



UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

# ***America's Fiscal Future and Retirement Security***

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

**The American Council of Life Insurers  
CEO Capital Forum  
Washington, D.C.  
October 23, 2007**

GAO-08-236CG

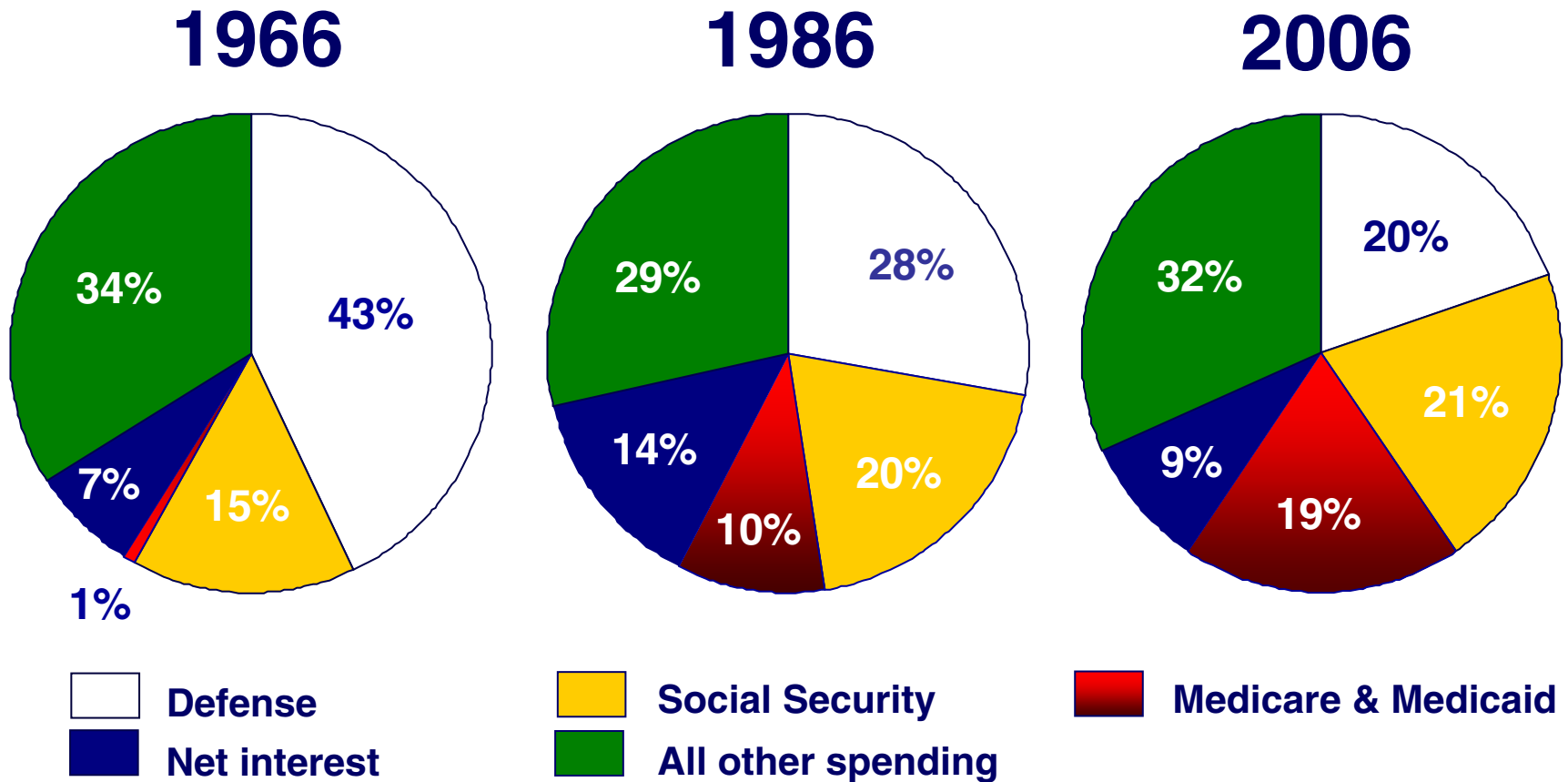


# The Case for Change

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

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- Outdated federal organizational structures, policies, and practices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

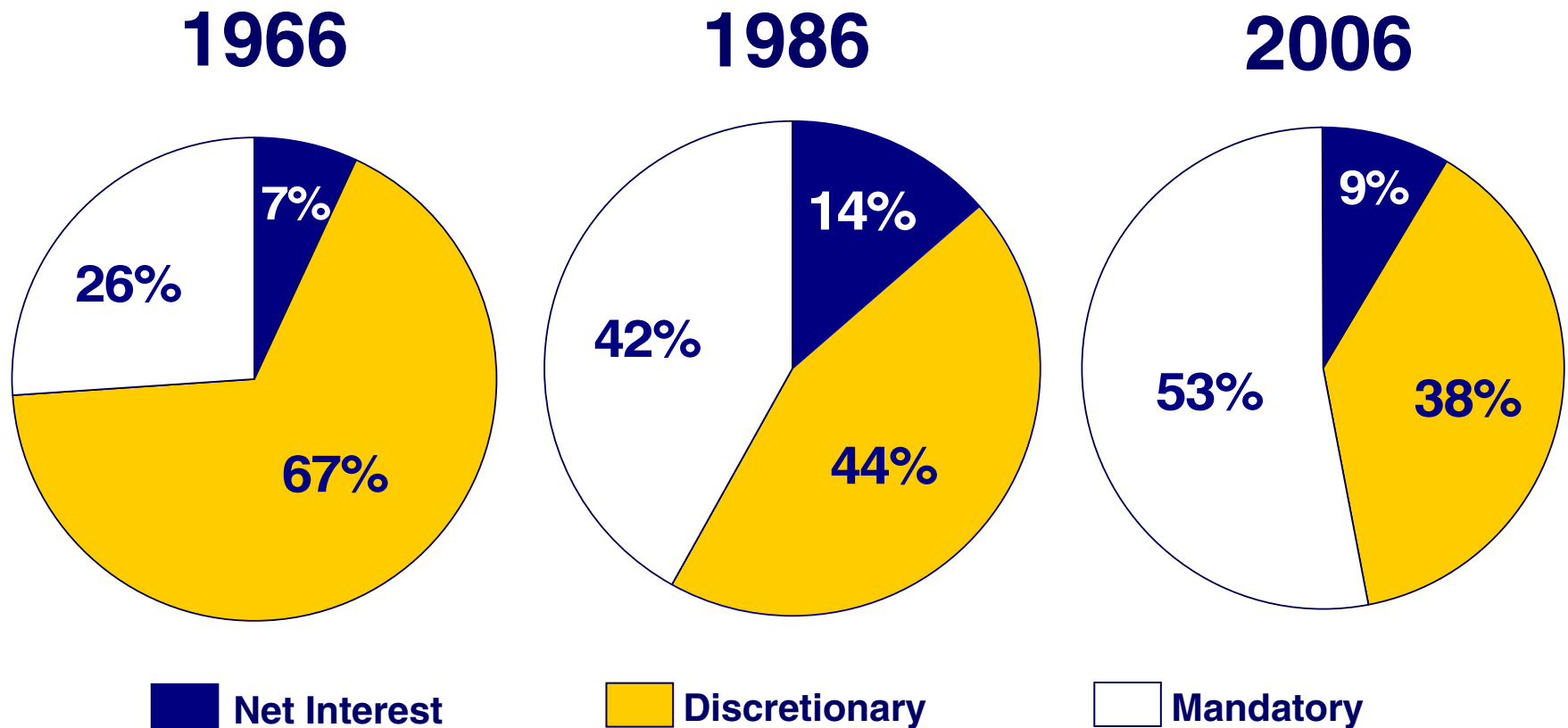
# Composition of Federal Spending



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

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

# Federal Spending for Mandatory and Discretionary Programs



Source: Office of Management and Budget.

# Fiscal Year 2005 and 2006 Deficits and Net Operating Costs

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

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

<sup>a</sup>Includes \$173 billion in Social Security surpluses for fiscal year 2005 and \$185 billion for fiscal year 2006; \$2 billion in Postal Service surpluses for fiscal year 2005 and \$1 billion for fiscal year 2006.

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

# Major Fiscal Exposures

(\$ trillions)

|  | 2000          | 2006          | % Increase |
|--|---------------|---------------|------------|
| <b>• Explicit liabilities</b>  | <b>\$6.9</b>  | <b>\$10.4</b> | <b>52</b>  |
| <ul style="list-style-type: none"> <li>• Publicly held debt</li> <li>• Military &amp; civilian pensions &amp; retiree health</li> <li>• Other</li> </ul> |               |               |            |
| <b>• Commitments &amp; contingencies</b>   | <b>0.5</b>    | <b>1.3</b>    | <b>140</b> |
| <ul style="list-style-type: none"> <li>• E.g., PBGC, undelivered orders</li> </ul>   |               |               |            |
| <b>• Implicit exposures</b>  | <b>13.0</b>   | <b>38.8</b>   | <b>197</b> |
| • Future Social Security benefits  | 3.8           | 6.4           |            |
| • Future Medicare Part A benefits  | 2.7           | 11.3          |            |
| • Future Medicare Part B benefits  | 6.5           | 13.1          |            |
| • Future Medicare Part D benefits  | --            | 7.9           |            |
| <b>Total</b>   | <b>\$20.4</b> | <b>\$50.5</b> | <b>147</b> |

Source: 2000 and 2006 Financial Report of the United States Government.

Note: Totals and percent increases may not add due to rounding. Estimates for Social Security and Medicare are at present value as of January 1 of each year and all other data are as of September 30.

# How Big is Our Growing Fiscal Burden?

This fiscal burden can be translated and compared as follows:

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

Source: GAO analysis.

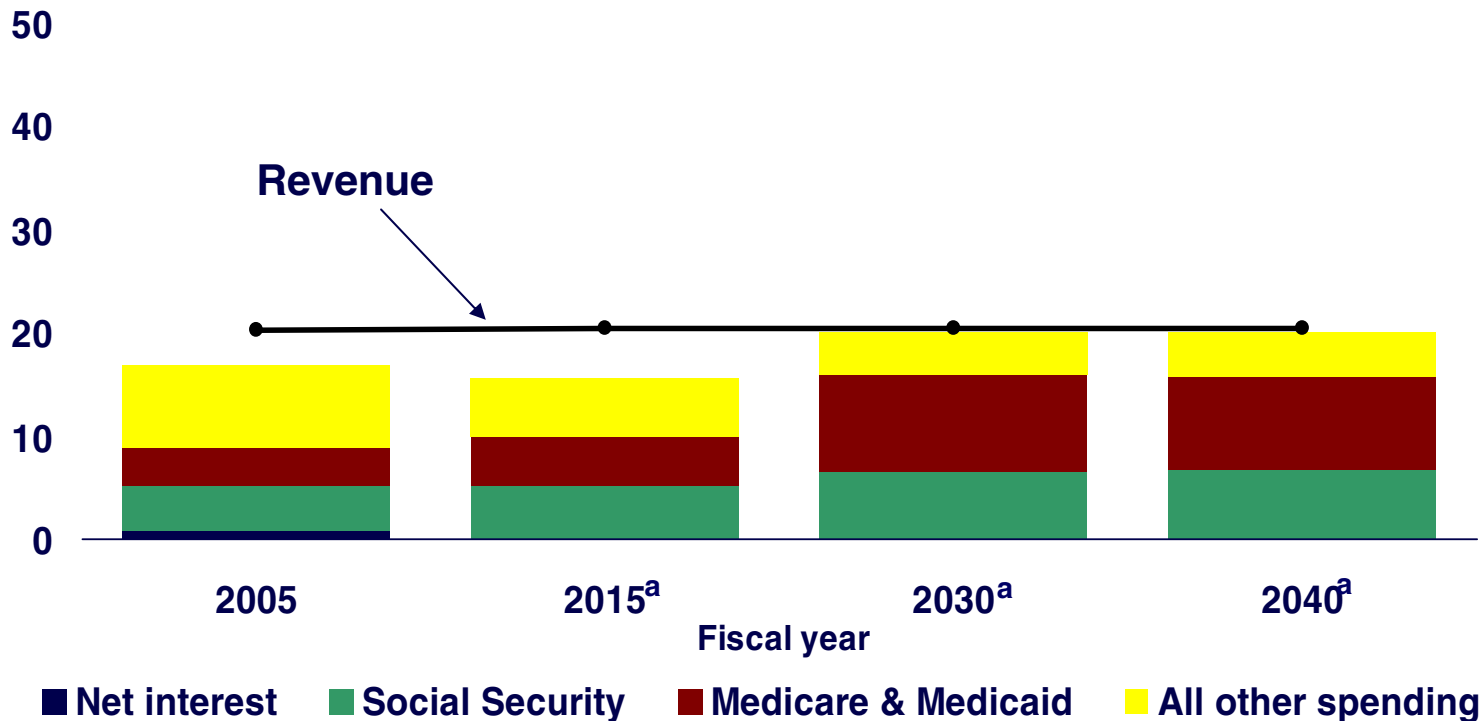
Notes: (1) Federal Reserve Board, Flow of Funds Accounts, Table B.100, 2006:Q2 (Sept. 19, 2006); (2) Burdens are calculated using estimated total U.S. population as of 9/30/06, from the U.S. Census Bureau; full-time workers reported by the Bureau of Economic Analysis, in NIPA table 6.5D (Aug. 2, 2006); and households reported by the U.S. Census Bureau, in Income, Poverty, and Health Insurance Coverage in the United States: 2005 (Aug. 2006); (3) U.S. Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States: 2005 (Aug. 2006); and (4) Bureau of Economic Analysis, Personal Income and Outlays: October 2006, table 2, (Nov. 30, 2006).

# Potential Fiscal Outcomes

## Under Baseline Extended (January 2001)

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

Percent of GDP



Source: GAO's January 2001 analysis.

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



# Potential Fiscal Outcomes

## Under Alternative Simulation

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

Percent of GDP

50

40

30

20

10

0

Revenue

2006

2015

2030

2040

Fiscal year

■ Net interest

■ Social Security

■ Medicare & Medicaid

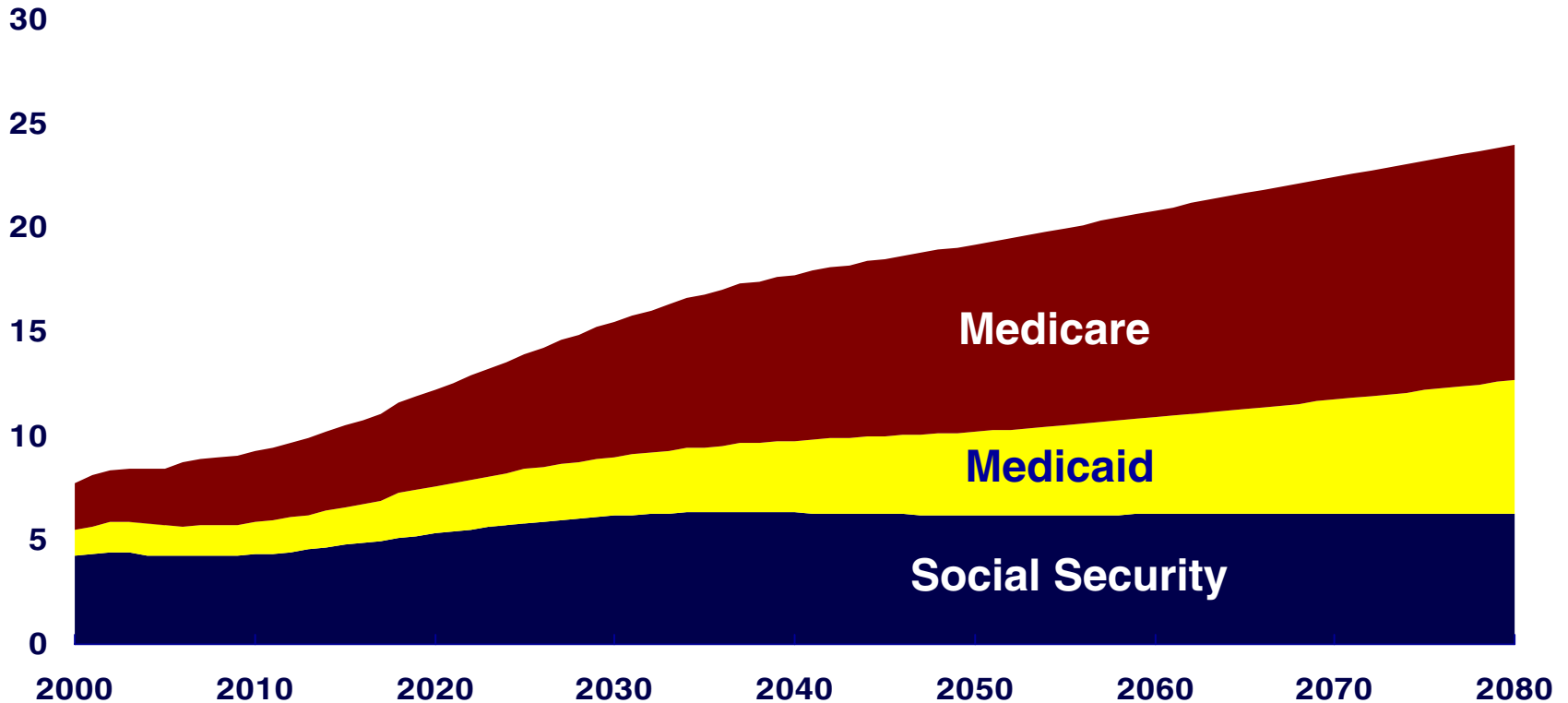
■ All other spending

Source: GAO's August 2007 analysis.

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

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

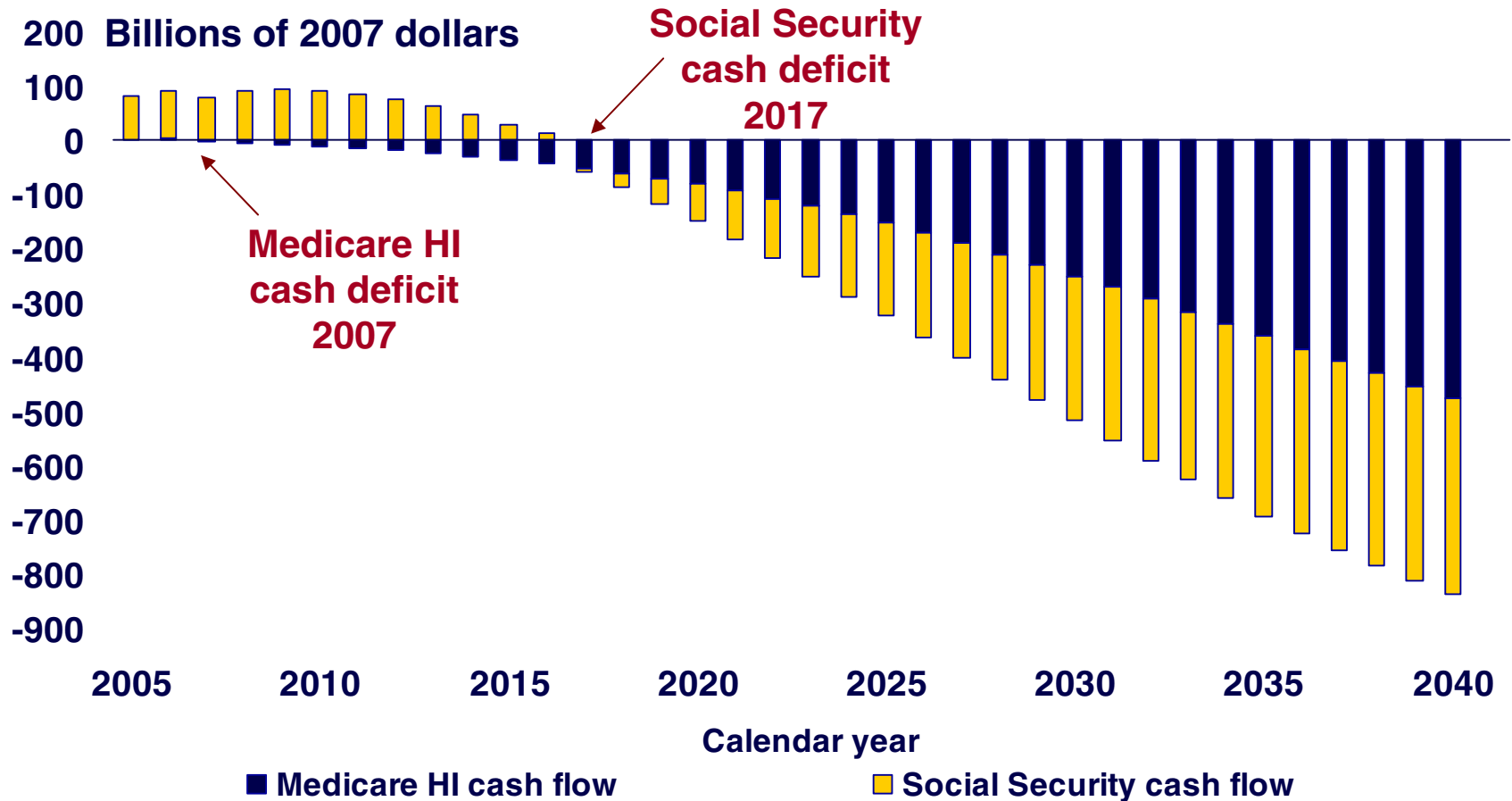
Percent of GDP



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

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

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

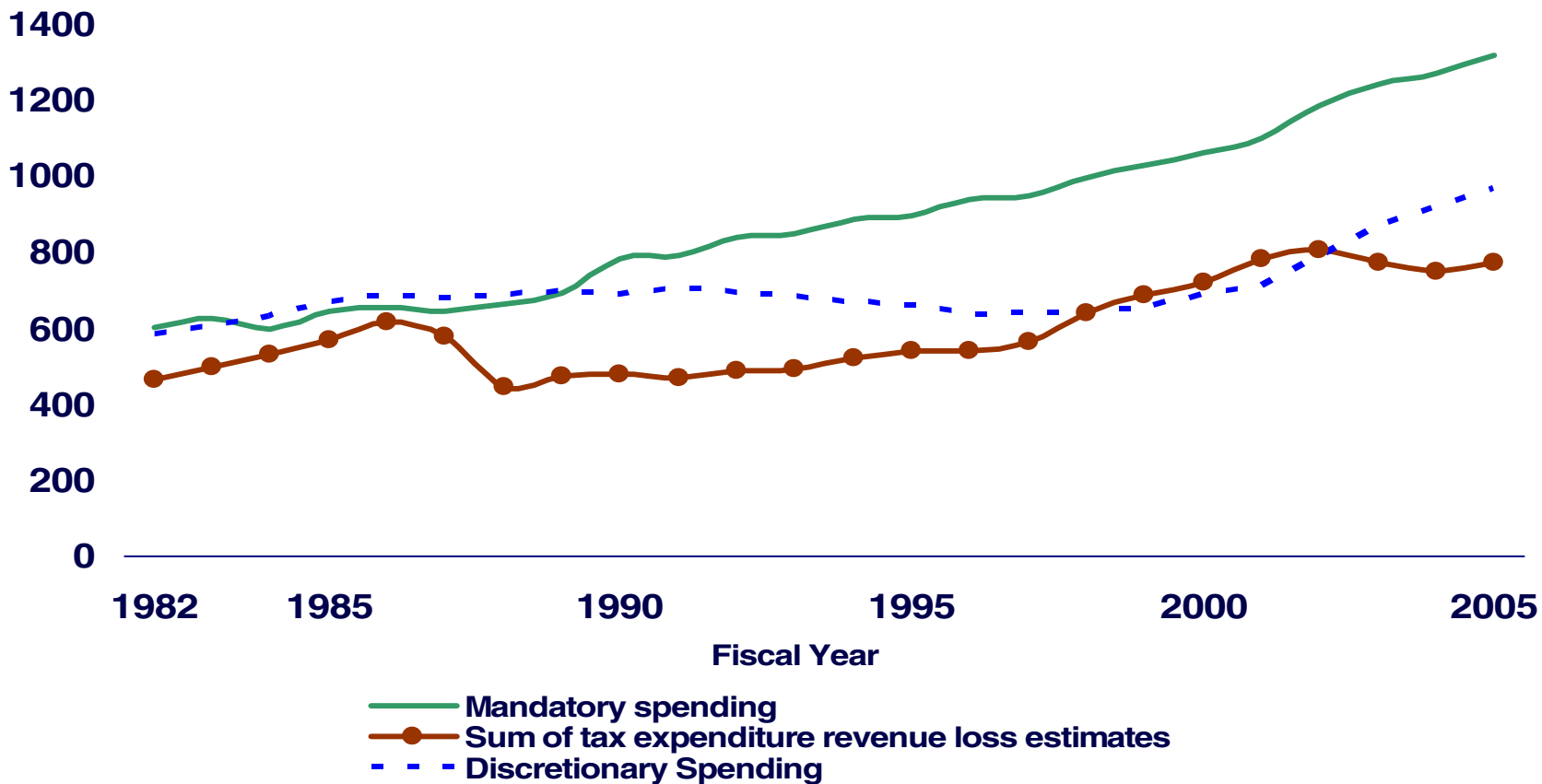


Source: GAO analysis of data from the Office of the Chief Actuary, Social Security Administration and Office of the Actuary, Centers for Medicare and Medicaid Services.

Note: Projections based on the intermediate assumptions of the 2007 Trustees' Reports. The CPI is used to adjust from current to constant dollars.

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

Dollars in billions (in real 2005 dollars)

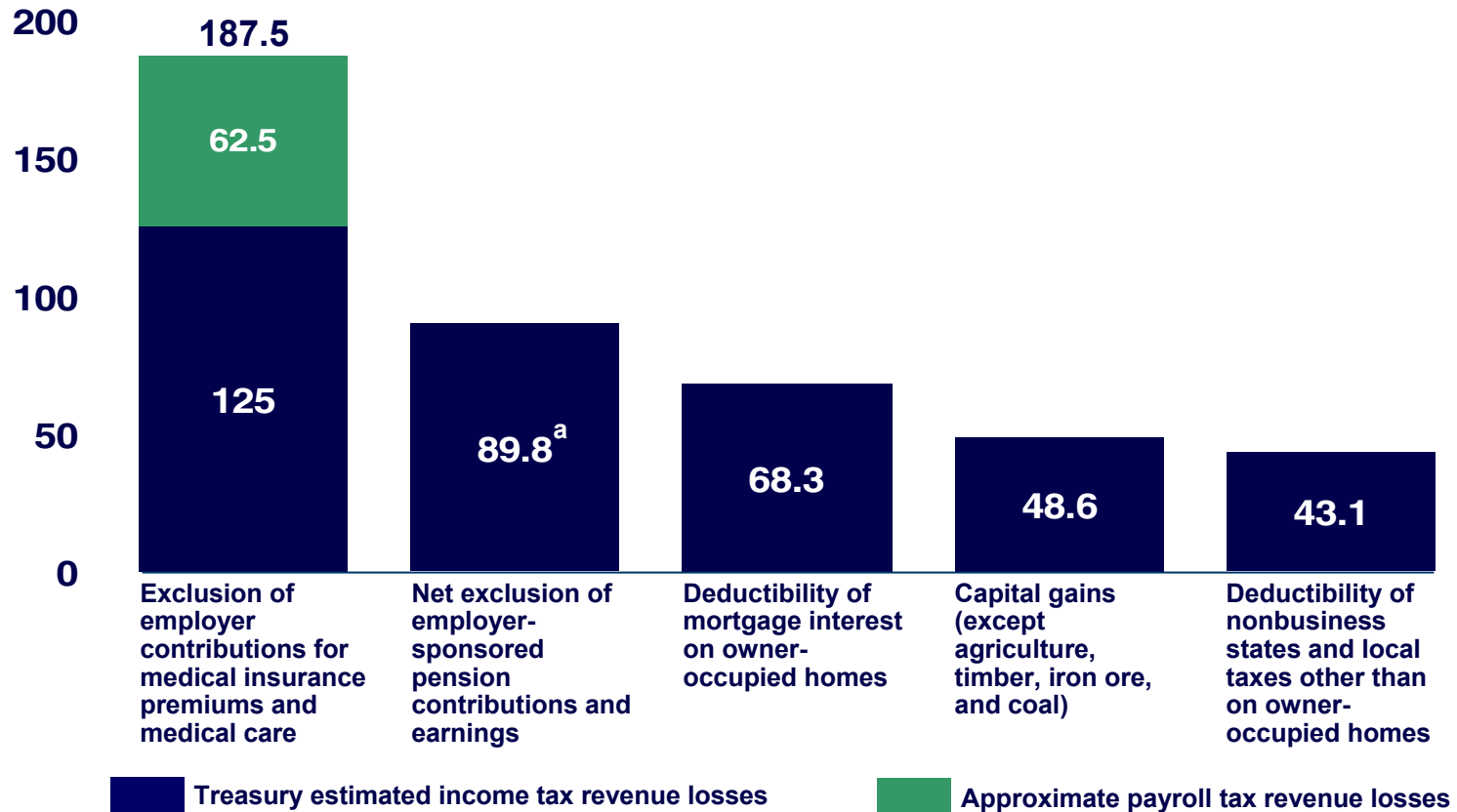


Source: GAO analysis of OMB budget reports on tax expenditures, fiscal years 1976-2007.

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

# Revenue Loss Estimates for the Largest Tax Expenditures Reported for Fiscal Year 2006

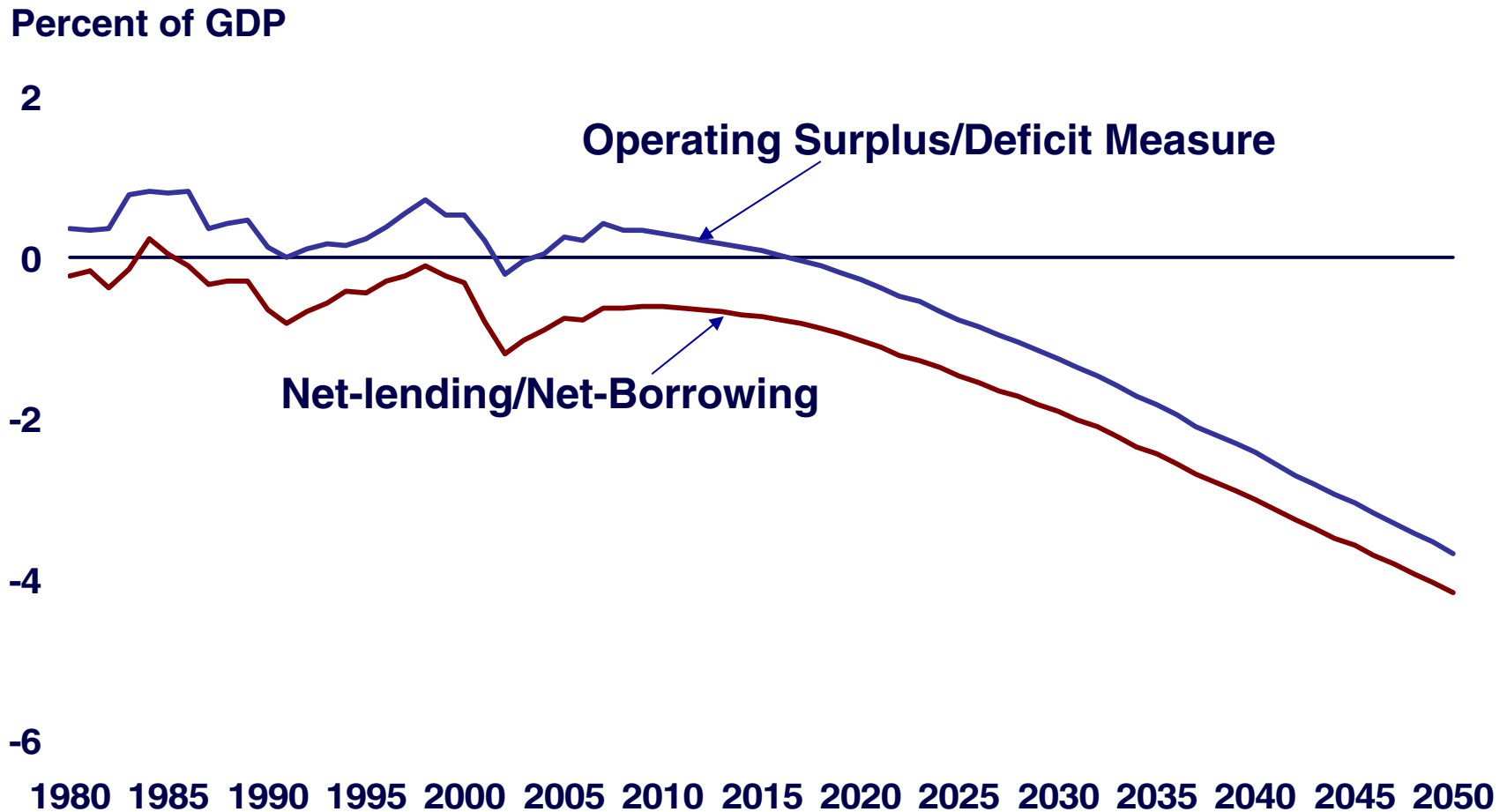
Revenue loss estimates (dollars in billions)



Source: GAO analysis of OMB, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2008*.

<sup>a</sup>The value of employer-provided health insurance is excluded from Medicare and Social Security payroll taxes. Some researchers have estimated that payroll tax revenue losses amounted to more than half of the income tax revenue losses in 2004, and we use this estimate for 2006. The research we are aware of dealt only with health care, therefore the 50 percent figure may not apply to other items that are excluded from otherwise applicable income and payroll taxes.

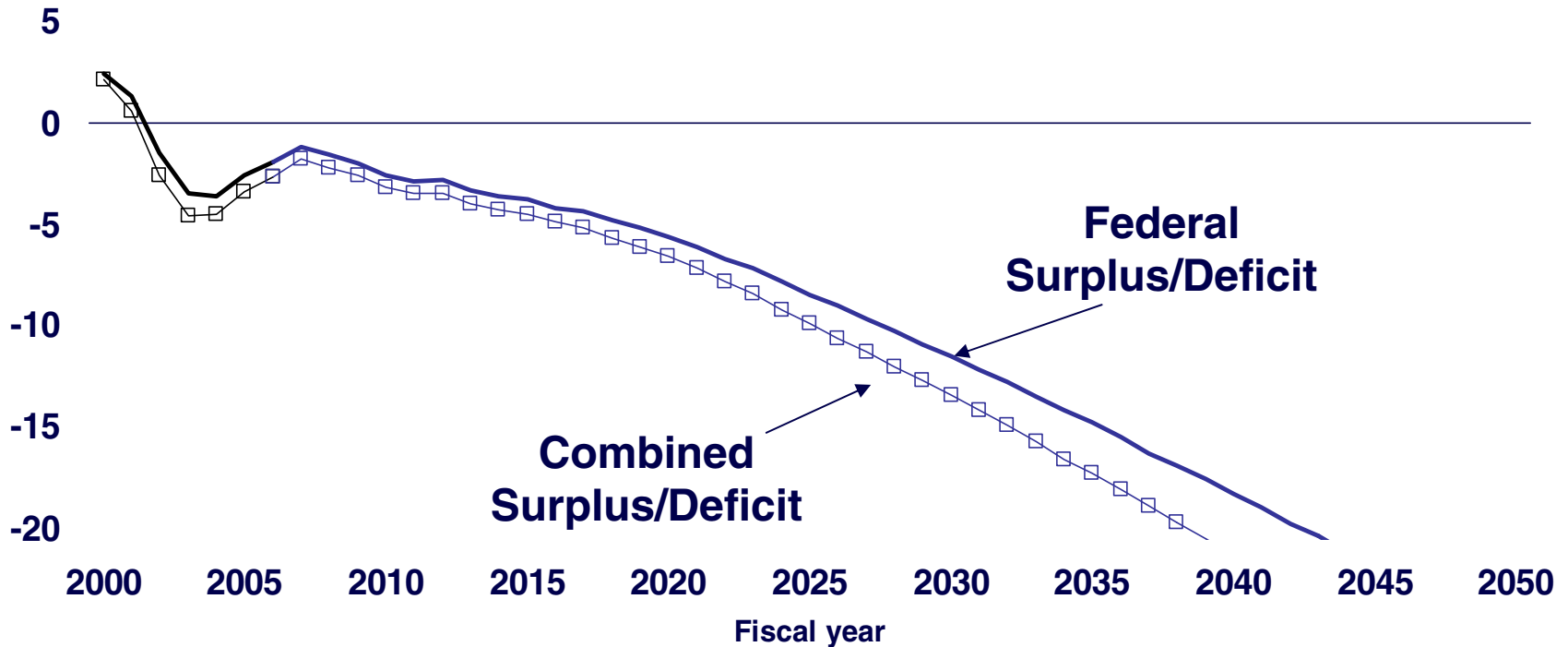
# State and Local Governments Face Increasing Fiscal Challenges



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

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

## Percent of GDP



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

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

# Current Fiscal Policy Is Unsustainable

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

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

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

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



# The Way Forward: A Three-Pronged Approach

- 1. Improve Financial Reporting, Public Education, and Performance Metrics**
- 2. Strengthen Budget and Legislative Processes and Controls**
- 3. Fundamentally Reexamine & Transform for the 21<sup>st</sup> Century (i.e., entitlement programs, other spending, and tax policy)**

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

# The Way Forward: *Improve Financial Reporting, Public Education, and Performance Metrics*

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

# The Way Forward: *Strengthen Budget and Legislative Processes and Controls*

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

# The Way Forward: *Fundamentally Reexamine & Transform*

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

# Key National Indicators

- **WHAT:** A portfolio of economic, social, and environmental outcome-based measures that could be used to help assess the nation's and other governmental jurisdictions' position and progress
- **WHO:** Many countries and several states, regions, and localities have already undertaken related initiatives (e.g., Australia, New Zealand, Canada, United Kingdom, Oregon, Silicon Valley (California) and Boston)
- **WHY:** Development of such a portfolio of indicators could have a number of possible benefits, including
  - Serving as a framework for related strategic planning efforts
  - Enhancing performance and accountability reporting
  - Informing public policy decisions, including much needed baseline reviews of existing government policies, programs, functions, and activities
  - Facilitating public education and debate as well as an informed electorate
- **WAY FORWARD:** Consortium of key players housed by the National Academies domestically and related efforts by the OECD and others internationally

# Key National Indicators: Where the United States Ranks

The United States may be the only superpower, but compared to most other OECD countries on selected key economic, social, and environmental indicators, on average, the U.S. ranks

# 16 OUT OF 28

## OECD Categories for Key Indicators (2006 OECD Factbook)

|                        |                   |                  |                          |
|------------------------|-------------------|------------------|--------------------------|
| • Population/Migration | • Energy          | • Environment    | • Quality of Life        |
| • Macroeconomic Trends | • Labor Market    | • Education      | • Economic Globalization |
| • Prices               | • Science & Tech. | • Public Finance |                          |

Source: 2006 OECD Factbook.

# SERVING THE CONGRESS AND THE NATION GAO'S STRATEGIC PLAN FRAMEWORK

## MISSION

GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people.

### THEMES

Changing Security Threats

Sustainability Concerns

Economic Growth & Competitiveness

Global Interdependency

Societal Change

Quality of Life

Science & Technology

### GOALS & OBJECTIVES

Provide Timely, Quality Service to the Congress and the Federal Government to . . .  
. . . Address Current and Emerging Challenges to the Well-being and Financial Security of the American People *related to . . .*

- Health care needs
- Lifelong learning
- Work benefits and protections
- Financial security

- Effective system of justice
- Viable communities
- Natural resources use and environmental protection
- Physical infrastructure

. . . Respond to Changing Security Threats and the Challenges of Global Interdependence *involving . . .*

- Homeland security
- Military capabilities and readiness

- Advancement of U.S. interests
- Global market forces

Help Transform the Federal Government's Role and How It Does Business to Meet 21st Century Challenges *by assessing . . .*

- Roles in achieving federal objectives
- Government transformation

- Key management challenges and program risks
- Fiscal position and financing of the government

Maximize the Value of GAO by Being a Model Federal Agency and a World-Class Professional Services Organization *in the areas of . . .*

- Client and customer satisfaction
- Strategic leadership
- Institutional knowledge and experience

- Process improvement
- Employer of choice

## CORE VALUES

Accountability

Integrity

Reliability

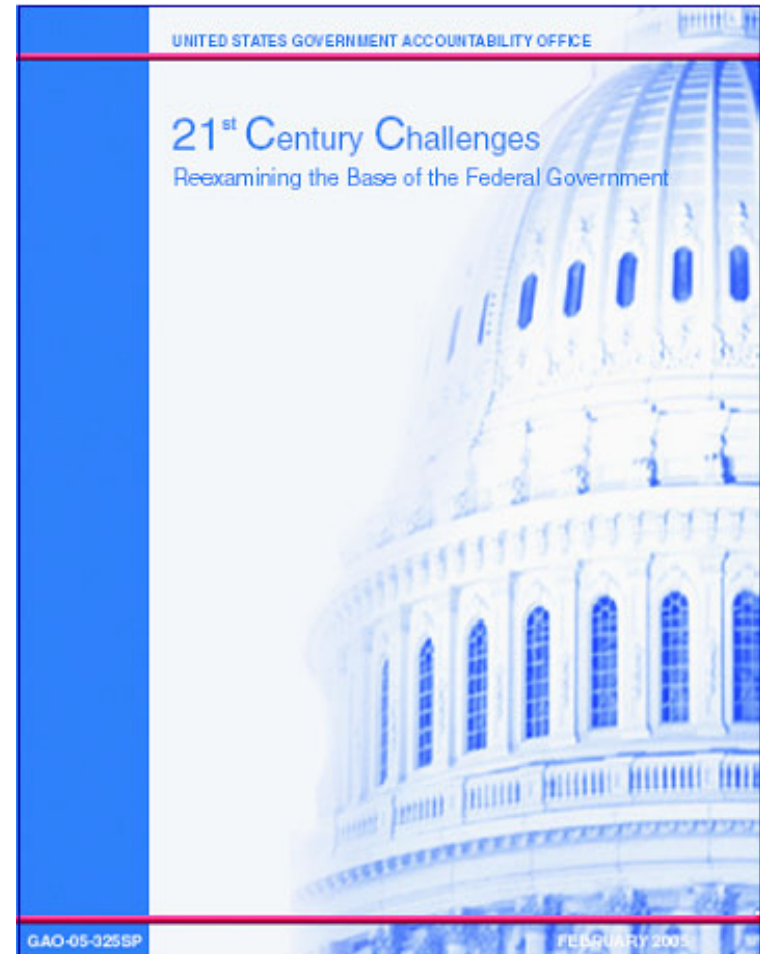
# Selected Sustainability Challenges

- Fiscal Deficits and Debt Burdens
- Health Care Quality, Access, and Costs
- Defense and Homeland Security Strategies
- Social Insurance Commitments
- Tax Gaps and Policies
- Energy, Environment, and Resource Protection
- Immigration Policies
- Infrastructure Needs



# 21<sup>st</sup> Century Challenges Report

- Provides background, framework, and questions to assist in reexamining the base
- Covers entitlements & other mandatory spending, discretionary spending, and tax policies and programs
- Based on GAO's work for the Congress
- Issued February 16, 2005



Source: GAO.

# Twelve Reexamination Areas

## MISSION AREAS

- Defense
- Education & Employment
- Financial Regulation & Housing
- Health Care
- Homeland Security
- International Affairs
- Natural Resources, Energy & Environment
- Retirement & Disability
- Science & Technology
- Transportation

## CROSSCUTTING AREAS

- Improving Governance
- Reexamining the Tax System

# Financial Regulation Challenges for the 21<sup>st</sup> Century

Increased global interdependence and rapid technological advancement in the financial services industry pose significant challenges to U.S. regulatory institutions:

- Globalization has become increasingly prevalent as technology allows the quick and easy movement of money around the world, challenging regulators whose authority is defined by national borders
- The financial services sector has been and continues to be one of the most technologically sophisticated, whether in adapting technology to new uses or providing incentives to develop state-of-the-art products to solve a range of risk management problems

# Challenges Facing the Federal Financial Regulatory Structure

The present federal financial regulatory structure evolved largely as a result of periodic/ad hoc responses to crises and financial panics. In the last few decades however, the financial services industry itself has evolved, becoming more:

- Concentrated
- Complex
- Consolidated across sectors

As a result, financial regulators must become more astute in seeing the total risk exposure at large conglomerate firms and identifying and preemptively responding to risks that cross industry lines

# Illustrative 21<sup>st</sup> Century Questions: Financial Regulation

Considerations for the federal financial regulatory structure include:

- Consolidating various federal regulatory agencies to:
  - Promote a more coherent and integrated structure
  - Specify goals more clearly
  - Provide sufficient resources, flexibilities, and incentives to prospectively target resources to risks
- Examining the extent to which specialized or consolidated regulators effectively address companywide and systemic risks that arise from the potential failure of large, diversified financial firms
- Exploring what role the federal government should play in improving consumer financial literacy, where current information gaps are, and whether and to what extent disclosures can be improved to protect consumers

# Why Improving Consumer Financial Literacy is Important

## Financial literacy is important for three key reasons:

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

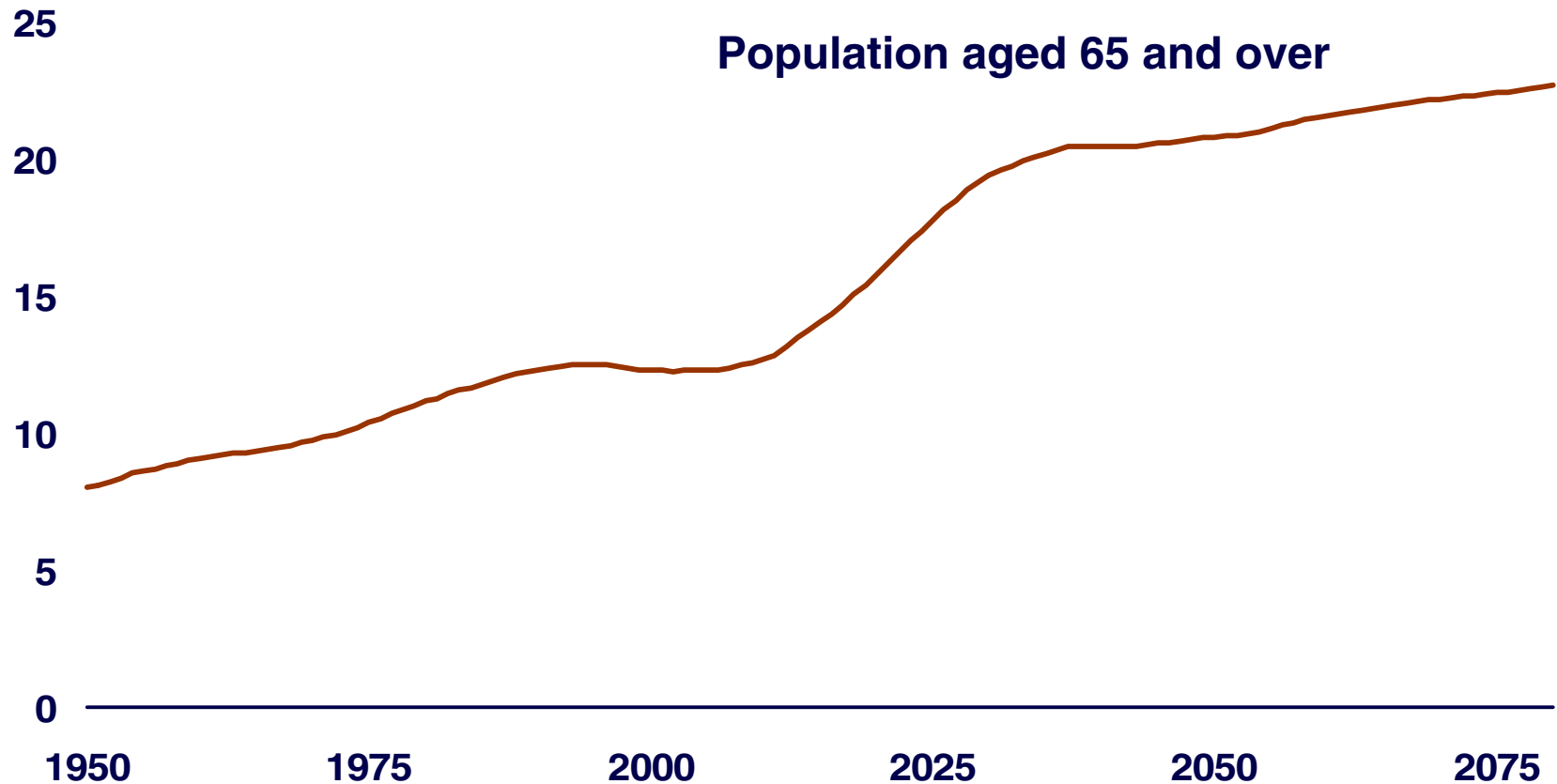
**Ensuring that Americans have the knowledge and skills to manage their money wisely is a key element in improving the economic health of our nation in current and future generations**

# Key Elements for Economic Security in Retirement

- **Adequate retirement income**
  - Savings
  - Social Security
  - Pensions
  - Earnings from continued employment (e.g., part-time)
- **Affordable health care**
  - Medicare
  - Retiree health care
- **Long-term care (a hybrid)**
- **Major Players**
  - Employers
  - Government
  - Individuals
  - Family
  - Community

# Aged Population as a Share of Total U.S. Population Will Continue to Increase

Percent of total population



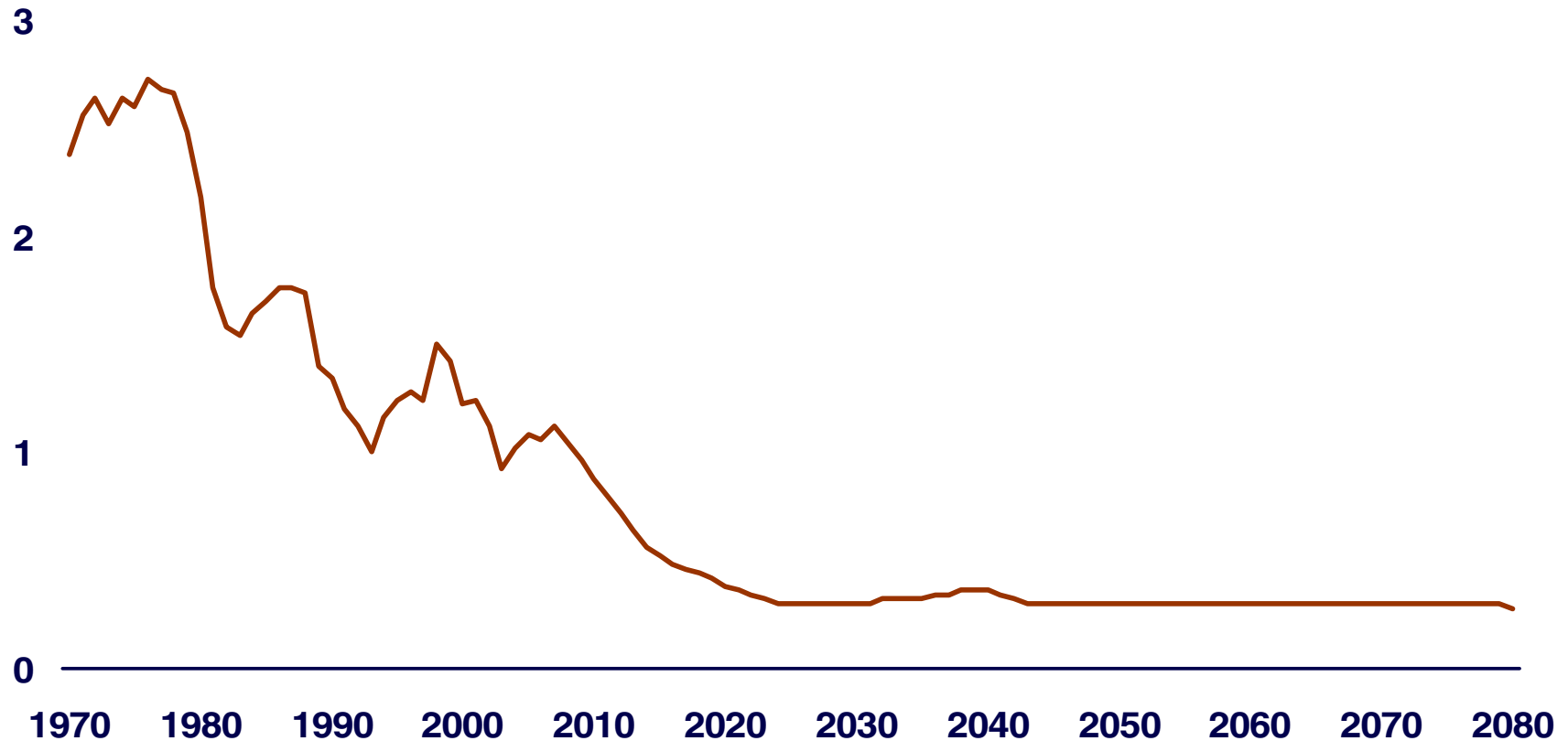
Source: Office of the Chief Actuary, Social Security Administration.

Note: Projections based on the intermediate assumptions of the 2007 Trustees' Reports.



# U.S. Labor Force Growth Will Continue to Decline

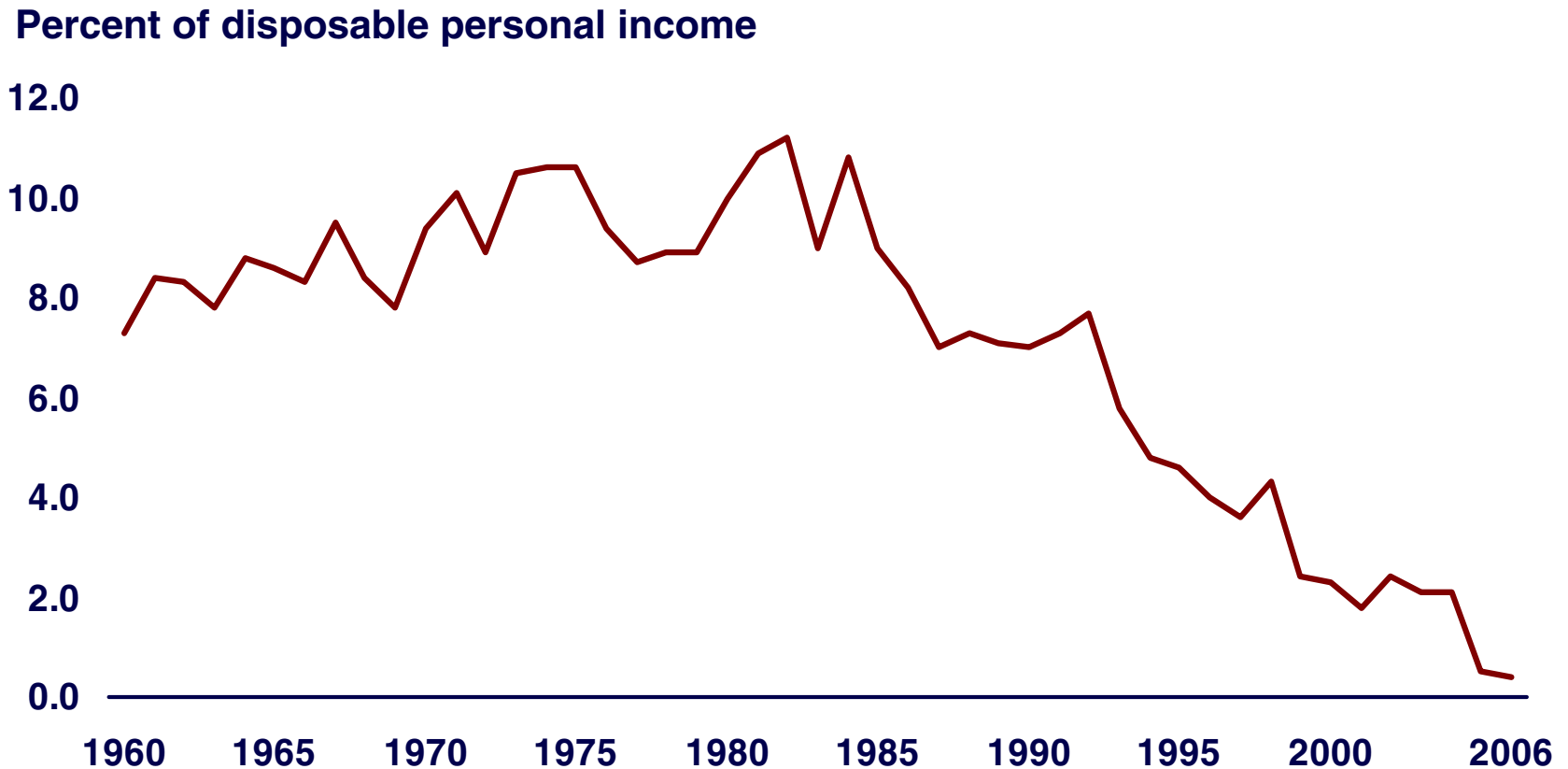
Percentage change (5-yr moving average)



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

Note: Percentage change is calculated as a centered 5-yr moving average of projections based on the intermediate assumptions of the 2007 Trustees Reports.

# Personal Saving Rate Has Declined



Source: Bureau of Economic Analysis.

# Key Dates Highlight Long Term Challenges of the Social Security System

| Date |      |       | Event   |
|------|------|-------|---|
| OASI | DI   | OASDI |   |
| 2009 | --   | 2009  | Cash surplus begins to decline  |
| 2018 | 2005 | 2017  | Annual benefit costs exceed cash revenue from taxes                               |
| 2028 | 2013 | 2027  | Trust fund ceases to grow because even taxes plus interest fall short of benefits |
| 2042 | 2026 | 2041  | Trust fund exhausted  |

Source: Social Security Administration, *The 2007 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (Washington, DC: April 2007).

# Possible Way Forward on Social Security Reform

Make little or no changes to those who are near retirement or already retired and make a number of adjustments that would affect younger workers:

- Phase-in an increase in the **normal** retirement age and index it to life expectancy
- Consider phasing-in an increase in the **early** retirement age and index it to life expectancy with a modified disability access provision
- Modify income replacement and/or indexing formulas for middle and upper income earners
- Strengthen the minimum benefit
- Consider a modest adjustment to the COLA formula
- Increase the taxable wage base, if necessary
- Consider supplemental individual accounts and mandatory individual savings on a payroll deduction basis (e.g., a minimum 2 percent payroll contribution and a program designed much like the Federal Thrift Savings Plan with a real trust fund and real investments)

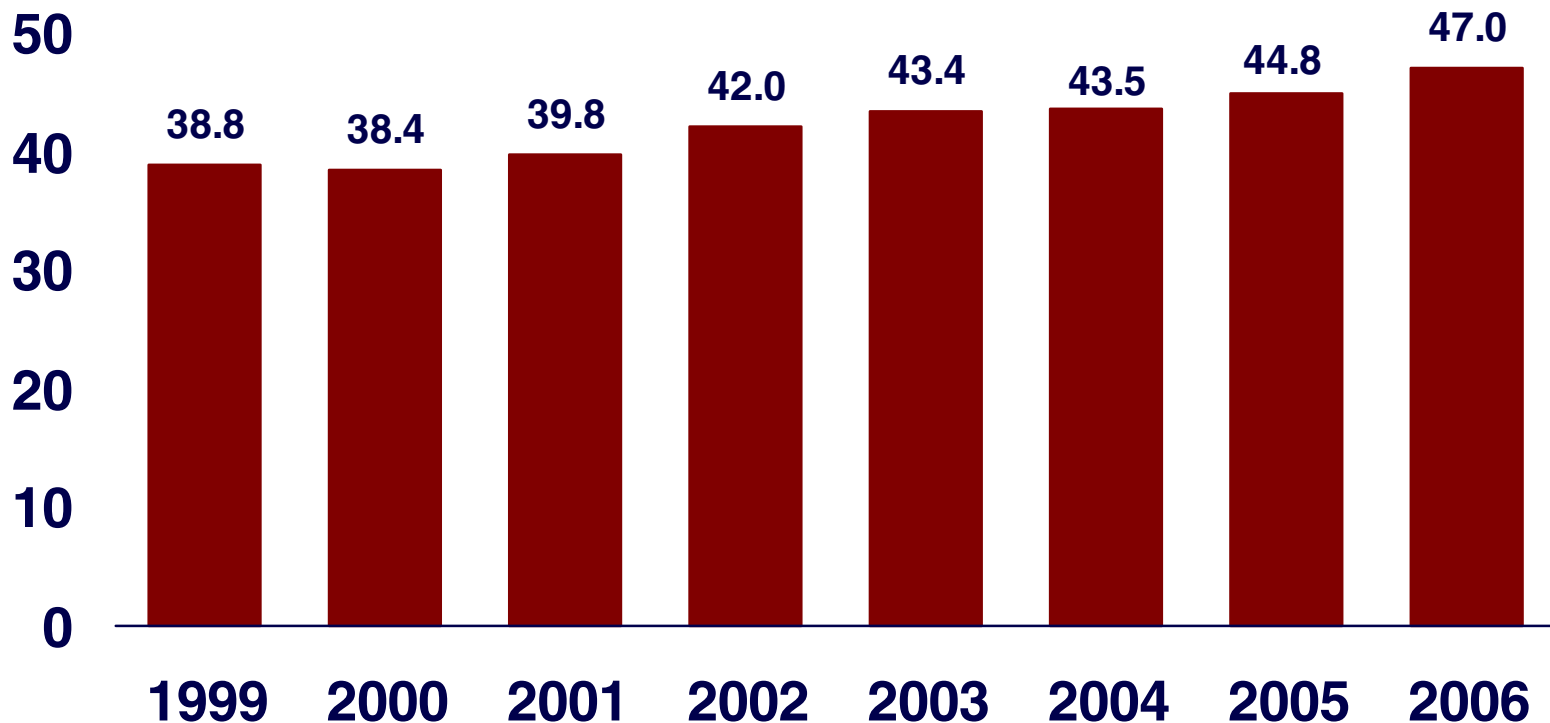
# Key Dates Highlight Long Term Challenges of the Medicare Program

| Date | Event  |
|------|--|
| 2007 | Medicare Part A outlays exceed cash income   |
| 2007 | Estimated trigger date for “Medicare funding warning”  |
| 2013 | Projected date that annual “general revenue funding” for Part B will exceed 45 percent of total Medicare outlays |
| 2019 | Part A trust fund exhausted, annual income sufficient to pay about 80% of promised Part A benefits               |

Source: 2007 Annual Report of The Boards of Trustees of The Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds (Washington, DC, April 2007).

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

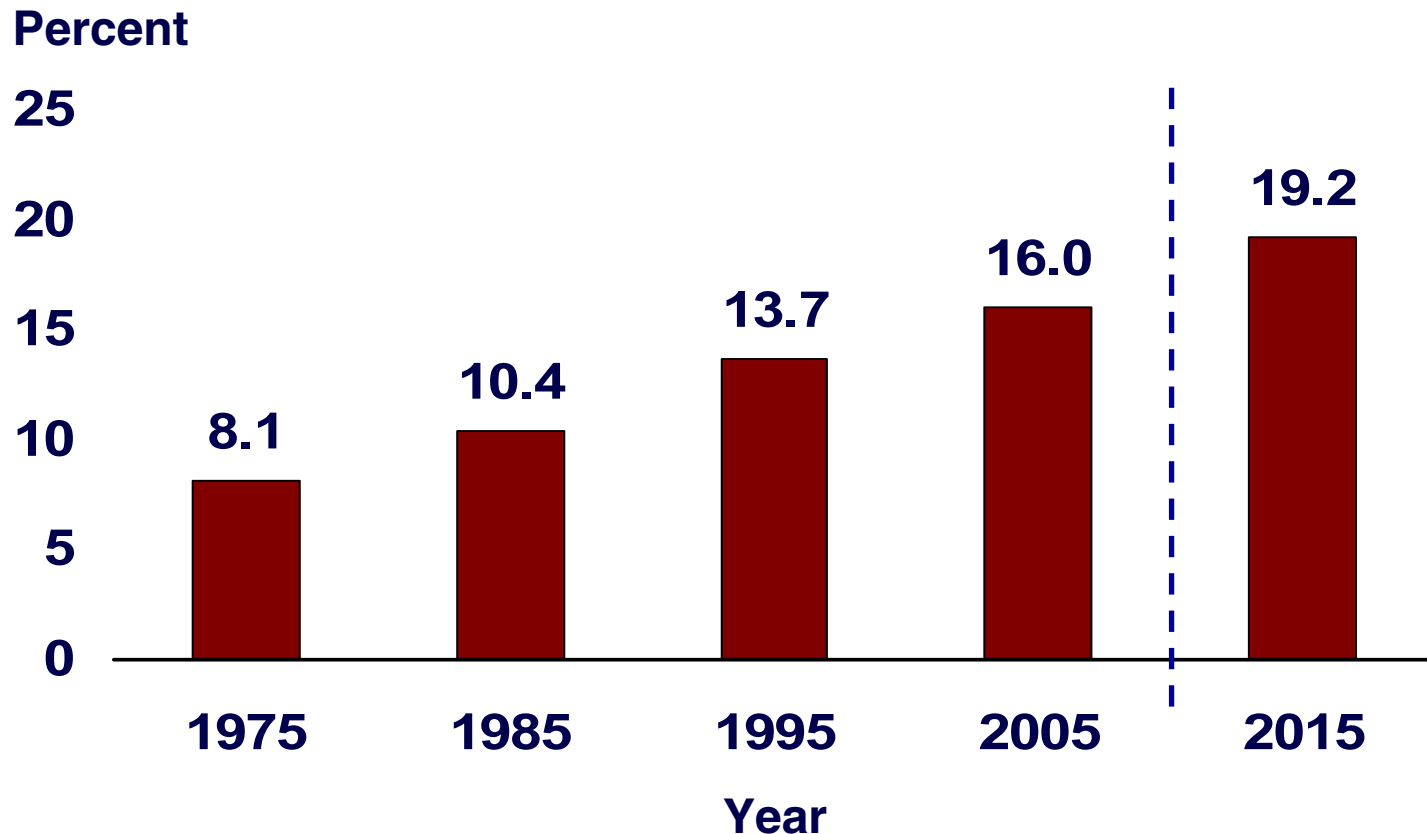
Population in millions



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

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

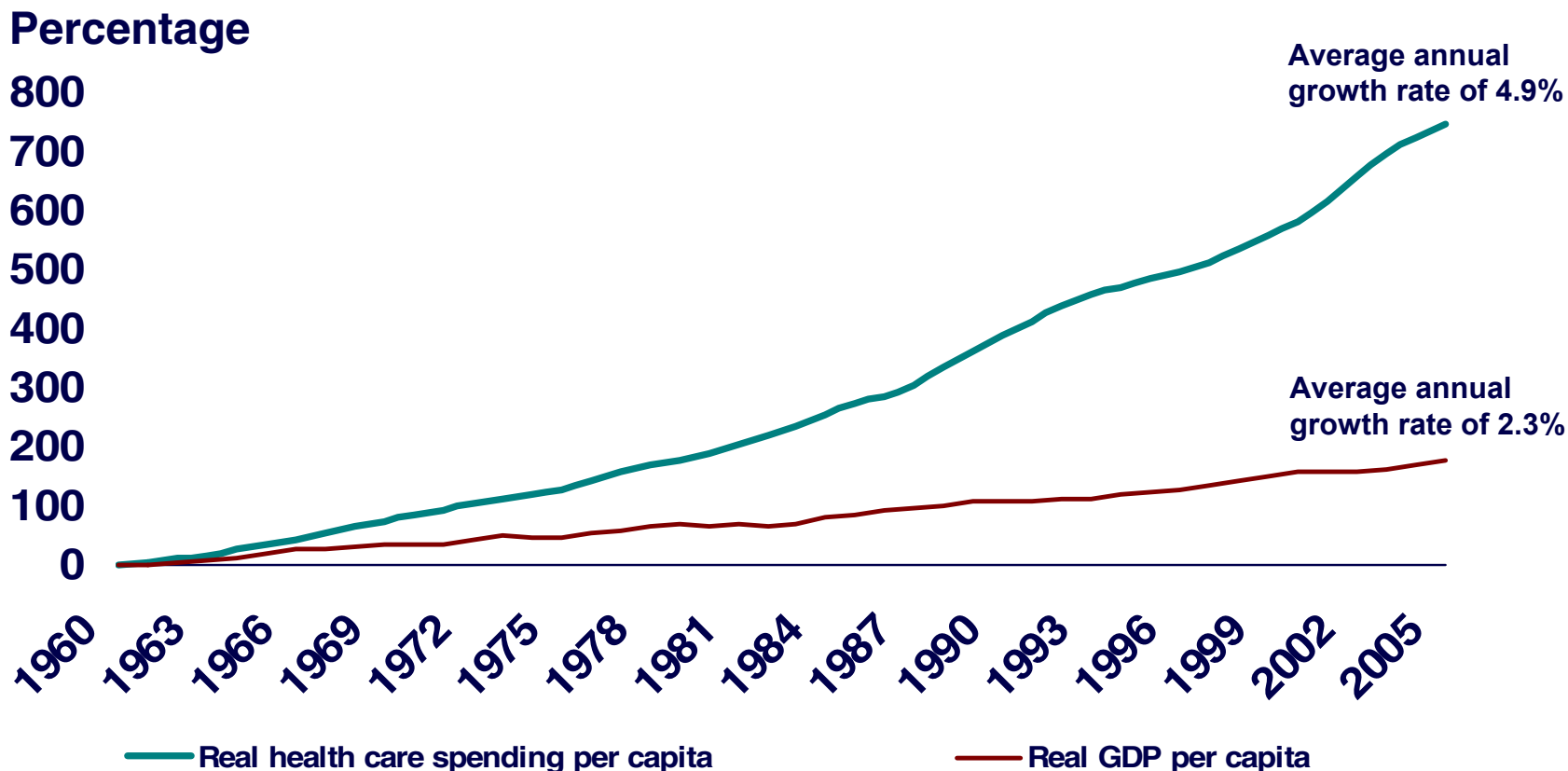
# Growth in Health Care Spending: Health Care Spending as a Percentage of GDP



Source: The Centers for Medicare & Medicaid Services, Office of the Actuary.

Note: The figure for 2015 is projected.

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



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

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



# Where the United States Ranks on Selected Health Outcome Indicators

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

Source: *OECD Health Data 2006 and 2007.*

Notes: Data are the most recent available for all countries. Life expectancy at birth for the total population is estimated by the OECD Secretariat for all countries, as the unweighted average of the life expectancy of men and women. Infant mortality is measured as the number of deaths per 1,000 live births. Potential years of life lost (PYLL) is the sum of the years of life lost prior to age 70, given current age-specific death rates (e.g., a death at 5 years of age is counted as 65 years of PYLL).

# Issues to Consider in Examining Our Health Care System

- The public needs to be educated about the differences between **wants, needs, affordability,** and **sustainability** at both the individual and aggregate level
- Ideally, health care reform proposals will:
  - **Align Incentives** for providers and consumers to make prudent decisions about the use of medical services,
  - **Foster Transparency** with respect to the value and costs of care, and
  - **Ensure Accountability** from insurers and providers to meet standards for appropriate use and quality.
- Ultimately, we need to address four key dimensions: **access, cost, quality,** and **personal responsibility**

# Selected Potential Health Care Reform Approaches

| Reform Approach  | Short-term action | Long-term action |
|--|-------------------|------------------|
| Revise the government's payment systems and leverage its purchasing authority to foster value-based purchasing for health care products and services                       | ✓                 |                  |
| Consider additional flexibility for states to serve as models for possible health care reforms   | ✓                 |                  |
| Consider limiting direct advertising and allowing limited importation of prescription drugs  | ✓                 |                  |
| Foster more transparency in connection with health care costs and outcomes   | ✓                 |                  |
| Create incentives that encourage physicians to utilize prescription drugs and other health care products and services economically and efficiently                         | ✓                 |                  |
| Foster the use of information technology to increase consistency, transparency, and accountability in health care  | ✓                 |                  |
| Encourage case management approaches for people with chronic and expensive conditions to improve the quality and efficiency of care delivered and avoid inappropriate care | ✓                 |                  |
| Reexamine the design and operational structure of the nation's health care entitlement programs—Medicare and Medicaid, including exploring more income-related approaches  | ✓                 | ✓                |

# Selected Potential Health Care Reform Approaches

| Reform Approach   | Short-term action | Long-term action |
|---|-------------------|------------------|
| Revise certain federal tax preferences for health care to encourage more efficient use of health care products and services         | ✓                 | ✓                |
| Foster more preventative care and wellness services and capabilities, including fighting obesity and encouraging better nutrition   | ✓                 | ✓                |
| Promote more personal responsibility in connection with health care   | ✓                 | ✓                |
| Limit spending growth for government-sponsored health care programs (e.g., percentage of the budget and/or economy)                 |                   | ✓                |
| Develop a core set of basic and essential services. Create insurance pools for alternative levels of coverage, as necessary         |                   | ✓                |
| Develop a set of evidence-based national practice standards to help avoid unnecessary care, improve outcomes, and reduce litigation |                   | ✓                |
| Pursue multinational approaches to investing in health care R&D   |                   | ✓                |

# Moving the Debate Forward

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

**These Challenges Go Beyond  
Numbers and Dollars—  
It's About**

# VALUES & PEOPLE

# Three Key Illnesses

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

# Four National Deficits

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



# Five Leadership Attributes Needed for These Challenging and Changing Times

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

# Three Key Groups That Need to Increase Their Influence and Involvement

- *The Business and Professional Community*
- *Young Americans*
- *The Media*



UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

# *America's Fiscal Future and Retirement Security*

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

**The American Council of Life Insurers  
CEO Capital Forum  
Washington, D.C.  
October 23, 2007**

GAO-08-236CG



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## On the Web

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

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