

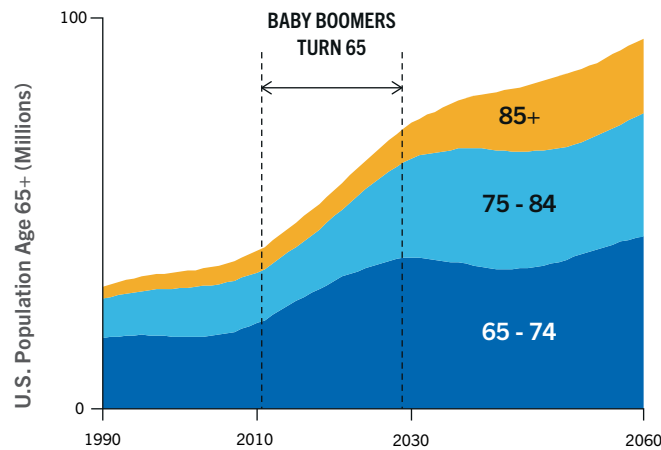
KEY DRIVERS OF DEBT

Demographics

The Baby Boom generation – 73 million strong – has already begun to leave the workforce and access federal healthcare and retirement programs. Today, and every day for the next 11 years, roughly 10,000 baby boomers will celebrate their 65th birthday. Over the next 35 years, the number of people 65 and older will climb by 35 million, an increase of 67%. Not only will the number of older Americans increase, but they are also expected to live longer in retirement due to significant improvements in life expectancy.

These trends mean that the government will spend more for the important programs that serve this growing population of older Americans, including Social Security, Medicare and Medicaid. In fact, these trends are the essence of our nation’s fiscal challenge: spending on Social Security and the major health programs accounts for 100% of the increase in federal non-interest spending over the long term, relative to the size of the economy.

The elderly population is growing rapidly and living longer



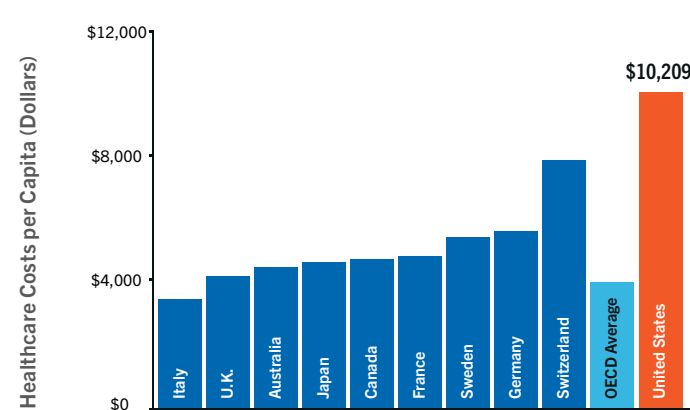
SOURCE: U.S. Census Bureau, *National Intercensal Estimates and 2017 National Population Projections*, September 2018. Compiled by PGPF.

Healthcare Costs

Overall spending on U.S. healthcare totals a staggering \$3.7 trillion, or 18% of the economy. Despite spending more than \$10,000 per capita, health outcomes in the U.S. are no better, and are in some cases worse, than other advanced nations. While healthcare costs have grown less rapidly in recent years, they are projected to keep rising – faster than inflation, wages or the overall economy.

This combination of an inefficient healthcare system with our aging population creates a “perfect storm” of challenges for the U.S. economy, as seniors, who consume more healthcare than younger Americans, are entering retirement at historically high rates, living longer in retirement, and accessing the most expensive and inefficient healthcare system among advanced economies.

U.S. per capita healthcare spending is more than twice the average of other developed countries



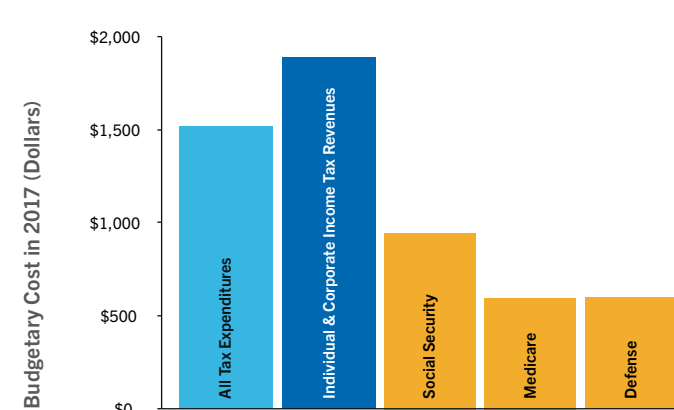
SOURCE: Organisation for Economic Co-operation and Development, *OECD Health Statistics 2018*, June 2018. Compiled by PGPF.

Inadequate Revenues

It would be one thing if our tax code were designed to fund all the promises we’re making. But it’s not. The U.S. tax system does not generate enough revenue to cover the spending policymakers have chosen. Even though there are many options to choose from that would increase revenue, lawmakers have failed to tap new sources that would pay for their priorities.

Our tax code is also overly complex, confusing, inefficient and unfair. For example, it remains riddled with tax expenditures, or “tax breaks,” that provide financial benefits to specific activities and groups, but not others. These tax breaks – which total \$1.5 trillion annually – are a lot like government spending in disguise, and they increase annual deficits. They also create market distortions that are damaging to economic growth and productivity.

Tax expenditures are large in comparison to other parts of the budget



SOURCE: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2019*, February 2018; and the Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2017-2021*, May 2018. Compiled by PGPF.

What Is a Trust Fund?

“Trust fund” implies a secure source of funding. However, a federal trust fund is not a traditional “fund”— it is an accounting mechanism used to track inflows and outflows for specific programs.

“Trust funds are the ultimate oxymoron: they aren’t funded and can’t be trusted.”

— PETE PETERSON

For example, Social Security took in surplus revenue in the past, however, the funds were actually spent on other programs during those years. The “trust fund” accounted for this by tracking it as “Government Account Series” securities – effectively an IOU to ourselves. Today, the Social Security program is running a deficit, and the federal government is forced to borrow to fund the program – the same as if there was no trust fund at all.

Although many are under the impression that trust funds guarantee sustainability, ultimately, trust funds are not separate from the rest of the federal budget and these programs depend on our broader fiscal sustainability. To ensure the long-term strength and solvency of important programs like Medicare and Social Security, we must address our nation’s mounting debt and deficits.