

# The Federal Budget Now and in the Future: How the WI League of Women Voters Can Help Improve Government's Fiscal Policy and Engage Citizens to Help Reduce National Debt

presented by  
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# America is on an Unsustainable Fiscal Path

Debt Held by the Public, as a Percent of GDP, 1790-2050



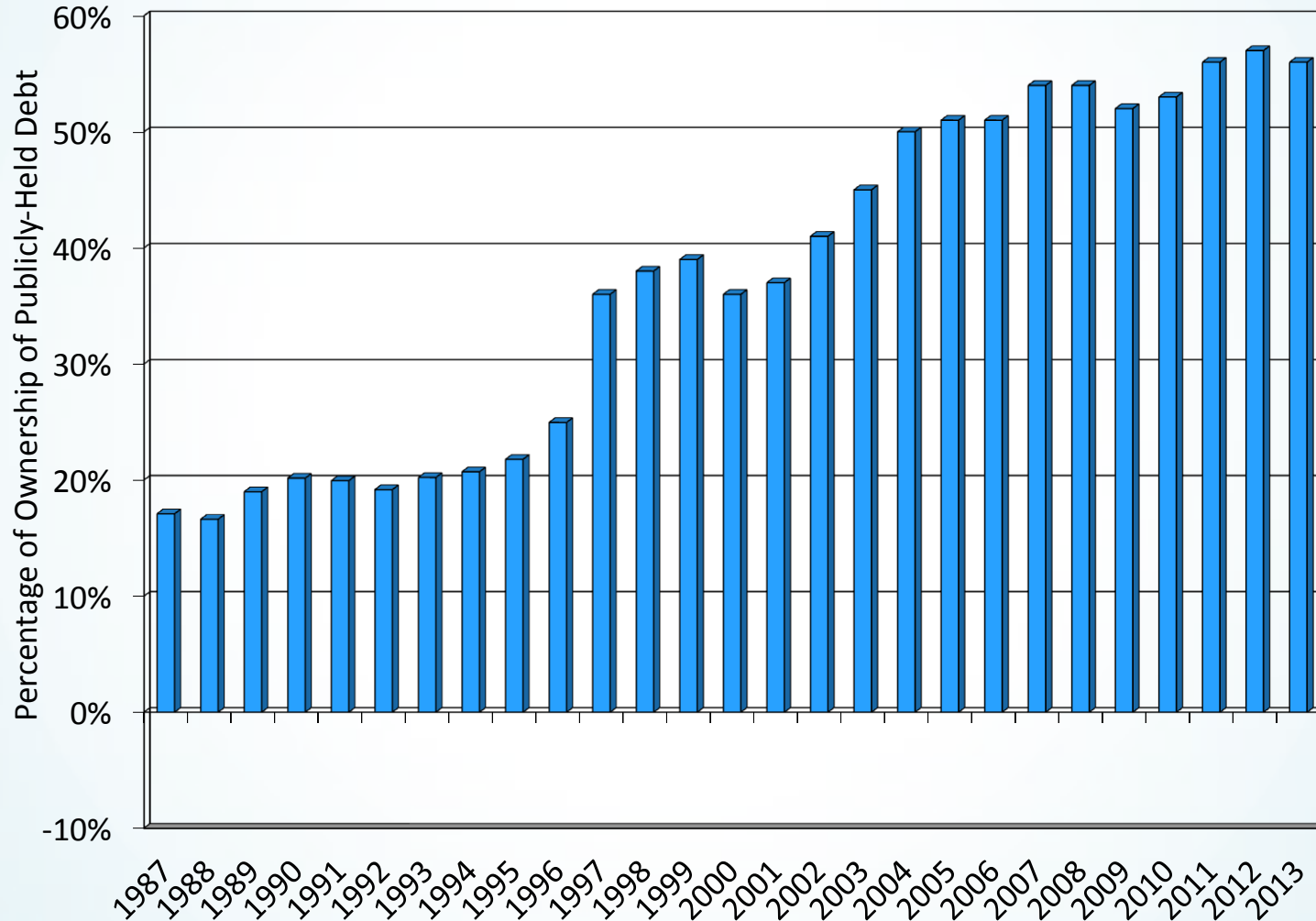
Source: CBO's Long Term Outlook Extended Alternative Scenario, 2013.



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# Percentage of Debt Held by the Public Owned by Foreigners

Calendar Years 1987-2013



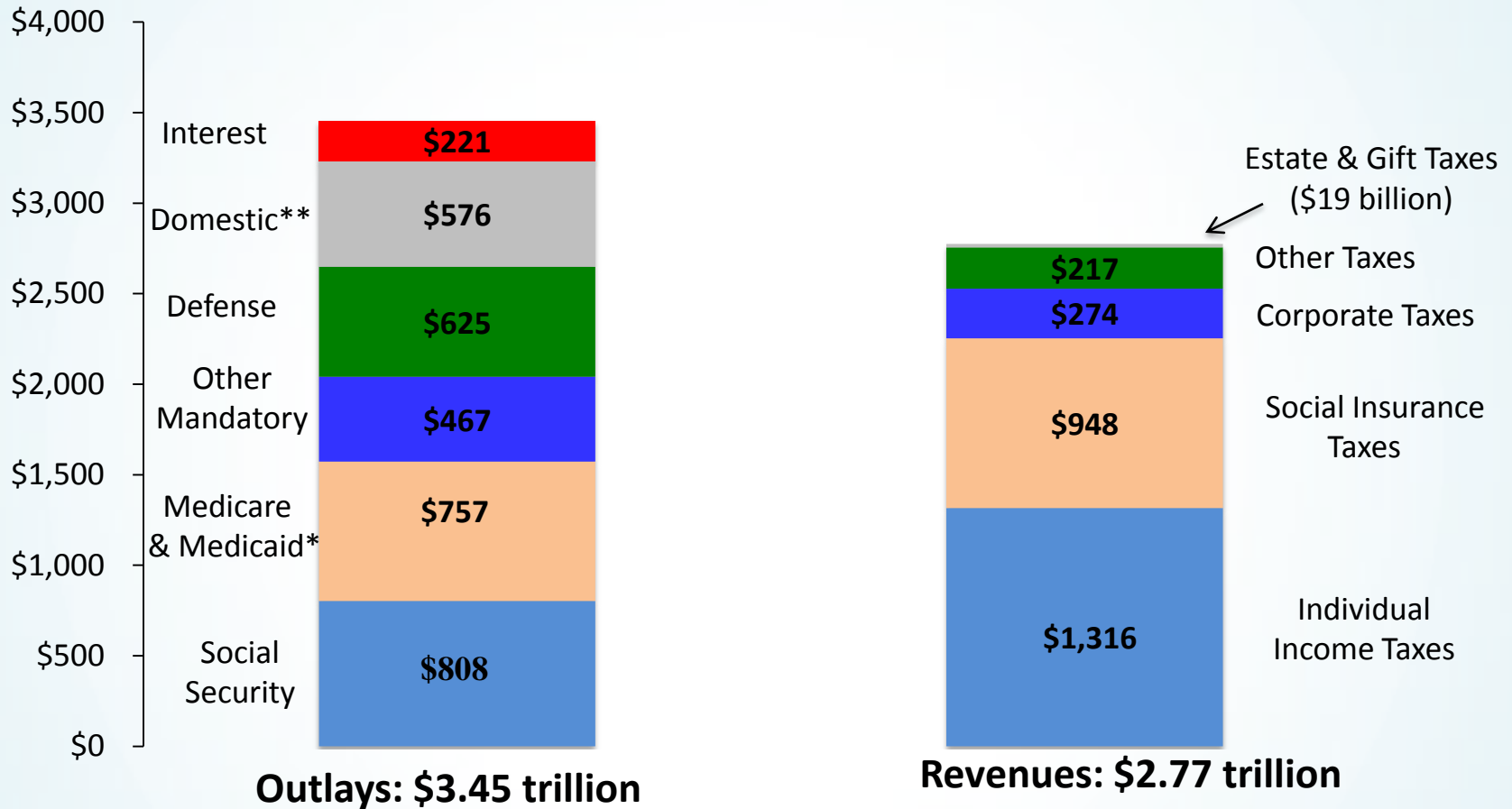
Source: United States Treasury Department, Treasury Bulletin, Table OFS-2, December 2013.



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# Composition of Fiscal Year 2013 Federal Budget

**Deficit: \$680 Billion**



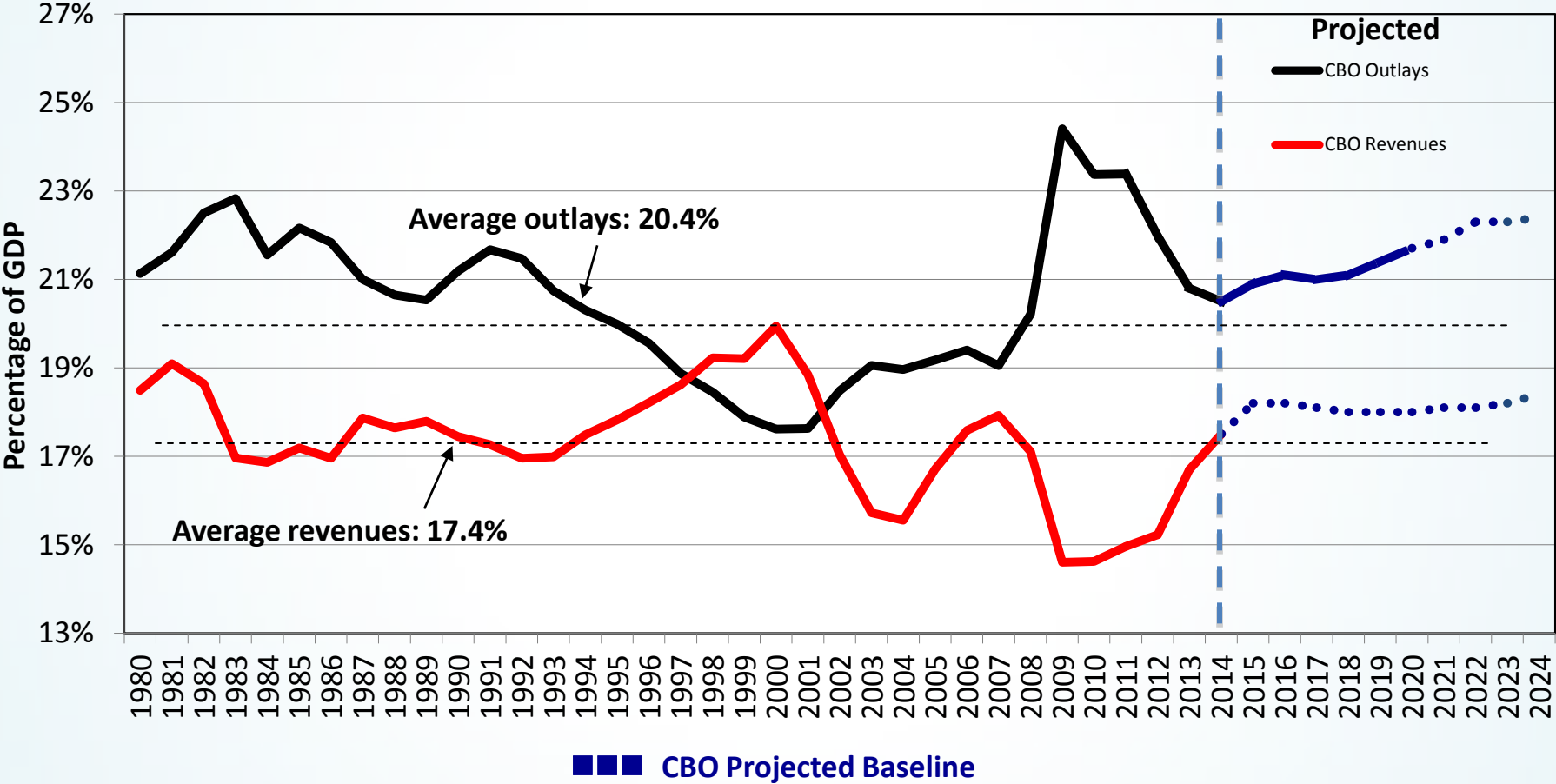
• Includes CHIP, spending related to exchanges and subsidies

\*\*Includes all appropriated domestic spending such as education, transportation, homeland security, housing assistance and foreign aid.

Source: Congressional Budget Office, February 2014.

# Federal Spending vs. Revenues as a Percent of GDP

CBO Baseline 2014-2024



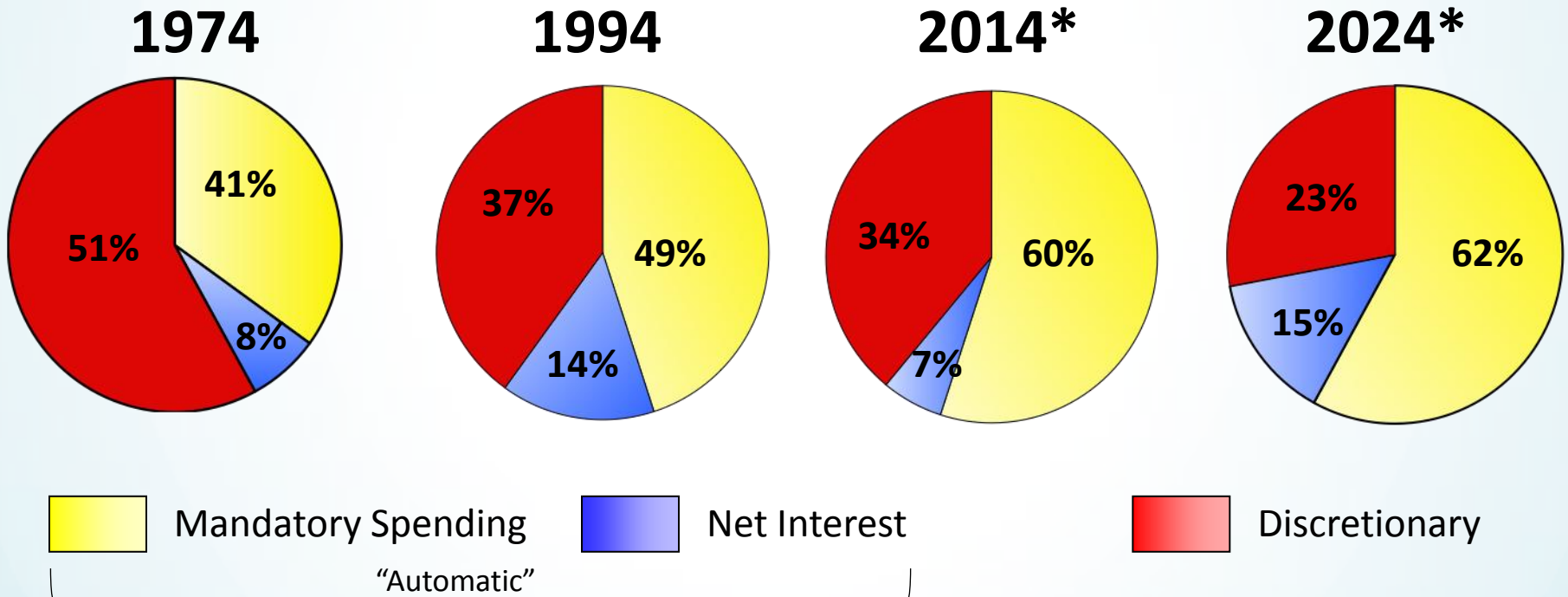
Source: Congressional Budget Office, February 2014.



# Why Deficits Matter

- Reduce national savings, raises interest rates
- That leads to lower productivity and slower economic growth
- Increase burden on future generations:
  - Through rising debt service costs;
  - By reducing productivity-enhancing investments
- Increase dependence on foreign lenders
- Weakened ability to meet contingencies or new challenges – reduced flexibility
- Risk of sudden market sentiment change/disarray

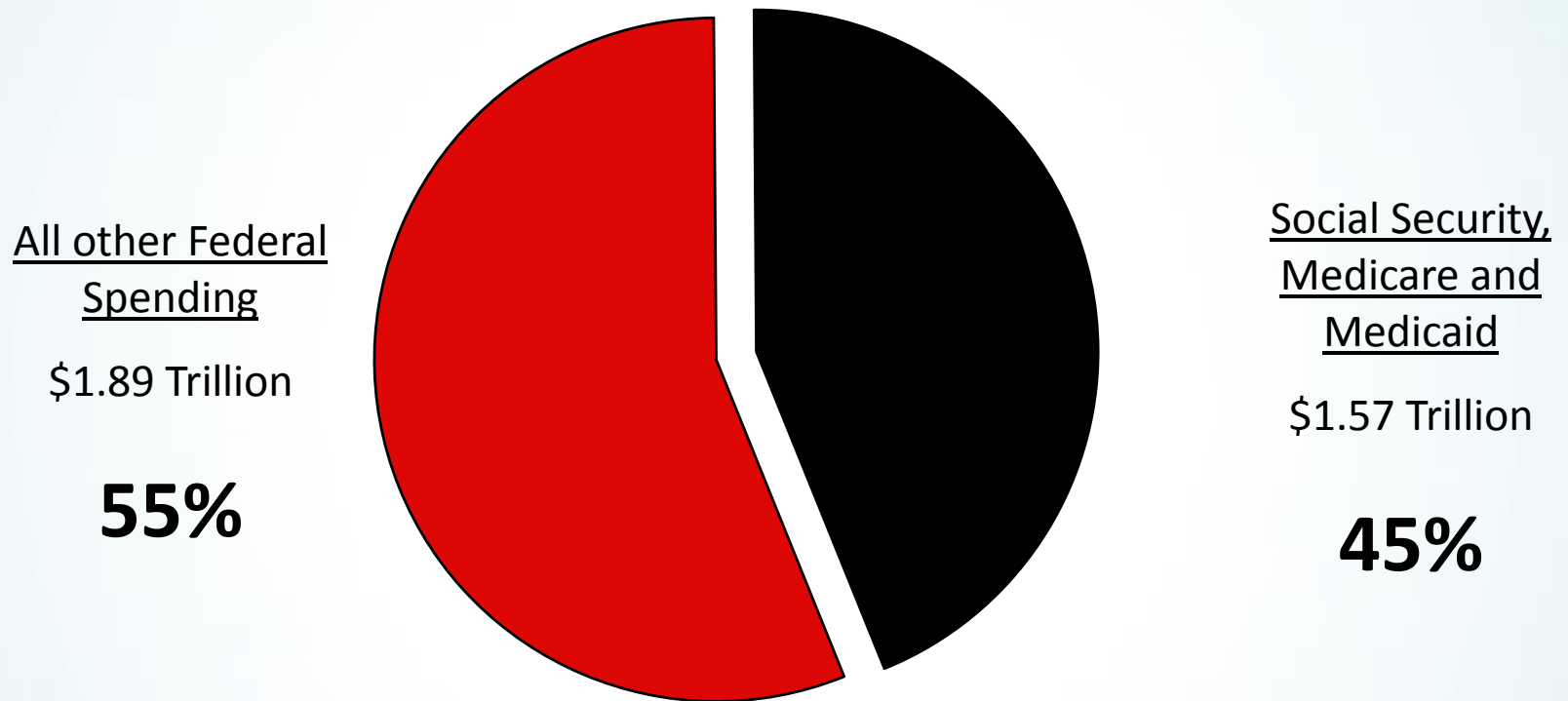
# Automatic Expenditures Are Consuming a Growing Share of the Budget



\*Projected

Source: Congressional Budget Office, February 2014.

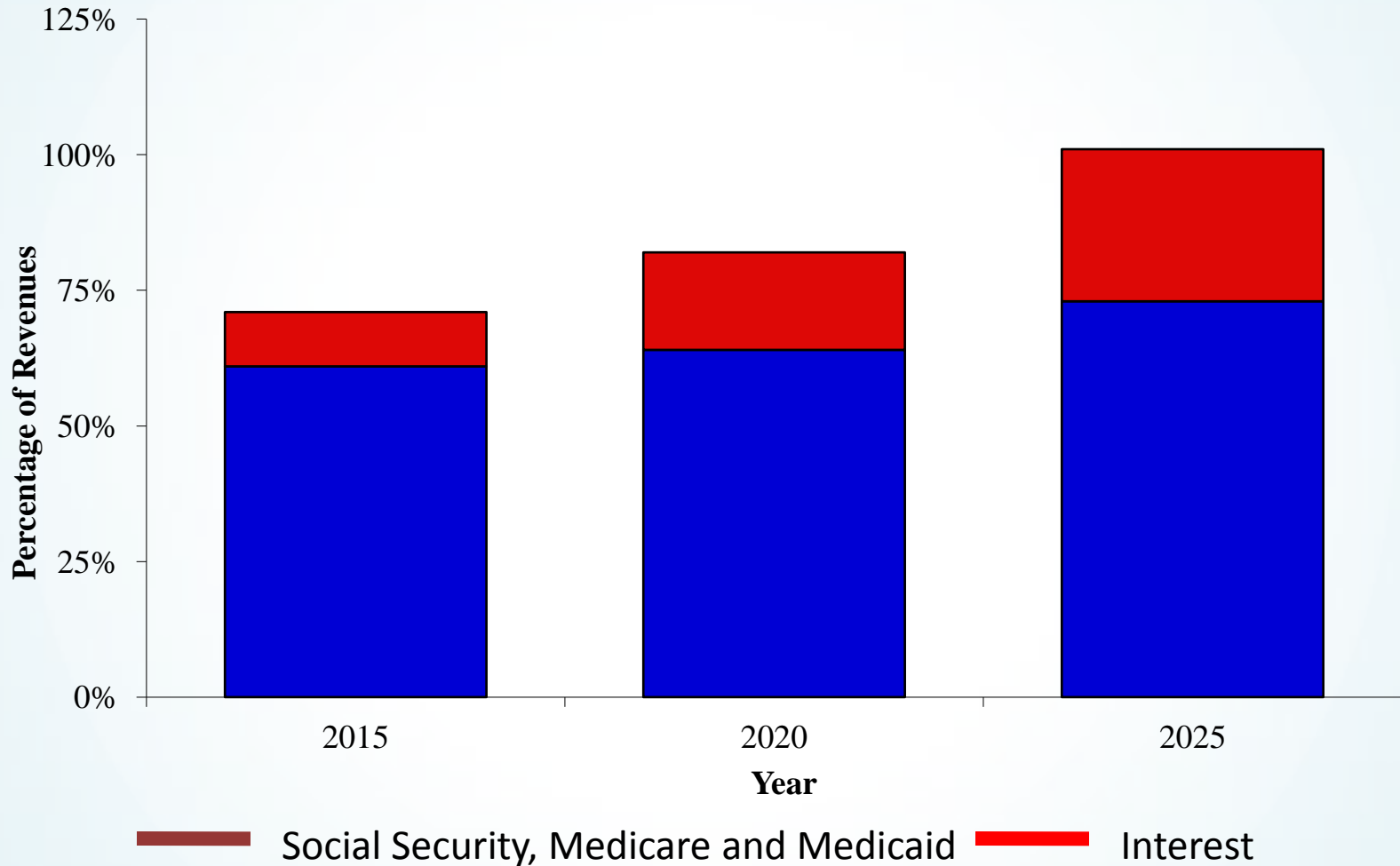
# Social Security, Medicare, & Medicaid as a Percentage of the Federal Budget



Source: Congressional Budget Office, February 2014.



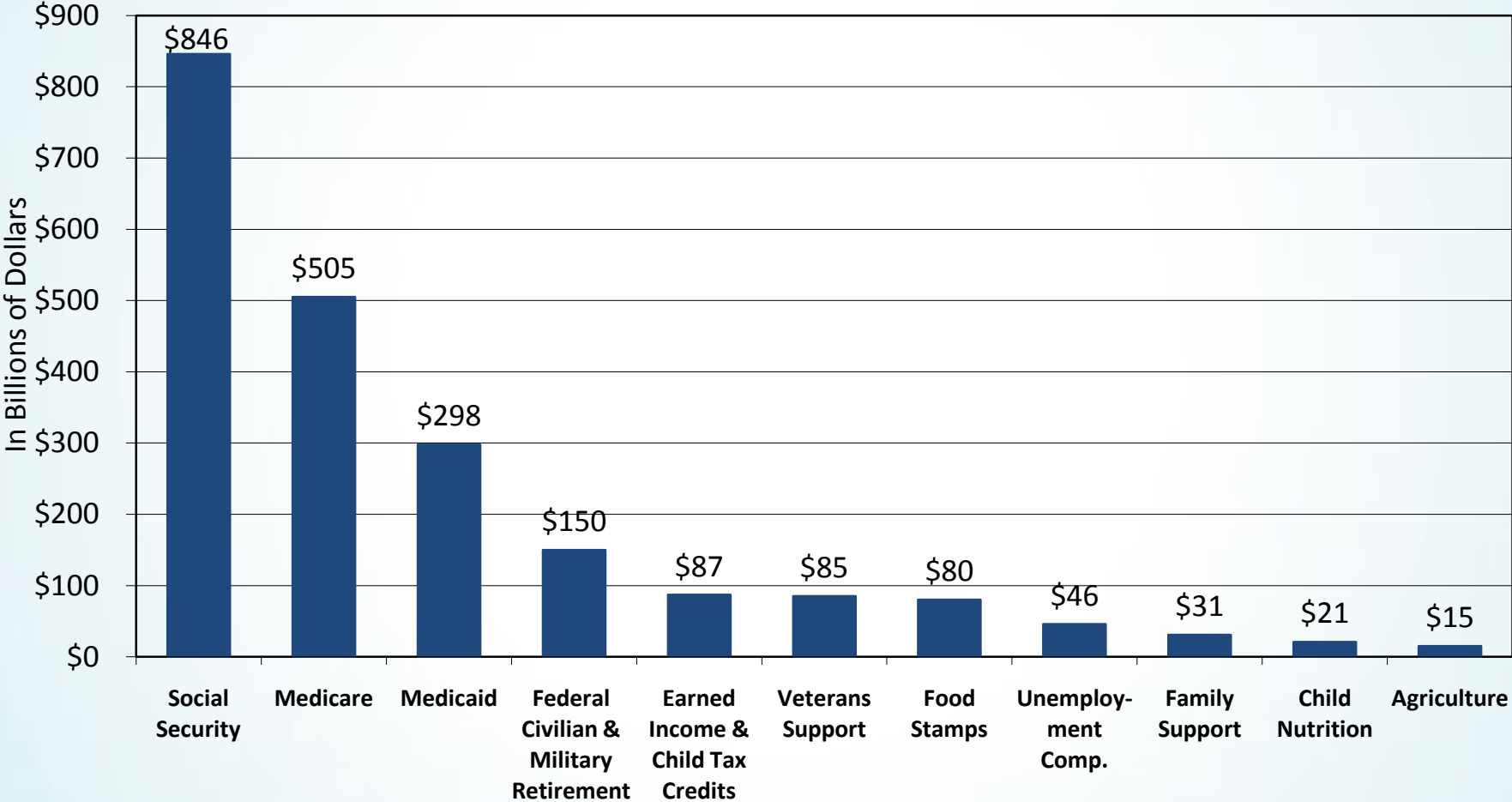
# Social Security, Medicare, Medicaid and Interest Consume All Federal Revenues in Less Than 15 Years



Source: Government Accountability Office, March 2012.

# Outlays of Select Mandatory Spending Programs

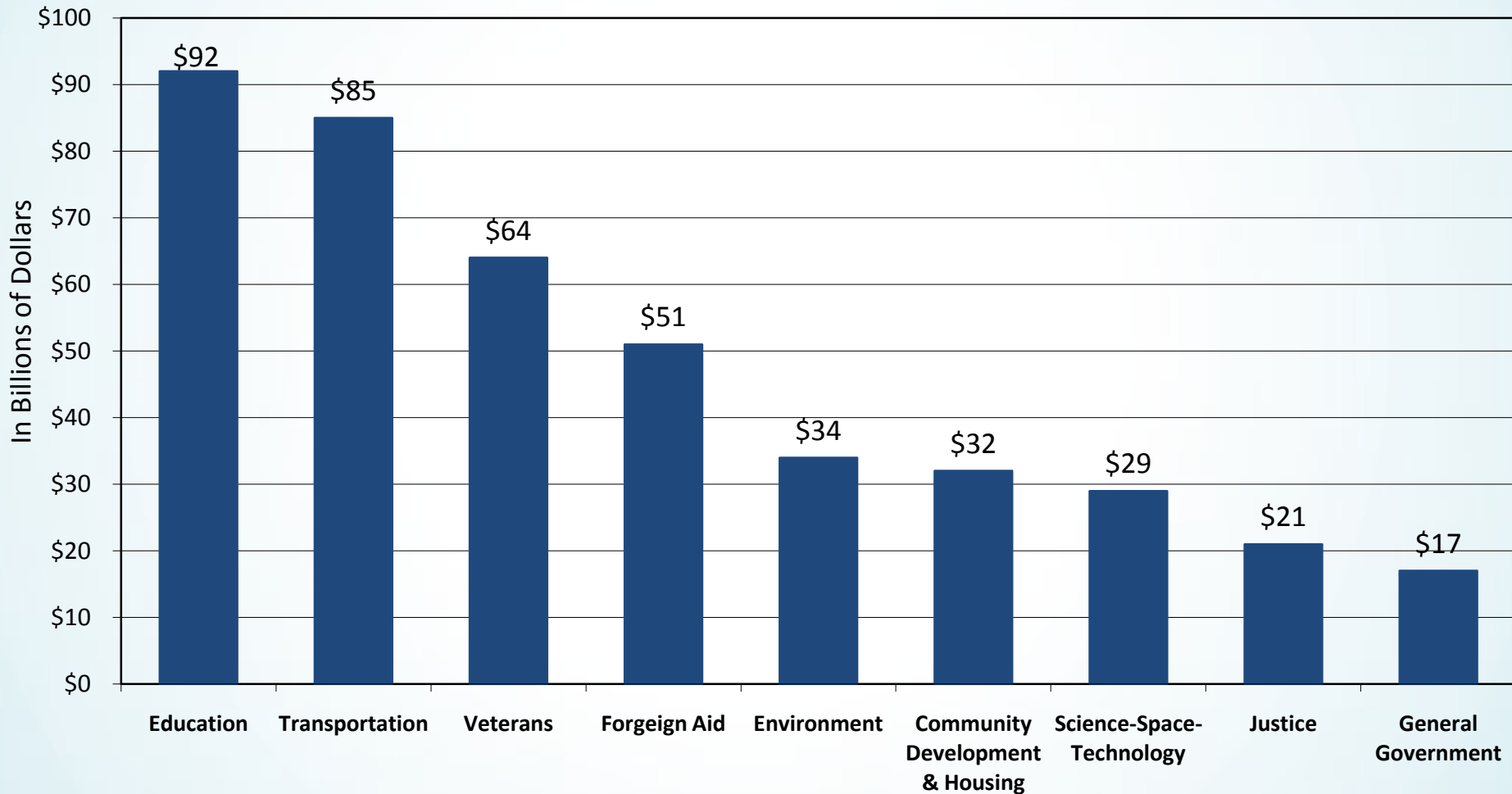
Fiscal Year 2014 Projected



Source: Congressional Budget Office, February 2014.

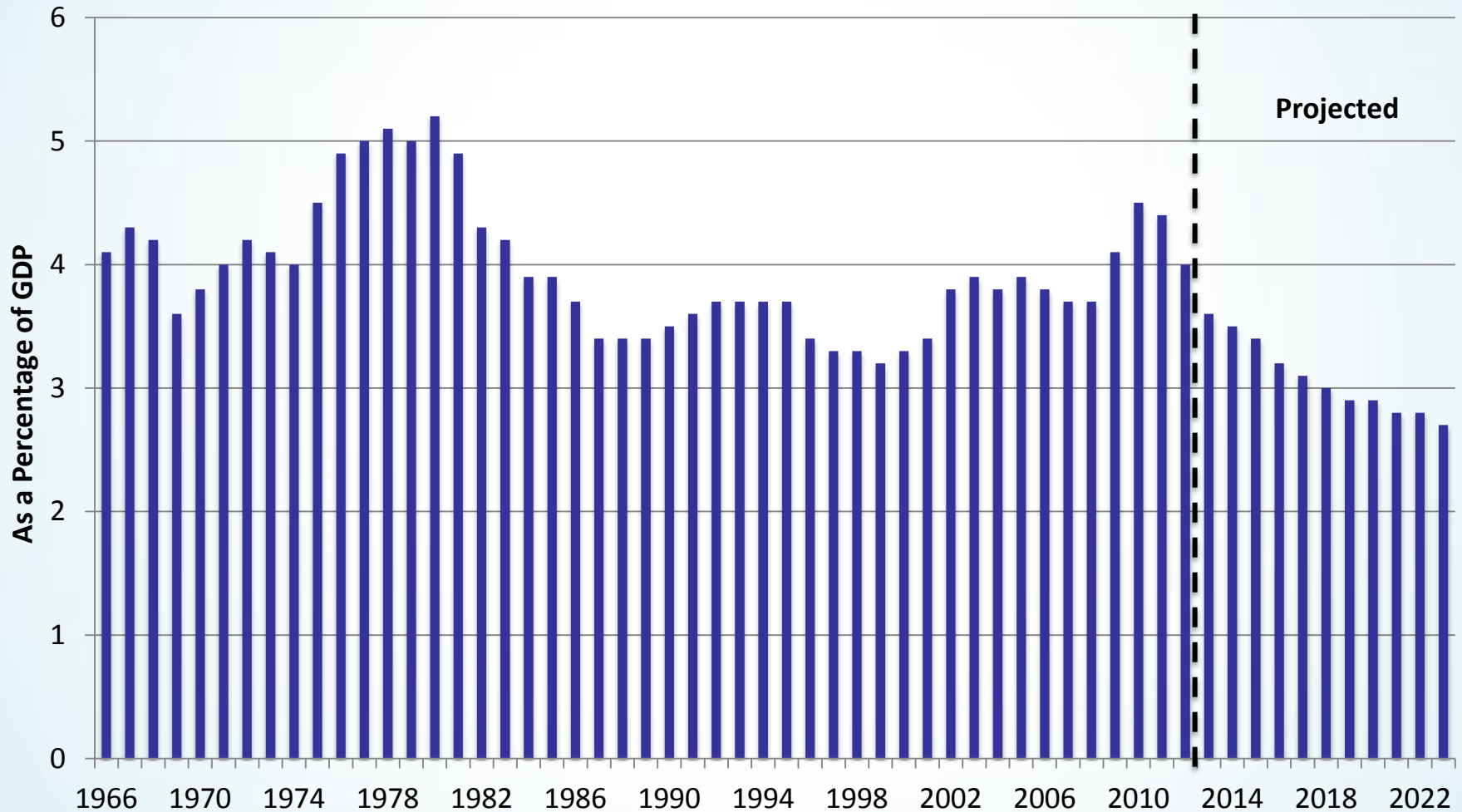
# Outlays of Select Non-Defense Discretionary Spending Programs

Fiscal Year 2014 Projected



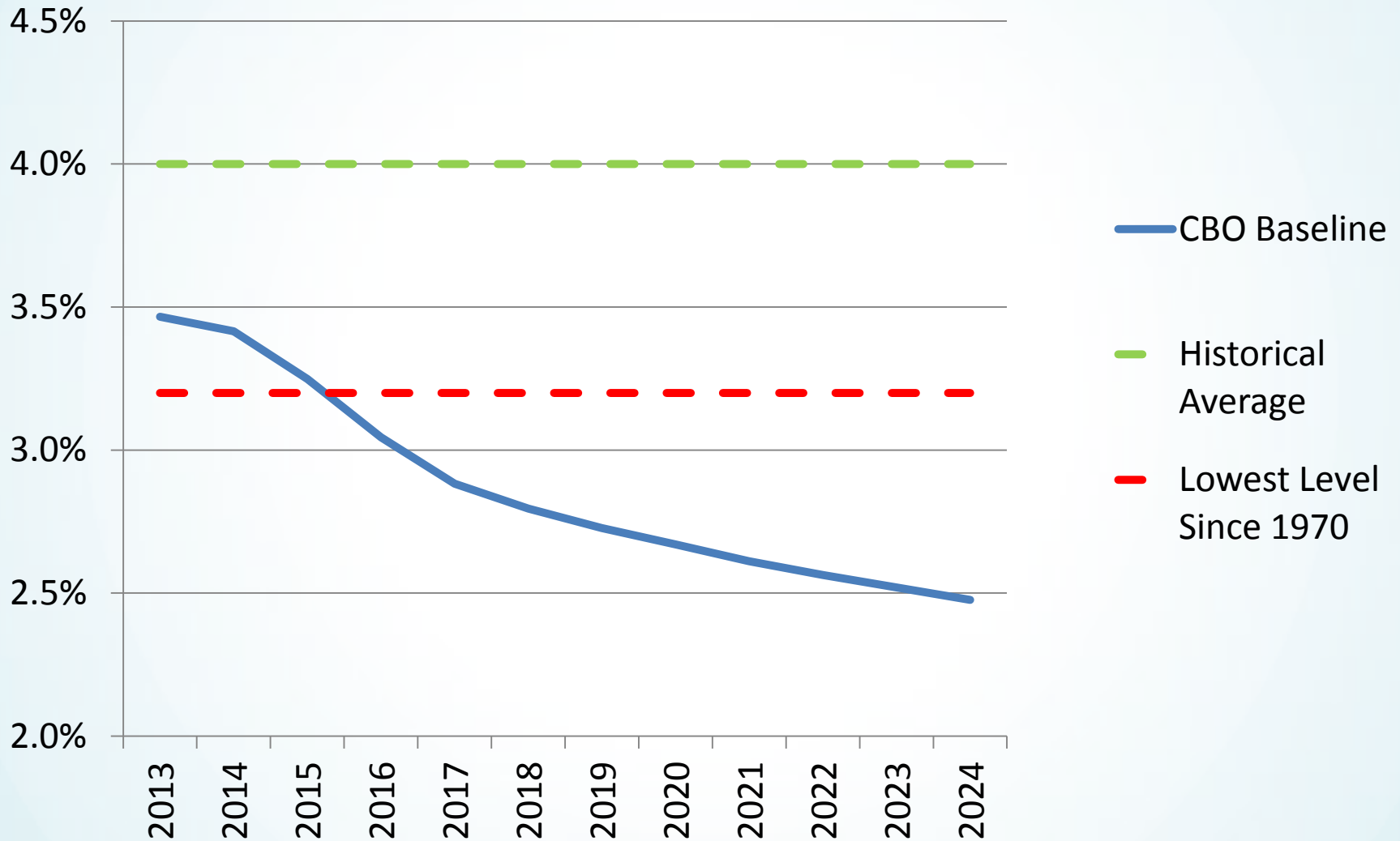
Source: Congressional Budget Office, February 2014.

# Non-Defense Discretionary Spending as a Percentage of GDP



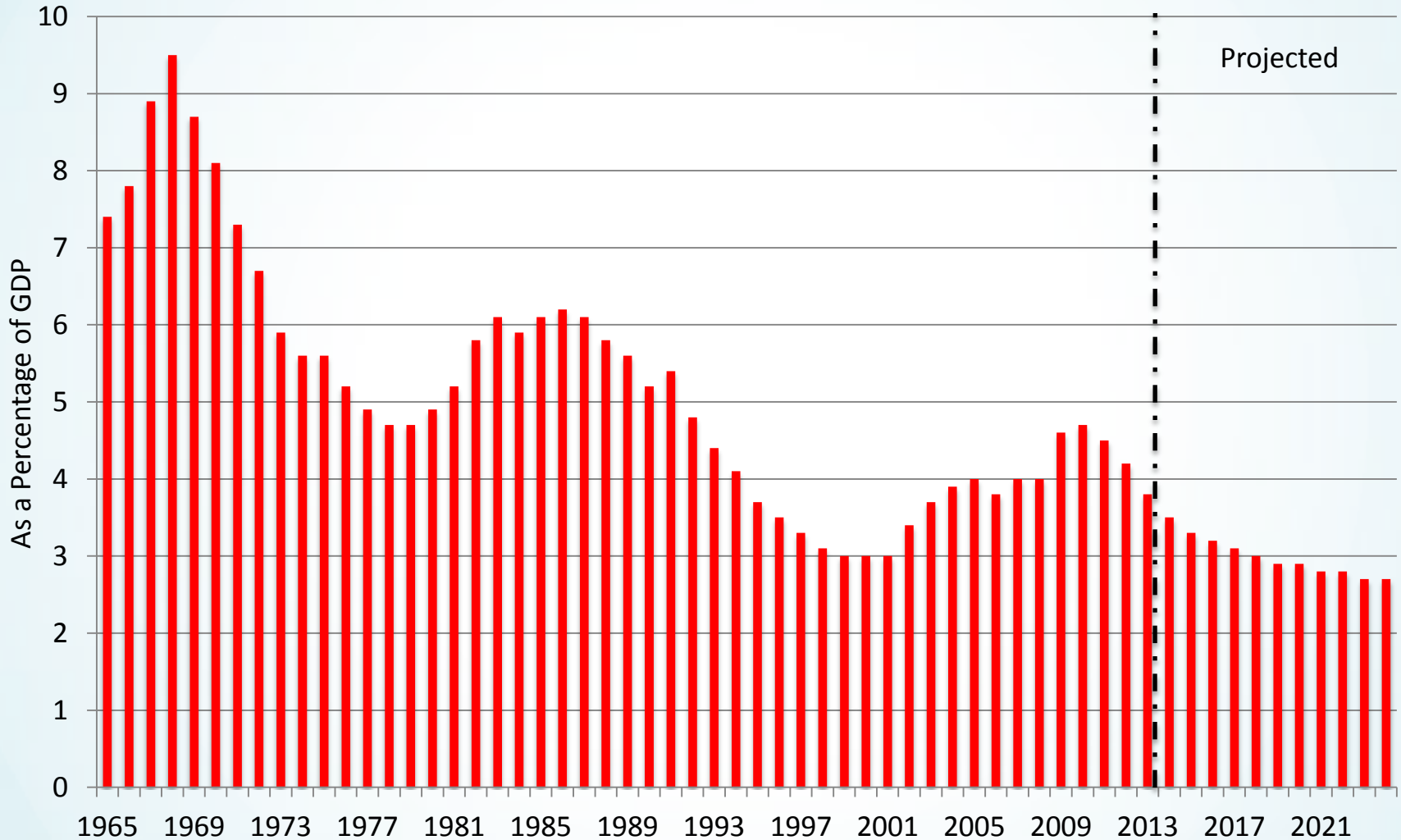
Source: Congressional Budget Office, February 2013.

# Projected Non-Defense Discretionary Spending as a Percentage of GDP



Source: Congressional Budget Office, February 2014

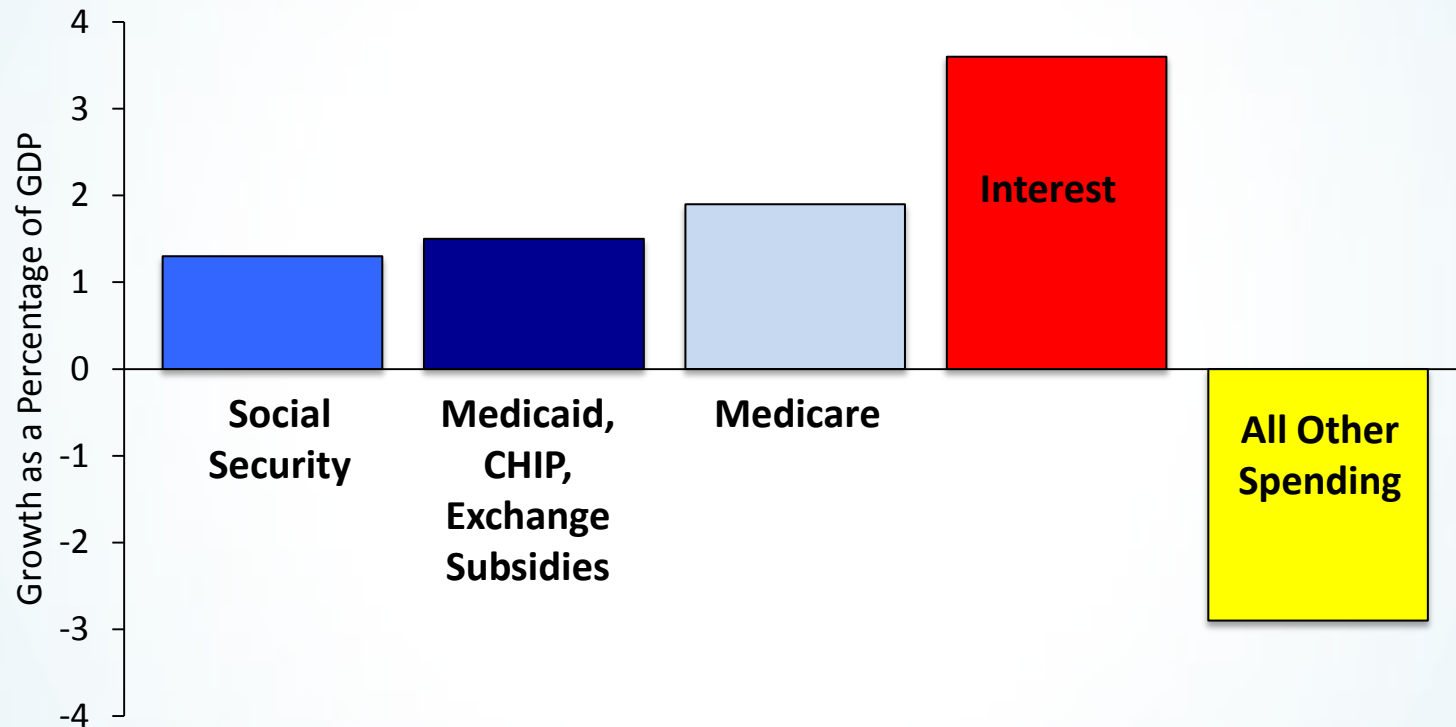
# Defense Discretionary Spending as a Percentage of GDP



Source: Congressional Budget Office, February 2014.

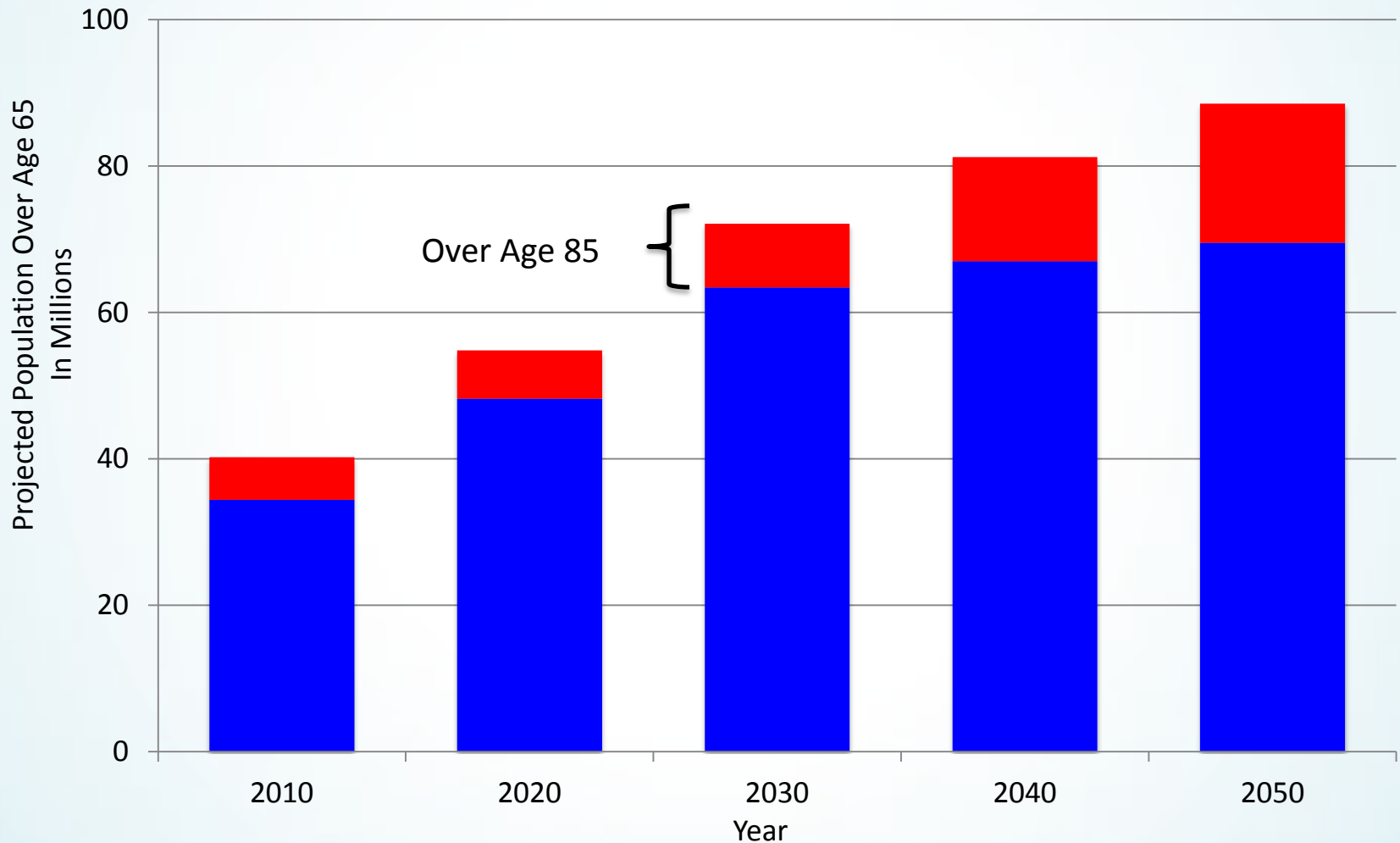
# The Sources of Growth in Federal Spending

Change in Outlays as a Percentage of GDP, 2013-2038



Source: CBO Extended Baseline (CBO, September 2013)

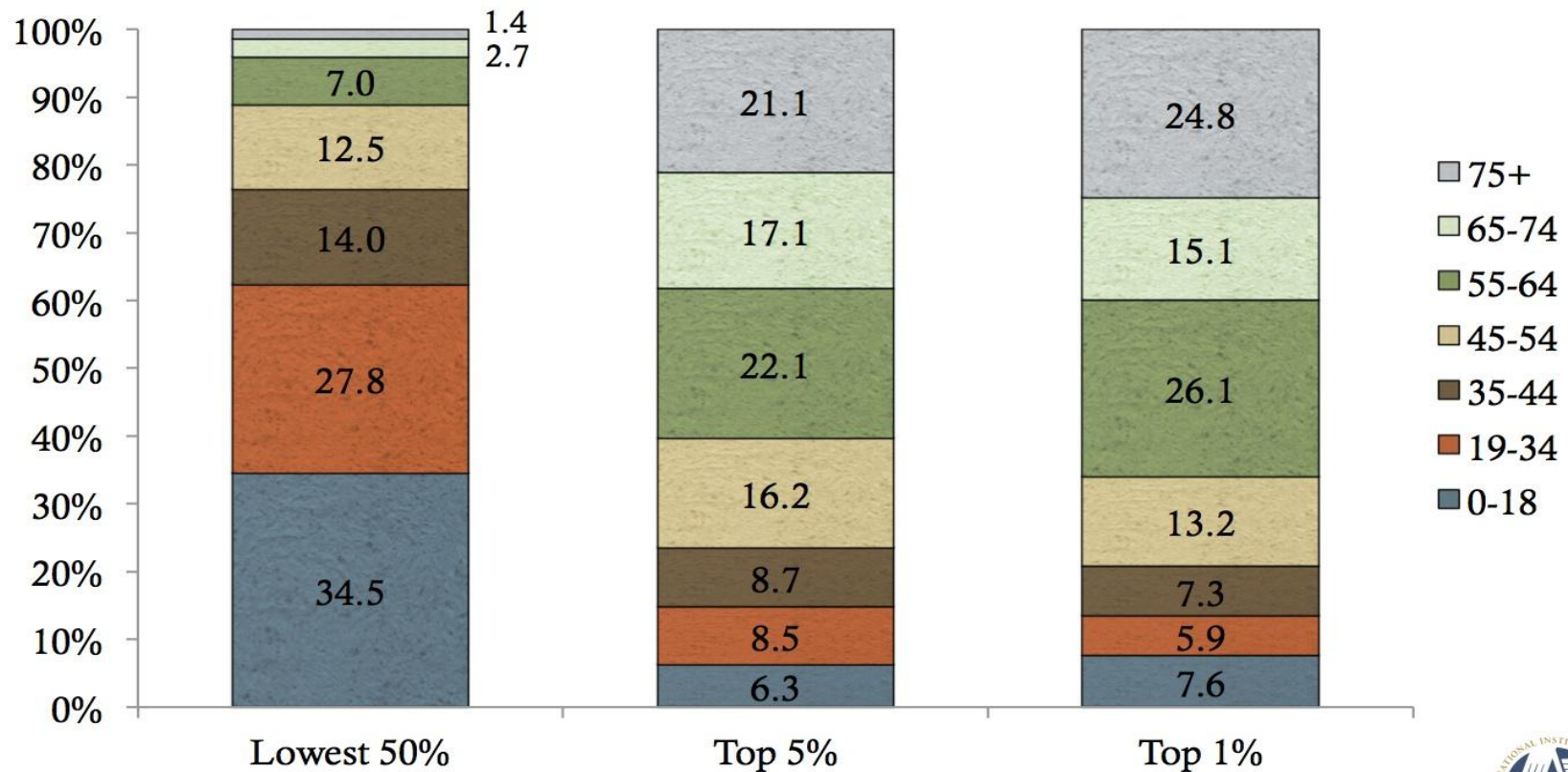
# Americans Are Getting Older and Living Longer



Source: U.S. Census Bureau, 2008.



# High Spenders are Older

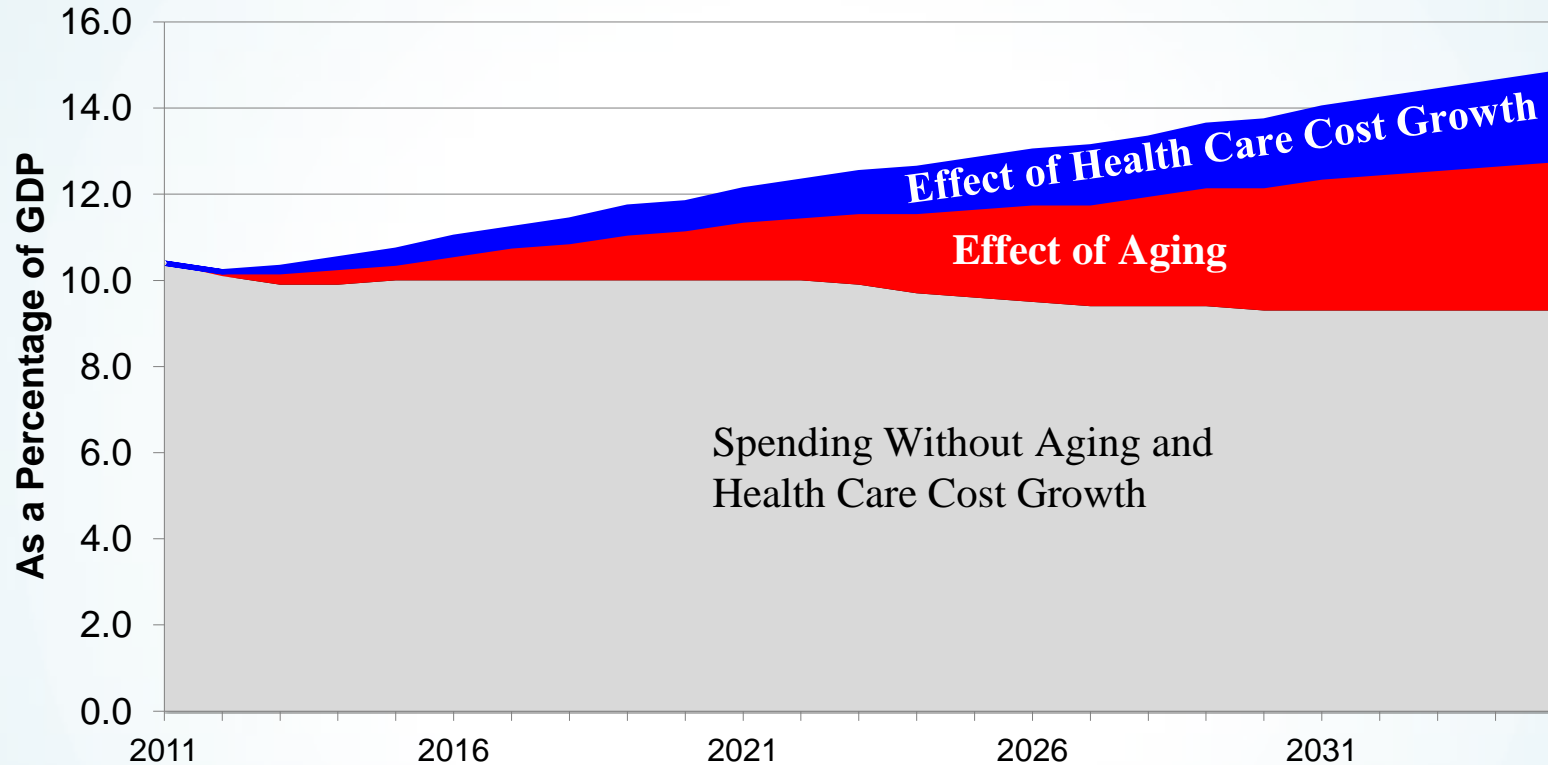


NIHCM Foundation analysis of data from the 2009 Medical Expenditure Panel Survey.



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# Factors Explaining Future Federal Spending on Medicare, Medicaid, and Social Security



Percent of Growth Attributed to:	2035	2080
Health Care Cost Growth	36%	56%
Aging	64%	44%

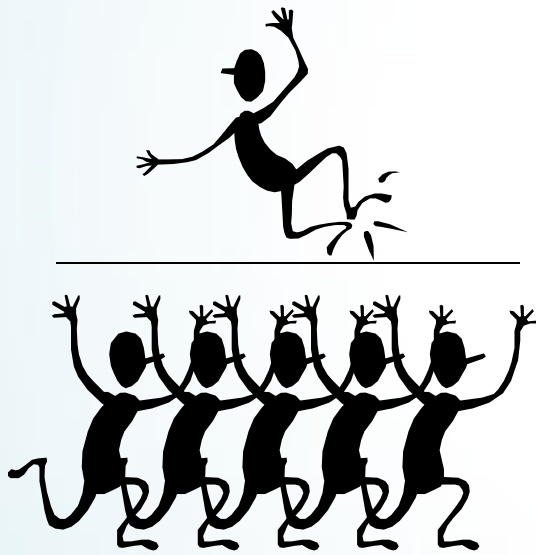
Source: Congressional Budget Office, June 2011.



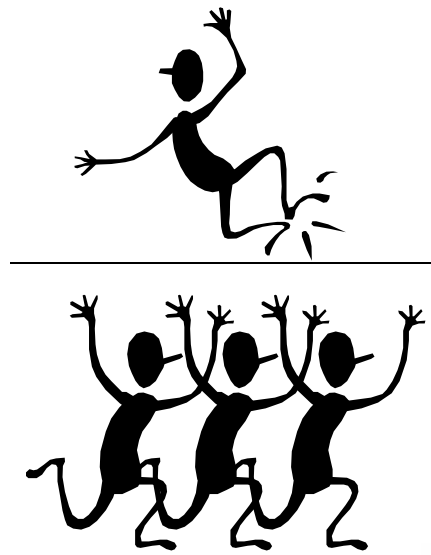
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# Americans are Living Longer and Having Fewer Children

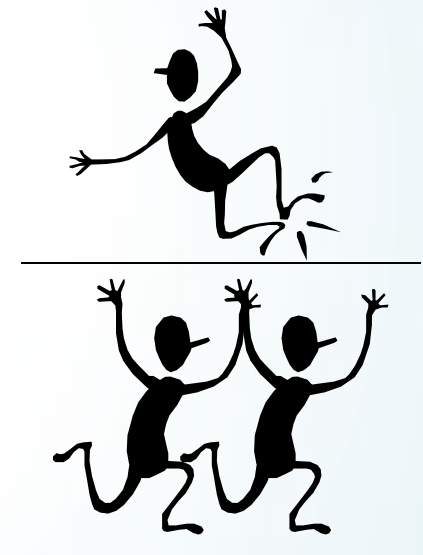
Consequently, fewer workers are available  
to support each Social Security and Medicare recipient



**1960: 5.1 to 1**



**Today: 2.9 to 1**

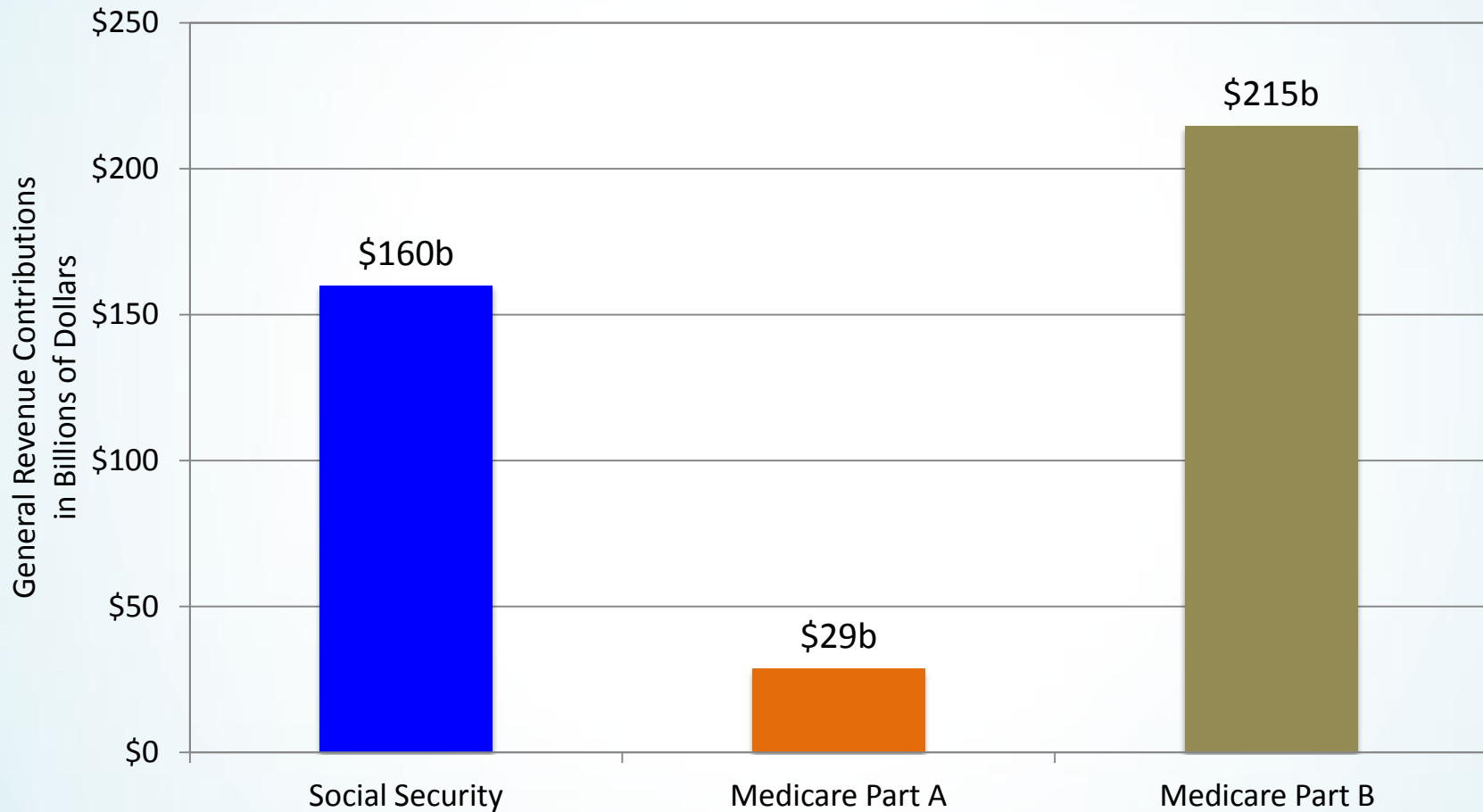


**2029: 2.1 to 1**

*Source: Social Security and Medicare Trustees' Report, 2012.*

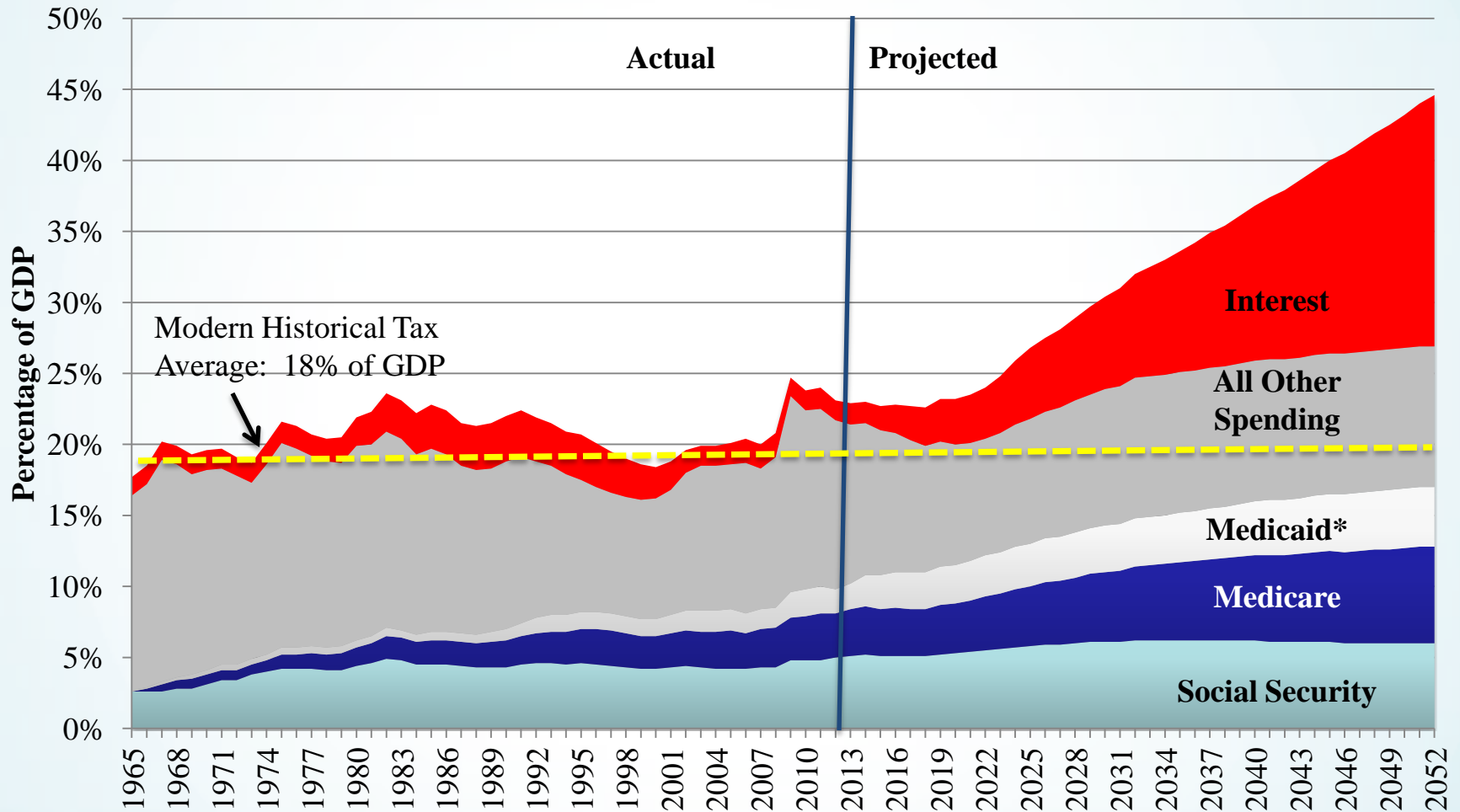
# Medicare and Social Security Trust Funds Increasing Rely on General Revenue Subsidies

Fiscal Year 2012



Source: Medicare Trustees' Report, Table V.F1, May 2013.

# Current Fiscal Policy is on an Unsustainable Path



\*Includes outlays for CHIP and exchange subsidies.

Source: Government Accountability Office, Spring 2012.

# 10 Minute Interactive Component

## Small Group Discussions – Large Group Vote



- Three major deficit-reduction options
  - Health Care
  - Social Security
  - Taxes
- Group discussions by table
- Large group vote

# Tough Choices Ahead....

- **Reform Medicare / Medicaid**
  - Provide seniors fixed amount to purchase private health insurance (\$61 billion)
  - Convert Medicaid to block grant (\$450 billion)
  - Tie Medicare Part B premiums to 35 % of program costs (\$274 billion)
  - Bundle Medicare payments to providers (\$47 billion)
- **Social Security: Increase Revenue and Reduce Spending**
  - Raise full retirement age (\$58 Billion)
  - Increase cap on taxable earnings for Social Security payroll tax (\$460 billion)
  - Progressive Price Indexing for benefits (\$58 billion)
  - Chained CPI inflation index for cost-of-living adjustments (\$163 billion)
- **Eliminate Tax Expenditures through Comprehensive Tax Reform**
  - Eliminate or reduce tax preferences (expenditures) and create three new brackets for revenue-neutral (\$0) or revenue raising (\$1,200 billion) tax reform

# The National Commission on Fiscal Responsibility: Moment of Truth

## The Bipartisan Policy Center : Restoring America's Future

POLICY	The National Commission on Fiscal Responsibility	Bipartisan Policy Center Task Force
<p><i>Health</i></p> 	<ul style="list-style-type: none"> <li>• Medicaid: Expands managed care for dual eligibles</li> <li>• Institutes tort reform</li> <li>• Raises Medicare premiums</li> <li>• <b>Strengthens IPAB Provides illustrative option of premium support</b></li> <li>• <b>Converts FEHB program from defined-benefit to defined-contribution with support growing GDP+1</b></li> <li>• <b>In 2020, global cap on all federal health spending and limit growth GDP+1%</b></li> <li>• <b>Reduces provider payments</b></li> </ul>	<ul style="list-style-type: none"> <li>• Medicaid: Expands managed care for dual eligibles</li> <li>• Institutes tort reform</li> <li>• Raises Medicare premiums</li> <li>• <b>In 2018, transforms Medicare to premium-support model, but maintains traditional Medicare as default option. Limits federal support per beneficiary to GDP+1%</b></li> <li>• <b>Limit Medicaid growth: end federal matching payments in Medicaid by decoupling the system</b></li> <li>• <b>Accommodates a permanent fix to the SGR mechanism</b></li> <li>• <b>Excise tax and import tax on manufacture and importation of sweetened beverages</b></li> </ul>
<p><i>Social Security</i></p> 	<ul style="list-style-type: none"> <li>• <b>Raises retirement ages slowly over time</b></li> <li>• Switches to Chained CPI</li> <li>• Includes state and local workers</li> <li>• Raises the minimum benefit and creates old age bump</li> <li>• Raises the cap on payroll taxes to the 90% level</li> <li>• <b>Makes benefit adjustment, protecting the bottom 50% of beneficiaries</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Adjusts benefit formula to account for increases in longevity (but does not raise the retirement age)</b></li> <li>• Switches to Chained CPI</li> <li>• Includes state and local workers</li> <li>• Raises the minimum benefit and creates old-age bump</li> <li>• Raises the cap on payroll taxes to the 90% level</li> <li>• <b>Makes a modest benefit adjustment, protecting the bottom 75% of beneficiaries</b></li> </ul>

Source: Bipartisan Policy Center, G. William Hoagland 2010.



# The National Commission on Fiscal Responsibility: Moment of Truth

## The Bipartisan Policy Center : Restoring America's Future

POLICY	The National Commission on Fiscal Responsibility	Bipartisan Policy Center Task Force
<i>Consensus</i>	<ul style="list-style-type: none"> <li>• ~ 11 of the 18-member supported plan</li> <li>• In 2020 – 65.5% Debt to GDP</li> <li>• In 2020 – spending 21.8% GDP</li> <li>• In 2020 – revenues 20.6% GDP</li> <li>• In 2020 – deficit 1.2% GDP</li> </ul>	<ul style="list-style-type: none"> <li>• Consensus plan of a 19-member bipartisan Task Force</li> <li>• In 2020 -- 60% Debt to GDP</li> <li>• In 2020 – spending 23.0% GDP</li> <li>• In 2020 – revenues 21.4% GDP</li> <li>• In 2020 – deficit 1.6% GDP</li> </ul>
<i>Fiscal Measures</i>		
<i>Economic Recovery</i>	<ul style="list-style-type: none"> <li>• Recommends consideration of small payroll tax relief in 2011 -- \$50 to \$60 billion.</li> <li>• Starts policies in 2012</li> </ul>	<ul style="list-style-type: none"> <li>• Provides 1-year payroll tax holiday for approximately 125 million workers in 2011. Cost: \$640 billion.</li> <li>• Starts policies in 2012.</li> </ul>
<i>Tax Expenditures</i>	<ul style="list-style-type: none"> <li>• Retains current law EITC and Child Tax Credit</li> <li>• Maintains current law standard deduction</li> <li>• Eliminates all itemized deductions</li> <li>• 12% non-refundable tax credit mortgage &amp; charitable contributions</li> <li>• Beginning in 2018 phases out employer provided health insurance exclusion by 2038</li> </ul>	<ul style="list-style-type: none"> <li>• Eliminates almost all tax expenditures.</li> <li>• Eliminates most tax deductions, credits and expenditures – turns EITC, child credit, charitable, mortgage, and retirement savings deductions into refundable credits</li> <li>• Beginning in 2018 phases out employer provided health insurance exclusion by 2028</li> </ul>
<i>Revenues</i>	<ul style="list-style-type: none"> <li>• Cuts individual income tax rates; creates 3 brackets 12%, 22% and 28%</li> <li>• Cuts corporate rate to 28%</li> <li>• Proposes to cap revenues at 21% of GDP</li> <li>• Raises federal gas tax by 15 cents</li> <li>• Eliminates AMT, PEP and Pease</li> </ul>	<ul style="list-style-type: none"> <li>• Cuts individual income tax rates; creates just 2 brackets of 15% and 27%</li> <li>• Cuts corporate rate to 27% (OECD average)</li> <li>• Imposes Debt Reduction Sales Tax of 6.5%</li> <li>• Eliminates the AMT</li> </ul>
<i>Domestic Discretionary</i>	<ul style="list-style-type: none"> <li>• Proposes 4 years of cuts, then 5 years held to growth at inflation</li> </ul>	<ul style="list-style-type: none"> <li>• Freezes domestic discretionary spending for 4 years, then limits growth to GDP growth</li> </ul>
<i>Defense</i>	<ul style="list-style-type: none"> <li>• Proposes 4 years of cuts, then 5 years held to growth at inflation</li> <li>• Reduces weapon systems, reforms compensation, cuts force structure cuts, and applies Gates' savings</li> </ul>	<ul style="list-style-type: none"> <li>• Freezes defense discretionary spending for 5 years, then limits growth to GDP growth</li> <li>• Reduces weapon systems, reforms compensation, cuts force structure, and applies Gates' savings</li> </ul>




# Policy Areas That Need to Be Addressed

- Discretionary spending restraint (including defense spending)
- Health care cost control and Medicare reform
- Social Security sustainability
- Reducing other entitlements (including some that are funneled through the tax code)
- Budget enforcement process to improve accountability

# Questions for the Candidates

- Themes:
  - ID opportunities for bipartisan cooperation on significant fiscal reform?
  - ID programs that are clearly wasteful?
  - Support for comprehensive tax reform? Should it be revenue-neutral or should it raise revenue to reduce the deficit?
  - Cost-containment in our health care system?
  - Solvency for the Social Security program (both older age and disability portions): how?

# How Can I Make a Difference?

- Visit [www.concordcoalition.org](http://www.concordcoalition.org) to learn more about these fiscal issues and sign up for our weekly Washington Budget Report.
- Become a part of The Concord Coalition's volunteer community and help us give the country a fiscal wake-up call.
- Lead the discussion on the issue of fiscal responsibility with friends, family and other members of your community.
- Tell your Representative and Senators in Congress that we need strong leadership for fiscal responsibility.
- Take personal responsibility for your own retirement and start saving now.
- Join our on-line communities:   
- Support The Concord Coalition. We need your help!