

United States Government Accountability Office

A LOOK AT



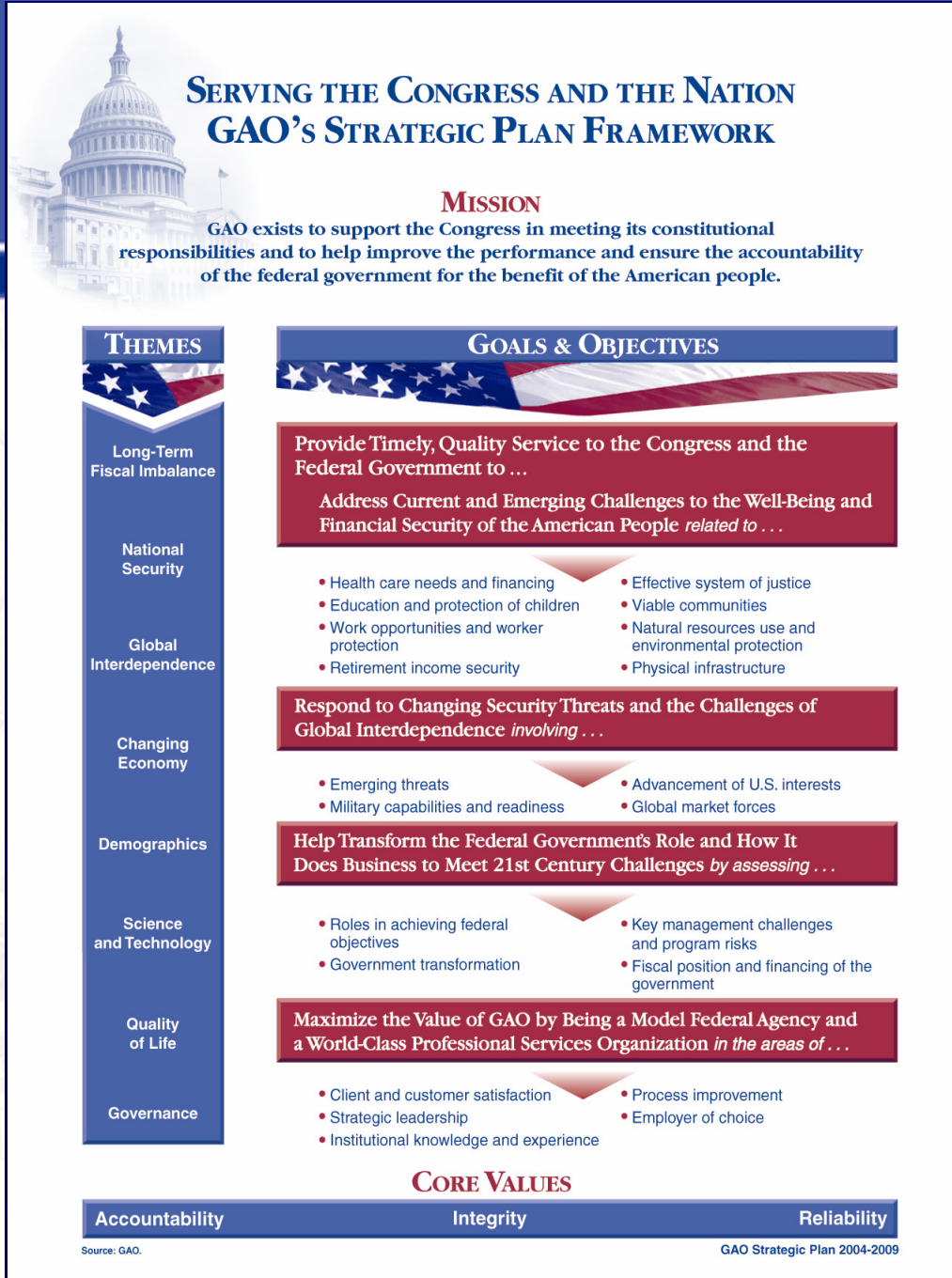
**OUR
FUTURE:**
Examining Women's
Retirement Security

WISER Symposium
October 27, 2005



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

GAO's Strategic Plan

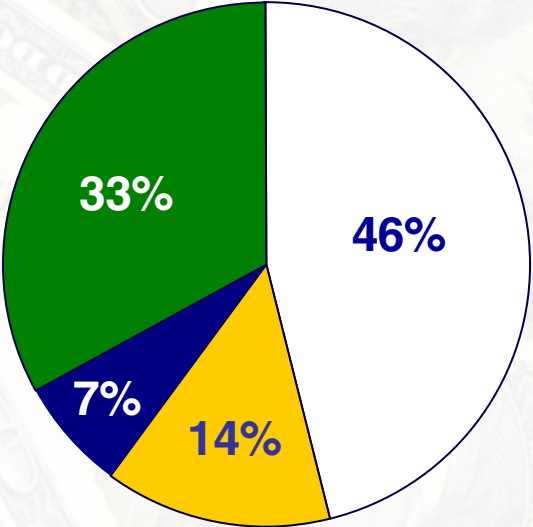


Source: GAO.

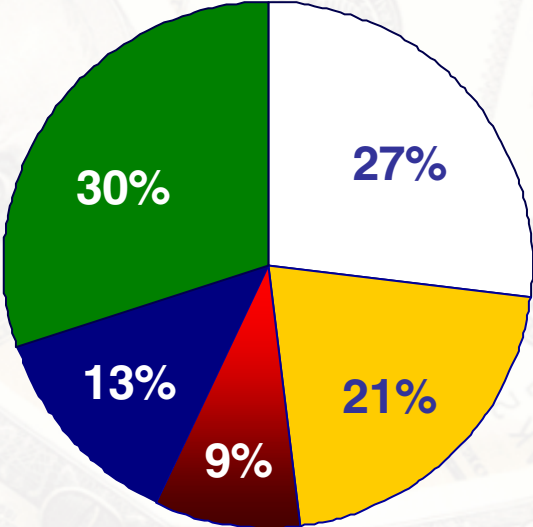
GAO Strategic Plan 2004-2009

Composition of Federal Spending

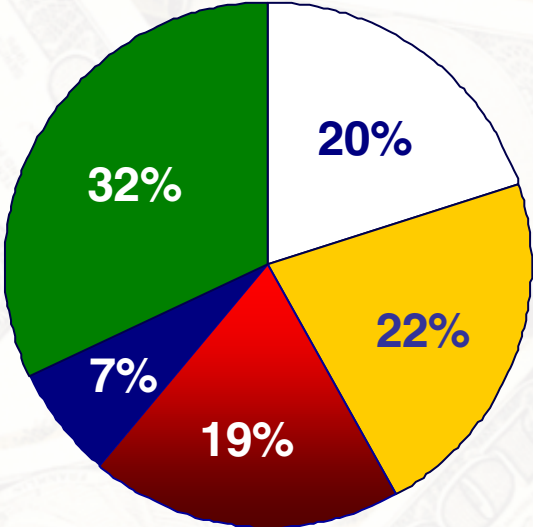
1964



1984



2004



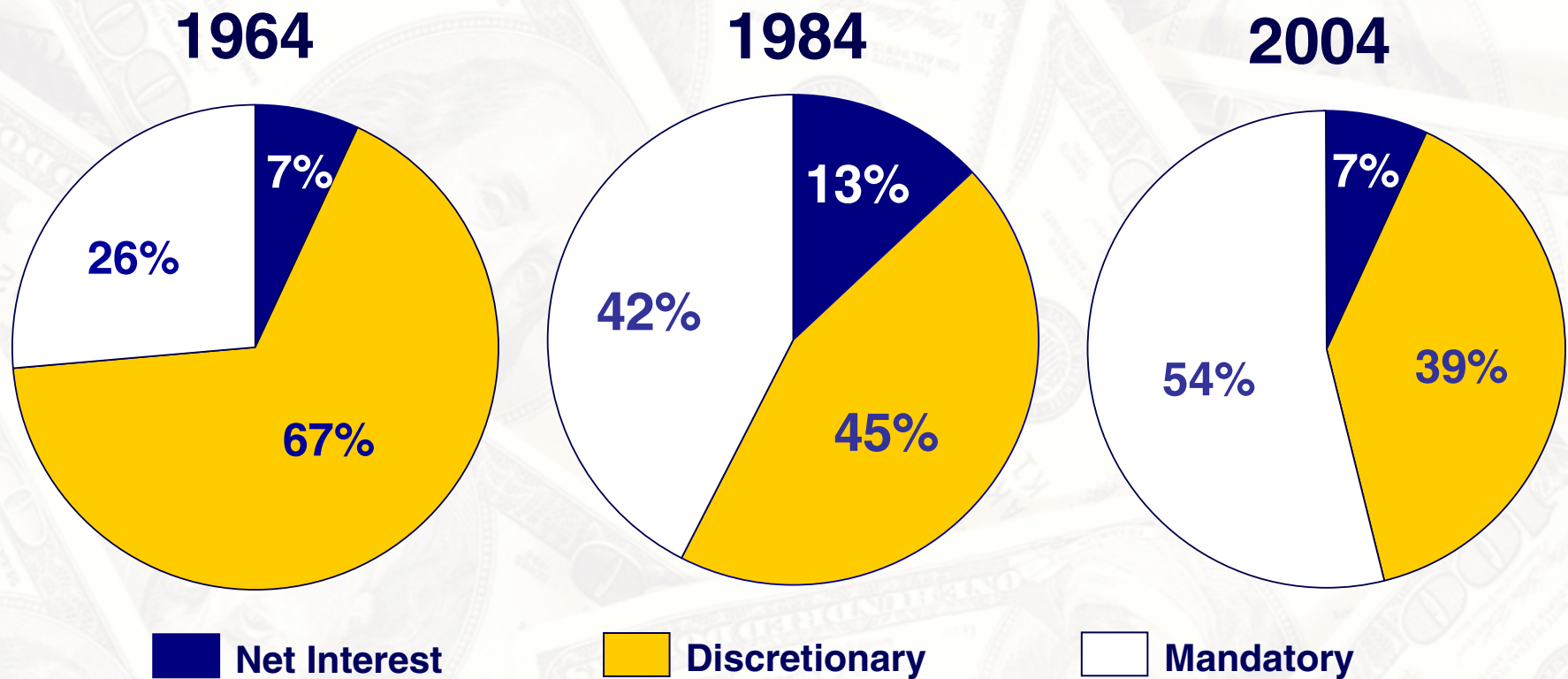
□ Defense
■ Net interest

■ Social Security
■ All other spending

■ Medicare & Medicaid

Source: Office of Management and Budget.

Federal Spending for Mandatory and Discretionary Programs



Source: Office of Management and Budget.

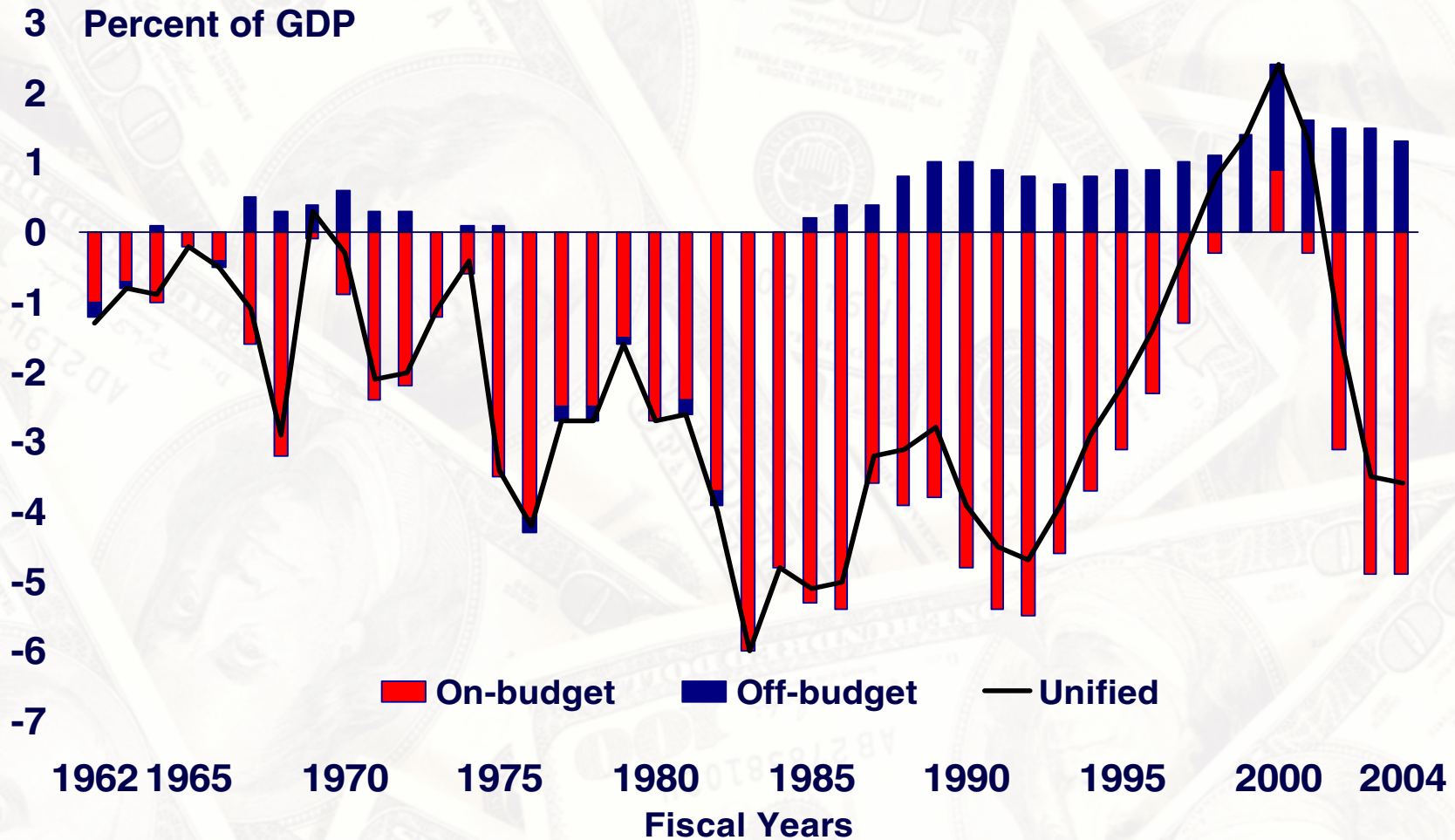
Fiscal Year 2004 Deficit Numbers

	\$ Billion	% of GDP
On-Budget Deficit	(567)	(4.9)
Off-Budget Surplus	155*	1.3
Unified Deficit	(412)	(3.6)

*Includes the \$151 billion Social Security surplus and a \$4 billion surplus for the Postal Service
March 2005

Surplus or Deficit as a Share of GDP

Fiscal Years 1962-2004



Source: Office of Management and Budget and Congressional Budget Office.

Estimated Fiscal Exposures

(in \$ trillions)

	2000	2002	2004
• Explicit liabilities	\$6.9	\$7.8	\$9.1
<ul style="list-style-type: none"> • Publicly held debt • Military & civilian pensions & retiree health • Other 			
• Commitments & Contingencies	0.5	0.8	0.9
<ul style="list-style-type: none"> • E.g., PBGC, undelivered orders 			
• Implicit exposures	13.0	17.8	33.3
<ul style="list-style-type: none"> • Future Social Security benefits 	3.8	4.6	5.2
<ul style="list-style-type: none"> • Future Medicare Part A benefits 	2.7	5.1	8.5
<ul style="list-style-type: none"> • Medicare Part B benefits 	6.5	8.1	11.4
<ul style="list-style-type: none"> • Medicare Part D benefits 	--	--	8.1
Total	\$20.4	\$26.4	\$43.3

Sources: Consolidated Financial Statements.

Note: Estimates for Social Security and Medicare are PV as of January 1 of each year as reported in the Consolidated Financial Statements and all other data are as of September 30. The 2005 Trustees Reports issued in March of this year show that the Social Security and Medicare exposures have increased as follows: Social Security increased to \$5.7 trillion, Medicare Part A increased to \$8.8 trillion, Medicare Part B increased to \$12.4 trillion and Part D increased to \$8.7 trillion. Totals may not add due to rounding.

How Big is Our Growing Fiscal Burden?

Our total fiscal burden can be translated and compared as follows:

Total fiscal exposures	\$43.3 trillion
Total household net worth	\$48.5 trillion
Burden/Net worth ratio	89 percent
Burden	
Per person	\$147,000
Per full-time worker	\$350,000
Per household	\$383,000
Income	
Median household income	\$44,389
Disposable personal income per capita	\$29,475

Note: Net worth and income data are calendar year 2004 levels.

Sources: Federal Reserve Board for household net worth; Census Bureau for median household income; and the Bureau of Economic Analysis for disposable personal income per capita.

Composition of Spending as a Share of GDP

Under Baseline Extended

Percent of GDP

50

40

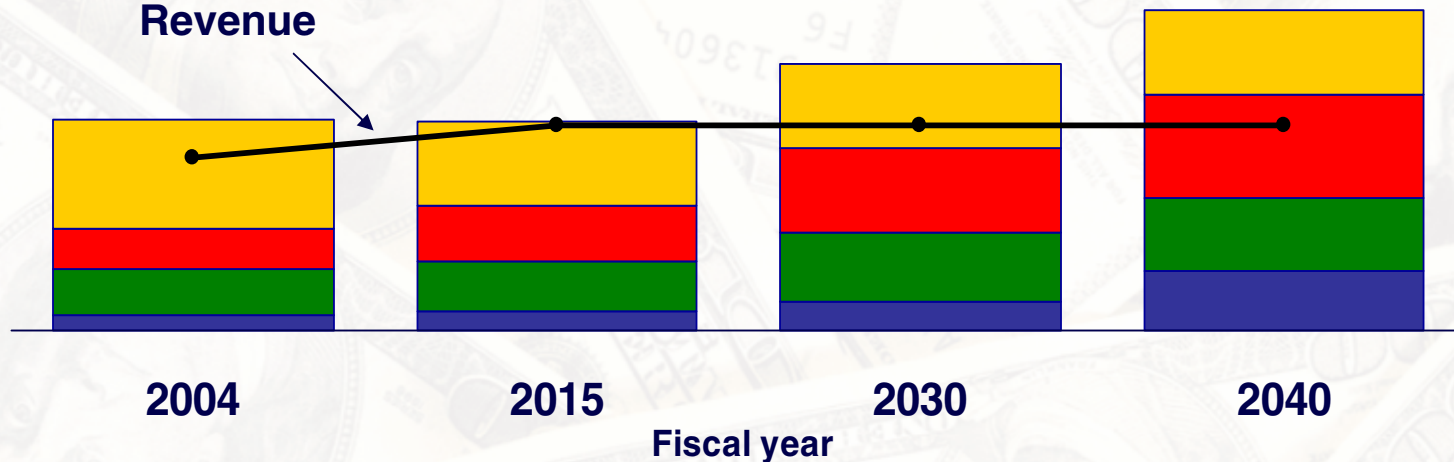
30

20

10

0

Revenue



■ Net interest

■ Social Security

■ Medicare & Medicaid

■ All other spending

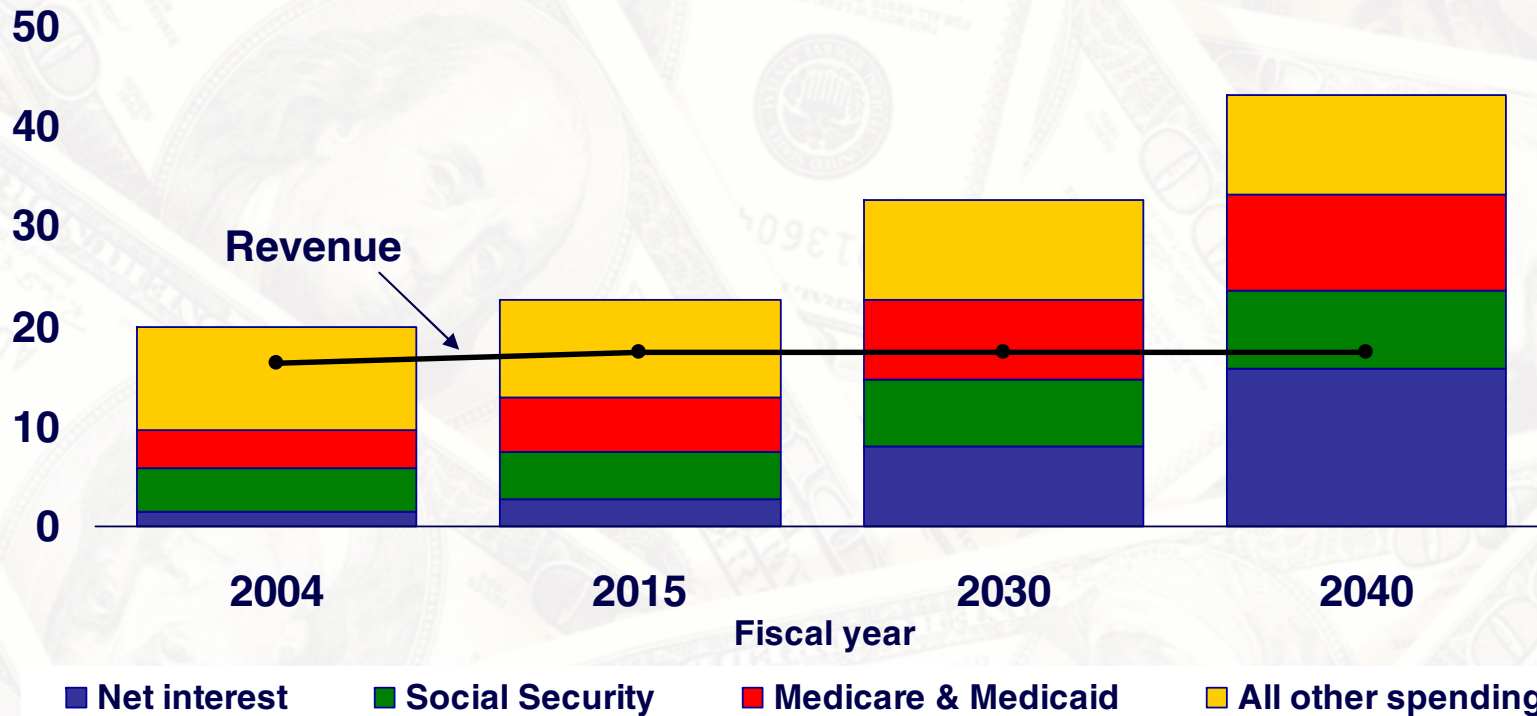
Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

Source: GAO's August 2005 analysis.

Composition of Spending as a Share of GDP

Assuming Discretionary Spending Grows with GDP After 2005 and All Expiring Tax Provisions are Extended

Percent of GDP



Notes: Although expiring tax provisions are extended, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

Source: GAO's August 2005 analysis.

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 taxes to 2.5 times today's level

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

- Closing the current long-term fiscal gap based on responsible 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 Sooner We Get Started, the Better**

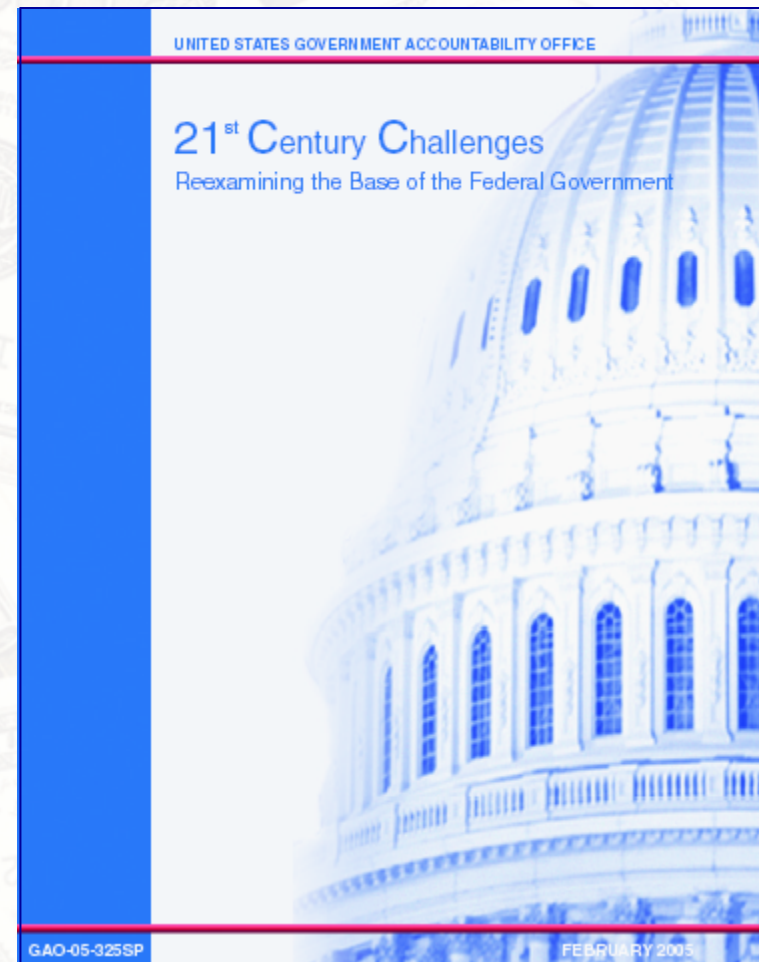
- Less change would be needed, and there would be more time to make adjustments.
- The miracle of compounding would work with us rather than against us.
- Our demographic changes will serve to make reform more difficult over time.

The Way Forward

- Implement new accounting and reporting approaches and new budget control mechanisms for considering the impact of spending and tax policies and decisions over the long term
- Develop new metrics for measuring the impact of policies and decisions over the long term (e.g., key national indicators to measure our Nation's position and progress over time and in relation to other countries)
- Reexamine the base—question existing programs, policies and activities

21st 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



Generic Reexamination Criteria and Sample Questions

Relevance of purpose and the federal role

Why did the federal government initiate this program and what was the government trying to accomplish?

Have there been significant changes in the country or the world that relate to the reason for initiating it?

Measuring success

Are there outcome-based measures? If not, why?

If there are outcome-based measures, how successful is it based on these measures?

Targeting benefits

Is it well targeted to those with the greatest needs and the least capacity to meet those needs?

Affordability and cost effectiveness

Is it using the most cost-effective or net beneficial approaches when compared to other tools and program designs?

Best practices

Is the responsible entity employing prevailing best practices to discharge its responsibilities and achieve its mission?

Illustrative 21st Century Questions: Retirement and Disability Policy

- What changes should be made to enhance the retirement income security of workers while protecting the fiscal integrity of the PBGC insurance program (for example, increasing transparency in connection with underfunded plans, modifying PBGC's premium structure and insurance guarantees, reforming plan funding rules, or restricting benefit increases and the distribution of lump sum benefits in connection with certain underfunded plans)?
- How can existing policies be reformed to encourage income preservation strategies so that retirement income lasts an individual's entire life (for example, benefit annuitization)?

Illustrative 21st Century Questions: Retirement and Disability Policy

- How can federal disability programs, and their eligibility criteria, be brought into line with the current state of science, medicine, technology, and labor market conditions (for example, which jobs are based on knowledge and skills rather than on strength and endurance)? How can such programs better facilitate the participation of people with disabilities in the workforce and society?
- What options could be considered for reforming VA's current disability benefits structure for veterans (such as revisiting the definition of service-connected benefits) that would ensure appropriate and adequate benefits?

Illustrative 21st Century Questions: Health Care

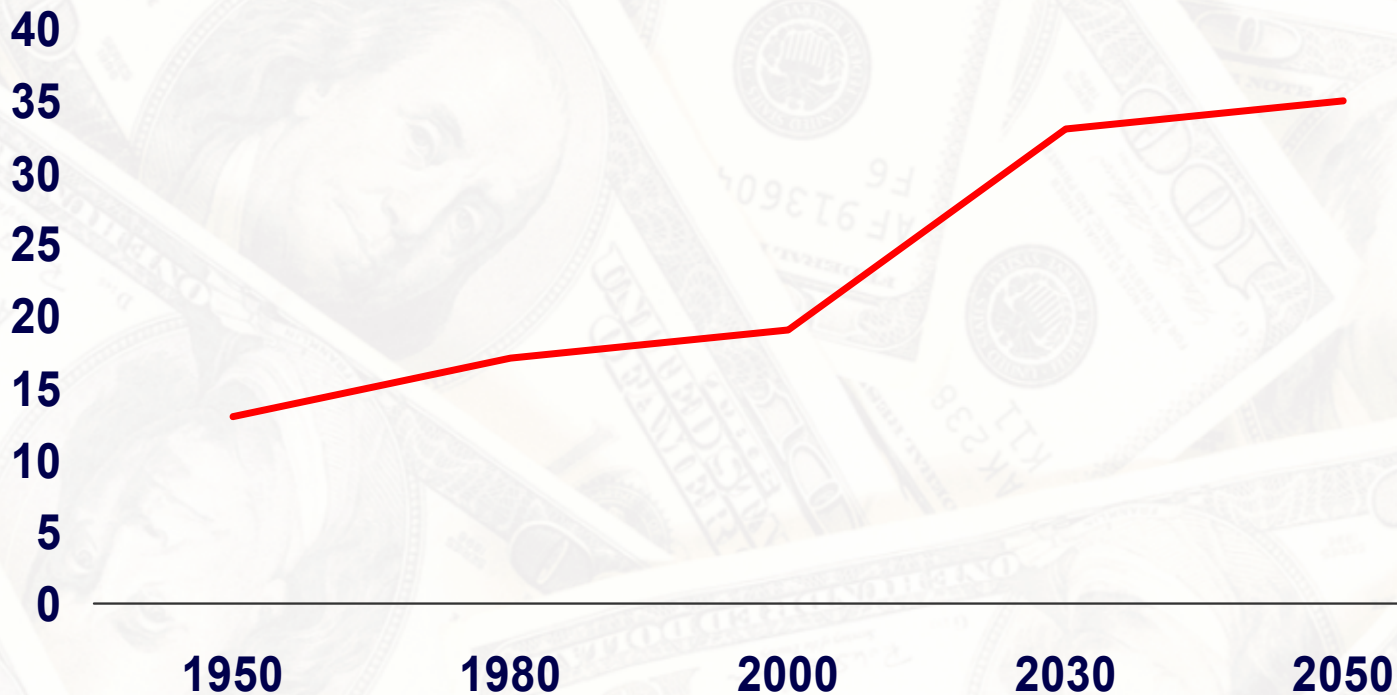
- How can we perform a systematic reexamination of our current health care system? For example, could public and private entities work jointly to establish formal reexamination processes that would (1) define and update as needed a minimum core of essential health care services, (2) ensure that all Americans have access to the defined minimum core services, (3) allocate responsibility for financing these services among such entities as government, employers, and individuals, and (4) provide the opportunity for individuals to obtain additional services at their discretion and cost?

Key Elements for Economic Security in Retirement

- **Adequate retirement income**
 - Social Security
 - Pensions
 - Savings
 - 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

U.S. Elderly Dependency Ratio Expected to Continue to Increase

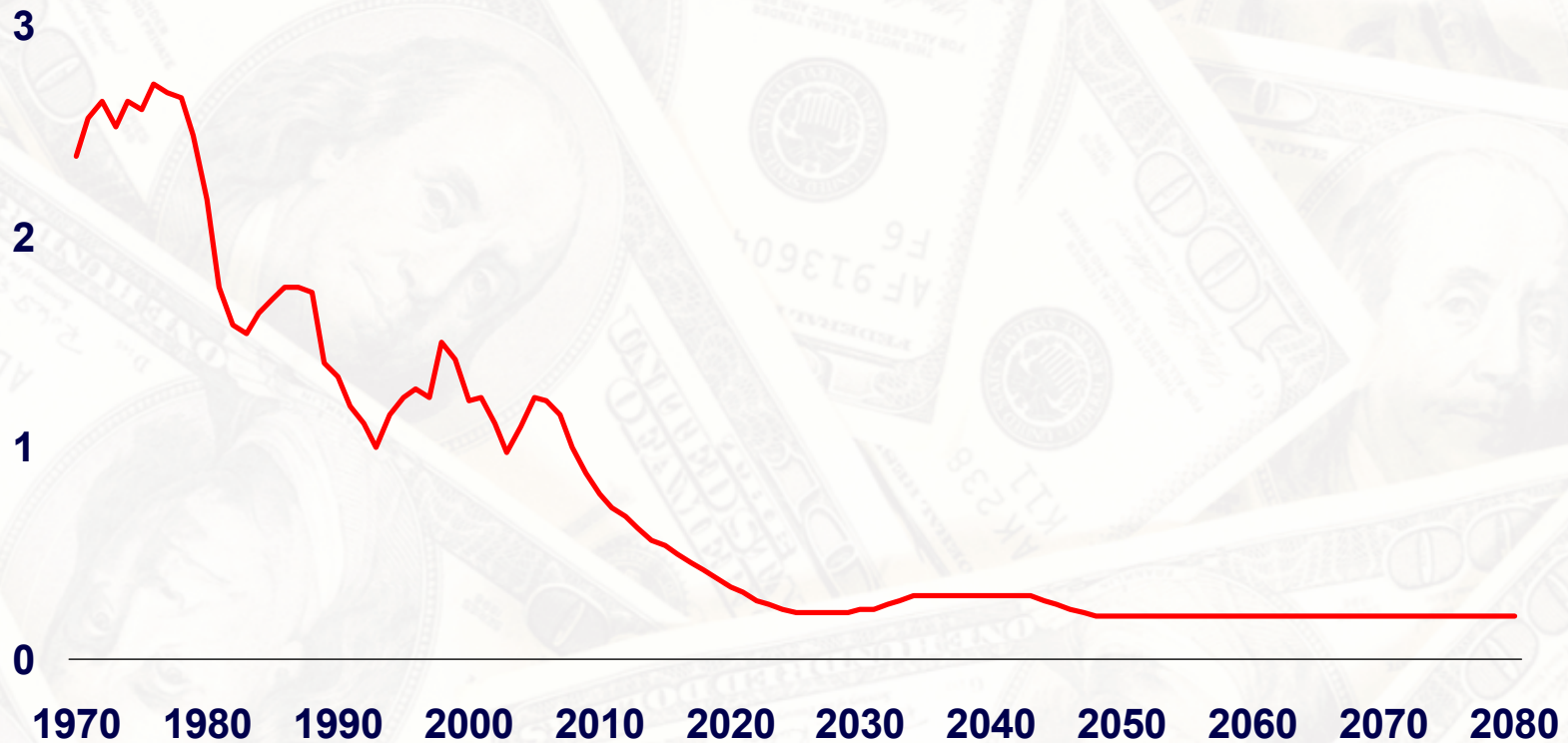
Elderly Dependency Ratio (in percent)



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: 2000 Revision and World Urbanization Prospects: 2001 Revision.

U.S. Labor Force Growth Will Continue to Decline

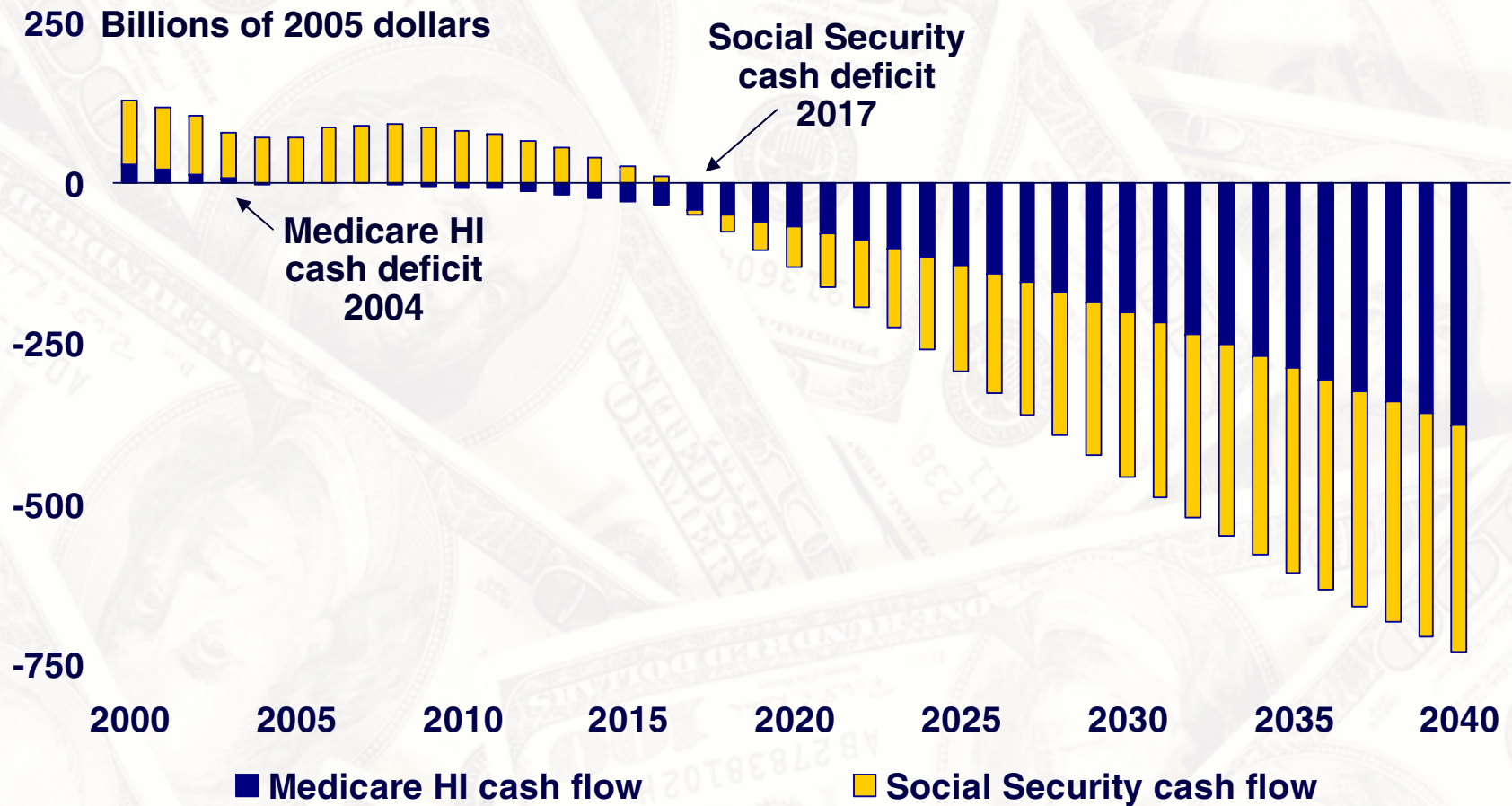
Percentage change (5-yr moving average)



Note: Percentage change is calculated as a centered 5-yr moving average of projections based on the intermediate assumptions of the 2005 Trustees Reports.

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

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



Note: Projections based on the intermediate assumptions of the 2005 Trustees' Reports.

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

Key Dates Highlight Long Term Challenges of the Social Security System

Date	Event
2009	Social Security cash surplus begins to decline
2017	Annual benefit costs exceed cash revenue from taxes
2027	Trust fund ceases to grow because even taxes plus interest fall short of benefits
2041 (SSA) 2052 (CBO)	Trust fund exhausted, annual revenues sufficient to pay about 74% – 78% of promised benefits

Sources: Social Security Administration, *The 2005 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*. Washington, DC, March 2005. Congressional Budget Office, *The Outlook for Social Security: Potential Range of Social Security Outlays and Revenues Under Current Law*. Washington, DC, June 2004 (updated April 2005).

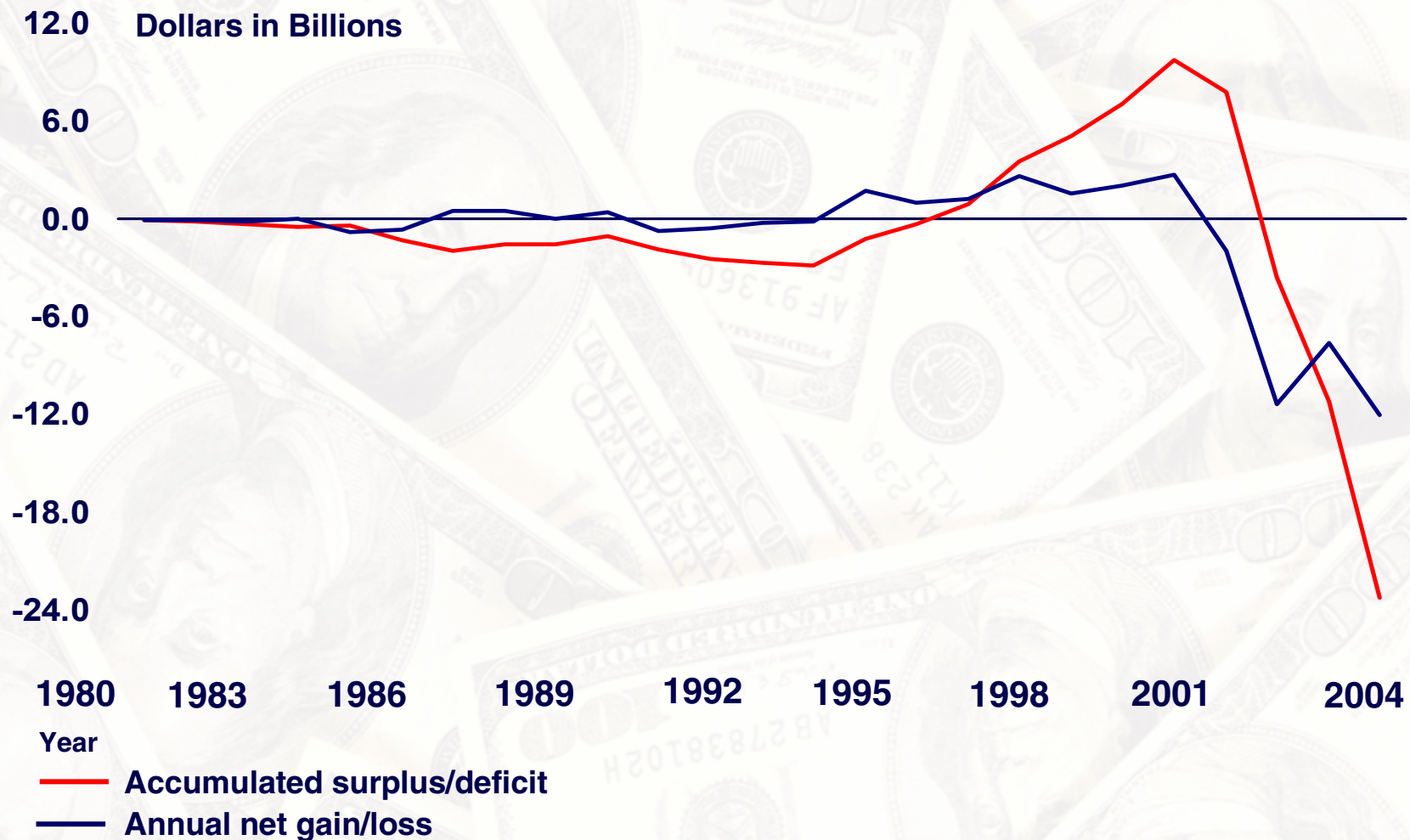
GAO Criteria for Evaluating Social Security Reform Proposals

Reform proposals should be evaluated as packages that strike a balance among individual reform elements and important interactive effects.

Comprehensive proposals can be evaluated against three basic criteria:

- Financing sustainable solvency
- Balancing adequacy and equity in the benefits structure
- Implementing and administering reforms

PBGC's Net Accumulated Deficit Topped \$23 Billion in 2004



Source: The Pension Benefit Guaranty Corporation.

Several Reforms Might Improve Plan Funding and Reduce the Risks to PBGC's Long-term Viability

- Strengthen funding rules applicable to poorly funded plans
- Consider additional tax deductible funding flexibility
- Limit lump sums in underfunded plans
- Modify program guarantees (e.g., phase-in rules)
- Raise and modify pension premiums (e.g., nature of risk related premiums)
- Eliminate floor/offset arrangements with significant investment concentrations in employer securities
- Increase transparency of current plan funding information
- Modify bankruptcy laws
- Address issues surrounding certain hybrid plans (e.g., cash balance plans)

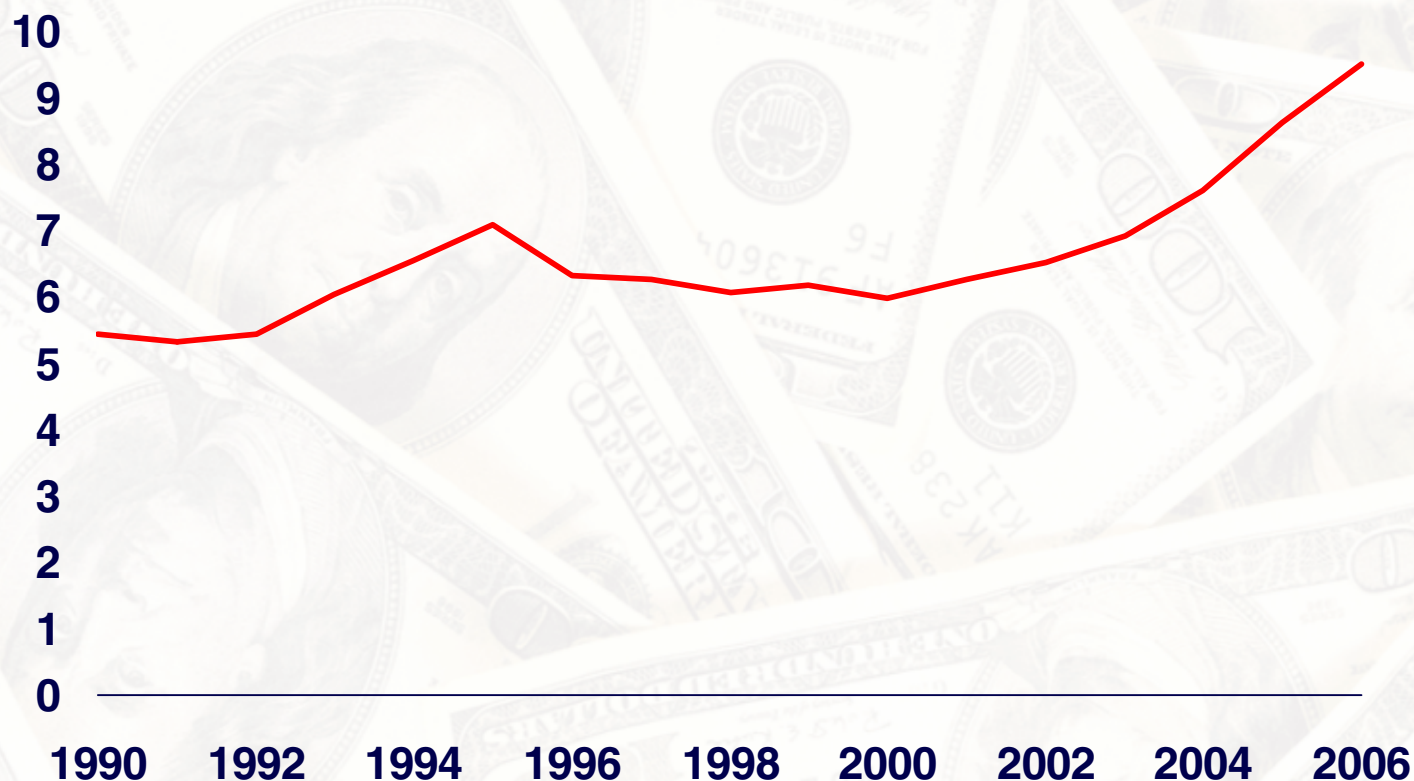
Key Dates Highlight Long Term Challenges of the Medicare Program

Date	Event
2004	HI outlays exceed cash income
2007	Estimated trigger date for “Medicare funding warning”
2012	Projected date that annual “general revenue funding” will exceed 45 percent of total Medicare outlays
2020	HI (Part A) trust fund exhausted, annual income sufficient to pay about 79% of HI promised benefits

Source: 2005 Annual Report of The Boards of Trustees of The Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds Washington, DC, March 2005

SMI Premium as Share of Average Social Security (OASI) Benefit

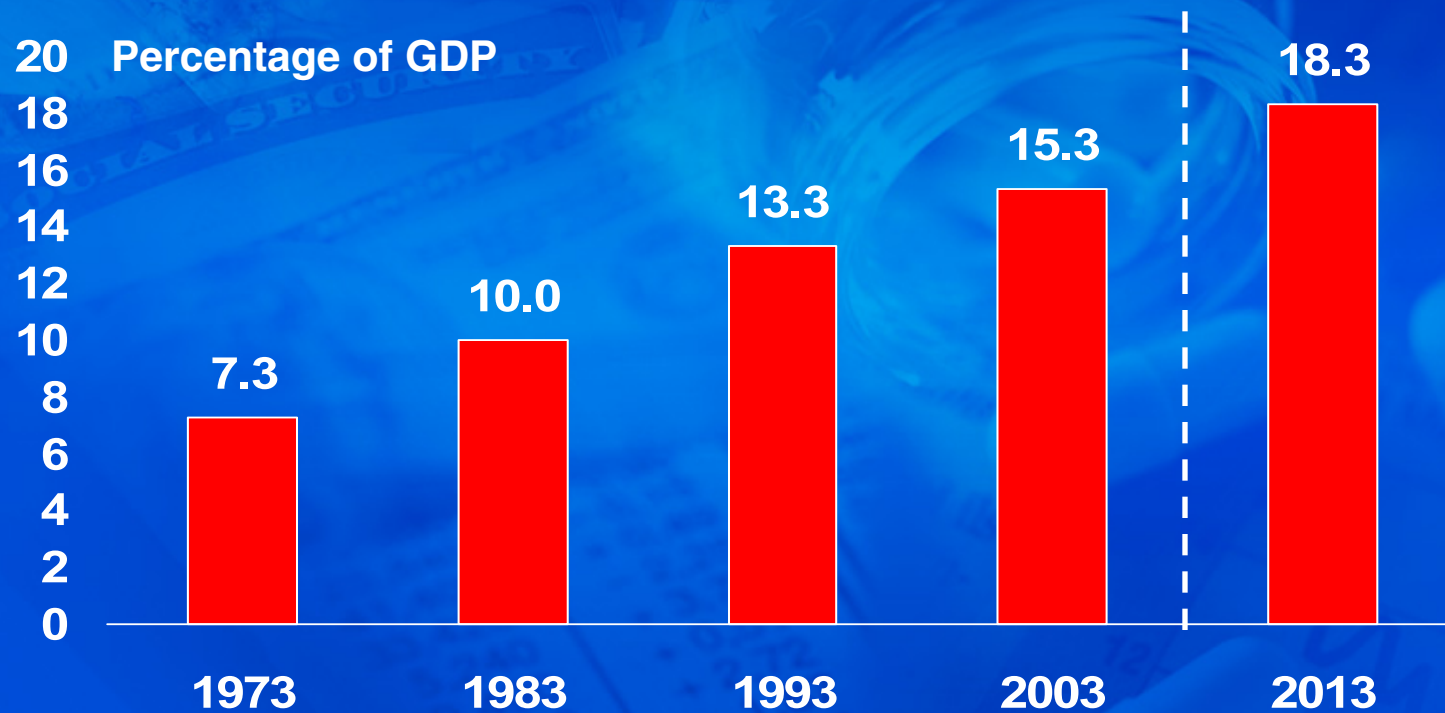
Percent of average OASI benefit



Note: Data for 2006 are based on the announced SMI monthly premium of \$88.50 and do not include the Medicare Prescription Drug premium. In August, the Centers for Medicare & Medicaid Services estimated that the national average monthly premium for prescription drug coverage equivalent to the Medicare standard coverage would be \$32.20.

Source: CMS, Office of the Actuary.

Health Expenditures Will Continue to Absorb an Increasing Share of GDP

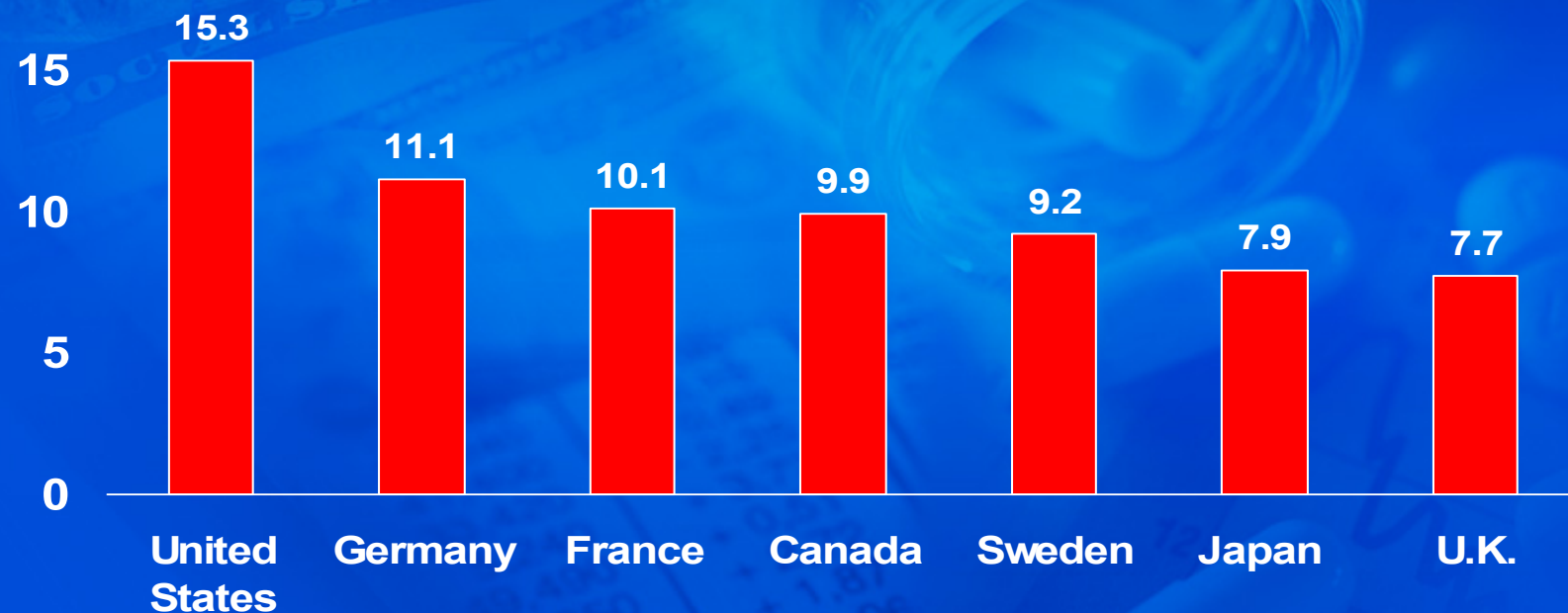


Note: The figure for 2013 is projected.

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

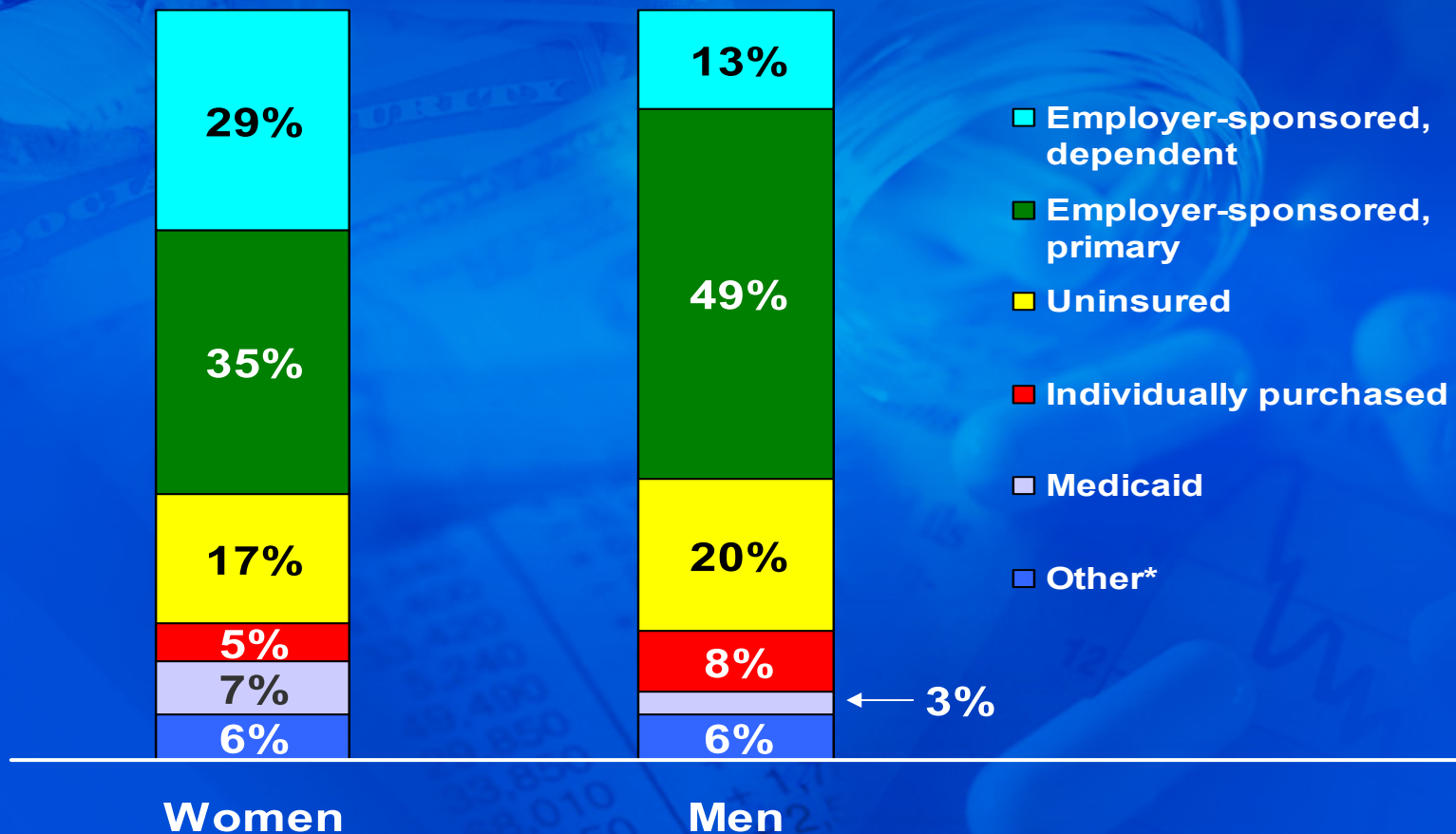
The United States Exceeds Other Industrialized Nations in Total Health Spending as a Percentage of GDP

20 Percentage of GDP



Note: Data for Sweden, Japan, and the United Kingdom are from 2002. All other data are for 2003.
Source: Organization for Economic Cooperation and Development (OECD) Health Data 2005.

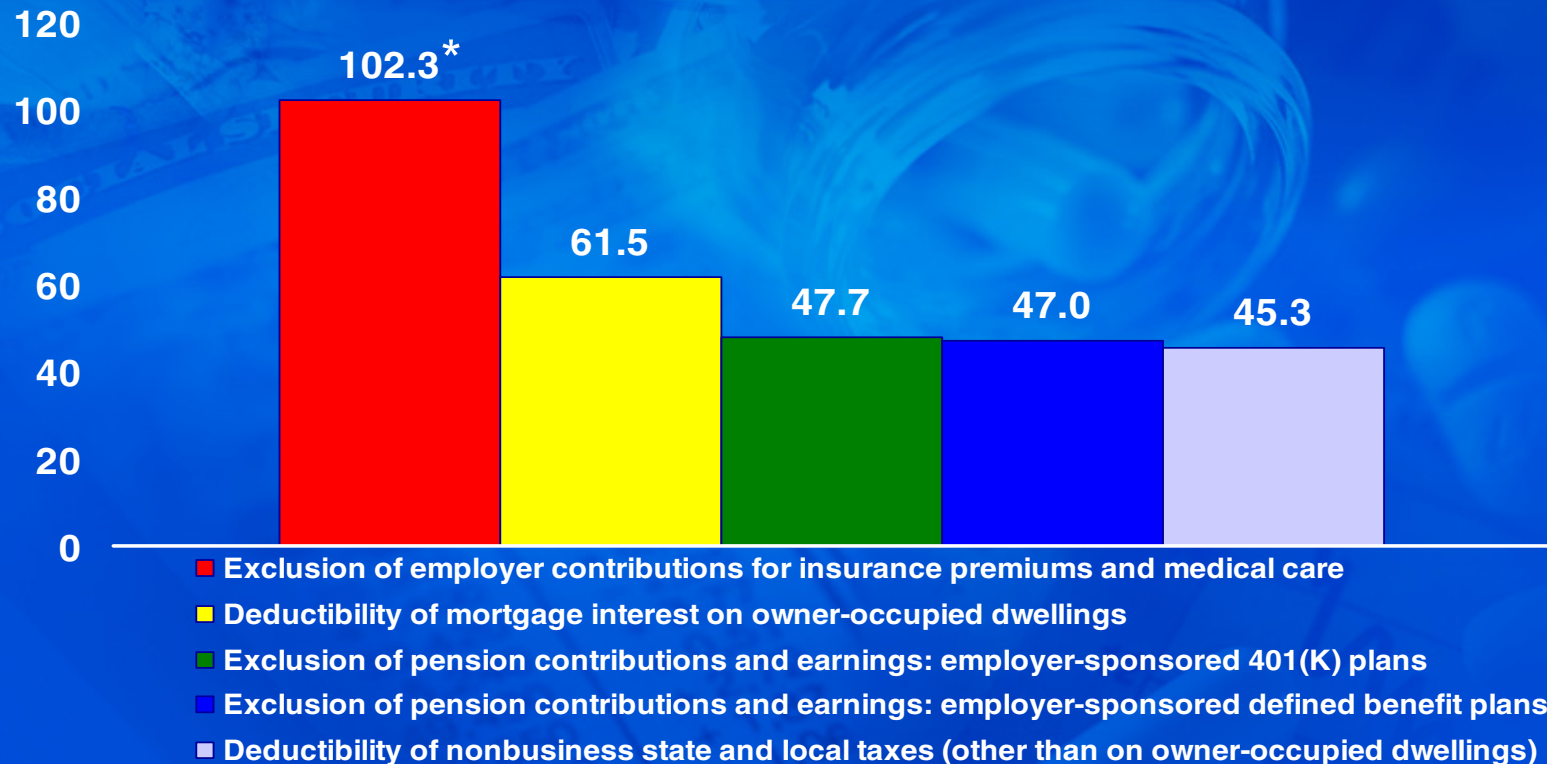
Health Insurance Coverage in 2004, Women and Men Ages 18 to 64



Source: Kaiser Family Foundation, *Women and Health Care: A National Profile, July 2005** Other includes Medicare, CHAMPUS, TRICARE, and unknown insurance.

Health Care Is the Nation's Top Tax Expenditure in Fiscal Year 2004 (estimated)

Dollars in billions



Note: "Tax expenditures" refers to the special tax provisions that are contained in the federal income taxes on individuals and corporations. OMB does not include forgone revenue from other federal taxes such as Social Security and Medicare payroll taxes.
* If the payroll tax exclusion were also counted here, the total tax expenditure for employer contributions for health insurance premiums would be about 50 percent higher or \$153.5 billion.

Source: Office of Management and Budget (OMB), *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2006*.

Quality and Availability of Affordable Health Care Has Broad Implications for Retirees

- Cost, access, and quality challenges—together with obstacles to achieving efficiency—argue for fundamental system reform.
- A comprehensive review and reassessment of the overall health care system raises the following questions:
 - **What** are societal needs versus individual wants in our health care system?
 - **Who** among individuals, employers, and governments—should be responsible for paying for health care?
 - **Where** would we get the largest return for our efforts to control spending?
 - **How** much of health care costs can government, employers, and individuals afford and sustain over time?
 - **When** are we going to get started, as the challenge gets bigger everyday and any delay compounds the problems

Issues to Consider in Examining Cost, Access, and Quality Challenges

- In reforming 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 choices about health insurance coverage and prudent decisions about the use of medical services,
 - foster **transparency** with respect to the value and costs of care, and
 - ensure **accountability** from health plans and providers to meet standards for appropriate use and quality.

Selected Potential Health Care Reform Approaches

- Provide more transparency in connection with health care costs and outcomes.
- Employ case management approaches for people with expensive acute and chronic conditions to improve the quality and efficiency of care delivered and avoid inappropriate care.
- Leverage the government's purchasing authority to foster value-based purchasing for health care products and services.
- Foster the use of information technology to increase consistency, transparency, and accountability in health care. Use the Federal Employees Health Benefits Program (FEHBP) as a possible means to experiment and see the way forward.
- Develop a set of national practice standards to help avoid unnecessary care, improve outcomes, and reduce litigation.
- Revise certain federal tax preferences for health care to encourage the efficient use of appropriate care.

Selected Potential Health Care Reform Approaches

- Limit spending growth for government-sponsored health care programs (e.g., percentage of the budget and/or the economy).
- Pursue multinational approaches to investing in health care R&D.
- Develop a core set of basic and essential services with supplemental coverage being available as an option but at a cost.
- Create insurance pools for alternative levels of coverage, as necessary.

Three Key Ingredients Needed for These Challenging and Changing Times

- ***Courage***
- ***Integrity***
- ***Innovation***

Social Security: The Bottom Line

Illustrative Questions and Answers Based on the Latest Trustees' Reports

- Does Social Security have a serious and growing financing problem? [Yes]
- Will the Social Security program ever go bust? [No]
- Will the Social Security trust fund balance ever be exhausted? [Yes]
- Should the trust fund solvency date be the primary action-forcing event for Social Security reform? [No]
- What other factors should be considered?
 - Cash flow
 - Total unfunded commitments
 - Percent of the budget and GDP
 - Percent of taxable payroll

Questions and Answers (cont'd)

- Should we act sooner rather than later to reform Social Security? [Yes]
 - Time is working against us
 - The sooner we act, the smaller the changes we'll need to make and the longer people will have to adjust
 - We have an opportunity to exceed the expectations of every generation of Americans
 - We have bigger problems that we ultimately will have to address
 - A successful reform effort would help to improve the credibility of government and enhance confidence in government

Questions and Answers (cont'd)

- Will individual accounts solve the problem by themselves? [No]
- Should they be considered as part of a more comprehensive reform proposal? [Yes]
- What other types of reforms need to be considered?
 - Strengthening progressivity (e.g., replacement rates)
 - Indexing formulas
 - Retirement ages
 - Tax base and rates

Questions and Answers (cont'd)

- What is an example of a government retirement system that includes private accounts? [The Federal Thrift Savings Plan]
- Would individual accounts, on a “carve-out” basis, involve significant transition costs? [Yes]
- What other possible implications would individual accounts have?
 - Personal savings rate
 - Rates of return on Social Security payroll taxes
 - Pre- and post-retirement survivors’ benefits
 - Savings and investment education
 - Supplemental retirement savings vehicle

Questions and Answers (cont'd)

- Should we consider both promised and funded benefits in analyzing Social Security Reform proposals? [Yes]
- Should we consider both cash and present value related costs and implications of Social Security reform proposals? [Yes]
- Can Social Security reform exceed the expectations of all generations of Americans? [Yes]
- Does the Social Security reform process matter? [Yes]
- Does the case for timely reform need to be made before discussions about individual reform options? [Yes]
- Should Social Security reform consider trends and challenges relating to private pension and personal savings arrangements? [Yes]
- Should Social Security be about the public good versus political gain? [Yes]