• Explicit liabilities	\$6.9	\$10.8	57
<ul style="list-style-type: none"> • Publicly held debt • Military & civilian pensions & retiree health • Other 			
• Commitments & contingencies	0.5	1.1	97
<ul style="list-style-type: none"> • E.g., PBGC, undelivered orders 			
• Implicit exposures	13.0	40.8	213
<ul style="list-style-type: none"> • Future Social Security benefits 	3.8	6.8	
<ul style="list-style-type: none"> • Future Medicare Part A benefits 	2.7	12.3	
<ul style="list-style-type: none"> • Future Medicare Part B benefits 	6.5	13.4	
<ul style="list-style-type: none"> • Future Medicare Part D benefits 	--	8.4	
Total	\$20.4	\$52.7	158

Source: 2000 and 2007 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	\$52.7 trillion
Total household net worth¹	\$58.6 trillion
Burden/Net worth ratio	90 percent
Burden²	
Per person	\$175,000
Per full-time worker	\$410,000
Per household	\$455,000
Income	
Median household income³	\$48,201
Disposable personal income per capita⁴	\$33,253

Source: GAO analysis.

Notes: (1) Federal Reserve Board, Flow of Funds Accounts, Table B.100, 2007:Q3 (December 6, 2007); (2) Burdens are calculated using estimated total U.S. population as of 10/1/2007, from the U.S. Census Bureau; full-time workers reported by the Bureau of Economic Analysis, in NIPA table 6.5D (Aug. 1, 2007); and households reported by the U.S. Census Bureau, in Income, Poverty, and Health Insurance Coverage in the United States: 2006 (Aug. 2007); (3) U.S. Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States: 2006 (Aug. 2007); and (4) Bureau of Economic Analysis, Personal Income and Outlays, table 2, (Nov. 29, 2007).

Potential Fiscal Outcomes

Under Baseline Extended (January 2001)

Revenues and Composition of Spending as a Share of GDP

Percent of GDP

50

40

30

20

10

0

Revenue

2005

2015^a

2030^a

2040^a

Fiscal year

■ Net interest

■ Social Security

■ Medicare & Medicaid

■ All other spending

Source: GAO's January 2001 analysis.

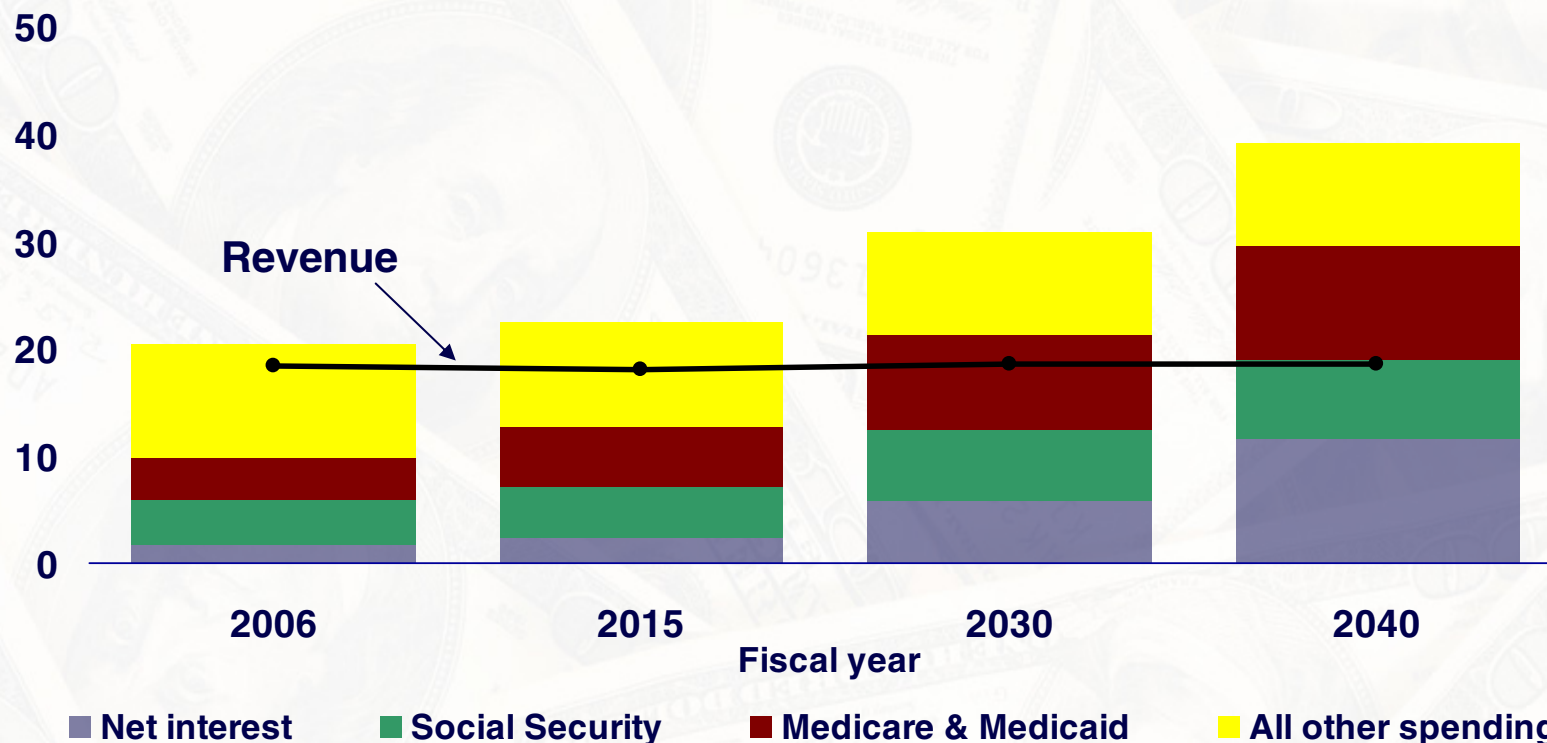
^aAll other spending is net of offsetting interest receipts.

Potential Fiscal Outcomes

Under Alternative Simulation

Revenues and Composition of Spending as a Share of GDP

Percent of GDP

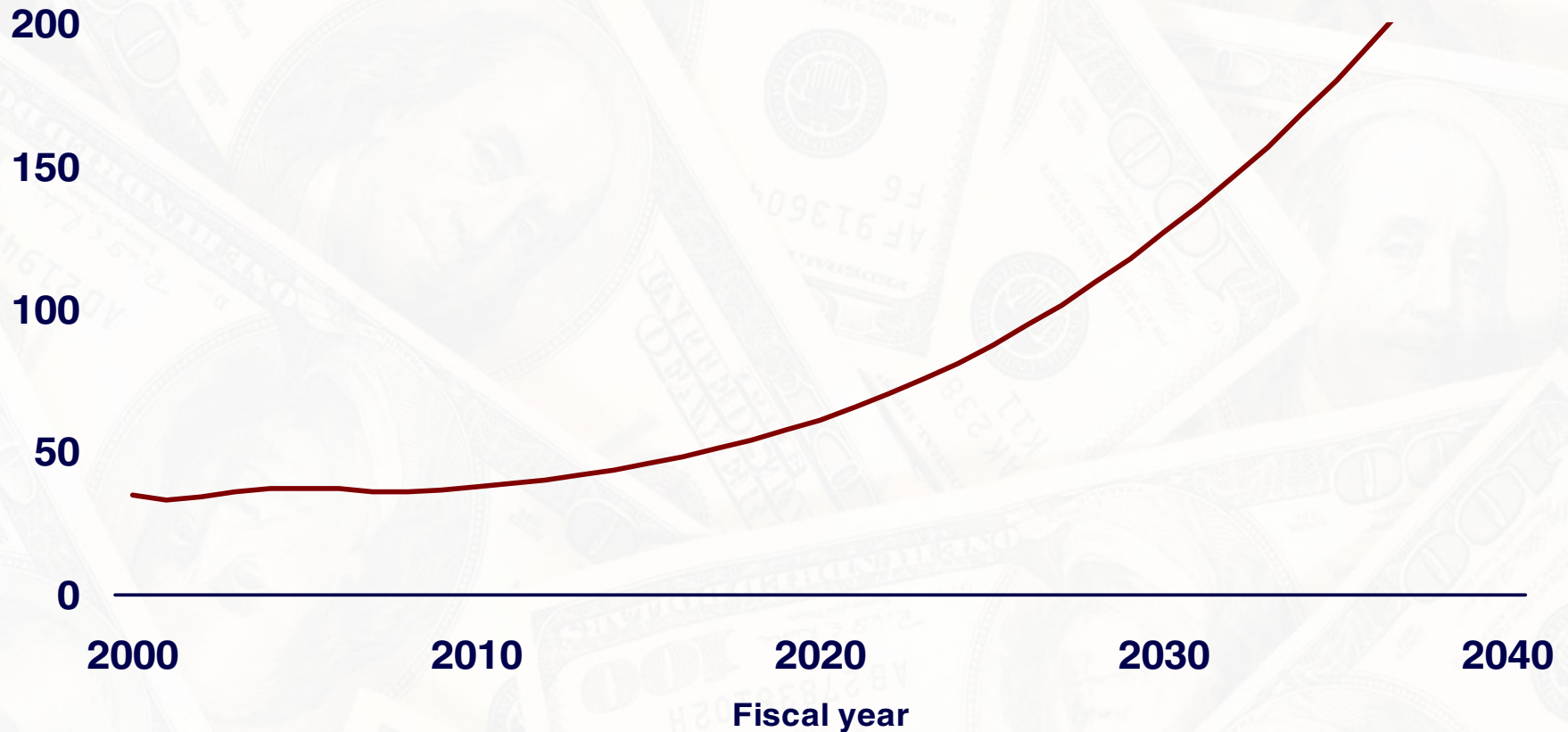


Source: GAO's August 2007 analysis.

Notes: AMT exemption amount is retained at the 2006 level through 2017 and expiring tax provisions are extended. After 2017, revenue as a share of GDP returns to its historical level of 18.3 percent of GDP plus expected revenues from deferred taxes, i.e. taxes on withdrawals from retirement accounts. Medicare spending is based on the Trustees April 2007 projections adjusted for the Centers for Medicare and Medicaid Services alternative assumption that physician payments are not reduced as specified under current law.

Debt Held by the Public Under GAO's Alternative Simulation

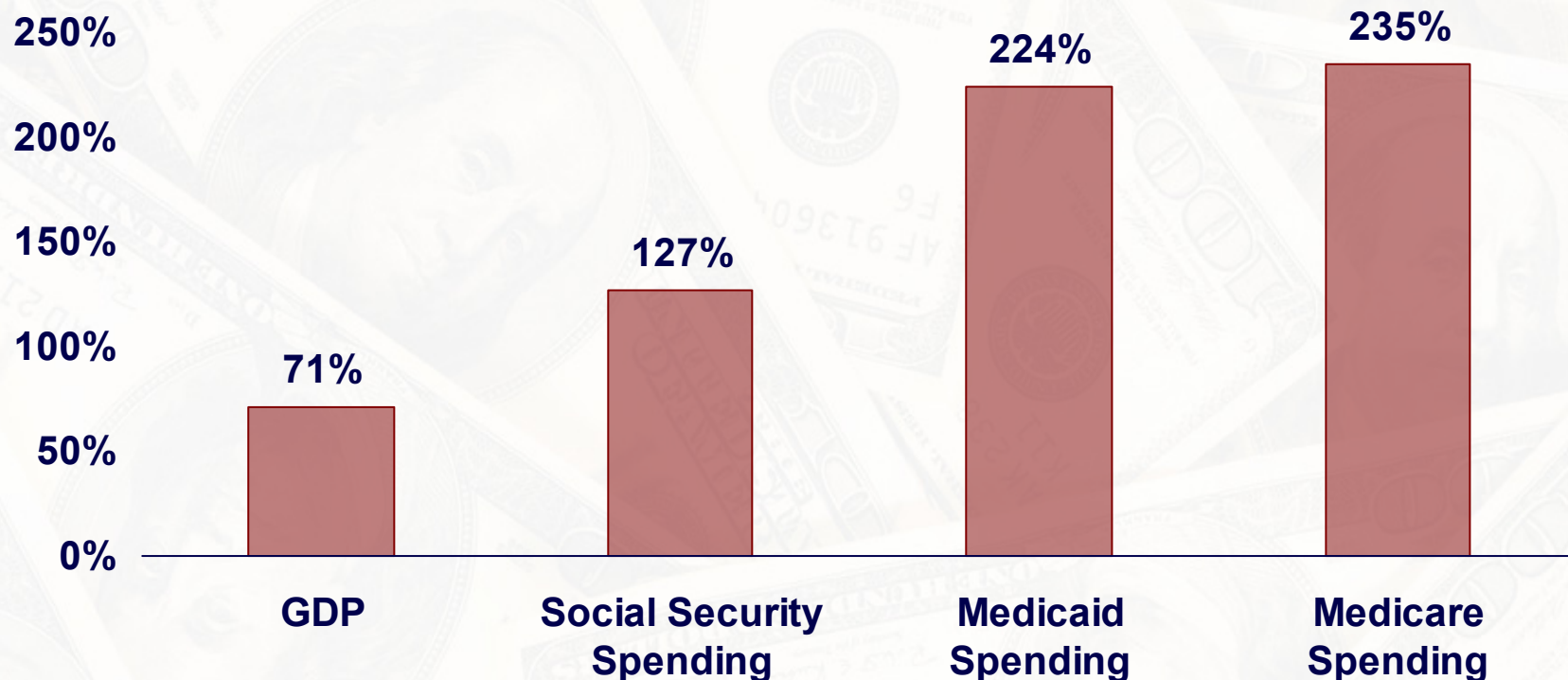
Percent of GDP



Source: GAO's August 2007 analysis.

Growth in Spending for Social Security, Medicare, and Medicaid Expected to Outpace Economic Growth

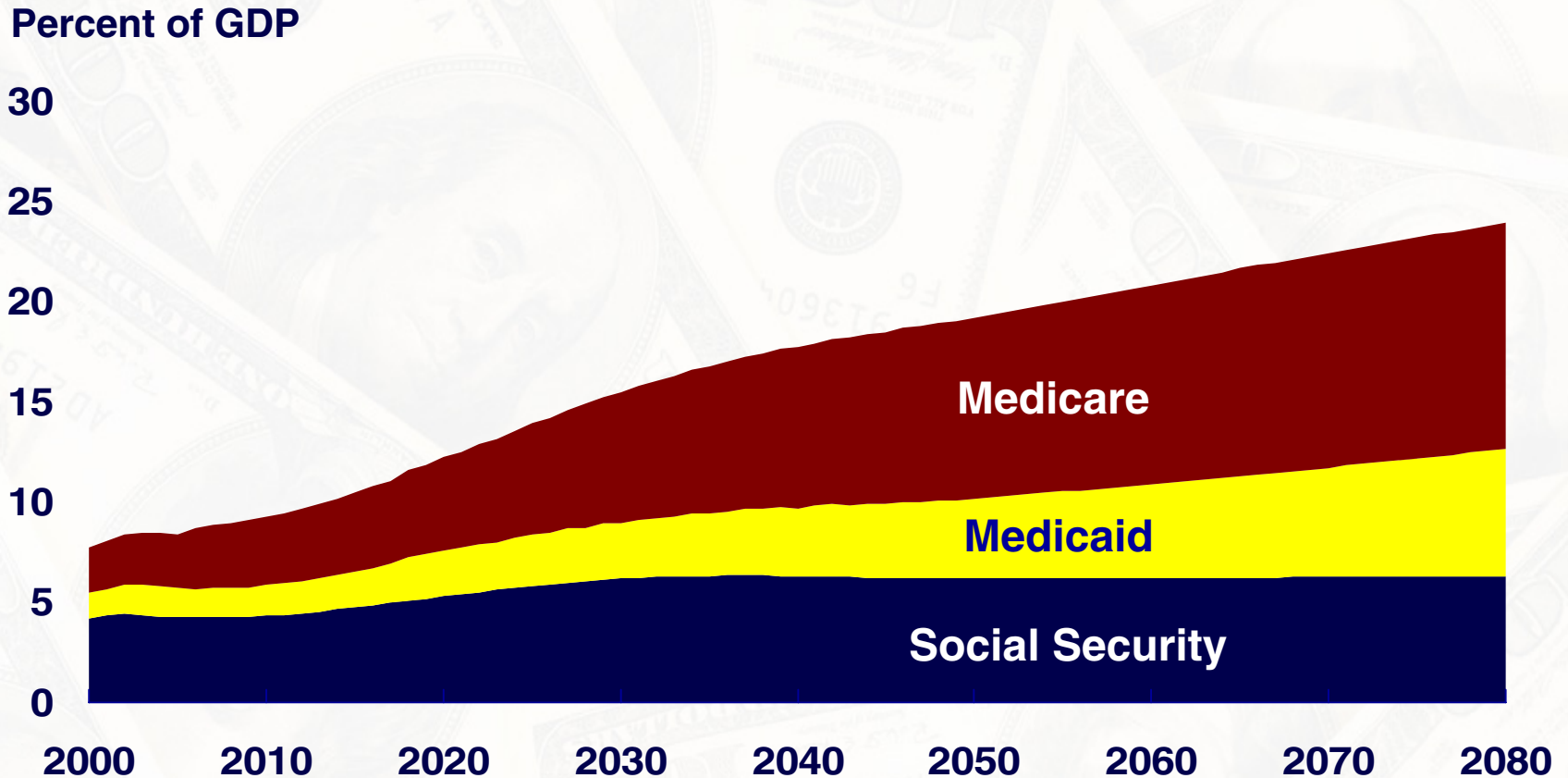
Growth in constant dollars 2007-2032



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 2007 Trustees' Reports. Medicaid projections based on CBO's August 2007 short-term Medicaid estimates and CBO's December 2005 long-term Medicaid projections under mid-range assumptions.

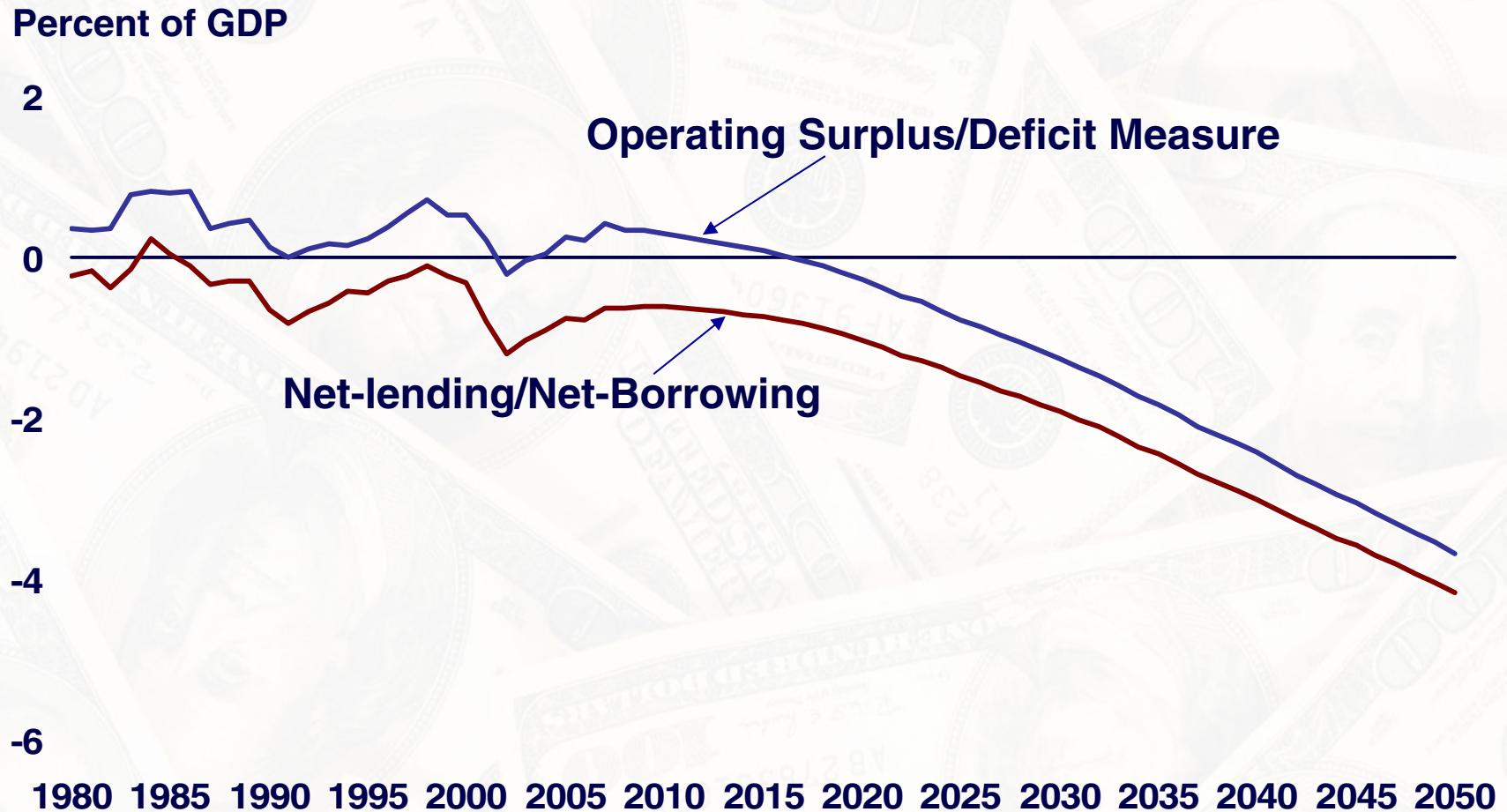
Social Security, Medicare, and Medicaid Spending as a Percent of GDP



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.

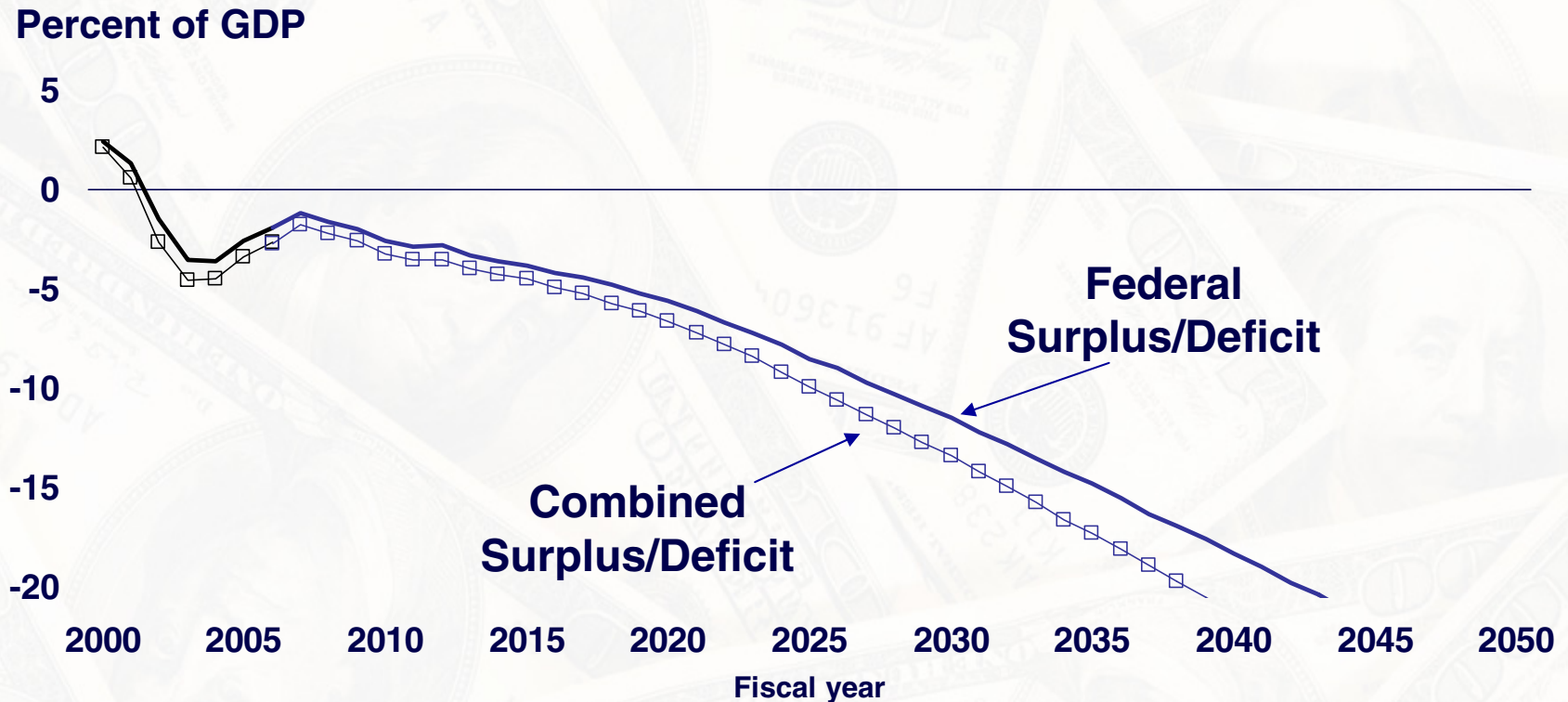
Note: Social Security and Medicare projections based on the intermediate assumptions of the 2007 Trustees' Reports. Medicaid projections based on CBO's August 2007 short-term Medicaid estimates and CBO's December 2005 long-term Medicaid projections under mid-range assumptions.

State and Local Governments Face Increasing Fiscal Challenges



Sources: Historical data from National Income and Product Accounts. Historical data from 1980 – 2006, GAO projections from 2007– 2050 using many CBO projections and assumptions, particularly for next 10 years.

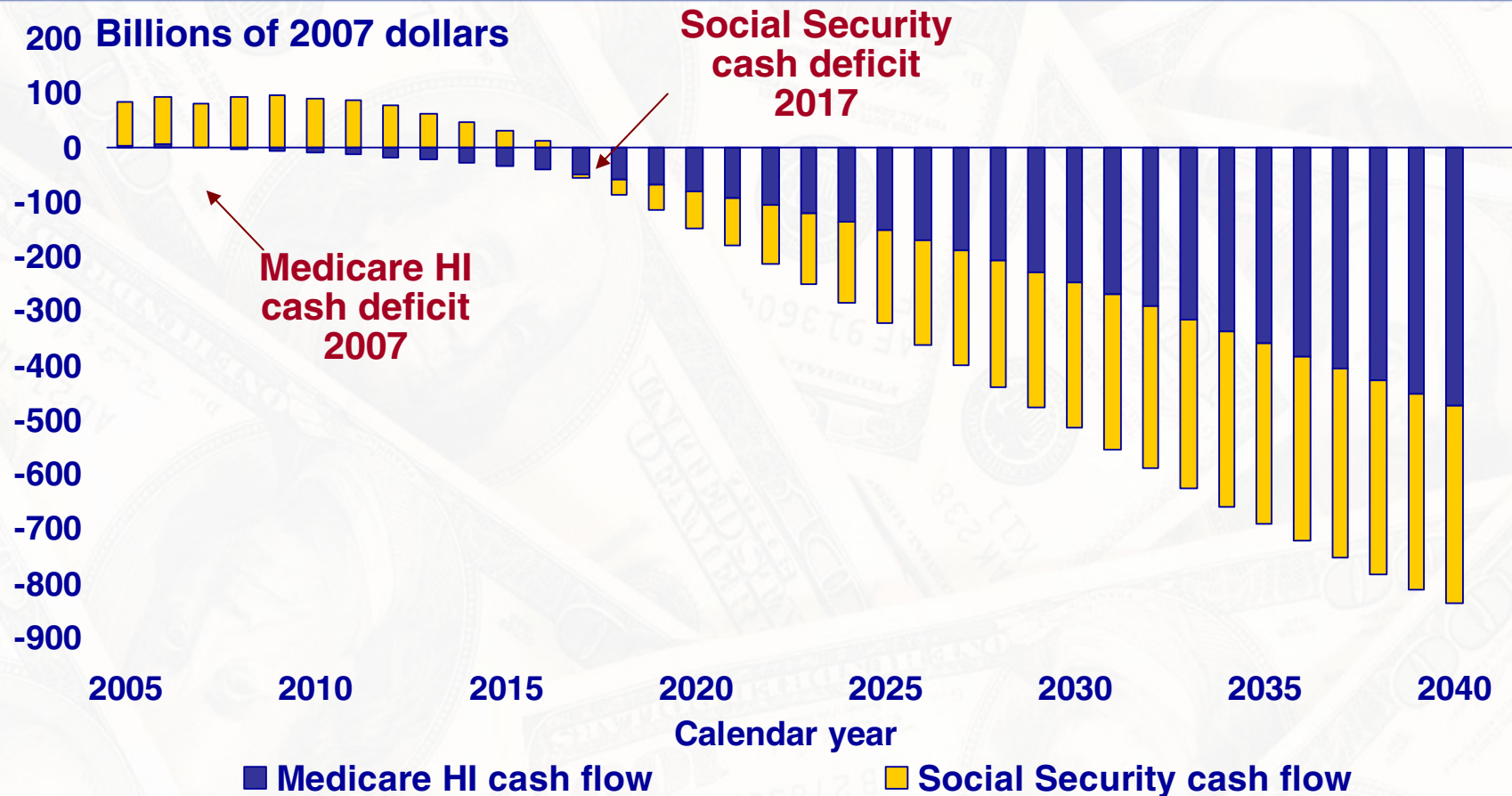
State and Local Fiscal Challenges Add to the Federal Government's Fiscal Challenge



Source: Historical data from National Income and Product Accounts, GAO Analysis.

Note: Historical data from 2000 – 2006, projections from 2007 – 2050; state and local balance measure is similar to the federal unified budget measure. Federal Simulation Assumptions: Discretionary spending grows with GDP after 2007. AMT exemption amount is retained at the 2006 level through 2017 and expiring tax provisions are extended. After 2017, revenue as a share of GDP returns to its historical level of 18.3 percent of GDP plus expected revenues from deferred taxes, i.e., taxes on withdrawals from retirement accounts. Medicare spending is based on the Trustees' April 2007 projections adjusted for the Centers for Medicare and Medicaid Services' alternative assumption that physician payments are not reduced as specified under current law.

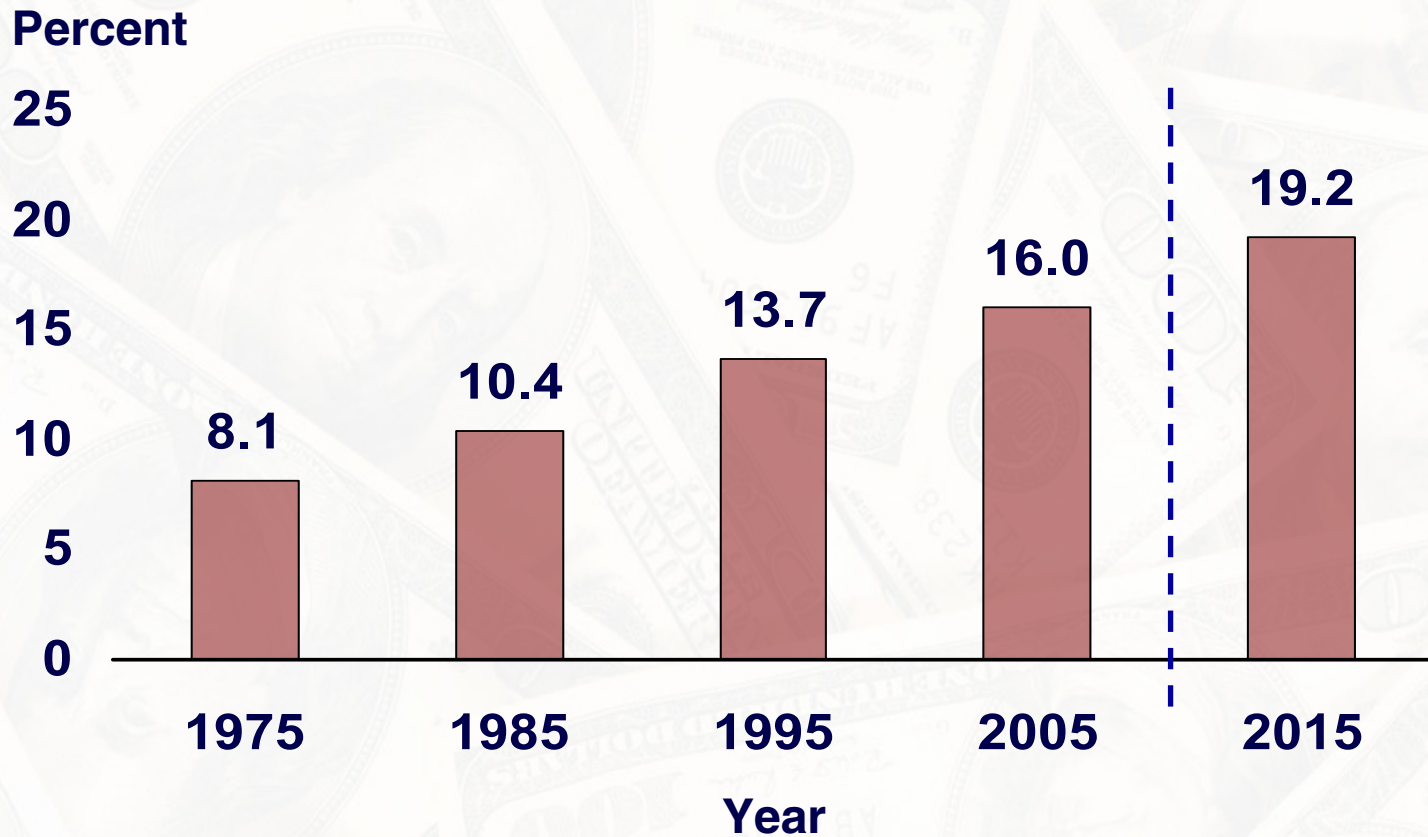
Social Security and Medicare's Hospital Insurance Trust Funds Face Cash Deficits



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.

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.

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

On the Web

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

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