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**Comptroller General
of the United States**

**United States General Accounting Office
Washington, DC 20548**

**Financial Literacy:
Understanding Both Our Nation's and
Our Own Financial Future**

By the Honorable David M. Walker
Comptroller General of the United States

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I'd like to commend the AICPA on its campaign to increase financial literacy in this country. This is an issue that's important for all the reasons Scott and Barry just mentioned. As a CPA, as a member of the AICPA, as Comptroller General of the United States, and as a father and grandfather, I believe that a clear understanding of our nation's overall financial condition and fiscal outlook is an indispensable part of true financial literacy. Lately, I've been speaking out on a subject that deserves far more attention: the U.S. government's worsening financial situation.

The American people may not realize it, but their financial futures will be shaped not only by their own personal planning and individual investments but also by the fiscal choices being made in Washington. Unfortunately, the reality is that our nation's financial condition is worse than advertised, and tough choices lie ahead.

Candidly, the way in which our government keeps score provides an incomplete and misleading picture of our true financial condition and fiscal outlook. The official U.S. gross debt now stands at about \$7 trillion, which works out to about \$24,000 for every man, woman, and child in this country. But that number excludes many big-ticket items, including promised but unfunded Social Security and Medicare benefits, veterans' health care, and a range of other commitments and contingencies.

If you add in these items, our total burden in current dollars is at least \$42 trillion. Yes, that's trillions with 12 zeros rather than billions with 9 zeros. To put that number into perspective, \$42 trillion is 18 times the current federal budget, or 3 ½ times our current gross domestic product. One of the biggest contributors to this bill will be the new Medicare prescription drug benefit, whose estimated current-dollar cost over the next 75 years is more than \$8 trillion. Stated differently, the burden for every man, woman, and child is actually more than \$140,000—and every day that burden is growing larger. Don't worry, I won't pass the hat this morning!

The simple truth is that due to known demographic trends and rising health care costs, we now face decades of mounting deficits. Left unchecked, these structural deficits will damage our economic future and diminish the opportunities available to our children and grandchildren.

The twin burdens of supporting a growing elderly population and paying for costly medical care will test the nation's spending and tax policies. If we continue on our present course, we'll see increasing pressure for deep spending cuts or steep tax

increases. I'm reminded of the title of Jack Nicholson's latest movie – "Something's Gotta Give." Clearly, the status quo is unacceptable and unsustainable. Difficult decisions are inevitable.

At the federal level, we must exert more fiscal discipline and modify our current accounting and reporting practices and budget processes. We must also adopt a three-pronged approach to examine the base of existing government programs, policies, and functions. First, we need to undertake a top-to-bottom review of discretionary and other government spending to ensure its relevance for the 21st century and to free up scarce resources. Our elected officials need to determine which programs and policies remain priorities, which should be overhauled, and which have outlived their usefulness. Second, we need to revisit existing tax policy, including tax preferences. We also need to revisit related tax enforcement efforts. Third, entitlement reform is inevitable. We need to reform Social Security and Medicare to make these programs solvent, sustainable, and secure for both current and future generations.

Americans can no longer take for granted that current federal entitlement programs will continue in their present form. For example, take Social Security. In 1950, more than 16 workers were paying into the system for every retiree drawing benefits. By 2040, that ratio will have dwindled to an alarming two to one.

At the same time, we're seeing steady erosion in the benefits offered to American workers. Only about one of every two Americans is now covered by a private pension plan. The financial weaknesses plaguing the Pension Benefit Guaranty Corporation's

pension insurance programs are another cause for concern. When it comes to health care, a growing number of Americans under age 65 are uninsured. In recent years, more than 40 million of us have gone without health insurance, and for the second year in a row we've seen a rising percentage of individuals working for major employers who lack health insurance.

Given these trends, the American people must become more involved in their own and their families' financial futures. Let's face it: Only God knows what tomorrow holds. The rest of us need to plan and prepare.

On an individual level, Americans will need to plan better and save more if they want to maintain their standard of living in retirement. They'll also need to understand different investment vehicles and strategies and their tax implications. But most of us are going to need a little help in planning and preparing for the future. That's where CPAs can come in. Many, but not all, CPAs are well qualified to provide financial advice and guide their clients to a comfortable retirement. CPAs are known for having the intellect and the integrity to make a real difference.

Earlier, Scott made a point that I think is equally true for government as it is for the individual: If you fail to plan, you plan to fail. The longer public officials and individuals postpone needed planning and necessary changes, the worse our options become.

By acting now, both America and Americans can minimize the need for drastic measures and give all of us more time to adjust to any changes. By acting now, we will ensure that

the miracle of compounding works for us rather than against us—which is not the case right now. By acting now, we can also avoid a dangerous upward spiral of debt that will ultimately harm every American.

In closing, the nation's growing fiscal imbalance is not a partisan issue. Regardless of who is elected in November, the challenges I've described will face whoever is sworn in next January.

In the meantime, the public needs to become more involved in the debate over our fiscal future and to make their views known. Ignorance and apathy are not viable options. If the public remains silent on this issue, meaningful change is unlikely. Younger Americans, especially, need to become active in this discussion because they and their children will bear the heaviest burden if today's leaders fail to act.

To avoid a range of unacceptable outcomes, from eliminating vital government programs to raising taxes to unprecedented levels, we must act. We should make every effort to leave our children and grandchildren a country and a world that is better off than when we found it. In my view, that's what statesmanship and stewardship are all about.

Although my message this morning is sobering and I want you to take our situation seriously, I don't want you to go away thinking that our financial condition and fiscal outlook are hopeless. That's far from true. We can successfully overcome these challenges if we get serious and start soon. After all, in America, and with all of us pitching in, anything is possible.

Thank you for your attention. I look forward to joining Scott and Barry in answering any questions you may have.

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**For more information, contact
Jeff Nelligan
Managing Director, GAO Public Affairs
(202) 512-4800
nelliganj@gao.gov**