



THE NATION'S FISCAL HEALTH

Road Map Needed to
Address Projected
Unsustainable Debt Levels

Annual Report to Congress

FEBRUARY 2024

Accessible Version

U.S. GOVERNMENT
ACCOUNTABILITY OFFICE



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February 15, 2024

The President

The President of the Senate

The Speaker of the House of Representatives

The federal government faces an unsustainable long-term fiscal path. We project that debt held by the public as a share of the economy will more than double over the next 30 years and will grow faster than the economy over the long term if current revenue and spending policies are not changed. This outlook is consistent with projections from the [Congressional Budget Office](#) and [the Office of Management and Budget and Department of the Treasury](#).

The unsustainable long-term fiscal path poses serious economic, security, and social challenges if not addressed. Many of the negative effects of growing debt are projected to intensify over time and create additional challenges for fiscal management. The sooner actions are taken to change the long-term fiscal path, the less drastic they will need to be. Congress and the administration will need to make difficult budgetary and policy decisions to address the key drivers of the debt and change the government's fiscal path.

We continue to recommend that Congress develop a plan to address the government's long-term fiscal path. A sustainable fiscal policy would lead to debt held by the public growing at the same—or slower—rate than the economy. To achieve this, spending and revenue policies will need to be aligned to address persistent deficits and reduce the nation's borrowing needs.

We produce this annual fiscal health report to examine the current fiscal condition of the federal government and its future fiscal path based on current policy. The following sections highlight the results of our fiscal simulation using information available as of September 30, 2023 (the end of fiscal year 2023). The methodology and selected assumptions that underlie our simulation are described in appendix I.

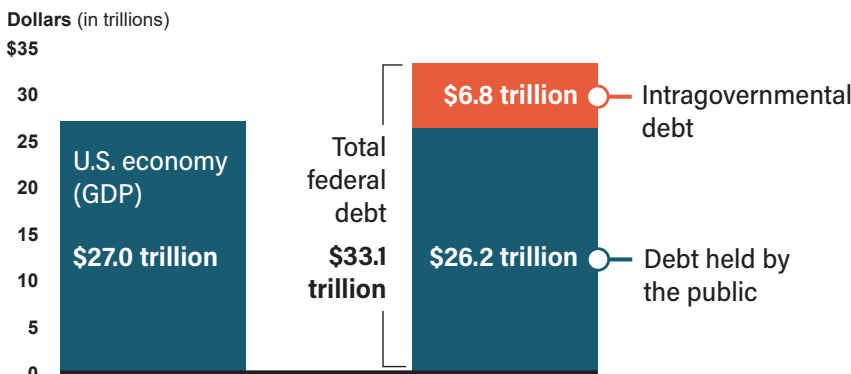
SECTION 1

Trends in Federal Debt

CURRENT CONDITION

As of September 30, 2023, debt held by the public was \$26.2 trillion, \$2 trillion higher than the prior fiscal year. In both fiscal years 2022 and 2023, debt held by the public was about 97 percent of gross domestic product (GDP), meaning that debt grew at about the same pace as GDP in fiscal year 2023.

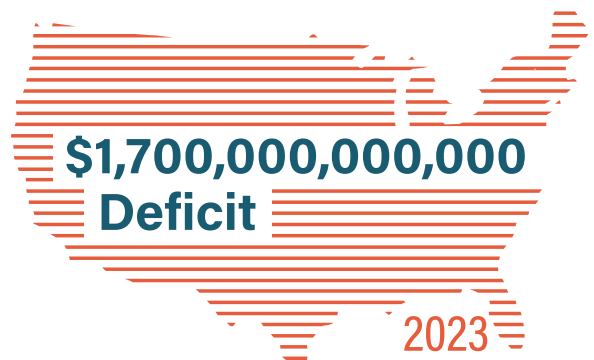
Figure 1: Gross Domestic Product and Federal Debt as of September 30, 2023



Source: GAO analysis of data from the Department of the Treasury and Bureau of Economic Analysis. | GAO-24-106987

To understand the country’s fiscal outlook, we report on debt held by the public. Debt held by the public is considered a better measure of debt’s effect on the economy than total debt because it reflects the demands that the government is placing on private credit markets. We also compare debt held by the public (and other fiscal measures) to GDP because it helps relate the debt to the size of the economy supporting it.

Generally, debt held by the public is equal to the accumulated budget deficits over time. When the government spends more than it collects in revenue, it borrows to finance the resulting deficit by issuing debt to the public. **Despite strong economic growth, the fiscal year 2023 deficit was \$1.7 trillion, the fourth year in a row of a deficit above \$1 trillion.**



Debt held by the public

measures the government’s borrowing from sources outside the federal government, including the private sector (e.g., banks and investors) and foreign governments.

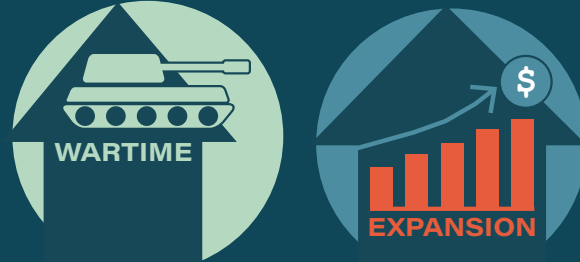
Intragovernmental debt

represents balances of Treasury securities held by federal government accounts—for example, trust funds for Social Security and Medicare. These trust funds are typically required to invest excess revenue in federal securities. When federal government accounts redeem Treasury securities, Treasury usually borrows from the public to finance the redemptions.

Source: GAO and the Department of the Treasury. | GAO-24-106987

HISTORICAL TRENDS

For most of the nation’s history, debt held by the public relative to GDP increased during wartime and recessions but then decreased during peacetime and economic expansions. More recently, this pattern has changed, as the debt has grown even during times of economic growth and expansion.



Debt to GDP %

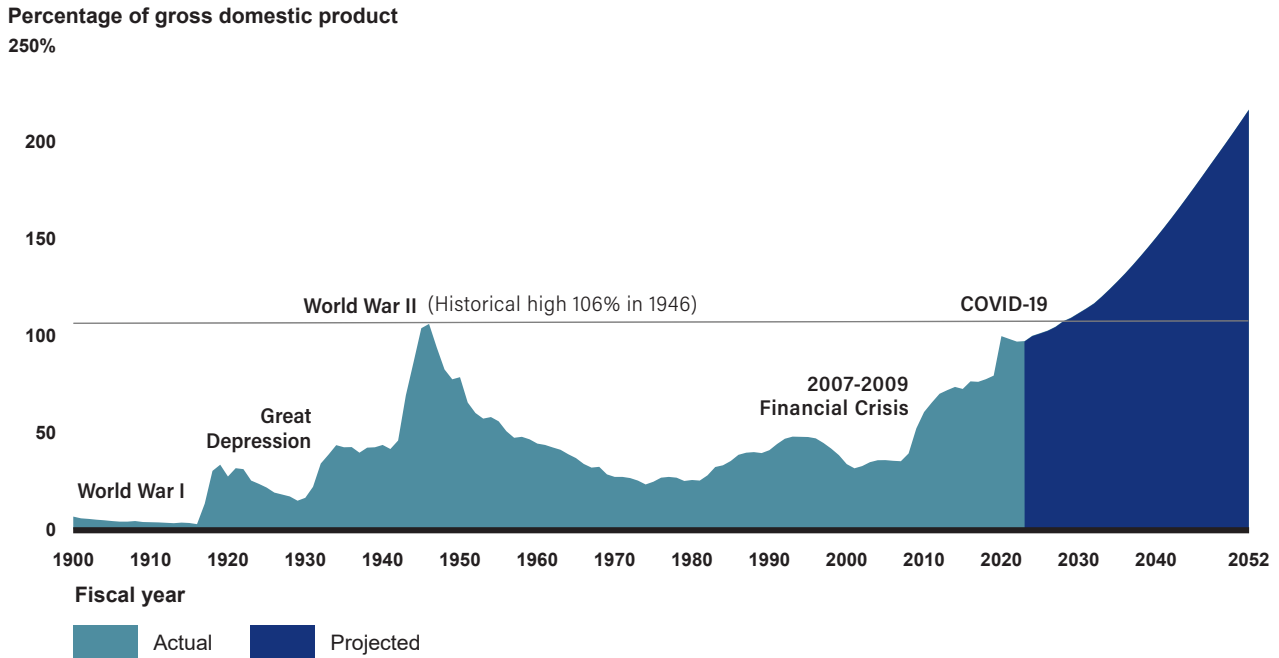
PROJECTIONS

Our simulation shows that under current revenue and spending policies, debt held by the public will reach its historical high of 106 percent of GDP by 2028 and grows more than twice as fast as the economy over a 30-year period, reaching 200 percent of GDP by 2050.

The debt-to-GDP ratio **increases** when debt grows faster than GDP and it **decreases** when GDP grows faster than debt.

Source: GAO. | GAO-24-106987

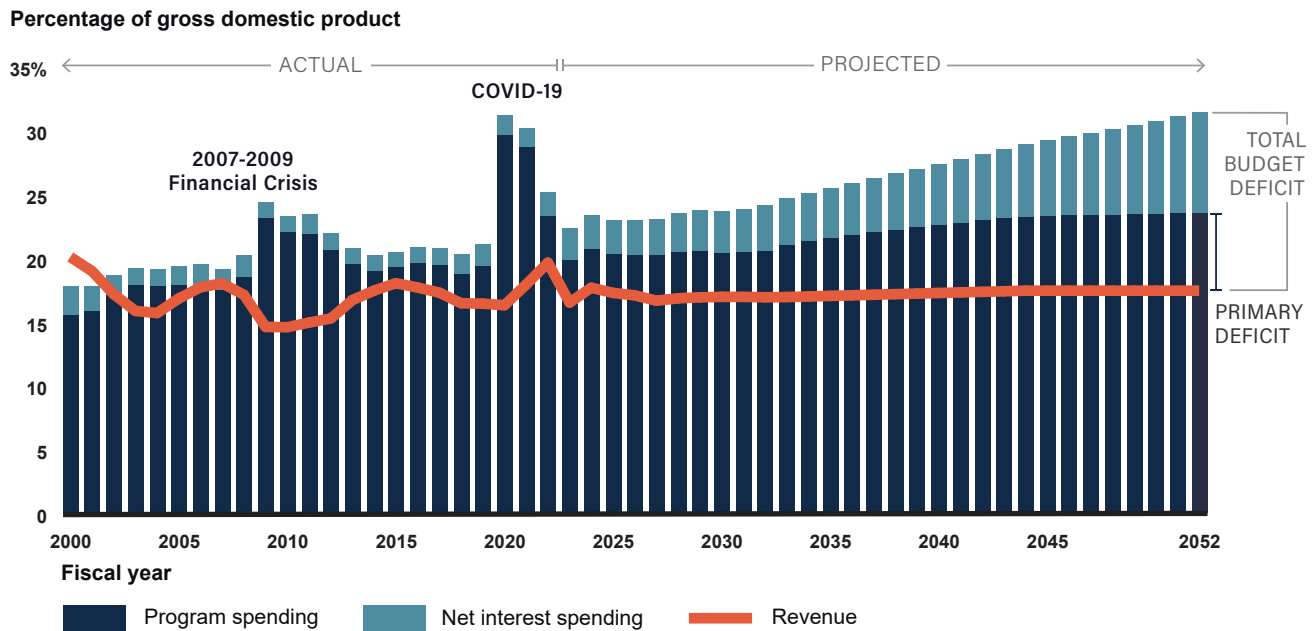
Figure 2: Debt Held by the Public Projected to Grow Faster Than GDP



Source: Congressional Budget Office data and GAO simulation. | GAO-24-106987

The growing debt held by the public is a consequence of borrowing to finance increasingly large annual budget deficits. Based on our projections, the gap between program spending and revenue increases over the long term, generating larger primary deficits each year. These increasing deficits require more borrowing and result in growing net interest spending.

Figure 3: Primary Deficit and Total Budget Deficit, Actual and Projected



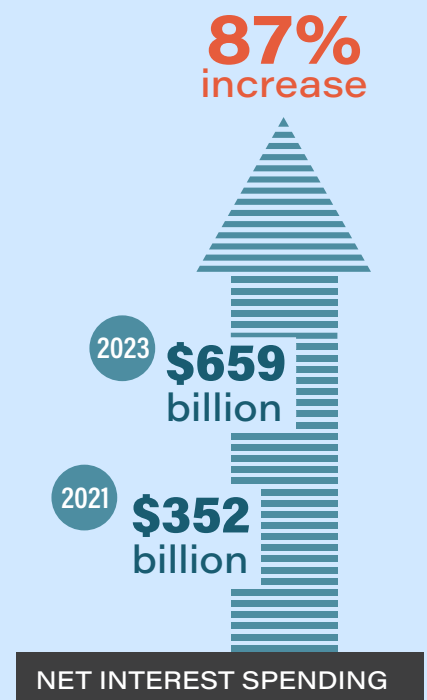
Source: Congressional Budget Office data and GAO simulation. | GAO-24-106987

IMPLICATIONS

Many of the negative effects of growing debt are projected to intensify over time and create additional challenges for federal fiscal management as well as for American households and individuals.

For example:

Potential policy constraints. Borrowing (in lieu of higher taxes or lower government spending) may be appropriate during economic recessions, military conflicts, public health crises, and other temporary challenges or national needs. However, all else equal, as debt rises, interest costs rise and take up a greater share of federal spending, which may reduce policymakers’ flexibility to respond to economic downturns and other unexpected events. Net interest spending has risen quickly over the last 3 fiscal years, from \$352 billion in 2021 to \$659 billion in 2023 (an 87 percent increase). We project that net interest spending will exceed \$1 trillion in 2029, at which point it is projected to account for 13 percent of all federal spending (up from 5 percent in 2021).



Risks to economic growth. As CBO has reported, perpetually rising debt as a share of GDP has many direct and indirect implications for the economy and individuals. For example, as the government's borrowing needs grow, interest rates rise and investors will therefore dedicate more of their savings/capital to buying **Treasury securities**—such as bills, notes, and bonds—leaving less capital available to invest in factories, computers, and other productive uses. As such investment falls, so too would workers' wages due to losses in productivity. Ultimately, economic growth could slow and federal income tax revenue could fall, requiring even more borrowing.

Risks to the nation's credit. In recent months, S&P, Fitch Ratings, and Moody's—the three main credit rating agencies—have taken actions, such as credit downgrades, that reflect their lowered assessment of U.S. creditworthiness. According to the agencies, the federal government's rising publicly held debt burden and repeated debt limit impasses (discussed later) have eroded confidence in the nation's fiscal management. While demand for Treasury securities has remained high, if investors lose confidence in the government's ability to manage the budget, they may look for alternative investments or require higher interest rates to hedge against increased risk.

Risk of a fiscal crisis. CBO has stated that high and rising federal debt as a share of the economy increases the risk of a fiscal crisis. If debt continues to accumulate and grow faster than the economy year over year, **investors may lose confidence** in the federal government's fiscal management and the U.S. economy. This outcome could have wide-ranging implications, including a fiscal crisis where Treasury is not able to borrow money needed to finance government operations, benefit payments, and other critical spending because of abrupt interest rate hikes. At that point, drastic tax increases and decreases in government services would likely occur and pose significant challenges to policymakers and the public.



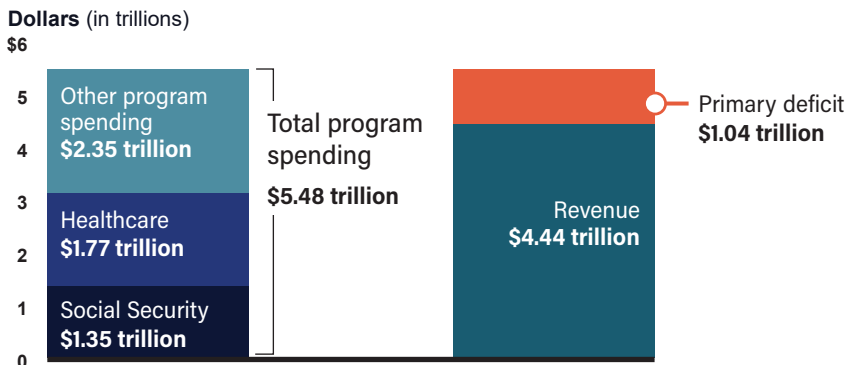


SECTION 2 Trends in Primary Deficits

CURRENT CONDITION

During fiscal year 2023, federal program spending (non-interest spending) was almost \$5.48 trillion compared to about \$4.44 trillion in federal revenue, resulting in a primary deficit of more than \$1.04 trillion.

Figure 4: Fiscal Year 2023 Primary Deficit



Source: GAO analysis of Monthly Treasury Statements. | GAO-24-106987

Components of Program spending (non-interest spending)

Social Security spending includes the cost of Social Security benefits for the Old-Age and Survivors Insurance and the Disability Insurance programs.

Health care spending includes Medicare, the federal share of Medicaid, the Children’s Health Insurance Program, and subsidies for the health insurance exchanges established by the Patient Protection and Affordable Care Act.

Other program spending includes spending related to national defense, homeland security, and transportation, among other areas.

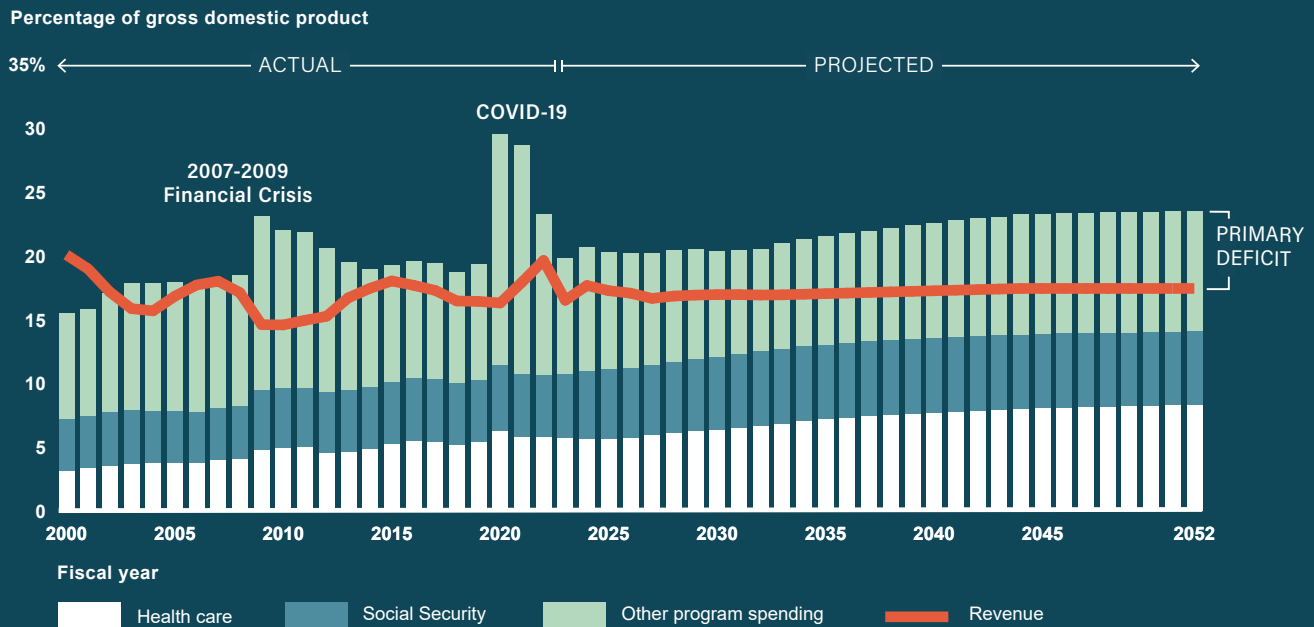
Source: GAO. | GAO-24-106987

HISTORICAL TRENDS

Program spending has exceeded revenue each fiscal year since 2008. Federal health care programs—including Medicare—and Social Security made up about half of all program spending on average between 2008 and 2023. Spending on federal health care programs and Social Security increased markedly after 2008, when the earliest members of the baby boom generation became eligible for retirement benefits. As the U.S. population ages, more individuals have begun receiving Medicare and Social Security benefits.



Figure 5: Composition of Government Program Spending and Revenue, Actual and Projected



Source: Congressional Budget Office data and GAO simulation. | GAO-24-106987

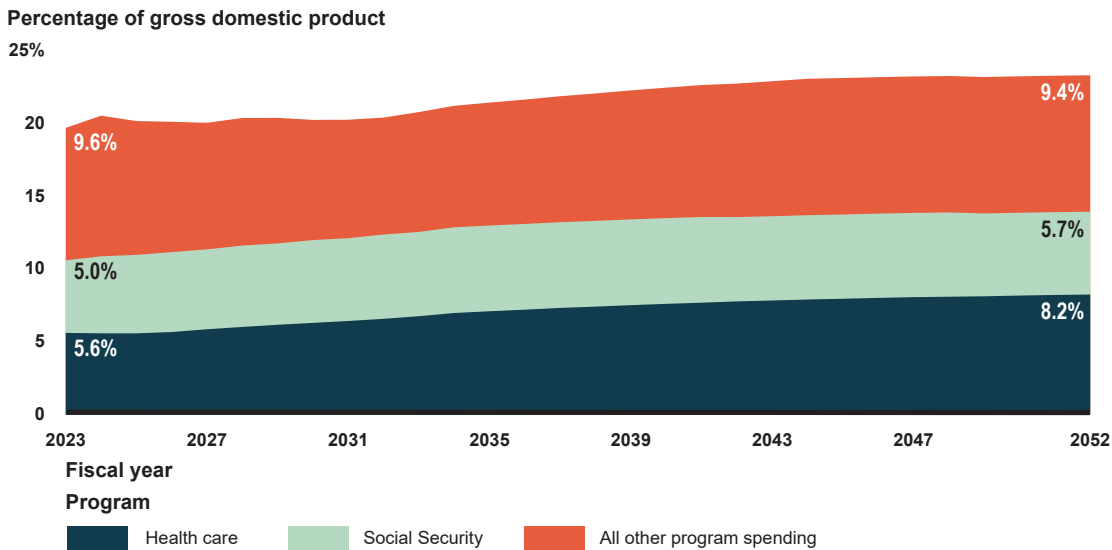
Notes: Starting in 2033 our simulation phases total revenue to a constant percentage of GDP at the 50-year historical average as of 2023. Our simulations reflect our assumption that Medicare and Social Security will continue to pay benefits as scheduled under current law, regardless of the status of the programs' trust funds.

SPENDING PROJECTIONS

Primary deficits will grow in large part because of the projected increases in Medicare and other federal health care, and Social Security program spending compared to relatively lower projected increases in revenue.

As the population continues to age, projected Medicare and Social Security spending grows as a share of GDP. Medicare and other federal health care programs also face continually increasing health care costs. We project that spending on federal health care—as a share of GDP—will increase 47 percent between 2023 and 2052 and Social Security spending will increase 14 percent over that period.

Figure 6: Projected Growth in Major Areas of Program Spending



Source: GAO simulation. | GAO-24-106987

Notes: Our simulations reflect our assumption that Medicare and Social Security will continue to pay benefits as scheduled under current law, regardless of the status of the programs' trust funds. Major federal health care spending consists of Medicare, Medicaid, the Children's Health Insurance Program, and subsidies for insurance purchased through the health insurance exchanges.

REVENUE PROJECTIONS

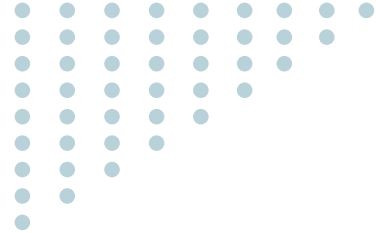
In our simulation, revenue averages 17.1 percent of GDP annually between 2023 and 2052, slightly lower than the 50-year historical average of 17.4 percent of GDP. Under these assumptions, we project that beginning in 2030, primary deficits persist and widen each year under current policy.

The primary source of government revenue is tax receipts, primarily individual income taxes and payroll taxes (which largely fund Medicare and Social Security). Both taxes are affected by labor force trends. For example, the retirement of the baby boomers means that a larger percentage of the population does not owe payroll taxes and may owe less in income tax than when they were working.

IMPLICATIONS

Persistent and widening budget deficits signal a structural imbalance between revenue and spending that require more borrowing over time. Policymakers have more control over primary deficits because program spending and revenue reflect policy decisions, whereas net interest spending reflects the consequences of prior policy decisions.





SECTION 3

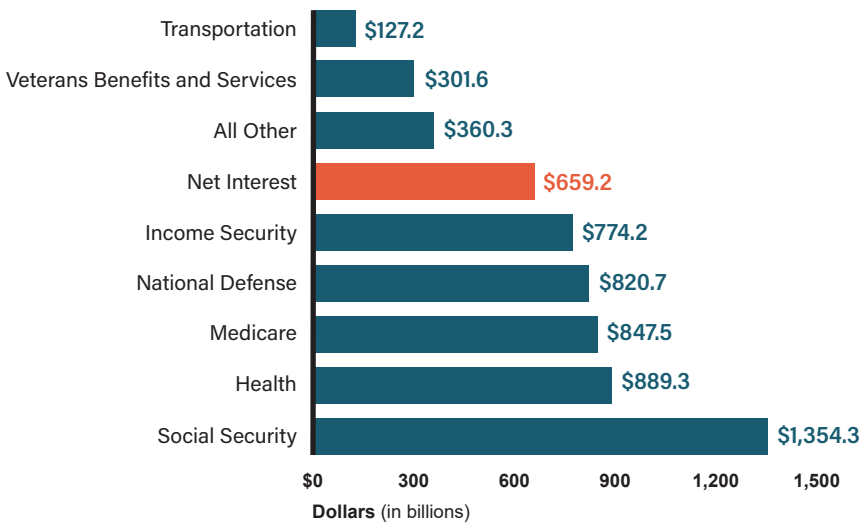
Trends in Interest Spending

Interest spending is the product of the size of accumulated debt and interest rates. Interest rates have risen sharply in the past two years. For example, the interest rate on 10-year Treasury notes went from 1.6 percent in October 2021 to 4.8 percent in October 2023—a 16-year high.

CURRENT CONDITION

In fiscal year 2023, federal spending on net interest (primarily interest on debt held by the public) increased 39 percent from fiscal year 2022 (from \$475 billion to \$659 billion). Spending on net interest is now approaching spending on some of the largest categories of federal spending and is expected to grow. For example, we project that net interest spending will exceed \$1 trillion in 2029, more than CBO’s estimate for national defense spending for that year.

Figure 7: Federal Spending Categories in Fiscal Year 2023, billions of dollars



Net interest spending is the government’s cost of financing the debt held by the public minus certain income from loans and other sources.

Source: GAO and the Department of the Treasury. | GAO-24-106987

Source: GAO analysis of Department of the Treasury information. | GAO-24-106987

Note: These spending categories are reported by the Department of the Treasury as budget classifications. Income Security includes retirement, disability, unemployment, welfare, and similar programs (excluding Social Security and veterans retirement). The Health category includes Medicaid and all other medical services provided to individuals and families, other than Medicare. For our purposes, the “all other” spending category includes all other budget classifications not otherwise listed.

HISTORICAL TRENDS

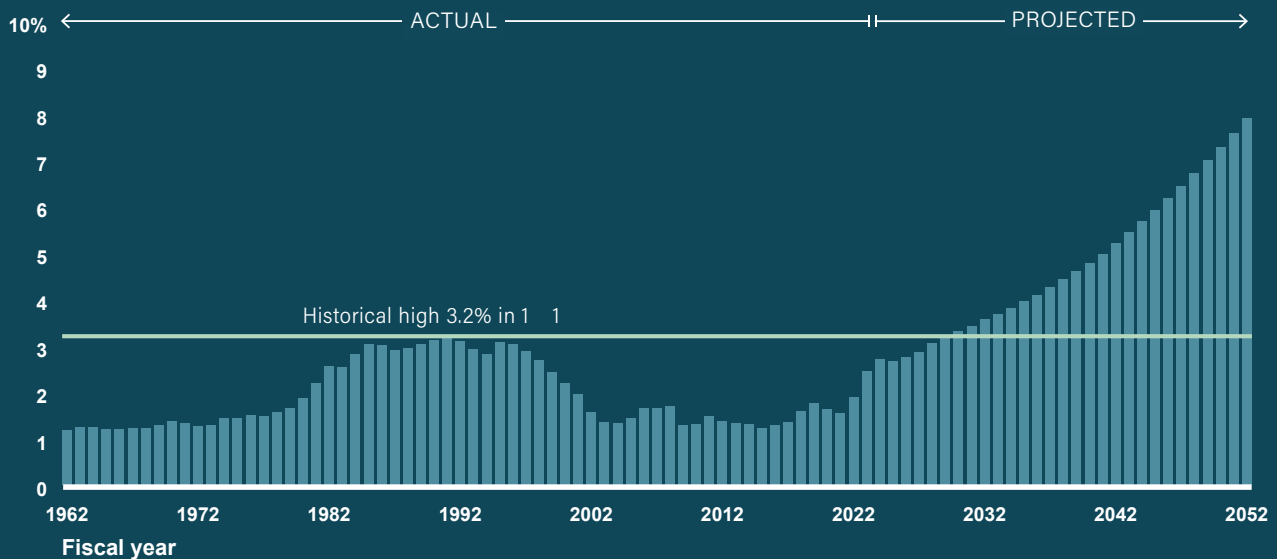
Net interest spending averaged 1.5 percent as a share of GDP over the last 20 years, primarily because interest rates were historically low even as the debt grew. By comparison, in the 1980s and 1990s, net interest spending averaged 2.8 percent of GDP—even though the total debt averaged only 39 percent of GDP during those years—because interest rates were much higher during that period.

Net interest spending as a share of GDP is a key measure of fiscal sustainability.

Growing debt levels combined with higher interest rates lead to projected increases in the government's net interest spending as a share of GDP.

Source: GAO. | GAO-24-106987

Figure 8: Annual Net Interest Spending as a Share of Gross Domestic Product Percentage of gross domestic product



Source: Congressional Budget Office data and GAO simulation. | GAO-24-106987

PROJECTIONS

In our simulation, federal spending on net interest increases each year and reaches the historical high of 3.2 percent of GDP by 2030. By 2052, net interest spending grows to 7.9 percent of GDP.

Increases in interest spending will add to future debt because the government will need to borrow more to pay for increased interest costs. Our simulation incorporates CBO's long-term nominal interest rate projection from June 2023 for the first 30 years and holds the interest rate constant at 3.95 percent after that.

IMPLICATIONS

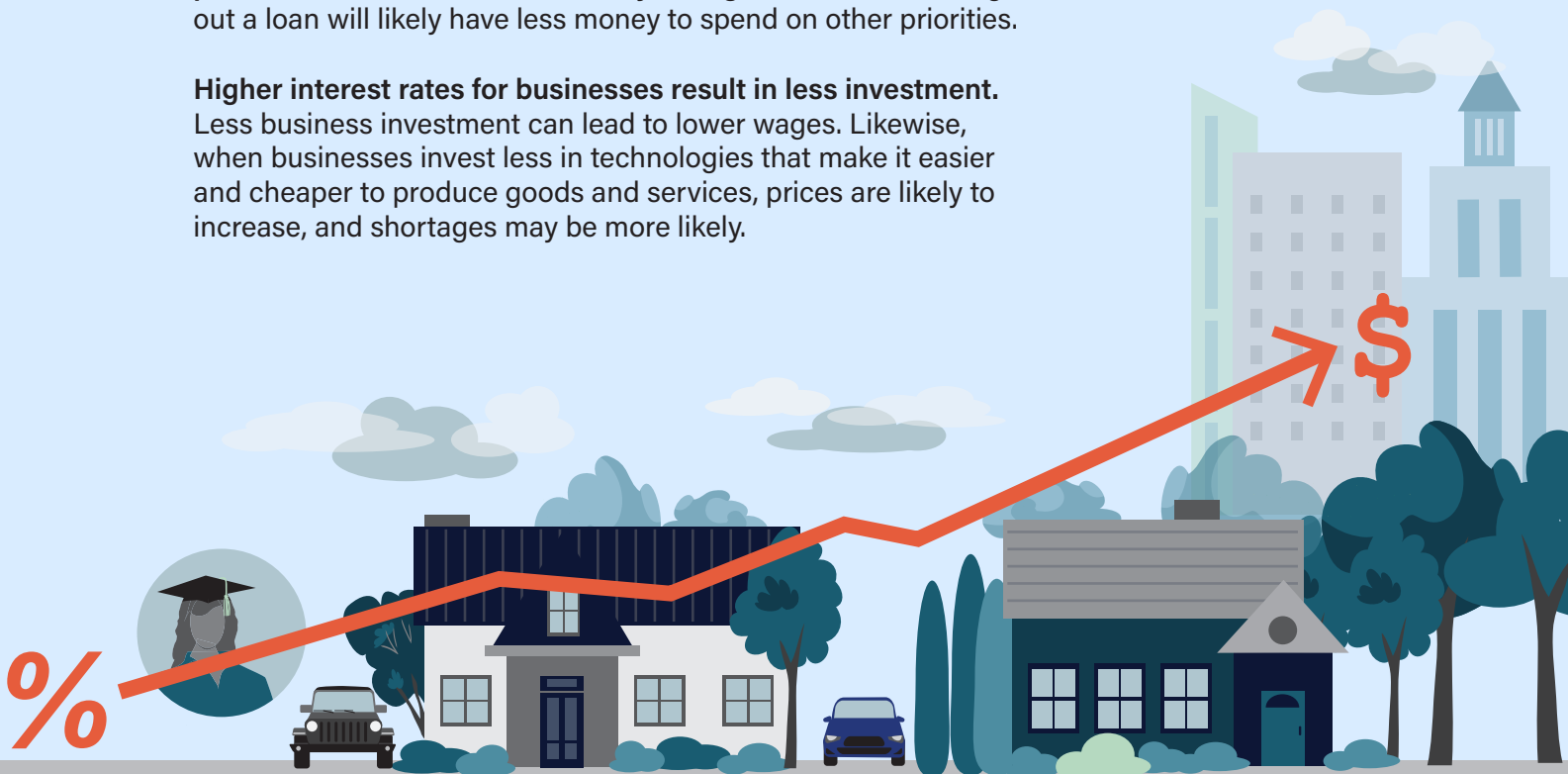
All else equal, growing debt is likely to increase interest rates. CBO reported that, on average, over the long term, each increase of 1 percentage point in debt held by the public as a percentage of GDP increases interest rates by 0.02 to 0.03 percentage points. **Higher interest rates have implications for the government and for individuals and households.** For example:

The federal government will pay more interest on refinanced debt. Treasury regularly refinances the government's maturing debt and issues more debt to finance new deficits at market interest rates. The interest expense the federal government pays on its debt is directly tied to those interest rates. When interest rates on new debt are higher than those on the maturing debt, the interest cost to the government will be higher for the same amount of debt. As of September 2023, \$15.5 trillion (60 percent) of outstanding debt will mature within the next 4 years. New debt will be issued at the prevailing interest rates at that time.

Higher interest rates for the U.S. government mean higher interest rates for individuals, households, and businesses. Rising interest rates usually hurt Americans' personal finances.

The cost to individuals to borrow money—for example to purchase a car or home—will likely be higher. Someone taking out a loan will likely have less money to spend on other priorities.

Higher interest rates for businesses result in less investment. Less business investment can lead to lower wages. Likewise, when businesses invest less in technologies that make it easier and cheaper to produce goods and services, prices are likely to increase, and shortages may be more likely.





SECTION 4

An Action Plan Is Needed

Since 2017, we have suggested that Congress develop a plan to place the government on a sustainable long-term fiscal path—where government spending and revenue result in a stable or declining ratio of debt held by the public to GDP over the long term.

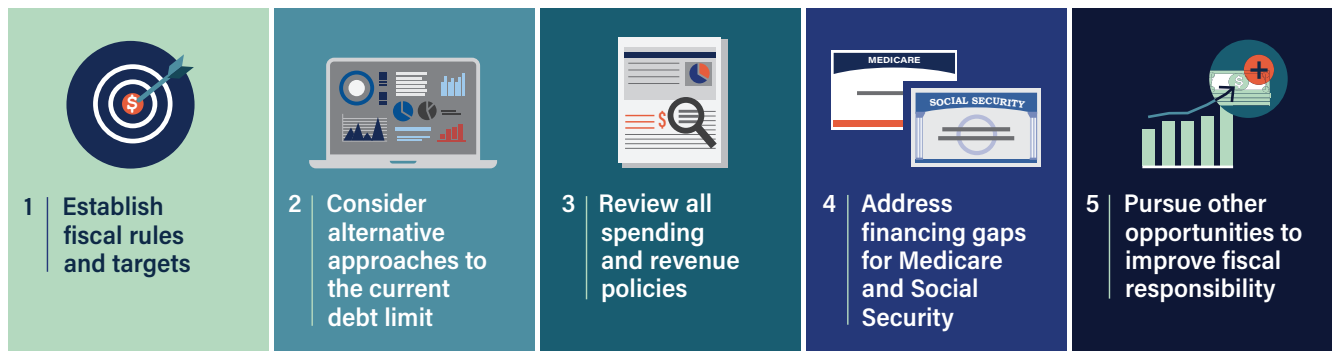
A plan can provide a cohesive picture of the government’s long-term goals. It can also serve as a mechanism for building consensus around these goals, as well as a road map for achieving them.

As of January 10, 2024, in the 118th Congress, four pieces of legislation have been introduced that, if passed, would create a commission to address the federal government’s long-term fiscal outlook (H.R. 710 (2023); H.R. 5779 (2023); S.3262 (2023); H.R. 6927, (2024)).

Source: GAO. | GAO-24-106987

A plan could include the elements listed in Figure 9.

Figure 9: Potential Elements of a Long-term Fiscal Plan



Source: GAO analysis and illustrations. | GAO-24-106987



1 | Establish fiscal rules and targets

Fiscal rules and targets can be used to help frame and control the overall results of spending and revenue decisions that affect the debt.

- Fiscal rules impose long-lasting numerical limits on the budget.
- Fiscal targets can be used to set interim goals within the parameters set by fiscal rules. For example, establishing a specific ratio of debt held by the public-to-GDP could require changes to fiscal policy to achieve the target.

We have identified key considerations for the design, implementation, and enforcement of fiscal rules and targets.

Table 1: Key Considerations for the Design, Implementation, and Enforcement of Fiscal Rules and Targets

Key consideration	Supporting explanation
 <p>Alignment with Fiscal Policy Goals and Objectives</p>	<p>Setting clear goals and objectives can anchor a country's fiscal policy. Fiscal rules and targets can help ensure that spending and revenue decisions align with agreed-upon goals and objectives.</p>
 <p>Design Tradeoffs and Features</p>	<p>The weight given to tradeoffs among simplicity, flexibility, and enforceability depends on the goals a country is trying to achieve with a fiscal rule. In addition, there are tradeoffs between the types and combinations of rules, as well as the time frames over which the rules apply.</p>
 <p>Legal Framework and Permanence</p>	<p>The degree to which fiscal rules and targets are binding, such as being supported through a country's constitution or nonbinding political agreements, can impact their permanence, as well as the extent to which ongoing political commitment is needed to uphold them.</p>
 <p>Integration with Budgetary Processes</p>	<p>Integrating fiscal rules and targets into budget discussions can contribute to their ongoing use and provide for a built-in enforcement mechanism. The budget process can include reviews of fiscal rules and targets.</p>
 <p>Flexibility to Address Emerging Issues</p>	<p>Fiscal rules and targets with limited, well-defined exemptions, clear escape clauses for events such as national emergencies, and adjustments for the economic cycle can help a country address future crises.</p>
 <p>Clear Roles for Supporting Institutions</p>	<p>Institutions supporting fiscal rules and targets need clear roles and responsibilities for supporting their implementation and measuring their effectiveness. Independently analyzed data and assessments can help institutions monitor compliance with fiscal rules and targets.</p>
 <p>Transparency and Communication</p>	<p>Having clear, transparent fiscal rules and targets that a government communicates to the public and that the public understands can contribute to a culture of fiscal transparency and promote fiscal sustainability for the country.</p>

Source: GAO. | GAO-24-106987

One way to quantify the magnitude of policy changes required to achieve a fiscal target based on the ratio of debt held by the public-to-GDP is to [calculate the fiscal gap](#). The fiscal gap measures the policy changes needed (some combination of revenue increases and spending cuts from the projected amounts) over a period to reach a target ratio of debt-to-GDP.

- For example, our simulation shows that in 30 years (2052), absent policy changes, debt held by the public will be 217 percent of GDP.

- Our analysis shows that in order to achieve a lower ratio of debt held by the public-to-GDP, policymakers would need to close the fiscal gap through revenue increases, program spending reductions, or a combination of both.

Table 2: Projected Fiscal Gap for Selected Debt-to-GDP Targets over 30 Years

Target debt-to-GDP ratio at the end of 30 years (2052)	Total change in revenue and/or program spending over 30 years needed to meet target (2023 dollars)	Annual revenue increase needed to meet target if no change in spending	Annual program spending reduction needed to meet target if no change in revenue
80 percent debt/GDP ratio	\$45.6 trillion	28.8%	22.5%
100 percent debt/GDP ratio	\$38.8 trillion	24.6%	19.2%
120 percent debt/GDP ratio	\$32.0 trillion	20.3%	15.9%

Source: GAO simulation. | GAO-24-106987

Notes: The fiscal gap represents, in present value terms, the total amount of revenue and program (i.e., non-interest) spending changes needed to achieve a specified fiscal target. Although the fiscal target could be achieved through a combination of revenue increases and program spending reductions, the percentages for permanent annual revenue increases and spending reductions shown here are the amounts needed to close the gap from that category alone.



2 | Consider alternative approaches to the current debt limit

The current debt limit is a statutory limit on the total amount of outstanding federal debt but is not a fiscal rule. It is an after-the-fact measure that restricts Treasury’s authority to borrow and finance the spending and revenue decisions that Congress and the President have already enacted.

Our work has shown that even without a default, a debt limit impasse can be costly. For example, during prior impasses, financial indicators showed that investors demanded a greater return for the increased risk of default. We have identified [alternative approaches to the debt limit](#) that Congress could consider:

- Linking action on the debt limit to the budget resolution.
- Providing the administration with the authority to propose a change in the debt limit that would take effect absent enactment of a joint resolution of disapproval within a specified time frame.
- Delegating broad authority to the administration to borrow as necessary to fund enacted laws.

These approaches would better align decisions about the level of debt with decisions on spending and revenue at the time those decisions are made.



3 | Review all spending and revenue policies

To maintain a sustainable fiscal path, Congress and the administration will need to make difficult policy decisions to address the key drivers of the debt. These decisions will likely involve several key areas of the budget:

- **Mandatory spending**, also known as direct spending, refers to budget authority that is typically provided in laws other than appropriation acts and the outlays that result from such budget authority. Mandatory spending generally does not undergo review as part of the annual appropriations process, but we have identified federal budget accounts with mandatory budget authority to help [review trends](#) in mandatory spending. In recent years, mandatory spending represented about two-thirds of all federal spending, largely due health care and Social Security spending.
- **Discretionary spending** is the spending from budget authority provided and controlled by appropriation acts, including most spending for defense, education, and transportation programs, for example. Discretionary spending may increase unexpectedly, and significantly, when the country is faced with [fiscal exposures](#), such as natural disasters, public health crises, or military conflicts. A more complete understanding of fiscal exposures can help policymakers anticipate or take steps to mitigate the need for increased federal spending to respond to or support these areas.
- **Revenue** to the federal government is mostly collected through individual income taxes, payroll taxes, and corporate taxes, so all else equal, an increase in tax rates or elimination of deductions or credits usually results in an increase in revenues.

Tax policy includes consideration of tax system design and tax rates, as well as tax expenditures (such as tax deductions, exclusions, and tax credits). While [tax expenditures](#) can help achieve social and economic goals, they also limit the amount of tax revenue the federal government collects. In addition, it is not always clear how successfully tax expenditures achieve their intended policy goals. **We estimated that in fiscal year 2022 (the most recent data available), tax expenditures reduced income tax revenue by approximately \$1.5 trillion.** We calculated this estimate based on Treasury data, which is

useful for gauging the general magnitude of reduced revenue through provisions of the tax code, but does not take into account interactions between individual provisions or the potential behavioral responses of taxpayers to changes.

4 | Address financing gaps for Medicare and Social Security

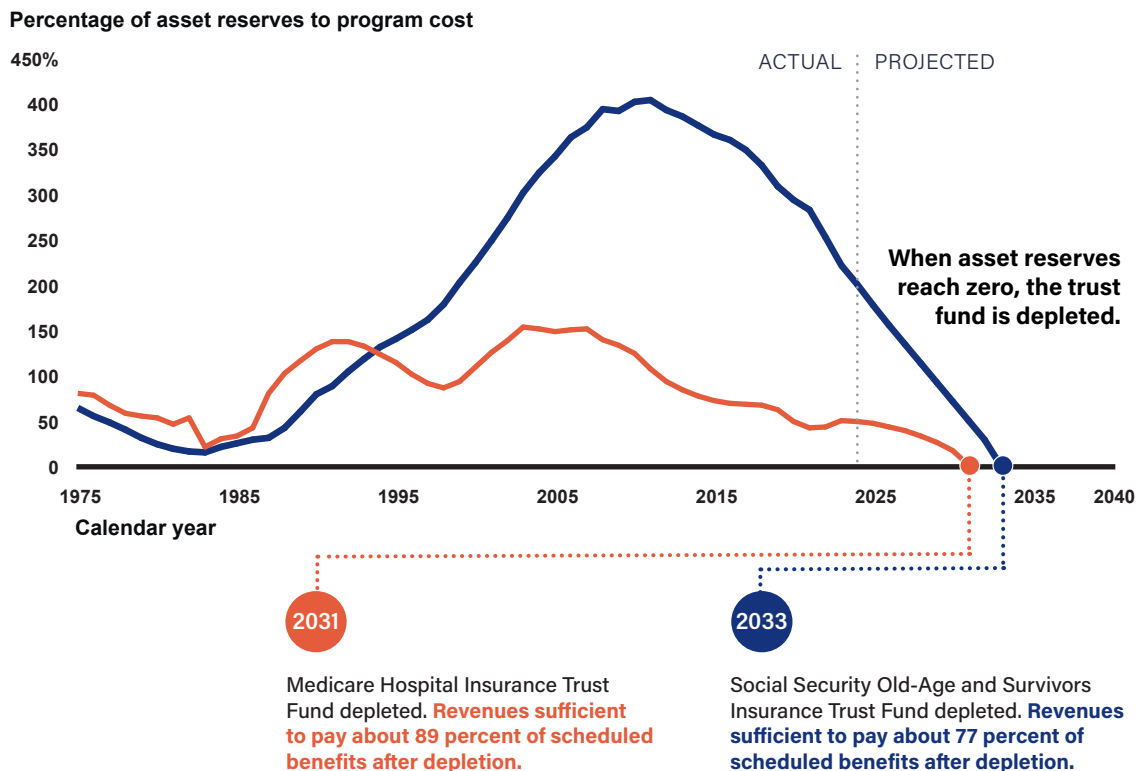
The trust funds that the federal government maintains to finance the Medicare Hospital Insurance program and Social Security's Old Age and Survivors Insurance program are projected to be depleted in 2031 and 2033, respectively, absent any policy changes. Once these trust funds' reserves are depleted, the programs would be financed only by annual program revenue (mostly payroll taxes), which would be insufficient to support the full amount of promised benefits. Legislation would be needed for promised benefits to be paid in full.

Almost all Americans have a stake in the financial condition of the Medicare and Social Security programs.

In 2023, approximately 180 million people contributed to the programs through payroll taxes, more than 66 million people were covered by Medicare, and about 67 million people received Social Security benefit payments.

Source: Centers for Medicare & Medicaid Services and Social Security Administration. | GAO-24-106987

Figure 10: Medicare and Social Security Trust Funds: Reserves Depleting



Source: GAO analysis of Board of Trustees' data. | GAO-24-106987

Changing the trajectory of the programs' finances will require some combination of additional income and cost reductions. We developed a **broad framework** to help evaluate Social Security reform proposals.



5 | Pursue other opportunities to improve fiscal responsibility

Addressing the following areas could help reduce the deficit by hundreds of billions of dollars. While these changes would not require major changes to spending and revenue policies, they alone are not sufficient to address the nation's fiscal imbalance.

- Reduce improper payments and improve fraud risk management.** Improper payments—payments that should not have been made or that were made in an incorrect amount, whether due to fraud or error—have consistently been a government-wide issue. Since fiscal year 2003, cumulative improper payment estimates have totaled about \$2.7 trillion, including \$236 billion for fiscal year 2023, which does not include estimates for certain risk-susceptible programs. We have identified [a number of steps](#) that Congress and federal agencies could take to help reduce federal improper payments and save taxpayer funds.

All federal programs and operations are at risk of fraud. For example, we estimated in September 2023 that the amount of fraud in unemployment insurance programs during the COVID-19 pandemic was likely between \$100 billion and \$135 billion. These amounts are about 11 percent and 15 percent, respectively, of the total amount of unemployment benefits paid during the pandemic. Since 2018, we have made 26 recommendations to the Department of Labor to improve the unemployment insurance system.

- Increase tax compliance.** The tax gap—the difference between what taxpayers owe and the amount they pay voluntarily and on time—has also been a persistent challenge. [The Internal Revenue Service projects](#) that the net tax gap was \$625 billion during the 2021 tax year. We have identified [various actions](#) that could reduce the tax gap.
- Reduce fragmentation, overlap, and duplication.** Federal agencies also have the potential to achieve billions in financial benefits by continuing to address duplication, overlap, and fragmentation in federal programs. Actions taken by the federal agencies and Congress on these issues have resulted in roughly [\\$600 billion in financial benefits](#) since fiscal year 2010. We estimate that fully addressing unimplemented [matters for congressional consideration](#) and [recommendations to federal agencies](#) that we have made could result in savings of tens of billions of dollars and improved government services, among other benefits.

Improper payments and fraud are two distinct concepts that are related but not interchangeable. Improper payments are payments that should not have been made or that were made in an incorrect amount. We define fraud as the act of obtaining something of value through willful misrepresentation. While all fraudulent payments are considered improper, not all improper payments are due to fraud.

Source: GAO. | GAO-24-106987

This report summarizing the fiscal health of the federal government was conducted under the authority of the Comptroller General.

We conducted our work from July 2023 to February 2024 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product.

This publication was prepared under the direction of Jeff Arkin, Director, Strategic Issues, who may be reached at (202) 512-6806 or arkinj@gao.gov; Robert F. Dacey, Chief Accountant, who may be reached at (202) 512-3406 or dacey@gao.gov; and Dawn B. Simpson, Director, Financial Management and Assurance, who may be reached at (202) 512-3406 or simpsondb@gao.gov if there are any questions. GAO staff who made key contributions to this publication are listed in appendix II. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this publication. In addition, this publication will be available at no charge on GAO's website at <http://www.gao.gov>.

A handwritten signature in black ink that reads "Gene L. Dodaro". The signature is written in a cursive style with a large, prominent "D" at the end.

Gene L. Dodaro
Comptroller General of the United States

APPENDIX I

Methodology and Design: GAO's Fiscal Simulation

GAO's simulation illustrates the nation's potential fiscal path under current policy. These projections can help policymakers and the public assess the urgency and magnitude of policy reforms necessary to make fiscal policy sustainable. A sustainable fiscal policy is one where government spending and revenue policy causes debt held by the public to grow at the same or slower rate than the economy.

Simulation Assumptions and Methodology

GAO's simulation incorporates the Congressional Budget Office's (CBO) budget and economic projections as of June 2023 and the Boards of Trustees for Social Security and Medicare 75-year projections published in March 2023.¹ For this 2024 update, the first projection year in our simulation is 2023. For fiscal year 2023 actual values, we used data from the Department of the Treasury and the Bureau of Economic Analysis. Table 3 below provides a summary of key projection values for certain fiscal and economic variables in the simulation.

Table 3: GAO Simulation: Summary of Key Projections

Variable	2023	2024-2033 (annual average)	2034-2053 (annual average)	2054-2097 (annual average)
Revenue (percent of gross domestic product (GDP))	16.5	17.0	17.3	17.4
Program spending (percent of GDP)	20.3	20.4	22.7	24.2
Federal health care (percent of GDP)	5.6	6.1	7.8	9.2
Social Security (percent of GDP)	5.0	5.6	5.8	5.6
Net interest spending (percent of GDP)	2.4	3.1	5.7	13.6
Nominal interest rate on debt held by the public (percent)	2.7	3.0	3.6	4.0
Inflation rate (percent)	4.6	2.3	2.2	2.2
Real GDP growth rate (percent)	3.1	1.8	1.9	2.0

Source: GAO simulation. | GAO-24-106987

Notes: Program spending is total spending less net interest spending. Federal health care and Social Security spending are key categories of program spending in our simulation. Major federal health care spending consists of Medicare, Medicaid, the Children's Health Insurance Program, and subsidies for insurance purchased through the health insurance exchanges.

¹ Congressional Budget Office, *The 2023 Long-Term Budget Outlook* (June 2023); Boards of Trustees for Social Security, *The 2023 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (March 2023); and Boards of Trustees for Medicare *2023 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds* (March 31, 2023).

We construct our simulation based on recent trends in policy and budget, which in some cases are assumed to be different from current law. For example:

GAO’s simulation assumes that Social Security and Medicare will continue to pay benefits as scheduled under current law, regardless of the status of the program’s trust funds. This approach is consistent with projections by CBO, the Office of Management and Budget and the Department of the Treasury in the *Fiscal Year 2023 Financial Report of the United States Government*, and the Boards of Trustees.

We also assume projected spending and borrowing levels without potential debt limit considerations.

Tables 4 and 5 summarize selected budget and economic assumptions.

Table 4: GAO’s Long-Term Simulation: Selected Budget Assumptions

Variable	Assumption
Debt held by the public	Debt held by the public is calculated as the prior year’s debt held by the public plus the projected deficit and other means of financing of the specific year.
Revenue	<p>Revenue consists of revenue from individual income taxes, Social Security and Medicare payroll taxes, corporate income taxes, and other revenue.</p> <p>For the first 11 years of projections, GAO adjusts the Congressional Budget Office’s (CBO) baseline revenue projections based on the assumption that certain temporary tax provisions will be extended.</p> <p>In year 12 of the projection, GAO phases to the 50-year historical average (17.4 percent of gross domestic product (GDP)).</p>
Program spending	
Social Security spending	<p>For the first 11 years of projections, GAO uses CBO’s baseline 10-year projections.</p> <p>Starting in year 12 of the projection, GAO phases to the Social Security Board of Trustees’ intermediate cost projections.</p>
Medicare spending	<p>Medicare spending is net of premiums and other offsetting revenue.</p> <p>Gross Medicare spending: GAO uses Medicare Board of Trustees’ alternative projections for the 75-year projection period</p> <p>Offsetting revenue: GAO uses Medicare Board of Trustees’ projections.</p>
Federal spending on other health care	<p>This spending category includes Medicaid, the Children’s Health Insurance Program, and subsidies for insurance purchased through the health insurance exchanges. For the first 11 years of projections, GAO uses CBO’s baseline 10-year projections.</p> <p>For years 12-31, GAO phases to CBO’s 30-year projections for spending as a percent of GDP.</p> <p>In year 32 of the projection, GAO extends the data by continuing the growth of spending as a percent of GDP at the implied growth rate between the last 2 years of CBO’s 30-year projection data.</p>
Other mandatory spending	<p>For the first 11 years of projections, GAO uses CBO’s baseline 10-year projections.</p> <p>Starting in year 12 of the projection, GAO holds other mandatory spending constant as a percent of GDP using the last year of CBO’s baseline 10-year projections.</p>

Variable	Assumption
Program spending (continued)	
Discretionary spending	For the first 11 years of projections, GAO uses CBO's baseline 10-year projections. In year 12 of the projection, GAO phases to the 20-year historical average for discretionary spending as a share of GDP (7.2 percent).
Net interest spending	For the first 11 years of projections, GAO uses CBO's projections. Starting in year 12 of the projection, we calculate net interest by multiplying the projected interest rate by the previous year's projected debt.

Source: GAO. | GAO-24-106987

Note: The Congressional Budget Office's 10-Year Budget Projections span the years 2023-2033 and thus contain 11 years of projections.

Table 5: GAO's Long-Term Simulation: Selected Economic Assumptions

Variable	Assumption
Real gross domestic product (GDP) growth rate	For the first 11 years of projections, GAO uses the nominal GDP and GDP price index projections from the Congressional Budget Office's (CBO) baseline 10-year projections. Starting in year 12, GAO grows real GDP at the rate underlying the Social Security Board of Trustees' intermediate scenario projections.
Nominal average interest rate (on debt held by the public)	For the first 11 years of projections, GAO derives the rate implied by projected net interest payments and debt from CBO's baseline 10-year projections. For years 12-31, GAO phases to CBO's 30-year projections for nominal interest rates. Starting in year 32 of the projection period, GAO holds the interest rate constant at 3.95 percent, which is the rate in the last year of CBO's 30-year projections.
Rate of inflation (as percentage change in GDP price index)	For the first 3 years of projections, GAO uses the projected percent change in the GDP price index from CBO's baseline 10-year projections. Starting in year 4 of the projection, GAO grows the price index at 2.24 percent per year, which is the growth rate implied by the CBO baseline 10-year projections.

Source: GAO. | GAO-24-106987

Note: The Congressional Budget Office's 10-Year Budget Projections span the years 2023-2033 and thus contain 11 years of projections.

Limitations

This simulation is not a prediction or forecast of the future, but rather scenarios of outcomes given specific assumptions. Forward-looking, long-term projections rely heavily on assumptions relating to future events, conditions, and trends. Future policy decisions about federal spending, revenues, and other areas would change the outcomes.

APPENDIX II

GAO Contacts and Staff Acknowledgments

GAO Contacts

Jeff Arkin, (202) 512-6806 or arkinj@gao.gov

Robert F. Dacey, (202) 512-3406, daceyr@gao.gov

Dawn B. Simpson, (202) 512-3406, simpsondb@gao.gov

Staff Acknowledgments

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