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United States General Accounting Office  
Washington, DC 20548

Accounting and Information  
Management Division

B-285258

May 11, 2000

The Honorable Nancy L. Johnson  
House of Representatives

Subject: Federal Mandatory Spending on the Elderly

Dear Mrs. Johnson:

I am writing to respond to a question you asked the Comptroller General at his testimony before the Subcommittee on Health, Committee on Ways and Means on Tuesday, February 15, 2000. You asked whether we had data on the percentage of the economy currently being spent on people aged 65 or over and what the percentage spent on that group would be in 10 years and 20 years if there were no changes to current law.

Since the data needed to fully answer this question are not readily available, providing a definitive answer would require extensive research. To develop information on current and future federal spending for the elderly, we contacted various federal agencies and compiled data they had available on the largest federal mandatory spending programs that provide income transfers and health benefits to the elderly. These programs are listed in the enclosure. From these data we constructed estimates of federal mandatory outlays for the elderly (that is, those aged 65 or over) for fiscal years 2000, 2010, and 2020. These estimates reflect current law assumptions and are generally based on spending projections obtained from the actuaries' offices at the responsible federal agencies. Programs for which we provide estimates encompass the major portion of federal spending for the elderly, but not all federal spending for the elderly.<sup>1</sup> Our estimates and the data sources we used are provided in the enclosure to this letter.

We estimate that federal mandatory spending on the elderly for the applicable programs as a share of gross domestic product (GDP) will grow from 6 percent in 2000 to 6.5 percent in 2010. In the following decade, as the baby boom generation begins to retire, this spending will accelerate, reaching 8.4 percent of GDP in 2020. This represents a growth of about 30 percent in federal mandatory spending on the elderly as a share of GDP between 2010 and 2020. Not surprisingly, Social Security and Medicare comprise the largest share of federal spending on the elderly. Medicaid's spending on the elderly as a share of GDP is projected

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<sup>1</sup> A recent report by the Senate Special Committee on Aging summarizes and analyses the many federal policies and programs that are of the most continuing importance for older persons and their families. See *Special Committee on Aging, Developments in Aging: 1997 and 1998* (2 vols.).

to grow the fastest, doubling over the next 20 years. On the other hand, our estimates show that federal spending on civilian and military retirees is projected to remain relatively constant as a share of the economy.

Future claims of the elderly on the economy are likely to be larger than indicated by our estimates. For example, our estimates do not include federal tax expenditures targeted to the elderly, such as the extra standard deduction for those elderly taxpayers who do not itemize deductions; Veterans Administration expenditures for the elderly; other federal programs targeted to or used by the elderly, including those for housing and food assistance; or spending by state and local governments. In addition, our estimates also do not include private spending on the elderly, such as for pensions, prescription drugs, or long-term care including out-of-pocket costs and hours of work foregone by those caring for elderly parents.

If you have any questions regarding the estimates provided here, please call me at (202) 512-9573.

Sincerely yours,

A handwritten signature in cursive script that reads "Paul L. Posner". The signature is written in dark ink and is positioned above the printed name.

Paul L. Posner  
Director, Budget Issues

Enclosure

**Estimates of Federal Mandatory Spending for the Elderly**

## Percentage of GDP

	Fiscal year		
	2000	2010	2020
Old-Age and Survivors Insurance <sup>a</sup>	3.1	3.2	4.2
Medicare <sup>a</sup>	2.0	2.3	3.0
Supplemental Security Income <sup>a</sup>	0.1	0.1	0.1
Medicaid <sup>b</sup>	0.3	0.4	0.6
Military retirement and retiree health <sup>c</sup>	0.2	0.2	0.1
Federal civilian retirement and retiree health <sup>c</sup>	0.4	0.4	0.4
Other federal retirement <sup>d</sup>	0.1	<sup>e</sup>	<sup>e</sup>
<b>Estimated federal mandatory spending on the elderly and retirees</b>	<b>6.0</b>	<b>6.5</b>	<b>8.4</b>

## Notes:

1. "Elderly" is defined as those aged 65 or over.
2. Spending projections reflect the largest federal mandatory spending programs that provide income transfers and health benefits to the elderly. Spending projections do not include Veterans Administration expenditures for the elderly or other federal programs targeted to or used by the elderly.
3. Column totals may not add due to rounding.

<sup>a</sup>Estimate for elderly share only.

<sup>b</sup>Estimates reflect the estimated federal share for beneficiaries who originally qualified for Medicaid at age 65 or older. Spending for beneficiaries who originally qualified for Medicaid on other grounds (e.g., disability) but are aged 65 or over in the projection year is not reflected.

<sup>c</sup>Estimates for federal civilian retirement reflect Civil Service Retirement System and Federal Employees Retirement System defined benefits only. Estimates for federal civilian retiree health reflect spending due to annuitants aged 65 and over who remain in the Federal Employee Health Benefits program and their dependents, including nonelderly dependents. Estimates for military retiree health reflect all spending for retirees and survivors aged 65 and over and their dependents, including nonelderly dependents.

<sup>d</sup>"Other federal retirement" is largely railroad retirement.

<sup>e</sup>Estimated to be less than 0.1% of GDP.

## Sources:

### **Old-Age and Survivors Insurance:**

Estimates are based on our analysis of long-term spending projections obtained from the Social Security Administration, Office of the Chief Actuary. These projections reflect the intermediate assumptions of the *2000 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*.

### **Medicare Hospital Insurance and Supplementary Medical Insurance:**

Estimates are based on GAO analysis of long-term spending projections obtained from the Health Care Financing Administration, Office of the Actuary. These projections reflect the intermediate assumptions of the *Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund*, April 2000, and the *Annual Report of the Board of Trustees of the Supplementary Medical Insurance Trust Fund*, March 2000.

### **Supplemental Security Income:**

Estimates are based on our analysis of spending projections published in the *Annual Report of the Supplemental Security Income Program*, Social Security Administration, May 1999.

### **Medicaid:**

For 2000 and 2010, estimates are based on our analysis of projections obtained from the Health Care Financing Administration. For 2020, estimates are based on our analysis of unpublished long-term spending projections obtained from the Congressional Budget Office.

### **Military retirement and health:**

Estimates are based on our analysis of long-term spending projections obtained from the Office of the Actuary, Department of Defense (DOD).

### **Federal civilian retirement:**

Estimates are based on our analysis of long-term spending projections obtained from the Office of Personnel Management, Office of the Actuary.

### **Federal civilian retiree health:**

Estimates are based on our analysis of unpublished projections obtained from the Office of Personnel Management, Budget and Program Information Division, and the Office of Actuaries.

### **Other federal retirement:**

Other federal retirement mainly includes railroad retirement. The estimate for railroad retirement is based on projections published in *The Budget and Economic Outlook: Fiscal Years 2001-2010*, Congressional Budget Office, January 2000.

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