



21ST CENTURY:
Addressing Long-Term Fiscal Challenges
Must Include a Re-examination of
Mandatory Spending

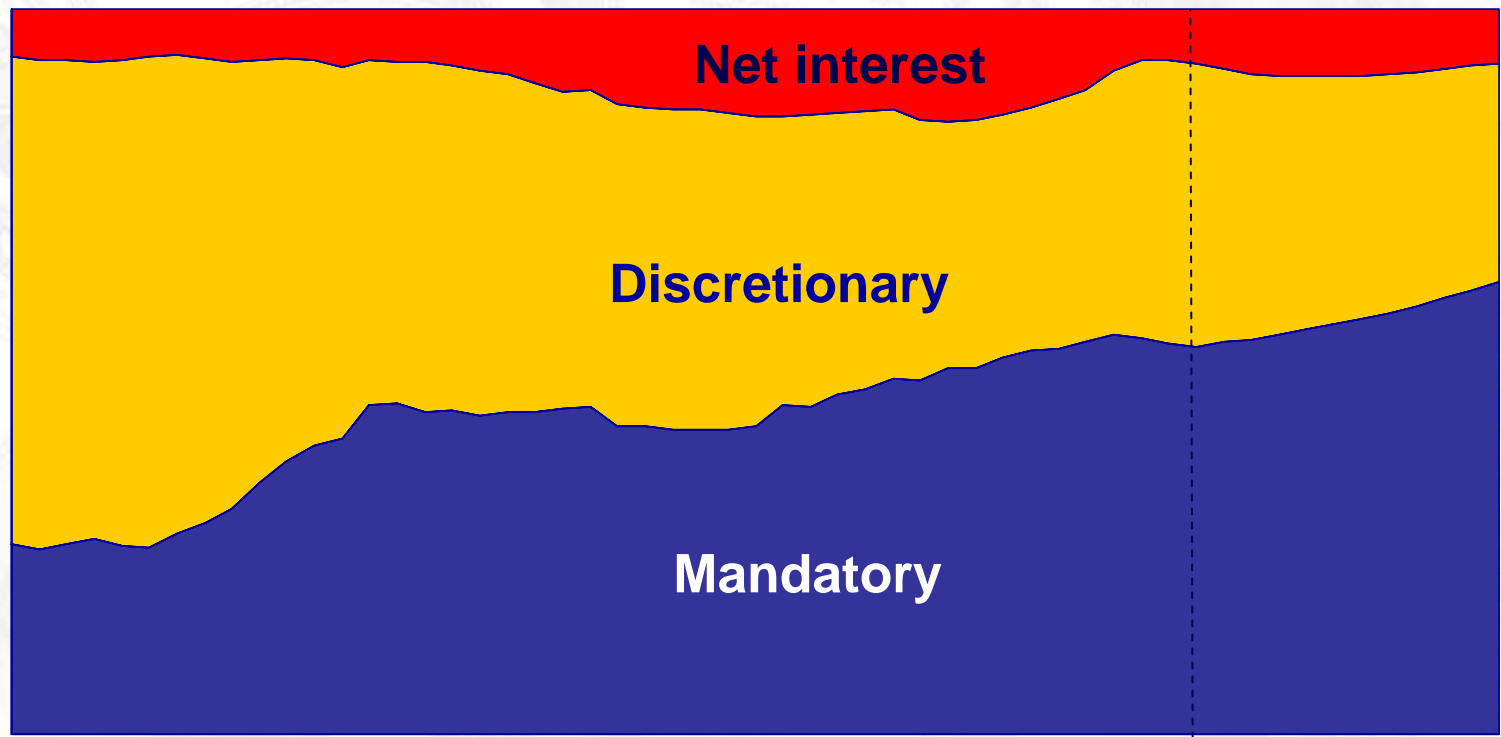
David M. Walker
Comptroller General of the United States
Budget Committee, House of Representatives
February 15, 2006

Composition of Federal Outlays

Projections Assume Discretionary Spending Grows with Inflation after 2006

Percent of total outlays

100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%



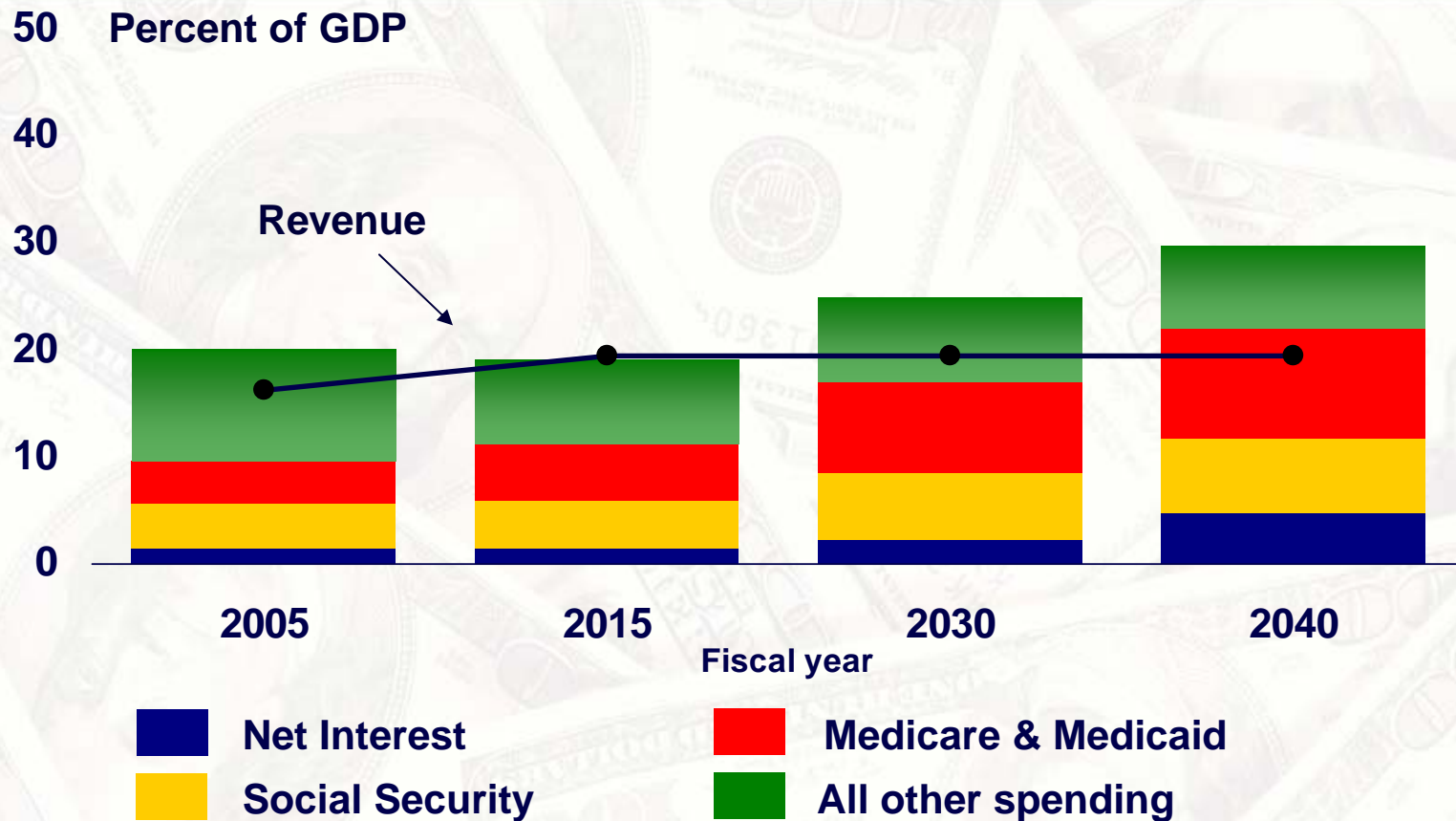
1962 1970 1980 1990 2000 2005 2016

CBO's January 2006
projections

Source: OMB and CBO.

Composition of Spending as a Share of GDP

Under Baseline Extended

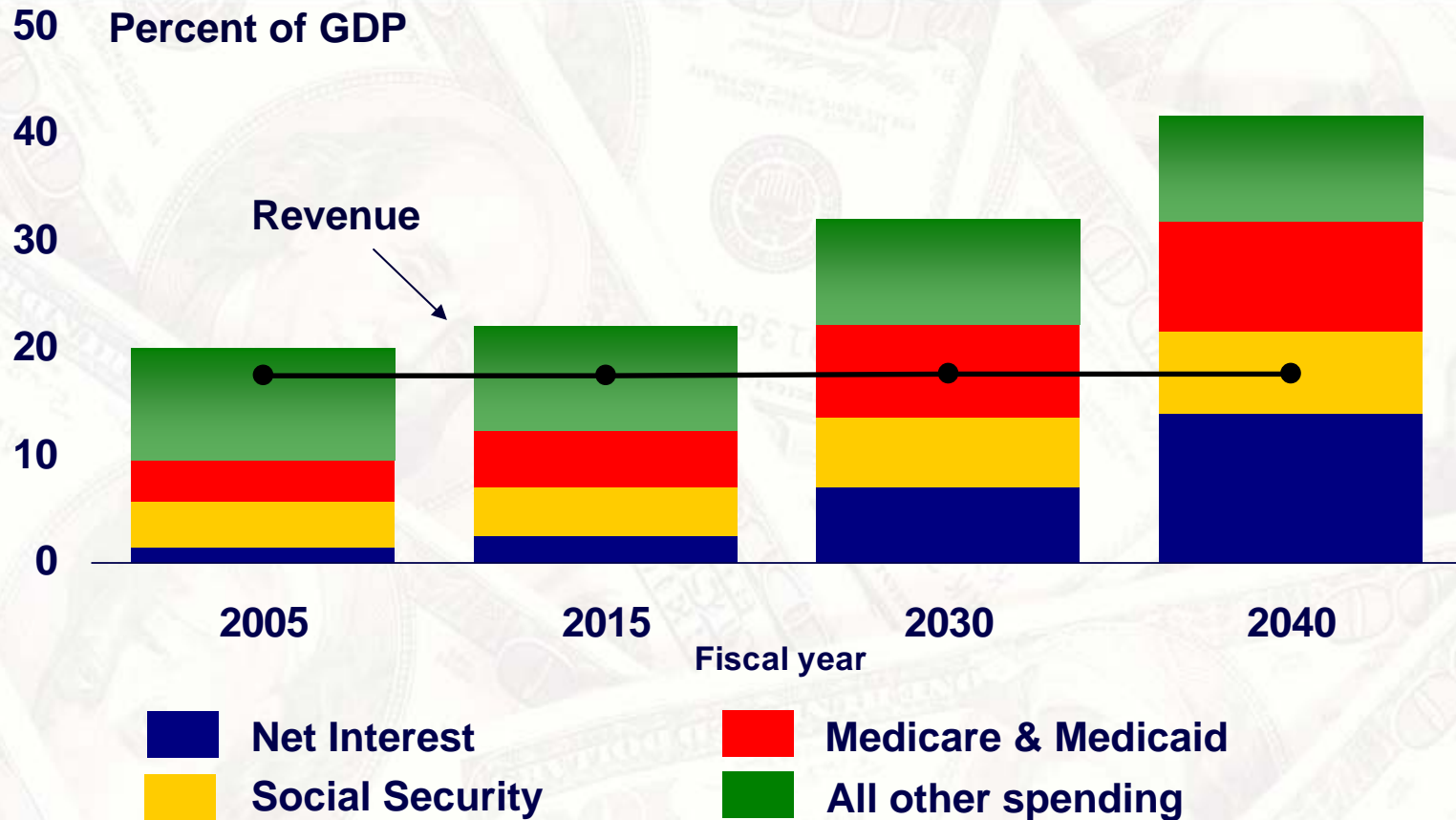


Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2016 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2016, revenue as a share of GDP is held constant.

Source: GAO's January 2006 analysis.

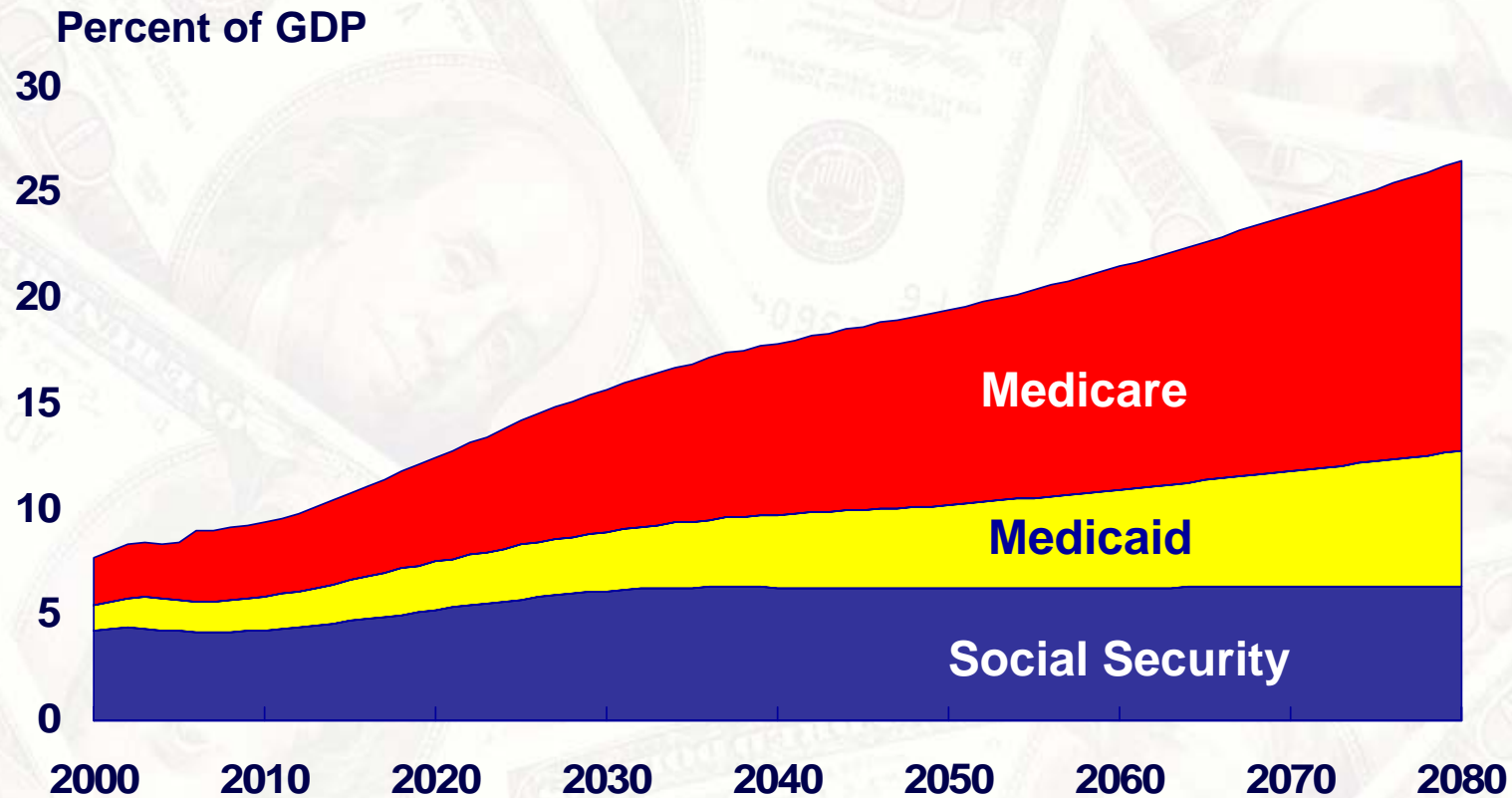
Composition of Spending as a Share of GDP

Assuming Discretionary Spending Grows with GDP after 2006
and All Expiring Tax Provisions are Extended



Note: This includes certain tax provisions that expired at the end of 2005, such as the increased AMT exemption amount.
Source: GAO's January 2006 analysis.

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

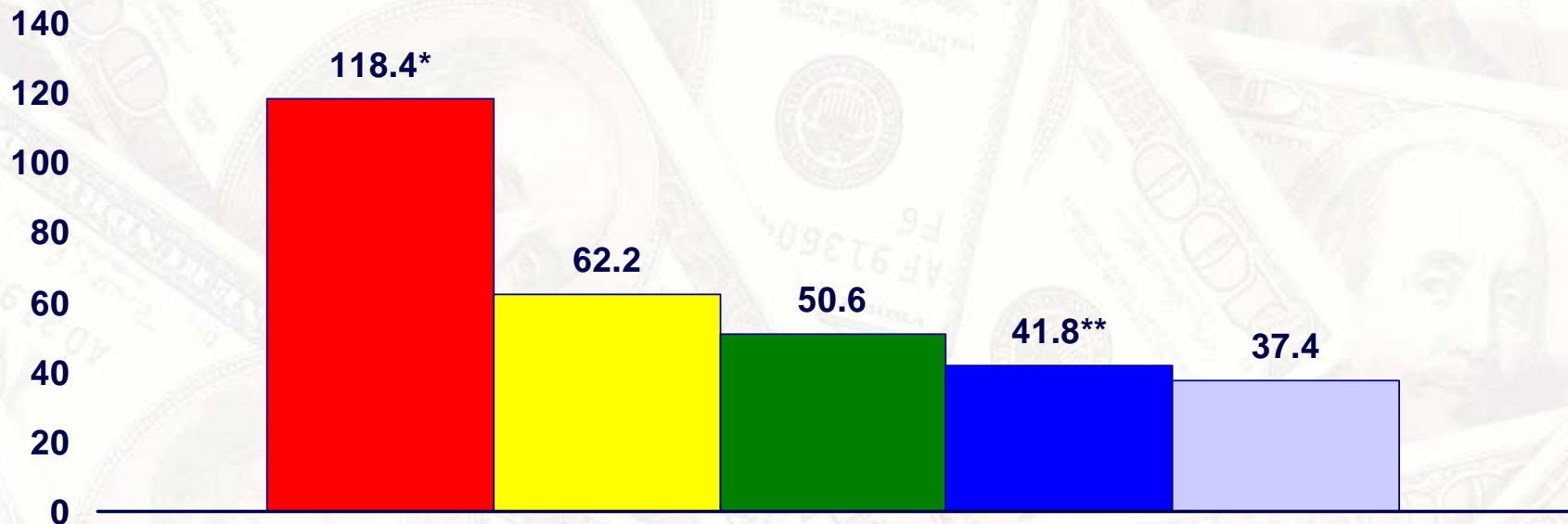


Source: GAO analysis based on data from the Office of the Chief Actuary, Social Security Administration, Office of the Actuary, Centers for Medicare and Medicaid Services, and the Congressional Budget Office.

Note: Social Security and Medicare projections based on the intermediate assumptions of the 2005 Trustees' Reports. Medicaid projections based on CBO's January 2006 short-term Medicaid estimates and CBO's December 2005 long-term Medicaid projections under mid-range assumptions.

Health Care Is the Nation's Top Tax Expenditure in Fiscal Year 2005

Estimated dollars in billions



- Exclusion of employer contributions for insurance premiums and medical care
- Deductibility of mortgage interest on owner-occupied dwellings
- Exclusion of pension contributions and earnings: employer-sponsored defined benefit plans
- Child tax credit
- Exclusion of pension contributions and earnings: employer-sponsored 401(K) plans

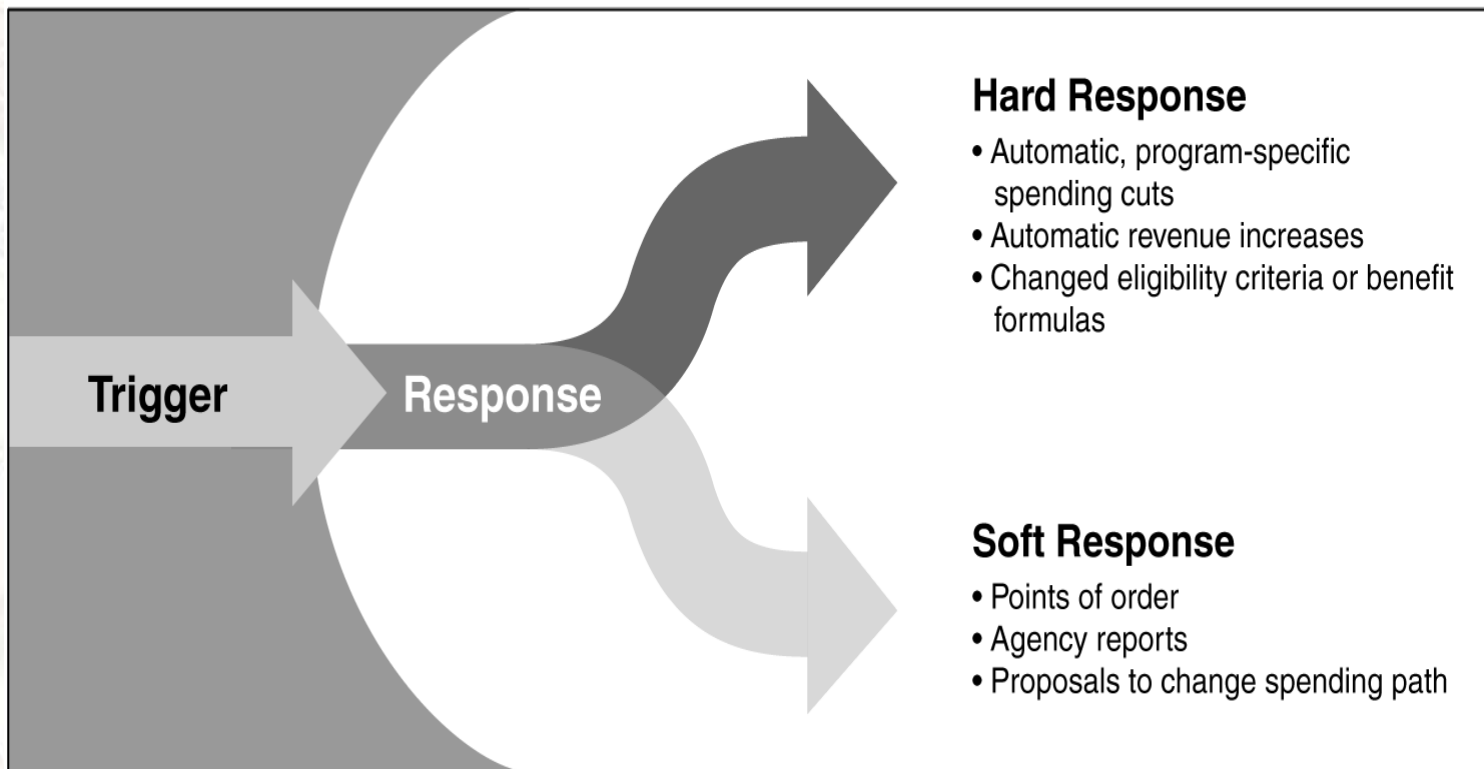
Note: "Tax expenditures" refers to the special tax provisions that are contained in the federal income taxes on individuals and corporations. OMB does not include forgone revenue from other federal taxes such as Social Security and Medicare payroll taxes.

*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 \$177.6 billion.

**This is the revenue loss and does not include associated outlays of \$14.6 billion.

Source: Office of Management and Budget (OMB), *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2007*.

Conceptual Differences between Hard and Soft Responses



Source: GAO analysis.

Selected Reforms Aimed at Moderating Health Care Spending

- **Develop a set of national practice standards to help avoid unnecessary care, improve outcomes, and reduce litigation.**
- **Encourage case management approaches for people with expensive acute and chronic conditions to improve the quality and efficiency of care delivered and avoid inappropriate care.**
- **Foster the use of information technology to increase consistency, transparency, and accountability in health care.**
- **Emphasize prevention and wellness care, including nutrition.**
- **Leverage the government's purchasing power to control costs for prescription drugs and other health care services.**
- **Revise certain federal tax preferences for health care to encourage the more efficient use of appropriate care.**
- **Create an insurance market that adequately pools risk and offers alternative levels of coverage.**
- **Limit spending growth for government-sponsored health care programs (e.g., percentage of the budget and/or the economy).**
- **Develop a core set of basic and essential services with supplemental coverage being available as an option but at a cost. Use the Federal Employees Health Benefits Program (FEHBP) model as a possible means to experiment and see the way forward.**

The Way Forward: Three Pronged Approach

Re-impose Budget Controls

- Discretionary spending caps
- PAYGO rules on both sides of the ledger
- Mandatory spending triggers

Improve Accounting and Reporting and Metrics:

- Enhanced financial statement presentation
- Automatic present value disclosures for legislative debate on major tax and spending bills
- Develop key national (outcome-based) indicators

Re-examine Policies and Programs:

- Restructure existing entitlement programs
- Reexamine the base of all other spending programs
- Review and revise existing tax policy, including tax preferences and enforcement programs
- Expand scrutiny of proposed new programs, policies, or activities



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