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NATIONAL SAVING

Current Saving Decisions Have Profound Implications for Our Nation's Future Well-Being

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GAO-06-628T

Highlights of GAO-06-628T, a testimony to Subcommittee on Long-term Growth and Debt Reduction, Committee on Finance, United States Senate

April 6, 2006

NATIONAL SAVING

Current Saving Decisions Have Profound Implications for Our Nation's Future Well-Being

Why GAO Did This Study

The Chairman of the Senate Committee on Finance asked GAO to testify on our nation's low saving and discuss the implications for long-term economic growth.

National saving—the portion of a nation's current income not consumed—is the sum of saving by households, businesses, and all levels of government. National saving represents resources available for investment to replace old factories and equipment and to buy more and better capital goods. Higher saving and investment in a nation's capital stock contribute to increased productivity and stronger economic growth over the long term.

What GAO Recommends

GAO does not make any recommendations but lays out a few ideas for how the federal government can help increase national saving. The only sure way for the government to increase national saving is to reduce the budget deficit, which will require a three-pronged approach: restructure existing entitlement programs, reexamine the base of discretionary and other spending, and review and revise existing tax policy, including tax expenditures, which can operate like mandatory spending programs. The federal government can also explore saving incentives and education programs to encourage personal saving.

www.gao.gov/cgi-bin/getrpt?GAO-06-628T.

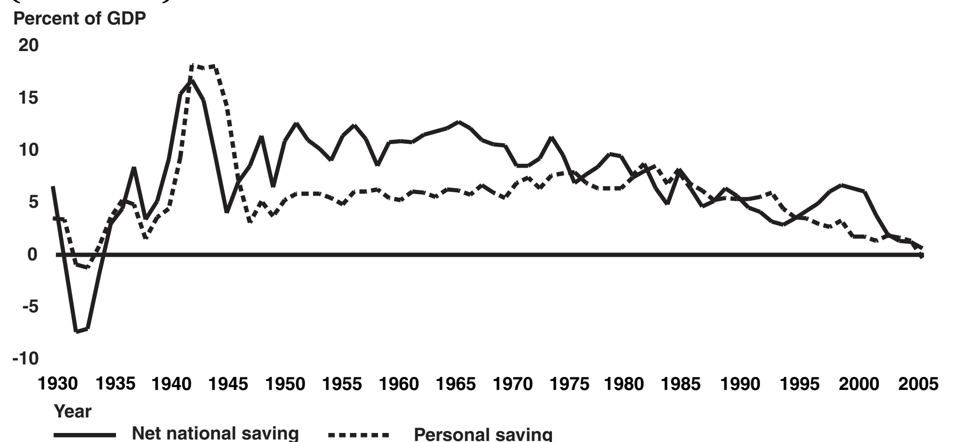
To view the full product, including the scope and methodology, click on the link above. For more information, contact Thomas J. McCool at (202) 512-2700 or mccoolt@gao.gov or Susan J. Irving at (202) 512-9142 or irvings@gao.gov.

What GAO Found

Our nation faces a number of deficits, including our nation's budget deficit, a saving deficit, and a current account deficit. Unfortunately, America has been heading in the wrong direction on all three deficits in recent years.

- In 2005 our nation's budget deficit was around $318 billion or 2.6 percent of GDP.
- For the first time since 1934, net national saving declined to less than 1 percent of GDP and the personal saving rate was slightly negative in 2005 (see figure).
- While the United States has run a current account deficit—or borrowed to finance domestic investment—over most of the last 25 years, the current account deficit hit an all time record—$782 billion, or over 6 percent of GDP in 2005.

Net National Saving and Personal Saving as a Percentage of GDP (1930-2005)



Source: GAO analysis of NIPA data from the Bureau of Economic Analysis (BEA).

Despite low national saving in recent years, economic growth has been high. However, we cannot let our recent good fortune lull us into complacency. If the net inflow of foreign investment were to diminish, so too would domestic investment and potentially economic growth if that saving is not offset by saving here in the U.S. Also, our nation faces daunting fiscal and demographic challenges, which provide even more of a reason to address our nation's low saving rates. Greater economic growth from saving more now would make it easier for future workers to bear the burden of financing Social Security and Medicare, but economic growth alone will not solve the long-term fiscal challenge. Tough choices are inevitable, and the sooner we act the better in order to allow the miracle of compounding to turn from enemy to ally.

Mr. Chairman, Senator Kerry, and Members of the Subcommittee:

I appreciate the opportunity to talk with you today about national saving and the central role it plays for our nation's long-term economic growth and future living standards. National saving—the portion of a nation's current income not consumed—is the sum of saving by households, businesses, and all levels of government. National saving represents resources available for investment to replace old factories and equipment and to buy more and better capital goods. Higher saving and investment in a nation's capital stock contribute to increased productivity and stronger economic growth over the long term.

As our 21st century challenges report notes, the United States faces serious long-term challenges in several areas, some of them unprecedented in their size, scope, complexity, and potential impact.[1] One of the primary challenges is demographics. The U.S. workforce growth rate is slowing and will continue to slow. This means that just when increasing numbers of baby boomers start to retire and draw benefits, there will be relatively fewer full-time workers to help support these retirees. What's more, people are living longer. In the very near future, our aging population will begin to put enormous strains on our nation's pension and health care systems. Other emerging trends that warrant close scrutiny are globalization, new security threats, rapidly evolving technology, and a range of quality-of-life concerns affecting everything from education and health care to energy and the environment.

Comptroller General Walker has spoken frequently about the fact that our nation faces a number of deficits, including three that are directly related to this hearing. These three interrelated deficits are our nation's budget deficit, a saving deficit, and a current account deficit. He has noted that our growing fiscal imbalance threatens our future economic growth, our future standard of living, and even our future national security. Unfortunately, America has been heading in the wrong direction on all three deficits in recent years. Nonetheless, we have a window of opportunity to turn things around, but we need to act and act soon because the miracle of compounding is currently working against us.

[1]GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-325SP (Washington, D.C.: February 2005).

Today's saving and investment decisions have profound implications for the level of well-being in the future. Increasing personal saving is an important way to bolster retirement security for current workers and increasing national saving will allow future workers to more easily bear the costs of financing federal retirement and health programs while maintaining their standard of living.

In my testimony today, I will describe these three deficits and why they raise concerns about our nation's long-term growth and its ability to finance the health and retirement needs of an aging population. Finally, I will lay out a few ideas for how the federal government can help increase national saving.

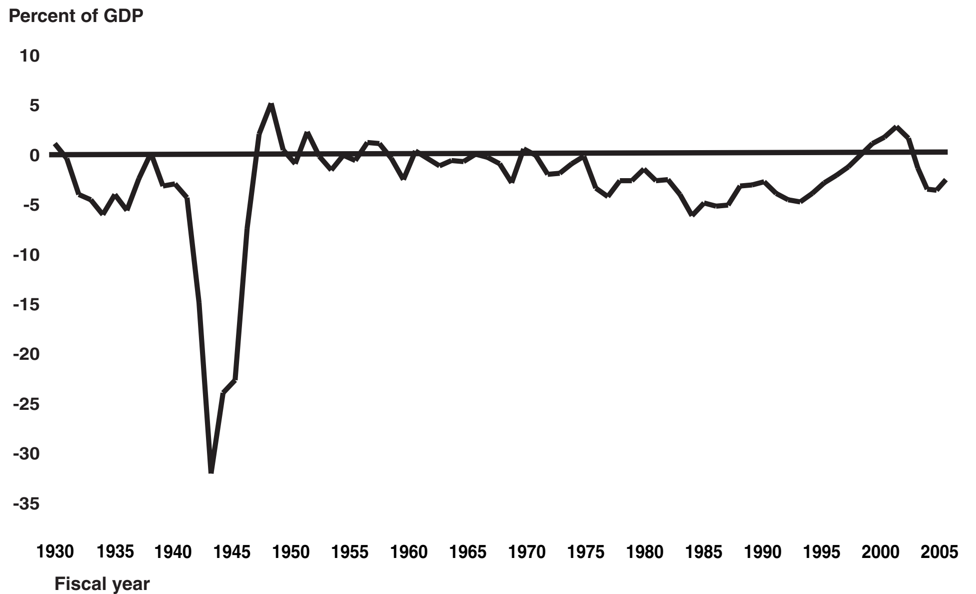
My remarks are based on our previous work on a variety of issues, including a report on national saving and GAO's work on the long-term fiscal challenge.[2] These efforts were conducted in accordance with generally accepted government auditing standards.

The Budget Deficit

The first deficit we face is the federal budget deficit (see fig. 1). In 2005 the unified federal budget deficit was around $318 billion or 2.6 percent of gross domestic product (GDP). This figure is an approximation of what the federal government absorbs from private saving. Although a single year's federal deficit is not a cause for concern, persistent deficits are. Federal deficits reduce the amount of national saving available for investment. They also lead to growing federal debt, on which net interest payments must be made by current and future generations.

[2] GAO, *National Saving: Answers to Key Questions*, GAO-01-591SP (Washington, D.C.: June 2001). See also http://www.gao.gov/special.pubs/longterm/ for information on GAO's most recent long-term simulations and http://www.gao.gov/special.pubs/longterm/longtermproducts.html for a bibliography of GAO's issued work on the long-term fiscal outlook.

Figure 1: Federal Surpluses and Deficits (-) as a Percent of GDP (1930-2005)



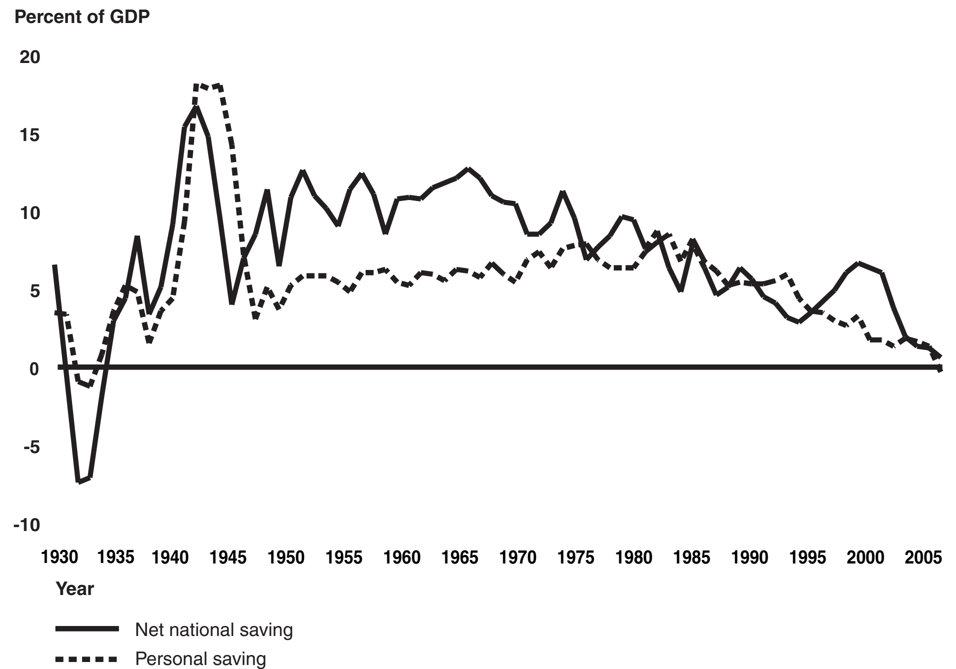
Source: Office of Management and Budget (OMB).

The Saving Deficit

A budget deficit represents dissaving by the government, but the U.S. suffers from an even broader national saving deficit. National saving is the sum of personal saving, corporate saving, and government saving. Last year, for the first time since 1934, net national saving declined to less than 1 percent of GDP and the personal saving rate was slightly negative (see fig. 2).[3] Remarkably—and unfortunately—the United States has returned to saving levels not seen since the depths of the Great Depression.

[3]Personal saving, as measured in the National Income and Product Accounts (NIPA), does not include capital gains on existing assets because capital gains reflect a revaluation of the nation's existing capital stock and do not provide resources for financing investment that adds to the capital stock. In other words, although an individual household can tap its wealth by selling assets to finance consumption or accumulate other assets, the sale of an existing asset merely transfers ownership; it does not generate new economic output.

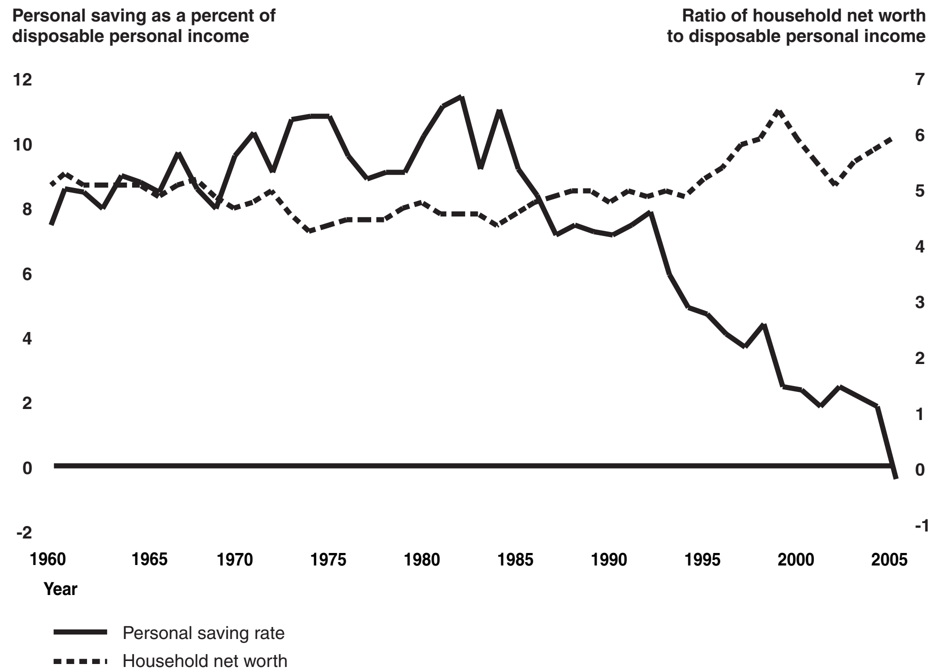
Figure 2: Net National Saving and Personal Saving as a Percent of GDP (1930-2005)



Source: GAO analysis of NIPA data from the Bureau of Economic Analysis (BEA).

A negative saving rate means that, in the aggregate, households are spending more than their current income by drawing down past saving, selling existing assets, or borrowing. No one is sure why the personal saving rate has declined. One possible explanation is increases in household wealth, which surged in the late 1990s due to the stock market boom and more recently due to the run-up in housing prices. Household wealth relative to income increased from 4.7 in 1990 to 5.8 in 2005 (see fig. 3). If people feel wealthier, they may feel less need to save. Continued financial liberalization and innovation have made it easier for Americans to borrow, particularly against their real estate wealth, which may have lead to greater consumption.

Figure 3: Personal Saving and the Wealth-Income Ratio (1960-2005)



Source: GAO analysis of data from BEA's National Income and Product Accounts and the Federal Reserve Board's Flow of Funds Accounts.

Clearly, as the Comptroller General has said, many Americans, like their government, are living beyond their means and are deeply in debt. This trend is particularly alarming in an aging society such as our own. Those Americans who choose to save more will certainly live better in retirement. Those Americans who choose to save less are rolling the dice on whether they will have adequate resources for a secure retirement. While Social Security provides a foundation for retirement income, Social Security benefits replace only about 40 percent of preretirement income for the average worker. As a result, Social Security benefits must be supplemented by private pensions, accumulated assets, or other resources in order for individuals to maintain a reasonable standard of living in retirement compared to their final working years. Though the aggregate wealth-to-income ratio remains relatively high, it is a misleading indicator of financial status of the typical household because wealth is highly concentrated among a few households. While the median net worth of all families was $93,100 in 2004, the top 10 percent of the families had a median net worth of over $1.4 million and the bottom quarter of the families had a median net worth of about $1,700. Moreover, measures of

wealth are largely based on market values, which on occasion can exhibit substantial swings. This is illustrated by the sharp run-up in stock prices in the late 1990s and their subsequent decline beginning in 2000.

The only components of national saving that have not shown a long-term decline are corporate and state and local saving.[4] In fact, corporate saving is actually high by historical standards. After declines in corporate profits in 2000-2001, corporate saving has rebounded to almost 4 percent of GDP—a level not seen since the late 1960s. The state and local sector as a whole experienced a deficit from 2002 to 2004 but has since returned to a slight surplus.

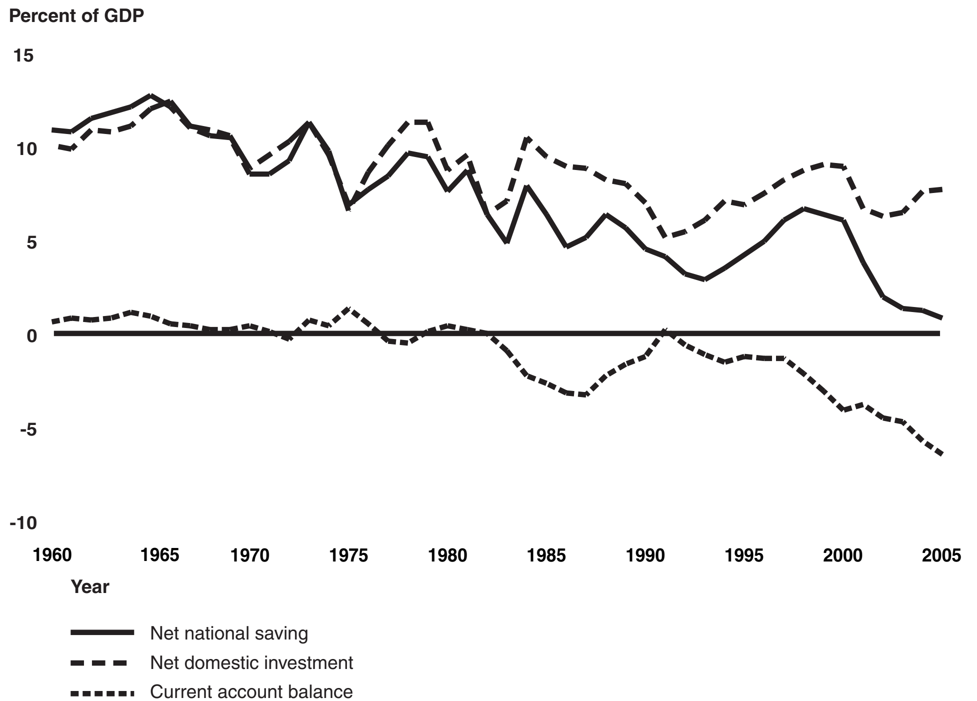
The Current Account Deficit

Now let me turn to the third deficit: our current account deficit. The current account deficit is the difference between domestic investment and national saving. That is, it is the amount of domestic investment financed by borrowing from abroad. Over most of the last 25 years, the United States has run a current account deficit, but in 2005 the current account deficit hit an all-time record—$782 billion, or over 6 percent of GDP (see fig.4).[5] That is twice what it was only 6 years earlier.

[4]Corporate saving consists of retained earnings, while state and local government saving is the difference between the sector's total current receipts and expenditures.

[5]This is measured on a NIPA basis. The current account deficit on an international transaction account basis was $805 billion.

Figure 4: Net National Saving, Net Domestic Investment, and the Current Account Balance as Percents of GDP (1960-2005)



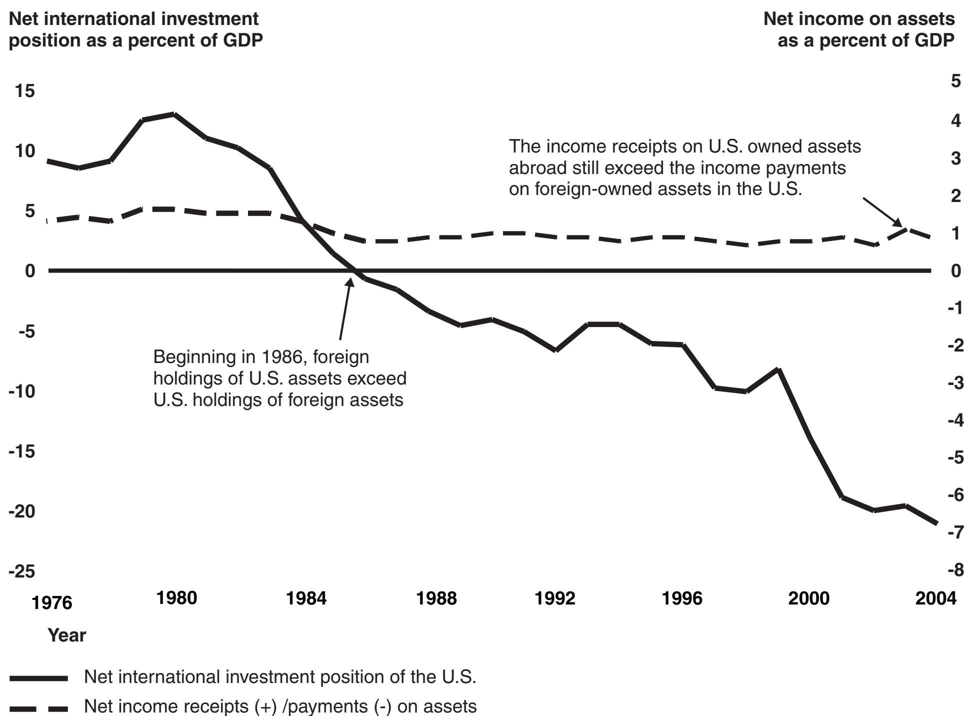
Source: GAO analysis of NIPA data from BEA.

Funds from overseas have been pouring into the United States. One explanation for these inflows is that high productivity in the U.S. raised the perceived return on U.S. assets. Moreover rising federal budget deficits and declining personal saving rates have necessitated foreign borrowing to help finance domestic investment. Another possible explanation for persistent U.S. current account deficits may be the weakness of foreign demand and the efforts of some countries to support their exports by keeping their own currencies from strengthening. Also, other countries' populations are aging more rapidly than the U.S. population and they may be investing in the U.S. in order to build up a stock of assets to prepare for their retirement spending.

Whatever the reason for high current account deficits, policymakers should be aware of the implications these financial inflows have for the nation's economic growth and for future living standards. While current account deficits support domestic investment and productivity growth, they also translate into a rising level of indebtedness to other countries.

Figure 5 shows that the net foreign ownership of U.S. assets grew to more than 20 percent of GDP in 2005. The fact that our net indebtedness to other nations is rising more rapidly than our income raises concerns that the U.S. current account balance is on an unsustainable path.

Figure 5: U.S Net International Investment Position and Net Income Receipts on Assets as Percents of GDP (1976-2004)



Source: GAO analysis of BEA data.

Despite the growth of foreign asset holdings in the United States in recent years, the United States earned more in interest, dividends, and other investment returns from other countries than it paid on U.S. assets held by foreigners. This may seem counterintuitive to the notion that U.S. assets, on average, pay a higher return than foreign assets and thus attract a large amount of foreign investment. The positive net income receipts reflect differences in the composition of foreign and U.S. investment and the higher rate of return that U.S. firms earn on their direct investments abroad compared to the earnings of foreign companies from their U.S.

subsidiaries.[6] A larger share of foreign-owned assets in the U.S. is held in portfolio investment, such as stocks, bonds, loans, and bank deposits, which pay a lower yield than U.S. direct investments abroad. A recent study by the Congressional Budget Office (CBO) attributed this to three factors.[7] First, U.S. subsidiaries abroad have generally been in business longer than foreign-owned subsidiaries in the U.S., which contributes to greater profitability. Second, investors of U.S. subsidiaries abroad may require higher returns because they face greater political and economic risks than subsidiaries of foreign-owned corporations. Finally, some observers argue that U.S subsidiaries abroad may overstate their profits for tax reasons, while foreign-owned subsidiaries in the United States understate their profits. However, given the nation's increasingly negative net international investment position, it is not clear how long the U.S. will continue to earn more on its foreign investment than it pays on foreign investment in the U.S.

The effect of large foreign borrowing on our economy also depends in part on how the borrowed funds are used. To the extent that borrowing from abroad finances domestic investment, the foreign borrowing adds to the nation's capital stock and boosts productive capacity. Thus, even though some of the income generated by the investment must be paid to foreign lenders, the investment—and hence the borrowing that financed it—augments future income. However, if the borrowing from abroad is used to finance consumption, this is not true. Short-term well-being is improved but the ability to repay the borrowing in the future is not.

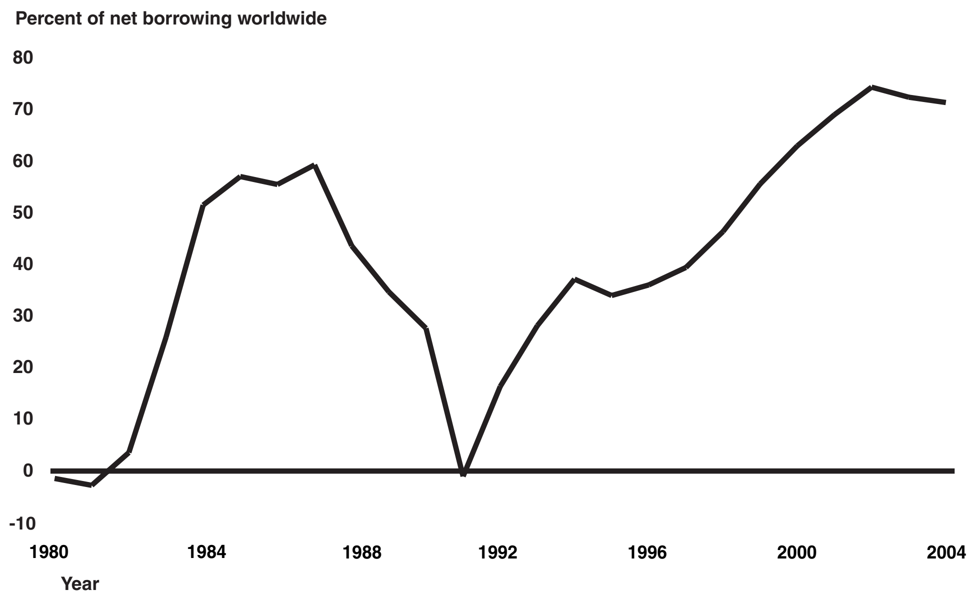
Both economists and policymakers are concerned about whether the United States can maintain its reliance on foreign capital inflows to sustain domestic investment. Investors generally try to achieve some balance in the allocation of their portfolios, and U.S. assets already represent a growing and significant share of foreign portfolios (see fig. 6). Although the United States accounts for 29 percent of global GDP, it received 70 percent of the net saving exported by countries with current account surpluses in 2004. Observers suggest that the United States' favorable investment climate, including the potential for high rates of return, may

[6]Direct investment is investment in which a resident of one country obtains a lasting interest in, and a degree of influence over, the management of a business enterprise in another country.

[7]CBO, *Why Does U.S. Investment Abroad Earn Higher Returns Than Foreign Investment in the United States?* Economic and Budget Issue Brief (Washington, D.C.: Nov. 30, 2005).

explain why the U.S. absorbs such a large share of the world's saving. However, it is probably not realistic to expect ever-increasing foreign investment in the United States. Imagine what would happen to the stock and bond markets if these foreign investors began to lose confidence and lowered their rates of accumulation, or worse yet, started to sell off their holdings. We would likely face some adverse effects in the form of higher interest rates, reduced investment, and more expensive imports.

Figure 6: U.S. Net Borrowing from Abroad as a Percent of Total Worldwide Net Borrowing (1980-2004)



Source: GAO analysis of the International Monetary Fund's World Economic Outlook Database (September 2005 edition).

Note: Calculated as the ratio of the U.S. current account balance to the sum of the current account balances of all countries that had current account deficits.

Why Does It Matter?

Economic growth in recent years has been high despite the fact that national saving was low by U.S. historical standards. This is because more and better investments were made. Each dollar saved bought more investment goods, and a greater share of saving was invested in highly productive information technology. Also, as discussed earlier, the United States was able to invest more than it saved by borrowing from abroad.

However, we cannot let our recent good fortune lull us into complacency. While the U.S. has benefited from high levels of foreign investment in recent years, this is not a viable strategy for the long run. Many of the

nations currently financing investment in the United States face aging populations and their own retirement financing challenges that may reduce foreign saving available for U.S. domestic investment. If the net inflow of foreign investment were to diminish, so too would domestic investment and potentially economic growth if that saving is not offset by saving here in the U.S. Also, our nation faces daunting fiscal and demographic challenges, which may be even more of a reason to address our nation's low saving rates. Saving and economic growth will be key factors to prepare future generations to bear the burden of financing the retirement and health costs of an aging population.

Nation Faces Long-term Fiscal Challenges

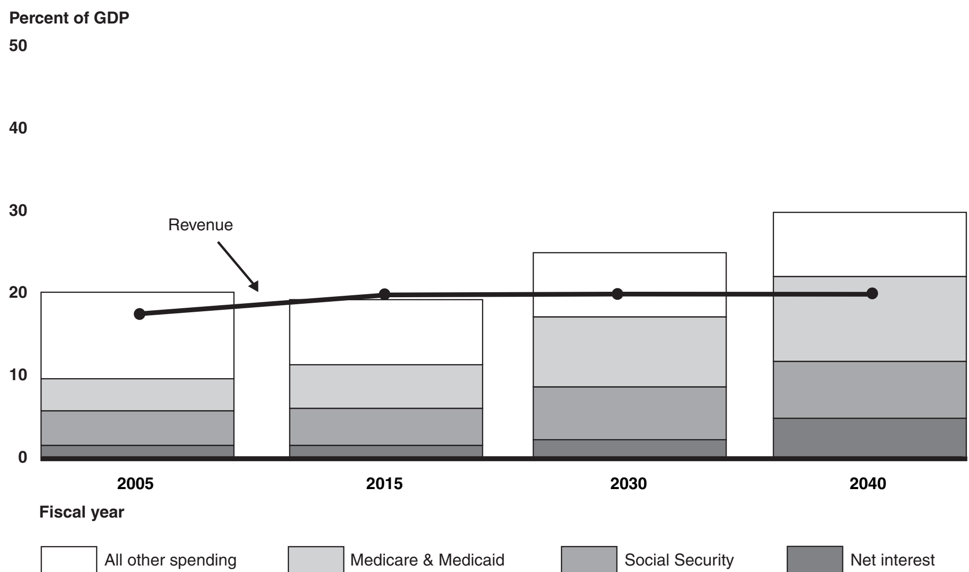
Given our nation's long-term fiscal outlook, acting sooner rather than later to increase national saving is imperative. The federal government's current financial condition and long-term fiscal outlook present enormous challenges to future generations' levels of well-being. No one can forecast with any precision what the next 75 years will look like—that would require the ability to predict changes in the economy and future legislation. However, there is a fair amount of certainty in one major driver of our long-term outlook—demographics. As life expectancy rises and the baby boom generation retires, the U.S. population will age, and fewer workers will support each retiree. Over the next few decades, federal spending on retirement and health programs—Social Security, Medicare, Medicaid, and other federal pension, health, and disability programs—will grow dramatically. Absent policy changes on the spending and/or revenue sides of the budget, a growing imbalance between expected federal spending and tax revenues will mean escalating and eventually unsustainable federal deficits and debt that will threaten our future economy and standard of living. As Comptroller General Walker has said, "Simply put, our nation's fiscal policy is on an imprudent and unsustainable course."[8]

Neither slowing the growth in discretionary spending nor allowing the tax provisions to expire—nor both together—would eliminate the imbalance. Although revenues will be part of the debate about our fiscal future, assuming no changes to Social Security, Medicare, Medicaid, and other drivers of the long-term fiscal gap would require at least a doubling of taxes—and that seems highly implausible.

[8] GAO, *21st Century: Addressing Long-Term Fiscal Challenges Must Include a Re-examination of Mandatory Spending*, GAO-06-456T, (Washington, D.C.: Feb. 15, 2006).

GAO's long-term simulations illustrate the magnitude of the fiscal challenges associated with an aging society. Indeed, the nation's long-term fiscal outlook is daunting under many different policy scenarios and assumptions. For instance, under a fiscally restrained scenario, if discretionary spending grows only with inflation over the next 10 years and all existing tax cuts expire as scheduled under current law, spending for Social Security and health care programs would grow to consume over 80 percent of federal revenue by 2040 (see fig. 7). On the other hand, if discretionary spending grew at the same rate as the economy in the near term and if all tax cuts were extended, by 2040 federal revenues may just be adequate to pay only some Social Security benefits and interest on the growing federal debt (see fig. 8).

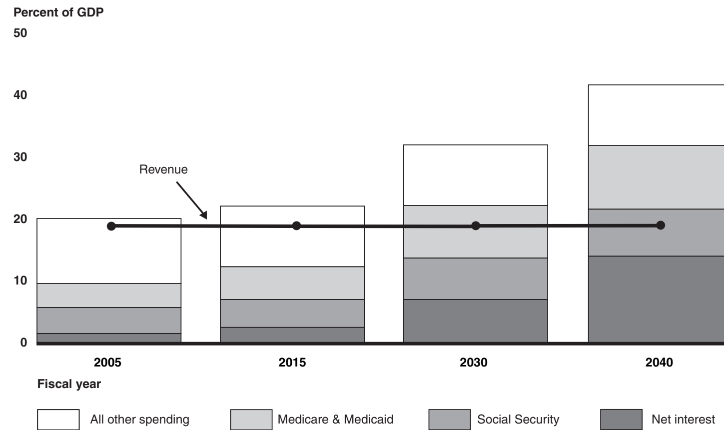
Figure 7: Composition of Spending as a Share of GDP under Baseline Extended



Source: GAO's January 2006 analysis.

Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2016 due to (1) real bracket creep, (2) more taxpayers becoming subject to the alternative minimum tax (AMT), and (3) increased revenue from tax-deferred retirement accounts. After 2016, revenue as a share of GDP is held constant.

Figure 8: Composition of Spending as a Share of GDP Assuming Discretionary Spending Grows with GDP After 2006 and All Expiring Tax Provisions Are Extended



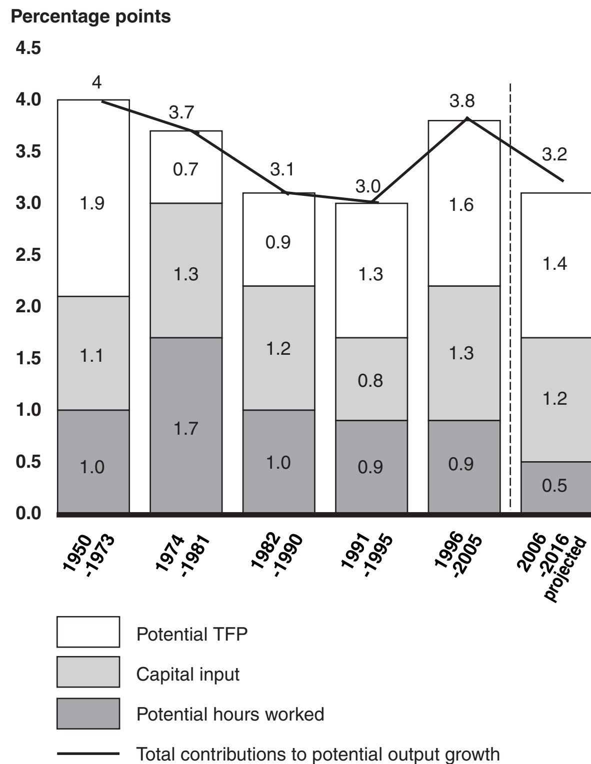
Note: This includes certain tax provisions that expired at the end of 2005, such as the increased AMT exemption amount.

GAO's long-term simulations show the squeeze on budgetary flexibility that the combination of demographics and health care cost growth will create. The burden on the budget and on the economy mean that letting current policy continue will leave few resources for investment in new capital goods and technology and result in slower income growth.

National Saving Critical for Long-term Economic Growth

There are three key contributors to economic growth—labor force growth, capital input, and total factor productivity (or increased efficiency in the use of capital and labor). Figure 9 shows the slowing in labor force growth (potential hours worked) over the next decade. Indeed, the Social Security and Medicare trustees project labor force growth to slow after 2010 and be negligible after 2020. Without improvements in managerial efficiencies or increases in capital formation, low labor force growth will lead to slower growth in the economy—and to slower growth in federal revenues at a time when the expenditure demands on federal programs for the elderly are increasing. This illustrates the imperative to increase saving and investment and explore other efficiency-enhancing activities, such as education, training, and R&D.

Figure 9: Contributions to Potential Output Growth (Nonfarm Business Sector)



Source: CBO.

Note: Numbers may not add to total due to rounding.

Greater economic growth from saving more now would make it easier for future workers to achieve a rising standard of living for themselves while also paying for the government's commitments to the elderly. While economic growth will help society bear the burden of financing Social Security and Medicare, it alone will not solve the long-term fiscal challenge. Closing the current long-term fiscal gap would require sustained economic growth far beyond that experienced in U.S. economic history since World War II. Tough choices are inevitable, and the sooner we act the better.

The Federal Government's Role in National Saving

Although there may be ways for the government to affect private saving, the only sure way for the government to increase national saving is to decrease government dissaving (the budget deficit). Each generation is a steward for the economy it bequeaths to future generations, and the nation's long-term economic future depends in part on today's decisions about consumption and saving. To address our nation's daunting long-term fiscal challenges, we must change the path of programs for the elderly and build the economic capacity to bear the costs of an aging population.

From a macroeconomic perspective, it does not matter who does the saving—any mix of increased saving by households, businesses, and government would help to grow the economic pie. Yet, in light of the virtual disappearance of personal saving, concerns about U.S. reliance on borrowing from abroad to finance domestic investment, and the looming fiscal pressures of an aging population, now is an opportune time for the federal government to reduce federal deficits. Higher federal saving—to the extent that the increased government saving is not offset by reduced private saving—would increase national saving and tend to improve the nation's current account balance, although typically not on a dollar-for-dollar basis.

Reduce Federal Deficits

As the Comptroller General has said,[9] meeting our nation's large, growing, and structural fiscal imbalance will require a three-pronged approach:

- restructuring existing entitlement programs,

- reexamining the base of discretionary and other spending, and

- reviewing and revising existing tax policy, including tax expenditures, which can operate like mandatory spending programs.

Increased government saving and entitlement reform go hand-in-hand. Over the long term, the federal government cannot avoid massive dissaving unless it reforms retirement and health programs for the elderly. Without change, Social Security and Medicare will constitute a heavy drain on the earnings of future workers. Although saving more yields a bigger pie, policymakers will still face the difficult choice of how to divide the pie between retirees and workers. It is worth remembering that policy debates

[9] GAO-06-456T.

surrounding Social Security and Medicare reform also have implications for all levels of saving—government, personal, and, ultimately, national.

Restoring Social Security to sustainable solvency and increasing saving are intertwined national goals. Saving for the nation's retirement costs is analogous to an individual's retirement planning in that the sooner we increase saving, the greater our benefit from compounding growth. The way in which Social Security is reformed will influence both the magnitude and timing of any increase in national saving. The ultimate effect of Social Security reform on national saving depends on complex interactions between government saving and personal saving—both through pension funds and by individuals on their own behalf. Various proposals would create new individual accounts as part of Social Security reform or in addition to Social Security. The extent to which individual accounts would affect national saving depends on how the accounts are funded, how the account program is structured, and how people adjust their own saving behavior in response to the new accounts.

As everyone here knows, health care spending is the major driver of long-term government dissaving. This is due to both demographics and the increasing cost of modern medical technology. The current Medicare program largely lacks incentives to control health care consumption, and the cost of health care decisions is not readily transparent to consumers. In balancing health care spending with other societal priorities, it is important to distinguish between health care wants, needs, affordability, and sustainability at both the individual and aggregate level. Reducing federal health care spending would improve future levels of government saving, but the ultimate effect on national saving depends on how the private sector responds to the reductions and the extent to which overall health care spending is moderated. For example, reforms that reduce federal deficits by merely shifting healthcare spending to state and local governments or the private sector might not increase national saving on a dollar-for-dollar basis.

Tax expenditures have represented a substantial federal commitment over the past three decades. Since 1974, the number of tax expenditures more than doubled and the sum of tax expenditure revenue loss estimates tripled in real terms to nearly $730 billion in 2004. On an outlay-equivalent basis, the sum of tax expenditure estimates exceeded discretionary spending for most years in the last decade. Tax expenditures result in forgone revenue for the federal government due to preferential provisions in the tax code, such as exemptions and exclusions from taxation, deductions, credits, deferral of tax liability, and preferential tax rates.

These tax expenditures are often aimed at policy goals similar to those of federal spending programs; existing tax expenditures, for example, are intended to encourage economic development in disadvantaged areas, finance postsecondary education, and stimulate research and development. A recent GAO report calls for a more systematic review of tax expenditures to ensure that they are achieving their intended purposes and are designed in the most efficient and effective manner.[10]

Saving Incentives

The federal government has sought to encourage personal saving both to enhance households' financial security and to boost national saving. However, developing policies that have the desired effect is difficult. Tax incentives may affect how people save for retirement but do not necessarily increase the overall level of personal saving. Even with preferential tax treatment for employer-sponsored retirement saving plans and individual retirement accounts (IRA), the personal saving rate has steadily declined. For example, although tax benefits seem to encourage individuals to contribute to these kinds of accounts, the amounts contributed are not always new saving. Some contributions may represent saving that would have occurred even without the tax incentives—and may even be shifted from taxable assets or financed by borrowing. Economists disagree about whether tax incentives have been or could be effective in increasing the overall level of personal saving. The net effect of a tax incentive on national saving depends on whether the tax incentive induces enough additional saving by households to make up for the lower government saving resulting from the government's revenue loss. The bottom line is that we have many saving incentives but very little information on whether they work and how they interact.

Saving Education

A leading obstacle to expanding retirement saving has been that many Americans do not know how to save for retirement, let alone how much to save. The need to improve consumers' financial literacy—their ability to make informed judgments and effective decisions about the management of money and credit—has become increasingly important. Congress has responded by passing legislation, such as the Savings Are Vital for Everyone's Retirement Act of 1997 (SAVER Act). In addition, in the Fair

[10]GAO, *Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Examined*, GAO-05-690, (Washington, D.C.: Sept. 23, 2005).

and Accurate Credit Transactions Act of 2003, Congress created the Financial Literacy and Education Commission, which is charged with coordinating federal efforts and developing a national strategy to promote financial literacy. Also, GAO has identified financial literacy as a 21st century challenge.[11]

In a July 2004 Comptroller General forum, we discussed the federal government's role in improving financial literacy.[12] Among other things, forum participants suggested that the federal government serve as a leader using its influence and authority to make financial literacy a national priority. Some federal agencies already play a role in educating the public about saving. For example, as mandated by the SAVER Act, the Department of Labor maintains an outreach program in concert with other public and private organizations to raise public awareness about the advantages of saving and to help educate workers about how much they need to save for retirement. Also, individualized statements now sent annually by the Social Security Administration to most workers aged 25 and older provide important information for personal retirement planning, but knowing more about Social Security's financial status would help workers to understand how to view their personal benefit estimates.

Concluding Observations

Increasing the nation's economic capacity is a long-term process. Acting sooner rather than later could allow the miracle of compounding to turn from enemy to ally. This is why the Comptroller General has called for reimposing budget controls; reforming Social Security, Medicare and Medicaid; and reexamining the base of all major spending programs and tax policies to reflect 21st century challenges. As I said before, every generation is in part responsible for the economy it passes on to the next. Our current saving decisions have profound implications for the nation's future well-being.

Mr. Chairman, this completes my prepared statement. I would be happy to respond to any questions you or other Members of the Subcommittee may have at this time.

[11] GAO-05-325SP.

[12] GAO, *Highlights of a GAO Forum: The Federal Government's Role in Improving Financial Literacy*, GAO-05-93SP, (Washington, D.C.: Nov. 15, 2004).

Scope and Methodology

My remarks are based largely on our previous report National Saving: Answers to Key Questions and other related GAO products. We updated the information from the National Saving report with the most recent published data from OMB, BEA, the Federal Reserve Board, CBO and the IMF. We also reviewed some recently published studies and statements from academic journals, Federal Reserve officials, the IMF, CBO and other sources.

Contacts and Acknowledgments

Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony. For further information on this testimony, please contact Thomas J. McCool at (202) 512-2700 or mccoolt@gao.gov or Susan J. Irving at (202) 512-9142 or irvings@gao.gov. Individuals making key contributions to this testimony include Rick Krashevski, Assistant Director; and Melissa Wolf, Senior Analyst.

Related GAO Products

21st Century Challenges: Reexamining the Base of the Federal Government. GAO-05-325SP. February 2005.

Highlights of a GAO Forum: The Federal Government's Role in Improving Financial Literacy. GAO-05-93SP. Nov. 15, 2004.

Federal Debt: Answers to Frequently Asked Questions, An Update. GAO-04-485SP. August 2004.

National Saving: Answers to Key Questions. GAO-01-591SP. June 2001.

See also http://www.gao.gov/special.pubs/longterm/ for information on GAO's most recent long-term simulations and http://www.gao.gov/special.pubs/longterm/longtermproducts.html a bibliography of GAO's issued work on the long-term fiscal outlook.

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