

# Fiscal Commission Budget Plan

*April 18, 2012*



# FISCAL COMMISSION BUDGET PLAN

## Overview

### **Budget Control Act Established Budget for 2012 and 2013**

Last year's budget process was unusual, due to the high-level negotiations between the White House and Congressional Democrats and Republicans over raising the federal debt limit, but the resulting Budget Control Act achieved all of the essential elements of a traditional budget resolution, and effectively established the budget for 2012 and 2013. The law itself clearly states that it is intended to serve "in the same manner as for a concurrent resolution on the budget" for 2012 and 2013.

In many ways, the Budget Control Act was even more extensive than a regular Congressional budget. Notably, unlike a budget resolution that is not signed by the President, the Budget Control Act has the force of law. It set discretionary spending caps for 10 years, instead of the

one year normally set in a budget resolution. It also provided deeming resolutions for two years, allowing for enforcement of budget points of order. And it addressed mandatory spending and revenues by creating the Joint Select Committee on Deficit Reduction, which represented an enhanced version of the reconciliation process that can be established under a budget resolution. Finally, it backed up that process with a \$1.2 trillion sequester that would impose across-the-board cuts.

Although the Budget Control Act established a short-term budget for the nation, what is still needed is a longer-term plan that more fully addresses the

nation's long-term fiscal challenges. A longer-term plan will also be needed later this year as Congress confronts the pending expiration of the 2001 and 2003 tax cuts and the commencement of the sequestration process on defense and non-defense spending, which was triggered due to the Joint Select Committee on Deficit Reduction not reaching agreement.

### **Budget Control Act Contained Budget for 2012 and 2013**

#### SEC. 106. SENATE BUDGET ENFORCEMENT.

##### (a) IN GENERAL.—

(1) For the purpose of enforcing the Congressional Budget Act of 1974 through April 15, 2012, including section 300 of that Act, and enforcing budgetary points of order in prior concurrent resolutions on the budget, the allocations, aggregates, and levels set in subsection (b)(1) shall apply in the Senate in the same manner as for a concurrent resolution on the budget for fiscal year 2012 with appropriate budgetary levels for fiscal years 2011 and 2013 through 2021.

(2) For the purpose of enforcing the Congressional Budget Act of 1974 after April 15, 2012, including section 300 of that Act, and enforcing budgetary points of order in prior concurrent resolutions on the budget, the allocations, aggregates, and levels set in subsection (b)(2) shall apply in the Senate in the same manner as for a concurrent resolution on the budget for fiscal year 2013 with appropriate budgetary levels for fiscal years 2012 and 2014 through 2022.

PUBLIC LAW 112-25—AUG. 2, 2011

### **The Fiscal Commission Budget Plan**

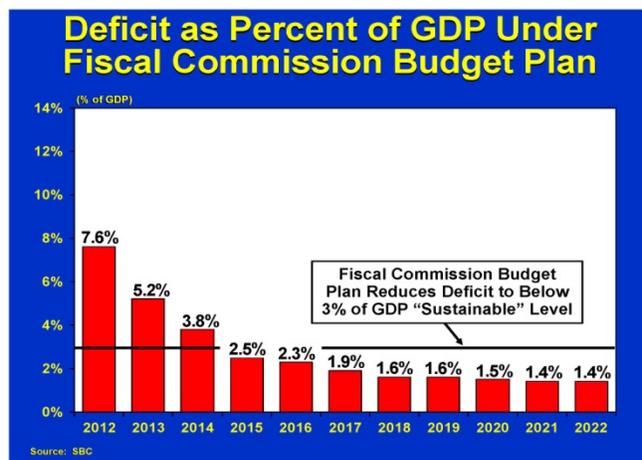
The Chairman's Mark for the Fiscal Year 2013 Senate Budget Resolution provides such a long-term budget plan. But, in a dramatic departure from "business-as-usual" in Washington, instead of presenting a typical Democratic or Republican budget framework, the Chairman's Mark lays out a bipartisan plan for deficit reduction that is already well-known and widely-regarded as the kind of balanced plan that will ultimately have to be adopted: the proposal of the National Commission on Fiscal Responsibility and Reform, also known as the Bowles-Simpson plan.

The Chairman's Mark, hereafter referred to as the Fiscal Commission Budget Plan, is a

comprehensive and balanced deficit reduction plan, designed to promote economic growth and return the nation to a sound long-term fiscal course. It recognizes the nation's fiscal challenges are too great to be solved by one party alone. The partisan finger-pointing has to stop. Both Democrats and Republicans have to be willing to move off of their fixed positions and find common ground. That means Democrats have to be willing to make reforms to entitlement programs that strengthen them for the long term, and Republicans have to be willing to support tax reform that will generate new revenue, simplify the tax code, and make us more competitive as a nation.

The Fiscal Commission Budget Plan is not perfect. But it does represent a middle-ground, consensus solution to the country's fiscal imbalance. It provides a model for the kind of bipartisan agreement that must be reached. It brings the deficit down, but does so in a responsible, fair, and balanced way – with discretionary savings, entitlement reform, and tax reform that lowers rates while raising revenue. It protects the most vulnerable. And it will move us toward a more prosperous future.

Since the original Fiscal Commission plan covered an earlier time period (2011-2020), the Fiscal Commission Budget Plan extends the Commission's proposals to cover the current 10-year budget window (2013-2022). It also makes other small modifications to the Fiscal



Commission plan – to account for legislation that has since been adopted and to adhere to budget resolution restrictions, such as the prohibition on including Social Security in a budget resolution's deficit totals. These modifications are explained later in this document. However, the overall budget resolution mirrors the original Fiscal Commission recommendations.

The Fiscal Commission Budget Plan significantly improves the long-term fiscal trajectory of the country. It provides a total of \$5.4 trillion of deficit reduction over the 10 years, 2013-2022, compared

to an alternative baseline (see box on pages 24-25 for a discussion of baselines). It reduces the deficit from 7.6 percent of GDP in 2012 to 1.4 percent of GDP in 2022. And it stabilizes the federal debt by 2015 and begins to bring it down after that. By 2022, the end of the 10-year budget window, gross debt falls to 93 percent of GDP and publicly-held debt falls to 67.5 percent of GDP.

### **Addressing Fiscal “Train Wreck” Coming in Early 2013**

Importantly, the Fiscal Commission Budget Plan addresses the fiscal “train wreck” that will otherwise occur in early 2013 when the nation will face: the expiration of all of the 2001 and 2003 tax cuts, including those for the middle-class; the triggering of the \$1.2 trillion across-the-board “sequester” cuts to defense and non-defense spending; and the expiration of several critical short-term stimulus measures. By calling for tax reform that restructures the tax code, the Fiscal Commission Budget Plan would restore needed certainty for individuals and businesses. And by repealing the sequester cuts and replacing them with other savings, it would avoid harmful cuts to defense and non-defense priorities.

## The Fiscal Commission's Guiding Principles and Values

As it puts the nation back on a sound long-term fiscal course, the Fiscal Commission Budget Plan adheres to the guiding principles and values presented in the Fiscal Commission report, "The Moment of Truth." These principles, as stated in the report, include:

**We all have a patriotic duty to make America better off tomorrow than it is today.** Americans are counting on us to pull together, not pull apart, to put politics aside and do the right thing for future generations. Our country's economic and national security depend on us putting our fiscal house in order.

**Don't disrupt the fragile economic recovery.** We need a comprehensive plan now to reduce the debt over the long term. But budget cuts should start gradually so they don't interfere with the ongoing economic recovery. Growth is essential to restoring fiscal strength and balance.

**Cut and invest to promote economic growth and keep America competitive.** We should cut red tape and unproductive government spending that hinders job creation and growth. At the same time, we must invest in education, infrastructure, and high-value research and development to help our economy grow, keep us globally competitive, and make it easier for businesses to create jobs.

**Protect the truly disadvantaged.** We must ensure that our nation has a robust, affordable, fair, and sustainable safety net. Benefits should be focused on those who need them the most.

**Cut spending we cannot afford – no exceptions.** We must end redundant, wasteful, and ineffective federal spending, wherever we find it. We should cut all excess spending – including defense, domestic programs, entitlement spending, and spending in the tax code.

**Demand productivity and effectiveness from Washington.** We must use fiscal restraint to promote reforms and efficiencies that force government to produce better results and save money. We should insist on consistent productivity growth in our government.

**Reform and simplify the tax code.** The tax code is rife with inefficiencies, loopholes, incentives, tax earmarks, and baffling complexity. We need to lower tax rates, broaden the base, simplify the tax code, and bring down the deficit. We need to reform the corporate tax system to make America the best place to start and grow a business and create jobs.

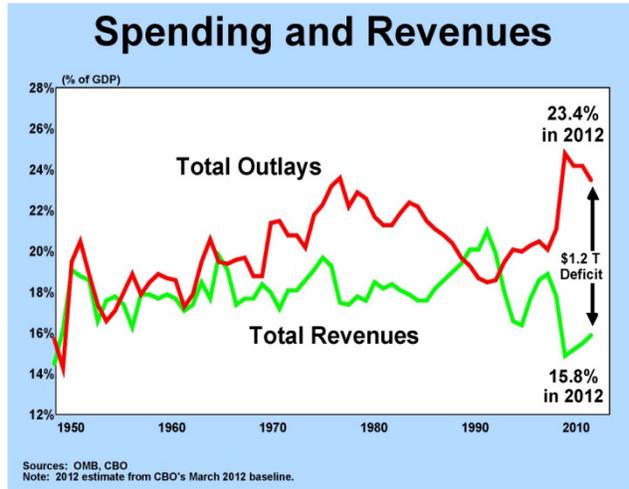
**Don't make promises we can't keep.** Our country has tough choices to make. We need to be willing to tell Americans the truth: We cannot afford to continue spending more than we take in, and we cannot continue to make promises we know full well we cannot keep.

**The problem is real, and the solution will be painful.** We must stabilize and then reduce the national debt, or we could spend \$1 trillion a year in interest alone by 2020. There is no easy way out of our debt problem, so everything must be on the table. A sensible, realistic plan requires shared sacrifice – and Washington must lead the way and tighten its belt.

**Keep America sound over the long run.** We need to implement policies today to ensure that future generations have retirement security, affordable health care, and financial freedom. To do that, we must make Social Security solvent and sound, reduce the long-term growth of health care spending, and tackle the nation's overwhelming debt burden.

## **A Comprehensive and Balanced Plan**

The Fiscal Commission Budget Plan recognizes that the nation faces both a spending and revenue problem. Spending is near its highest level as a share of the economy in more than 60 years. And revenue is near its lowest level as a share of the economy in more than 60 years. If



we try to solve the imbalance all on the spending side or all on the revenue side, it will never work. The required spending cuts or revenue increases would be so draconian or unreasonable they could never be sustained. Both spending and revenue are part of the problem, and both have to be part of the solution.

The Fiscal Commission Budget Plan, therefore, follows a balanced approach to deficit reduction. It includes savings from discretionary spending, including defense; and mandatory spending, including health care. And it includes fundamental tax reform that simplifies the tax code, lowers rates, and raises revenue.

A balanced approach that addresses spending and revenue, and tackles both mandatory and discretionary spending, is the only way we can fairly and responsibly put the nation back on a sound long-term fiscal path.

On the spending side, the Fiscal Commission Budget Plan reduces overall spending by \$3 trillion over 10 years compared to the alternative baseline, including the \$1.1 trillion (with debt service) in savings from last year's Budget Control Act and Full-Year Continuing Appropriations Act. It includes \$1.4 trillion in discretionary spending cuts, \$841 billion in mandatory spending cuts, and \$752 billion in lower interest payments. (Note: These estimates of savings exclude the reclassification of surface transportation outlays from discretionary to mandatory, which has no net effect on total spending.) Spending will fall from 23.4 percent of GDP in 2012 to 21.9 percent in 2022. Over the 10 years, spending will average 21.8 percent of GDP, below the level seen during the Reagan Administration.

On the revenue side, the Fiscal Commission Budget Plan includes fundamental tax reform that will lower rates, simplify the tax code, and spur economic growth, while gradually increasing revenue from 15.8 percent of GDP in 2012 to 20.5 percent of GDP in 2022. Over the 10 years, revenue will average 19.7 percent of GDP, roughly the same level seen during the Clinton Administration, when we experienced the longest period of uninterrupted economic growth in the nation's history. The Fiscal Commission Budget Plan raises \$2.4 trillion in revenue over the next 10 years compared to the alternative baseline. Compared to a current law baseline, it represents a \$1.8 trillion tax cut.

## The Fiscal Commission's Six-Part Plan

The Fiscal Commission Budget Plan follows the six major components presented in the Fiscal Commission report, "The Moment of Truth." These components, as stated in the report, include:

- 1) **Discretionary Spending Cuts:** Enact tough discretionary spending caps to force budget discipline in Congress. Include enforcement mechanisms to give the limits real teeth. Make significant cuts in both security and nonsecurity spending by cutting low-priority programs and streamlining government operations. Offer over \$50 billion in immediate cuts to lead by example, and provide \$200 billion in illustrative 2015 savings.
- 2) **Comprehensive Tax Reform:** Sharply reduce rates, broaden the base, simplify the tax code, and reduce the deficit by reducing the many "tax expenditures"—another name for spending through the tax code. Reform corporate taxes to make America more competitive, and cap revenue to avoid excessive taxation.
- 3) **Health Care Cost Containment:** Replace the phantom savings from scheduled Medicare reimbursement cuts that will never materialize and from a new long-term care program that is unsustainable with real, common-sense reforms to physician payments, cost-sharing, malpractice law, prescription drug costs, government-subsidized medical education, and other sources. Institute additional long-term measures to bring down spending growth.
- 4) **Mandatory Savings:** Cut agriculture subsidies and modernize military and civil service retirement systems, while reforming student loan programs and putting the Pension Benefit Guaranty Corporation on a sustainable path.
- 5) **Social Security Reforms to Ensure Long-Term Solvency and Reduce Poverty:** Ensure sustainable solvency for the next 75 years while reducing poverty among seniors. Reform Social Security for its own sake, and not for deficit reduction.
- 6) **Process Changes:** Reform the budget process to ensure the debt remains on a stable path, spending stays under control, inflation is measured accurately, and taxpayer dollars go where they belong.

### Budget Outlook under Fiscal Commission Budget Plan

(% of GDP)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Deficit	-7.6	-5.2	-3.8	-2.5	-2.3	-1.9	-1.6	-1.6	-1.5	-1.4	-1.4
Publicly-Held Debt	73.2	77.2	78.5	77.0	75.3	73.8	72.4	71.3	70.0	68.7	67.5
Gross Debt	103.8	107.6	108.3	105.5	103.0	101.1	99.4	98.0	96.4	94.7	93.0
Spending	23.4	22.8	22.4	21.9	21.9	21.6	21.4	21.6	21.6	21.7	21.9
Revenue	15.8	17.6	18.6	19.4	19.6	19.7	19.8	19.9	20.1	20.3	20.5

## Discretionary Spending Cuts

The Fiscal Commission Budget Plan matches the overall discretionary funding levels provided in the Fiscal Commission plan for 2013 through 2020, and then extends those levels through 2022 with an adjustment for inflation. It provides \$1,043 billion in discretionary budget authority for 2013. This includes \$1.8 billion in additional funding for program integrity initiatives but excludes disaster and supplemental war funding. Overall discretionary spending will fall from 8.4 percent of GDP in 2012 to 5.8 percent in 2017 and to 4.8 percent in 2022.

The Fiscal Commission Budget Plan recognizes and builds upon the Budget Control Act (BCA). That bipartisan agreement, plus savings achieved as part of the final 2011 continuing resolution, reduced discretionary spending by about \$900 billion below CBO's March 2011 baseline estimate, or about two-thirds of the reductions contemplated by the Fiscal Commission.

Although the Fiscal Commission Budget Plan matches the overall discretionary levels included in the Fiscal Commission recommendations, the enactment of the BCA necessitates a reexamination of the firewalls between the security and nonsecurity categories. The BCA included an initial set of security and nonsecurity firewalls through 2013, but at different levels than the Fiscal Commission proposed. Congress has since enacted 2012 appropriations bills at the security and nonsecurity levels in the BCA. Recognizing intervening Congressional action, the Fiscal Commission Budget Plan maintains firewalls between the two categories, but at ratios in line with the BCA, reduced proportionally to meet the Fiscal Commission's overall discretionary funding level. Consistent with the Fiscal Commission, the Fiscal Commission Budget Plan includes firewalls between the two categories through 2015. This will ensure that spending discipline will be applied to all parts of the budget.

Discretionary Enforcement – The Fiscal Commission Budget Plan relies on several enforcement mechanisms that were recommended by the Fiscal Commission, many of which were also included in the BCA. These include the discretionary spending limits and firewalls between security and nonsecurity spending. Relative to the BCA, the Fiscal Commission Budget Plan extends the overall limit by one year, to 2022, and extends the firewalls by two years, to 2015. Also included is a 60-vote point of order enforcing these levels. Should the limits be exceeded by Congress, automatic cuts will bring funding into line with the limits.

The Fiscal Commission Budget Plan also assumes disaster funding consistent with the recommendations of the Fiscal Commission and enacted in the BCA. The strict definition for what qualifies for this funding combined with an overall annual limit results in a more honest and responsible approach to budgeting for disasters. The Fiscal Commission Budget Plan also allows for adjustments for emergency funding only if it is consistent with the BCA, which prohibits the use of global emergency designations and is enforced with a 60-vote point of order. The Fiscal Commission Budget Plan recognizes that more can be done to ensure that emergency funding is only provided for true emergencies. The Fiscal Commission Budget Plan description includes a policy statement laying out additional options proposed by the Fiscal Commission that Congress should consider to prevent the abuse of emergency spending.

War Funding – The Fiscal Commission Budget Plan is consistent with the Fiscal Commission’s approach to war funding, which states that: *“Discretionary spending constraints must not ignore spending for the conflicts in Iraq and Afghanistan and other future conflicts. At the same time, budget rules should not determine war policy. In order to balance these competing goals, the commission chose as a starting point the more gradual of CBO’s troop drawdown scenario, while providing the President and Congress with an opportunity to adjust the path to more accurately track with actual projections of OCO spending needs.”*

The Fiscal Commission Budget Plan creates a cap for war funding, also known as Overseas Contingency Operations (OCO) funding, at the level of the President’s request. The cap recognizes the end of the war in Iraq and the drawdown of forces in Afghanistan, and prevents the use of OCO funding as a way around discretionary limits.

Transportation and Infrastructure – The Fiscal Commission Budget Plan adopts the Fiscal Commission’s proposal to fully fund the Highway Trust Fund, instead of relying on deficit spending to fund surface transportation. It assumes enactment of the Fiscal Commission proposals to dedicate a 15-cents per gallon gas tax increase to the Highway Trust Fund, reclassify surface transportation outlays as mandatory spending (they are currently classified as discretionary), and limit spending to revenues collected by the Trust Fund.

Government Reductions and Efficiency Savings – The Fiscal Commission Budget Plan includes the recommendations from the original Fiscal Commission plan to capture savings through administrative reductions and improved productivity. The Fiscal Commission Budget Plan establishes a deficit-reduction reserve fund to reduce administrative costs by continuing a federal pay freeze, workforce reductions, and limits on federal travel, printing and vehicle expenses and for the sale of excess real property. It also establishes a deficit-reduction reserve fund for the establishment of a Cut-and-Invest Committee to eliminate low-priority discretionary spending or duplicative programs and to reinvest a portion of these savings into high-priority investments.

<b>Discretionary Spending in Fiscal Commission Budget Plan</b>											
(\$ in billions; non-war, non-emergency budget authority)											
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Security	684	683	689	695							
Nonsecurity	<u>359</u>	<u>360</u>	<u>362</u>	<u>366</u>							
Total	1,043	1,043	1,051	1,061	1,072	1,084	1,095	1,106	1,117	1,131	1,143

Note: Totals include program integrity funding, which would be reserved from initial allocations to the Appropriations Committee. Firewalls are in place from 2013-2015.

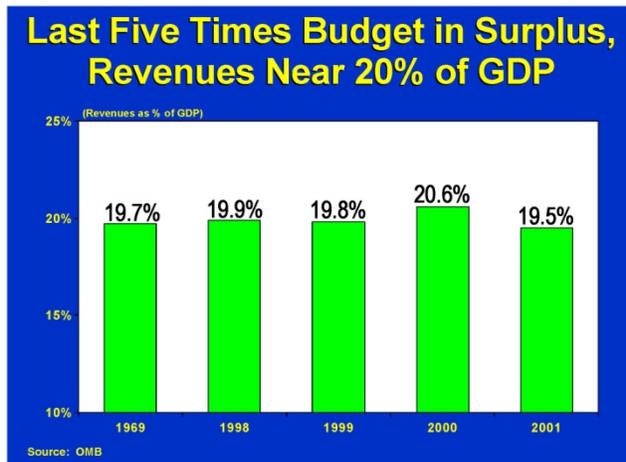
## Comprehensive Tax Reform

The Fiscal Commission Budget Plan assumes fundamental tax reform that simplifies the tax code, lowers rates, improves progressivity, makes the economy more competitive, and raises revenue. The Fiscal Commission Budget Plan raises \$2.4 trillion in revenue over the next 10 years compared to the alternative baseline. Compared to a current law baseline, it represents a \$1.8 trillion tax cut. The proposal would result in revenues gradually increasing from 15.8 percent of GDP in 2012 to 20.5 percent of GDP in 2022.

### The Need for More Revenue

The Fiscal Commission Budget Plan recognizes that revenues are near their lowest level as a share of the economy in more than 60 years and that revenues have to be part of the solution to our fiscal imbalance.

Looking at revenues in isolation has led some to argue that revenues should be held to their historical average over the past 40 years – about 18 percent of GDP. But revenues at that level would not have produced a balanced budget in any of the last 40 years, because spending exceeded 18 percent of GDP in each of those years.



On the five occasions when the budget was in surplus since 1969, revenues ranged between 19.5 percent and 20.6 percent of GDP. It is this higher level of revenue that provides a more useful guidepost for what is needed if we hope to dig the nation out of its fiscal hole and set the budget on a sustainable path. In fact, revenues likely will need to be at or above the high end of this range, because the country now also faces an unprecedented demographic shift with the retirement of the baby boom generation.

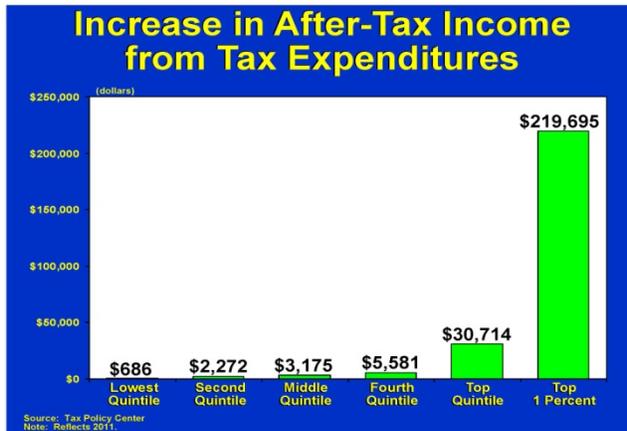
### The Need for Tax Reform

Tax reform has to be part of the solution to addressing our fiscal problems. The current state of the tax code is simply indefensible. The code is out-of-date, inefficient, and hurting U.S. competitiveness. It has grown unacceptably complex over the years and is now riddled with complicated and arcane provisions. The result is that, even for the most conscientious individuals and businesses, it is often difficult to comply with tax laws. To make matters worse, Congress has imposed arbitrary expiration dates on many tax provisions – creating enormous uncertainty for individuals and businesses. This uncertainty is particularly prevalent this year, due to the expiration of all of the 2001 and 2003 tax cuts, including those for the middle class, scheduled for the end of this year.

The corporate tax system suffers from many of the same issues as the individual side. Our tax laws, which were written decades before the rapid growth of globalization, fail to take into account the demands of a 21<sup>st</sup> Century economy. Reforming the way we tax businesses is essential, both to meeting our fiscal challenges and to cultivating a climate in which American businesses can succeed and American workers can thrive.

## Scaling Back Tax Expenditures

Much of the complexity of the tax code can be traced to the proliferation of tax expenditures – the countless preferences, credits, deductions, and exclusions that have been added to the code over the years, for both individuals and businesses. In 2011, tax expenditures – which amount to spending through the tax code – cost the Treasury about \$1.2 trillion, roughly equivalent to what was spent on all discretionary spending, excluding war costs, that year. These tax expenditures generally receive little scrutiny and are rarely reviewed to determine if they are achieving their intended goals.



By scaling back some tax expenditures, we can simplify the tax code and vastly improve the economy's efficiency and competitiveness. This will spur economic growth, and allow us to generate more revenue.

Scaling back some tax expenditures also has the benefit of improving the progressivity of the tax code. As a whole, tax expenditures are clearly worsening the disparity between how the wealthy are taxed compared to everyone else. In 2011, the top one percent of taxpayers

received an increase in after-tax income of almost \$220,000 from tax expenditures. In comparison, the middle quintile of taxpayers received about \$3,200 from tax expenditures.

## Tax Reform in the Fiscal Commission Budget Plan

The Fiscal Commission Budget Plan, therefore, proposes fundamental and comprehensive tax reform as presented in the Fiscal Commission report. The basic goals of this tax reform are to lower tax rates, broaden the tax base, and cut spending in the tax code; reduce the deficit; maintain or increase progressivity of the tax code; and make America the best place to start a business and create jobs.

The Fiscal Commission Budget Plan description includes a policy statement on tax reform that reflects the recommendations of the Fiscal Commission, and which are summarized below:

Individual tax reform should:

- cut rates across the board, and reduce the top rate to no higher than 29 percent;
- dedicate \$2.2 trillion of new revenue, relative to the alternative baseline, to deficit reduction through 2022<sup>1</sup>; and
- simplify and better target tax expenditures to promote work, home ownership, health care, charity, and savings, while increasing or maintaining progressivity.

<sup>1</sup> The \$2.2 trillion of new revenue from tax reform is different than the figure in the original Fiscal Commission recommendations because the Fiscal Commission Budget Plan covers a different time period, going through 2022, and is measured relative to a different baseline. The original Fiscal Commission report measured changes relative to a baseline that assumed the extension of the 2001 and 2003 tax cuts only for households with income below \$250,000, while the Fiscal Commission Budget Plan uses the alternative baseline described on pages 24-25.

Corporate tax reform should:

- establish a single corporate tax rate no higher than 29 percent;
- eliminate all tax expenditures for businesses; and
- move to a competitive territorial system.

Tax reform should include appropriate transition rules that minimize economic distortions, achieve the necessary revenue targets, and allow taxpayers to adapt to the changes.

And Congress should enact a “failsafe” that will automatically reduce tax expenditures should Congress and the Administration not succeed in enacting legislation that meets the specified revenue targets.

### **The Fiscal Commission “Illustrative” Tax Reform Option**

Although specific tax reform policies ultimately will be determined by the tax writing committees, the Fiscal Commission proposed a specific tax reform proposal in its “illustrative” tax reform option. The Commission’s “illustrative” option demonstrated how eliminating or scaling back tax expenditures can result in lower rates, improved competitiveness, and a more progressive tax code. The “illustrative” option included the following:

- Instead of six tax brackets for individuals, there would be just three brackets with rates of 12 percent, 22 percent, and 28 percent.
- On the corporate side, there would be a single rate of 28 percent, and active foreign-source income would be taxed under a territorial system.
- The Alternative Minimum Tax would be repealed, as would the phase out of personal exemptions and the limitation on itemized deductions.
- Income from capital gains and dividends would be taxed as ordinary income, or a portion could be excluded from income if it is offset by a higher top rate to maintain progressivity.
- The mortgage interest and charitable deductions would be reformed, better targeting these tax benefits.
- The Child Tax Credit and Earned Income Tax Credit would be preserved to help working families.
- The exclusion for employer-provided health insurance would be modified, capping its value for five years and then phasing it out over 20 years.
- Interest on newly issued state and local bonds would be taxable.
- Retirement savings accounts would be consolidated, with a cap on tax-preferred contributions, and the saver’s credit would be expanded.
- Nearly all other tax expenditures would be eliminated.

### **Other Revenue**

In keeping with the original Fiscal Commission recommendations, the Fiscal Commission Budget Plan calls for roughly \$200 billion of additional revenue beyond tax reform. Most of this additional revenue is dedicated to the Highway Trust Fund. In addition, the Fiscal Commission Budget Plan reflects adoption of the Chained CPI, which affects those parameters of the tax code that are indexed for inflation.

## Health Care Savings

The Fiscal Commission Budget Plan recognizes that rising health care costs represent the single largest factor contributing to the nation's long-term fiscal imbalance. Although the Affordable Care Act (ACA) adopted in 2010 made considerable progress in changing health care incentives and bending the cost curve on health care, it is clear that more will need to be done.

The Fiscal Commission Budget Plan, like the original Fiscal Commission plan, does not seek to re-open the health care reform debate. The health reform law laid the foundation for long-term health care savings by including critical delivery system reforms. These reforms are designed to reward health providers who produce better health outcomes at lower cost, rather than simply paying providers more for more procedures.

For example, health reform included higher reimbursement for preventive services and patient-centered primary care, bundled payments for related services, and provided the opportunity for accountable care organizations that assume responsibility for the continuum of care to share in savings realized from greater coordination. The reform also included other important provisions to hold insurance companies accountable and expand access to coverage for particularly vulnerable populations immediately. Today, as a result of the health reform law, insurance companies can no longer deny coverage to children based on pre-existing conditions, impose lifetime limits on coverage, or drop an enrollee when they become ill; and young people are able to stay on their parents insurance until age 26.

The Fiscal Commission Budget Plan assumes reform of the Medicare Sustainable Growth Rate (SGR) for physician payment updates – known as the “Doc fix.” It assumes the cost of reforming the SGR will be fully offset by achieving savings within the 10-year budget window from some of the health savings options proposed in the Fiscal Commission plan.

The Fiscal Commission made additional recommendations aimed at incentivizing increased efficiency, improving care coordination, and controlling Medicare cost growth. These included aggressively implementing and expanding payment reform pilots contained in the ACA and eliminating the provider carve-outs from the Independent Payment Advisory Board charged with recommending changes in Medicare payment policies. In addition, the Commission plan established a long-term global budget for total health care spending, including spending in the tax code.

## Other Mandatory Savings

The Fiscal Commission Budget Plan also assumes the adoption of those non-health mandatory savings included in the Fiscal Commission plan that have not already been enacted. In reforming spending in this area, it seeks to adhere to the Fiscal Commission's goals of: *"protecting the disadvantaged; ending wasteful spending; and looking to the private sector."* Specifically, it assumes the adoption of the following other mandatory savings recommendations in the Fiscal Commission plan:

Federal Workforce Retirement – The Fiscal Commission recommended creating a federal workforce entitlement task force to analyze civil service and military retirement programs. Military and civilian pensions are both out of line with pension benefits available to the average worker in the private sector, and in some cases, out of line with each other across different categories of federal employment. The review would consider reforms while keeping in mind the unique nature of military service, and will have a 10-year savings target of \$100 billion. Recommendations of the task force would receive fast track consideration in Congress. Congress has already enacted some federal retirement changes for new federal employees in the Middle Class Tax Relief and Job Creation Act.

Agriculture – Reduce net spending on mandatory agriculture programs by \$14 billion from 2013 through 2022 and allow the Agriculture Committees to reallocate funds as necessary according to their priorities in the upcoming Farm Bill.

Federal Student Loans – Eliminate in-school interest subsidies for undergraduate federal student loan programs. Over the past several years, federal student loan policy has emphasized the principle of focusing student loans subsidies on reducing the burden of repayment and providing generous repayment protection. The Fiscal Commission Budget Plan targets hardship relief for loan payment by making student loans subsidies based on family income prior to the student's enrollment in college, rather than on the student's ability to pay after completion. Last year, the Budget Control Act eliminated subsidized student loans for graduate and professional students.

Pension Benefit Guaranty Corporation – Allow the Pension Benefit Guaranty Corporation to increase both flat and variable rate premiums. This will restore solvency, cover current shortfalls, and sharply reduce the likelihood of a government rescue in the future.

Abandoned Mines Payments – Eliminate payments from the Abandoned Mine Land fund to states and tribes certified as having completed reclamation of their abandoned coal mines.

Index Mandatory User Fees – Index applicable user fees for inflation to match market rates so that the burden of maintaining these programs is not shifted to taxpayers.

Power Marketing Administrations – Restructure the federal power marketing administrations to price electricity at market rates. Selling power at market rates would generate significant additional revenue each year.

Tennessee Valley Authority – Add a surcharge for all electricity transmitted by the Tennessee Valley Authority (TVA) so that TVA's customers, rather than American taxpayers at large, can cover TVA's costs.

Post Office – Give the Post Office greater management authority by reversing restrictions that prevent the Postal Service from taking steps to survive, such as shifting to five-day delivery and gradually closing down post offices no longer able to sustain a positive cash-flow.

Spectrum User Fees – The Middle Class Tax Relief and Job Creation Act enacted a Fiscal Commission recommendation to allow the FCC to assign radio spectrum licenses by competitive bidding. Proposals to encourage spectrum efficiency could generate additional mandatory receipts.

## **Social Security**

The Fiscal Commission Budget Plan intends to fully match the recommendations of the original Fiscal Commission plan. However, under the Congressional Budget Act of 1974, which established the Congressional budget process, it is prohibited for Social Security to be included in the deficit totals of a budget resolution. As a result, Social Security reforms will have to be considered separately. The Fiscal Commission Budget Plan description does include a Statement of Policy indicating that it supports the Fiscal Commission recommendations regarding Social Security.

Under the Fiscal Commission plan, reforms would be made to Social Security that would restore the program's 75-year solvency and put the program on a sustainable path beyond 75 years.

Importantly, the Fiscal Commission required that any savings achieved from changes to Social Security would be used only to extend the program's solvency, and would not be used for deficit reduction.

The Fiscal Commission also recommended changes to Social Security that would strengthen the safety net for Americans by providing: a new minimum benefit guarantee; a bump up in benefits for our oldest seniors and for the long-time disabled; and a new hardship exemption for those unable to work past 62.

The Fiscal Commission Budget Plan recognizes that Social Security can and should be strengthened for future generations in ways that maintain or improve the progressivity of the program, increase the minimum benefit, and protect our oldest beneficiaries and long-time disabled.

## Process Changes

The Fiscal Commission Budget Plan assumes the adoption of the budget process changes proposed in the Fiscal Commission plan, including:

Chained CPI – The Fiscal Commission Budget Plan adopts the Chained Consumer Price Index for All Urban Consumers (C-CPI-U) for all federal programs and tax provisions that currently rely on the CPI-U and CPI-W. The C-CPI-U was developed by the Bureau of Labor Statistics as an improved cost of living measure. The C-CPI-U incorporates technical improvements that allow it to more appropriately adjust for substitution bias – accounting for consumers purchasing alternative products when prices rise. Since the budget resolution cannot include changes to Social Security in the deficit totals, savings from applying C-CPI-U to Social Security are not included in the Fiscal Commission Budget Plan.

Debt Stabilization - The Fiscal Commission Budget Plan description includes a statement of policy that Congress and the President should remain vigilant to ensure the budget remains on course to primary balance and a stable debt-to-GDP ratio. This should include an enforcement mechanism to ensure that the budget achieves primary balance within five years, and the debt is stabilized thereafter. Congress and the President should enact budget stabilization legislation if the budget (excluding interest costs) is projected to have a deficit at the end of five years, or if the debt held by the public has not stabilized thereafter. The debt stabilization process should include fast track procedures to facilitate the changes in law necessary to protect the federal budget, and comport with the recommendations set forth in the bipartisan Fiscal Commission report.

Program Integrity – The Fiscal Commission Budget Plan provides for adjustments to the discretionary spending limits in 2013-2022 for program integrity initiatives to combat health care fraud, allow for the Social Security Administration to conduct continuing disability reviews and Supplemental Security Income redeterminations of eligibility, support IRS tax enforcement, and facilitate unemployment insurance improper payment reviews.

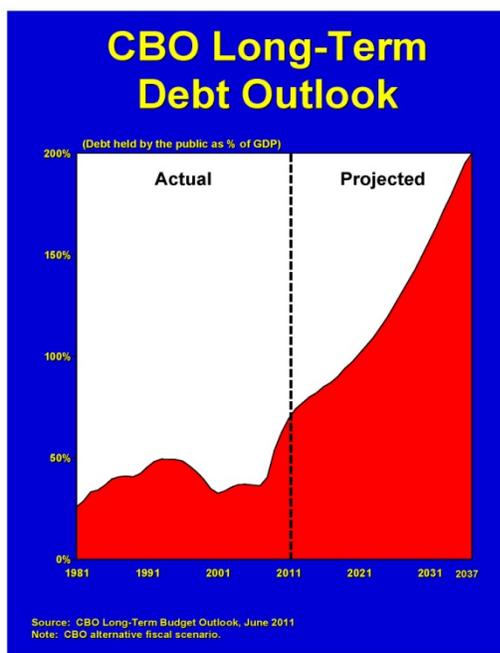
Improved Triggers for Extending Unemployment Benefits – The Fiscal Commission Budget Plan includes a deficit-neutral reserve fund for legislation that establishes a more effective set of trigger mechanisms for the unemployment compensation program. Consistent with the Fiscal Commission's recommendations, the improved triggers would be designed to both turn on more quickly when unemployment levels exceed a threshold and are increasing, and remain on should unemployment levels remain elevated at levels above a set threshold. Similarly, benefits should automatically turn off when unemployment falls below the threshold level. A second trigger could automatically turn on and off a second tier of extended benefits in the hardest hit states. These triggers would help ensure a reliable, timely intervention when needed, and would divorce key countercyclical programs from the political whims of Congress.

## Economics

### The Debt Threat

While the nation has rebounded from the severe recession of 2008 and 2009, and the near-term economic outlook has been improving, the Fiscal Commission Budget Plan recognizes the significant threat posed to the nation's economy and to the well-being of our citizens from rising federal debt.

The need for action on the federal debt is clear. Admiral Mike Mullen, the former Chairman of the Joint Chiefs of Staff, stated that "our national debt is our biggest national security threat." In 2012, gross debt will reach 104 percent of the country's gross domestic product, well above the 90 percent threshold that many economists believe marks the danger zone.



Two leading economists, Dr. Carmen Reinhart of the Peterson Institute for International Economics and Dr. Kenneth Rogoff of Harvard University, studied the impact of debt on economies. They concluded: "We examine[d] the experience of 44 countries spanning up to two centuries of data on central government debt, inflation and growth. Our main finding is that across both advanced countries and emerging markets, high debt to GDP levels (90 percent and above) are associated with notably lower growth outcomes." If their results hold true for the United States, and if we don't change our long-term course, it means our debt will result in lower economic growth, fewer jobs, stagnant incomes, and a lower standard of living for the American people. And it will limit the country's ability to grow and prosper in the future.

Over the long term, due to the retirement of the baby boom generation, rising health care costs, and inadequate revenues, the budget outlook is

even worse. According to the Congressional Budget Office (CBO), these long-term issues could push the federal debt to 200 percent of GDP by 2037.

The worst thing we could do would be to wait to act until the debt buildup sparks a financial and economic crisis. If foreign creditors were to stop buying U.S. debt, interest rates could spike and the economy could be thrown into a period of turmoil. We need to act now, before a crisis hits, so that changes can be phased in slowly and carefully, and so that the most vulnerable in our society can be protected. If we wait until a crisis hits, inevitably, seniors, children, and low-income populations will be the hardest hit.

Putting in place a long-term deficit reduction plan can also help the economy in the near term by providing certainty about the future fiscal path. In testimony before the House Budget Committee last year, Federal Reserve Chairman Bernanke described the benefits of acting sooner rather than later: "Acting now to develop a credible program to reduce future deficits would not only enhance economic growth and stability in the long run, but could also yield substantial near-term benefits in terms of lower long-term interest rates and increased consumer and business confidence."

## **Economic Projections and Assumptions**

The Fiscal Commission Budget Plan was prepared based on CBO's January 2012 current law baseline assumptions for the future path of the U.S. economy. These same assumptions were used by CBO in its March update to the budget baseline.

CBO projects a continued economic recovery from the severe recession that began in December 2007. CBO expects real economic growth to average 2.9 percent per year through 2022. The unemployment rate is expected to average 6.7 percent over that period, with substantial moderation as the economy further recovers, ultimately subsiding to 5.3 percent. GDP deflator inflation is expected to average 1.7 percent per year and CPI inflation is expected to average 2.0 percent. Ten-year Treasury note interest rates are expected to average 4.1 percent – somewhat higher than recent rates, but fairly low compared with historical average rates.

Notably, CBO's assumptions reflect economic information available in December 2011. At that point, temporary extensions for the payroll tax cut and unemployment insurance extensions had only been agreed upon through February 2012. Those measures have subsequently been extended through December 2012. CBO's near-term estimate of growth is, therefore, probably lower than it would be if the forecast were updated with full-year extensions of these programs.

In addition, some recent economic data indicate the recovery may be strengthening. In the fourth quarter of 2011, the economy grew at a 3.0 percent annualized rate. And we have also seen some improvement in the labor market. Since March of 2010, more than 4 million private-sector jobs have been added. The unemployment rate has declined to 8.2 percent – far lower than the 9.0 percent rate experienced as recently as last September. New life also seems to be coming to the manufacturing sector. The ISM manufacturing survey has indicated that the manufacturing sector has expanded for 32 consecutive months. If CBO were to update its projections, factors such as these would likely lower unemployment rate projections in the near-term, which would improve deficit projections to some degree.

<b>Comparison of Economic Assumptions</b>			
<u>Real GDP Growth*</u>	<u>2012</u>	<u>2013</u>	<u>2012-22 Average</u>
President's Budget	2.7	3.0	3.2
CBO	2.2	1.0	2.9
Blue Chip	2.3	2.6	2.7
<u>GDP Price Index*</u>			
President's Budget	1.7	1.7	1.8
CBO	1.3	1.4	1.7
Blue Chip	1.8	2.0	2.1
<u>CPI*</u>			
President's Budget	2.2	1.9	2.1
CBO	1.7	1.5	2.0
Blue Chip	2.4	2.2	2.4
<u>Unemployment Rate**</u>			
President's Budget	8.9	8.6	6.6
CBO	8.8	9.1	6.7
Blue Chip	8.2	7.7	6.5
<u>10-Year Treasury Note Rate**</u>			
President's Budget	2.8	3.5	4.6
CBO	2.3	2.5	4.1
Blue Chip	2.3	2.9	4.3
<u>Nominal GDP Growth*</u>			
President's Budget	4.5	4.7	5.0
CBO	3.6	2.4	4.7
Blue Chip	4.1	4.6	4.8
* Year-over-year percent change			
** Annual average			
Note: slight differences may appear due to rounding.			
Source: President's Budget; Blue Chip March-April 2012; CBO.			

## Reserve Funds

The Fiscal Commission Budget Plan includes a number of reserve funds that will allow the Chairman of the Budget Committee to revise committee allocations, budgetary aggregates, limits, and other levels in the resolution for deficit-neutral or deficit-reduction legislation to address the following priorities:

**DEFICIT-REDUCTION RESERVE FUND FOR RECOMMENDATIONS OF THE FISCAL COMMISSION:** The Fiscal Commission Budget Plan includes a deficit-reduction reserve fund for legislation that includes the recommendations of the Fiscal Commission and ensures that deficit reduction achieved as a result of enacting the Fiscal Commission plan would be preserved to improve America's long-term fiscal stability.

**DEFICIT-NEUTRAL RESERVE FUND TO RECLASSIFY SURFACE TRANSPORTATION SPENDING:** The Fiscal Commission Budget Plan includes a reserve fund for deficit-neutral legislation that ends the hybrid funding structure for surface transportation and reclassifies outlays from the Highway Trust Fund as mandatory spending. This funding change will help reduce waste, increase accountability, and enforce discipline.

**DEFICIT-NEUTRAL RESERVE FUND TO UNLEASH AGENCIES TO IDENTIFY SAVINGS:** The Fiscal Commission Budget Plan includes a deficit-neutral reserve fund for legislation that requires agencies to identify inefficient, unproductive spending and identify savings in order to adhere to spending caps.

**DEFICIT-REDUCTION RESERVE FUND FOR THE ESTABLISHMENT OF A CUT-AND-INVEST COMMITTEE:** The Fiscal Commission Budget Plan includes a deficit-reduction reserve fund for legislation to establish a Cut-and-Invest Committee to cut low-priority spending, increase high-priority investment, and consolidate duplicative federal programs.

**DEFICIT-REDUCTION RESERVE FUND FOR ADMINISTRATIVE REFORMS TO REDUCE SPENDING AND MAKE THE FEDERAL GOVERNMENT MORE EFFICIENT:** The Fiscal Commission Budget Plan includes a deficit-reduction reserve fund for legislation that: reduces Congressional and White House budgets; continues a pay freeze for federal employees (including Members of Congress); reduces the size of the federal government workforce through attrition; reduces federal travel, printing, and vehicles expenses; or eliminates Congressional earmarks.

**DEFICIT-NEUTRAL RESERVE FUND FOR TAX RELIEF:** The Fiscal Commission Budget Plan includes a reserve fund for deficit-neutral legislation that provides for tax relief.

**DEFICIT-REDUCTION RESERVE FUND FOR TAX REFORM:** The Fiscal Commission Budget Plan includes a deficit-reduction reserve fund for legislation that would reduce the size and number of tax expenditures, lower marginal tax rates for individuals and corporations, simplify the code, improve fairness, reduce the tax gap, and spur economic growth.

**DEFICIT-NEUTRAL RESERVE FUND FOR THE SUSTAINABLE GROWTH RATE OF THE MEDICARE PROGRAM:** The Fiscal Commission Budget Plan provides a reserve fund for deficit-neutral legislation that permanently reforms or replaces the Medicare sustainable growth rate (SGR) formula for physician payments.

**DEFICIT-REDUCTION RESERVE FUND TO REFORM FEDERAL WORKFORCE**

**RETIREMENT:** The Fiscal Commission Budget Plan includes a deficit-reduction reserve fund for legislation to reform civil service and military health and retirement programs.

**DEFICIT-NEUTRAL RESERVE FUND TO REFORM BUDGET CONCEPTS:** The Fiscal Commission Budget Plan includes a deficit-neutral reserve fund for the reform of budget concepts in order to more accurately reflect government liabilities and program integrity savings.

**DEFICIT-NEUTRAL RESERVE FUND FOR DESIGNING EFFECTIVE AUTOMATIC TRIGGERS FOR EXTENDED UNEMPLOYMENT BENEFITS:** The Fiscal Commission Budget Plan includes a reserve fund for deficit-neutral legislation that would allow for the establishment of a more effective set of trigger mechanisms for the unemployment compensation program.

**DEFICIT-REDUCTION RESERVE FUND FOR THE FARM BILL:** The Fiscal Commission Budget Plan includes a deficit-reduction reserve fund for legislation that reauthorizes the Food, Conservation, and Energy Act of 2008, or prior acts, or authorizes similar or related programs.

**DEFICIT-NEUTRAL RESERVE FUND FOR INVESTMENTS IN AMERICA'S INFRASTRUCTURE:** The Fiscal Commission Budget Plan includes a deficit-neutral reserve fund for federal investment in America's infrastructure, which may include projects for transportation, housing, energy, water, telecommunications, or through Build American Bonds or other tax credit bonds.

**DEFICIT-NEUTRAL RESERVE FUND FOR INVESTMENTS IN OUR NATION'S COUNTIES AND SCHOOLS:** The Fiscal Commission Budget Plan includes a deficit-neutral reserve fund for the reauthorization of the Secure Rural Schools and Community Self Determination Act. This will ensure that education, roads, and various county services continue in rural areas.

## Statements of Policy

### Emergency Spending Policy Statement

It is the policy of this resolution that emergency spending must be subject to far greater accountability and transparency than it is today. In limited situations, some emergency costs may be necessary. Congress should take steps to ensure that the emergency designation is only used for true emergencies, including:

- (1) codifying a strict, clear legal definition of emergency, such as the one used by the Office of Management and Budget, and only using the emergency designation to address urgent needs for costs that cannot be reasonably offset;
- (2) designating each emergency provision individually and discontinuing the practice of using global designations;
- (3) in the Senate, an emergency designation should only be in order if:
  - a. the proposed cost is certified as an emergency by the Senate Budget Committee; and
  - b. a point of order raised against the designation on the Senate floor is waived by at least a three-fifths majority;
- (4) in the House of Representatives, an emergency designation should only be in order if:
  - a. the proposed cost is certified as an emergency by the House Budget Committee; or
  - b. through a separate, non-amendable vote; and
- (5) costs not designated as emergency should be subject to discretionary spending caps, statutory PAYGO, and any other enforceable budgetary limits agreed by Congress, such as a debt stabilization process that comports with the recommendations set forth in the bipartisan Fiscal Commission report.

### Tax Reform Policy Statement

It is the policy of this resolution that Congress should work on a bipartisan basis to reform the tax code. Fundamental and comprehensive tax reform shall be based on the principles and framework outlined in the bipartisan Fiscal Commission report including the following:

- (1) reforming the individual tax code to lower rates, reduce deficits, and simplify the code by enacting policies that:
  - a. cut rates across the board, and reduce the top rate to between 23 percent and 29 percent;
  - b. dedicate \$2.2 trillion of new revenue, relative to the alternative baseline, to deficit reduction over fiscal years 2013 to 2022; and
  - c. simplify key provisions to promote work, homes, health, charity, and savings while increasing or maintaining progressivity relative to a tax code in which current policies are extended for households with incomes below \$250,000;
- (2) reforming the corporate tax code to lower rates, close loopholes, and move to a territorial system by enacting policies that:
  - a. establish a single corporate tax rate between 23 percent and 29 percent;
  - b. eliminate all tax expenditures for businesses; and
  - c. move to a competitive territorial system; and
- (3) putting a “failsafe” in place to ensure swift passage of tax reform.

### **Health Care Savings Policy Statement**

It is the policy of this resolution that Congress should work on a bipartisan basis to ensure health care spending is put on a sustainable path by making changes to federal health programs under this resolution that reflect the principles and framework outlined in the bipartisan proposal of the National Commission on Fiscal Responsibility and Reform, including:

- (1) fully offsetting the cost of reforming the Sustainable Growth Rate by achieving savings within the budget window from a set of policies including options proposed by the bipartisan Fiscal Commission report, such as:
  - a. increasing government authority and funding to reduce Medicare fraud;
  - b. reforming Medicare cost-sharing rules;
  - c. restricting first-dollar coverage in Medicare supplemental insurance;
  - d. extending Medicaid drug rebate to dual eligibles in Medicare Part D;
  - e. reducing excess payments to hospitals for medical education;
  - f. cutting Medicare payments for bad debts;
  - g. accelerating home health savings in the Affordable Care Act;
  - h. eliminating State gaming of Medicaid tax gimmick;
  - i. placing dual eligibles in Medicaid managed care;
  - j. reducing funding for Medicaid administrative costs;
  - k. allowing expedited application for Medicaid waivers in well-qualified States;
  - l. medical malpractice reform; and
  - m. pilot premium support through FEHB Program;
- (2) reforming or repealing the CLASS Act;
- (3) aggressively implementing and expanding payment reform pilots by directing CMS to design and begin implementation of Medicare payment reform pilots, demonstrations, and programs as rapidly as possible and allow successful programs to be expanded without further Congressional action;
- (4) eliminating provider carve-outs from the Independent Payment Advisory Board (IPAB) by giving IPAB the authority to make recommendations regarding hospitals and other exempted providers; and
- (5) establishing a long-term global budget for total health care spending by setting targets for the total federal budgetary commitment to health care and requiring the President and Congress to make recommendations for structural reforms to the health care system if per-beneficiary cost growth exceeds the average growth in gross domestic product plus one percentage point over the prior five years, provided that this target shall be adjusted to take into account changes to any exclusion for health care insurance made as part of a reform of the tax code.

### **Social Security Policy Statement**

It is the policy of this resolution that Congress should work on a bipartisan basis to make Social Security sustainably solvent over 75 years, as determined by the Social Security Administration Office of the Chief Actuary. It is also the policy to reform Social Security for its own sake, and not for deficit reduction. Legislation to ensure sustainable solvency shall reflect the principles and framework outlined in the bipartisan Fiscal Commission report, which includes the following proposals:

- (1) moving to a more progressive benefit formula;
- (2) reducing poverty by providing an enhanced minimum benefit for low-wage workers;
- (3) increasing benefits for the elderly and long-time disabled;
- (4) increasing the early and full retirement ages based on increases in life expectancy;

- (5) providing flexibility for retirees to claim a portion of their benefit at age 62 and the remainder at the full retirement age and creating a hardship exemption for those who cannot work beyond 62;
- (6) gradually increasing the taxable maximum to cover 90 percent of wages by 2050;
- (7) adopting the Chained Consumer Price Index, as published by the Bureau of Labor Statistics, for indexation of Social Security benefits and other CPI-indexed provisions, including taxes;
- (8) covering newly hired state and local workers for purposes of Social Security after 2020;
- (9) directing the Social Security Administration to better inform future beneficiaries on retirement options; and
- (10) beginning a broad dialogue on the importance of personal retirement savings.

### **Debt Stabilization Policy Statement**

It is the policy of this resolution that Congress and the President should remain vigilant to ensure the budget remains on course to obtain primary balance and a stable debt-to-GDP ratio, and that an enforcement mechanism be established to ensure that the budget: (1) achieves primary balance within five years; (2) that the debt is stabilized thereafter; and (3) that it includes fast track procedures to facilitate the changes in law necessary to protect the federal budget. Legislation to ensure debt stabilization shall reflect the proposals outlined in the bipartisan Fiscal Commission report, which include:

- (1) requiring at the beginning of each year OMB to report to the President, and CBO to report to the Congress, whether:
  - a. the budget is projected to be in primary balance in five years (defined as in balance, excluding interest costs);
  - b. the debt held by the public as a percentage of GDP in five years is projected to remain at or below those levels for the following five years; and
  - c. the actual debt-to-GDP ratio will not exceed the prior year's ratio;
- (2) requiring the President's budget, in a year in which OMB indicates any one of these conditions has not been met, to include legislative recommendations that would restore primary balance or stabilize the debt-to-GDP ratio; and
- (3) requiring the Congressional budget resolution, if it shows that one of these conditions has not been met, to include reconciliation instructions for bringing the budget back within the deficit or debt targets.

### **Consideration of Fiscal Commission Recommendations Policy Statement**

It is the policy of this resolution that Congress should develop special, expedited procedures for the consideration of the recommendations of the bipartisan Fiscal Commission report, because existing expedited procedures such as reconciliation are not well suited to the task. These special procedures would require that:

- (1) a single, comprehensive measure include all of the deficit-reduction proposals for discretionary spending, entitlement reforms, and tax reform;
- (2) the Social Security reforms be considered in a separate bill, recognizing that these reforms are not intended for deficit reduction but to strengthen the Social Security Trust Fund; and
- (3) the legislation containing the deficit-reduction proposals and the Social Security reforms both be passed with a bipartisan, three-fifths majority in the Senate.

### **The Congressional Budget Resolution**

The annual budget resolution sets the overall level of federal spending, revenue, deficits, and debt, and the priorities and values within those totals. It serves as a blueprint that guides subsequent Congressional consideration of legislation.

Section 301 of the Congressional Budget Act of 1974 sets forth the requirements of the budget resolution. As a concurrent resolution – a special legislative vehicle that applies only to the operations of the House and Senate – a budget resolution is not presented to the President for signature and does not have the force of law. As such, it does not directly change spending, revenues, deficit or debt levels, but does establish levels which are enforced by Congressional points of order.

### **The CBO Baseline**

The baseline is a projection of spending, revenues, deficits, and debt under current laws and policies, and is the starting point for developing the annual budget resolution.

The Budget Committee uses as its baseline the projections made by the Congressional Budget Office (CBO) in its January 2012 *The Budget and Economic Outlook: Fiscal Years 2012 to 2022*, as revised and updated in CBO's March 2012 *Updated Budget Projections: Fiscal Years 2012 to 2022* and *An Analysis of the President's 2013 Budget* documents. In preparing those projections, CBO followed the rules and guidelines contained in section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985 (the Deficit Control Act), modified for consistency with the limits on discretionary spending and the sequestration procedures (see following section for more information) set forth in the Budget Control Act (BCA) of 2011.

For discretionary spending (which is controlled by annual appropriations acts), the baseline projections reflect the limits agreed to under the BCA, as further adjusted to accommodate the sequestration procedures set forth under Title III of the BCA. At the account level, discretionary appropriations follow section 257 of the Deficit Control Act and are maintained at the annualized level enacted for 2012, adjusted for inflation. These rules are the same for both regular appropriations and appropriations for emergencies, disasters, and overseas contingency operations. To ensure consistency with the overall levels in the BCA, CBO, however, includes two sets of across-the-board adjustments to the totals otherwise generated on an account-level basis. Those two sets of adjustments appear in both the national defense (050) and allowances (920) functions. The first set of adjustments ensures consistency with the limits on discretionary spending as they exist today under the BCA. The second set of adjustments further adjusts discretionary spending to achieve the additional savings required under the sequestration procedures set forth under the BCA to ensure a total of \$1.2 trillion in savings through 2021 (see discussion under "Sequestration under the Budget Control Act of 2011" for more information on the sequestration process).

For mandatory spending and revenues, which are usually governed by permanent law and do not require annual Congressional action, the baseline rules generally require that projections reflect current law, although there are exceptions. The Committee notes that the baseline and scoring rules combine to treat mandatory spending and revenues in a symmetrical and equivalent manner. Whether spending or revenue, the budget rules ensure consistency. That is, sunset dates are either ignored at both stages (scoring of legislation and baseline) or recognized at both stages. As with discretionary spending, additional savings are directed to be achieved in mandatory spending through sequestration procedures, beginning in 2013. A discussion of these savings follows.

### **Sequestration under the Budget Control Act**

The Budget Control Act enacted in August 2011 stipulated that if the Joint Select Committee on Deficit Reduction did not agree on a bill to reduce the deficit by \$1.2 trillion, there would be across-the-board cuts ("sequestration") sufficient to reduce the deficit by a total of \$1.2 trillion, starting in 2013.

The BCA's formula for achieving these savings begins by reducing the \$1.2 trillion by 18 percent (\$216 billion) to account for interest savings that will flow from the spending cuts. This leaves \$984 billion to be achieved through equal amounts of across-the-board spending cuts in each of the nine years between fiscal years 2013 and 2021, or about \$109 billion per year.

The total annual spending cut of about \$109 billion is divided equally between defense and non-defense spending. Thus, each such category of spending must be reduced by roughly \$55 billion annually. Generally speaking, these cuts are divided proportionately between the discretionary and *nonexempt* direct spending within each broad category. Since defense spending is largely discretionary and most direct spending is exempt, sequestration primarily will affect discretionary spending (according to CBO, about \$821 billion, or 83 percent of the \$984 billion in non-interest savings, will come from discretionary spending).

Reductions in discretionary spending in 2013 would be implemented on January 2, 2013, by an order that cancels budget authority provided for that year to specific accounts. In subsequent years (2014-2021), discretionary cuts are achieved by reducing the amount of the discretionary spending limits.

A large number of mandatory programs are exempt from sequestration, including Social Security, Medicaid, and many programs that assist those with low incomes. There also are special rules that apply in some cases, such as a limit of two percent to the amount of cuts to Medicare in any one year. CBO projects the impact of the sequestration on mandatory spending in three functions: 050 (national defense), 570 (Medicare), and 920 (allowances).

#### **Alternative Baseline**

While the Committee used the economic and technical assumptions of CBO's March baseline in estimating the impact of the Fiscal Commission Budget Plan and will continue to use that baseline for enforcing Congressional action, it presents an adjusted, alternative baseline as a second benchmark from which to assess the effects of policy changes proposed by this budget plan.

The Committee notes that the Fiscal Commission, the Bipartisan Policy Center's Debt Reduction Task Force, the Office of Management and Budget, and the House Republican Budget Committee each developed their own versions of an alternative baseline for assessing the effects of proposed policies. In addition, in recognition of the uncertainty regarding future changes to laws and policies, CBO similarly has provided Congress with estimates of spending, revenue, deficits, and debt under an "alternative fiscal scenario" that adjusts its current law baseline for certain policy assumptions. In fact, in its January 2012 Outlook, CBO prominently displays the effect on the budget and the economy of this alternative fiscal scenario.

The Committee version of an alternative baseline is broadly consistent with the adjusted baseline used by the Fiscal Commission. Specifically, the alternative baseline modifies CBO's current law baseline as follows:

First, it assumes the extension of certain expiring provisions. These include the 2001, 2003, and certain 2009 tax cuts (as extended in 2010), AMT relief (indexed for inflation), and the estate tax at 2012 parameters. Second, it maintains Medicare's payment rates for physicians at the current rate (often referred to as the "doc fix").

Third, it removes the extension of the 2012 funding level for overseas contingency operations and replaces it with a more realistic scenario developed by the Congressional Budget Office that assumes the drawdown of troops deployed overseas for such operations to 45,000 by 2015. Fourth, it removes the across-the-board spending reductions ("sequestration") required by the BCA. Finally, it adjusts net interest to reflect the impact of these various changes to spending and revenue.

In total, these adjustments add about \$5.8 trillion to the CBO March 2012 baseline deficits, the vast majority of which is due to the extension of current policy on taxes. The alternative baseline used here differs from the Fiscal Commission version in that it extends tax relief for all income levels and the estate tax at 2012 parameters. The Fiscal Commission proposed a "plausible" baseline that limited the extension of tax relief to middle-class taxpayers.

#### **2013 Senate Budget Enforcement under the Budget Control Act**

As of April 16<sup>th</sup>, the Senate has in place for enforcement purposes a budget for fiscal year 2013. The budget enforcement procedures were made pursuant to section 106 of the BCA.

Specifically, for the purpose of enforcing the Congressional Budget Act of 1974 and for enforcing budgetary points of order in prior concurrent resolutions on the budget, section 106(b)(2) of the BCA required the Chairman to file by April 15, 2012: (1) allocations for fiscal years 2012 and 2013 for the Committee on Appropriations; (2) allocations for fiscal years 2012, 2013, 2013 through 2017, and 2013 through 2022 for committees other than the Committee on Appropriations; (3) aggregate spending levels for fiscal years 2012 and 2013; (4) aggregate revenue levels for fiscal years 2012, 2013, 2013 through 2017, and 2013 through 2022; and (5) aggregate levels of outlays and revenue for fiscal years 2012, 2013, 2013 through 2017, and 2013 through 2022 for Social Security. As stated, those levels ensure that the Senate has a budget in place for enforcement purposes for 2013.

NOTE: All years are fiscal years unless otherwise noted.