# Debt Busters

**INTERACTIVE GROUP BUDGET EXERCISE**

THE CONCORD COALITION

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Congratulations! You have just become members of Congress -- and you have been assigned to a special committee charged with finding ways to reduce projected federal deficits over the next 10 years.

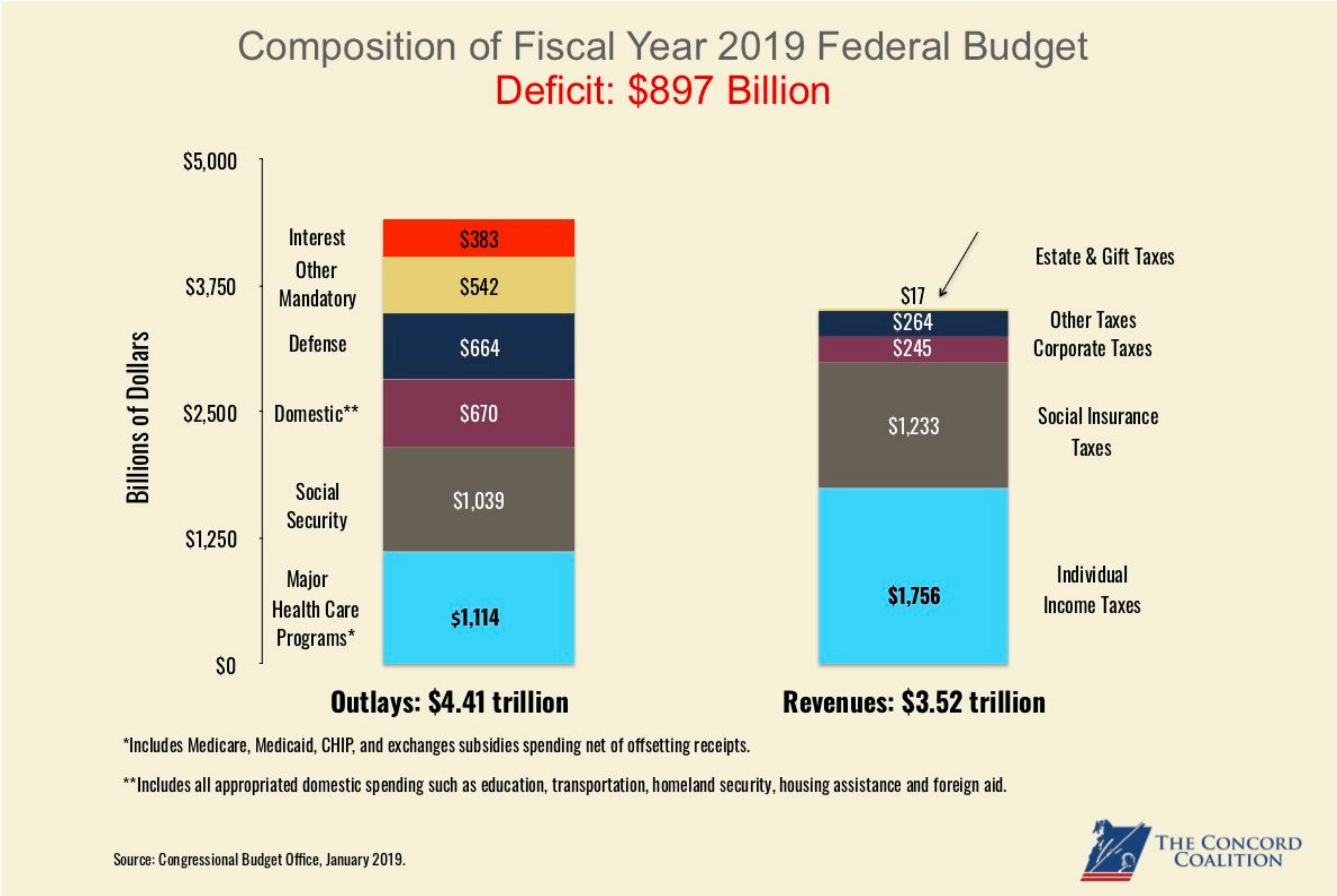
Your committee is responsible for examining a variety of possible spending and revenue policies. Some would reduce spending and raise revenues, which would reduce deficits. Some other policies, however, would add spending and lower taxes, which would increase deficits.

As your committee reviews the options, it should consider:

- ❏ **Economics** -- How will your decisions affect the economy in both the short term and the long term? Could some policies help in the short run but cause damage later?
- ❏ **Public Policy** -- Should reducing the deficit be your primary goal, regardless of other policy impacts? Which areas of the federal government should receive more or less funding? Which parts of society would be most affected? Is the federal government too big, too small or the right size? Do your choices fit your vision for the nation’s future?
- ❏ **Politics** -- How is the public likely to respond to your decisions? Can you explain and defend your decisions to voters? Will you be re-elected?

# The Budget Outlook

The federal budget has long suffered from a fundamental mismatch between revenue and spending. This has produced chronic structural deficits, even in good economic times. While the large deficits from the recession years have receded and we’ve had steady economic growth in recent years, the structural problems in the budget remain, and deficits are projected to steadily rise in the coming years. The nonpartisan Congressional Budget Office (CBO) has projected that deficits will total $11.65 trillion over the next decade. (This is called the “baseline” estimate for budget deficits.) The projection is based on the assumption that current laws will continue into the future unaltered.




The largest force leading to continued deficits over the next 10 years and beyond reflects a fundamental transformation in our society: the aging of the population and the retirement of the baby boom generation and its concurrent reduction in the growth of the working age population. Combined with climbing health care costs, this change will cause federal spending on benefit programs like Social Security and Medicare to dramatically increase while revenues from workers fails to keep pace. Growing levels of government borrowing and rising interest rates are also expected to sharply increase federal spending on interest costs in the coming years.

# Making the Hard Choices

With your fellow committee members, review and discuss the policy options on the next five pages. Record your group's decisions by placing the options' positive or negative (+/-) effects on the 10-year deficit in the boxes provided. If your group decides not to enact a particular option, simply leave the box blank, or write in a zero. Given the time constraints, your range of possibilities is limited to a representative sample of budget options that have been considered and debated in Washington.

Note that the federal budget cannot be balanced by cutting just one area of the government spending. And because deficits result from a mismatch between spending and revenue, increases in revenue should be considered along with possible spending cuts across the spectrum of federal programs.

When discussing the policy options and making your decisions, reflect on your personal principles and priorities. But ultimately the majority rules, so you will need to carefully consider the views of your fellow committee members as well. You may decide to compromise on some items in order to win support for others that you consider more important.

Your committee's job is to look at all areas of the federal budget to develop a plan that deals with our fiscal challenges, reducing deficits over the next decade and leaving younger generations with a stronger nation and a brighter economic future.

# The Options

Some of the policy options mirror "omnibus" bills, where a variety of things are included in one large piece of legislation, and which is commonplace in Washington. Members of Congress must often decide whether to support large bills with what they consider to be both positive and negative features. In adopting a policy, your group may also need to choose to accept some changes it dislikes to achieve changes is does like in order to achieve sufficient deficit reduction. The numbers by each individual policy are intended to give you an idea about how much each component would save over the next 10 years.

Record your committee's decisions on the "Tally Sheet."

Options with a **minus sign (-)** will save the government money or bring in additional revenue. This means these options will **DECREASE deficits**. Options with a **plus sign (+)** will cost the government money or reduce its revenue. This means they will **INCREASE deficits**.

# Debt Busters Tally Sheet

IN THE BOXES BELOW, PLEASE PUT THE TOTAL FROM EACH OPTION YOU VOTED **"YES"** TO ENACT AND CALCULATE THE TOTAL CHANGE YOU WOULD MAKE TO THE FEDERAL BUDGET OVER 10 YEARS.

| **Option Number** | **Option Title** | **Effect on 10-Year Deficit (In Billions)** | **Committee Decision (Write +/- Dollar Value)** |
|---|---|---|---|
| **1** | Reduce certain domestic spending programs | **-$274** | |
| **2** | Invest in infrastructure, education and child care | **+$175** | |
| **3** | Reduce certain defense and national security spending programs | **-$350** | |
| **4** | Make changes to the Affordable Care Act (Obamacare) and limit malpractice lawsuits | **-$331** | |
| **5** | Reforms to Medicare | **-$855** | |
| **6** | Block grant medicaid | **-$703** | |
| **7** | Reforms to Social Security | **-$1,065** | |

| | | | |
|---|---|---|---|
| **8** | Eliminate taxes on capital gains, dividends and estates | **+$2,161** | |
| **9** | Either extend or repeal the cuts to the Individual Income Tax from the 2017 tax law | **+$650**<br>**Or**<br>**-$1,169** | |
| **10** | Limit certain tax deductions, credits and exclusions | **-$643** | |
| **11** | Increase taxes on alcohol and gasoline | **-$598** | |
| | **Subtotal** | | |
| | **Interest Savings**<br>**(Subtotal X 0.15)** | | |
| | **Total Effect on 10-Year Deficit**<br>**(Subtotal + Interest Savings)**<br><br>**We Reduced Projected Deficits By:**<br>**(Of the $11.65 Trillion 10-Year Deficit Total)** | | |

# Option 1: Reduce Certain Domestic Spending Programs

**Effect on 10-Year Deficit: -$274 Billion**

**Description of Policy Changes**

1. **Eliminate federal subsidies for AMTRAK and other intercity rail systems.** In 1970, when Amtrak was established, Congress anticipated providing subsidies for a limited time. But Congress continued to provide them and over the past 40 years Amtrak has received total federal subsidies of more than $40 billion. Critics argue that federal funding subsidizes uneconomical services and routes that are not used extensively and provide little public benefit in terms of reducing emissions of greenhouse gases or reducing congestion on highways and in airports. Supporters argue that highways and the airlines receive substantial federal support, while rail receives little by comparison. **Effect on deficit: -$20 billion.**

2. **Reduce Department of Energy funding for energy technology development.** Various Department of Energy programs support research and development of new technologies in fossil fuels, nuclear power, energy efficiency and renewable energy. This option would eliminate efforts to support the later stages of technology development and demonstration of commercial feasibility without touching the department's support of basic and early applied research. Critics argue these programs are of questionable value. Supporters say federal support is needed because the prices that businesses and consumers pay for energy do not reflect the large long-run environmental costs, thus DOE's programs fill a gap unmet by the private market. **Effect on deficit: -$20 billion.**

3. **Reduce subsidies in the crop insurance program.** The Federal Crop Insurance Program protects farmers from losses caused by low market prices, droughts, floods, pest infestations and other natural disasters. The government pays about 60 percent of total premiums while farmers cover about 40 percent. The government also reimburses private companies for their administrative costs in providing insurance policies. This option would reduce the federal government's subsidy to 40 percent of the crop insurance premiums, on average. In addition, it would limit the federal reimbursement for administrative expenses. Critics of these subsidies say increasing the farmers' share of premiums will not discourage them from obtaining crop insurance because private business lenders often require it. Supporters argue that withdrawing federal support for buying crop insurance could bankrupt some smaller farms or cause them to sell to larger agricultural producers. **Effect on deficit: -$21 billion.**

4. **Limit forgiveness of graduate student loans.** The federal government allows those who take out federal student loans to have their debt forgiven after making monthly payments related to their income level after graduating. Currently about 55 percent of graduate students with loans enter a forgiveness plan. This option would increase monthly payments from 10 percent of income to 15 percent of income. It would also extend the repayment period for those loans from 20 years to 25 years, after which time the graduate school loan is forgiven. Supporters argue that reducing students' incentive to borrow will encourage enrollment in graduate programs whose benefits justify the additional cost of schooling and graduate students usually have higher incomes after graduating

than undergraduates. Opponents argue these plans currently generate income for the federal government yet this change would disproportionately reduces opportunities for lower income students, and make them less likely to attend graduate school, or if they did, will lead to their being saddled with lower earnings or higher debts. **Effect on deficit: -$32 billion.**

5. **Eliminate NASA's human space exploration program.** The human space exploration programs focus on developing systems and capabilities required to explore deep space while continuing operations in low Earth orbit. The exploration programs also provide technical and financial support to the commercial space industry. This option would terminate NASA's human space exploration and space operations programs except for those necessary to meet space communications needs (such as communication with the Hubble Space Telescope). Support for private space companies would likely be eliminated as well. The agency's science and aeronautics programs and robotic space missions would continue. Critics argue that resources would be better spent on basic scientific research on earth, particularly when NASA and other federal agencies have increasingly used robots to perform missions and keep humans out of harm's way. Supporters of these programs argue that there is a scientific advantage to having humans at the International Space Station conduct experiments that could not be carried out in other ways and that such operations are necessary to prepare for a desired human mission to mars. **Effect on deficit: -$93 billion.**

6. **Reduce the federal workforce by not filling vacancies as workers retire.** In 2017 the federal government employed 2.1 million civilian workers, excluding Postal Service employees. About 43 percent work in the Departments of Defense and Homeland Security and 17 percent in the Department of Veterans Affairs. The rest work in agencies providing a variety of public services, investigating crimes, collecting taxes, administering programs for the elderly, poor and disabled, and more. This option would reduce the number of federal civilian employees by 10 percent by allowing those agencies to hire no more than one employee for every three who retire. The president could exempt an agency under certain conditions such as a national security concern or an extraordinary emergency. Supporters of this change believe agencies could reduce unnecessary management positions while also eliminating services that are not cost-effective without hampering overall performance. Opponents argue that cutting federal workers without cutting programs is very problematic, given that the federal civilian workforce has grown much more slowly than the U.S. population and federal spending per capita have grown over the past 20 years. **Effect on deficit: -$35 billion.**

7. **Eliminate or reduce funding for certain grants to state and local governments.** Washington provided $675 billion in grants to state and local governments in 2017. Such grants redistribute resources among communities around the country, finance local projects that may have national benefits and encourage state and local policy experimentation. Although grant money goes to a wide variety of programs, the spending is concentrated in health care, income security, education and transportation. Some grant programs give state and local governments broad flexibility while other programs impose stringent conditions. Supporters say leaving the funding decisions to state and local governments will lead to a more efficient allocation of resources because they will weigh costs and benefits more carefully. Opponents say these grants support programs that state and local governments may lack the incentive or funding to promote to the extent desirable from a national perspective. **Effect on deficit: -$53 billion.**

# Option 2: Invest in Infrastructure, Education and Child Care

**Effect on 10-Year Deficit: +$175 Billion**

**Description of Policy Changes**

1. **Expand access to child care program.** The Child Care and Development Fund provides subsidies to some families below 200 percent of the poverty line (approximately $40,000 for a family of four) to purchase affordable child care. States administer the program using state resources and federal funding. This option would expand it cover all eligible families who want the subsidy -- an additional 1 million children by 2025. Supporters say investments in early childhood care are good for the economy in the long run because they set children up for success in later schooling and their careers. Opponents believe it is not the federal government's responsibility to provide child care and that it should be left to parents and state governments. **Effect on deficit: +$78 billion.**

2. **Establish a National Infrastructure Bank to support road improvement.** The National Infrastructure Bank (I-Bank) would provide loans and grants to private entities to support individual projects. The politically independent board of directors would determine the worth of projects. The I-Bank would be data-driven in measuring which projects offer the biggest value. Supporters say this funding methodology would be a substantial improvement from current practice, which often results in the funding of projects solely because of a particular legislator's power in Congress or a state's population. The private sector would choose the projects for investment with the government just providing financial support. Opponents, however, believe The I-Bank would not prevent lawmakers from continuing to fund dubious projects such as the famed "Bridge to Nowhere." **Effect on deficit: +$30 billion.**

3. **Make two years of community college free for all Pell-eligible students.** Pell grants provide up to $5,920 of tuition assistance each year for lower-income and middle-income college students. This proposal would have the federal government fully finance two years of community college for students who are eligible for Pell grants by paying their tuition and allowing them to use their leftover Pell funding for living expenses. Supporters argue that a college degree is as important today as a high school degree was 50 years ago, so higher education should now be as universally accessible as high school. Opponents counter that many state and local governments already provide individuals with free community college. They believe this sort of decision should remain within their purview and should not be a federal issue. **Effect on deficit: +$67 billion.**

## Option 3: Reduce Certain Defense/National Security Spending Programs

**Effect on 10-Year Deficit: -$350 Billion**

**Description of Policy Changes**

1. **Reduce funding for naval ship construction to historical levels.** The Navy's Fiscal 2019 shipbuilding plan calls for 301 new ships over the next 30 years at an average cost of $27 billion per year in 2018 dollars. Including the costs of all activities funded by the Navy's shipbuilding account, such as refueling nuclear-powered aircraft carriers and outfitting new ships, the average annual cost of the plan is $29 billion. That is well above the average of $16 billion per year (in 2018 dollars) that the Navy has spent on shipbuilding over the past 30 years. Supporters say even with this spending decrease, the Navy would still have a powerful fleet in 2028 and beyond. Because ships take a long time to build, and then are in the fleet for 25 to 50 years, the fleet would grow by nearly the same amount through 2026 under this option as it would under the 2019 plan. Opponents say that since 1987, the number of ships in the fleet has already fallen from 568 to 285. Decreasing funding for shipbuilding and substantially reducing the size of the fleet would, over the long run, result in the Navy's having fewer ships than it says it needs to protect U.S. interests overseas in the event of a conflict with another major power. **Effect on deficit: -$75 billion.**

2. **Cancel purchase of F-35s, and purchase F-16s and F/A-18s instead.** The F-35 Joint Strike Fighter program is the military's largest aircraft development program. The F-35 is a stealth aircraft -- one that is difficult for adversaries to detect by radar and other air-defense sensors. Through 2019, a total of 542 F-35s had been purchased for the U.S. military. Current plans call for purchasing 1,914 more F-35s through 2044. The Department of Defense has estimated that the remaining cost of those purchases, including the cost to complete development, will amount to $253 billion. This option would cancel these additional purchases and replace them with the most advanced version of non-stealth aircraft in production. Supporters of this option say it would reduce the cost of replacing older aircraft while still providing new fighters with improved capabilities that would be able to defeat most threats that the United States is likely to face. Opponents argue that a mixed force of stealth and non-stealth aircraft would be less flexible against advanced enemy air-defense systems. **Effect on deficit: -$16 billion.**

3. **Defer development of a new long-range bomber for the Air Force.** The Air Force is in the early stages of development of a new long-range bomber the military wants to begin using in the middle of the next decade. These bombers would replace the current fleet of long-range bombers, which estimates say should be able to keep flying until the early 2040s. Supporters say of this option say that delaying production on a new bomber would free up budgetary resources for other priorities during the coming decade. Opponents believe waiting to develop a new bomber would run the risk that it would not be available if some of the bombers currently in service need to be retired sooner than expected. **Effect on deficit: -$45 billion.**

4. **Cap increases in basic pay for military service members.** Compensation for active-duty military personnel includes basic pay and allowances for food and housing. Of those, basic pay accounts for about 60 percent. Between 2006 and 2017, per capita spending on basic pay rose by 10 percent in inflation-adjusted dollars. Over the last decade military personnel have generally seen increases that were slightly greater than private sector averages. While overall pay for personnel will still increase under this option, it would cap the basic pay raises at half a percentage point below the increase in private-sector averages. Supporters say the Defense Department has consistently surpassed its goal of average compensation for military personnel exceeding wages and salaries earned by 70 percent of civilians with comparable education and work experience. Opponents believe future military recruiting and retention could be compromised unless raises keep pace with the civilian workforce. **Effect on deficit: -$18 billion.**

5. **Modify TRICARE fees, cost sharing, and out-of-pocket requirements.** TRICARE is the health insurance program for military employees, military retirees and their dependents. It is separate from traditional Veterans Administration care for service-related injuries. Health care has been one of the fastest-growing portions of the defense budget over the past 15 years, more than doubling in inflation-adjusted terms since 2001. Most TRICARE plans provide more generous insurance benefits and lower cost sharing than private-sector employers offer. One plan in particular, TRICARE Prime, has very little cost sharing: retirees have no deductible, and co-payments only average around $12 for doctor and hospital visits. Another option, TRICARE for Life, pays nearly all medical costs not covered by Medicare and requires few out-of-pocket fees. As a result of such generous benefits, one-fourth of military retirees switched from private insurance to TRICARE between Fiscal 2001 and Fiscal 2012. Under this reform option, TRICARE's premiums, deductibles, and copayments for working-age military retirees would increase to align with the private sector. Supporters of this option argue that if left unrestrained, the costs of TRICARE will swamp the ability of the Defense Department to perform its main task: defending the country. Opponents say reduced benefits could affect military enlistment and retention because many people signed up for military service expecting generous health benefits. **Effect on deficit: -$51 billion.**

6. **Reduce spending on international affairs ("foreign aid") by 25 percent.** The budget for international affairs funds includes diplomatic programs, global health initiatives, and security assistance. In 2017, those programs cost an estimated $51 billion, including $12 billion for international security assistance, $8 billion for diplomatic and consular programs, $8 billion for global health programs, and $3 billion for international disaster assistance. Smaller amounts go to refugee assistance, development, peacekeeping efforts, and anti-drug enforcement. Funding is administered by the Department of State, the Agency for International Development and the Department of Defense. Supporters say budgetary cutbacks should start with programs that primarily benefit other countries rather than our own. primarily accrue to other countries not our own. The private sector will step up its foreign assistance, especially in areas like health, and the private sector might be more effective and better at targeting where resources should go. Opponents say reducing aid will make our country less safe because we will harm cooperation with foreign governments that we depend on for a host of security arrangements including counter-terrorism and global health monitoring. Our relationships also contribute to increased

economic opportunities in the United States and promote humanitarian and environmental efforts worldwide. **Effect on deficit: -$145 billion.**

## Option 4: Make Changes to the Affordable Care Act and Limit Malpractice Lawsuits

**Effect on 10-Year Deficit: -$331 Billion**

**Description of Policy Changes**

1. **Eliminate Affordable Care Act subsidies for those earning between 300 and 400 percent of the federal poverty level.** The Affordable Care Act (Obamacare) allows individuals and families to purchase private health insurance coverage through health insurance exchanges or "marketplaces." Those with certain income levels (roughly between 130 percent of the federal poverty level and 400 percent) are eligible for tax credits to cover portions of their premiums, and they can receive additional subsidies to reduce out-of-pocket cost sharing expenses. In 2018, the poverty level represented incomes of $12,140 for an individual, 16,460 for a couple, and $25,100 for a family of four. This option would cap the income level at which premium subsidies are available at 300 percent of the federal poverty level. That would eliminate eligibility for subsidies from individuals in the income range between $36,420-$48,560. Supporters say that employers will offer better alternatives than the options available on the exchanges, meaning that this change would reduce the deficit without necessarily increasing the number of uninsured. Opponents argue that losing a premium subsidy at 300 percent of the poverty level represents a substantial loss -- around $1,600 for an individual making just over $36,000 a year -- reducing the incentive to work more for people with incomes near the threshold. **Effect on deficit: -$109 billion.**

2. **Add a "public plan" to the Affordable Care Act health insurance exchanges.** This option will create a government-run insurance plan to compete with private plans. The public plan would charge premiums to fully offset its costs. The plan's payments to providers would be about 5 percent higher than Medicare pays but lower than what private insurance plans often pay. This will allow the federal plan to charge lower premiums and thus reduce government spending on insurance subsidies. Supporters say a public plan, not driven by a profit motive, would force other insurers to compete honestly and increase their efficiency. The Congressional Budget Office estimates this would lower premiums and encourage more than 1.5 million additional people to join the exchanges. Opponents counter that if the public plan is mismanaged or enrolls a sicker population, the federal government might have to bail it out. **Effect on deficit: -$158 billion.**

3. **Limit malpractice awards.** This option would impose nationwide standards on malpractice lawsuits limiting non-economic ("pain and suffering") damages to $250,000. Punitive damages would be limited to $500,000 or twice the amount of the economic damages incurred, whichever is greater. The statute of limitations on malpractice lawsuits would be one year for adults and three years for children (from the date of discovery of injuries). Supporters say limiting malpractice lawsuits would reduce the overall cost of health care, a major driver of projected deficits in the coming decades. Opponents counter that capping liability for doctors could result in a

higher level of medical injuries due to negligence, as some doctors would be less cautious than they are today. **Effect on deficit: -$64 billion.**

## Option 5: Reforms to Medicare

**Effect on 10-Year Deficit: -$855 Billion**

**Description Policy Changes**

1. **Provide seniors with “premium support” to purchase private health insurance.** In this option, people who turn 65 could leave traditional fee-for-service Medicare and receive a fixed dollar amount to purchase private health insurance on an insurance exchange. Savings would arise because the federal contribution would be smaller than under the current, traditional Medicare program. Given the assumed influx of seniors into the private market, this policy option could increase private sector competition and bring down insurance plan costs. Supporters say this option could ease some of the financial pressure on Medicare while also giving seniors more flexibility than standard Medicare. Opponents say the risk of health care inflation will be transferred to individuals instead of spread across the entire nation and the federal budget under this option, making health care more expensive for beneficiaries. **Effect on deficit: -$419 billion.**

2. **“Bundle” Medicare’s payments to health care providers.** Currently, Medicare payments are made primarily through a fee-for-service system, with separate payments for each office visit, lab test, surgical procedure, etc. delivered by providers. This creates incentives for providers to deliver unnecessary services. This policy option would provide for bundled payments to cover all services delivered during the course of a patient’s treatment over a defined period of time and would be based on the disease and average treatment costs. Supporters say this would encourage providers to hold down costs and coordinate care to avoid complications. Opponents fear bundling payments gives providers an incentive to skimp on needed care and could systematically encourage providers to overlook medically beneficial care in the first place. **Effect on deficit: -$47 billion.**

3. **Raise premiums for Medicare Parts B and D to cover 35 percent of program costs.** Medicare Part B’s Supplementary Medicare Insurance Program offers coverage for physician and hospital outpatient services. Part D offers prescription drug coverage. Benefits for the programs are partially funded from monthly premiums paid by enrollees. General federal revenues pay for the rest. Although the Part B premium was initially intended to cover 50 percent of the cost of benefits, that share has greatly declined because premiums were not allowed to increase at the same rate as benefits. Currently, beneficiaries pay only 25 percent of Part B program costs. Part D was set so that premiums cover about 25.5 percent of per-capita costs. Over five years, this budget option would raise the premiums that enrollees pay to 35 percent of the programs’ costs. Supporters say that even under this option, the public subsidy for most beneficiaries would be greater than intended when the programs began. Opponents say this option reduces disposable

income for most Medicare enrollees, who are being singled out to pay more out-of-pocket to reduce the federal budget deficit. **Effect on deficit: -$389 billion.**

## Option 6: Block Grant Medicaid

**Effect on 10-Year Deficit: -$703 Billion**

### Description of Policy Changes

1. **Cap the federal Medicaid contribution to states.** Washington and state governments currently share the costs of the Medicaid program, which provides health insurance primarily to low-income families with dependent children, the elderly and the disabled. For enrollees, the federal government has been paying about 62 percent of program costs, on average. The range is from 50 percent to 80 percent, depending on state income and how many individuals got coverage from the Medicaid expansion under the Affordable Care Act. Under current law, almost all of the federal funding is provided on an open-ended basis. This means that increases in the number of enrollees or in costs per enrollee automatically generate more federal payments to states. This option would cap the amount a state would get. States would get more support if enrollees increased, while the amount per-person would go up every year to keep pace with overall inflation in the economy instead of going up each year to keep pace with medical costs. Since medical costs tend to increase faster than general inflation, this would lead to much less federal financial support over time. Supporters say that capping federal spending would give states more responsibility for managing health spending. Opponents argue that a capped system with federal support that doesn't keep up with health care inflation would only save money by kicking the most vulnerable people out of this crucial safety-net program. They believe there is no way to achieve sufficient savings by running the program more efficiently, since Medicaid is already the most efficient health insurance program in the country. **Effect on deficit: -$703 billion.**

# Option 7: Reforms to Social Security

**Effect on 10-Year Deficit: -$1,065 Billion**

### Description of Policy Changes

1. **Gradually raise Social Security's full retirement age to 70.** The age at which workers can become eligible for full Social Security benefits depends on when they were born. For people born before 1938, the age for full eligibility was 65. For workers born between 1939 and 1959, the age for full retirement slowly increases up to 67 -- the age at which people born after 1960 are eligible for full benefits. At 62 workers can claim early retirement benefits, which are lower than full retirement benefits. This policy option would speed up the rate at which the full retirement age becomes 70 to help adjust for gains in life expectancy (e.g., those born in 1955 would have 67 as their full retirement age while it would be 70 for people born in or after 1973). Supporters say raising the retirement age will help to adjust Social Security for gains in life expectancy. Critics argue that this change is regressive because life expectancy has not increased as much for low-income individuals as for higher-earners, thus this cut in benefits is poorly targeted at those who depend on benefits the most. **Effect on deficit: -$28 billion.**

2. **Increase the maximum taxable earnings cap on the Social Security payroll tax.** Social Security is largely financed by a payroll tax on employees, employers and the self-employed. Only earnings up to a specified maximum, however, are subject to the tax. That maximum, which was $128,400 in 2018, automatically increases each year by the growth of average wages in the economy. Despite that indexing, the overall percentage of earnings in the country subject to the payroll tax has slipped in the past decade because earnings for the highest-paid workers have grown faster than the average. Thus, in 2018, 83 percent of wages fell below the maximum taxable amount. This option would increase the cap to 285,000, which covers 90 percent of wages -- where it was set in 1983. Supporters of this option do so because increasing the maximum taxable earnings for the payroll tax improves Social Security's long-term financial outlook. Opponents believe raising the earnings cap could weaken the link between the taxes that workers pay into the system and the benefits they receive. That link has been an important aspect of the Social Security system since its inception, but the increase in benefits under this option is modest relative to the increase in taxes. **Effect on deficit: -$785 billion.**

3. **Use "chained CPI" to determine COLAs in Social Security and other programs.** Each year the Social Security Administration adjusts monthly benefits based on the increase in the Consumer Price Index (CPI). The Consumer Price Index is designed to track price changes for consumer goods. Over the years, there has been evidence suggesting the CPI overstates inflation. This policy option would slow the growth of Social Security spending by using an alternative measure of inflation -- the "chained CPI" -- that many economists believe better captures price increases and related changes in consumer behavior. CBO estimates the chained CPI is likely to grow 0.3 percentage points more slowly than the standard CPI, which would mean smaller benefit increases for

recipients in the future. Supporters believe beneficiaries should not receive larger benefit increases than are necessary to protect them against inflation. Opponents worry this change would have a disproportionate effect on low-income Social Security recipients who need COLAs as currently calculated to keep from slipping into poverty. **Effect on deficit: -$202 billion.**

4. **Use "progressive price indexing" for initial Social Security benefits.** The initial levels of an individual's Social Security benefits are designed to keep up with economy-wide wage growth. This makes benefits more generous than if they were set to simply keep up with economy-wide inflation. That's because wages tend to rise faster than inflation. Future beneficiaries are also scheduled to receive more benefits because of increasing longevity. Under "progressive price indexing," benefits for the lowest-earning third of workers would continue to be indexed to wage growth. For the middle third, benefits would be determined by a blend of wage indexing and price indexing based on inflation. For the highest third of earners, benefits would be set based only on price indexing relative to inflation. Such changes would save more money over time and could solve over 70 percent of Social Security's long-term funding shortfall. Supporters believe this is a way to improve Social Security's finances while holding harmless those most dependent on benefits. Opponents believe this proposal would rely too heavily on benefit reductions to deal with Social Security's shortfall and impact the middle class too much. **Effect on deficit: -$77 billion.**

5. **Increase the special minimum Social Security benefit and index it to wage growth.** Social Security has a "special minimum benefit" designed to provide a boost for retirees who worked full careers but at low wages, thus receiving low Social Security retirement benefits. When created, however, the minimum benefit was indexed to inflation while the basic benefit formula in Social Security is indexed to wage growth, which has historically been higher than inflation. Because of past wage growth, there are no longer full-career retirees eligible for the special minimum benefit. This option would bring back the special minimum benefit for individuals with incomes at 125 percent of the federal poverty level (about $1,256 per month in 2017) and then index the minimum benefit to wage growth to match growth in the basic benefit going forward. Supporters say that anybody who has worked a full career should be entitled to a retirement income above the federal poverty level regardless of their past earnings. Opponents believe Social Security was not designed to be the sole source of income in retirement; workers should be saving to supplement Social Security, not depending on it for all of their retirement income. **Effect on deficit: +$27 billion.**

## Option 8: Eliminate Taxes on Capital Gains, Dividends and Estates

**Effect on 10-Year Deficit: +$2,161 Billion**

**Description of Policy Changes**

1. **Eliminate taxes on capital gains and dividends.** A capital gain is income from selling an asset for more than one paid for it. A dividend is income received during ownership of (primarily) corporate stock. The tax code currently gives a preference, in the form of a lower tax rate of 15 percent, to capital gains and dividend income. Under this option, the tax would be eliminated entirely. Supporters say removing such taxes will increase savings and investment because they will no longer be penalized relative to consumption, which is taxed very little at the federal level. Opponents counter that this option would dramatically increase deficits for benefits that will flow almost entirely to the most well-off, who receive a disproportionate amount of their income from capital gains. **Effect on deficit: +$1,896 billion.**

2. **Eliminate estate taxes.** The federal estate tax is a tax of up to 40 percent on inherited income over $11 million per person or $22 million for a married couple. The 2017 tax law doubled those thresholds from the previous $4.5 and $11 million respectively. The tax only applies to the value of an individual's inheritance over the exemption threshold. Of the roughly 2.7 million estates in the United States, only around 1,800 will be subject to taxation in a given year. Supporters say the estate tax is unfair double taxation, taxing the same income both when it is earned and when it is passed on to an inheritor. Opponents argue that very few small businesses and family farms are subject to the estate tax: they account for just 30 estates out of 2.7 million in a given year, meaning the elimination of the tax would exclusively benefit the most well-off. **Effect on deficit: +$265 billion.**

# Option 9: Either extend or repeal the 2017 Income Tax Cuts

**Effect on 10-Year Deficit: +650 Billion or -$1,169 Billion**

**Description of Policy Changes**

1. **Extend the cuts in the Individual Income Tax set to expire at the end of 2025, or repeal them entirely and immediately.** In December, 2017, Congress and the President passed large tax cuts into law. The changes to the tax code reduced individual income tax rates, corporate income tax rates, and also made numerous alterations in defining what counts as taxable income for individuals and corporations. The changes to the individual income tax code were set to expire at the end of 2025, at which point tax law will revert to the rates and definitions in place in 2017. This option allows you to either extend the individual income tax changes permanently or repeal them entirely to take effect immediately. Supporters for extending the cuts say unless these tax cuts are extended, Americans will face higher tax bills when these tax cuts expire and the sunset provisions in the tax code will needlessly complicate the lives of taxpayers and make it difficult for them to take advantage of the tax cuts. Supporters for repeal say the tax cuts were fiscally irresponsible and repealing them would help decrease large projected deficits. The individual income tax cuts, such as marginal rate reductions and lowering the estate and gift tax, overwhelmingly benefit the wealthy. At a time of increasing income inequality, repealing the cuts will at least slightly reduce that trend. **Extend the cuts effect on the deficit: +$650 billion; Repeal the cuts effect on the deficit: -1,169 billion.**

# Option 10: Limit Certain Tax Deductions, Credits and Exclusions

**Effect on 10-Year Deficit: -$643 Billion**

**Description of Policy Changes**

1. **Limit the amount of tax-free employer contributions for health care.** Most employees' health care benefits are a major component of their compensation, yet health insurance premiums are exempted from income and payroll taxes. Furthermore, large health benefits tend to reduce employee salaries and other taxable benefits -- an outcome that is often hidden from employees. As health care costs grow and consume larger portions of employees' compensation, the amount of income that goes untaxed grows, resulting in substantial revenue loss to the federal government. Employee cash wages also shrink, as more compensation is paid in the form of health insurance. Finally, more health insurance leads to faster growth of health care costs for the nation as a whole. This option would impose a tax-free limit at the level under which 75 percent of health insurance premiums in the country fit. This option also replaces the high-cost insurance tax from the Affordable Care Act because this option acts as a greater limit on the tax deduction than did the "Cadillac tax." Supporters say the exclusion of health benefits distorts the health care market by encouraging higher levels of spending on health care. The higher spending, in turn, contributes to health care inflation -- a serious long-term budget dilemma for the federal government. Opponents counter that sick individuals who utilize more health care services disproportionately suffer from the effects of a limitation on the size of this exclusion. **Effect on deficit: -$174 billion.**

2. **Limit the tax deduction for charitable contributions.** Current law allows taxpayers to deduct their contributions to charitable organizations, providing an incentive for such donations. Only taxpayers who itemize their deductions (less than 25 percent of all taxpayers in 2016) can benefit from this provision in the tax code. The number of itemizers is projected to decline by 60 percent after the 2017 tax cuts. This proposal would limit the deduction for charitable donations -- while still preserving a tax incentive -- by allowing taxpayers to deduct only contributions that exceed 2 percent of their income. The CBO estimates that this would likely reduce contributions among those giving less than two percent of their income but would probably not reduce contributions of those donating above 2 percent by very much. Supporters say a significant share of donations to charity would be made even without a deduction. Also, smaller contributions are apt to be a source of abuse among taxpayers, some of whom overstate their charitable donations. Opponents say this will lead total charitable giving to decline. This option will also encourage taxpayers to lump their donations together in one tax year to qualify for the deduction instead of spreading the gifts over several years. **Effect on deficit: -$176 billion.**

3. **Eliminate some tax preferences for educational expenses.** There are numerous deductions, credits and tax-advantaged savings accounts for education expenses in the tax code. The American Opportunity Tax Credit (AOTC), covers up to $2,500 in postsecondary education expenses and is phased out for family incomes over $180,000. The $2,000 Lifetime Learning tax credit can be used by multiple family members and for educational opportunities beyond postsecondary education. It is phased out for families with incomes above $134,000. Households can also deduct up to $2,500 in interest payments on student loans from their income. This deduction is phased out for incomes above $165,000. This option would eliminate the two credits and phase out the deduction for student loan interest slowly so as to not dramatically affect current loan holders. Supporters say the current credits and deductions do not target their benefits to households who need assistance the most because low-income families tend to not pay enough income taxes to benefit from these provisions. Providing education benefits through the tax code instead of using spending programs also adds complexity to the process of figuring out financial needs for education and fails to provide assistance at the time the money is needed -- during enrollment. Opponents say this option, especially if not combined with an increase in other forms of assistance, would increase the financial burden for education for those middle class families that make too much income to qualify for current educational aid spending programs. **Effect on deficit: -$188 billion.**

4. **Eliminate the rule that allows capital gains to escape taxation when inherited.** When an asset -- a business, property, stock, etc. -- is sold, you generally pay capital gains taxes on the amount the asset appreciated in value, or its “gain.” The “basis” of the asset is its price when initially purchased. The gain is income to the holder of the asset, but our tax code uses a different, and often lower rate for gains than it does traditional income. However, if you sell an asset you inherited, you are allowed to calculate its gain based on its value at the time of the owner’s death, not its basis when it was initially purchased. This “step-up” in the cost basis allows the appreciation to be exempt from capital gains taxes. This option would eliminate the step-up rule, and heirs would be responsible for paying the entire gain on an asset when it is eventually sold. Supporters say the original justification for the “step-up” was that heirs found it difficult to determine the original price paid for assets. In the digital age, such concerns are now overblown, if not moot. This option would also increase productive investments during people’s lifetimes because the current code incentivises people to hold onto assets longer than they would otherwise. Opponents say heirs will find it difficult to determine the original value of an asset if the decedent did not keep good records. **Effect on deficit: -$105 billion.**

## Option 11: Increase Taxes on Alcohol and Gasoline

**Effect on 10-Year Deficit: -$598 Billion**

**Description of Policy Changes**

1. **Increase taxes on alcoholic beverages to equalize treatment of different types of alcohol.** Current federal excise taxes treat alcoholic beverages in different ways. Taxes are much lower on beer and wine than on distilled spirits and are figured based on different liquid measures. This option would standardize the tax on alcoholic beverages by using the proof gallon (a standard measure of a liquid's alcohol content) as the measure for taxation. It would also increase the tax to $16 per proof gallon. On average, this would raise the tax on a 750 milliliter bottle of distilled spirits from about $2.14 to $2.54, the tax on a six-pack of beer from $.33 to $.81, and the tax on a 750 milliliter bottle of table wine from $.21 to $.82. Supporters say this tax increase would reduce the social costs of alcohol consumption and require consumers to pay a larger share of the expenses. Opponents counter that taxes on alcohol are regressive because taxes on alcohol take up a greater percentage of earnings for low-income families than for middle- and upper-income families. **Effect on deficit: -$83 billion.**

2. **Increase the gas tax by 35 cents and index it to inflation.** Revenues from federal taxes on motor fuels are credited to the Highway Trust Fund, which finances highway construction and maintenance. Those federal taxes, set in 1993, are currently 18.4 cents on each gallon of gasoline purchased and 24.4 cents on each gallon of diesel fuel. With state and local excise taxes included, total average tax rates nationwide are 40 cents per gallon for gasoline and 46.5 cents per gallon for diesel fuel. If the fuel taxes had been indexed to inflation, they would be around 15 cents higher than they are now. In addition to not having kept pace with inflation, fuel taxes have been lower than Highway spending every year since 2000. This option would raise federal taxes by 35 cents per gallon (to total 53.4 cents for gasoline) and then index them to inflation. Supporters say this increase would help deal with huge infrastructure needs, which would increase economic growth. Opponents believe an increase in the gas tax would harm economic growth and there are better ways to address congestion, such as tolls and congestion fees. **Effect on deficit: -$515 billion.**

## A NOTE ON ESTIMATES AND SOURCES:

**Unless otherwise indicated, all cost estimates in this booklet are in billions of dollars over a 10-year period.** For this exercise, cost estimates have been rounded to the nearest billion and in most cases do not take inflation into account.

Most of the policy descriptions and cost estimates in this booklet are from the Congressional Budget Office and its biannual publication, Budget Options. The most recent edition was published in December 2018. Some information and scoring is taken from older editions as well and can be seen at www.cbo.gov.

Proponent and Opponent arguments reflect certain political perspectives and do not necessarily represent Concord's views.

The options in this exercise are only a sample of those that are available. This is neither a comprehensive list nor one that reflects Concord Coalition recommendations.