Fiscal Outlook: Federal Fiscal Outlook

GAO's federal budget simulations provide a broad context for considering policy options. An understanding of fiscal exposures—programs that may expose the government to future spending—can also inform these considerations.

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Since 1992, GAO has published long-term fiscal simulations showing federal deficits and debt under different sets of policy assumptions. While the timing and pace of growth varies depending on the assumptions used, GAO's simulations illustrate that:

- a fundamental imbalance between revenue and spending over the long term leads to continuous growth in debt as a share of gross domestic product (GDP), which is unsustainable;
- increases in spending are largely driven by an aging population and rising health care costs; and
- the growing gap between revenue and spending will further limit the federal government's flexibility to address future challenges.

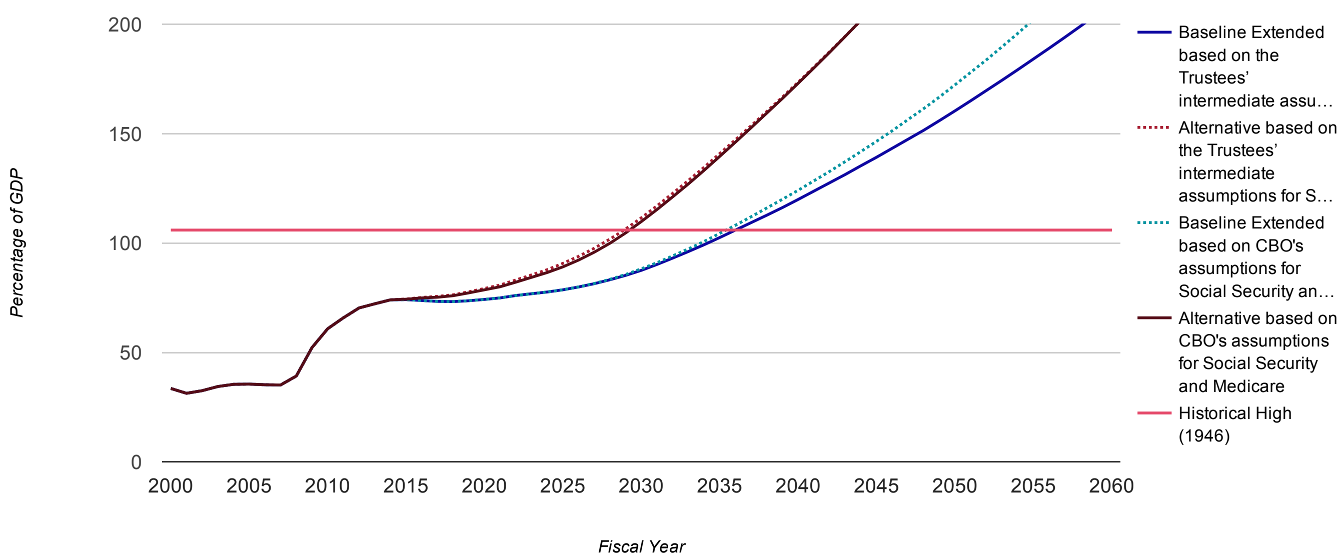
Federal Budget Path Is Unsustainable over the Long Term

GAO runs two sets of simulations. In the Baseline Extended simulations, which generally assume current law continues, debt as a share of GDP declines in the short term before turning up again. In the Alternative simulations, in which some assumptions are changed to reflect historical trends, federal debt as a share of GDP grows throughout the period. These simulations show that, without policy changes, debt held by the public will surpass its historical high within the next 15 to 25 years.

For detailed information on GAO's most recent simulations see also this presentation.

Since the amount of spending in GAO's simulations depends largely on what is assumed about growth in spending for large entitlement programs, GAO shows the Baseline Extended simulation using both the Social Security and Medicare Trustees' (Trustees) and Congressional Budget Office's (CBO) estimates for long-term spending on Social Security and major health entitlement programs (Medicare, Medicaid, and others). GAO also shows the Alternative simulation using different assumptions about health care cost growth based on CBO and Centers for Medicare & Medicaid Services Office of the Actuary (CMS Actuary) alternative projections. As the figure below shows, the results are largely the same. The outlook under either set of assumptions is unsustainable.

Debt Held by the Public under Two Sets of Fiscal Policy Simulations



Source: GAO.
Note: Data are from GAO's Spring 2015 simulations. See the Assumptions & Data tab for a description of the revenue, spending, and other assumptions underlying these simulations.
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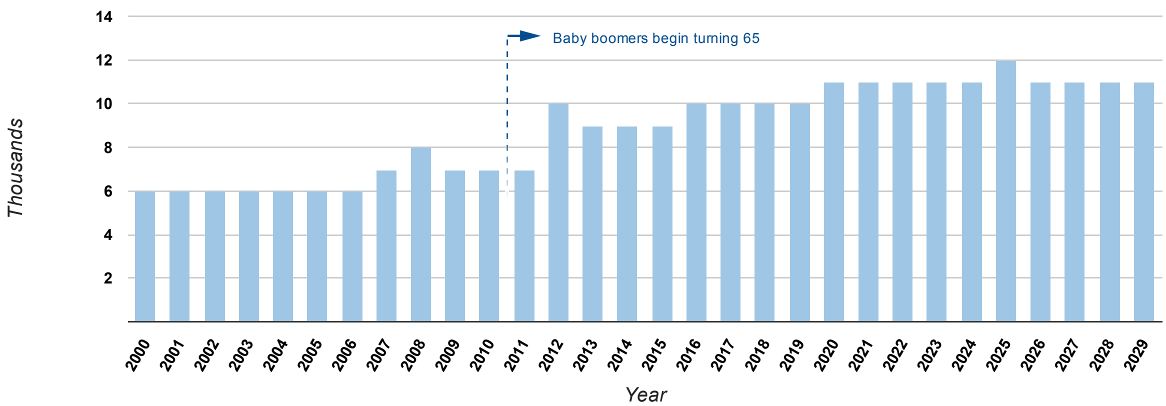
Key Drivers of Long-Term Spending Pressures

In both simulations, spending for the major health and retirement programs will increase as a share of GDP in coming decades. Beyond the expansion in coverage under Medicaid and health care insurance exchange subsidies, over the first few decades, this spending is driven largely by the aging of the population. The oldest members of the baby-boom generation are already eligible for both Social Security retirement benefits and Medicare. As shown in the figure below, the number of baby boomers turning 65 jumped from an average of about 7,300 per day in 2011 to almost 10,000 per day in 2012 and is projected to continue to grow in coming years, reaching 11,000 per day in 2029. As a result, the share of the population older than 65 is projected to increase from roughly 13 percent to almost 20 percent during this time.

Daily Average Number of People Turning 65 Each Year



Source: GAO analysis of U.S. Census Bureau data.
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The longer-term outlook depends more heavily on assumptions about growth in health care spending for each beneficiary. One way of measuring growth in health care spending per beneficiary is the rate of excess health care cost growth. Generally speaking, excess cost growth is the extent to which the growth in health care spending per person exceeds the growth rate of GDP per person. Excess cost growth leads to an ever-growing share of the nation's income being spent on health care. Based on CBO's *2014 Long-Term Budget Outlook*, excess cost growth averaged around 2 percent from 1975 to 2012 (the most recent year for which data are available). Going forward the Medicare Trustees and CBO assume that excess cost growth will slow because of the financial pressure health care spending is putting on the federal government, states, businesses, and households. How and when this transition takes place, however, is highly uncertain. According to CBO, health care cost growth has slowed in recent years, with health care spending remaining largely stable form 2009 to 2012. However, it remains unclear whether this represents a temporary event related to the recent recession, a one-time shift reflecting structural changes in how care is delivered or in payment mechanisms, or a longer-term change to the U.S. health care system resulting from increased efficiency and coordination.

Limited Budgetary Flexibility to Address Other Future Challenges

Growth in debt as a share of GDP and the resulting growth in net interest costs in GAO's simulations will limit the government's flexibility to address emerging budget issues and as-yet unforeseen challenges, such as another economic downturn or a large-scale natural disaster. In addition, GAO has identified a variety of other fiscal exposures—responsibilities, programs, and activities that may legally commit or create the expectation for future federal spending. Over the past decade, some fiscal exposures have grown due to events and trends and the government's response to them. Increased attention to these fiscal exposures will be important for understanding risks to the federal fiscal outlook and enhancing oversight over federal resources.