



UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

# ***Fiscal and Health Care Challenges***

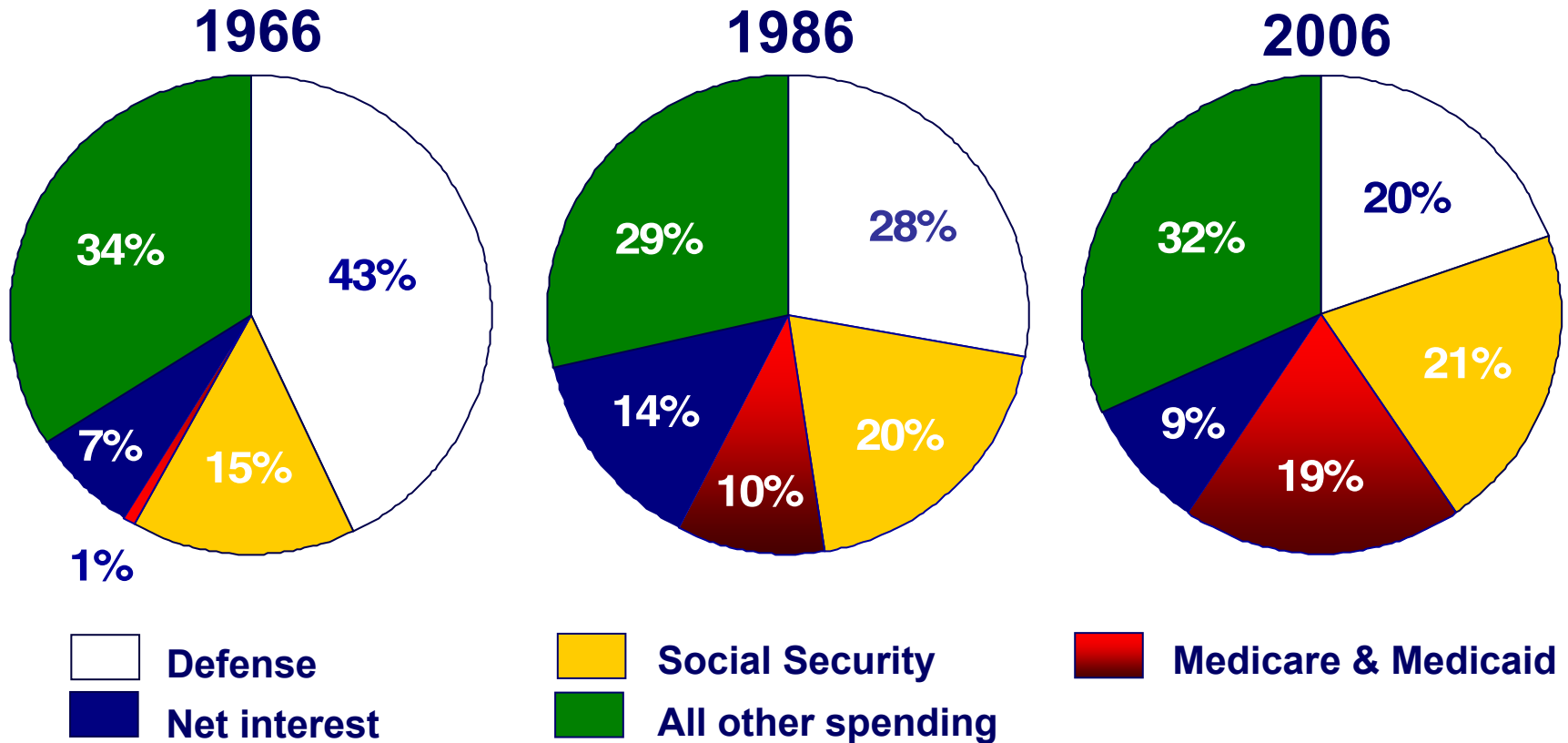
**The Honorable David M. Walker  
Comptroller General of the United  
States**

**The HR Policy Association's  
Washington Policy Conference**

**September 6, 2007**



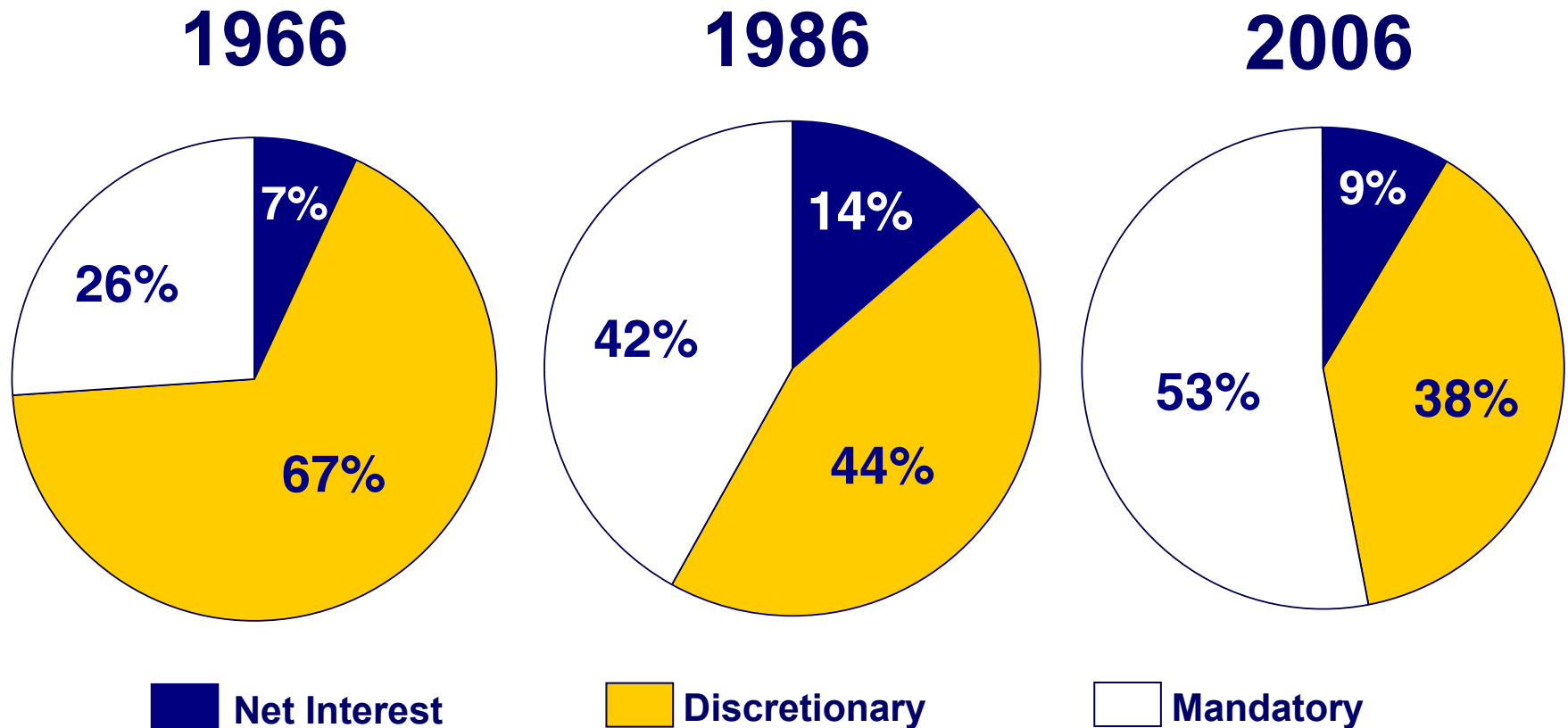
# Composition of Federal Spending



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

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

# Federal Spending for Mandatory and Discretionary Programs



Source: Office of Management and Budget.

# Fiscal Year 2005 and 2006 Deficits and Net Operating Costs

	Fiscal Year 2005	Fiscal Year 2006
	(\$ Billion)	
<b>On-Budget Deficit</b>	<b>(494)</b>	<b>(434)</b>
<b>Unified Deficit<sup>a</sup></b>	<b>(318)</b>	<b>(248)</b>
<b>Net Operating Cost<sup>b</sup></b>	<b>(760)</b>	<b>(450)</b>

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

<sup>a</sup>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.

<sup>b</sup>Fiscal year 2005 and 2006 net operating cost figures reflect significant but opposite changes in certain actuarial costs. For example, changes in interest rates and other assumptions used to estimate future veterans' compensation benefits increased net operating cost by \$228 billion in 2005 and reduced net operating cost by \$167 billion in 2006. Therefore, the net operating costs for fiscal years 2005 and 2006, exclusive of the effect of these actuarial cost fluctuations, were (\$532) billion and (\$617) billion, respectively.

# Major Fiscal Exposures

(\$ trillions)

	2000	2006	% Increase
<b>• Explicit liabilities</b>	<b>\$6.9</b>	<b>\$10.4</b>	<b>52</b>
<ul style="list-style-type: none"> <li>• Publicly held debt</li> <li>• Military &amp; civilian pensions &amp; retiree health</li> <li>• Other</li> </ul>			
<b>• Commitments &amp; contingencies</b>	<b>0.5</b>	<b>1.3</b>	<b>140</b>
<ul style="list-style-type: none"> <li>• E.g., PBGC, undelivered orders</li> </ul>			
<b>• Implicit exposures</b>	<b>13.0</b>	<b>38.8</b>	<b>197</b>
• 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	
<b>Total</b>	<b>\$20.4</b>	<b>\$50.5</b>	<b>147</b>

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:

<b>Total –major fiscal exposures</b>	<b>\$50.5 trillion</b>
<b>Total household net worth<sup>1</sup></b>	<b>\$53.3 trillion</b>
<b>Burden/Net worth ratio</b>	<b>95 percent</b>
<b>Burden<sup>2</sup></b>	
<b>Per person</b>	<b>\$170,000</b>
<b>Per full-time worker</b>	<b>\$400,000</b>
<b>Per household</b>	<b>\$440,000</b>
<b>Income</b>	
<b>Median household income<sup>3</sup></b>	<b>\$46,326</b>
<b>Disposable personal income per capita<sup>4</sup></b>	<b>\$31,519</b>

Source: GAO analysis.

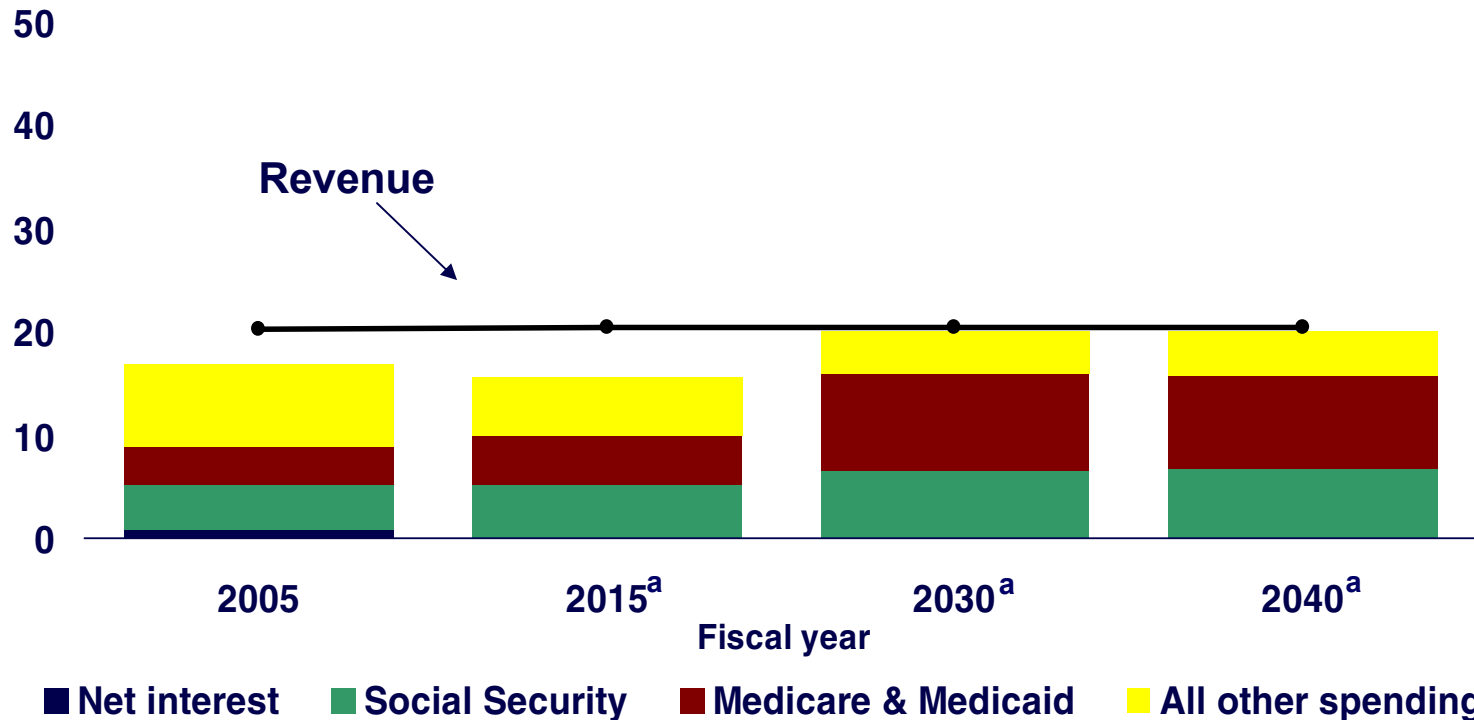
Notes: (1) Federal Reserve Board, Flow of Funds Accounts, Table B.100, 2006:Q2 (Sept. 19, 2006); (2) Burdens are calculated using estimated total U.S. population as of 9/30/06, from the U.S. Census Bureau; full-time workers reported by the Bureau of Economic Analysis, in NIPA table 6.5D (Aug. 2, 2006); 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).

# Potential Fiscal Outcomes

## Under Baseline Extended (January 2001)

### Revenues and Composition of Spending as a Share of GDP

Percent of GDP



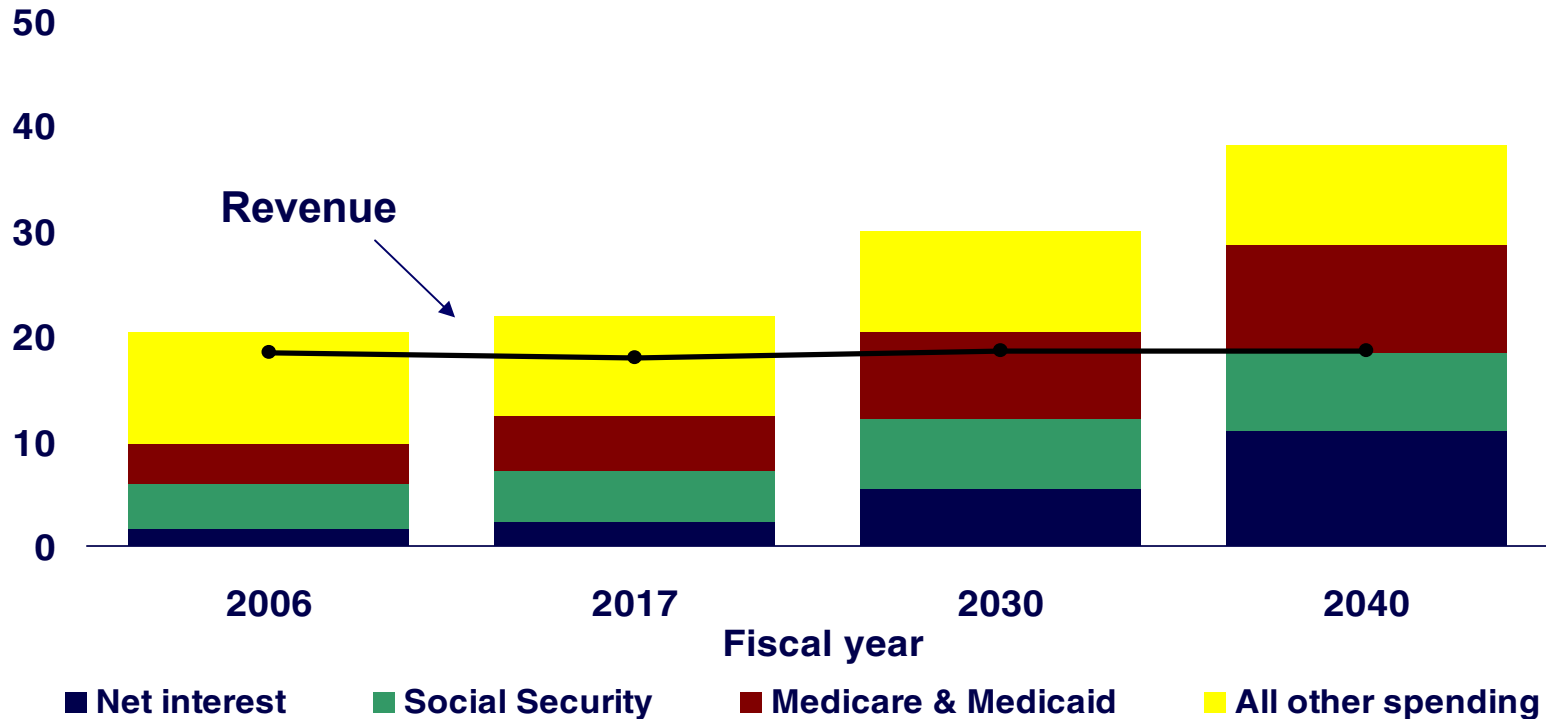
Source: GAO's January 2001 analysis.

Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2017 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2017, revenue as a share of GDP is held constant—implicitly assuming action to offset the impact of bracket creep and to modify or offset the AMT.

<sup>a</sup>All other spending is net of offsetting interest receipts.

# Discretionary Spending Grows with GDP After 2007 and All Expiring Tax Provisions Extended through 2017 (Thereafter Revenue Returns to Historical Average of 18.3% of GDP plus Deferred Revenue)

Percent of GDP

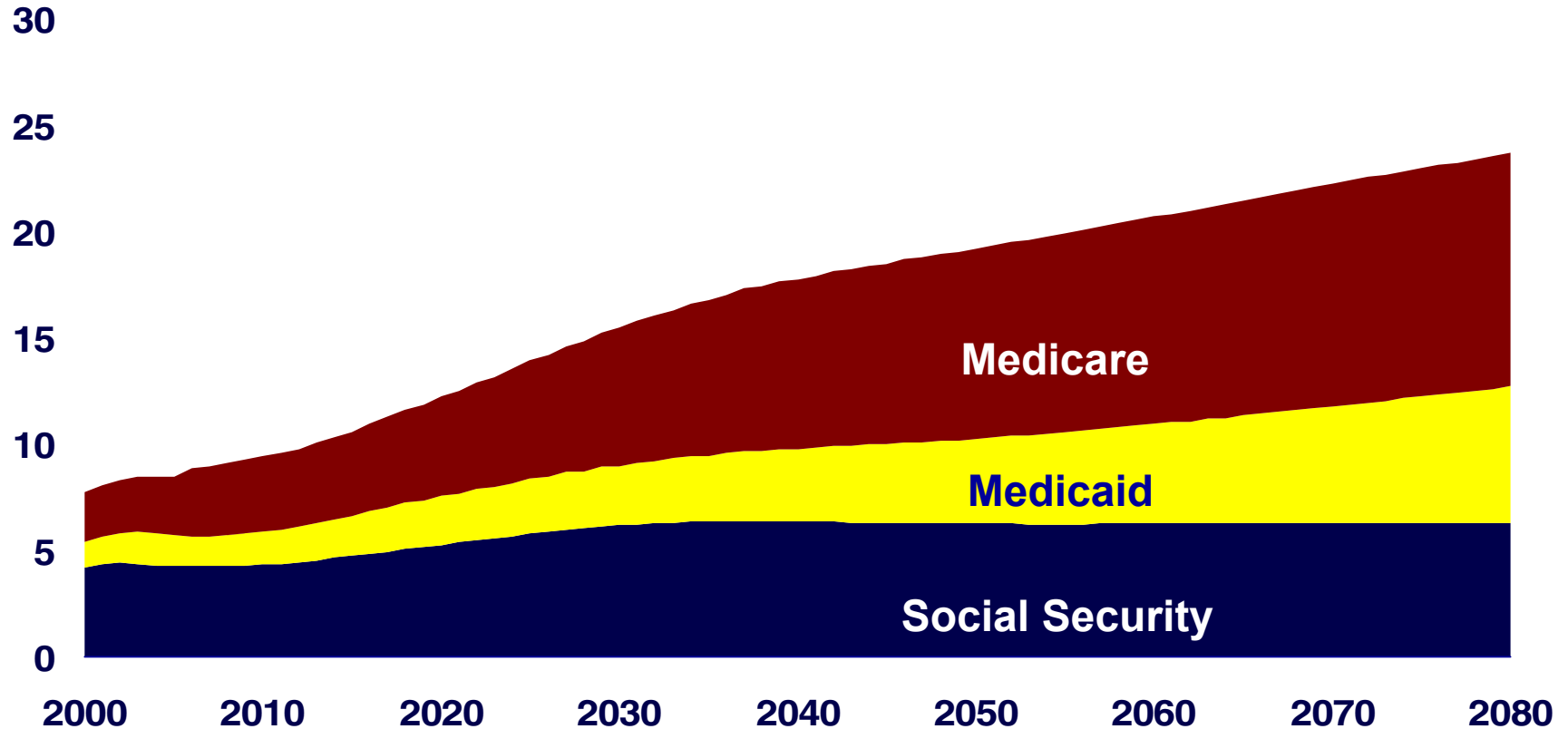


Source: GAO's January 2007 analysis.



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

Percent of GDP

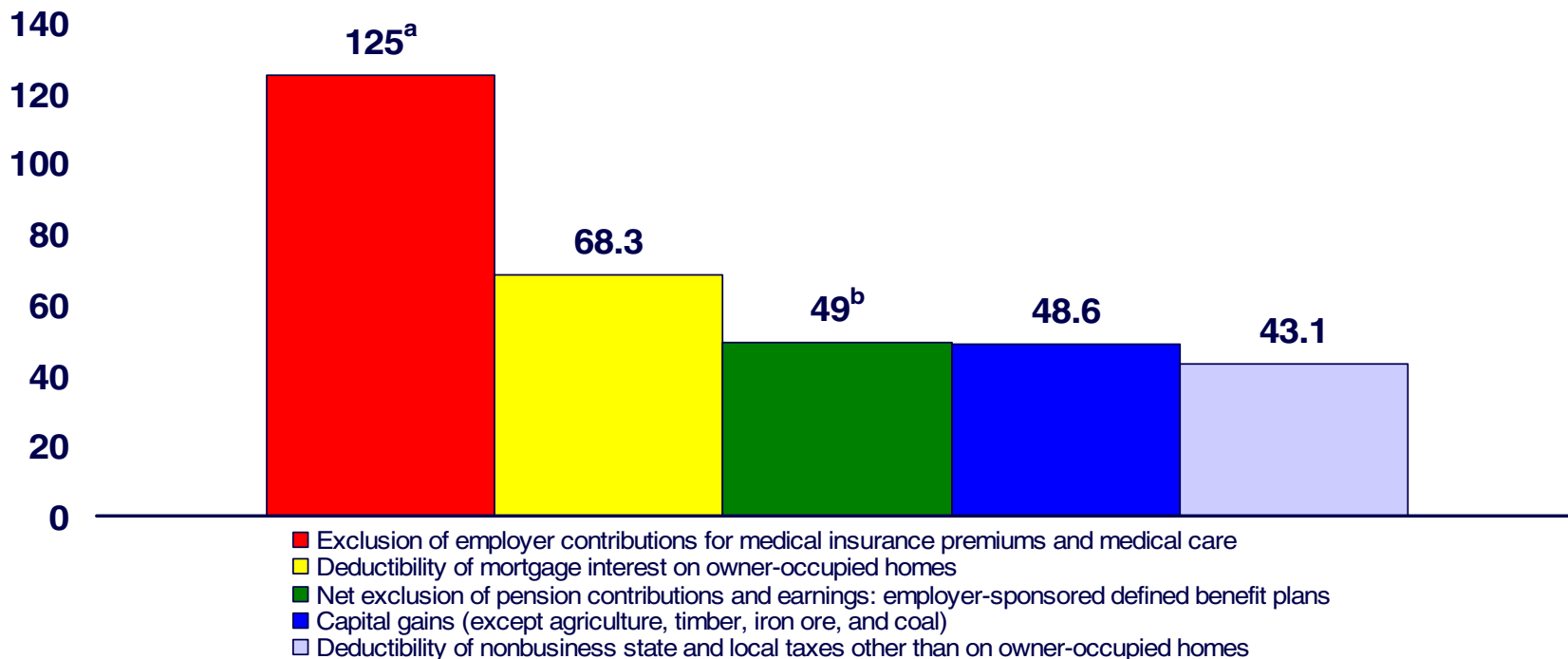


Source: GAO analysis based on data from the Office of the Chief Actuary, Social Security Administration, Office of the Actuary, Centers for Medicare and Medicaid Services, and the Congressional Budget Office.

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.

# 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.

<sup>a</sup>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 \$187.5 billion.

<sup>b</sup>This tax expenditure does not include \$40.8 billion in revenue losses due to defined contribution plans.

# 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. Fundamentally Reexamine & Transform for the 21<sup>st</sup> Century (i.e., entitlement programs, other spending, and tax policy)**

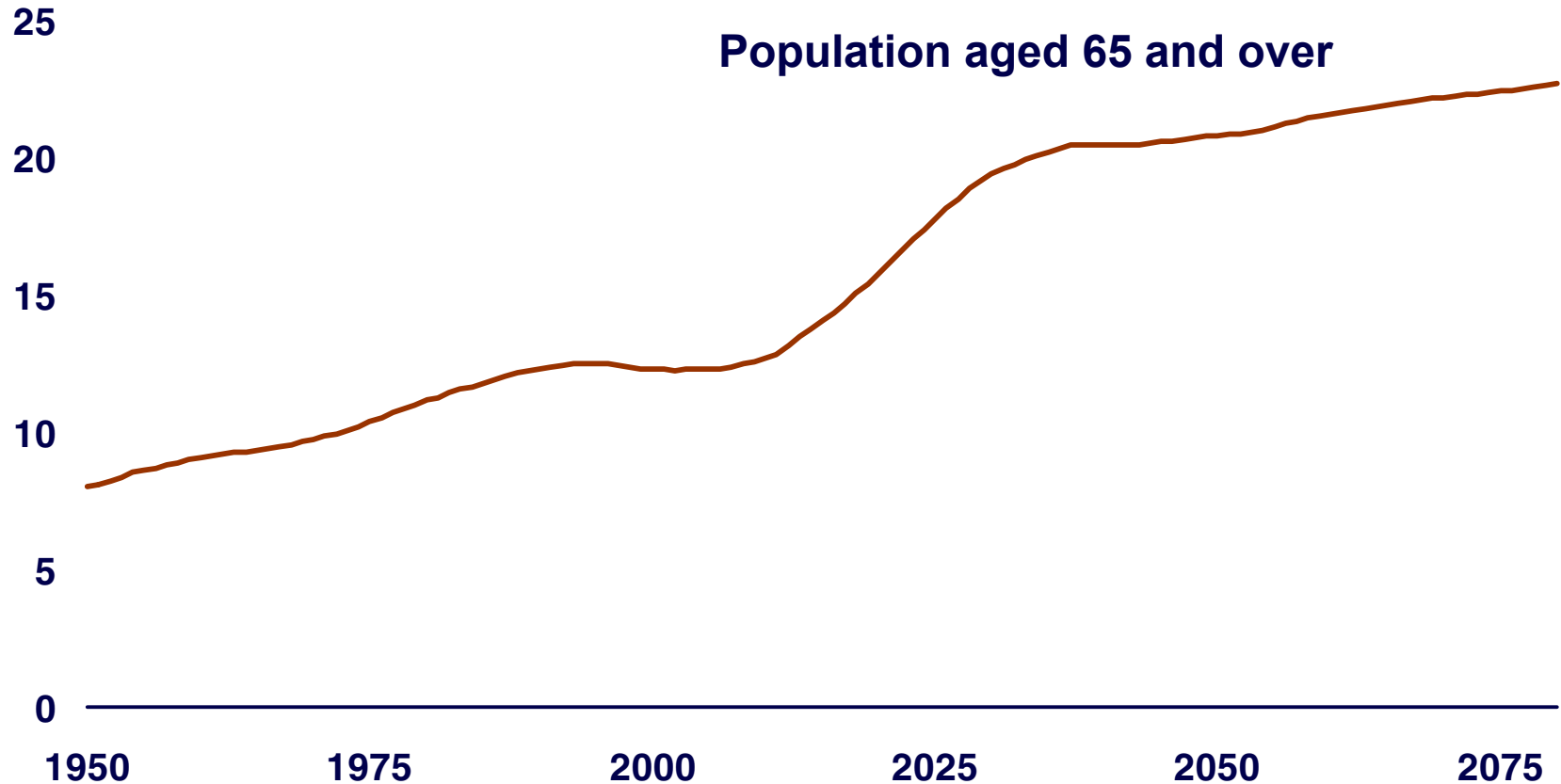
*Solutions Require Active Involvement from both the Executive and Legislative Branches*

# Demographic Trends Pose Challenges for Employers and Workers

- 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

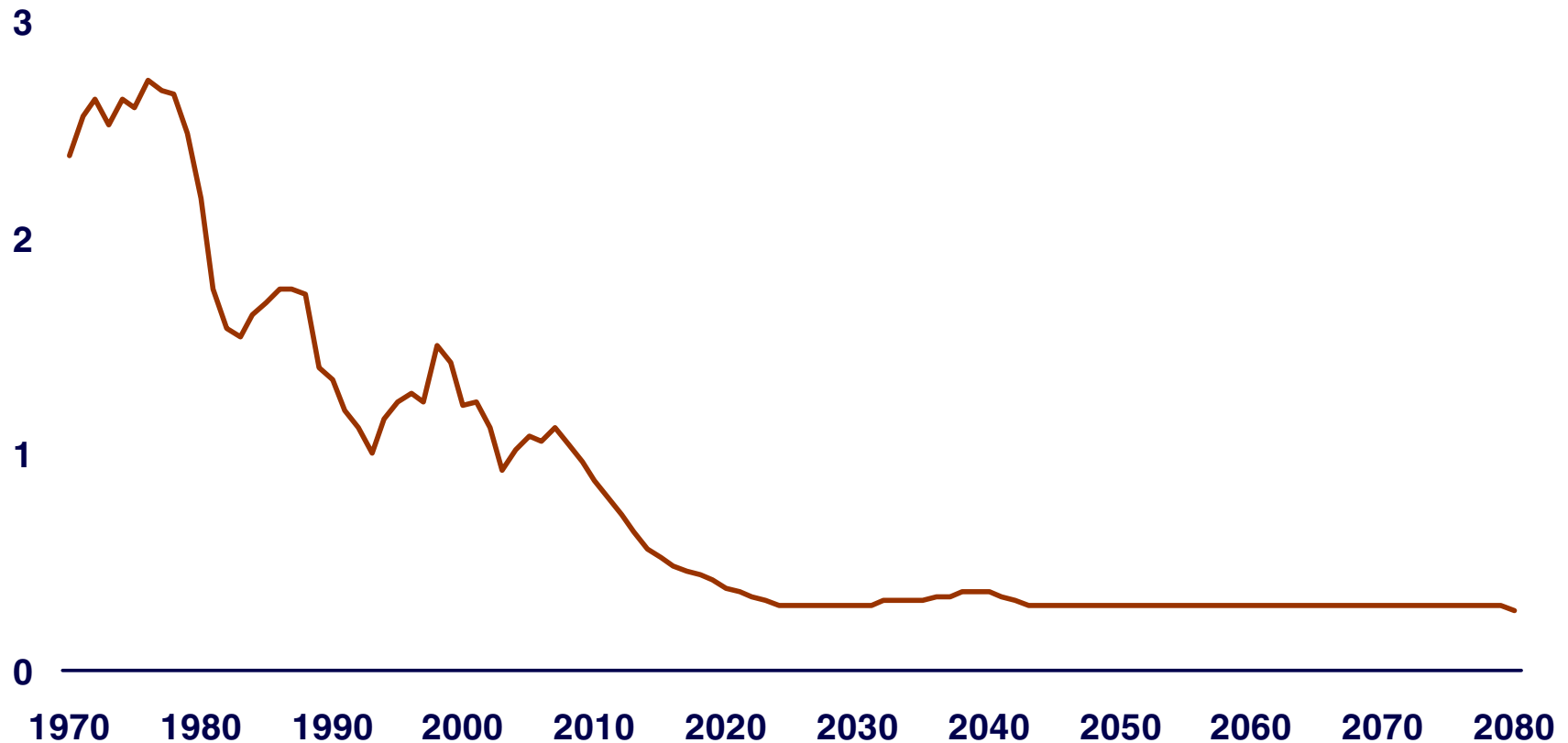


Source: Office of the Chief Actuary, Social Security Administration.

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)

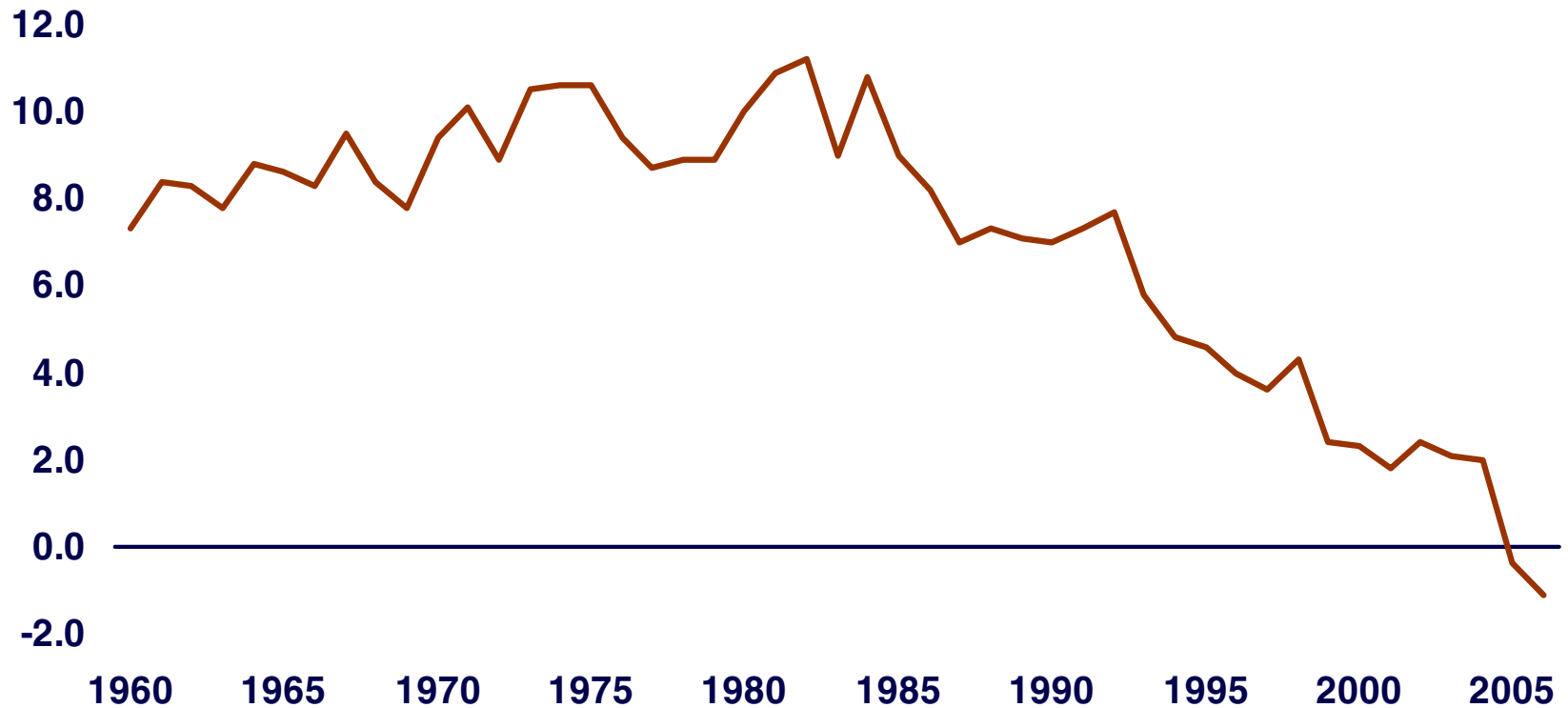


Source: GAO analysis of data from the Office of the Chief Actuary, Social Security Administration.

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

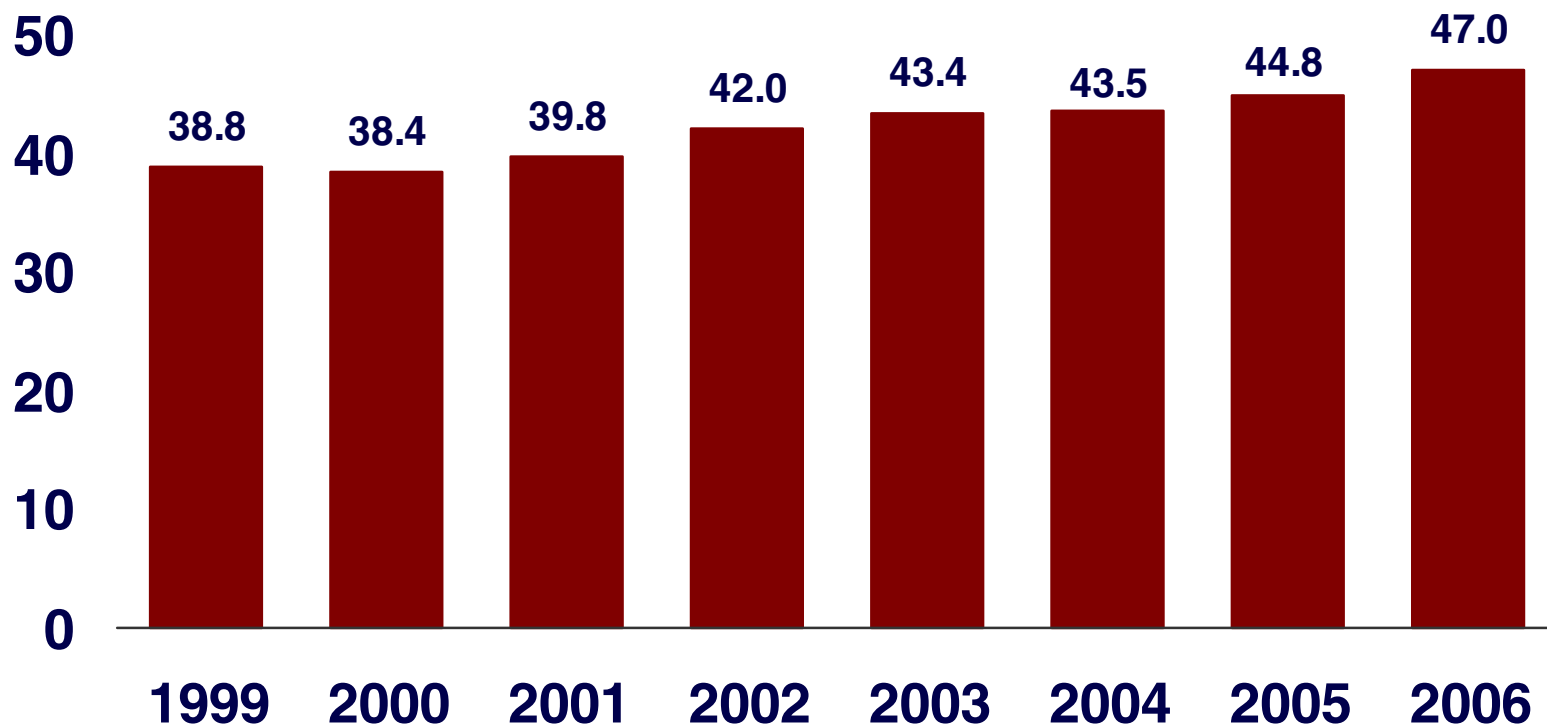


Source: Bureau of Economic Analysis, Department of Commerce.



# Number of Non-elderly Uninsured Americans, 1999-2006

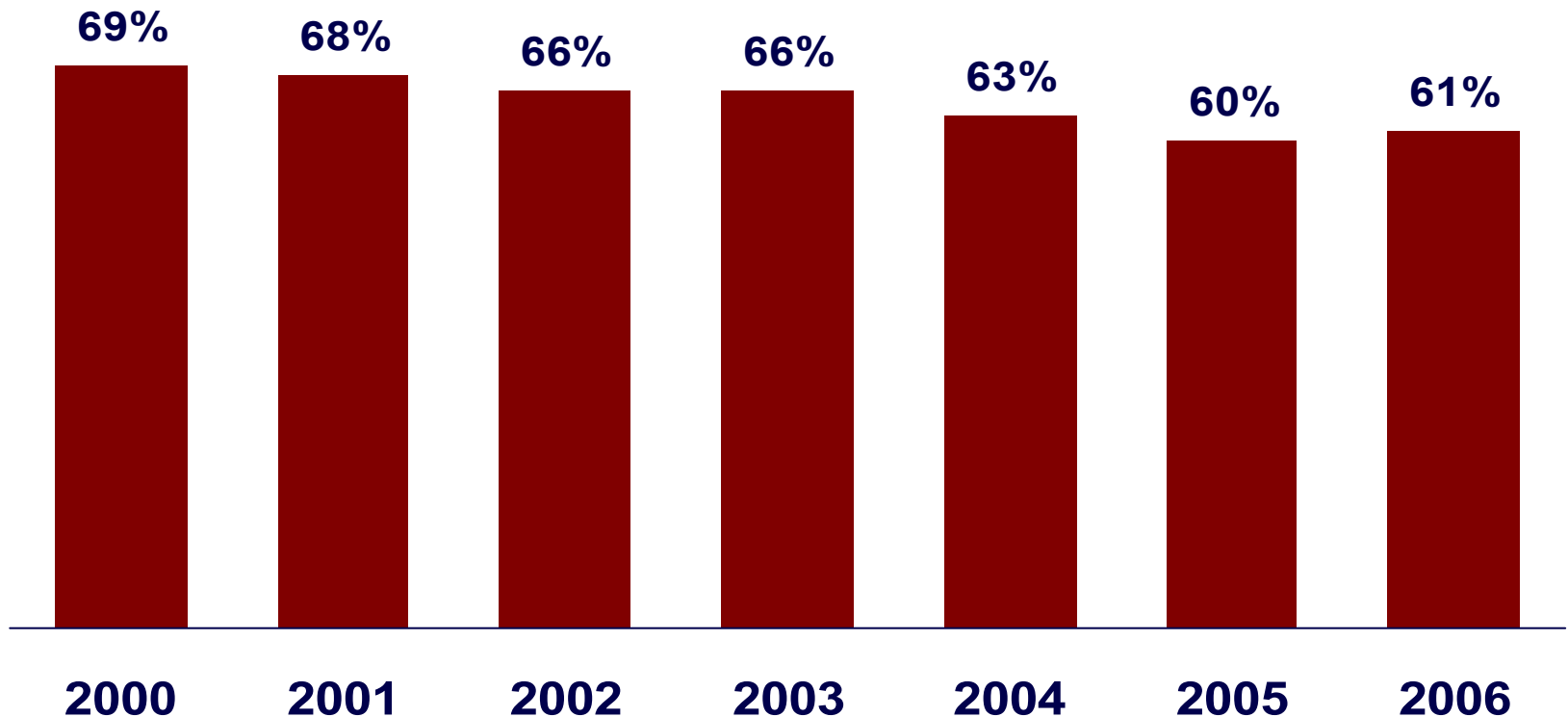
Population in millions



Source: U.S. Census Bureau, Current Population Survey, 2000-2007 Annual Social and Economic Supplements.

Notes: Estimates for 1999-2005 were revised to reflect the results of a change to the survey process that assigns insurance coverage to dependents.

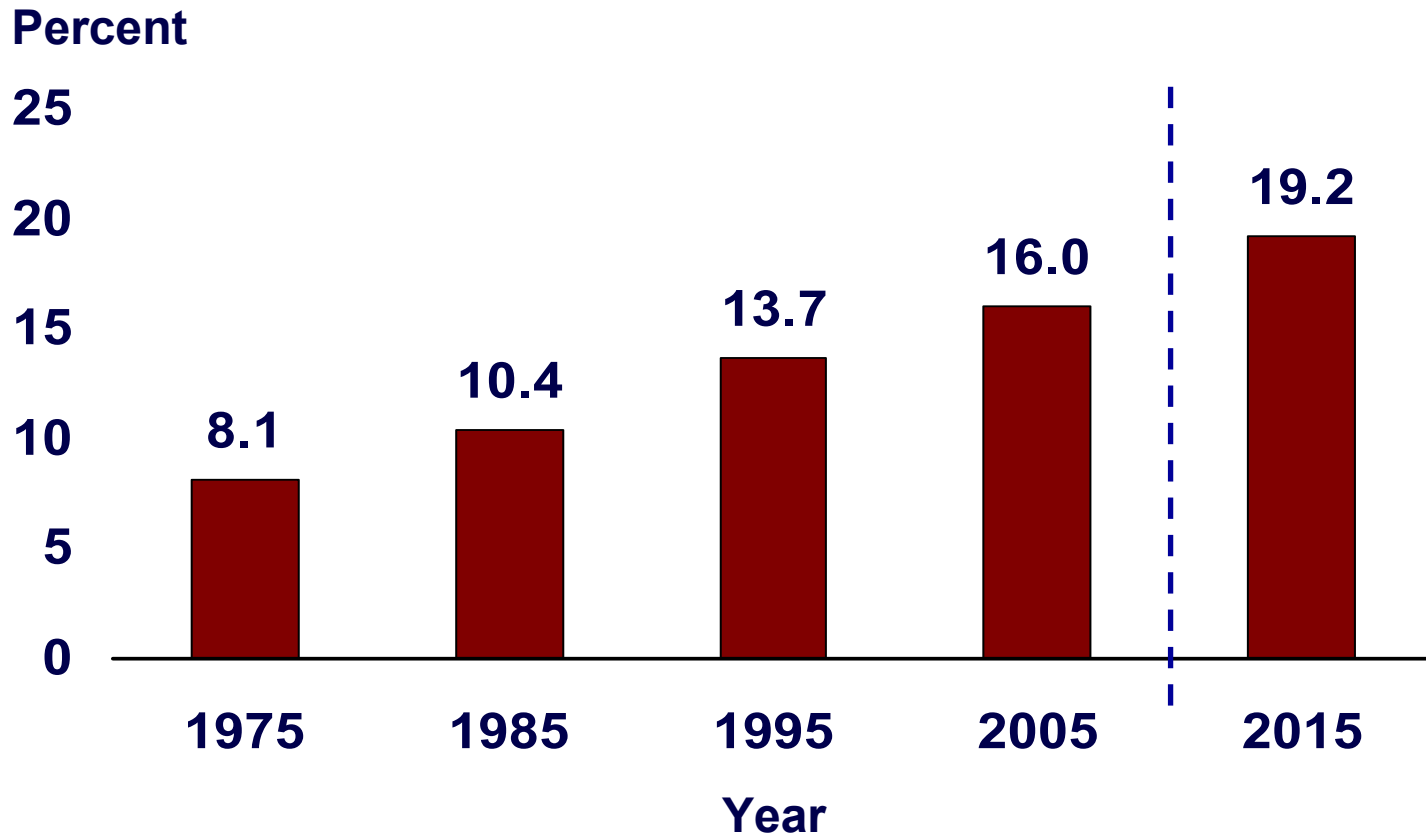
# Percentage of Firms Offering Health Benefits, 2000-2006



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits.

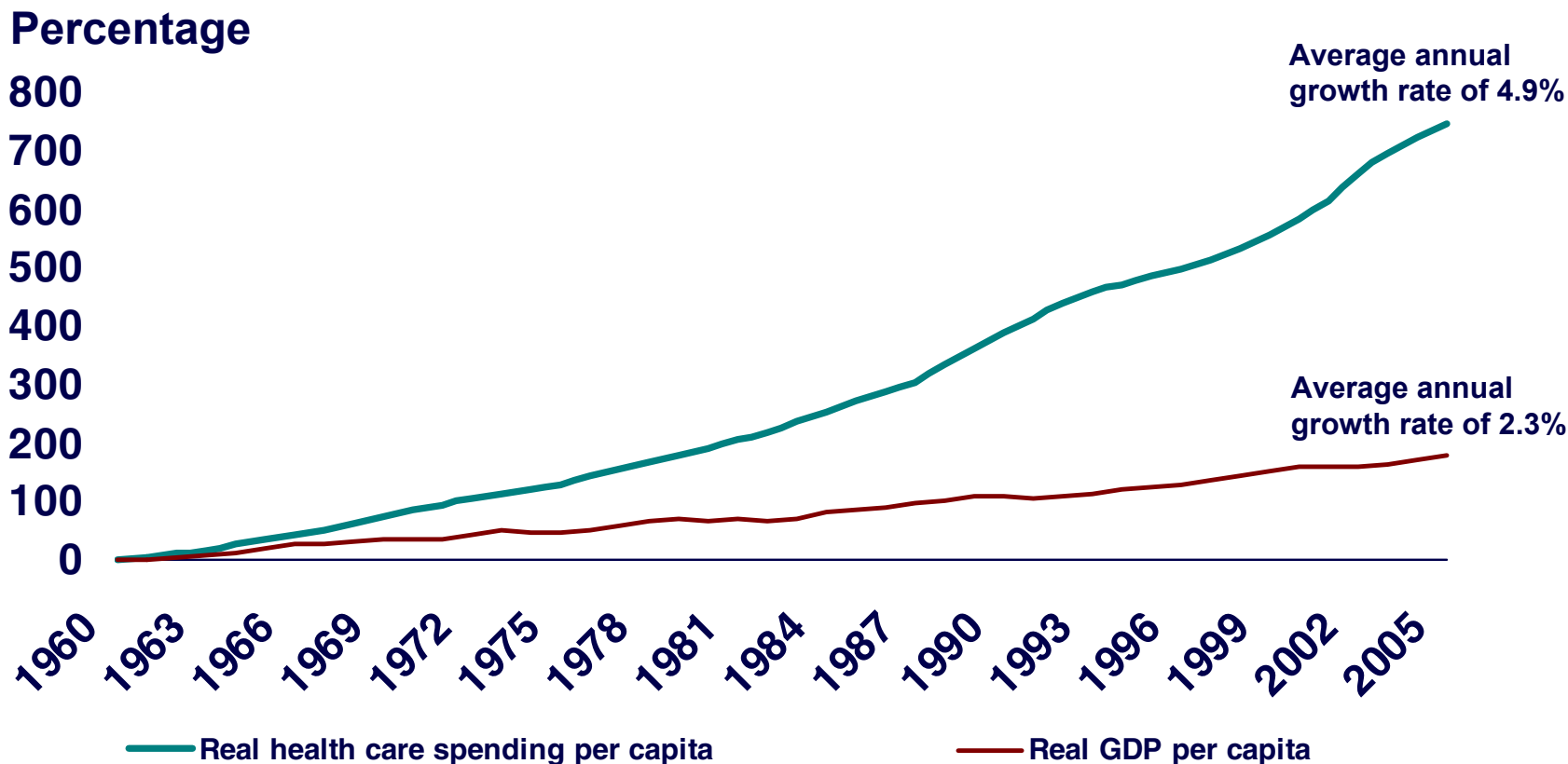
Notes: The survey results are based on a sample of 3,159 firms and include both small firms (3-199 workers) and large firms (200+ workers). While the year to year changes in the percentage of firms offering benefits have not been statistically significant, the cumulative effect has been a large and statistically significant change over this 6 year period.

# 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.

# Growth in Health Care Spending: Cumulative Growth in Real Health Care Spending Per Capita and Real GDP Per Capita, 1960-2005

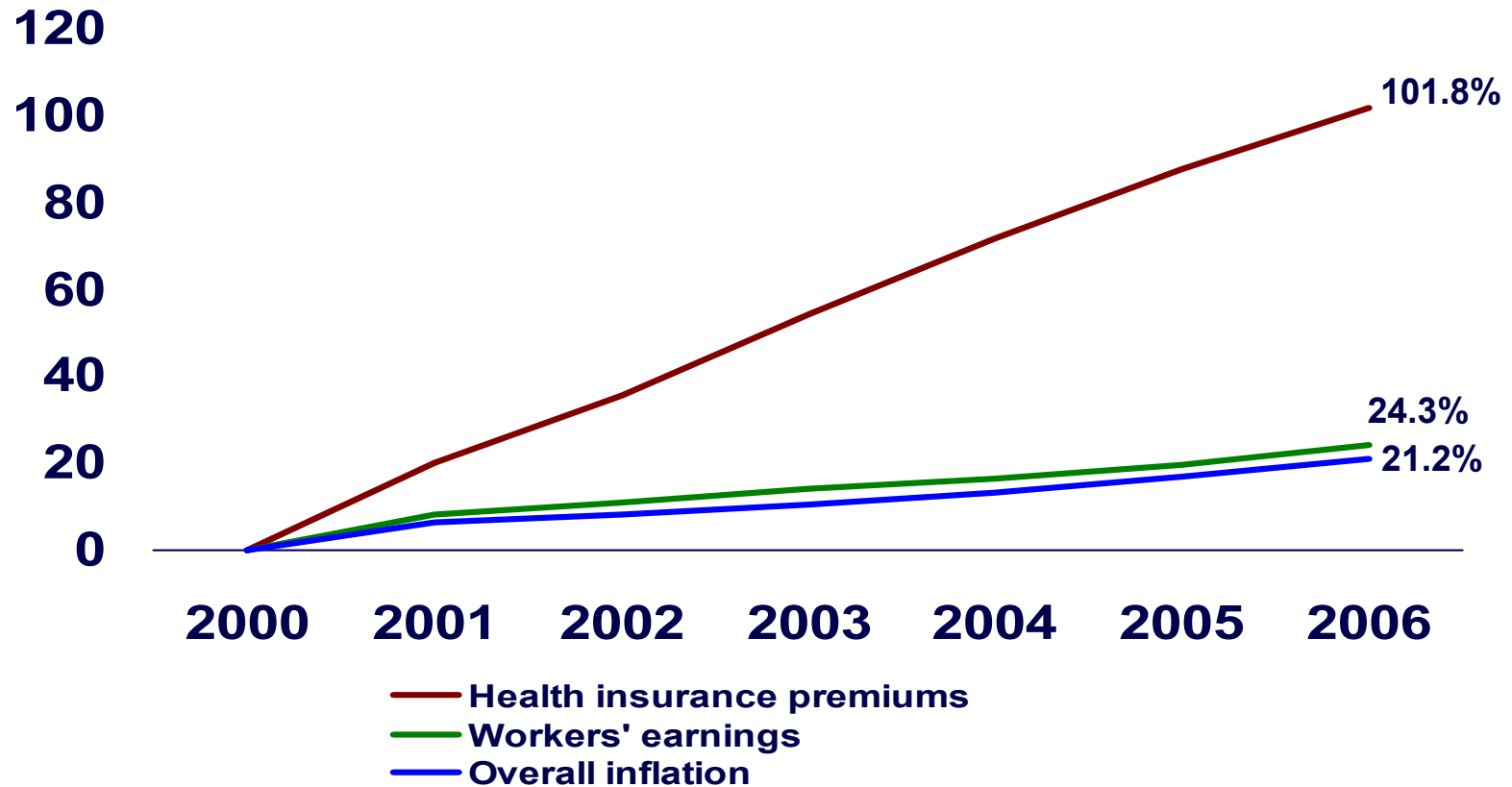


Source: GAO analysis of data from the Centers for Medicare & Medicaid Services, Office of the Actuary, and the Bureau of Economic Analysis.

Note: The most current data available on health care spending per capita are for 2005.

# Growth in Health Insurance Premiums for Employer-Sponsored Health Insurance: Cumulative Growth in Health Insurance Premiums, Overall Inflation, and Workers' Earnings, 2000-2006

Cumulative percentage



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, Bureau of Labor Statistics.

Note: Data on premium increases reflect the employer's and employee's cost of health insurance premiums for a family of four.

# Where the United States Ranks on Selected Health Outcome Indicators

Outcome	Rank
Life expectancy at birth <i>U.S. = 77.8 years in 2004</i>	<b>23 out of 30 in 2004</b>
Infant Mortality <i>U.S. = 6.8 deaths in 2004</i>	<b>26 out of 30 in 2004</b>
Potential Years of Life Lost <i>U.S. = 5,066 in 2002</i>	<b>23 out of 26 in 2002</b>

Source: *OECD Health Data 2006 and 2007*

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).

# 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).

# 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		✓

# Three Key Illnesses

- ***Myopia***
- ***Tunnel Vision***
- ***Self-Centeredness***

# Four National Deficits

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

# Five Leadership Attributes Needed for These Challenging and Changing Times

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



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Web site: [www.gao.gov/cghome.htm](http://www.gao.gov/cghome.htm)

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