United States Government Accountability Office

An Annual Report to Congress

March 2021

THE NATION'S FISCAL HEALTH

After Pandemic Recovery, Focus Needed on Achieving Long-Term Fiscal Sustainability

Accessible Version

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GAO-21-275SP

GAO Highlights

Highlights of GAO-21-275SP.

March 2021

THE NATION'S FISCAL HEALTH

AFTER PANDEMIC RECOVERY, FOCUS NEEDED ON ACHIEVING LONG-TERM FISCAL SUSTAINABILITY

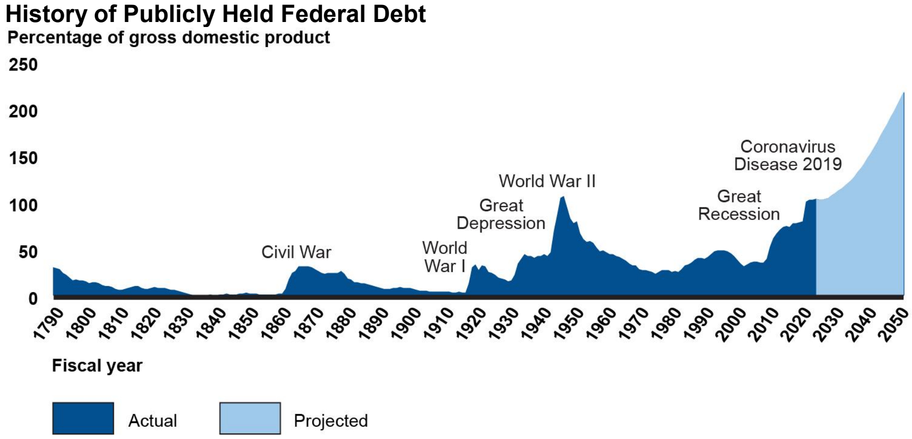
The Government's Fiscal Condition in 2020 Reflects Response to the Pandemic

The COVID-19 pandemic has resulted in catastrophic loss of life and substantial damage to the global economy, stability, and security. This continuing crisis prompted a major federal response. Death tolls remain high and many people remain unemployed, including both those temporarily laid off and those who have permanently lost their jobs.

Congress and the administration have responded in an unprecedented manner to address the COVID-19 pandemic and the resulting severe economic repercussions. Since March 2020, pandemic response has cost trillions of federal dollars. Until the country better contains the virus, the pandemic will likely remain a significant obstacle to more robust economic activity.

After the pandemic recedes and the economy substantially recovers, Congress and the administration should quickly pivot to developing an approach to place the government on a sustainable long-term fiscal path. In fiscal year 2020 debt held by the public reached about 100 percent of gross domestic product (GDP), up from about 79 percent of GDP in fiscal year 2019. Absent any action, debt held by the public is projected to surpass 200 percent of GDP by 2048.

History of Publicly Held Federal Debt



Source: Congressional Budget Office and GAO's alternative simulation. | GAO-21-275SP

Attention Needed to Address the Long-Term Unsustainable Fiscal Path

Under our projections, the debt will reach its highest point in history in 2028 and continue to grow faster than GDP thereafter.

In the long term, spending on federal health care programs and Social Security drive most of the increase in federal non-interest spending as a share of GDP.

Health care. Total health care spending (public and private) in the United States continues to grow faster than the economy and is driven both by an increase in the proportion of the population enrolled in Medicare and by the increase in health care spending per beneficiary. GAO projects federal spending on major

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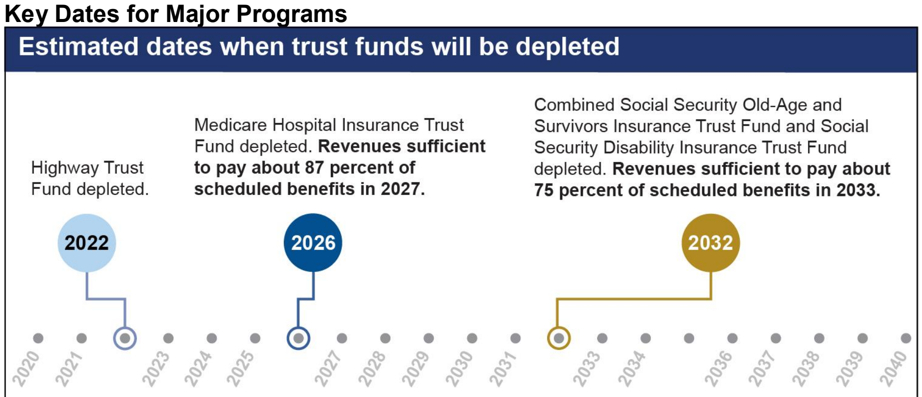
health care programs to grow from 5.9 percent of GDP in fiscal year 2020 to 8.0 percent of GDP in fiscal year 2050. Medicare's Hospital Insurance Trust Fund is projected to be depleted by 2026 with revenues sufficient to pay only 87 percent of scheduled benefits in 2027. Medicare spending is projected to reach $1 trillion per year by fiscal year 2023 while combined federal and state Medicaid spending is projected to reach $1 trillion by 2027.

Social Security. Demographic factors, such as longer lifespans, an aging population, and slower labor force growth, are straining Social Security programs and contributing to a gap between program costs and revenues. GAO projects spending on Social Security will grow from 5.2 percent of GDP in fiscal year 2020 to 6.1 percent of GDP in fiscal year 2050. Spending on Social Security already exceeds $1 trillion per year. The combined Social Security Old-Age and Survivors Insurance and Disability Insurance trust funds are projected to be depleted in 2032 with revenues sufficient to support about 75 percent of scheduled benefits in 2033.

Absent Changes, Continued Spending and Revenue at Unsustainable Levels Will Pose Serious Challenges in the Future

As shown below, many of these key trust funds are projected to be depleted within 15 years or less.

Key Dates for Major Programs



Note:
Social Security's Old-Age and Survivors Insurance Trust Fund and Disability Insurance Trust Fund estimates are in calendar years. Others are in fiscal years.

Sources: Congressional Budget Office. | GAO-21-275SP

Absent Changes, Continued Spending and Revenue at Unsustainable Levels Will Pose Serious Challenges in the Future

The unsustainable fiscal path strains the federal budget and contributes to growing debt. According to CBO, high and rising federal debt increases the likelihood of a fiscal crisis and could lead to a large drop in the value of the dollar or to a loss of confidence in the government's ability or commitment to repay its debt in full.

Consequences of rising debt. Rising debt could also cause policymakers to feel restrained in their capacity to support the economy during a downturn or unexpected events, such as global military conflicts, natural disasters, or public health emergencies. After the current pandemic recedes and the economy substantially recovers, policymakers should turn their attention to swiftly developing a strategy to change the long-term fiscal path. The sooner actions are taken, the less drastic the changes will need to be.

*Effects of compounding interest***.** Persistently low interest rates have resulted in lower spending on net interest. However, due to the substantial size of the debt, GAO projects net interest will become the largest category of spending by 2050, growing from 1.6 percent of GDP in 2020 to 8.9 percent of GDP by 2050. The costs of debt vary based on interest rates, and increased rates can have a compounding effect on the debt. Spending on net interest was $345 billion in fiscal year 2020 and is projected to exceed $1 trillion in fiscal year 2033.

Uncertainty about the debt limit. The debt limit is a legal limit on the total amount of federal debt that can be outstanding at one time. However, it does not restrict Congress's ability to pass spending and revenue legislation that affects the level of debt in the future, nor does it otherwise constrain fiscal policy. In August 2019, Congress and the President suspended the debt limit through July 2021. Uncertainty over whether the debt limit will be raised or suspended leads to increased borrowing costs and disrupts the market for Treasury securities. GAO has suggested previously that Congress consider alternative approaches to the debt limit as part of any long-term fiscal plan.

Fiscal Strategy Will Be Needed to Address the Unsustainable Fiscal Path

Implementing a long-term fiscal plan at the right time can help ensure that the United States remains in a strong economic position to meet its security and social needs and to preserve the flexibility to address future events such as public health emergencies.

GAO has also suggested that Congress consider establishing a long-term fiscal plan for returning to a sustainable long-term path. In 2020, GAO suggested that as part of this plan, Congress consider including fiscal rules and targets, such as a debt-to-GDP target. In developing a fiscal plan, policymakers will need to consider the entire range of federal activities, both revenue (including tax expenditures) and spending (entitlement programs, other mandatory spending, and discretionary spending) that affect the debt path.

Key Considerations for Designing, Implementing, and Enforcing Fiscal Rules and Targets

Key consideration	Supporting explanation
Alignment with Fiscal Policy Goals and Objectives	Setting clear goals and objectives can anchor a **country's** fiscal policy. Fiscal rules and targets can help ensure that spending and revenue decisions align with agreed-upon goals and objectives.
Design tradeoffs and features	The weight given to tradeoffs among simplicity, flexibility, and enforceability depends on the goals a country is trying to achieve with a fiscal rule. In addition, there are tradeoffs between the types and combinations of rules, as well as the time frames over which the rules apply.
Legal framework and performance	The degree to which fiscal rules and targets are binding, such as being supported through a country's constitution or non-binding political agreements, can impact their permanence, as well as the extent to which ongoing political commitment is needed to uphold them.
Flexibility to address emerging issues	Integrating fiscal rules and targets into budget discussions can contribute to their ongoing use and provide for a built-in enforcement mechanism. The budget process can include reviews of fiscal rules and targets.
Integration with budgetary processes	Fiscal rules and targets with limited, well-defined exemptions, clear escape clauses for events such as national emergencies, and adjustments for the economic cycle can help a country address future crises.
Clear roles for supporting institutions	Institutions supporting fiscal rules and targets need clear roles and responsibilities for supporting their implementation and measuring their effectiveness. Independently analyzed data and assessments can help institutions monitor compliance with fiscal rules and targets.

Key consideration	Supporting explanation
Transparency and Communication	Having clear, transparent fiscal rules and targets that a government communicates to the public and that the public understands can contribute to a culture of fiscal transparency and promote fiscal sustainability for the country.

Source: GAO analysis of literature review and interviews. | GAO-21-275SP

Executive Agencies and Congress Have Additional Opportunities to Contribute toward Fiscal Health

Narrow the tax gap. Reducing the gap between taxes owed and those paid could increase tax revenues by billions of dollars annually. The average annual net tax gap was estimated to be $381 billion for tax years 2011 through 2013.

Address improper payments. Improper payments (i.e. those that should not have been made or that were made in an incorrect amount) have consistently been a government-wide issue, totaling an estimated $206 billion for fiscal year 2020. Since fiscal year 2003, cumulative improper payment estimates have totaled about $1.9 trillion.

Implement program reforms. GAO estimates that billions of dollars in additional financial benefits could be achieved by addressing high-risk problems, improving service to the public, and strengthening government performance and accountability. Since fiscal year 2010, actions taken so far by Congress and executive branch agencies have resulted in roughly $429 billion financial benefits.

Contents

Figures

Abbreviations

Financial Report	Financial Report of the United States Government
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CBO	Congressional Budget Office
CDC	Centers for Disease Control and Prevention
CFO Act	Chief Financial Officers Act of 1990
CMS	Centers for Medicare & Medicaid Services
COVID-19	Coronavirus Disease 2019
DI	Disability Insurance
DOD	Department of Defense
Fannie Mae	Federal National Mortgage Association
FMAP	federal matching assistance percentage
Freddie Mac	Federal Home Loan Mortgage Corporation
GDP	gross domestic product
Ginnie Mae	Government National Mortgage Association
IRS	Internal Revenue Service
PBGC	Pension Benefit Guaranty Corporation
PIIA	Payment Integrity Information Act of 2019
OASI	Old-Age and Survivors Insurance
OMB	Office of Management and Budget
PPACA	Patient Protection and Affordable Care Act
SSA	Social Security Administration
Treasury	Department of the Treasury
USPS	U.S. Postal Service

**441 G St. N.W.
Washington, DC 20548**

March 23, 2021

The President
The President of the Senate
The Speaker of the House of Representatives

The Nation's Fiscal Health: After Pandemic Recovery, Focus Needed on Achieving Long-Term Fiscal Sustainability

The Coronavirus Disease 2019 (COVID-19) pandemic has resulted in catastrophic loss of life and substantial damage to the global economy, stability, and security. The COVID-19 pandemic prompted a major federal response to our national public health emergency. Death tolls remain high and many people remain unemployed, including both those temporarily laid off and those who have permanently lost their jobs. The country continues to experience serious economic repercussions and turmoil as a result of the pandemic. Since March 2020, pandemic response has cost trillions of federal dollars. Until the country better contains the spread of the virus, the pandemic will likely remain a significant obstacle to more robust economic activity.

While responsive to the emergency, the pandemic response caused a substantial increase in the nation's debt, further complicating our government's fiscal condition and outlook. As a share of gross domestic product (GDP), debt held by the public increased from about 79 percent at the end of fiscal year 2019 to about 100 percent at the end of fiscal year 2020. Absent policy changes, under our projections, it will continue to grow, surpassing its historical high of 106 percent of GDP in 2028 and exceeding 200 percent in 2048. In the long term, the fiscal outlook poses serious economic, security, and social challenges if not addressed.

Once the pandemic recedes and the economy substantially recovers, Congress and the administration should quickly pivot to developing an approach to place the government on a sustainable long-term fiscal path. Such a plan is needed to ensure that the United States remains in a strong economic position to meet its security and social needs and would preserve the flexibility to address unforeseen events, such as public health emergencies. When developing this plan at the appropriate time, fiscal rules and targets can be used to help frame and control the overall results of spending and revenue decisions.[1]

In this report, we discuss the federal government's fiscal condition and how it changed in fiscal year 2020, the federal government's unsustainable long-term outlook, and risks to the government's future fiscal condition.[2] We also discuss actions Congress and federal agencies can take to achieve a more sustainable fiscal path, as well as the potential consequences of not taking action.[3]

This annual report illustrates the need for such a long-term fiscal plan by describing the fiscal condition of the U.S. government as of the end of fiscal year 2020 and its future fiscal path absent policy changes. This report updates our March 2020 report, and it draws from our long-term simulations, simulations developed by the Congressional Budget Office (CBO), and actual receipts and outlays reported by the Department of the Treasury (Treasury) and CBO.[4]

Every year, the Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget (OMB), prepares the U.S. government's financial statements, which are presented in the Financial Report of the United States Government *(*Financial Report*)*. We are responsible for auditing these statements.[5] The Financial Report contains information on the federal government's financial position and

[1]Since 2017, we have reported that a plan is needed to put the federal government on a sustainable fiscal path. In September 2020, we raised a matter to Congress suggesting it establish a long-term fiscal plan that includes fiscal rules and targets. GAO, *The Nation's Fiscal Health: Effective Use of Fiscal Rules and Targets*, GAO-20-561 (Washington, D.C.: Sept. 23, 2020).

[2]For the purposes of this report, fiscal condition is a broad concept using both budget and financial information. The term "fiscal" is part of fiscal policy, which refers to decisions on taxes and spending that affect the level, composition, and distribution of national income and output. The budget process is a major vehicle for determining and implementing fiscal policy.

[3]For more information on our objectives, scope, and methodology, see appendix I.

[4]GAO, *The Nation's Fiscal Health: Action Is Needed to Address the Federal Government's Fiscal Future*, GAO-20-403SP (Washington, D.C.: Mar. 12, 2020).

[5]GAO, *Financial Audit: Fiscal Years 2019 and 2018 Consolidated Financial Statements of the U.S. Government*, GAO-20-315R (Washington, D.C.: Feb. 27, 2020).The consolidated financial statements of the U.S. government are based on U.S. generally accepted accounting principles. The fiscal year 2020 consolidated financial statements will not be released until after our report.

condition, including its costs and revenues. Since the *2020 Financial Report* was not issued at the time of our analysis, we relied on Monthly Treasury Statements, which summarize the federal government's financial activities.[6]

The Government's Fiscal Condition in Fiscal 2020 Reflects Response to Public Health Emergency and Economic Repercussions

Pandemic Response and Recovery Efforts Led to Significant Growth in Spending

In fiscal year 2020, the reported federal budget deficit increased for the fifth consecutive year. Driven largely by the federal government's response to the COVID-19 pandemic, the federal budget deficit for fiscal year 2020 reached $3.1 trillion—triple the level in fiscal year 2019. This represents the largest budget deficit as a share of GDP since 1945. Figure 1 shows increasingly larger deficits from fiscal year 2015 to fiscal year 2020, as the gap between annual outlays and annual receipts has grown.

Federal Deficit

The federal deficit is the amount by which the government's spending exceeds its revenues for a given period, usually a fiscal year.

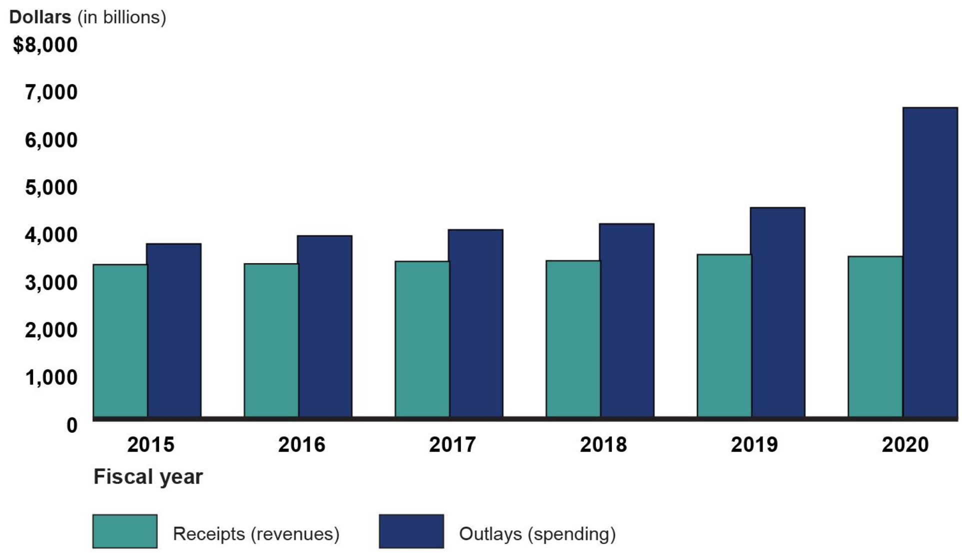
Federal Debt

Federal debt is the amount of money that the federal government owes, either to its investors (debt held by the public) or to itself (intragovernmental debt).

Source: GAO. | GAO-21-275SP

[6]The Monthly Treasury Statement summarizes the financial activities of the federal government and off-budget federal entities on a primarily cash basis, which conforms to the Budget of the U.S. Government.

Figure 1: Receipts and Outlays for Fiscal Years 2015–2020



Source: Financial Reports of the United States Government and September 2020 Monthly Treasury Statement. | GAO-21-275SP

Data table for Figure 1: Receipts and Outlays for Fiscal Years 2015–2020

Fiscal Year	Receipts (billions)	Outlays (billions)
2015	$3,249	$3,688
2016	$3,267	$3,854
2017	$3,315	$3,981
2018	$3,329	$4,108
2019	$3,462	$4,447
2020	$3,420	$6,552

From fiscal year 2019 to fiscal year 2020, total receipts (revenues) fell by about 1 percent, and total outlays (spending) increased by about 47 percent. Most of the increase in the deficit occurred in the second half of fiscal year 2020. At the end of March 2020, the deficit was about $743.4 billion. By the end of the fiscal year, the deficit had increased to $3.1 trillion.

The response to the COVID-19 pandemic accounts for much of the increase in the deficit. As of January 2021,[7] Congress had appropriated[8] about $3.1 trillion to fund response and recovery efforts.[9] This relief provided direct support to individuals and to enterprises economy-wide, to include public health systems and private-sector businesses.

In March 2021, Congress passed, and the President signed into law, the American Rescue Plan Act of 2021.[10] It provides additional relief to address the continued impact of COVID-19 on the economy, public health, state, local, and tribal governments, individuals, and businesses. CBO estimates the budgetary effects of the law to be $1.8 trillion.

In fiscal year 2020, spending also rose for Medicaid by $49 billion (12 percent), partly due to a change in the federal matching rate enacted in response to the pandemic. Medicare spending rose by $125 billion (19.2 percent), Social Security by $51 billion (4.9 percent), and national defense by $39 billion (5.6 percent).

Federal Debt Increased in Fiscal Year 2020

Total federal debt rose to $26.9 trillion at the end of fiscal year 2020, an increase of about $4.2 trillion from fiscal year 2019 (see figure 2). Both

[7]As of March 2021, six relief laws had been enacted in response to the COVID-19 pandemic: the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020, Pub. L. No. 116-123, 134 Stat. 146 (Mar. 6, 2020); Families First Coronavirus Response Act, Pub. L. No. 116-127, 134 Stat. 178 (Mar .18, 2020); Coronavirus Aid, Relief, and Economic Security Act, Pub. L. No. 116-136, 134 Stat. 281 (Mar. 27, 2020) (CARES Act); Paycheck Protection Program and Health Care Enhancement Act, Pub. L. No. 116-139, 134 Stat. 620 (Apr. 24, 2020); Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, 134 Stat. 1182 (Dec. 27, 2020), and American Rescue Plan Act of 2021, Pub. L. No. 117-2, 135 Stat. 4 (Mar. 11, 2021).

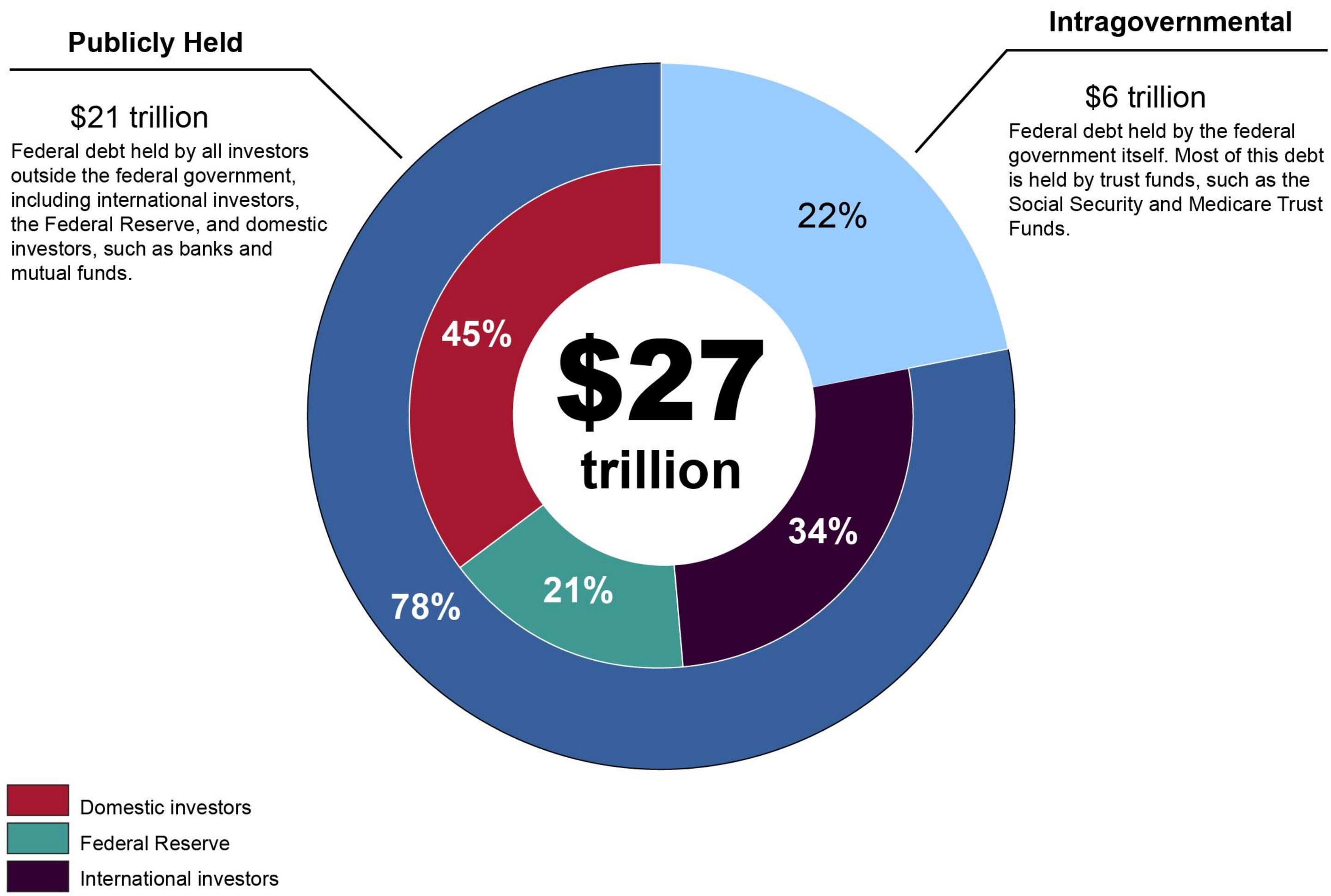
[8]As of January 31, 2021, the most recent date for which government-wide information was available at the time of our analysis, the federal government had obligated a total of $2.2 trillion and expended $1.9 trillion of the COVID-19 relief funds as reported by federal agencies to the Department of the Treasury's (Treasury) Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS).

[9]The Consolidated Appropriations Act, 2021, expanded several CARES Act programs, including appropriating additional funds for targeted advances for the Economic Injury Disaster Loan Program and authorizing additional Paycheck Protection Program loans and rescinded unobligated funds for certain programs. Pub. L. No. 116-260, 134 Stat. 1182 (2020). The Consolidated Appropriation Act, 2021, led to the rescission of about $625 billion of unobligated balances for certain programs funded though COVID-19 relief laws.

[10]American Rescue Plan Act of 2021, Pub. L. No. 117-2, 135 Stat. 4.

debt held by the public and debt held by government accounts, known as intragovernmental debt, increased. Debt held by the public increased from about \$16.8 trillion to \$21.0 trillion, and intragovernmental debt increased slightly, but remains around \$5.9 trillion.

Figure 2: Intragovernmental Debt and Debt Held by the Public, by Sector as of September 30, 2020



Sources: GAO analysis of Federal Reserve and U.S. Department of the Treasury data. | GAO-21-275SP

Data table for Figure 2: Intragovernmental Debt and Debt Held by the Public, by Sector as of September 30, 2020

Publicly Held	Intragovernmental
21	78

Intrgovernmental	International Investors	Federal Reserve	Domestic Investors
20 -22% of the total amount	23 – 34% of the remaining 78%	16 -21% of the remaining 78%	41- 45% of the remaining 78%

As a share of GDP, debt held by the public increased from about 79 percent at the end of fiscal year 2019 to about 100 percent at the end of fiscal year 2020.[11] Debt held by the public is reported as a liability on the consolidated financial statements of the U.S. government. Intragovernmental debt is debt owed by the U.S. Treasury to another part of the government. Since it is an asset to those other federal government accounts but a liability to Treasury, they offset each other in the consolidated financial statements. Debt held by the public is a claim on today's economy whereas debt held by government accounts is a claim on the future. However, when securities from intragovernmental debt are redeemed, these redemptions usually are financed by borrowing from the public (i.e., investors purchasing Treasury securities). At that point, the amount of redeemed intragovernmental debt is replaced by debt held by the public.

The Federal Reserve is the largest individual domestic investor; as of September 2020 it held more than $4.4 trillion in Treasury securities—or 21 percent of all debt held by the public. International investors—including both private investors and foreign official institutions, such as central banks and government-owned investment funds—held more than $7.0 trillion, or about 34 percent, of debt held by the public as of September 2020.[12]

To achieve its goal of financing the government's borrowing needs at the lowest cost over time, Treasury must maintain strong demand from a diverse group of domestic and international investors. From March to September 2020, as Treasury rapidly increased borrowing to respond to the COVID-19 pandemic, the Treasury securities holdings of domestic

[11]GAO, *Financial Audit: Bureau of the Fiscal Service's FY 2020 and FY 2019 Schedules of Federal Debt*, GAO-21-124 (Washington, D.C., Nov. 9, 2020). GDP is the value of all goods and services produced within the borders of a country in a given period. The dollar value of debt is difficult to interpret absent some sense of the size of the economy supporting it. Therefore, the ratio of debt to GDP is used to gauge a country's government's ability to pay its debt. Other factors being equal, increasing GDP lowers the debt-to-GDP ratio while decreasing GDP raises this ratio.

[12]These figures are based on the value of Treasury securities held by different sectors from the "Financial Accounts of the United States" produced by the Federal Reserve.

investors—which includes a variety of private investors (e.g., individuals, mutual funds, banks, and pension funds), and state and local governments—increased by more than $1.7 trillion; a 22 percent increase. In March 2020, the Treasury market experienced an episode of market volatility related to the COVID-19 pandemic that briefly increased interest rates on Treasury securities and prompted the Federal Reserve to take a number of actions to help support market functioning—including rapidly purchasing $1.8 trillion in Treasury securities from investors.[13]

Since the outbreak of the COVID-19 pandemic, the major credit rating agencies have maintained their rating of U.S. debt at AAA or, in the case of Standard & Poor's, AA+.[14] The agencies note the continued strength and resilience of the U.S. economy and institutions. However, as of July 2020, the credit rating agency Fitch—while retaining its AAA rating of US debt—labeled the U.S. outlook negative to reflect the ongoing deterioration in U.S. public finances and the absence of a credible fiscal plan.[15]

Moody's U.S. outlook remains stable, but the rating agency noted in June 2020 that despite low interest rates, it expects U.S. debt affordability to deteriorate over the longer term driven mainly by lower government revenues, higher average levels of unemployment, and higher debt accumulation.[16] A failure to address the nation's unsustainable fiscal path over the long term could make it difficult to maintain the federal

[13]The Federal Reserve conducts monetary policy to promote maximum employment, stable prices, and moderate long-term interest rates. As part of this role, the Federal Open Market Committee is responsible for directing open market operations—the purchase and sale of securities in the open market by a central bank—to influence the total amount of money and credit available in the economy. We have ongoing work pursuant to statutory authority provided in the CARES Act to examine the actions Treasury has taken to finance the federal government's response to the COVID-19 pandemic and changes to the cost and liquidity of Treasury securities during that time.

[14]In August 2011, Standard & Poor's lowered its long-term sovereign credit rating on the United States from AAA to AA+, citing the United States' rising public debt burden and greater policymaking uncertainty.

[15]See Fitch Ratings, *Fitch Revises United States' Outlook to Negative; Affirms at 'AAA'*, (New York: July 31, 2020). A stable outlook indicates a low likelihood of a rating change over the medium term. A negative, positive, or developing outlook indicates a higher likelihood of a rating change over the medium term.

[16]See Moody's Investors Service, *Rating Action: Moody's affirms United States' AAA rating; maintains stable outlook*, (New York: June 19, 2020).

government's credit ratings and attract investors without Treasury paying higher interest rates.[17]

Long-Term Fiscal Projections Show the Federal Government Is on an Unsustainable Fiscal Path

International organizations recommend reporting on the long-term sustainability of the government's fiscal policy because neither accrual-based financial statements nor largely cash-based budgets provide a full picture of the government's fiscal outlook.[18] Even prior to the COVID-19 pandemic and resulting economic turmoil, long-term fiscal projections by GAO, by CBO,[19] and in the *2019* F*inancial Report*[20] showed that, absent policy changes, the long-term path of the debt was unsustainable.[21]

[17]For more information, see GAO, *Federal Debt Management: Treasury Should Strengthen Policies for Market Outreach and Analysis to Maintain Broad-Based Demand for Securities*, GAO-20-131 (Washington, D.C.: Dec. 5, 2019). In this report, we identified potential risks to investor demand for Treasury securities, including rising debt levels.

[18]See International Public Sector Accounting Standards Board, *Recommended Practice Guideline 1: Reporting on the Long-Term Sustainability of an Entity's Finances* (July 2013). The International Monetary Fund also includes fiscal sustainability as one of the principles in its "Fiscal Transparency Code," an international standard for disclosure of information about public finances. In September 2009, the Federal Accounting Standards Advisory Board issued an accounting standard that requires the consolidated financial statements of the U.S. Government to include Fiscal Sustainability Reporting. Fiscal Sustainability Reporting includes a Statement of Long-Term Fiscal Projections, reporting the fiscal gap, and additional required disclosures.

[19]For the purposes of this report, whenever we refer to CBO's "long-term projections" or CBO's "long-term budget outlook" we are referring to CBO, *The 2021 Long-Term Budget Outlook* (Washington, D.C.: March 2021).

[20]*Fiscal Year 2019 Financial Report of the United States Government*. As of the time of this report writing, *the Fiscal Year 2020 Financial Report of the United States Government* had not been issued.

[21]GAO and CBO's projections do not take into account the American Rescue Plan Act of 2021, Pub. L. No. 117-2, 135 Stat. 4.

When Will Debt Surpass Its Historical High?

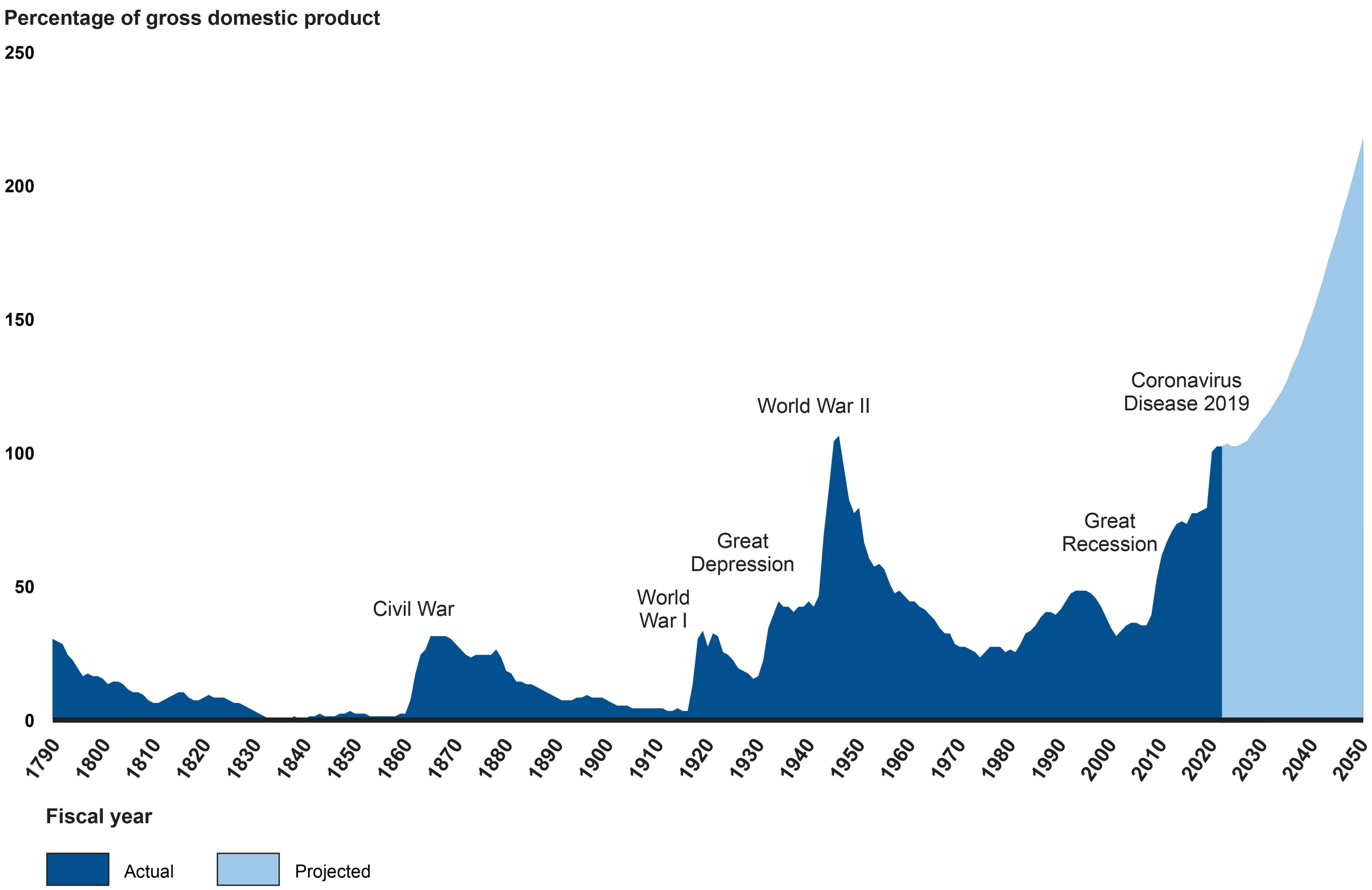
The timing and pace of debt-to-GDP growth depend on the underlying assumptions made in fiscal projections and simulations.

Both GAO and CBO projections show that, absent a change in policy, the debt-to-GDP ratio would reach its highest value in history within the next 7 to 10 years.

Source: GAO and CBO. | GAO-21-275SP

As figure 3 shows, for most of the nation's history, the debt-to-GDP ratio has increased during wartime and recessions and decreased during peacetime and economic expansions. Publicly held debt as a share of GDP peaked at 106 percent just after World War II (in 1946) but then fell rapidly. However, U.S. debt held by the public as a share of GDP grew during three of the four most recent economic expansions. The federal government has run a deficit and added to its debt in every fiscal year since 2002. Persistent and growing deficits have caused debt held by the public to grow faster than GDP, and the ratio of debt to GDP has increased from about 32 percent at the end of fiscal year 2001 to about 100 percent at the end of fiscal year 2020.

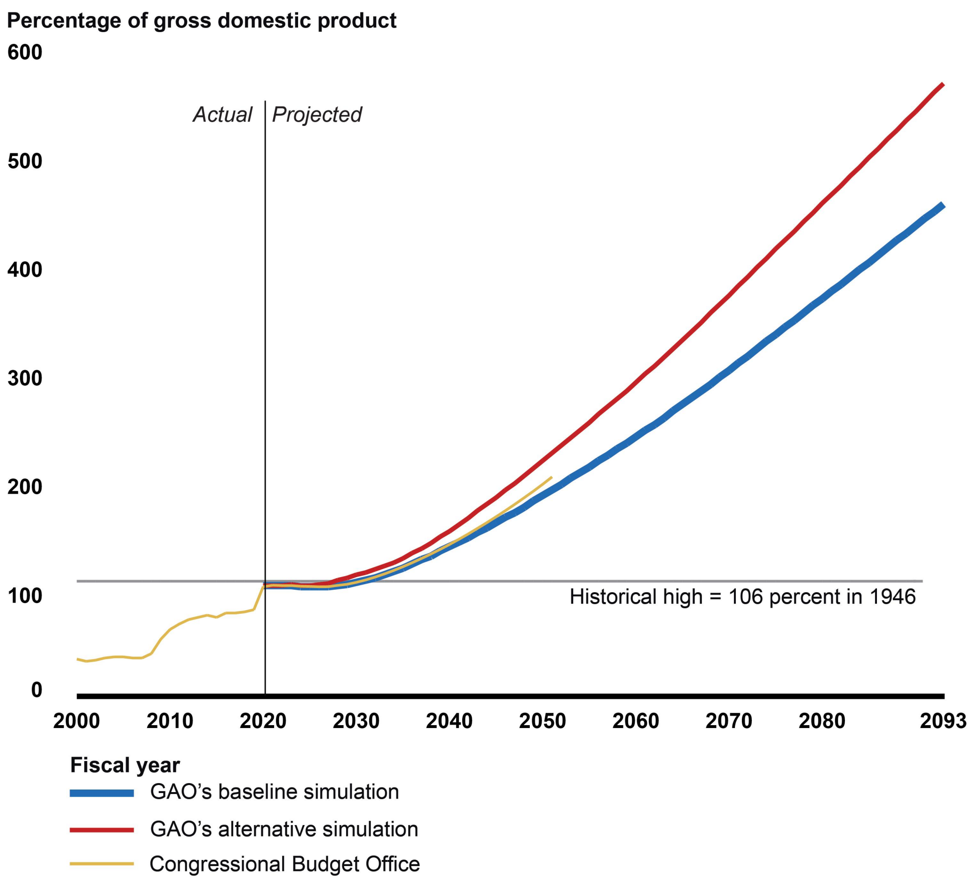
Figure 3: Federal Debt Held by the Public



Source: Congressional Budget Office and GAO's alternative simulation. | GAO-21-275SP

Looking forward, all the projections and simulations discussed in this report show that debt held by the public continues to grow substantially as a share of GDP (see figure 4). Moreover, these projections and simulations show that publicly held debt will reach a historical high within 7 to 10 years. Although not identical, both CBO's simulation and GAO's baseline simulation generally assume current law (e.g., that tax provisions, such as temporarily reduced income tax rates, expire as scheduled).[22] GAO's alternative simulation generally reflects historical policy experiences in assuming some variation from current law, such as the extension of tax provisions scheduled to expire.

Figure 4: Debt Held by the Public under Projections from GAO and the Congressional Budget Office (CBO)



Sources: GAO and Congressional Budget Office. | GAO-21-275SP

[22]Tax Cuts and Jobs Act of 2017, Pub. L. No. 115-97, 131 Stat. 2054 (Dec. 22, 2017).

Note: GAO's baseline simulation and CBO's March 2021 long-term extended baseline projection begin by using CBO estimates and generally assume current law continues into the future. GAO's baseline simulation assumes that revenue remains a constant share of gross domestic product (GDP). GAO's alternative simulation generally reflects historical trends, such as the extension of tax provisions scheduled to expire. Each simulation has its own GDP projections, which affect the projected debt-to-GDP ratios. See appendix I for additional discussion on the assumptions made in GAO's model. CBO's long-term budget projections extend 30 years to 2051 while GAO's extend 75 years.

All projections involve some degree of uncertainty. Future policy decisions about federal spending, revenues, the federal role in the delivery of health care, and other areas would change the projections. The projected debt-to-GDP ratio is sensitive to assumptions about projected health care costs, interest rates, spending, revenues, and economic growth.[23] The projections do not fully account for fiscal risks or exposures discussed later in this report, such as natural disasters or public health emergencies.

Both the current fiscal condition and the long-term projections of fiscal sustainability are driven by the economy and by laws passed by Congress and signed into law by the President. CBO's March 2021 long-term budget outlook projects that debt as a share of GDP in 2049 will be 45 percentage points higher than projected in 2019.[24] CBO attributes this difference primarily to the effects of the pandemic and actions taken to respond to it—including the impact on economic activity. CBO projects deficits to remain large by historical standards even after the effects of the COVID-19 pandemic fade. Similarly, GAO's alternative simulation shows deficits rising from about 7 percent of GDP to 15 percent between 2030 and 2050.

According to CBO, high and rising federal debt increases the likelihood of a fiscal crisis. CBO identified concerns that the government's fiscal position could lead to a large drop in the value of the dollar, or a loss of confidence in the government's ability or commitment to repay its debt in full. CBO has also reported that rising debt could cause policymakers to feel restrained in their capacity to support the economy during a downturn or unexpected event. The unsustainable fiscal path is straining the federal budget and contributing to growing debt. The longer that action to

[23]To illustrate this uncertainty, GAO produces sensitivity analyses that show the effects on its simulations if selected variables are higher or lower than projected. See https://files.gao.gov/multimedia/gao-21-211/interactive/index.html.

[24]In 2019, CBO's long-term budget outlook projection of debt-to-GDP for 2049 was 144 percent; whereas, in 2021 the same projection for the year 2049 is 189 percent.

address this issue is delayed, increasingly drastic changes will be needed.

States and Localities Face Similar Challenges

State and local government fiscal conditions deteriorated significantly in the spring of 2020 as the national economy weakened and most states delayed income tax filing deadlines. Since this initial shock, total state and local government tax revenues and access to credit via municipal bond markets have significantly improved. In the aggregate, state and local government expenditures remained steady during the pandemic while state and local government employment is substantially lower than before the pandemic.

In addition, as the number of continuing unemployment claims remains historically high, more states face increased financial strain, and some have sought loans from the federal government to pay unemployment insurance benefits.[25] As of March 12, 2021, about a year since the March 2020 spike in UI claims, 20 states and territories held federal loans totaling about $52.1 billion.

Changes in state and local government workforces suggest continued weakness in these governments' finances. We reported in January 2021 that employment by state and local governments increased slightly in November 2020 and fell in December 2020, falling in three out of the last four months of calendar year 2020.[26] According to Moody's Analytics, state and local governments have used cost-cutting measures, including reducing their workforce by roughly 1.3 million public sector workers since the start of the pandemic, leading to the smallest state and local government workforce since 2001.

[25]While the CARES Act unemployment insurance programs are federally funded, regular unemployment insurance is primarily funded through state and federal taxes on employers. When a state exhausts the funds available for regular unemployment insurance benefits, it may borrow from the federal government. According to Department of Labor data, even before the pandemic, many states were not taking in enough unemployment insurance tax revenue to satisfy the solvency standard specified in the department's regulations providing for interest-free loans to states. See 20 C.F.R. § 606.32.

[26]GAO, *COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention,* GAO-21-265 (Washington, D.C.: Jan 28, 2021).

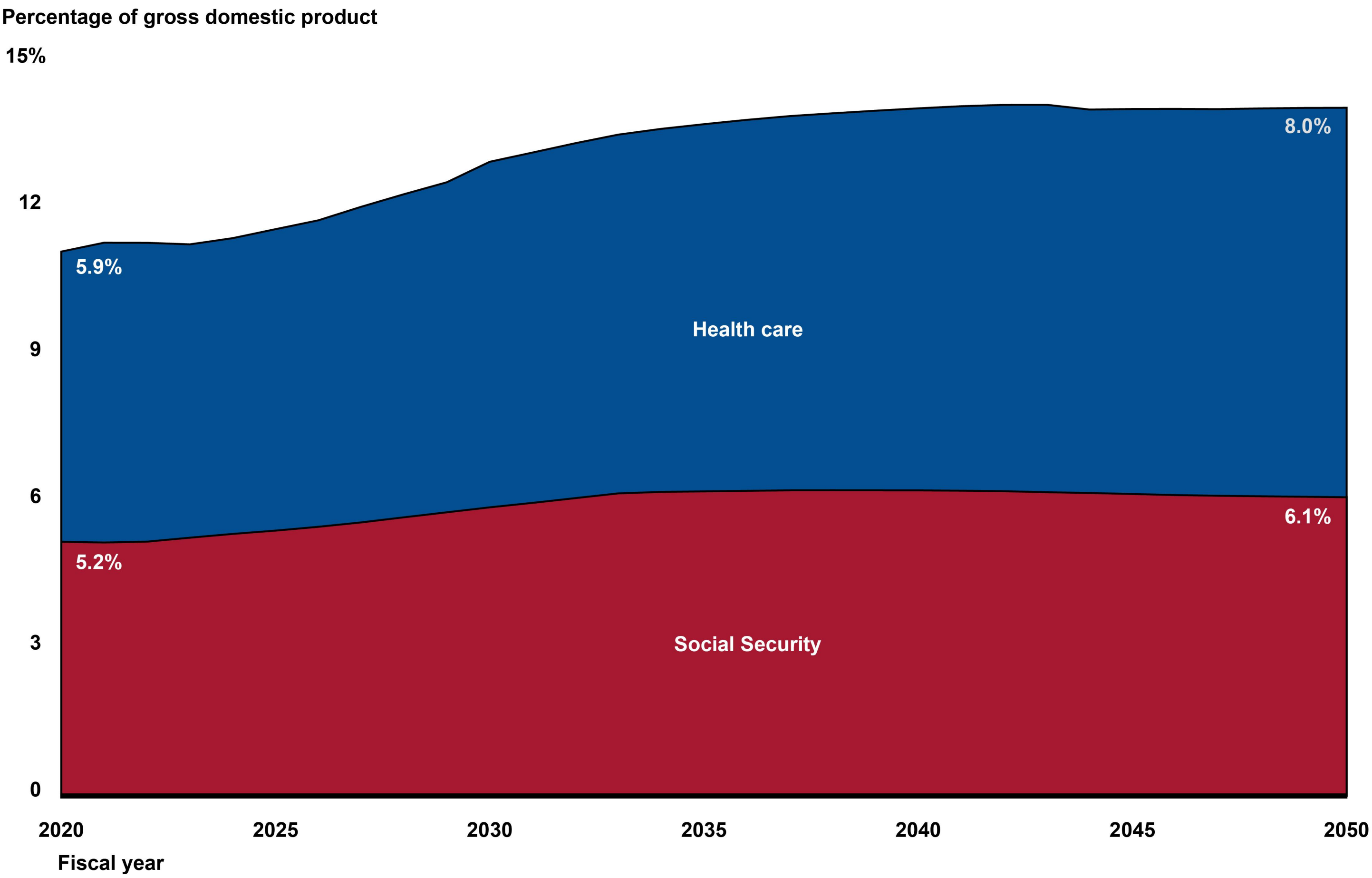
A number of states also tapped their reserve funds to balance budgets for fiscal year 2020. Four COVID-19 relief laws provided an estimated $335 billion in funds to agencies for assisting U.S. states, localities, territories, and tribes, including the Coronavirus Relief Fund, which provided $150 billion in direct assistance to help offset costs of their response to the COVID-19 pandemic.[27] However, most of those funds are for costs directly related to the pandemic and cannot be used for stabilizing states' and localities' budgets.

Health Care and Social Security Spending Remain Key Drivers of Federal Non-Interest Spending in the Long Term

Despite the elevated levels of spending attributed to federal COVID-19 response in 2020, as figure 5 shows, most of the increase in federal non-interest spending as a share of GDP over the long term is driven by spending on federal health care programs and Social Security.

[27]Pub. L. No. 116-136, § 5001, 134 Stat. at 501, *codified at* 42 U.S.C. § 801. Four COVID-19 relief laws are the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020, Pub. L. No. 116-123, 134 Stat. 146; Families First Coronavirus Response Act, Pub. L. No. 116-127, 134 Stat. 178; CARES Act, Pub. L. No. 116-136, 134 Stat. 281; and Paycheck Protection Program and Health Care Enhancement Act, Pub. L. No. 116-139, 134 Stat. 620.

Figure 5: Growth in Major Areas of Federal Non-Interest Spending



Source: GAO's alternative simulation. | GAO-21-275SP

Data table for Figure 5: Growth in Major Areas of Federal Non-Interest Spending

Fiscal Year	Health Care	Social Security
2020	5.93147	5.18972
2021	6.12795	5.17545
2022	6.10850	5.19253
2023	5.99545	5.27366
2024	6.04481	5.35079
2025	6.16037	5.41866
2026	6.26391	5.49656
2027	6.45044	5.58630
2028	6.60367	5.69063

Fiscal Year	Health Care	Social Security
2029	6.74580	5.79262
2030	7.06263	5.89424
2031	7.15971	5.98563
2032	7.25363	6.08270
2033	7.33193	6.17978
2034	7.42003	6.20926
2035	7.50404	6.22098
2036	7.58265	6.23087
2037	7.64815	6.24195
2038	7.70382	6.24366
2039	7.75824	6.24213
2040	7.80755	6.24128
2041	7.85868	6.23375
2042	7.89593	6.22409
2043	7.91863	6.20330
2044	7.83646	6.18772
2045	7.86801	6.16753
2046	7.89239	6.14519
2047	7.90091	6.13154
2048	7.92674	6.12065
2049	7.94690	6.11038
2050	7.96034	6.10041

Notes: GAO’s alternative simulation holds discretionary spending and other mandatory spending constant as a share of gross domestic product in the long term. Health care spending on major federal health care programs consists of Medicare, Medicaid, the Children’s Health Insurance Program, and federal subsidies for health insurance purchased through the exchanges established by the Patient Protection and Affordable Care Act and related spending. Pub. L. No. 111-148, 124 Stat. 119 (Mar. 23, 2010).

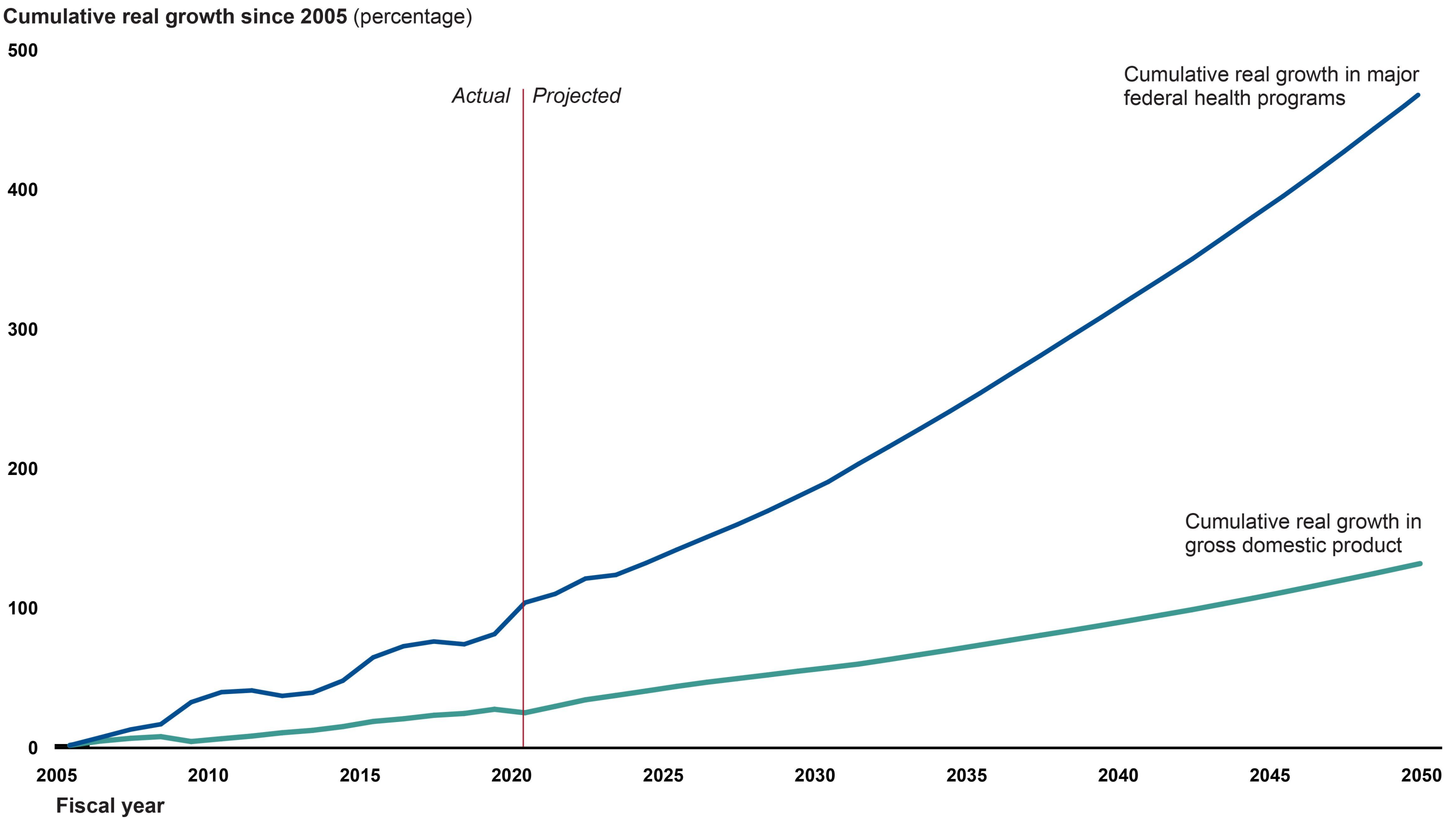
GAO’s simulations project that in the coming years health care spending and Social Security spending will continue to increase as a share of GDP. In GAO’s alternative simulation, federal spending on major health care programs grows from 5.9 percent of GDP in fiscal year 2020 to 8.0 percent of GDP in fiscal year 2050. In the same simulation, spending on Social Security increases from 5.2 percent of GDP in fiscal year 2020 to 6.1 percent of GDP in fiscal year 2050.

Health Care Spending Continues to Grow Faster Than the Economy

Total health care spending (public and private) in the United States continues to grow faster than the economy. Federal spending for major health care programs accounts for more than a quarter of total health care spending. Figure 6 shows the widening gap between the growth in GDP and spending for major federal health programs. Federal health care programs include Medicare, Medicaid, and the Children's Health Insurance Program, along with federal subsidies for health insurance purchased through the exchanges established by the Patient Protection and Affordable Care Act (PPACA) and related spending.[28]

[28]Pub. L. No. 111-148, 124 Stat. 119 (Mar. 23, 2010), as amended by the Health Care and Education Reconciliation Act of 2010; Pub. L. No. 111-152, 124 Stat. 1029 (Mar. 30, 2010). In this report, references to PPACA include any amendments made by the Health Care and Education Reconciliation Act of 2010.

Figure 6: Federal Spending on Major Health Care Programs Grows Faster Than GDP



Source: GAO analysis of Congressional Budget Office and Bureau of Economic Analysis data. | GAO-21-275SP

Data table for Figure 6: Federal Spending on Major Health Care Programs Grows Faster Than GDP

Fiscal Year	Major Health Care Programs	Gross Domestic Product
2005	0	0
2006	5.6	3
2007	11.3	5
2008	15.1	6.2
2009	30.9	2.7
2010	38.1	4.7
2011	39.3	6.6
2012	35.4	9
2013	37.7	10.7
2014	46.3	13.4

Fiscal Year	Major Health Care Programs	Gross Domestic Product
2015	63	17.1
2016	71	19
2017	74.4	21.5
2018	72.4	22.8
2019	79.7	25.8
2020	102.2	23.3
2021	108.5	27.9
2022	119.5	32.6
2023	122.1	35.7
2024	130.7	38.9
2025	140.1	42.2
2026	149.2	45.2
2027	158.2	47.8
2028	167.9	50.4
2029	178.3	53.1
2030	188.8	55.6
2031	201.7	58.2
2032	214.0	61.5
2033	226.5	64.9
2034	239.2	68.3
2035	252.3	71.8
2036	265.9	75.3
2037	279.3	78.8
2038	293.1	82.3
2039	306.7	85.9
2040	320.7	89.6
2041	334.5	93.4
2042	348.5	97.2
2043	363.5	101.3
2044	378.7	105.4
2045	393.6	109.7
2046	409.3	114.1
2047	425.4	118.6
2048	442.0	123.1
2049	458.4	127.8
2050	475.6	132.5

Note: Cumulative growth in both gross domestic product (GDP) and federal spending on major health care programs has been adjusted for inflation. GDP is the value of all goods and services produced in a country in a given year. Major federal health care programs consist of Medicare, Medicaid, the Children's Health Insurance Program, and federal subsidies for health insurance purchased through the exchanges established by the Patient Protection and Affordable Care Act and related spending.

CBO notes that growth in Medicare and Medicaid spending were key contributors to the increase in federal spending in 2020, particularly given the effects of COVID-19 relief laws, such as the CARES Act, on the budget. Specifically:

- **Medicare.** CBO reported that Medicare spending net of offsetting receipts rose by 19 percent in 2020, from $648 billion in 2019 to $773 billion in 2020, largely as a result of payments made to providers in 2020 in advance of expected health care claims.[29] CBO expects that these payments will be recouped from future claims.
- **Medicaid.** CBO reported that Medicaid spending rose by 12 percent in 2020, from $409 billion in 2019 to $458 billion in 2020, largely because of laws enacted in response to the COVID-19 pandemic. CBO reported that the most significant provision made in response to the pandemic was an increase in the federal matching assistance percentage (FMAP) for Medicaid by 6.2 percentage points for the duration of the coronavirus public health emergency.[30]

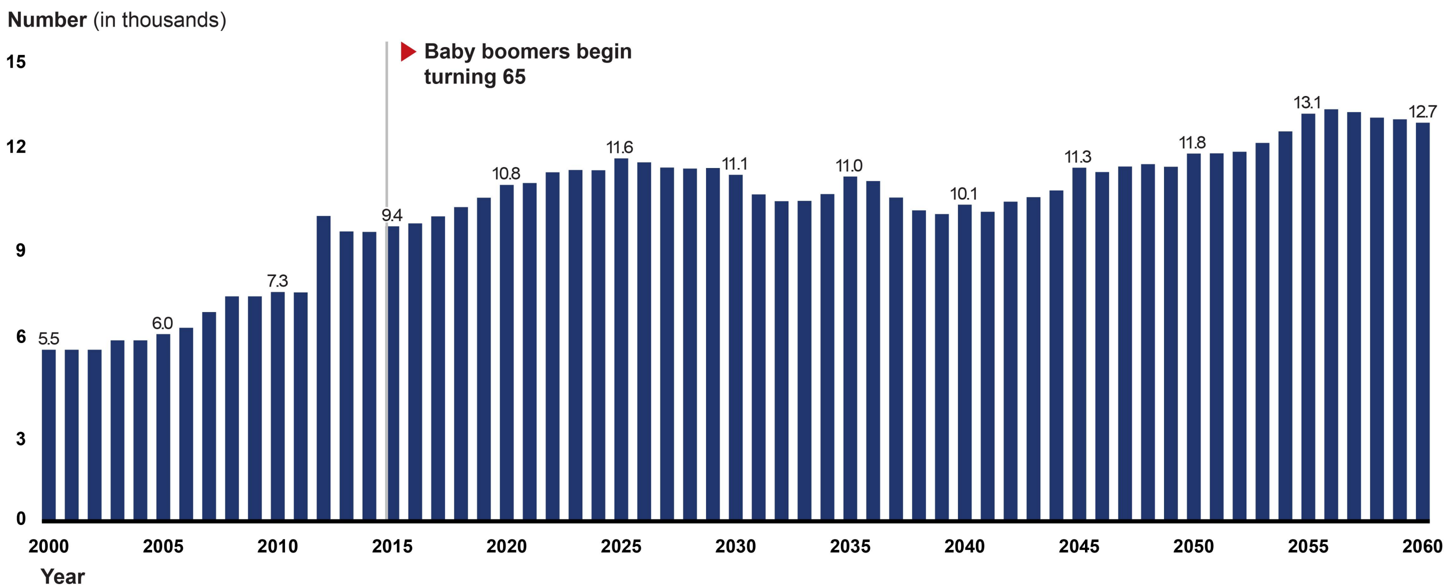
In the long term, projected growth in federal spending on health care is driven by an increase in the proportion of the population enrolled in Medicare and an increase in health care spending per beneficiary.

[29]Section 3719 of the CARES Act authorized the expansion of the Accelerated and Advance Payment Programs, which are typically used to make available emergency funding and address cash flow issues for providers and suppliers when there is disruption in claims submission or claims processing, including during a public health emergency or presidentially declared disaster. Under the expanded programs, active Medicare providers and suppliers could apply for loans of up to 100 or 125 percent of the payments they received for a prior 3-month or 6-month period, depending on the type of provider or supplier. Pub. L. No. 116-136, § 3719, 134 Stat. at 426, *codified at* 42 U.S.C. § 1395g(f).

[30]FMAP is the share of Medicaid costs paid by the federal government and is based on a statutory formula. The Families First Coronavirus Response Act provides a temporary increase in the FMAP for all qualifying states and territories. The same law required that, in order to receive the additional FMAP funds, states must maintain coverage for all Medicaid enrollees during the public health emergency regardless of any changes in their income or circumstances that would otherwise have caused them to become ineligible for the program. Pub. L. No. 116-127, § 6008, 134 Stat. at 208.

- **Aging population.** CBO's long-term budget outlook noted that over the 2019 to 2051 period the aging population accounts for about one-third of the projected growth in spending for major health care programs as a share of GDP.[31] CBO projected that, by 2051, 22 percent of the population will be age 65 or older, compared to 17 percent in 2021. Both lower fertility rates and increases in life expectancy drive this demographic trend, increasing the population of Medicare beneficiaries relative to working adults. The relatively large baby boom generation, which began turning 65 in 2011, accelerates this trend (see figure 7). Both enrollment in and spending on Medicare are expected to increase as the number and proportion of people over age 65 increases.

Figure 7: Daily Average Number of People Turning 65



Source: GAO analysis of U.S. Census Bureau information. | GAO-21-275SP

Data table for Figure 7: Daily Average Number of People Turning 65

Year	Number (in thousands)
2000	5.5
2001	5.5
2002	5.5
2003	5.8
2004	5.8

[31]Fiscal Year 2051 is the last year of CBO's long-term budget projection.

Year	Number (in thousands)
2005	6
2006	6.2
2007	6.7
2008	7.2
2009	7.2
2010	7.338
2011	7.327
2012	9.759
2013	9.267
2014	9.251
2015	9.430
2016	9.523
2017	9.748
2018	10.041
2019	10.341
2020	10.749
2021	10.808
2022	11.150
2023	11.224
2024	11.216
2025	11.593
2026	11.467
2027	11.302
2028	11.268
2029	11.286
2030	11.070
2031	10.447
2032	10.229
2033	10.240
2034	10.456
2035	11.015
2036	10.870
2037	10.346
2038	9.938
2039	9.819
2040	10.120
2041	9.894

Year	Number (in thousands)
2042	10.216
2043	10.359
2044	10.571
2045	11.296
2046	11.158
2047	11.334
2048	11.408
2049	11.327
2050	11.745
2051	11.754
2052	11.804
2053	12.086
2054	12.453
2055	13.016
2056	13.156
2057	13.066
2058	12.889
2059	12.838
2060	12.729

Note: Census data estimates of population are as of July 1 in each year.

- **Per beneficiary spending.** Historically, the amount of money spent on health care per person has risen faster than per capita economic output, and this rate of spending is expected to continue. CBO's long-term budget outlook projected that the growth in health care spending per person will account for about two-thirds of the increase in spending for the major health care programs as a share of GDP between 2019 and 2051. During the past several years, both CBO and the Medicare Trustees project that spending per enrollee in federal health care programs will grow more rapidly over the coming decade, compared to historical trends. A number of factors can affect per beneficiary spending, including the emergence of new medical procedures and treatments.

Increased health care spending for major federal health care programs, especially Medicare, will continue to place a strain on the federal budget in both the near and the long term. Illustrative examples of projected growth in federal health care spending include:

- **Medicare.** CBO projected Medicare spending will total $1 trillion by 2023, and both CBO and the Medicare Trustees project that the

Medicare Part A (Hospital Insurance) trust fund will be depleted within the decade.[32] In February 2021, CBO projected that Medicare's Hospital Insurance Trust Fund will be depleted by 2026 with revenues sufficient to pay 87 percent of hospital-related Medicare spending in 2027.[33]

- **Medicaid.** The Centers for Medicare and Medicaid Services (CMS) Office of the Actuary projected that combined federal and state Medicaid spending will total $1 trillion by 2027 (3.3 percent of GDP), of which $625 billion will be federal spending.[34] In 2020, CBO projected that changes to Medicaid in response to the pandemic will increase outlays by $132 billion from 2021 through 2030, largely due to the increase in the rate of federal matching.
- **Federal subsidies for health insurance.** In September 2020, CBO projected that costs for people receiving federal subsidies for health insurance purchased through the exchanges and related spending under the provisions of PPACA will rise from $54 billion in 2020 to $73 billion by 2030.

The COVID-19 pandemic is likely to have a continued effect on health care spending in the long term. In its long-term budget outlook, CBO noted that the COVID-19 pandemic increases the degree of uncertainty in projected health care spending, given how the pandemic will shift the demand for and supply of health care services. Illustrative examples of factors that could increase total health care spending in the long term as a result of the COVID-19 pandemic include:

- **Delayed medical care.** In September 2020, the Centers for Disease Control and Prevention (CDC) reported that by June 30, 2020, concerns about COVID-19 had led an estimated 41 percent of U.S. adults to delay or avoid medical care, including urgent or emergency

[32]The Trustees projections are from *The 2020 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*. While the Trustees report came out in April 2020, it did not include estimates of the effect of the COVID-19 pandemic on the trust funds' finances.

[33]CBO, *The Budget and Economic Outlook: 2021 to 2031* (Washington, D.C.: February 2021).

[34]The Department of Health and Human Services, CMS, Office of the Actuary, *2018 Actuarial Report on the Financial Outlook for Medicaid*, (Baltimore, M.D.: 2020). In this report, the CMS Chief Actuary stated that projections of health care costs are inherently uncertain. In particular, Medicaid projections are uncertain because enrollment and costs are very sensitive to economic conditions.

care (12 percent) and routine care (32 percent).[35] Also in September, CMS reported that there was a significant decline in critical primary and time-sensitive preventive services for children between March and May 2020.[36] CBO noted that future health care spending could increase if people reschedule services that they deferred because of the pandemic.

- **Long-term health effects of COVID-19.** Preliminary research suggests that individuals who have had COVID-19, including those who have been hospitalized, may suffer long-term adverse health outcomes, such as heart, brain, or lung abnormalities.[37] Caring for such long-term effects could increase total health care spending.
- **Behavioral health conditions.** According to CDC in June 2020, U.S. adults reported elevated rates of mental health conditions and substance use associated with COVID-19 and recommended mitigation activities, such as physical distancing and stay-at-home orders.[38] Treating and preventing behavioral health conditions could also increase total health care spending.
- **Increases in telehealth.** According to CDC, during the first quarter of 2020, the number of telehealth visits increased by 50 percent, compared to the same period in 2019, marking shifts in medical practice patterns that have implications for longer-term population health.[39] Total health care spending may increase to the extent that telehealth services are additive instead of substituting for in-person services.
- **COVID-19 vaccine and therapeutics.** As of March 1, 2021, FEMA has provided more than $4 billion to 38 states, Washington D.C., four tribes, and five territories for expenses related to COVID-19

[35]CDC, *Morbidity and Mortality Weekly Report*, Vol. 69, No. 36 (Sept. 11, 2020).

[36]CMS, *Service use among Medicaid & CHIP beneficiaries age 18 and under during COVID-19: Preliminary Medicaid & CHIP Data Snapshot* (Sept. 23, 2020).

[37]For example, see V. O. Puntmann et al., "Outcomes of Cardiovascular Magnetic Resonance Imaging in Patients Recently Recovered From Coronavirus Disease 2019 (COVID-19)," *JAMA Cardiology* (2020); L. Mao et al., "Neurologic Manifestations of Hospitalized Patients with Coronavirus Disease 2019 in Wuhan, China," *JAMA Neurology* (2020); and Y. Zhao et al., "Follow-up Study of the Pulmonary Function and Related Physiological Characteristics of COVID-19 Survivors Three Months after Recovery," *EClinicalMedicine* (2020).

[38]CDC, *Morbidity and Mortality Weekly Report*, Vol. 69, No. 32 (Aug. 14, 2020).

[39]CDC, *Morbidity and Mortality Weekly Report,* Vol. 69, No. 43 (Oct. 30, 2020).

vaccinations. Costs for COVID-19 vaccines and therapeutics will likely continue to affect total health care spending in future years.

Social Security Poses Significant Financial Challenges

Social Security has remained the bedrock of retirement security—insuring workers against the loss of income because of retirement, death, or disability. Social Security provides benefits to about 64 million older Americans, survivors, dependents, and individuals with disabilities, as well as their families. It has helped reduce poverty among its beneficiaries, many of whom rely on it for the majority of their income.[40] According to Treasury's Final Monthly Treasury Statement, which covers all of fiscal year 2020, Social Security paid about $1.1 trillion in Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) program benefits in fiscal year 2020. Looking forward, demographic factors such as an aging population and slower labor force growth are straining Social Security programs and contributing to a gap between program costs and revenues.

For many years, Social Security's revenues exceeded program costs and the programs built up reserves in its two trust funds: one for the OASI program and one for the DI program. By law, the Social Security trust funds must invest in interest-bearing federal government securities.[41] The trust funds invested past excess revenues in these federal government securities, helping to finance other federal programs and reducing the amount that had to be borrowed from the public.

Starting in 2005 for the DI Trust Fund and in 2010 for the OASI Trust Fund, this situation reversed: Social Security began paying out more in benefits than it received in non-interest revenue.[42] Absent any changes,

[40]GAO, *The Nation's Retirement System: A Comprehensive Re-evaluation Is Needed to Better Promote Future Retirement Security,* GAO-18-111SP (Washington, D.C.: Oct. 18, 2017).

[41]The Social Security Act requires that trust fund assets be invested in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. We are using the term "federal government securities" to refer to these obligations. 42 U.S.C. § 401(d).

[42]According to the Social Security Trustees, in 2016, 2017, and 2018 non-interest income and total income for the DI Trust Fund exceeded benefit payments due primarily to the temporary reallocation of the payroll tax rate from OASI to DI for years 2016 through 2018. This temporary reallocation was authorized in the Bipartisan Budget Act of 2015, Pub. L. No. 114-74, title VIII, subtit. C, § 833, 129 Stat. 584, 613-14 (Nov. 2, 2015).

both trust funds are projected to deplete their assets and have insufficient income to pay benefits in full on a timely basis. In March 2021, CBO projected that the OASI trust fund will be depleted in calendar year 2032 and the DI trust fund in calendar year 2035.[43] If the two funds were combined, the trust would be depleted in 2032.[44]

When the trust funds deplete their assets, they will still receive income from payroll taxes from current workers and employers as well as from income taxes paid on Social Security benefits, but this income will not be enough to support scheduled benefits in full under current law. CBO estimated that the combined OASI and DI trust fund revenue would support about 75 percent of scheduled benefits in calendar year 2033, the year after their balances are projected to be depleted if combined. Achieving long-term financial stability for the trust funds would require that Social Security get additional income (increase revenue), reduce costs (decrease benefits), or undertake some combination of the two. Earlier action would allow any adjustments to be smaller and spread across more generations of participants. It would also allow for phasing in changes so that affected individuals could have more time to adjust their retirement planning.

Interest Rates are Historically Low, but Projections Show Growing Debt Will Lead to Higher Net Interest Costs in the Long Term

Persistently low interest rates have resulted in lower interest costs for the government in recent years, and in fiscal year 2020, the average interest rate on debt held by the public fell from 2.4 percent to 2.1 percent. As a result, spending on net interest decreased from $375 billion in fiscal year 2019 to $345 billion in fiscal year 2020 despite the increase in total debt.

[43]CBO, *The 2021 Long-Term Budget Outlook* (Washington, D.C.: March 2021).

[44]The April 2020 Trustees Report did not include estimates of the effect of the COVID-19 pandemic on the trust funds' finances. In November 2020, SSA published an updated actuarial valuation by its Office of the Chief Actuary that, starting with the intermediate assumptions of the 2020 Trustees Report, incorporates the impact of the pandemic and recession. This updated analysis projects the hypothetical combined Old-Age, Survivors, and Disability Insurance trust funds becoming depleted in 2034 (versus 2035 in the 2020 Trustees Report).

Net Interest

Net interest primarily encompasses the cost to the government of financing debt held by the public, net of certain income recognized from loans and other sources. The level of net interest related to the debt is a function of the amount of debt financed and the interest rate at which it is financed. Growth in net interest is a function of the increases in debt or interest rates.

Source: GAO. | GAO-21-275SP

The Compounding Effect of Interest Rates

For any given level of debt, a change in interest rates changes the cost of interest. Interest rates also have a compounding effect on the debt when the federal government borrows to make interest payments.

For example, under GAO's alternative simulation, a 1 percentage point increase in overall interest rates throughout the projection period would increase the debt held by the public by $2.3 trillion by 2030. CBO anticipates that interest rates will rise over the long term.

Source: GAO and CBO. | GAO-21-275SP

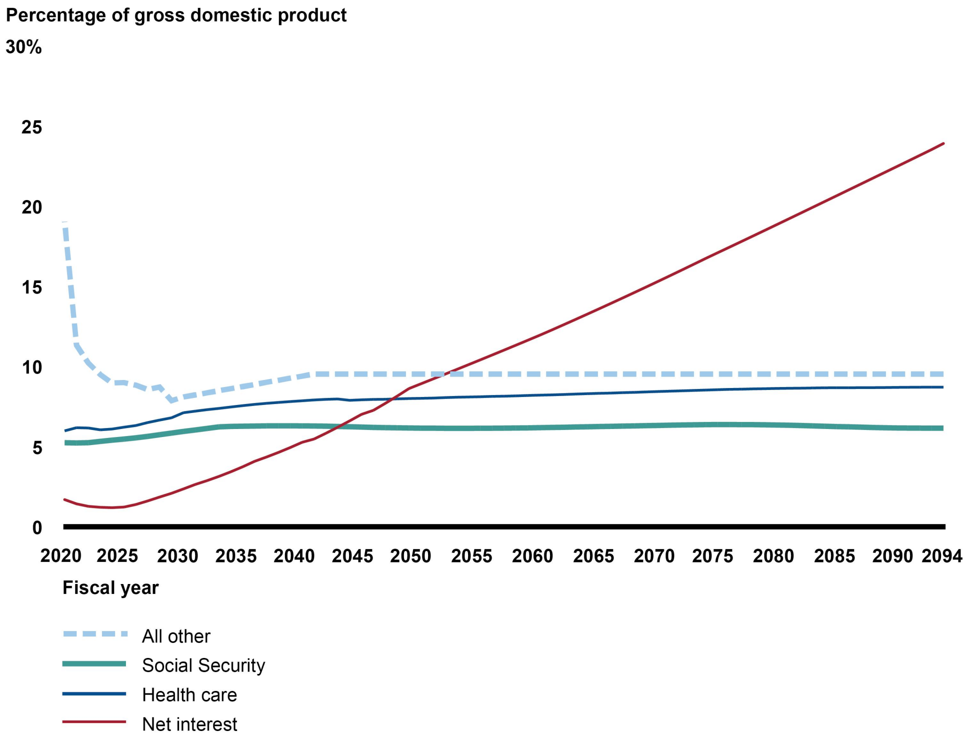
However, GAO's alternative simulation estimates spending on net interest will grow to be the largest category of spending in the long term and exceed $1 trillion annually starting in fiscal year 2033.[45] According to CBO's long-term projections, net interest spending more than triples relative to the size of the economy between 2031 and 2051, accounting for most of the growth in total deficits.[46]

As figure 8 shows, GAO's alternative simulation projects net interest growing from 1.6 percent of GDP in 2020 to 8.9 percent of GDP by 2050.

[45]CBO's March 2021 long-term outlook report projected net interest growing as a percentage of total spending. However, since CBO's March 2021 extended baseline projections only go out to 2051, spending on net interest does not quite overtake spending on major health care programs (spending for Medicare, Medicaid, the Children's Health Insurance Program, and outlays to subsidize health insurance purchased through the exchanges established under PPACA and related spending) in the projection period.

[46]CBO's February 2021 Budget and Economic Outlook projected that average interest rates on debt held by the public will fall from 2.0 percent in 2020 to 1.3 percent in 2025. However, CBO projected that average interest rates will subsequently increase to 2.2 percent in 2030.

Figure 8: Projected Net Interest and Other Spending as Percentage of Gross Domestic Product



Source: GAO's alternative simulation. | GAO-21-275SP

Data table for Figure 8: Projected Net Interest and Other Spending as Percentage of Gross Domestic Product

Fiscal Year	Net Interest	Health Care	Social Security	All Other
2020	1.6415	5.93147	5.18972	18.1757
2021	1.3767	6.12795	5.17545	13.9409
2022	1.2219	6.10850	5.19253	9.4393
2023	1.1621	5.99545	5.27366	9.1917
2024	1.1383	6.04481	5.35079	8.8560
2025	1.1769	6.16037	5.41866	8.5631
2026	1.3369	6.26391	5.49656	8.4389
2027	1.5598	6.45044	5.58630	8.2488
2028	1.8025	6.60367	5.69063	8.1436
2029	2.0352	6.74580	5.79262	8.0352
2030	2.3074	7.06263	5.89424	7.9303
2031	2.5875	7.15971	5.98563	7.8178
2032	2.8280	7.25363	6.08270	7.9633

Fiscal Year	Net Interest	Health Care	Social Security	All Other
2033	3.0911	7.33193	6.17978	8.1088
2034	3.3795	7.42003	6.20926	8.2543
2035	3.6913	7.50404	6.22098	8.3999
2036	4.0313	7.58265	6.23087	8.5454
2037	4.2985	7.64815	6.24195	8.6909
2038	4.5849	7.70382	6.24366	8.8364
2039	4.8911	7.75824	6.24213	8.9819
2040	5.2179	7.80755	6.24128	9.1274
2041	5.4201	7.85868	6.23375	9.2729
2042	5.7804	7.89593	6.22409	9.4184
2043	6.1590	7.91863	6.20330	9.4184
2044	6.5530	7.83646	6.18772	9.4184
2045	6.9610	7.86801	6.16753	9.4184
2046	7.2120	7.89239	6.14519	9.4184
2047	7.6450	7.90091	6.13154	9.4184
2048	8.0974	7.92674	6.12065	9.4184
2049	8.5713	7.94690	6.11038	9.4184
2050	8.8660	7.96034	6.10041	9.4184
2051	9.1616	7.97554	6.09867	9.4184
2052	9.4585	8.00490	6.09129	9.4184
2053	9.7572	8.02822	6.08891	9.4184
2054	10.0575	8.04316	6.08846	9.4184
2055	10.3593	8.05841	6.09532	9.4184
2056	10.6628	8.08135	6.09636	9.4184
2057	10.9681	8.09301	6.10193	9.4184
2058	11.2749	8.11351	6.10937	9.4184
2059	11.5837	8.13818	6.11616	9.4184
2060	11.8947	8.15853	6.13037	9.4184
2061	12.2169	8.17542	6.14319	9.4184
2062	12.5446	8.19870	6.15406	9.4184
2063	12.8749	8.22576	6.17205	9.4184
2064	13.2083	8.24999	6.18418	9.4184
2065	13.5444	8.27214	6.20108	9.4184
2066	13.8834	8.28779	6.21238	9.4184
2067	14.2248	8.31501	6.22873	9.4184
2068	14.5693	8.33339	6.23991	9.4184
2069	14.9162	8.36099	6.25657	9.4184

Fiscal Year	Net Interest	Health Care	Social Security	All Other
2070	15.2663	8.38542	6.26825	9.4184
2071	15.6192	8.40756	6.28531	9.4184
2072	15.9751	8.42993	6.29746	9.4184
2073	16.3337	8.45263	6.30759	9.4184
2074	16.6949	8.47579	6.31838	9.4184
2075	17.0464	8.49913	6.32528	9.4184
2076	17.3959	8.52091	6.32360	9.4184
2077	17.7472	8.53153	6.32006	9.4184
2078	18.0997	8.55047	6.31719	9.4184
2079	18.4538	8.56258	6.30709	9.4184
2080	18.8089	8.57710	6.29469	9.4184
2081	19.1651	8.58639	6.28250	9.4184
2082	19.5221	8.59370	6.26281	9.4184
2083	19.8795	8.60587	6.24075	9.4184
2084	20.2374	8.61801	6.21892	9.4184
2085	20.5959	8.62159	6.19716	9.4184
2086	20.9546	8.62243	6.18313	9.4184
2087	21.3136	8.62506	6.16355	9.4184
2088	21.6729	8.62766	6.14086	9.4184
2089	22.0323	8.63286	6.12546	9.4184
2090	22.3921	8.64249	6.11214	9.4184
2091	22.7528	8.64817	6.10617	9.4184
2092	23.1145	8.65364	6.10226	9.4184
2093	23.4771	8.65673	6.09783	9.4184
2094	23.8582	8.65507	6.09735	9.4184

Note: Elevated levels of “All other” spending in fiscal year 2020 are attributed to federal COVID-19 pandemic relief.

Public Health Emergencies and Natural Disasters Altered the Fiscal Outlook in Fiscal Year 2020 and Highlighted the Risk Posed by Fiscal Exposures

The federal government faces a number of fiscal exposures that are not accounted for in the budget and present a risk to the government’s future fiscal condition. Fiscal exposures are responsibilities, programs, and activities that may legally commit the federal government to future spending or create expectations for future spending based on current policy, past practices, or other factors.[47]

The projections in this report show future spending levels based on current spending, including those related to some of the fiscal risks identified in this section, but they do not account for unforeseen future increases in spending associated with these risks. A more complete understanding of fiscal risks can help policymakers anticipate changes in future spending and can enhance oversight of federal resources. In particular, events in 2020 have highlighted the immense challenges to our fiscal outlook that two large-scale fiscal risks can cause:

Public health emergencies. As the COVID-19 pandemic illustrates, public health emergencies are among the large-scale fiscal exposures that can cost trillions of dollars to mitigate. As of January 2021, five relief laws appropriated about $3.1 trillion across the government to fund response and recovery efforts, as well as to mitigate public health, economic, and homeland security effects.[48]

Repeatedly in 2020 and in January 2021, we identified challenges related to the federal response to the COVID-19 pandemic and made a number of recommendations to help address these challenges.[49] We also identified legislative actions Congress could take in a number of areas to improve the public health response.

[47]See our infographic on federal fiscal risks at https://www.gao.gov/infographic/federal-fiscal-risks.

[48]COVID-19 relief laws enacted as of March 2021 include the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020, Pub. L. No. 116-123, 134 Stat. at 146; Families First Coronavirus Response Act, Pub. L. No. 116-127, 134 Stat. at 178; CARES Act, Pub. L. No. 116-136, 134 Stat. at 281; and Paycheck Protection Program and Health Care Enhancement Act, Pub. L. No. 116-139, 134 Stat. at 620at 620; Consolidated Appropriation Act, 2021, Pub. L. N. 116-260, 134 Stat. at 1182; American Rescue Plan Act of 2021, Pub. L. No. 117-2, 135 Stat. 4.

[49]GAO, *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts,* GAO-20-625 (Washington, D.C.: Jun. 25, 2020); GAO-20-701; *COVID-19: Brief Update on Initial Federal Response to the Pandemic,* GAO-20-708 (Washington, D.C.: Aug. 31, 2020); *COVID-19: Urgent Actions Needed to Better Ensure Effective Federal Response,* GAO-21-191 (Washington, D.C.: Nov. 30, 2020); and *COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention,* GAO-21-265 (Washington, D.C.: Jan. 28, 2021).

Climate change and natural disasters. Calendar year 2020 was the sixth consecutive year in which the U.S. experienced 10 or more weather and climate disaster events each costing more than $1 billion in overall damages. Over the past decade, the cost of such disasters in the United States averaged $80.7 billion each year.[50] Major sources of fiscal exposures related to climate change and natural disasters include:[51]

- **Disaster aid.** The rising number of natural disasters and increasing reliance on federal assistance is a key source of federal fiscal exposure. Since 2005, federal funding for disaster assistance has totaled at least $524 billion, which consists of obligations for disaster assistance from 2005 through 2014 totaling about $278 billion[52] and select appropriations for disaster assistance from 2015 to 2020 totaling $246 billion.[53] Disaster costs are projected to increase as certain extreme weather events become more frequent and intense due to climate change, as observed and projected by the U.S. Global Change Research Program and the National Academies of Sciences, Engineering, and Medicine.
- **Federal insurance for property and crops.** The National Flood Insurance Program and the Federal Crop Insurance Corporation are sources of federal fiscal exposure due in part to the vulnerability of insured property and crops to climate change. CBO estimated in March 2020 that federal crop insurance would cost the federal government an average of about $8 billion annually from 2020 through 2030. The U.S. Department of Agriculture estimated in 2019 that climate change could increase the cost of the crop insurance program by an average range of 3.5 to 22 percent, depending upon assumptions about the severity of climate change, among other factors. The programs are not designed to generate sufficient funds to cover all losses and expenses and need to borrow or receive federal appropriations to operate. For example, as of December 2020 the

50National Oceanic and Atmospheric Administration, Billion-Dollar Weather and Climate Disasters, https://www.ncdc.noaa.gov/billions/time-series.

51GAO, *Climate Change: Potential Costs and Opportunities to Reduce Federal Fiscal Exposure*, GAO-20-338T (Washington, D.C.: Dec. 19, 2019).

52See GAO, *Federal Disaster Assistance: Federal Departments and Agencies Obligated at Least $277.6 Billion during Fiscal Years 2005 through 2014*, GAO-16-797 (Washington, D.C.: Sept. 22, 2016).

53This total also includes $188 billion in select supplemental appropriations to federal agencies for disaster assistance and approximately $58 billion in annual appropriations to the Disaster Relief Fund for fiscal years 2015 through 2020. It does not include other annual appropriations to federal agencies for disaster assistance.

National Flood Insurance Program was about $20.5 billion in debt to the U.S. Treasury.

- **Operation and management of federal property and lands.** The federal government owns and operates hundreds of thousands of facilities and manages millions of acres of land that might be vulnerable to changing climate. For example, in September 2018 Hurricane Florence damaged Camp Lejeune and other Marine Corps facilities in North Carolina, resulting in a preliminary Marine Corps repair estimate of $3.6 billion. One month later, Hurricane Michael devastated Tyndall Air Force Base in Florida, resulting in a preliminary Air Force repair estimate of $3 billion.

Limiting the federal government's fiscal exposures to climate change has been on GAO's High-Risk List since 2013, in part because of concerns about the increasing costs of disaster response and recovery efforts.[54] Over the years, we have made a total of 75 recommendations and suggested five matters for congressional consideration related to limiting the federal government's fiscal exposure to climate change, and 15 recommendations and three suggested matters for congressional consideration have been made since June 2019.[55] For example, in December 2019, we described key government-wide efforts that could help manage this risk, including developing a national strategic plan.[56] However, the federal government has not undertaken strategic efforts to manage climate risks that could reduce the need for far more costly steps in the decades to come.

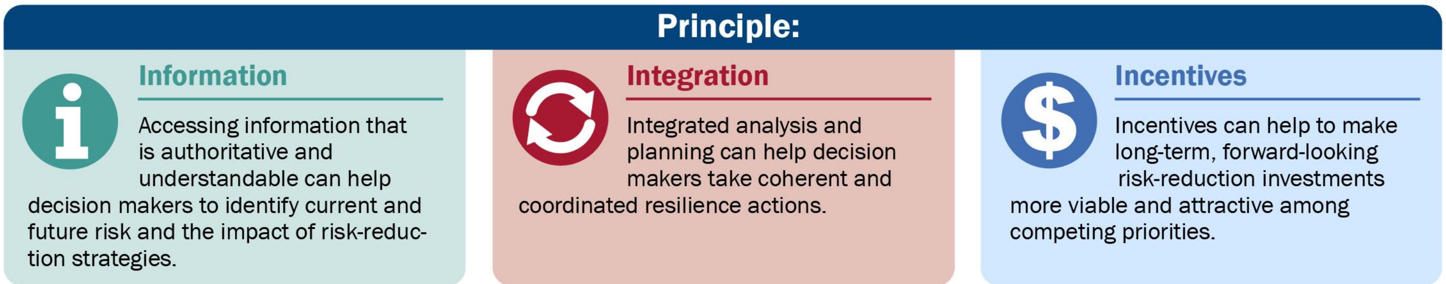
In October 2019, we created the Disaster Resilience Framework to support analysis of federal opportunities to facilitate and promote resilience to natural hazards. This Framework provides a set of high-level principles to help federal agencies and policymakers consider actions to reduce disaster risk (see figure 9).

[54]OMB has reported federal climate change funding in three main categories since 1993—clean energy technology to reduce emissions; science to better understand climate change; and international assistance for adaptation, clean energy, and sustainable landscapes. Most federal funding since 1993 has been dedicated to technology efforts. See GAO, *Climate Change: Analysis of Reported Federal Funding*, GAO-18-223 (Washington, D.C.: Apr. 30, 2018).

[55]GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas,* GAO-21-119SP (Washington, D.C.: Mar. 2, 2021).

[56]GAO-20-338T and GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas,* GAO-19-157SP (Washington, D.C.: Mar. 6, 2019).

Figure 9: Disaster Resilience Framework Principles



Source: GAO. | GAO-21-275SP

Text of Figure 9: Disaster Resilience Framework Principles

1. Information:
   Accessing information that is authoritative and understandable can help decision makers to identify current and future risk and the impact of risk-reduction strategies.
2. Integration:
   Integrated analysis and planning can help decision makers take coherent and coordinated resilience actions.
3. Incentives:
   Incentives can help to make long-term, forward-looking risk-reduction investments more viable and attractive among competing priorities.

Additional Fiscal Exposures Also Put Pressure on the Federal Budget

Additional fiscal exposures not fully accounted for in the budget or the projections discussed in this report could significantly affect the federal government's fiscal outlook in the future. In table 1 below, we provide details about these fiscal exposures along with links to our prior work.

Table 1: Additional Fiscal Exposures Also Put Pressure on the Federal Budget

Pension Benefit Guaranty Corporation (PBGC)

Pension Benefit Guaranty Corporation (PBGC) PBGC insures benefits, up to statutory limits, in private-sector defined benefit pension plans.	Liabilities exceeded assets by more than $48 billion at the end of fiscal year 2020.	GAO-18-106, Central States Pension Fund: Investment Policy Decisions and Challenges Facing the Plan

PBGC's multiemployer program, which covered about 1,400 plans in fiscal year 2020, reported a deficit of about $64 billion at the end of fiscal year 2020, an improvement of about $1.4 billion since 2019 (see figure 10). According to PBGC, this improvement is due primarily to federal funding provided for the United Mine Workers Plan.

In March 2021, the American Rescue Plan Act included financial assistance to certain financially troubled multiemployer defined benefit pension plans.[57] The fiscal risks to the multi-employer program are less imminent as a result of the American Rescue Plan Act. CBO estimates that the financial assistance will total $86 billion over the next 10 years, and that the assistance would result in PBGC's multiemployer program remaining solvent through the mid-2040s compared to 2027 prior to the Act. CBO's estimates were based on an average of 500 simulations that they ran, indicative of the uncertainty inherent in estimating the financial outlook for these pension programs.

PBGC estimated that its exposure to potential additional future losses for underfunded plans in both the single and multiemployer programs was nearly $186 billion, of which the single-employer program accounts for $176 billion of this amount. Although the single-employer program is currently in surplus, its financial position is highly sensitive to prevailing economic conditions and past experience with large claims shows that its condition can change quickly.

U.S. Postal Service (USPS)

U.S. Postal Service (USPS)

The USPS cannot fund its current level of services and financial obligations from its current level of revenues.

- Net losses for 14 consecutive years total **$87 billion** through fiscal year 2020.
- USPS has missed **$63 billion** in required funding payments for postal retiree health and pension benefits through fiscal year 2020. USPS has stated that it missed these payments to minimize the risk of running out of cash.
- Growing unfunded liabilities and debt total over $188 billion at the end of fiscal year 2020.

GAO-20-385, US Postal Service: Congressional Action Is Essential to Enable a Sustainable Business Model

We have made multiple suggestions for Congress to consider, such as reassessing and determining (1) the level of universal postal service the nation requires, (2) the extent to which USPS should be financially self-sustaining, and (3) what changes to law would be appropriate to enable USPS to meet this goal.

Housing finance

Housing finance

Federal support for housing finance expanded during the 2007–2009 financial crisis and remains large.

- The federal government has invested about $**109 billion** in Fannie Mae and Freddie Mac, which is net of about **$118 billion** in valuation losses, as of the end of fiscal year 2020.

GAO-20-625, *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts*

[57]Pub. L. No. 117-2, § 9704, 135 Stat. at 190.

In 2008, the federal government placed Fannie Mae and Freddie Mac under conservatorships due to concern that their deteriorating financial condition threatened economic stability.[a] Under their conservatorship agreements, the enterprises had received $191.4 billion in capital support from the U.S. Treasury and paid $301.1 billion in dividends to the U.S. Treasury as of the end of fiscal year 2020.

Pandemic-related mortgage losses and the cost of implementing borrower and renter protections in the CARES Act (e.g., mortgage forbearances) could slow Fannie Mae and Freddie Mac's progress in building capital reserves and increase the probability they will need to draw on remaining U.S. Treasury commitments.

Additionally, their ultimate role could affect the financial condition of other federal housing finance entities, including the Federal Housing Administration (FHA), which in the past expanded its lending role in distressed housing and mortgage markets. For example, as of the end of fiscal year 2020, the FHA has an insured portfolio of single-family mortgages that exceeds $1.2 trillion and the Government National Mortgage Association (Ginnie Mae) guaranteed the performance of about $2 trillion in securities backed by mortgages with Federal Housing Administration and other federal agency support.

Growth in Ginnie Mae's guaranteed portfolio and a shift toward nonbank securities issuers have increased the agency's potential exposure to loss. Since January 2019, we have suggested that Congress consider legislation for the future federal role in housing finance that addresses the structure of Fannie Mae and Freddie Mac; establishes clear, specific, and prioritized goals; and considers all relevant federal entities, such as the FHA and Ginnie Mae.

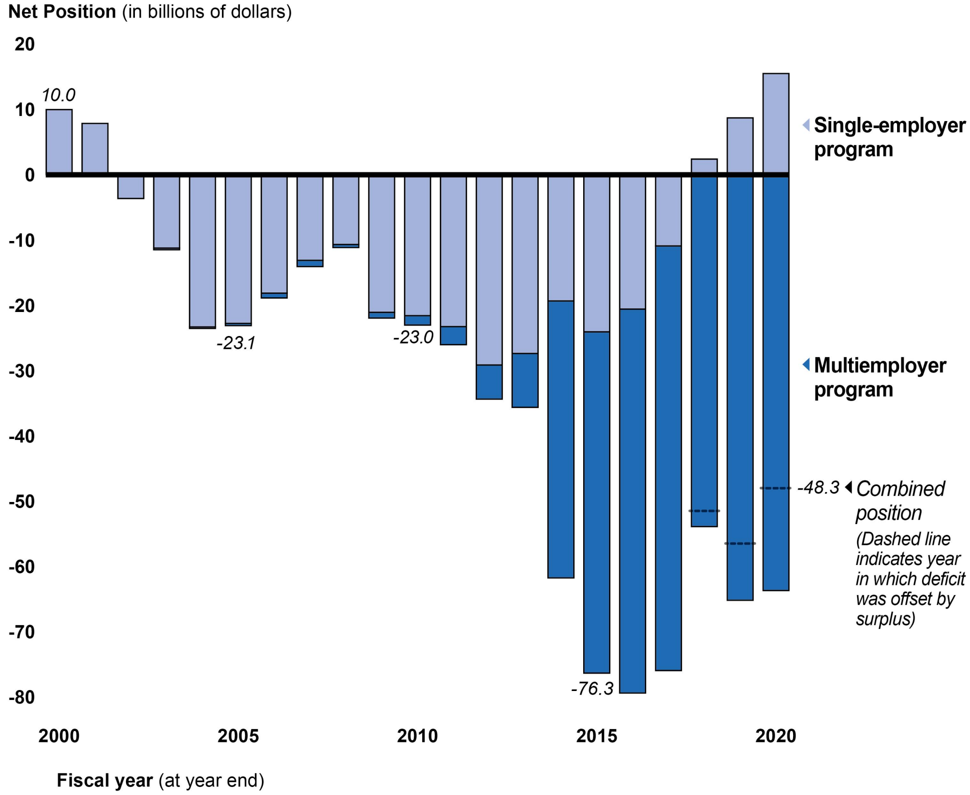
Military Conflicts

Military Conflicts Spending on future military conflicts is difficult to budget for and can result in unexpected increases in DOD spending over time.	• The DOD does not normally budget for contingency operations, which are small, medium, or large-scale campaign level military operations, including but not limited to support for peacekeeping operations, foreign disaster relief efforts, noncombatant evacuation operations, and international disaster relief efforts. • According to DOD, about **$2 trillion** was appropriated between fiscal years 2001 and 2020, primarily for contingency operations in Iraq and Afghanistan. • Military conflicts can also result in enduring costs after those conflicts end (costs that continue after contingency operations end). DOD estimates of enduring costs have ranged from **$46 billion** to **$53 billion** annually. • Future military conflicts could pose similar fiscal risks, leading to unexpected increases in DOD spending over time.	GAO-19-211, *Overseas Contingency Operations: Alternatives Identified to the Approach to Fund War- Related Activities* GAO-17-68, *Overseas Contingency Operations: OMB and DOD Should Revise the Criteria for Determining Eligible Costs and Identify the Costs Likely to Endure Long Term*

Source: GAO. | GAO-21-275SP

[a]12 U.S.C. § 4617(a)(2), as amended by the Housing and Economic Recovery Act of 2008, Pub. L. No. 110-289, § 1145, 122 Stat. 2654, 2734 (July 30, 2008).

Figure 10: Pension Benefit Guaranty Corporation's Net Financial Position of the Single-Employer and Multiemployer Programs Combined, Fiscal Years 2000 to 2020



Source: Pension Benefit Guaranty Corporation. | GAO-21-275SP

Data table for Figure 10: Pension Benefit Guaranty Corporation's Net Financial Position of the Single-Employer and Multiemployer Programs Combined, Fiscal Years 2000 to 2020

Fiscal year	Single-employer program	Multiemployer program	Combined position
2000	9.7	0.3	10.0
2001	7.7	0.1	7.8
2002	-3.6	0.2	-3.5
2003	-11.2	-0.3	-11.5
2004	-23.3	-0.2	-23.5
2005	-22.8	-0.3	-23.1
2006	-18.1	-0.7	-18.9
2007	-13.1	-1.0	-14.1
2008	-10.7	-0.5	-11.2

Fiscal year	Single-employer program	Multiemployer program	Combined position
2009	-21.1	-0.9	-21.9
2010	-21.6	-1.4	-23.0
2011	-23.3	-2.8	-26.0
2012	-29.1	-5.2	-34.4
2013	-27.4	-8.3	-35.6
2014	-19.3	-42.4	-61.8
2015	-24.1	-52.3	-76.3
2016	-20.6	-58.8	-79.4
2017	-10.9	-65.1	-76.0
2018	2.4	-53.9	-51.4
2019	8.7	-65.2	-56.5
2020	15.5	-63.7	-48.3

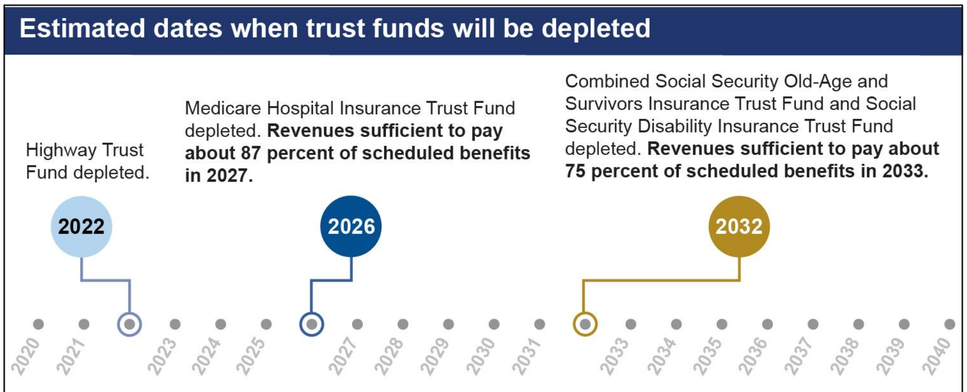
A Fiscal Strategy Is Needed to Address the Long-Term Unsustainable Fiscal Path

Congress and the administration have responded in an unprecedented manner to the COVID-19 pandemic and the resulting severe economic repercussions. The fiscal response and the economic downturn generated a substantial increase in federal debt. Once the pandemic recedes and the economy substantially recovers, Congress and the administration should quickly pivot to developing an approach to place the federal government on a sustainable long-term fiscal path.

Since 2017, we have stated that a plan is needed to ensure that the United States remains in a strong economic position to meet its social and security needs, as well as to preserve flexibility to address unforeseen events like public health emergencies. For example, changes to spending, revenue, or both are needed to sustain some key programs, such as Medicare and Social Security. As previously discussed, trust funds for these programs are projected to be depleted within 15 years or less, as shown in figure 11.[58]

[58]Depletion of the balances in the trust funds does not mean that the services they support would cease to operate. Each of the trust funds identified in figure 11 would continue to function but would be limited to only funds incoming from revenues.

Figure 11: Key Dates for Major Programs



Notes:

- The Continuing Appropriations Act, 2021 and Other Extensions Act required certain intragovernmental transfers from the General Fund of the Treasury to the Highway Trust Fund. Those transfers extended CBO's estimated depletion date for the trust fund from 2021 to 2022. Pub. L. No. 116-159, § 1204, 134 Stat. 709, 728 (Oct. 1, 2020). If depleted, the fund would continue to receive revenues primarily from excise taxes on gasoline and certain other motor fuels. In September 2020, the Congressional Budget Office estimated that $188 billion in additional funding would be required to maintain current spending levels plus inflation from fiscal years 2021 through 2030.
- Social Security's Old-Age and Survivors Insurance Trust Fund and Disability Insurance Trust Fund estimates are in calendar years. Others are in fiscal years.

Sources: Congressional Budget Office. | GAO-21-275SP

In developing a fiscal plan at the appropriate time, policymakers will need to consider the entire range of federal activities, both revenue (including tax expenditures) and spending (entitlement programs, other mandatory spending, and discretionary spending) that affect the debt.[59]

Fiscal Rules and Targets Can Provide Critical Enforceability and Flexibility, but Experience Highlights the Importance of Careful Design

Congress's efforts to improve the federal government's long-term fiscal path could benefit from well-designed fiscal rules and targets.[60] According to the International Monetary Fund and the Organization for Economic Co-operation and Development, fiscal rules have the potential to contribute to fiscal sustainability. Additionally, fiscal rules and targets can

[59]Tax expenditures, as defined by law, are provisions of the federal tax code that reduce taxpayers' tax liability and therefore the amount of tax revenue paid to the federal government. Examples include tax credits, deductions, exclusions, exemptions, deferrals, and preferential tax rates. 2 U.S.C. § 622(3).

[60]GAO-20-561.

help manage debt by controlling factors like spending and revenue as part of a long-term fiscal plan. A variety of rules and targets exist, each with its own advantages and drawbacks, and governments can use a combination of rules to help address the deficiencies of any one particular rule. In general, observers and budget experts have noted that success depends on effective enforcement of fiscal rules and sustained commitment by both policymakers and the public.

To help Congress in designing any rules and targets, in September 2020 we identified seven key considerations based on a literature review and interviews with experts on fiscal policy and fiscal rules (see table 2).[61]

Table 2: Key Considerations for the Design, Implementation, and Enforcement of Fiscal Rules and Targets

Key consideration	Supporting explanation
Alignment with Fiscal Policy Goals and Objectives	Setting clear goals and objectives can anchor a **country's** fiscal policy. Fiscal rules and targets can help ensure that spending and revenue decisions align with agreed-upon goals and objectives.
Design tradeoffs and features	The weight given to tradeoffs among simplicity, flexibility, and enforceability depends on the goals a country is trying to achieve with a fiscal rule. In addition, there are tradeoffs between the types and combinations of rules, as well as the time frames over which the rules apply.
Legal framework and performance	The degree to which fiscal rules and targets are binding, such as being supported through a country's constitution or non-binding political agreements, can impact their permanence, as well as the extent to which ongoing political commitment is needed to uphold them.
Flexibility to address emerging issues	Integrating fiscal rules and targets into budget discussions can contribute to their ongoing use and provide for a built-in enforcement mechanism. The budget process can include reviews of fiscal rules and targets.
Integration with budgetary processes	Fiscal rules and targets with limited, well-defined exemptions, clear escape clauses for events such as national emergencies, and adjustments for the economic cycle can help a country address future crises.
Clear roles for supporting institutions	Institutions supporting fiscal rules and targets need clear roles and responsibilities for supporting their implementation and measuring their effectiveness. Independently analyzed data and assessments can help institutions monitor compliance with fiscal rules and targets.

[61]For more information on these key considerations, including examples from Australia, Germany, and the Netherlands, see GAO-20-561.

Key consideration	Supporting explanation
Transparency and Communication	Having clear, transparent fiscal rules and targets that a government communicates to the public and that the public understands can contribute to a culture of fiscal transparency and promote fiscal sustainability for the country.

Source: GAO analysis of literature review and interviews. | GAO-21-275SP

We have previously reported on the federal government's experience with fiscal rules and lessons learned for their successful design.[62] This experience shows that fiscal rules are better at enforcing past decisions than at forcing new ones. No process will force Congress and the President to make the difficult choices necessary to move toward a fiscally sustainable path. However, plans and processes can help surface the important tradeoffs. Having a long-term plan with clear goals and objectives, and strategies for achieving them, would provide transparency over the fiscal impacts of budget decisions for the year and over the long term.

We previously suggested that Congress consider establishing a long-term fiscal plan that includes fiscal rules and targets, such as a debt-to-GDP target.[63] Once the economy recovers from the effects of the COVID-19 pandemic, Congress should consider its medium- and long-term fiscal goals and align those goals with annual budgets to form a consistent strategy. Additional mechanisms like escape clauses can provide critical fiscal flexibility to respond to unforeseen events like natural disasters or public health emergencies.

One way to quantify the policy changes required to meet any given goal is to calculate the fiscal gap, which measures the changes in spending or revenue needed to reach a given debt-to-GDP level over a given time period. The magnitude of the required change will vary with the goal selected and with the time horizon chosen. For the purposes of this report, we show the fiscal gap measures of the policy change needed to reach a given debt-to-GDP fiscal target from the start to the end of 30 years.

To close the gap, policymakers would need to reduce program spending, increase revenue, or, more likely, do both. For example, if policymakers choose to achieve a debt-to-GDP target of 100 percent over a 30-year

[62]For example, GAO-20-561 and GAO-20-403SP.

[63]For more information, see GAO-20-561.

period (fiscal years 2020-2049), which is the level the federal government reached at the end of fiscal year 2020, they would need to make a combination of program spending cuts and revenue increases totaling about $37 trillion—in fiscal year 2020 dollars—over this period. This could be achieved by immediately and permanently cutting program spending by 20 percent annually or by increasing revenue by 27 percent annually. Table 3 illustrates the amount of change needed varies depending on the debt-to-GDP target that policymakers choose.[64]

Table 3: Illustrative Examples of Changes Needed to Achieve Debt-to-Gross Domestic Product Targets

The table shows the magnitude of actions needed to achieve certain levels of debt held by the public as a percentage of gross domestic product (GDP) over a 30-year period (fiscal years 2020-2049). While we simulate the percentage of changes to spending and revenue alone, a combination of both spending and revenue changes would most likely be needed to achieve a chosen fiscal path.

Debt target, percent of GDP (end of 30 years)	Spending and revenue: total change over 30 years[a]	Program spending alone: annual projected decrease needed [b,c]	Revenue alone: annual projected increase needed[c]
Percent	Dollars, in trillions	Percent	Percent
140	25.4	13.8	18.5
120	31.2	16.9	22.8
100	37.0	20.0	27.0
80	42.8	23.1	31.2
60	48.5	26.3	35.4
0[d]	65.9	35.7	48.1

Source: GAO's alternative simulation. | GAO-21-275SP

Note: Our long-term simulations of federal revenue and spending include two scenarios: the baseline extended simulation and the alternative simulation. We are using the alternative simulation for this analysis. The alternative simulation generally reflects historical trends, such as the extension of tax provisions scheduled to expire. It does not account for potential macroeconomic effects of fiscal policy changes over time.

[a]Represents the spending and revenue changes combined that are needed to meet the specified debt-to-GDP target at the end of 30 years in fiscal year 2020 dollars.

[b]Program spending consists of all spending except interest payments on debt held by the public.

[c]Represents the immediate and permanent change needed to meet the specified debt-to-GDP target at the end of 30 years.

[d]A 0 percent debt-to-GDP ratio means that debt held by the public is paid off entirely at the end of the 30-year period.

[64]GAO, *The Nation's Fiscal Health: Information on the Spending and Revenue Implications of Potential Debt Targets,* GAO-21-211 (Washington, D.C.: Dec. 15, 2020).

An Alternative Approach to the Debt Limit Is Needed

We reported previously that Congress should consider alternative approaches to the debt limit as part of any long-term fiscal plan.[65] The debt limit is a legal limit on the total amount of federal debt that can be outstanding at one time, but it does not restrict Congress's ability to pass spending and revenue legislation that affects the level of debt in the future, nor does it otherwise constrain fiscal policy. As currently structured, the debt limit is not a fiscal rule; it is a limit only on Treasury's authority to borrow in order to finance the decisions already enacted by Congress and the President.[66] In August 2019, Congress and the President suspended the debt limit through July 2021, at which time it will need to be either suspended again or raised.

By limiting the Treasury's borrowing ability without restraining spending and revenue decisions, the debt limit as currently designed does not limit debt, but it does threaten investors' confidence that U.S. Treasury securities backed by the full faith and credit of the United States will be honored.

The combination of the liquidity, depth, and safety of the U.S. Treasury market is unmatched in global markets. These characteristics make Treasury securities a unique and critical asset for a broad range of investors. Many investors accept low yields on Treasury securities because they are considered one of the safest assets in the world. This enables Treasury to keep borrowing costs low. Uncertainty over whether the debt limit will be raised or suspended leads to increased borrowing costs and disrupts the market for Treasury securities.

[65] GAO-20-403SP.

[66] The debt limit is codified at 31 U.S.C. § 3101(b), as amended, and applies to federal debt issued pursuant to authority under 31 U.S.C. chapter 31. A very small amount of total federal debt is not subject to the debt limit. This amount primarily comprises unamortized discounts on Treasury bills and Zero Coupon Treasury bonds; debt securities issued by agencies other than Treasury, such as the Tennessee Valley Authority; and debt securities issued by the Federal Financing Bank. The Bipartisan Budget Act of 2019 temporarily suspended the debt limit through July 31, 2021. Pub. L. No. 116-37, § 301, 133 Stat. 1049, 1057 (Aug. 2, 2019), reprinted in 31 U.S.C. § 3101 note.

We have suggested that Congress consider alternative approaches to the current debt limit to avoid seriously disrupting the Treasury market and increasing borrowing costs and to improve federal debt management.[67]

In July 2015, through a forum with experts in the field, we identified three options that would enable Congress to delegate its borrowing authority, avoid impasses on the debt limit, and minimize disruptions to the Treasury securities market:

- Link action on the debt limit to the budget resolution.
- Provide the administration with the authority to propose a change in the debt limit that would take effect absent enactment of a joint resolution of disapproval within a specified time frame.
- Delegate broad authority to the administration to borrow as necessary to fund enacted laws.[68]

Each of these options has strengths and weaknesses but would maintain congressional control and oversight of federal borrowing and better align decisions about the level of debt with decisions on spending and revenue. We did not endorse a specific option, but we suggested Congress consider such approaches.

During the 116th Congress, Congress considered legislation that, if enacted, could have helped avoid impasses on the debt limit. For example, Senate Bill 2765, bipartisan legislation that included a provision that would have automatically adjusted the debt limit to conform to levels established in the budget resolution.[69] Other legislation was introduced that, if enacted, could have helped avoid impasses on the debt limit, but none of these bills was voted out of committee. For example, Senate Bill 444 would have allowed the President to increase the statutory debt limit

[67]GAO, *Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches,* GAO-15-476 (Washington, D.C.: July 9, 2015). We most recently reiterated the importance of considering alternative approaches to the debt limit. We most recently reiterated the importance of considering alternative approaches to the debt limit in GAO-20-403SP and GAO-20-131.

[68]More detail about these ideas and a discussion of the advantages and challenges to each may be found in GAO-15-476.

[69]Bipartisan Congressional Budget Reform Act, S. 2765, title II, § 202(e)(5), 116th Cong. (2019).

unless a joint resolution of disapproval was passed by Congress,[70] and Senate Bill 623 would have allowed Treasury to issue debt in excess of the debt limit under certain circumstances if it notified Congress.[71]

Executive Agencies and Congress Have Additional Opportunities to Contribute toward Fiscal Health

Putting the federal government on a sustainable long-term fiscal path will require difficult decisions on both the spending and revenue side of the budget. The necessary changes in spending and revenue require legislation, but in our prior work we have identified numerous actions executive agencies could take to contribute toward a sustainable fiscal future, including addressing high-risk problems, improving service to the public, and strengthening government performance and accountability. Certain other congressional actions can support agencies' efforts. Although executive agency actions alone cannot put the U.S. government on a sustainable fiscal path, it is important for agencies to act as stewards of federal resources and for Congress to support this stewardship.

Reduce Improper Payments: Agencies Need to Curtail Billions in Improper Payments

Improper payments—payments that should not have been made or that were made in an incorrect amount—have consistently been a

[70]Protect our Citizens from Reckless Extortion of our Debt and Irresponsible Tactics Act of 2019, S. 444, 116th Cong. (2019).

[71]Default Prevention Act, S. 623, 116th Cong. (2019). This bill was reintroduced in the current Congress on January 28, 2021. See Default Prevention Act, S. 100, 117th Cong. (2021).

government-wide issue.[72] Since fiscal year 2003—when certain agencies were required by statute to begin reporting estimated improper payments for certain programs and activities—cumulative improper payment estimates have totaled about $1.9 trillion.[73]

According to OMB's paymentaccuracy.gov data, agencies reported total improper payment estimates of about $206 billion for fiscal year 2020, compared to about $175 billion for fiscal year 2019.[74] The Medicaid program alone reported an increase of estimated improper payments of more than $29 billion. Table 4 below shows programs that reported improper payment estimates greater than $5 billion in fiscal year 2020.

Table 4: Programs and Activities with Estimates of Improper Payments Exceeding $5 Billion in Fiscal Year 2020

Agency	Program or Activity	Fiscal Year 2020 Estimated Improper Payments (billions)
Department of Health and Human Services	Medicaid	$86.5
Department of Health and Human Services	Medicare Fee-for-Service	$25.7
Department of Health and Human Services	Medicare Part C	$16.3
Department of the Treasury	Earned Income Tax Credit	$16.0
Department of Labor	Unemployment Insurance	$8.0
Department of Veterans Affairs	Community Care	$7.5

[72]Under the Payment Integrity Information Act of 2019 (PIIA), Pub. L. No. 116-117, 134 Stat. 113 (Mar. 2, 2020), an improper payment is statutorily defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. See 31 U.S.C. § 3351(4). PIIA also provides that when an executive agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be included in the improper payment estimate. 31 U.S.C. § 3352(c)(2). We have reported improper payments as a material deficiency or material weakness in internal control in our audit reports on the U.S. government's consolidated financial statements since fiscal year 1997.

[73]Not all agencies are subject to PIIA's improper payment estimation and reporting requirements; the law only applies to executive agencies, i.e., departments, agencies, or instrumentalities in the executive branch of the U.S. government. See 31 U.S.C. § 102. Prior-year improper payment estimates have not been adjusted for inflation.

[74]An official U.S. government website managed by OMB, www.PaymentAccuracy.gov contains information about current and historical rates and estimated amounts of improper payments.

Agency	Program or Activity	Fiscal Year 2020 Estimated Improper Payments (billions)
Social Security Administration	Supplemental Security Income	$5.3

Source: Office of Management and Budget's Paymentaccuracy.gov. | GAO-21-275SP

Across the federal government, 98 programs or activities across 21 agencies reported improper payment estimates. Of those 98, 24 programs or activities reported improper payment rates estimated at 10 percent or greater. In addition, 17 programs or activities across seven agencies reported improper payment estimates greater than $1 billion.[75] As we have previously reported,[76] the federal government's ability to understand the magnitude of the improper payments is hindered by incomplete, unreliable, or understated estimates; risk assessments that may not accurately assess the risk of improper payment; and noncompliance with criteria listed in the Improper Payments Elimination and Recovery Act of 2010.[77]

In addition, for fiscal year 2019, estimates of improper payments were not reported for some federal programs and activities, including the Premium Tax Credit (i.e., subsidies for health insurance purchased through the exchanges) and Temporary Assistance for Needy Families. For example, the $206 billion of reported improper payment estimates generally do not include the $1.6 trillion in fiscal year 2020 expenditures to fund response and recovery efforts for the COVID-19 pandemic. In fact, for Department of Labor's three new unemployment insurance programs created under

[75]In addition to the seven programs and activities listed above that reported over $5 billion in improper payment estimates in fiscal year 2020, an additional 10 programs and activities reported improper payment estimates greater than $1 billion: (1) Department of Health and Human Services' Children's Health Insurance Program; (2) Treasury's Additional Child Tax Credit; (3) Treasury's American Opportunity Tax Credit; (4) DOD's Civilian Pay; (5) DOD's Military Pay – Army; (6) DOD's Military Pay – Air Force; (7) Department of Agriculture's Supplemental Nutrition Assistance Program; (8) Department of Agriculture's National School Lunch Program; (9) Department of Veterans Affairs' Purchased Long-Term Services and Support; and (10) Social Security Administration's Old-Age, Survivors, and Disability Insurance.

[76]GAO-20-403SP.

[77]The Improper Payments Elimination and Recovery Act of 2010, Pub. L. No. 111-204, § 3, 124 Stat. 2224, 2232 (July 22, 2010), regarding executive agencies' compliance with improper payments criteria, was effective for fiscal year 2019 and prior years until it was repealed by PIIA. PIIA enacted similar compliance provisions. *See* 31 U.S.C. §§ 3351(2), 3353.

the COVID-19 laws there are no plans to begin reporting improper payment estimates until fiscal year 2022, if at all.[78]

In our prior work, we have identified a number of strategies and specific actions agencies can take to reduce improper payments, which could yield significant savings and help ensure that taxpayer funds are adequately safeguarded. For example:

- **Improvements to agency estimates.** In May 2018, we recommended OMB develop guidance to help ensure agencies' estimating processes for identifying improper payments reflect key risks, for example, whether a payee is ineligible for a payment.[79] As of December 2020, OMB has not implemented this recommendation.
- **Amendments to the Social Security Act.** We have suggested that Congress consider amending the Social Security Act explicitly to allow the Social Security Administration (SSA) to share its full death data with Treasury's Do Not Pay working system for data matching.[80] In June 2020, GAO further emphasized this as part of our ongoing work and oversight on the federal response to the COVID-19 pandemic. The CARES Act included direct payments for eligible individuals to address pandemic-related financial stress. More than 160 million of these payments, known as Economic Impact Payments, were disbursed as of May 31, 2020. The Internal Revenue Service (IRS) did have access to SSA's full death data but it did not use the death records to stop payments to deceased individuals for the first three batches of payments. As a result, IRS sent $1.4 billion in payments to decedents. This outcome illustrates the importance of agencies having access to and using SSA's full death data to prevent and reduce improper payments. In December 2020, Congress passed and the President signed into law the Consolidated Appropriations Act, 2021, which requires SSA, to the extent feasible, to share its full death

[78]The COVID-19 relief laws created three new, federally funded unemployment insurance programs within the Department of Labor: the Pandemic Unemployment Assistance, the Federal Pandemic Unemployment Compensation, and the Pandemic Emergency Unemployment Compensation programs. These new programs were appropriated about $144 billion by these COVID-19 relief laws in fiscal year 2020.

[79]GAO, *Improper Payments: Actions and Guidance Could Help Address Issues and Inconsistencies in Estimation Processes*, GAO-18-377 (Washington, D.C.: May 31, 2018).

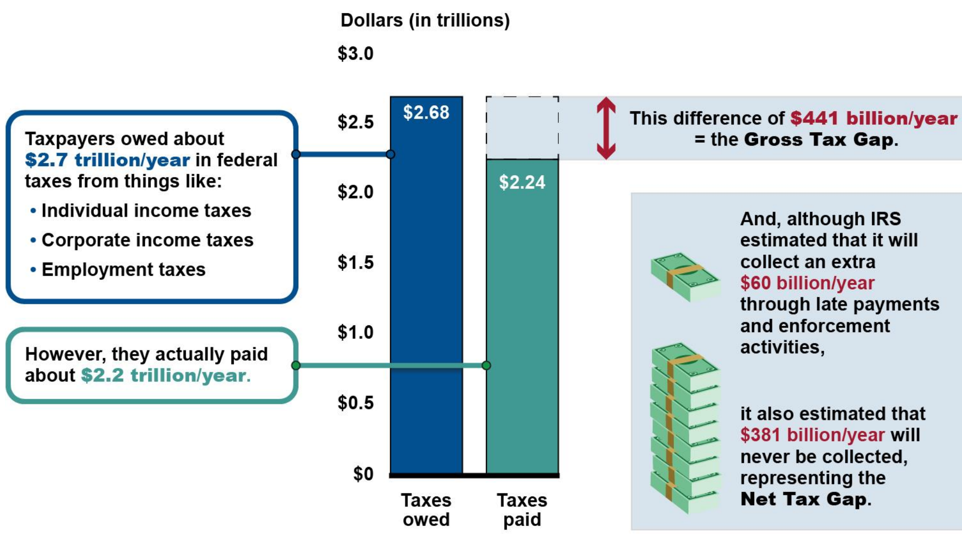
[80]GAO, *Improper Payments: Strategy and Additional Actions Needed to Help Ensure Agencies Use the Do Not Pay Working System as Intended*, GAO-17-15 (Washington, D.C.: Oct. 14, 2016), and GAO-20-625.

data with Treasury's Do Not Pay working system for a 3-year period, effective in December 2023.[81] Sharing this data will allow agencies to enhance their efforts to identify and prevent improper payments to deceased individuals.

Address the Persistent Tax Gap: Opportunities on Multiple Fronts

The tax gap is the difference between the amount of tax that taxpayers owe and the amount they actually pay voluntarily and on time (see figure 12). Given the size of the tax gap, even modest reductions would yield significant financial benefits and help improve the government's fiscal condition.

Figure 12: The Internal Revenue Service's Estimate of the Average Tax Gap for Tax Years 2011–2013



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-21-275SP

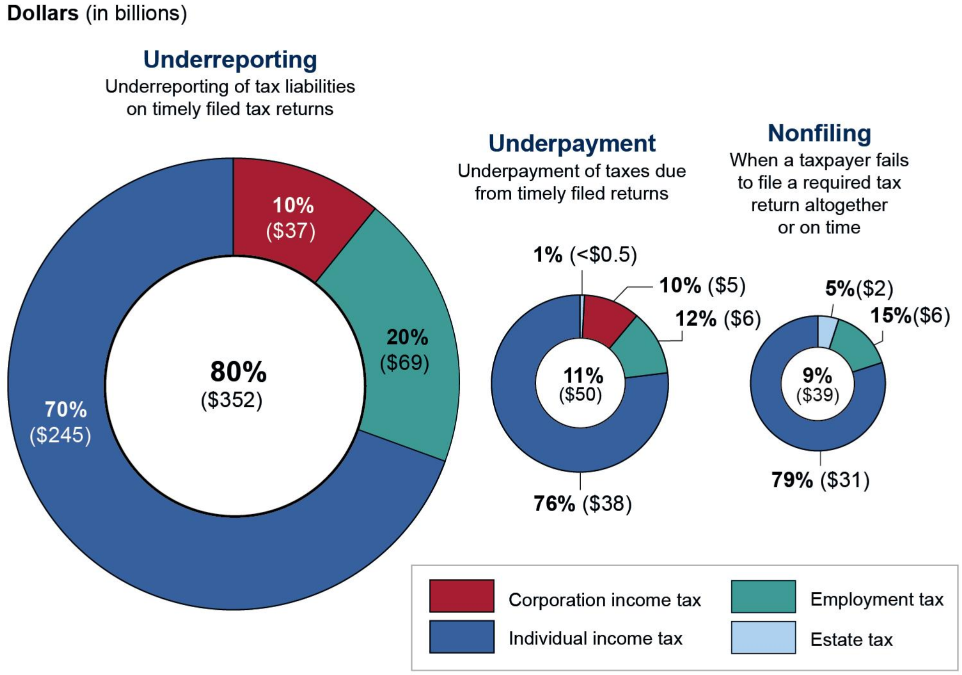
Note: IRS released its most recent tax gap estimate in September 2019 for tax years 2011 to 2013.

The tax gap arises when taxpayers, whether intentionally or inadvertently, fail to (1) accurately report tax liabilities on tax returns (underreporting), (2) pay taxes due from filed returns (underpayment), or (3) file a required tax return altogether or on time (nonfiling). As figure 13 shows,

[81]Pub. L. No. 116-260, 134 Stat. at 3201.

underreporting accounted for 80 percent of the tax gap across tax years 2011 to 2013.

Figure 13: Estimated Average Annual Gross Tax Gap by Type of Noncompliance and Tax, Tax Years 2011-2013



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-21-275SP

Data table for Figure 13: Estimated Average Annual Gross Tax Gap by Type of Noncompliance and Tax, Tax Years 2011-2013

Underreporting

Estate Tax	Corporation Tax	Employment Tax	Individual Tax
0	11	20	70

Underpayment

Estate Tax	Corp	Employment Tax	Individual Tax
1	10	12	76

Nonfiling

Estate Tax	Employment Tax	Individual Tax
5	15	79

Note: Data may not sum to totals because of rounding. Individual income tax includes individual business income tax. Estate tax underreporting is not shown in this graphic because it represents less than one-half percent of total underreporting. Excise tax is not shown in this graphic because the IRS does not have excise tax underreporting or nonfiling estimates, and its estimate for excise tax underpayment represents less than one-half percent of total underpayment. In addition, IRS does not have a corporation income tax estimate for nonfiling.

This persistent issue has been on our High-Risk List since its inception in 1990.[82] Among the key factors contributing to the tax gap are limited third-party reporting, challenges with customer service, and tax code complexity. Third-party reporting occurs when a taxpayer's income is reported to them and the IRS by an employer or other third party. The extent to which individual taxpayers accurately report their income correlates with the extent of such third-party reporting. Taxpayers tend to misreport their income significantly when there is little or no information reporting (e.g., self-employed or business income).

Reducing the tax gap requires action on multiple fronts. Our work has identified a number of strategies and specific actions IRS and Congress can take to reduce the tax gap. We recommended that IRS develop and document a strategy that outlines how IRS will use data to update compliance strategies.[83] We have also previously made recommendations to IRS aimed at enhancing taxpayer services and determining resource allocation strategies for its enforcement efforts,

[82]For more information on addressing the tax gap, see GAO-19-157SP.

[83]See GAO, *Tax Gap: Multiple Strategies Are Needed to Reduce Noncompliance,* GAO-19-558T (Washington, D.C.: May 9, 2019) and *Tax Gap: IRS Needs Specific Goals and Strategies for Improving Compliance*, GAO-18-39 (Washington, D.C.: Oct. 31, 2017). Likewise, we recommended that IRS develop and document plans to use employment tax compliance data to estimate the current state of the employment tax portion of the tax gap. See GAO, *Employment Taxes: Timely Use of National Research Program Results Would Help IRS Improve Compliance and Tax Gap Estimates,* GAO-17-371 (Washington, D.C.: Apr. 18, 2017).

among others.[84] IRS has not yet fully implemented many of these recommendations. We have also previously suggested targeted legislative actions such as:

- expanding third-party information reporting. For example, reporting could be required for certain payments that rental real estate owners make to service providers, such as contractors who perform repairs on their rental properties, and for payments that businesses make to corporations for services;
- providing IRS with authority—with appropriate safeguards—to correct math errors and to correct errors in cases where information provided by the taxpayer does not match information in government databases; and
- establishing requirements for paid tax return preparers to help improve the accuracy of the tax returns they prepare.[85]

Agencies Could Aid Fiscal Decision Making by Providing Improved Information on Programs and Fiscal Operations

As we reported in August 2020, the federal government has made significant strides in improving financial management since enacting the

[84]See GAO, *Tax Administration: Taxpayer Input Could Strengthen IRS's Online Services*, GAO-20-71 (Washington, D.C.: Dec. 19, 2019); *Tax-Law Enforcement: IRS Could Better Leverage Existing Data to Identify Abusive Schemes Involving Tax-Exempt Entities*, GAO-19-491 (Washington, D.C.: Sept. 5, 2019); *Tax Fraud and Noncompliance: IRS Could Further Leverage the Return Review Program to Strengthen Tax Enforcement,* GAO-18-544 (Washington, D.C.: July 24, 2018); *2016 Filing Season: IRS Improved Telephone Service but Needs to Better Assist Identity Theft Victims and Prevent Release of Fraudulent Refunds*, GAO-17-186 (Washington, D.C.: Jan. 31, 2017); *2012 Tax Filing: IRS Faces Challenges Providing Service to Taxpayers and Could Collect Balances Due More Effectively*, GAO-13-156 (Washington, D.C.: Dec. 18, 2012); and *Tax Gap: IRS Could Significantly Increase Revenues by Better Targeting Enforcement Resources*, GAO-13-151 (Washington, D.C.: Dec. 5, 2012).

[85]See GAO, *Partnerships and S Corporations: IRS Needs to Improve Information to Address Tax Noncompliance,* GAO-14-453 (Washington, D.C.: May 14, 2014); *Paid Tax Return Preparers: In a Limited Study, Preparers Made Significant Errors*, GAO-14-467T (Washington, D.C.: Apr. 8, 2014); *Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed*, GAO-10-349 (Washington, D.C.: Feb. 10, 2010); *Tax Gap: IRS Could Do More to Promote Compliance by Third Parties with Miscellaneous Income Reporting Requirements*, GAO-09-238 (Washington, D.C.: Jan. 28, 2009); and *Tax Gap: Actions That Could Improve Rental Real Estate Reporting Compliance*, GAO-08-956 (Washington, D.C.: Aug. 28, 2008).

Chief Financial Officers Act of 1990 (CFO Act).[86] There has been substantial progress in areas such as improved internal controls, reliable agency financial statements, and establishment of chief financial officer leadership positions. Nevertheless, there is more to be done to fully achieve the CFO Act's vision—for example, agency performance and cost information should be better linked to help policymakers and managers make fully informed decisions. Policy decisions would also benefit from increased attention and information on tax expenditures and improved reliability of financial information.

Increased attention to tax expenditures. Tax expenditures are provisions of the tax code that reduce taxpayers' tax liability and therefore the amount of tax revenue paid to the government. Examples include tax credits, deductions, exclusions, exemptions, deferrals, and preferential tax rates. Tax expenditures seek to advance goals that may be similar to the goals of mandatory or discretionary spending programs. In fiscal year 2019, tax expenditures reduced income tax revenues by approximately $1.32 trillion based on our calculation summing Treasury estimates for each tax expenditure.[87] According to unaudited information in the *2019 Financial Report*, the largest tax expenditure was related to employer-provided health insurance and represented an estimated $202 billion in reduced income tax revenue in fiscal year 2019.[88]

Although tax expenditures are used routinely as a policy tool, they are not regularly reviewed and their outcomes are not measured as closely as spending programs' outcomes. In September 2005, we recommended

[86]See GAO, *Federal Financial Management: Substantial Progress Made since Enactment of the 1990 CFO Act; Refinements Would Yield Benefits*, GAO-20-566 (Washington, D.C.: Aug. 6, 2020).

[87]The sum of the specific tax expenditure estimates is useful for gauging the general magnitude of reduced revenue through provisions of the tax code, but aggregate tax expenditure estimates must be interpreted carefully. Summing revenue loss estimates does not take into account possible interactions between individual provisions or potential behavioral responses to changes in these provisions on the part of taxpayers. Additionally, Treasury's tax expenditure estimates include the effect of certain tax credits on receipts only and not the effect of the credits on outlays, which Treasury reports separately, but does not take into account interactions between individual provisions. Fiscal year 2020 tax expenditure estimates were not available at the time of our report release.

[88]Employees generally pay no income taxes on their employers' contributions to their health insurance premiums. The value of employer-provided health insurance and medical care expenses is also excluded from Medicare and Social Security payroll taxes, and Treasury estimated that the payroll tax revenue losses were $136.7 billion in 2019.

that OMB take actions to develop a framework for evaluating tax expenditure performance and to review tax expenditures regularly in executive branch budget and performance review processes.[89] However, OMB has not implemented these recommendations.

In July 2016, we recommended that OMB work with agencies to identify which tax expenditures contribute to agency goals. OMB generally agreed but had taken no action as of January 2021.[90] Absent such analysis, policymakers have little way of knowing whether these tax provisions advance the intended outcomes. Policymakers also lack information to compare their cost and efficacy with other policy tools.[91] When difficult decisions about spending and revenues must be made, policymakers should have both the information about the various policy tools—mandatory spending, discretionary spending, and tax expenditures—in any given area and the ability to compare them.

Eliminating material weaknesses in internal control over financial reporting. Overall, the federal government has made significant strides in improving financial management since key federal financial management reforms were enacted in the 1990s. Twenty-two of the 24 Chief Financial Officers Act of 1990 (CFO Act) agencies received unmodified (“clean”) opinions on their respective entities’ fiscal year 2020 financial statements, up from six CFO Act agencies that received clean audit opinions for fiscal year 1996.[92] Eliminating remaining weaknesses would improve the reliability of financial information and improve financial decision-making.

The U.S. government’s consolidated financial statements are intended to present the results of operations and the financial position and condition of the federal government as a single entity.

Since the federal government began preparing consolidated financial statements more than 20 years ago, three major impediments have

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

[90]GAO, *Tax Expenditures: Opportunities Exist to Use Budgeting and Agency Performance Processes to Increase Oversight,* GAO-16-622 (Washington, D.C.: July 7, 2016).

[91]For more information on our work on tax expenditures, see GAO, *Key Issues: Tax Expenditures*, accessed on March 11, 2021, https://www.gao.gov/tax-expenditures/.

[92]31 U.S.C. § 901.

continued to prevent us from rendering an opinion on the federal government's accrual-based consolidated financial statements over this period: (1) serious financial management problems at DOD, (2) the federal government's inability to adequately account for intragovernmental activity and balances between federal entities, and (3) weaknesses in the federal government's process for preparing the consolidated financial statements.[93] Over the years, we have made a number of recommendations to OMB, Treasury, and DOD to address these issues.[94] Generally, these entities have taken or plan to take actions to address these recommendations.

The material weaknesses in internal control underlying these three major impediments continue to (1) hamper the federal government's ability to reliably report a significant portion of its assets, liabilities, costs, and other related information; (2) affect the federal government's ability to reliably measure the full cost, as well as the financial and nonfinancial performance, of certain programs and activities; (3) impair the federal government's ability to adequately safeguard significant assets and properly record various transactions; and (4) hinder the federal government from having reliable financial information to operate in an efficient and effective manner.

In our review of the CFO Act, we identified areas in which legislative action could enhance federal financial management. In August 2020, we suggested eight matters for congressional consideration including standardizing the responsibilities of chief financial officers, preparing government-wide and agency-level financial management plans, and identifying and, if necessary, developing key financial management information needed for effective financial management and decision-

[93]Bipartisan legislation was introduced in both houses in the 116th Congress that, if enacted, would have required the Congressional budget committees to conduct an annual joint hearing to receive a presentation from the Comptroller General of the United States regarding our audit of the financial statements of the U.S. government, and the financial position and condition of the federal government. Fiscal State of the Nation Resolution, S. Con. Res. 35, 116th Cong. (2020); Fiscal State of the Nation Resolution, H.R. Con. Res. 68, 116th Cong. (2019). Because this legislation was not enacted before the start of the 117th Congress, it would need to be reintroduced.

[94]GAO, *Management Report: Improvements Needed in Controls over the Processes Used to Prepare the U.S. Consolidated Financial Statements*, GAO-20-586 (Washington, D.C.: Aug. 25, 2020). In addition, see GAO, *DOD Financial Management, High Risk Issue*, accessed on January 25, 2021, https://www.gao.gov/highrisk/dod-financial-management. Further, other auditors have made recommendations to DOD to improve DOD's financial management.

making.[95] During the 116th Congress, bipartisan legislation aiming to strengthen financial management by updating the CFO Act passed the Senate by unanimous consent.[96]

Similarly, during the 116th Congress, Congress passed and the President signed into law the National Defense Authorization Act for Fiscal Year 2021, which contains a provision on the inventory of program activities of federal agencies.[97] The law requires that OMB make available a program inventory as an open government data asset, update the information on the website on a quarterly basis and update the program inventory on an annual basis. The program inventory is intended to link programs to their purposes and show spending and other data useful for policymakers to compare and evaluate across programs. GAO is also required to report on the program inventory once program inventory data are available online.

In addition, full implementation of the Digital Accountability and Transparency Act of 2014 (DATA Act) will also enable federal agencies to report information that complements the annual audited financial statements by providing much more detailed information on federal program spending and the activities of those programs.[98] OMB and Treasury have taken significant steps toward implementing the DATA Act's various requirements and addressing our related recommendations.

[95]GAO-20-566.

[96]CFO Vision Act of 2020, S. 3287, 116th Cong. (2020). While the bill passed the Senate on December 16, 2020, it was not enacted before the start of the 117th Congress on January 3, 2021. Therefore, it would need to be reintroduced in the 117th Congress.

[97]William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021, Pub. L. No. 116-283, div. H, title XCVI, § 9601, 134 Stat. 3388, 4823 (Jan. 1, 2021). This provision of the law incorporated language from the Taxpayers Right-To-Know Act, H.R. 3830, 116th Cong. (2020).

[98]Pub. L. No. 113-101, 128 Stat. 1146 (May 9, 2014). The DATA Act amended the Federal Funding Accountability and Transparency Act of 2006 (FFATA), Pub. L. No. 109-282, 120 Stat. 1186 (Sept. 26, 2006) *codified at* 31 U.S.C. § 6101 note.

Continue to Address Duplication, Overlap, and Fragmentation: Agencies Have the Potential to Achieve Billions in Financial Benefits for the Government

Since 2011, we have reported on federal programs, agencies, offices, and initiatives that have duplicative goals or activities as well as opportunities to achieve greater efficiency and effectiveness that result in cost savings or enhanced revenue collection. In our nine annual reports from 2011 through 2019, we presented 908 actions for executive branch agencies or Congress to reduce, eliminate, or better manage fragmentation, overlap, or duplication; achieve cost savings; or enhance revenue. Actions taken by executive branch agencies and Congress on these issues have resulted in roughly $429 billion in financial benefits since fiscal year 2010.[99] As of March 2020, about 57 percent of the actions were fully addressed, about 22 percent were partially addressed, and about 12 percent were not addressed.[100] We estimate that tens of billions of dollars in additional financial benefits are possible by fully implementing our recommended actions.

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[99]The $429 billion includes about $393 billion from 2010 through 2019 and $36 billion projected to accrue in future years. In calculating these totals, we relied on individual estimates from a variety of sources, which considered different time periods and used different data sources, assumptions, and methodologies. These totals represent a rough estimate of financial benefits and have been rounded down to the nearest $1 billion.

[100]Nine percent of the actions have been consolidated, replaced, or subsumed by new actions based on additional audit work or other relevant information or were closed as not addressed because the action is no longer relevant due to changing circumstances. For more information on our work on duplication, overlap, and fragmentation including cost-savings and revenue enhancements, see GAO, *2020 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Billions in Financial Benefits*, GAO-20-440SP (Washington, D.C.: May 19, 2020) and *Duplication & Cost Savings: Action Tracker*, updated on May 19, 2020, https://www.gao.gov/duplication-cost-savings.

on the last page of this publication. In addition, this publication will be available at no charge on GAO's website at http://www.gao.gov.

Gene L. Dodaro
Comptroller General of the United States

Appendix I: Objectives, Scope, and Methodology

This report summarizing the fiscal health of the federal government was conducted under the authority of the Comptroller General. In this report, we discuss the federal government's fiscal condition and how it changed in fiscal year 2020, the federal government's unsustainable long-term outlook, and risks to the government's fiscal condition. We also discuss actions the federal government can take to achieve a more sustainable fiscal path as well as the potential consequences of not taking action.

To summarize the current fiscal condition and how it changed in fiscal year 2020, we reviewed CBO reports on the effects of legislation on its projections of the federal deficit, Treasury's Monthly Treasury Statements, relevant Medicare and Social Security Trustees reports, and our prior work on the federal debt.

For the federal government's long-term outlook, we reviewed projections from CBO's March 2021 long-term budget outlook report, CBO's February 2021 budget and economic outlook report, and our long-term simulations of federal revenues and spending. Our two simulations are the extended baseline and the alternative. To conduct our simulations, we primarily used data from CBO and the Medicare and Social Security Trustees.

We chose the data and assumptions for our simulations to illustrate the nation's potential fiscal path under current law and current policy, and to complement CBO projections included in this report.

- CBO's baseline (10-year) and extended baseline (30-year) projections generally reflect current law. For example, CBO assumes current tax provisions will generally remain unchanged, tax provisions will expire as scheduled, and provisions of PPACA[1] and the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) designed to control health care cost growth will be achieved and sustained over the long term.[2]

[1]PPACA, Pub. L. No. 111-148, 124 Stat. 119 (2010), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029 (2010).

[2]MACRA, Pub. L. No. 114-10, title I, § 101, 129 Stat. 87, 89 (Apr. 16, 2015).

- GAO's extended baseline simulation uses CBO's estimates for the first 10 years and generally assumes current law continues into the future. For years beyond the 10th, the simulation assumes that revenues and discretionary spending remain at their 10th-year levels as shares of gross domestic product. It also uses health care spending projections from CMS and Social Security spending projections from the Social Security Trustees.
- GAO's alternative simulation generally assumes historical and current policy conditions will continue in the future. For example, the simulation assumes some tax provisions do not expire as scheduled, PPACA and MACRA provisions to control health care cost growth are not sustained, and, in the long term, revenues and discretionary spending return to their historical averages as shares of gross domestic product.[3]

For a more complete description of the assumptions and data for GAO's simulations, see https://www.gao.gov/assets/2021-03/2021_key_assumptions.pdf.[4]

To describe the risks to the federal government's fiscal condition, we drew from our 2021 High-Risk List, our bodies of work in a number of areas, and relevant laws.

To identify actions the federal government can take to achieve a more sustainable fiscal path, we reviewed our prior work on the debt limit and the use of fiscal rules by both the United States and other countries. We also reviewed our prior reports on improper payments; the tax gap; tax expenditures; and on duplication, overlap, and fragmentation.

We conducted our work from August 2020 to March 2021 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted,

[3]GAO's alternative simulation assumptions draw from the CMS Office of the Actuary's 2020 illustrative alternative assumptions for health care cost growth. These assumptions assume that Medicare cost containment measures provided under PPACA and the physician payment rate methodology provided under MACRA are not sustained over the long term, leading to a substantial increase in health care costs.

[4]A description of CBO's methodology for its baseline projections is available in CBO*, How CBO Prepares Baseline Budget Projections* (Washington, D.C.: February 2018).

provide a reasonable basis for any findings and conclusions in this product.

Appendix II: GAO Contacts and Staff Acknowledgments

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In addition to the contacts named above, Jason Vassilicos (Assistant Director), Erinn L. Sauer and J. Daniel Paulk (Analysts-in-Charge), Michelle Bacon, Melanie Magnotto, Robert Gebhart, Meredith Moles, Robert Robinson, and Ardith Spence made key contributions to this report. Additional assistance in their areas of expertise was provided by Margaret Adams, Jeff Arkin, Cindy Brown Barnes, Kyle Browning, Nikki Clowers, Michael Collins, Chris Currie, Beryl Davis, Elizabeth Field, Richard Geiger, Mark Glickman, Kathryn Godfrey, Yvonne Jones, Samantha Lalisan, Hannah Laufe, Thomas McCabe, Elizabeth Mixon, Tranchau (Kris) T. Nguyen, Joseph O'Neill, Laura Pacheco, Oliver Richard, Marylynn Sergent, Joseph Silvestri, Dawn Simpson, Justin Snover, Joseph Thompson, Frank Todisco, Robyn Trotter, Matthew Valenta, Patrick Ward, Steve Westley, Rebecca Rust Williamson, and Charles Young.

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