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Social Security Reform: The Tough Choices

Social Security Reform: The Tough Choices

07/18/2001

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Social Security Reform: The Tough Choices



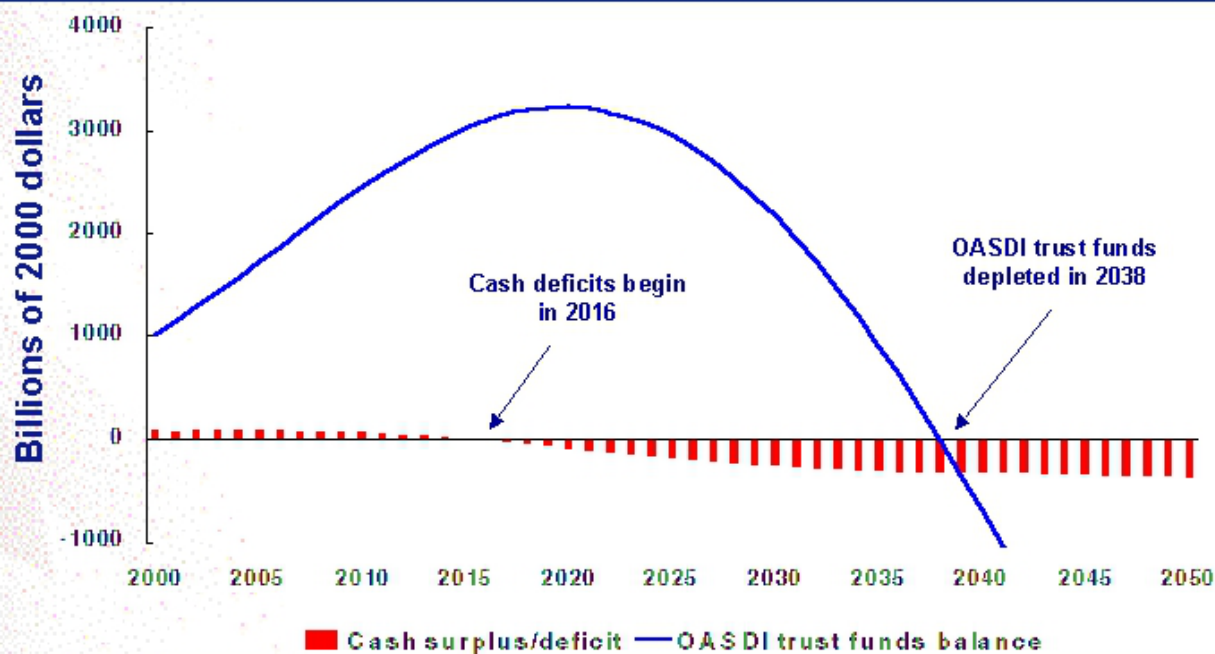
**House Public Pension
Reform Caucus**

**David M. Walker
Comptroller General
of the United States
July 18, 2001**

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Social Security Trust Fund Faces Insolvency in 2038

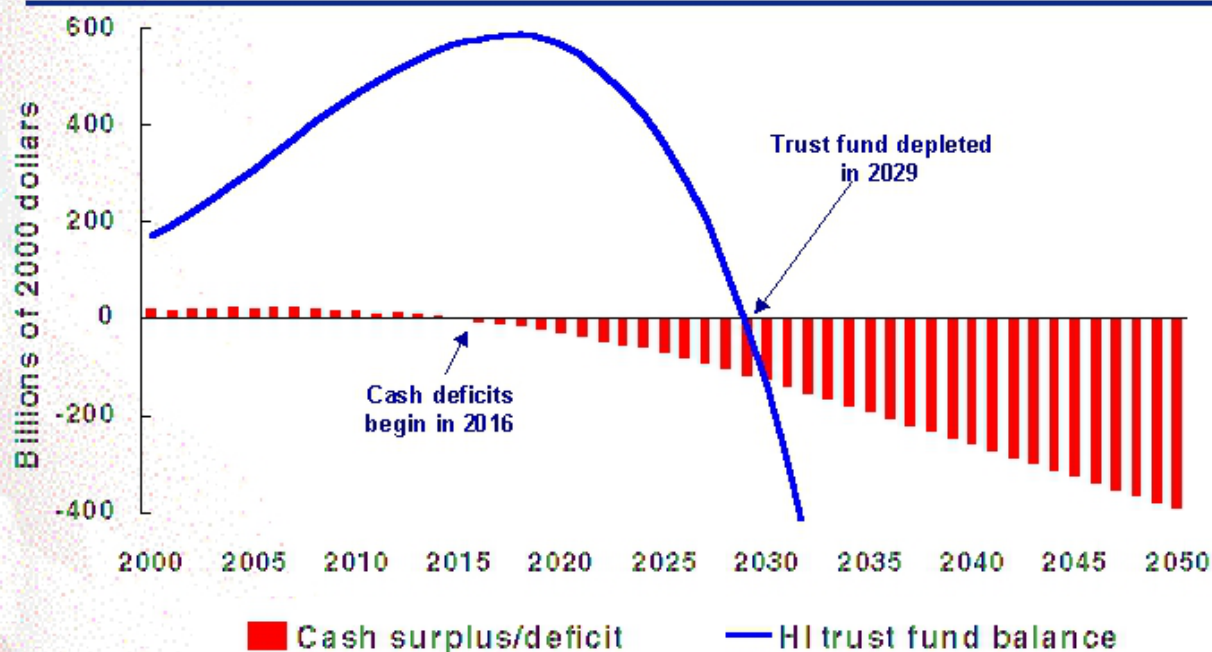


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Source: GAO analysis of data from the Office of the Chief Actuary, Social Security Administration, 2001 intermediate assumptions.

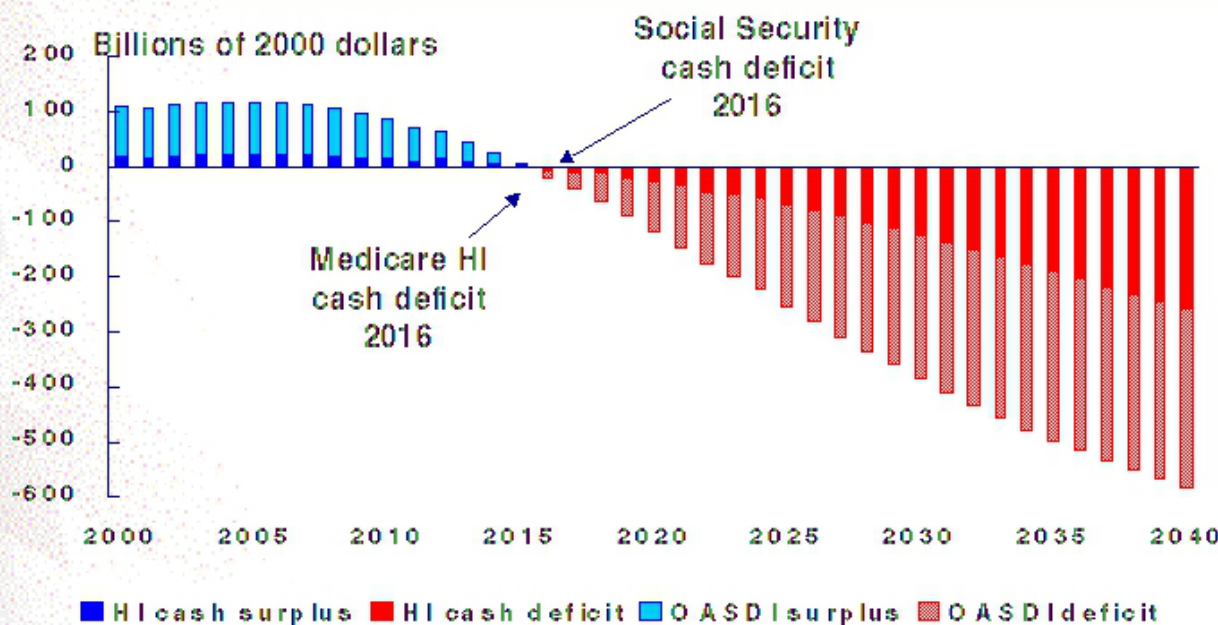
Medicare's Hospital Insurance Trust Fund Faces Insolvency in 2029

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Source: GAO analysis of data from the Office of the Actuary, Health Care Financing Administration, 2001 intermediate assumptions.

Social Security and Medicare's Hospital Insurance Trust Funds Face Cash Deficits as Baby Boomers Begin to Retire

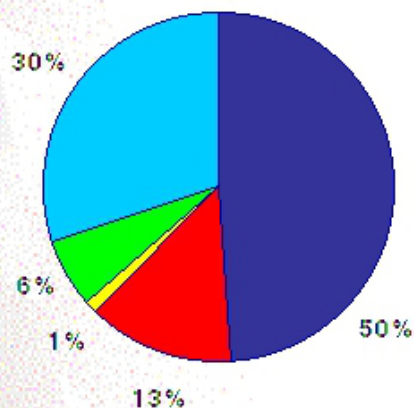


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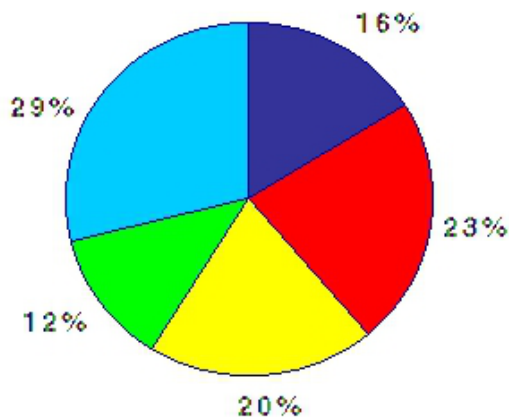
Source: GAO analysis of data from the Office of the Chief Actuary, Social Security Administration and the Office of the Actuary, Health Care Financing Administration, 2001 intermediate assumptions. 4

Composition of Spending Has Changed

Fiscal Year 1962



Fiscal Year 2000

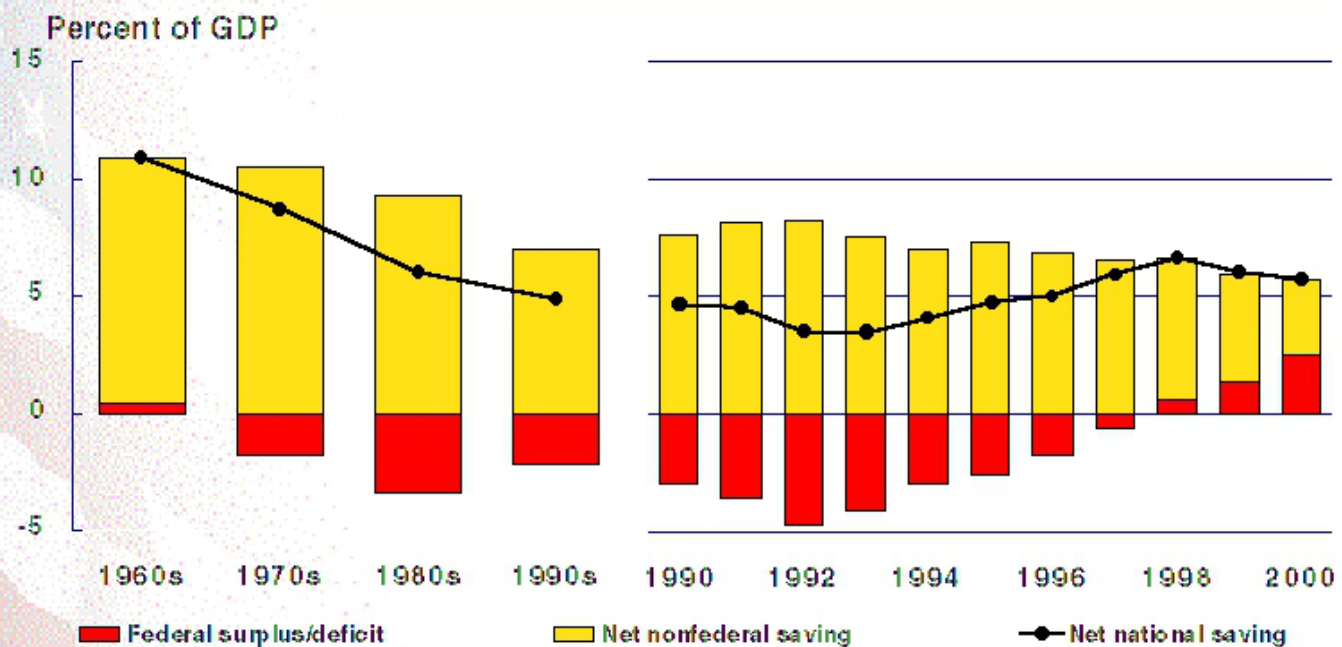


Defense
 Social Security
 Health
 Net Interest
 Other

Source: OMB, *Historical Tables: Budget of the United States Government, FY2002.*

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Federal Budget Surpluses/Deficits Affect Net National Saving



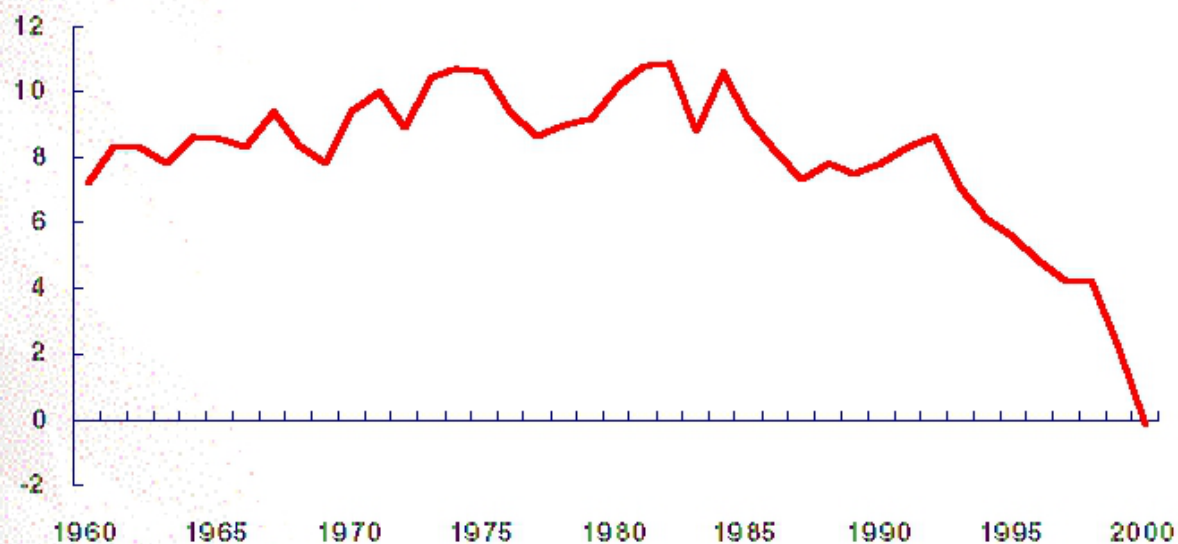
Source: GAO analysis of data from the Bureau of Economic Analysis.

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Personal Saving Rate Is Declining (1960-2000)

Percent of disposable personal income



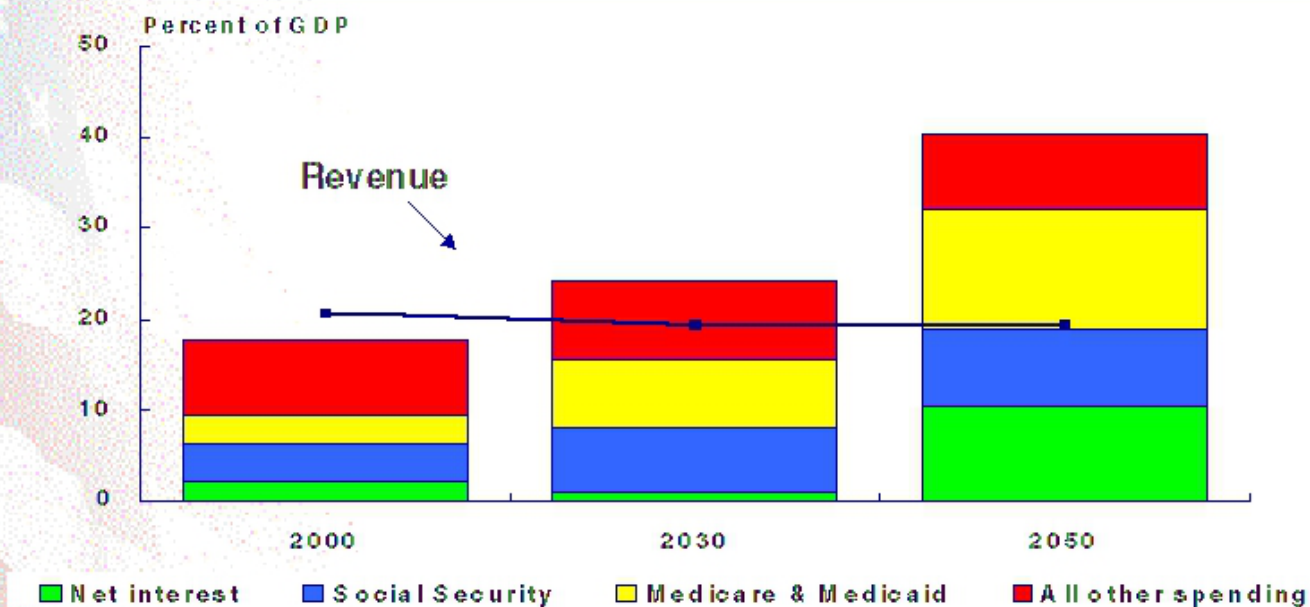
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Source: Bureau of Economic Analysis, Department of Commerce.

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Composition of Federal Spending: Assuming Social Security Surpluses Are Saved



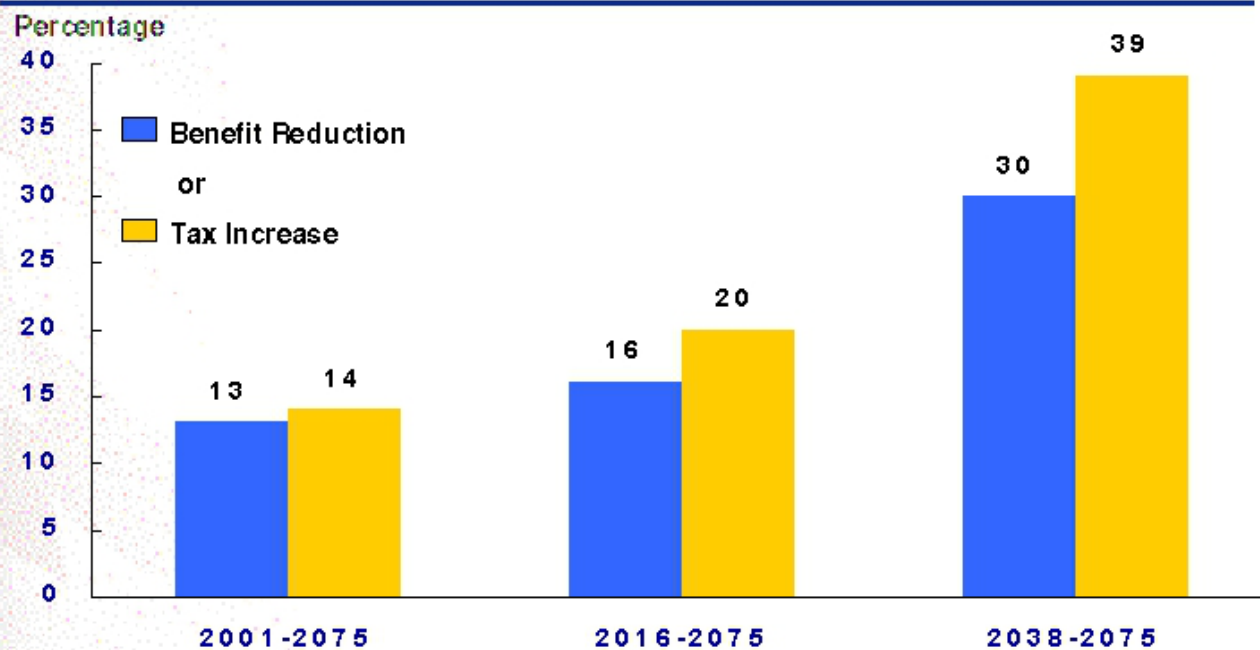
Notes: (1) Revenue as a share of GDP declines from its 2000 level of 20.6 percent due to unspecified permanent policy actions. In this display, policy changes are allocated equally between revenue reductions and spending increases. (2) The "Save the Social Security Surpluses" simulation can only be run through 2066 due to the elimination of the capital stock. Source: GAO's March 2001 analysis.

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Benefit Reduction or Tax Increase Necessary to Restore Solvency



Source: GAO analysis of data from the intermediate assumptions of the 2001 OASDI Trustees Report. 9

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Criteria for Assessing Social Security Reform Proposals

- Financing Sustainable Solvency
- Balancing Adequacy and Equity in the Benefits Structure
- Implementing and Administering Reforms

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Evaluating Social Security Reform Proposals

- Social Security reform is part of a larger fiscal and economic challenge.
- Solvency is not the most important issue--it is as much or more important to focus on sustainability.
- Some important variables are too often ignored: encouraging older workers to remain active in the work force to deal with slow work force growth; increasing saving and investment in the economy to increase economic productivity.
- It is important to look at both promised and funded benefits.
- All individual accounts--whether voluntary or mandatory, carve-out or add-on--have a range of important administrative and educational issues that must be addressed.
- Reform proposals should be evaluated as packages--every package will have pluses and minuses.

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Now is the Time...

- Waiting only makes it harder.
- Social Security reform is “easy lifting” compared to Medicare reform.
- In Social Security reform there is an opportunity to exceed the expectations of all generations.

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Related GAO Products

- *Social Security Financing: Implications of Government Stock Investing for the Trust Fund, the Federal Budget and the Economy* (April 1998)
- *Social Security: Different Approaches for Addressing Program Solvency* (July 1998)
- *Social Security: Criteria for Evaluating Social Security Reform Proposals* (March 1999)
- *Social Security: Capital Markets and Educational Issues Associated with Individual Accounts* (June 1999)
- *Social Security: Evaluating Reform Proposals* (Nov. 1999)^a
- *Social Security: The President's Proposal* (Nov. 1999)
- *Social Security Reform: Information on the Archer-Shaw Proposal* (Jan. 2000)
- *Social Security Reform: Evaluation of the Nick Smith Proposal* (Feb. 2000)
- *Social Security Reform: Evaluation of the Gramm Proposal* (Feb. 2000)
- *Social Security Reform: Potential Effects on SSA's Disability Programs and Beneficiaries* (Jan. 2001)
- *Federal Trust and Other Earmarked Funds: Answers to Frequently Asked Questions* (Jan. 2001)
- *Long-Term Budget Issues: Moving from Balancing the Budget to Balancing Fiscal Risk* (Feb. 2001)
- *National Saving: Answers to Key Questions* (June 2001)

^a For a comprehensive listing of GAO products, see www.gao.gov

^a Includes analyses of Archer-Shaw, Kolbe-Stenholm, Gregg-Kerrey-Breaux-Grassley, Kasich and President Clinton's Social Security proposals.