



Speech before the National Academy of Social Insurance (NASI)

U.S. Demographic and Economic Trends and Related Developing World Implications

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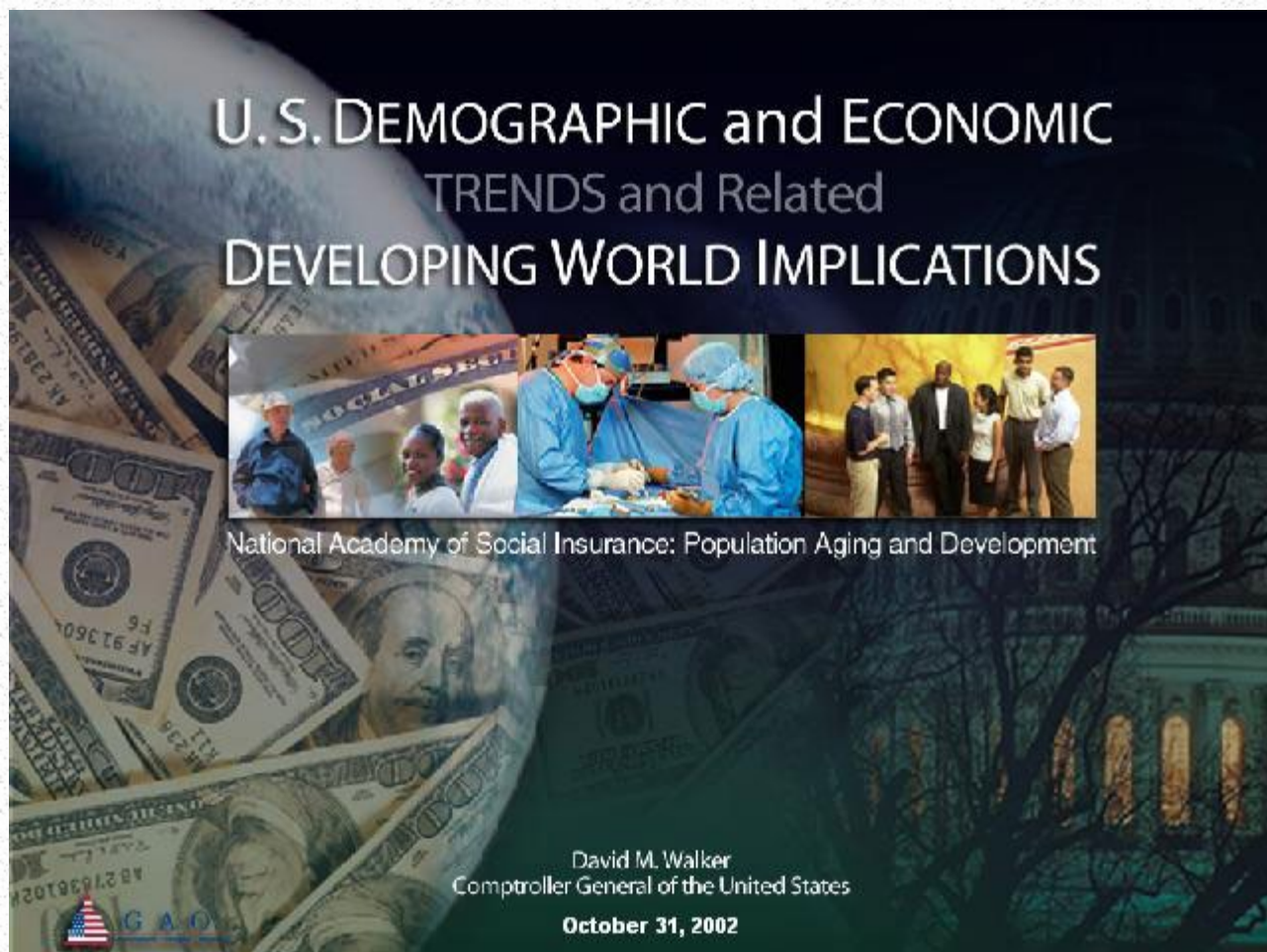
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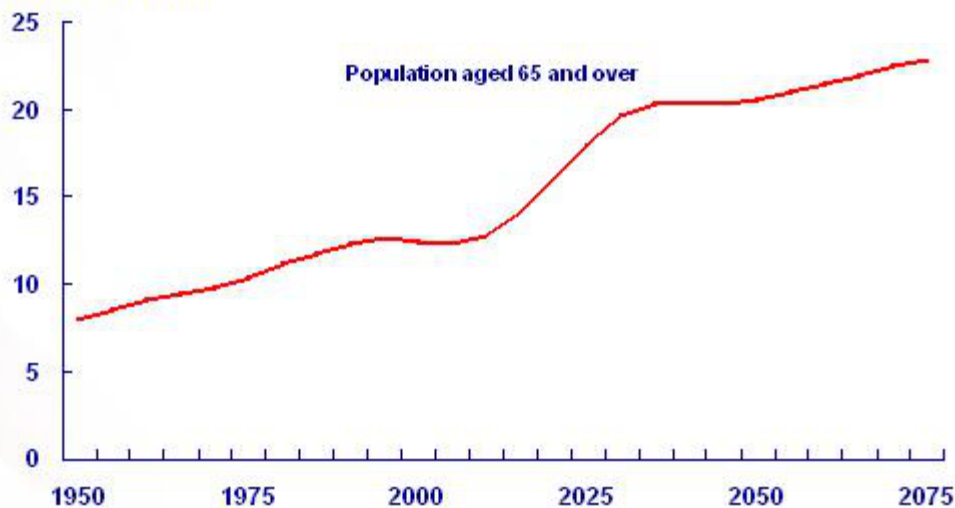
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Aged Population as a Share of Total U.S. Population Continues to Grow

Percent of total population



Note: Projections based on intermediate assumptions of the 2002 Trustees Report.

Source: The 2002 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

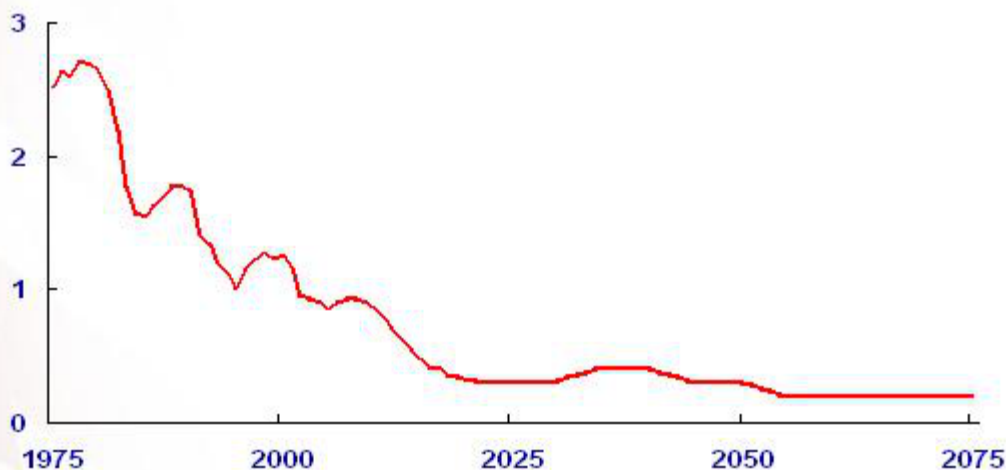
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Labor Force Growth

Percent change (5-year moving average)



Note: Projections based on intermediate assumptions of the 2002 Trustees Report.

Source: The 2002 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

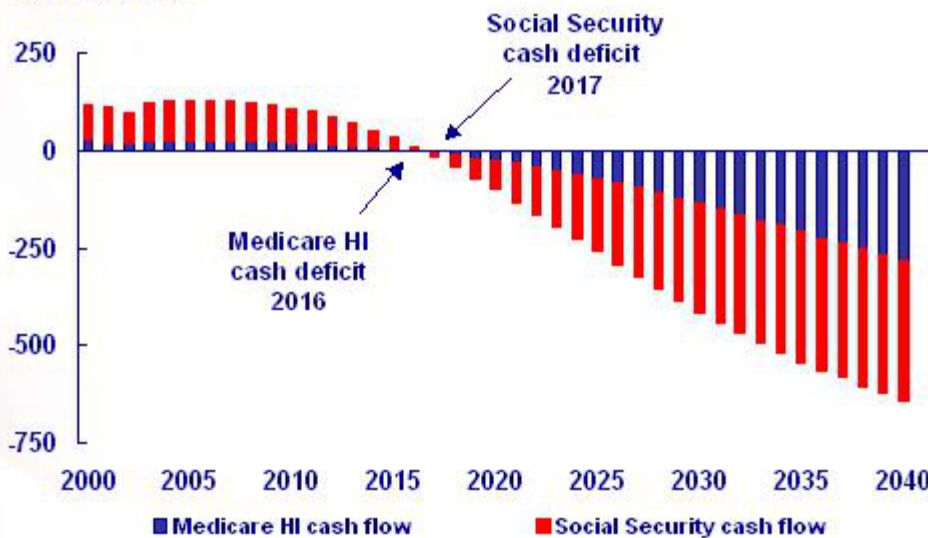
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Social Security and Medicare's Hospital Insurance Trust Funds Face Cash Deficits as Baby Boomers Begin to Retire

Billions of 2002 dollars



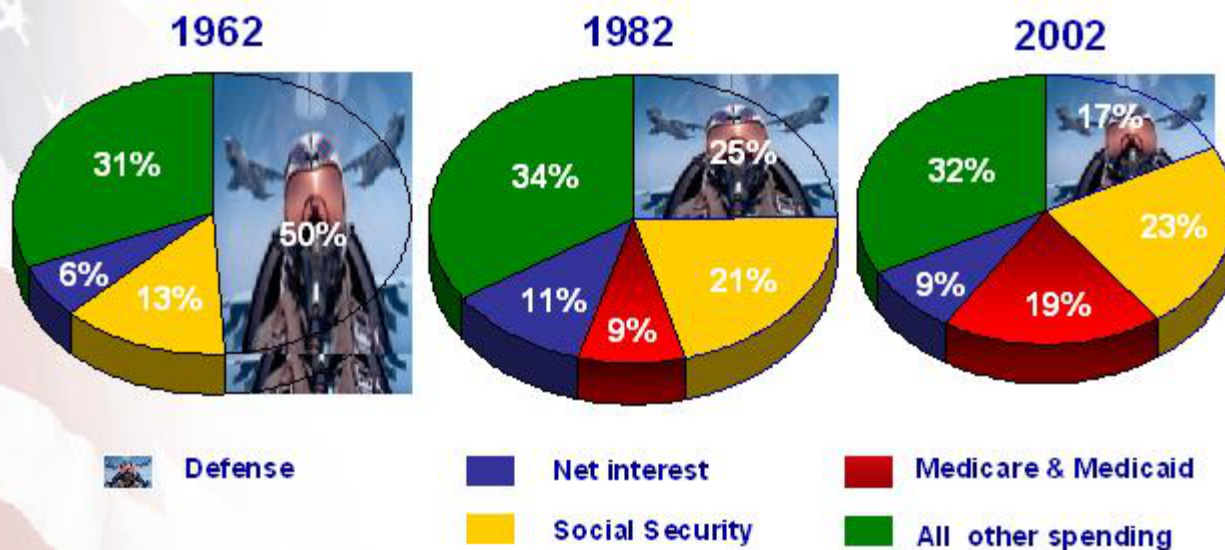
Source: GAO analysis of data from the Office of the Chief Actuary, Social Security Administration, and from the Office of the Actuary, Centers for Medicare and Medicaid Services, based on the intermediate assumptions of the 2002 Trustees Reports.

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Composition of Federal Spending By Budget Function



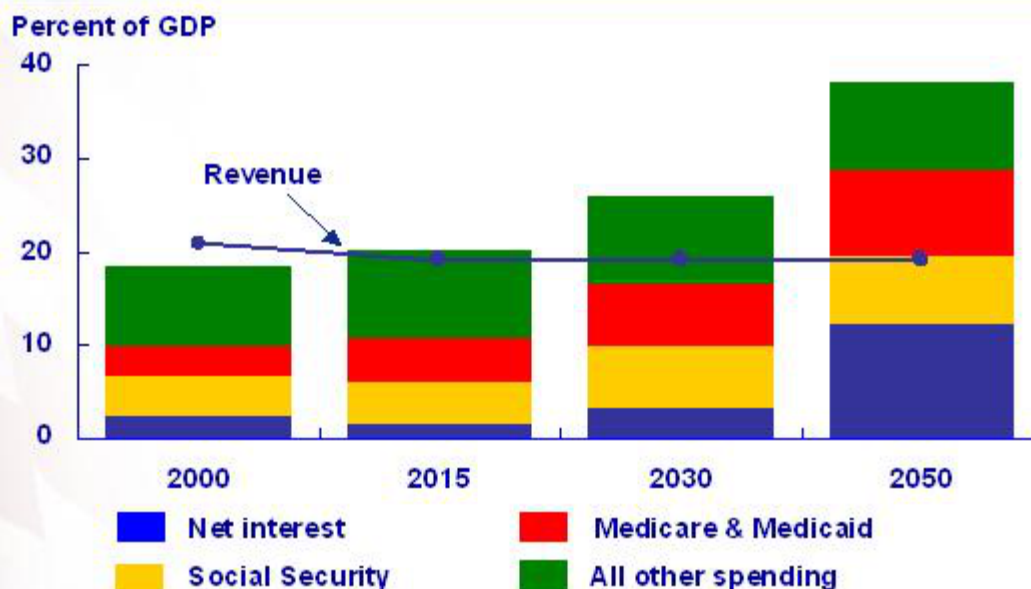
Source: *Budget of the United States Government, FY2003*, Office of Management and Budget, and Final Monthly Treasury Statement for FY 2002, Department of Treasury.

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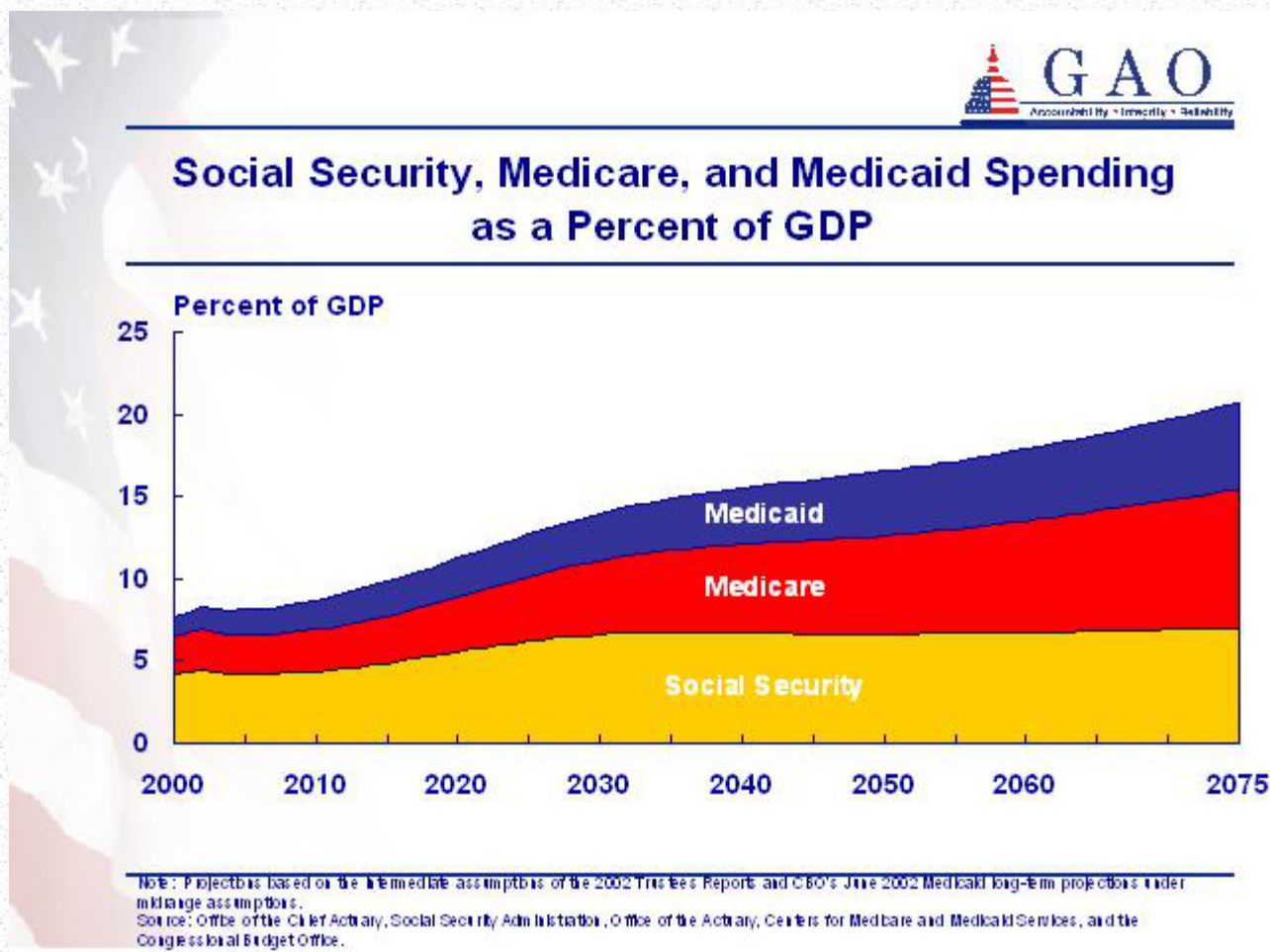
Composition of Spending as a Share of GDP Assuming Discretionary Spending Grows with GDP and the Tax Cuts Do Not Sunset



Source: GAO's August 2002 analysis

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U.S. Approach to Retirement Security

- Retirement security needs to address a variety of dimensions (e.g., earnings, health care, etc.)
- Social Security
 1. Currently a defined benefit system
 - Reform proposals take differing approaches
- Personal savings
 1. Incentives in tax code have had mixed success
 2. Recent increases in tax incentives, including for older workers
- Employer-based pensions
 - Defined contribution approach increasingly favored
 - Recent increases in allowable contributions
- Health care
 - The U.S. health care system is unsustainable in its present form
 - Health care reform will be our country's most complex and controversial domestic policy challenge

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GAO and Social Insurance Reform

- GAO reports and testimonies have highlighted the need for social insurance reform sooner rather than later
- GAO has developed criteria for Social Security reform proposals
 - Financing sustainable solvency
 - Balancing adequacy and equity in the benefits structure
 - Implementing and administering reforms
- GAO has evaluated numerous Social Security reform proposals
- GAO is developing a health care framework to help focus additional attention on this important area and educate key policymakers on the current system and related challenges

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Other Industrialized Nations Face Similar Demographic and Economic Challenges

- U.S. demographic trends generally track those in other industrialized nations, with a lag
 - Net national saving rate has fallen around the industrialized world, and the U.S. rate is less than most other major industrialized nations
 - National pension reform is a major issue facing governments in Europe and Japan, as well as the United States
 - Several countries are ahead of ours in enacting comprehensive public pension reform (e.g., UK, Sweden, Australia, Chile)
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Implications of Demographic Challenges for the Developed World

- Increased social welfare expenditures and reduced budgetary flexibility
- Pressures to increase taxes, reduce entitlements, and/or reduce other spending
- Potential adverse effects on real economic growth and overall living standards
 1. Implications for short-term and long-term interest rates, other financial market effects
 2. Possible adjustments in national labor markets
 3. Likely fourth leg on the retirement income security stool (i.e., earnings from part-time employment)

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Potential Consequences for the Developing World

- Reduced budgetary flexibility could lead to increased pressure on direct and indirect international aid budgets
- Lower growth in developed world could lead to reduced markets for goods from developing world
- Result could be reduced economic growth for developing world, greater difficulty in addressing development challenges, future aging and other issues
- Possible increased migration of skilled labor to industrialized nations could adversely impact economic growth in developing world

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