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Co-Chairs' Proposal

November 2010

11.10.10 DRAFT DOCUMENT

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Overview

- Guiding principles and values
- Highlights of Co-Chairs' proposal
  - Deficit and debt reduction
- Discretionary spending cuts
- Tax reform options
- Mandatory spending cuts
  - Health care savings
  - Other mandatory savings
- Social Security adequacy and solvency

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Our Guiding Principles and Values

1. **We have a patriotic duty to come together on a plan that will make America better off tomorrow than it is today**

- America cannot be great if we go broke. Our economy will not grow and our country will not be able to compete without a plan to get this crushing debt burden off our back.
- Throughout our history, Americans have always been willing to sacrifice to make our nation stronger over the long haul. That's the promise of America: to give our children and grandchildren a better life.
- American families have spent the past 2 years making tough choices in their own lives. They expect us to do the same. The American people are counting on us to put politics aside, pull together not pull apart, and agree on a plan to live within our means and make America strong for the long haul.

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Our Guiding Principles and Values

2. The Problem Is Real – the Solution Is Painful – There's No Easy Way Out – Everything Must Be On the Table – and Washington Must Lead

- We must stabilize then reduce the national debt, or we could spend $1 trillion a year in interest alone by 2020.
- A sensible, real plan requires shared sacrifice – and Washington should lead the way and tighten its belt.

3. It Is Cruelly Wrong to Make Promises We Can't Keep

- Our country has tough choices to make. Without regard to party, we need to be willing to tell Americans the truth.

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Our Guiding Principles and Values

4. Don’t Disrupt a Fragile Economic Recovery

- Start gradually; begin cuts in FY 2012.

5. Protect the Truly Disadvantaged

- Focus benefits on those who need them.
- Ensure an affordable and sustainable safety net.

6. Cut and Invest to Promote Economic Growth and Keep America Competitive

- Cut red tape and inefficient spending that puts a drag on the economy and job creation.
- Invest in education, infrastructure, and high-value R&D.

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Our Guiding Principles and Values

7. Cut Spending We Simply Can't Afford, Wherever We Find It

- End redundant, antiquated, ineffective spending.
- Cut ALL excess spending – defense spending, domestic discretionary spending, entitlement spending, & spending in the tax code.
- Keep America safe, while rethinking our 21st century global role.
- Bring spending down to 22% and eventually 21% of GDP.

8. Demand Productivity and Effectiveness

- Use fiscal restraint to promote savings through reforms and efficiencies that force government to produce better results.
- Set goal of 3% annual productivity growth in public sector.

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Our Guiding Principles and Values

9. Reform and Simplify the Tax Code

- Broaden base, lower rates, and bring down the deficit.
- Make America the best place to start and run a business and create jobs.
- Cap revenue at or below 21% of GDP.

10. Keep America Sound Over the Long Run

- Ensure Social Security's soundness and solvency.
- Reduce the long-term growth of health care costs.
- Reduce the debt burden as a share of GDP.

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Five Part Plan

Our plan makes five basic recommendations:

1. Enact tough discretionary spending caps and provide $200 billion in illustrative domestic and defense savings in 2015.
2. Pass tax reform that dramatically reduces rates, simplifies the code, broadens the base, and reduces the deficit.
3. Address the "Doc Fix" not through deficit spending but through savings from payment reforms, cost-sharing, and malpractice reform, and long-term measures to control health care cost growth.
4. Achieve mandatory savings from farm subsidies, military and civil service retirement.
5. Ensure Social Security solvency for the next 75 years while reducing poverty among seniors.

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Highlights

- Achieves nearly $4 trillion in deficit reduction through 2020: 50+ specific ways to cut outdated programs and strengthen competitiveness by making Washington cut and invest, not borrow and spend.
- Reduces the deficit to 2.2% of GDP by 2015, exceeding President's goal of primary balance (about 3% of GDP).
- Reduces tax rates, abolishes the AMT, and cuts backdoor spending in the tax code.
- Caps revenue at or below 21% of GDP and gets spending down to 22% and eventually to 21%.
- Stabilizes debt by 2014 and reduces debt to 60% of GDP by 2024 and 40% by 2037.
- Ensures lasting Social Security solvency, prevents projected 22% cuts in 2037, reduces elderly poverty, and distributes burden fairly.

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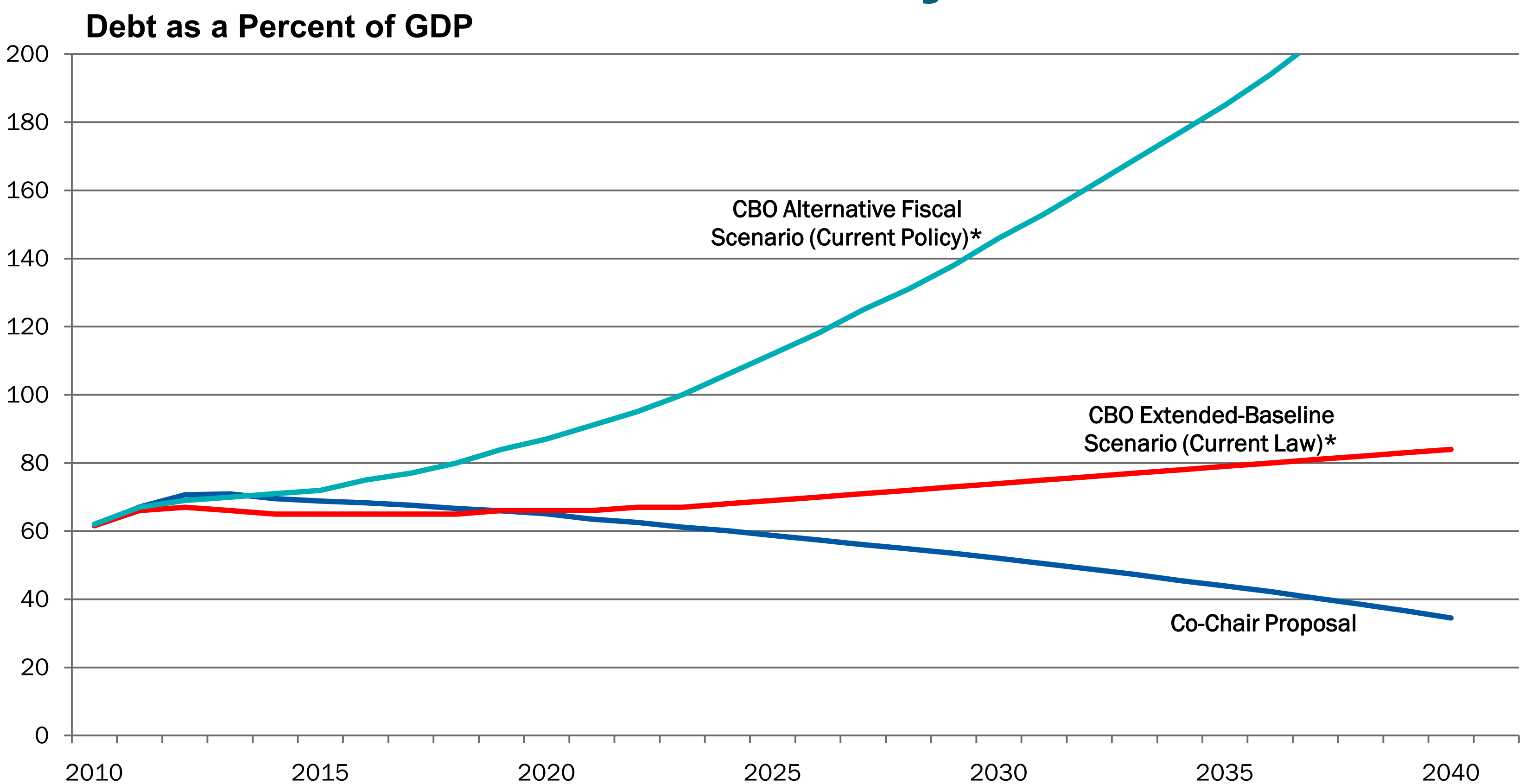
Cuts Debt to 60% of GDP in 2024, Below 40% by 2037



*The Extended-Baseline Scenario generally assumes continuation of current law. The Alternative Fiscal Scenario incorporates several changes to current law considered likely to happen, including the renewal of the 2001/2003 tax cuts on income below $250,000 per year, continued AMT patches, the continuation of the estate tax at 2009 levels, and continued "Doc Fixes". The Alternative Fiscal Scenario also assumes discretionary spending grows with GDP (as opposed to inflation) over the next decade, that revenue does not increase as a percent of GDP after 2020, and that certain cost-reducing measures in the health reform legislation are unsuccessful in slowing cost growth after 2020.

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Nearly $4 Trillion in Deficit Reduction

Deficit Reduction (in billions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2012-2015	2012-2020
Discretionary Spending	*49*	*80*	*118*	***163***	*184*	*197*	*209*	*223*	*241*	*410*	*1,464*
Mandatory Spending	*19*	*48*	*70*	***78***	*88*	*96*	*103*	*111*	*119*	*216*	*733*
Spending in the Tax Code / Tax Reform	*0*	*20*	*40*	***80***	*91*	*104*	*119*	*136*	*160*	*140*	*751*
Other Revenue	*1*	*5*	*11*	***18***	*27*	*32*	*36*	*39*	*43*	*34*	*210*
Net Interest Savings	*0*	*5*	*16*	***33***	*58*	*88*	*120*	*155*	*197*	*55*	*673*
Total Deficit Reduction	**69**	**158**	**255**	**372**	**448**	**518**	**588**	**665**	**761**	**854**	**3,831**
Projected Deficit Under Plan (*excluding* Social Security reform)	-$865	-$590	-$417	**-$400**	-$429	-$387	-$338	-$375	-$382		
Projected Deficit Under Plan as Percent of GDP (*excluding* Social Security reform)	-5.5%	-3.5%	-2.4%	**-2.2%**	-2.2%	-1.9%	-1.6%	-1.7%	-1.6%		

Note: Projections based off of constructed plausible baseline (see last slide). Including off-budget savings from Social Security, the plan would reduce deficits to 2.0% of GDP in 2015 and 1.4% of GDP in 2020

Numbers are FC staff estimates, based on CBO and other available estimates

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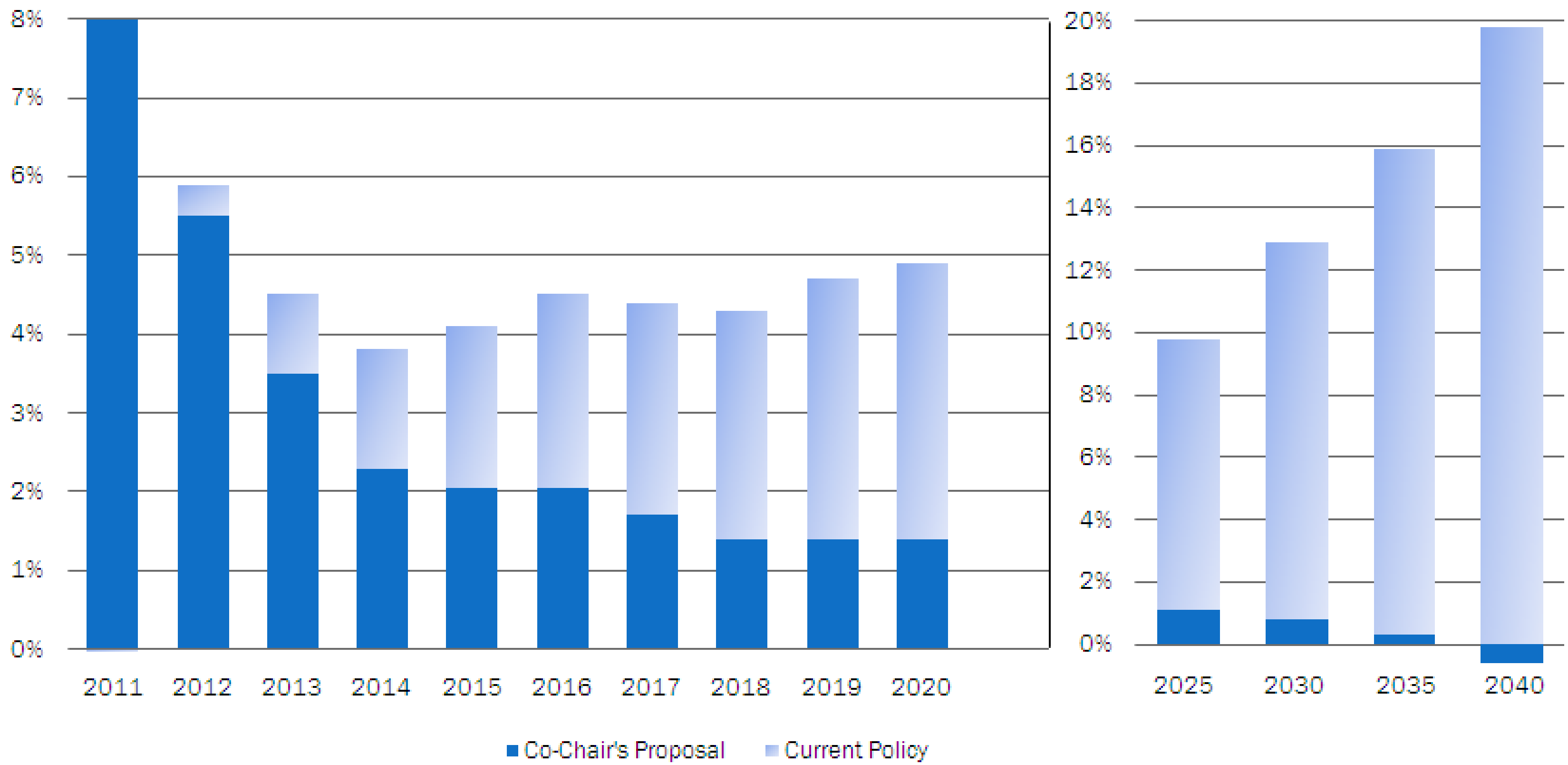
Reduces Deficit to Sustainable Levels by 2015, Balances the Budget by 2037

Annual Deficits Under Co-Chairs' Proposal (as percent of GDP)



Current policy based off of "plausible baseline" through 2020, which is based largely on parameters outlined in CBO's Alternative Fiscal Scenario, with discretionary spending growth at requested levels rather than at GDP growth . Beyond 2020, Current Policy is based directly of off the Alternative Fiscal Scenario.

Deficit projections include off-budget impact of Social Security reform. Excluding these measures would result in a deficit of about 2.2 percent of GDP in 2015 and 1.6 percent of GDP in 2020.

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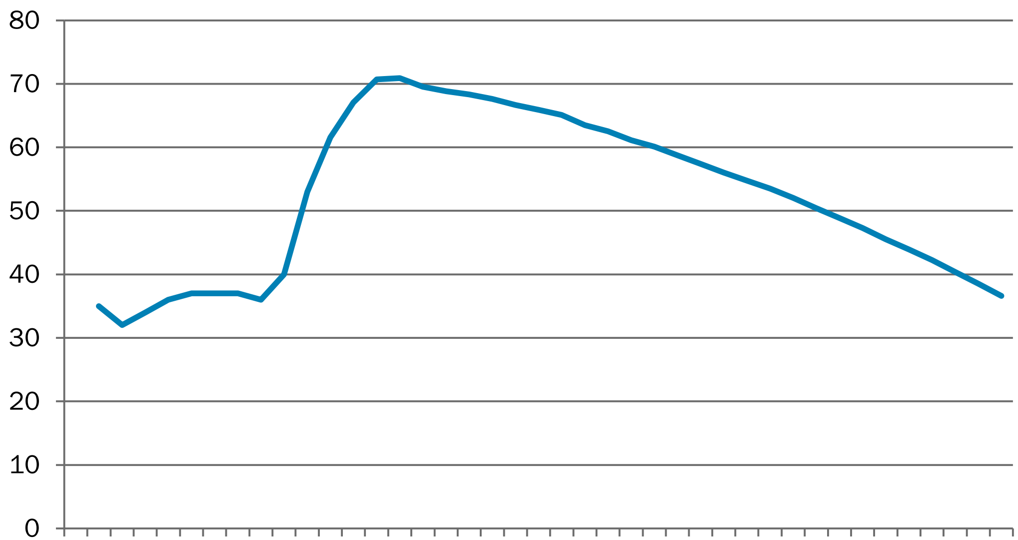
Gets Spending, Revenue to 21%

Debt Held by the Public Under Co-Chairs' Proposal (as percent of GDP)



Note: Beyond 2020, projections assume health care spending growth is kept to GDP+1%, discretionary spending growth is capped at inflation, comprehensive Social Security reform is enacted, other mandatory spending grows with inflation plus population growth, and revenue does not exceed 21% of GDP.

Outlays, Revenues, and Deficits Under Co-Chairs' Proposal (as percent of GDP)

	Outlays	Revenue	Deficit	Debt
2010	23.8%	14.6%	-9.1%	62%
2015	21.4%	19.3%	-2.0%	69%
2020	22.0%	20.5%	-1.4%	65%
2025	22.0%	20.8%	-1.2%	58%
2030	21.8%	21.0%	-0.8%	52%
2035	21.3%	21.0%	-0.3%	43%
2040	20.5%	21.0%	+0.5%	34%

Note: Projections include off-budget impact from Social Security reform.

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Discretionary Budget Options

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Discretionary Spending Cuts

Goal: Spending Caps to Force Fiscal Discipline

- Restore fiscal discipline through spending caps that require us to make choices, live within our means, and hold government accountable for results
- Enforce discretionary caps with (1) a point of order against legislation approving excess spending and (2) a sequester that is triggered at end of session if final appropriations are above the cap

Proposal: Discretionary Spending Caps

- Rolls discretionary spending back to FY2010 levels for FY2012, requires 1% cut in discretionary budget authority every year from FY2013 though 2015
- Discretionary Budget Authority (BA) indexed to inflation from FY 2015 through FY2020
- Discretionary spending would be $204 billion (16%) below the President's budget and $127 billion (10%) below the CBO baseline in 2015

Discretionary Spending Caps

Discretionary Budget Authority (BA)	2012	2013	2014	2015	2016	2017	2018	2019	2020
Proposed BA Level:	**1,094**	**1,083**	**1,072**	**1,061**	**1,084**	**1,106**	**1,130**	**1,152**	**1,175**
% Change from Previous Year	*FY2010 Levels*	-1.0%	-1.0%	-1.0%	+2.1%	+2.1%	+2.0%	+2.0%	+2.0%
President's BA Request	$1,180	$1,196	$1,229	$1,266	$1,293	$1,324	$1,359	$1,397	$1,442
CBO BA Baseline	$1,127	$1,144	$1,164	$1,188	$1,216	$1,243	$1,272	$1,301	$1,331
Dollar Amount Below President's Budget Request	***$88***	***$113***	***$157***	***$204***	***$209***	***$218***	***$229***	***$245***	***$267***
Percent Below President's Budget Request	***7.5%***	***9.5%***	***12.8%***	***16.2%***	***16.2%***	***16.5%***	***16.9%***	***17.5%***	***18.5%***
Addenda: Proposal Outlays	*$1,220*	*$1,178*	*$1,151*	*$1,130*	*$1,142*	*$1,156*	*$1,170*	*$1,195*	*$1,219*
Outlays Below President's Budget	*$60*	*$91*	*$129*	*$174*	*$195*	*$208*	*$220*	*$234*	*$252*

Note: Numbers do not include $11 billion per year in assumed disaster funding.

Numbers are FC staff estimates, based on CBO and other available estimates

Discretionary Spending Caps

Recommendations on how to apply the caps:

- Cap applied equally with firewall separating defense and non-defense (or security and non-security), and no borrowing across categories through 2015. New Congress will renegotiate firewalls beyond 2015.
- 60-vote point of order to enforce caps in Senate; separate non-amendable vote on point of order to enforce cap in House; sequester applied if caps are exceeded.
- Budget for disaster funds; tougher limits, transparency for emergencies.
- Tighter definition and rules for Overseas Contingency Operations funding (outside cap).
- Move Transportation Trust Fund spending to mandatory, limit transportation spending to existing revenue collections and prohibit general fund bailouts of transportation trust funds.
- Establish bipartisan Cut-and-Invest Committee to de-authorize outdated, low-priority and inefficient programs and recommend high priority long-term investments.
- Change to biennial budgeting.

Illustrative Discretionary Cuts

Priorities

1. Lead by example: Responsibility begins at the top
2. Return spending to pre-crisis levels
3. Protect key investments in infrastructure, education, R&D

$200 Billion in Illustrative Spending Cuts in 2015

- More than 50 examples of how to meet 2015 target
- $100+ billion in potential Defense savings
- $100+ billion in potential Domestic savings
- Cuts spending $200 billion below the 2015 levels in the President's Budget

$100B in Illustrative Defense Cuts

	2015
Apply the overhead savings Secretary Gates has promised to deficit reduction	28
Freeze federal salaries, bonuses, and other compensation at the Department of Defense for three years	5.3
Freeze noncombat military pay at 2011 levels for 3 years	9.2
Double Secretary Gates' cuts to defense contracting	5.4
Reduce procurement by 15 percent	20
Reduce overseas bases by one-third	8.5
Modernize Tricare, Defense health	6
Replace military personnel performing commercial activities with civilians	5.4
Reduce spending on Research, Development, Test & Evaluation by 10 percent	7
Reduce spending on base support	2
Reduce spending on facilities maintenance	1.4
Consolidate the Department of Defense's retail activities	0.8
Integrate children of military personnel into local schools in the United States	1.1

Numbers are FC staff estimates, based on CBO and other available estimates

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$100B in Illustrative Domestic Cuts

	2015
Reduce Congressional & White House budgets by 15%	0.8
Freeze federal salaries, bonuses, and other compensation at non-Defense agencies for three years	15.1
Cut the federal workforce by 10% (2-for-3 replacement rate)	13.2
Eliminate 250,000 non-defense service and staff augmentee contractors	18.4
Reduce unnecessary printing costs	0.4
Create a Cut-and-Invest Committee charged with trimming waste and targeting investment	11
Terminate low-priority Corps construction projects	1
Slow the growth of foreign aid	4.6
Eliminate a number of programs administered by the Rural Utility Service (formerly REA)	0.5
Eliminate all earmarks	16
Eliminate funding for commercial spaceflight	1.2
Sell excess federal property	1
26 other options of $2 billion or less	17

Numbers are FC staff estimates, based on CBO and other available estimates

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Comprehensive Tax Reform

Tax Reform

Goals:

- Lower Rates
- Simplify the Code
- Broaden the Base
- Cut Spending in the Tax Code (Tax Expenditures)
- Improve Compliance (Tax Gap)
- Make America the Best Place in the World to Start and Grow a Business
- Reduce the Deficit

Option 1: The Zero Plan

- Consolidate the tax code into three individual rates and one corporate rate
- Eliminate the AMT, Pease, and PEP
- Eliminate all $1.1 trillion of tax expenditures
- Dedicate a portion of savings to deficit reduction and apply the rest to reduce all marginal tax rates
- Add back in any desired tax expenditures, and pay for them by increasing one or all of the rates from their zero-expenditure low

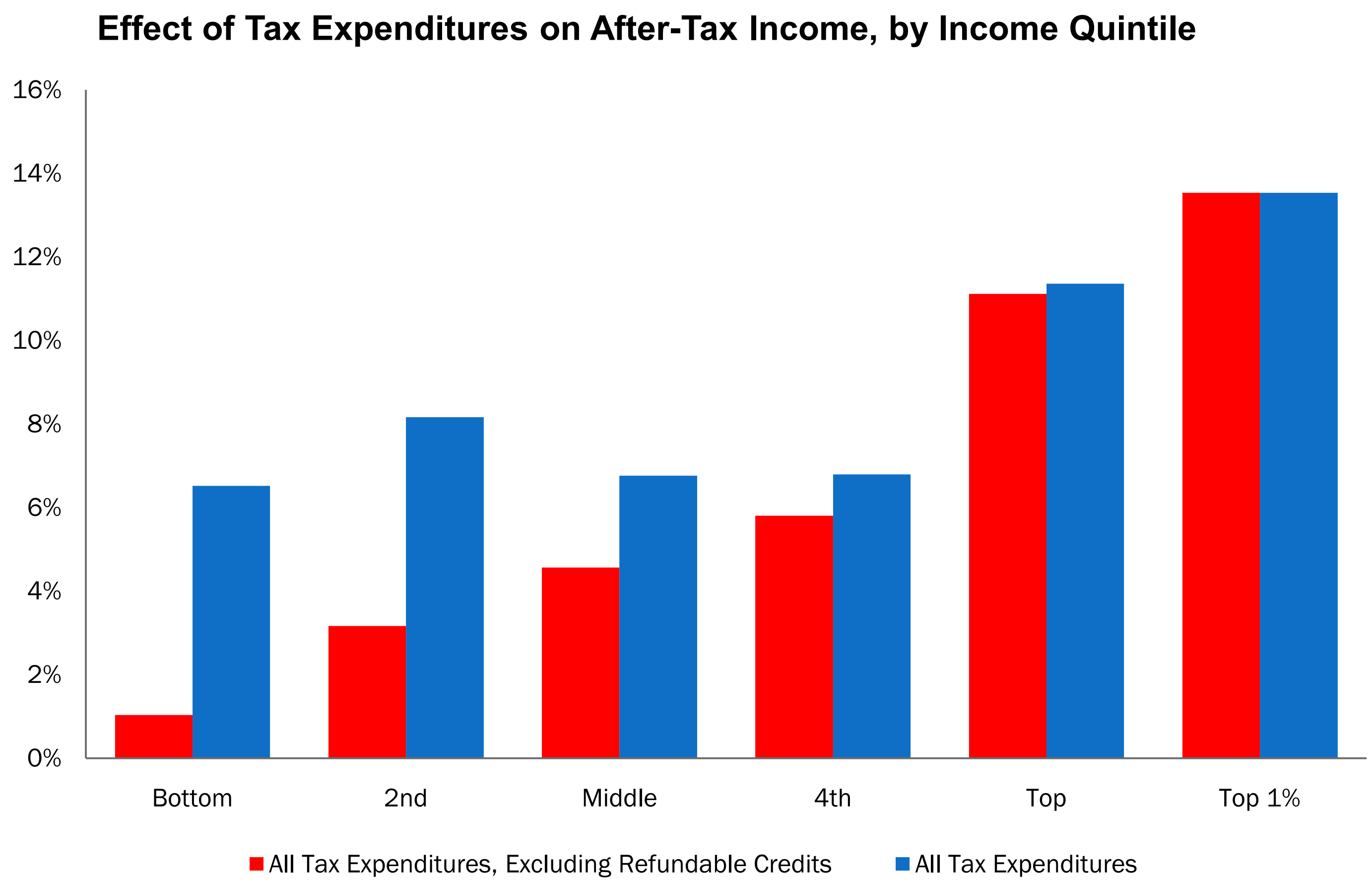
Option 1: The Zero Plan

	Bottom Rate		Middle Rate		Top Rate		Corp. Rate
Current Rates for 2010	10%	15%	25%	28%	33%	35%	35%
Scheduled Rates for 2011	15%		28%	31%	36%	39.6%	35%
Eliminate all Tax Expenditures*	8%		14%		23%		26%
Keep Child Tax Credit + EITC*	9%		15%		24%		26%
Keep Child Tax Credit + EITC; Reform Mortgage, Health, and Retirement Benefits at 80% of Current Level and Switch to Territorial System*	12%		20%		27%		27%
Keep Child Tax Credit, EITC, and Current Mortgage, Health and Retirement Benefits and Switch to Territorial System*	13%		21%		28%		28%

Rates based on *very rough* static estimates. No behavioral effects are assumed. Magnitude of tax expenditures estimated broadly.

*Note: All options set aside $80 billion for deficit reduction and treat capital gains and dividends as ordinary income

Who Benefits from Tax Expenditures?



Option 2: Wyden-Gregg Style Reform

- **Individual Tax Reform**
  - Repeal AMT, PEP, and Pease
  - Establish 3 rates – 15%, 25% and 35%
  - Triple standard deduction to $30,000 ($15,000 for individuals)
  - Repeal state & local tax deduction, cafeteria plans, and miscellaneous itemized deductions
  - Limit mortgage deduction to exclude 2nd residences, home equity loans, and mortgages over $500,000
  - Limit charitable deduction with floor at 2% of AGI
  - Cap income tax exclusion for employer-provided healthcare at the amount of the actuarial value of FEHBP standard option
  - Modify and repeal several other tax expenditures
  - Dedicate portion of savings to deficit reduction

Option 2: Wyden-Gregg Style Reform

- **Corporate tax reform**
  - Reduce corporate tax rate to 26%
  - Permanently extend the research credit
  - Eliminate and modify several business tax expenditures, including:
    - Domestic production deduction
    - LIFO method of accounting
    - Energy tax preferences for the oil and gas industry
    - Depreciation rules
  - International tax reform including a territorial system

Option 3: Tax Reform Trigger

- Call on Finance and Ways & Means Committees and Treasury to develop and enact comprehensive tax reform by end of 2012
- Put in place across-the-board "haircut" for itemized deductions, employer health exclusion, and general business credits that would take effect in 2013 if reform is not yet enacted
- Haircut would limit proportion of deductions and exclusions individuals could take to around 85%* in 2015. Similarly, corporations would only take some proportion of their general business credits
- Set haircut to increase over time until tax reform is enacted

*This is a very rough estimate of the haircut necessary to reduce the deficit by $80 billion in 2015

Other Revenues

- Gradually increase gas tax to fund transportation spending
  - Raise gas tax gradually by 15¢ beginning in 2013
  - Dedicate funds toward fully funding the transportation trust funds and therefore eliminating the need for further general fund bailouts

- Chained CPI: Because the current index overstates inflation, make technical correction to adopt chained CPI government-wide, including the tax code

Mandatory Budget Options

Reducing Health Care Costs

- **Medium Term:** Fully offset the cost of the "Doc Fix" by asking doctors and other health providers, lawyers, and individuals to take responsibility for slowing health care cost growth. Offsets include:
  - Pay doctors and other providers less, improve efficiency, and reward quality by speeding up payment reforms and increasing drug rebates
  - Pay lawyers less and reduce the cost of defensive medicine by adopting comprehensive tort reform
  - Expand cost-sharing in Medicare to promote informed consumer health choices and spending
  - Expand successful cost containment demonstrations
  - Strengthen IPAB
  - Recommend additional health savings (illustrative examples to follow)
- **Long Term:** Contain growth in total federal health spending to GDP+1% after 2020 by establishing a process to regularly evaluate cost growth, and take additional steps as needed if projected savings do not materialize

Paying for the "Doc Fix"

- **Pay doctors, other health providers, and drug companies less and improve efficiency and quality**
  - Replace cuts required by SGR through 2015 with modest reductions while directing CMS to establish a new payment system, beginning in 2015, to reduce costs and improve quality.
  - Require rebates for brand-name drugs as a condition of participating in Medicare Part D.
- **Increase cost-sharing in Medicare**
  - Eliminate first-dollar coverage in Medigap plans.
  - Replace existing cost-sharing rules with universal deductible, single coinsurance rate, and catastrophic cap for Medicare Part A and Part B.
- **Pay lawyers less and reduce the cost of defensive medicine**
  - Enact comprehensive medical malpractice liability reform to cap non-economic and punitive damages and make other changes in tort law.

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Health Care Savings to Pay for the Doc Fix

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-2015	2011-2020
Reform the Sustainable Growth Rate*	*0*	*0*	*-3*	*-3*	**-3**	*-3*	*-3*	*-3*	*-3*	*-3*	*-10*	*-24*
Require Drug Rebate Payments	*0*	*0*	*-5*	*-5*	**-6**	*-7*	*-8*	*-9*	*-10*	*-11*	*-15*	*-59*
Expand Cost Sharing in Medicare and Create a Cap on Catastrophic Costs	*0*	*0*	*-7*	*-9*	**-9**	*-10*	*-11*	*-12*	*-13*	*-14*	*-25*	*-85*
Limit Medigap Cost-Sharing Coverage (Including Interaction w/ Above Provision)	*0*	*0*	*-3*	*-5*	**-5**	*-6*	*-7*	*-7*	*-8*	*-9*	*-13*	*-50*
Enact Comprehensive Tort Reform	*-1*	*-2*	*-4*	*-6*	**-7**	*-8*	*-8*	*-8*	*-9*	*-10*	*-21*	*-64*
Total Deficit Reduction	-1	-2	-22	-28	**-30**	-33	-37	-39	-43	-47	-83	-282
*Memo: Cost of Physician Pay Freeze:	9	19	22	23	**25**	27	31	34	40	44	99	276

Numbers are FC staff estimates, based on CBO and other available estimates

Savings Beyond the Doc Fix

- **Expand Successful Cost-Containment Demonstration Projects by 2015**
- **Identify an additional $200 billion savings in federal health spending**
- **Strengthen the Independent Payment Advisory Board (IPAB)**
  - Include all providers (no carve-outs) and recommendations on benefit design and cost-sharing.
  - Improve savings targets to 1.5% starting in 2015.
  - Eliminate the trigger that could turn off IPAB in 2019.
  - Allow cost-savings recommendations even when spending does not exceed the target growth rate.
  - Allow proposals that apply reforms to health plans in the exchange.
  - Require affirmative Congressional approval of recommendations or alternative savings, with a "back-up sequester" increasing premiums and reducing provider payments if IPAB recommendations (or equivalent savings) are not adopted.

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Illustrative Health Care Savings

	2015	2012-2020
Place Dual-Eligible Individuals in Medicaid Managed Care	**-$1**	**-$11**
Cut Medicare Payments for Bad Debt	**-$2**	**-$15**
Expand ACOs, Payment Bundling, and Other Payment Reform (require IPAB to recommend cuts if savings are not realized)	**-$4**	**-$38**
Cut Federal Spending on Graduate and Indirect Medical Education	**-$6**	**-$54**
Reduce Federal Spending on Medicaid Administrative Costs	**-$2**	**-$17**
Increase Nominal Medicaid Copays	**-$2**	**-$15**
Reduce Taxes that States May Levy on Medicaid Providers	**-$6**	**-$49**
Accelerate Phase-in of DSH Payment Cuts, Medicare Advantage Cuts and Home Health Cuts in PPACA	**-$9**	**-$37**
Reform Tricare for Life to Increase Cost Sharing for Military Retirees	**-$5**	**-$55**
Reform FEHB Retiree Plans to Increase Cost Sharing for Federal Civilian Retirees	**-$1**	**-$12**
Establish National Standards for Regulating and Administering Health Insurance	*	**-$3**
Convert The Federal Share Of Medicaid Payments For Long-Term Care Into a Capped Allotment	**-$9**	**-$89**

Numbers are FC staff estimates, based on CBO and other available estimates. Most numbers were generated pre-PPACA, and may differ significantly.

Long-Term Health Care Savings

- Set global target for total federal health expenditures after 2020 (Medicare, Medicaid, CHIP, exchange subsidies, employer health exclusion), and review costs every 2 years. Keep growth to GDP+1%.
- If costs have grown faster than targets (on average of previous 5 years), require President to submit and Congress to consider reforms to lower spending, such as:
  - Increase premiums (or further increase cost-sharing)
  - Overhaul the fee-for-service system
  - Develop a premium support system for Medicare
  - Add a robust public option and/or all-payer system in the exchange
  - Further expand authority of IPAB

Mandatory Savings

Chained CPI

- Shift to chained CPI for all indexed programs
  - Current measures of inflation overestimate increases in cost of living by failing to account for “substitution bias”
  - Adopting a more accurate measure of inflation would achieve savings government-wide

Agriculture

- Reduce farm subsidies by $3 billion per year by reducing direct payments and other subsidies, Conservation Security Program funding, and funding for the Market Access Program

Mandatory Savings

Military and Civil Service Retirement

- Use highest 5 years to calculate civil service pensions
- Ask federal workers to contribute ½ the cost (not 1/14th)
- Reform COLA payments for civilian & military early retirees
- Reform military retirement system to vest after 10 years (not 20); defer collection until age 60

Universal Services Fund

- Reduce spending from Universal Services Fund

Student Loans

- Eliminate in-school interest subsidies for student loans

Other Mandatory Savings Options

- End payments to states and tribes for abandoned mines.
- Extend FCC's authority to auction radio spectrum licenses.
- Restructure Power Marketing Administration to charge market-based rates.
- Require Tennessee Valley Authority to impose transmission surcharge on electricity sales.
- Require IRS to deposit fees for its services in Treasury as miscellaneous receipts.
- Index all fixed-dollar user fees to inflation.
- Fund program integrity efforts for Medicare, Medicaid, the IRS, and other programs with significant improper payments.

Mandatory Savings

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-2015	2011-2020
Chained CPI (excluding effects on Social Security and revenue)	0	-1	-1	-2	**-3**	-4	-6	-7	-9	-10	-7	-43
Federal Employer/Employee Pension Contributions	0	0	0	-1	**-4**	-6	-8	-9	-11	-13	-5	-51
Federal Civilian and Military Retirement System	0	0	-1	-1	**-2**	-2	-3	-4	-4	-5	-4	-22
In-School Interest Subsidies	0	-3	-5	-5	**-5**	-5	-5	-5	-5	-5	-18	-43
Farm Subsidies	0	-1	-1	-2	**-3**	-3	-3	-3	-3	-3	-7	-22
Universal Service Fund	0	-1	-1	-2	**-3**	-4	-5	-5	-5	-5	-7	-29
Program Integrity	0	-1	-1	-2	**-3**	-4	-4	-5	-5	-5	-8	-30
Other Changes	0	-1	-1	-1	**-1**	-1	-1	-1	-1	-1	-3	-8
	—	—	—	—	—	—	—	—	—	—	—	—
Total Deficit Reduction	0	-6	-11	-16	**-23**	-29	-34	-38	-42	-47	-57	-248

Numbers are FC staff estimates, based on CBO and other available estimates

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Enforcing the Plan to Ensure Deficit Reduction Goals Are Met

- Review, annually, whether the budget is on a sustainable path. Require action by the President and Congress if:
  - Prior to 2015, the budget is projected to be out of primary balance in 2015.
  - After 2015, if the debt has increased as a percentage of GDP from the prior year.

- If action is needed:
  - Require President's budget to include recommendations to stabilize debt path.
  - Require Congressional budget resolution to contain similar measures and offer reconciliation instructions to reduce mandatory spending, increase revenues, and/or modify the discretionary spending limits.
  - Establish point of order against legislation that increases spending or reduces revenues if Congress fails to pass a budget resolution that eliminates the shortfall.

- Allow Congress and the President to waive the requirements during years with low economic growth, unanticipated military conflict, or major disaster.

Reforming Social Security

Strengthening Social Security

Goals:

- Strengthen Social Security for the long haul by returning the system to sustainable solvency.
- Prevent the 22% across the board benefit cut projected to occur in 2037.
- Reduce elderly poverty by putting into place a new, effective special minimum benefit.
- Enable system to continue to provide for a secure retirement as the population grows older and Americans live longer.
- Reform Social Security for its own sake, not for deficit reduction.

Reduce Elderly Poverty

Add new protections for the most vulnerable:

- Add a new **special minimum benefit** to keep full-career minimum wage workers above the poverty threshold.
- Wage-index the minimum benefit to make sure it is effective both now and in the future.
- Provide a benefit boost to older retirees most at risk of outliving other retirement resources.

Ensure Long-Term Social Security Solvency

Increase progressivity of benefit formula

- Gradually move to a more progressive benefit formula by creating a new bendpoint at the 50th percentile and reducing upper replacement factors slowly over time, phased in by 2050

Index retirement age to increases in longevity

- This option is projected to increase the age by one month every two years after it reaches 67 under current law, meaning the normal retirement age would reach 68 in about 2050 and 69 in about 2075
- Hardship exemption for those unable to work beyond 62

Switch to a more accurate measure of inflation (chained CPI) for calculating COLAs

Include newly hired state and local workers in Social Security after 2020

Broaden the Payroll Tax Base

Gradually increase the taxable maximum to capture 90 percent of wages by 2050

- Under current law, the taxable maximum is pegged to growth in average wages. In 2009, the taxable maximum captured almost 86 percent of earnings, but it will fall to 82.5 percent by the end of the decade.
- Phasing into a higher taxable maximum slowly will prevent large marginal changes and will prevent rapid buildup of the trust fund.

Promote Smart Retirement Decisions

Allow greater flexibility in how benefits are claimed

- Give retirees the choice of collecting half their benefits early and the other half at a later age to minimize impact of actuarial reduction and support phased retirement options.

Direct SSA to design a way to provide for the early retirement needs of workers in physical labor jobs

- Require SSA to have accommodation in place before longevity indexation begins and set aside funds to pay for new policy.

Improve information on retirement choices

- Develop an education campaign to encourage greater personal savings, delayed retirement, and phased retirement.
- Better inform beneficiaries of the costs and benefits of collecting benefits early.

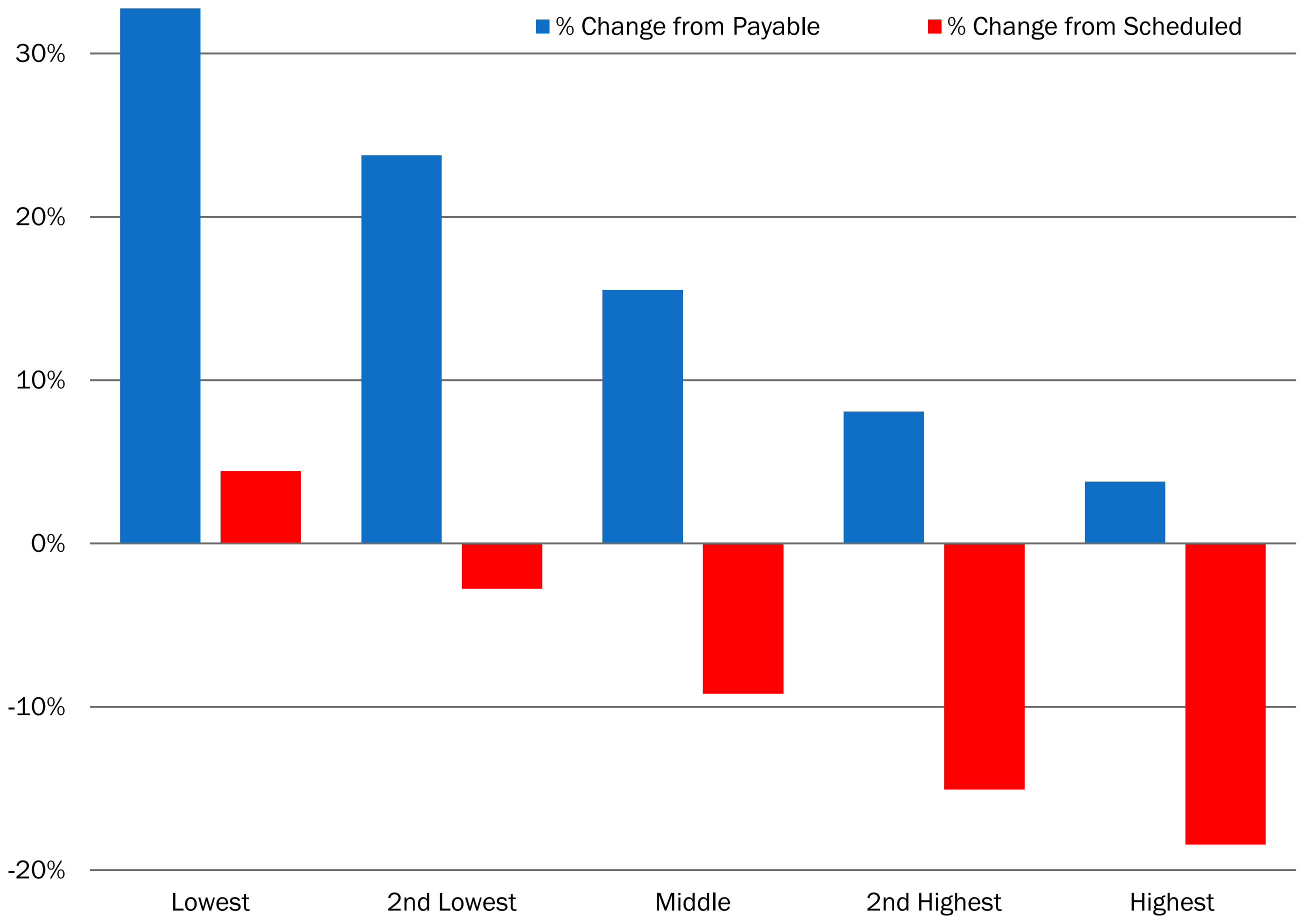
Restoring Social Security Solvency

	75 Year	75^{th} Year
Gradually phase in progressive changes to benefit formula by 2050	45%	51%
Special minimum benefit for lifetime low earners	-8%	-6%
Index retirement ages to life expectancy	21%	36%
Benefit boost to oldest old retirees	-8%	-6%
Gradually increase taxable maximum to 90% of covered earnings by 2050	35%	22%
Apply refined cost of living measure (chained-CPI) to COLA	26%	17%
Cover newly hired state and local workers after 2020	8%	0%
Add increased flexibility in retirement claiming options	-	-
SHARE OF EXISTING SHORTFALL CLOSED:	116%	108%

DRAFT

Distributional Analysis:

Option v. Current Law Benefits in 2050



Note: Bars represent percent difference in median benefits, by lifetime income quintile

Alternative Social Security Options

- Increase benefits for low-income widows
  Reduces balance by 0.06% of payroll
- Cap spousal benefit at one-half of average worker's benefit
  Improves solvency by 0.08% of payroll
- Reinstate college benefits for child survivors
  Reduces balance by 0.07% of payroll
- Tax cafeteria plans in same manner as 401(k) plans
  Improves solvency by 0.22% of payroll
- Uncap the Disability Insurance (DI) portion of FICA taxes (1.8%)
  Improves solvency by 0.34% of payroll
- Fully or partially tax employer-sponsored health insurance
  Solvency impact dependent on design
- Convert delayed retirement credit into one-time bonus
  No solvency impact
- Include automatic stabilizer with future benefit and/or revenue changes