Congressional Budget Office

Impact of Permanent Legislation on Budgeting and Budget Oversight

Fifth Annual Meeting
OECD Parliamentary Budget Officials and Independent Fiscal Institutions

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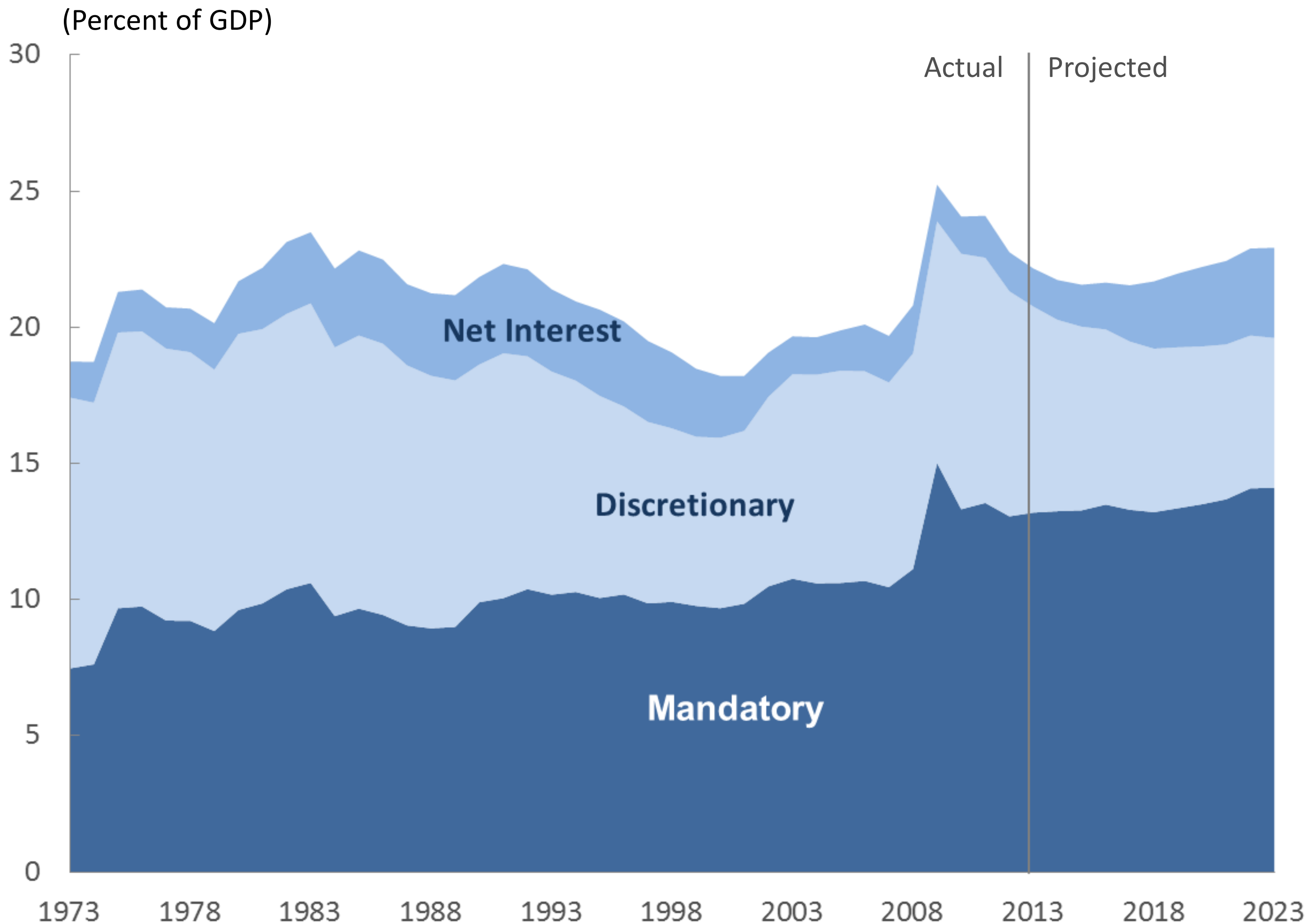
Deputy Director
February 22, 2013

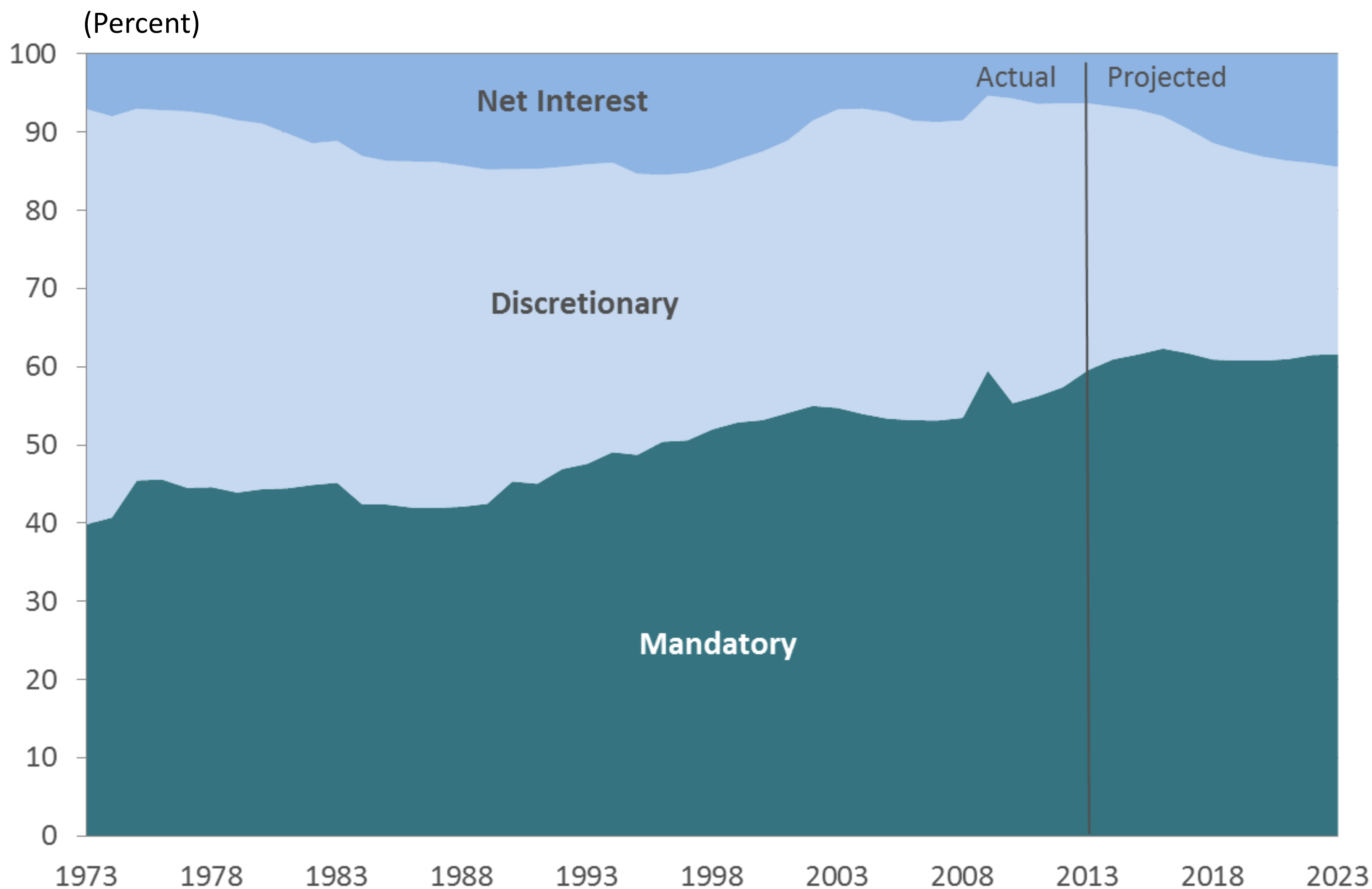
Mandatory Spending in the U.S. Budget

Growth in Mandatory Spending As a Share of GDP



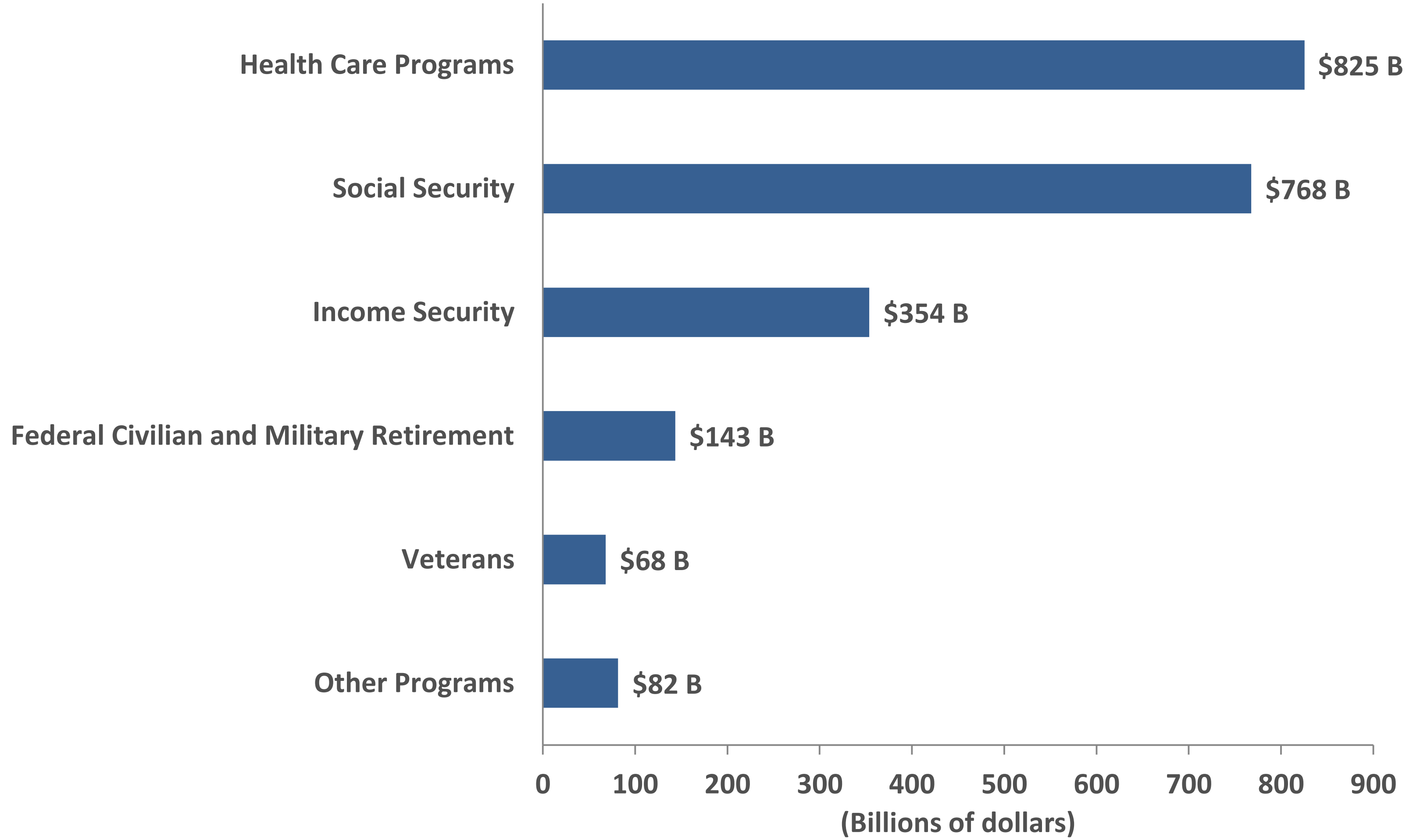
Estimates from *The Budget and Economic Outlook: Fiscal Years 2013 to 2023 (February 2013).*

Growth in Mandatory Spending As a Share of the U.S. Budget



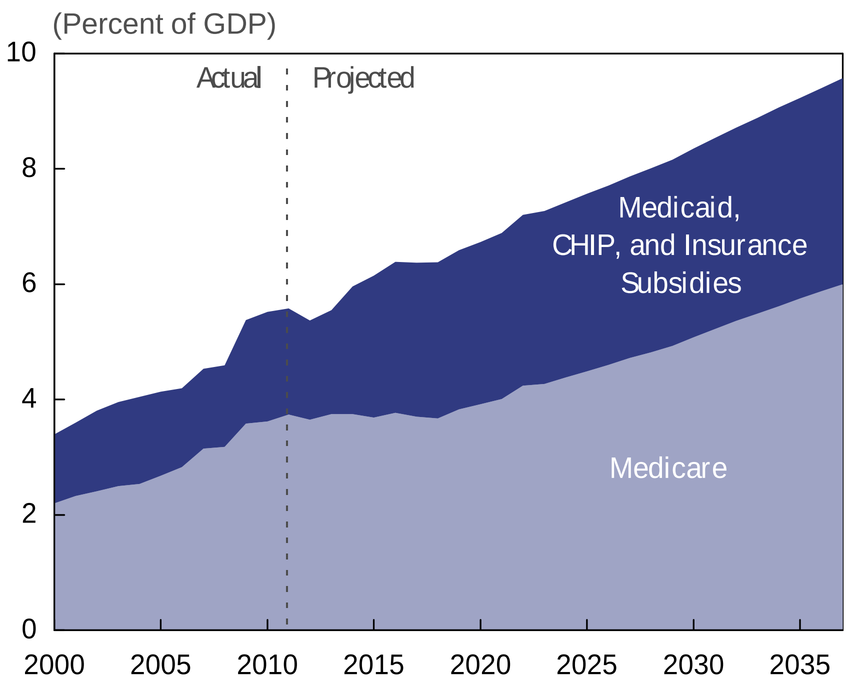
Estimates from *The Budget and Economic Outlook: Fiscal Years 2013 to 2023 (February 2013).*

2012 Spending on Mandatory Programs

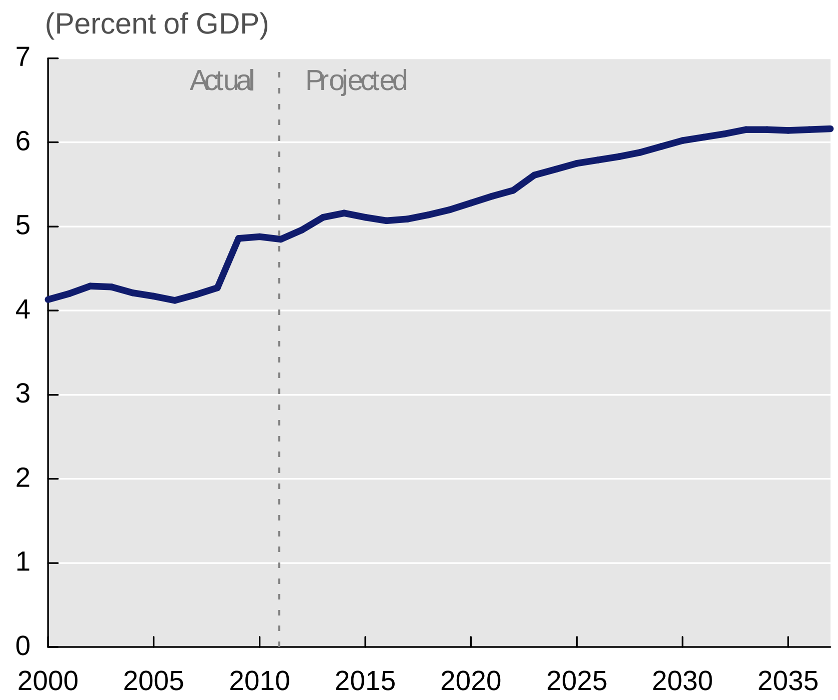


Long-Term Trends

Federal Spending on Major Health Care Programs Under CBO's Extended Baseline Scenario



Spending for Social Security Under CBO's Long-Term Budget Scenarios



Source: CBO, *The 2012 Long-Term Budget Outlook (June 2012).*

Mechanisms to Control Mandatory Spending

Types of Budgetary Control

Spending authority can be:

- Unlimited and permanent (Medicaid, unemployment benefits, parts of Medicare)
- Unlimited until balances in trust funds are exhausted (Social Security and part of Medicare)
- Unlimited for a specific time period (some agriculture income support programs)
- Provided each year and limited—but intended to cover all benefits that people will qualify for (Supplemental Nutrition Assistance Program)
- Provided each year and intended to be constraining (Temporary Assistance for Needy Families)

Statutory Constraints

Pay-As-You-Go ("PAYGO")

- New legislation changing taxes, fees, or mandatory expenditures, taken together, must not increase projected deficits.
- Enforced by automatic across-the-board cuts in selected mandatory programs.
- Cuts are triggered if, in total, legislation enacted during a Congressional session fails to meet that objective.

For Medicare

- **Reduced Indexing:** Payment rates for most Medicare services are updated each year by a measure of inflation MINUS the 10-year moving average of changes in all-factor productivity.
- **Trigger Mechanism:** If the rate of growth in spending per beneficiary exceeds that of an economic measure, using 5-year averages, program rules must be revised to achieve savings to close that gap—through a not-yet-existing Independent Payment Advisory Board, or if it fails, by the Department of Health and Human Services.

Legislative Controls

- **Rules Regarding Long-Term Costs**
  - A Senate rule prohibits consideration of legislation that would cause a net increase in the deficit in excess of $5 billion in any of four 10-year periods: 2023-2032, 2033-2042, 2043-2052, and 2053-2062; requires CBO cost estimate.
  - A House rule prohibits consideration of legislation that would increase mandatory spending by more than $5 billion during any 10-year period for the 40 years after the traditional 10-year budget window.

- **Reconciliation Bills**
  - The Congress allows expedited consideration of “reconciliation” legislation that would implement instructions in a budget resolution. A Senate rule specifies that the reconciliation legislation cannot increase the deficit for a fiscal year beyond the "budget window" covered by the measure.

Proposals for Triggers

The Government Accountability Office (GAO) recommends that, for mandatory spending programs, "Congress should consider incorporating budget triggers that would signal the need for action," or "automatically causing some action to be taken when the trigger is exceeded. Once a trigger is tripped, Congress could either accept or reject all or a portion of a proposed response to the spending growth."

Source: GAO, *Mandatory Spending Using Budget Triggers to Constrain Growth* (2006)

Proposals for Triggers

But some experts believe such triggers would either be circumvented or ignored.

– Medicare is funded by a combination of dedicated taxes and general funds. If the program's Trustees, in two consecutive reports, project that more than 45% of the program's spending will come from general funds in the current year or any of the next six years, the President is required to propose changes that would bring that percentage back under 45%. Such proposals have rarely been transmitted.

– If Medicare's cumulative spending on physicians' services exceeds a certain level set by formula, the rates paid to physicians are automatically reduced. Those reductions have been routinely overridden—but the resulting cost generally had to be offset by other savings elsewhere.

How the Congress Gets Information About Mandatory Spending

Social Security Trustees' Report

LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND
FEDERAL DISABILITY INSURANCE TRUST FUNDS,
Washington, D.C., April 23, 2012

The Honorable John A. Boehner
Speaker of the House of Representatives
Washington, D.C.

The Honorable Joseph R. Biden, Jr.
President of the Senate
Washington, D.C.

Dear Mr. Speaker and Mr. President:

We have the honor of transmitting to you the 2012 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, the 72nd such report.

Respectfully,

Timothy F. Geithner, *Secretary of the Treasury, and Managing Trustee of the Trust Funds.*

Hilda L. Solis, *Secretary of Labor, and Trustee.*

Kathleen Sebelius, *Secretary of Health and Human Services, and Trustee.*

Michael J. Astrue, *Commissioner of Social Security, and Trustee.*

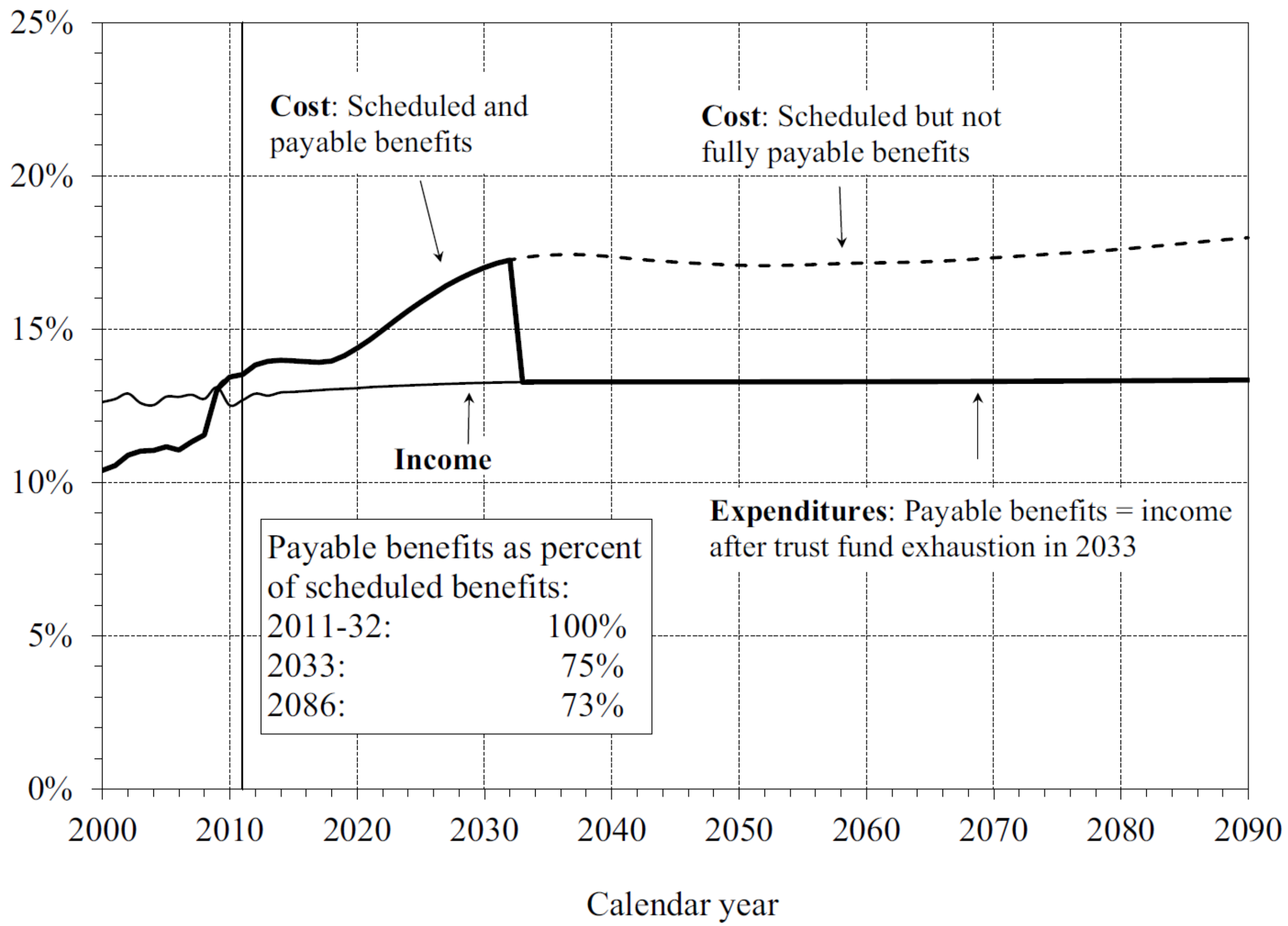
Charles P. Blahous III, *Trustee.*

Robert D. Reischauer, *Trustee.*

Carolyn W. Colvin, *Deputy Commissioner of Social Security, and Secretary, Board of Trustees.*

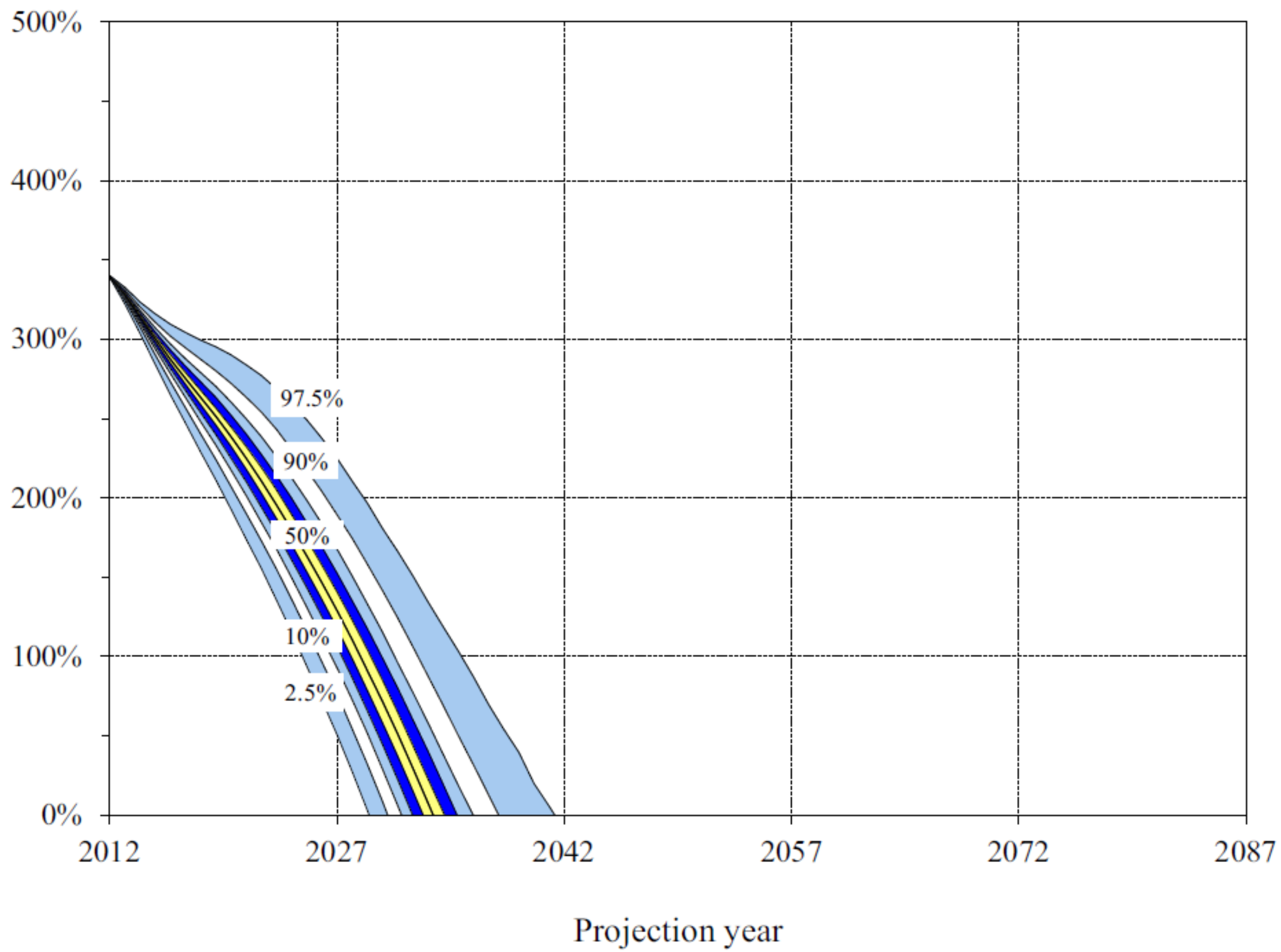
Social Security Trustees' Report

Figure II.D2.—OASDI Income, Cost, and Expenditures as Percentages of Taxable Pay
[Under Intermediate Assumptions]



Social Security Trustees' Report

Figure II.D7.—Long-Range OASDI Trust Fund Ratios From Stochastic Modeling



Financial Report of the Federal Government

United States Government
Statement of Changes in Social Insurance Amounts
for the Year Ended September 30, 2012 (Note 26)

(In billions of dollars)	Social Security	Medicare HI	Medicare SMI	Other (e.g. Railroad Retirement)	Total
Net present value (NPV) of future revenue less future expenditures for current and future participants (the "open group") over the next 75 years, beginning of the year	(9,157)	(3,252)	(21,320)	(101)	(33,830)
Reasons for changes in the NPV during the year:					
Changes in valuation period	(473)	(125)	(1,013)	(2)	(1,613)
Changes in demographic data and assumptions	(140)	(97)	752	3	518
Changes in economic data and assumptions	(1,037)	-	-	(2)	(1,039)
Changes in law or policy	-	153	40	-	193
Changes in methodology and programmatic data	(471)	-	-	-	(471)
Changes in economic and other health care assumptions	-	(2,546)	(55)	-	(2,601)
Change in projection base	-	286	3	-	289
Net change in open group measure	(2,121)	(2,329)	(273)	(1)	(4,724)
Open group measure, end of year	(11,278)	(5,581)	(21,593)	(102)	(38,554)

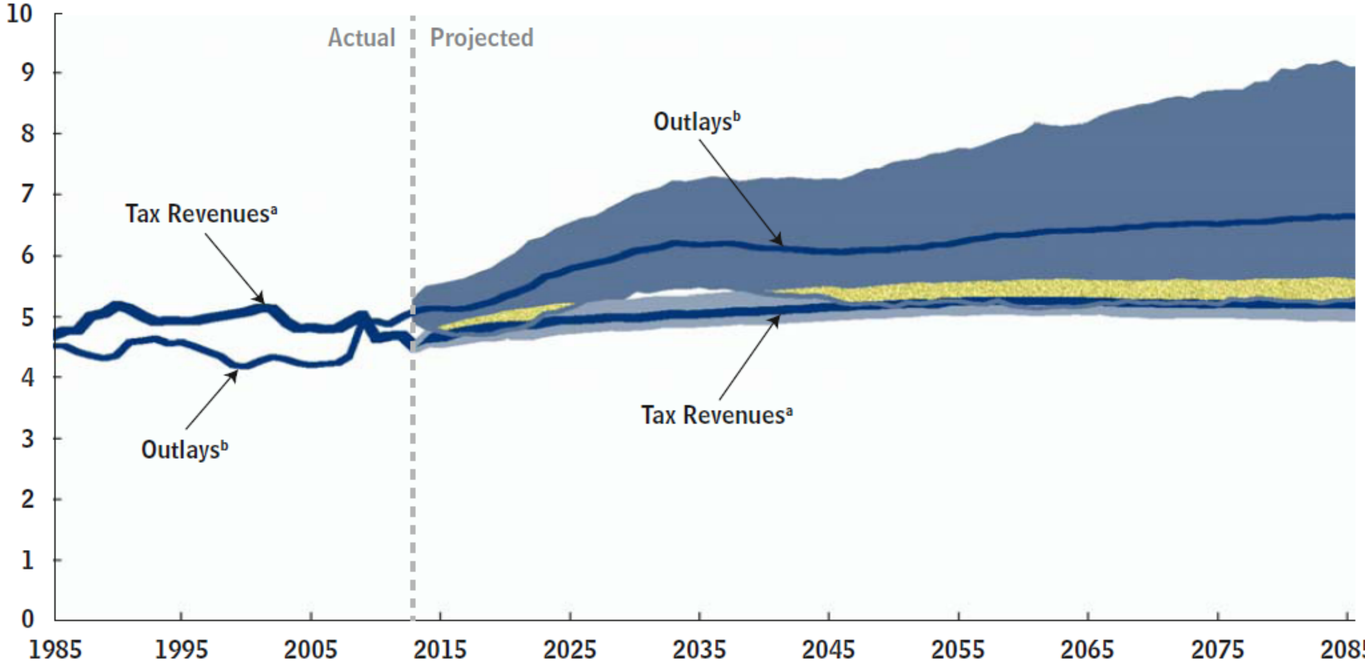
Totals may not equal the sum of components due to rounding.

The accompanying notes are an integral part of these financial statements.

CBO Report—*The 2012 Long-Term Projections for Social Security: Additional Information*

Social Security Tax Revenues and Outlays, with Scheduled Benefits

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Note: The lines indicate CBO's projections of expected outcomes. The shaded areas indicate the 80 percent range of uncertainty.

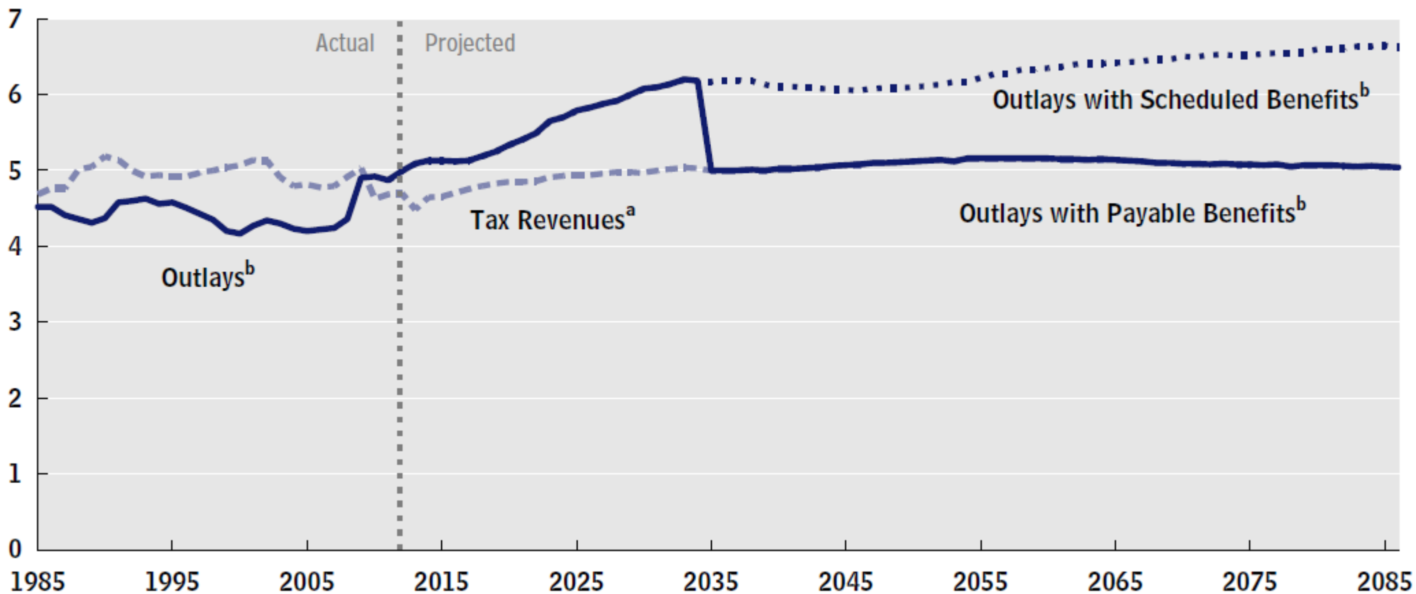
a. Includes payroll taxes and income taxes on benefits.

b. Includes scheduled benefits and administrative costs.

CBO Report—*The 2012 Long-Term Projections for Social Security: Additional Information*

Social Security Tax Revenues and Outlays, with Scheduled and Payable Benefits

(Percentage of gross domestic product)



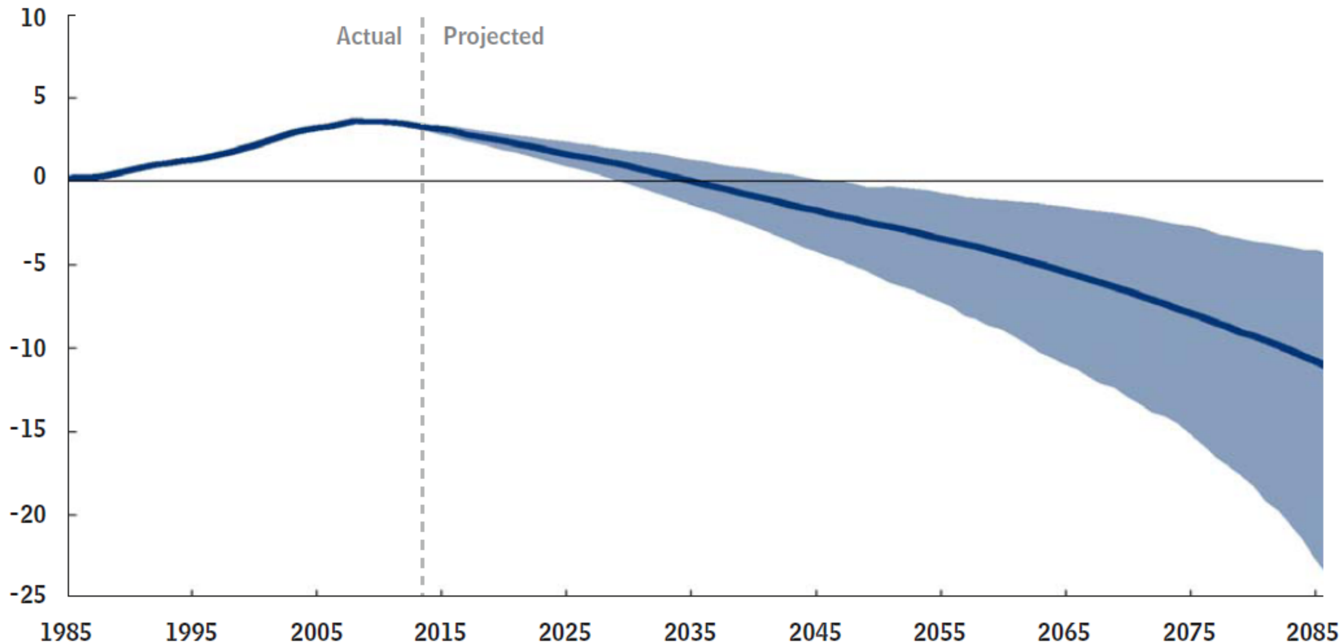
Source: Congressional Budget Office.

a. Includes payroll taxes and income taxes on benefits. Tax revenues shown are consistent with payable benefits and would decline slightly if the trust funds became exhausted because revenues from income taxes paid on benefits would decline.

b. Includes benefits and administrative costs.

CBO Report—*The 2012 Long-Term Projections for Social Security: Additional Information*

Trust Fund Ratio, with Scheduled Benefits



Source: Congressional Budget Office.

Note: The trust fund ratio is the ratio of the trust fund balance (the amount in the trust funds) at the beginning of a year to outlays in that year. Outlays consist of benefits and administrative costs. The trust funds are exhausted when the trust fund ratio reaches zero. Under current law, the trust funds cannot incur negative balances. The negative balances shown in this exhibit indicate a projected shortfall, reflecting the trust funds' inability to pay scheduled benefits out of current-law revenues. The dark line indicates CBO's projection of expected outcomes; the shaded area indicates the 80 percent range of uncertainty around the projection.

CBO Report—*The 2012 Long-Term Projections for Social Security: Additional Information*

Median Present Value of Lifetime Benefits for Retired Workers, with Scheduled and Payable Benefits

(Thousands of 2012 dollars)

10-Year Birth Cohort	All Retired Workers		Lowest Quintile of Lifetime Household Earnings		Middle Quintile of Lifetime Household Earnings		Highest Quintile of Lifetime Household Earnings	
	Scheduled	Payable	Scheduled	Payable	Scheduled	Payable	Scheduled	Payable
All								
1940s	141	140	63	63	167	165	280	278
1960s	214	193	117	108	241	215	385	343
1980s	273	225	157	131	299	246	507	421
2000s	383	295	219	170	430	332	710	553
Men								
1940s	142	142	55	55	195	195	333	331
1960s	239	216	122	112	270	242	432	383
1980s	297	244	165	137	320	264	560	466
2000s	415	320	230	179	460	355	760	597
Women								
1940s	140	139	72	72	153	151	217	213
1960s	194	174	113	103	217	194	323	289
1980s	252	208	149	124	285	233	435	361
2000s	355	274	209	163	405	302	620	482

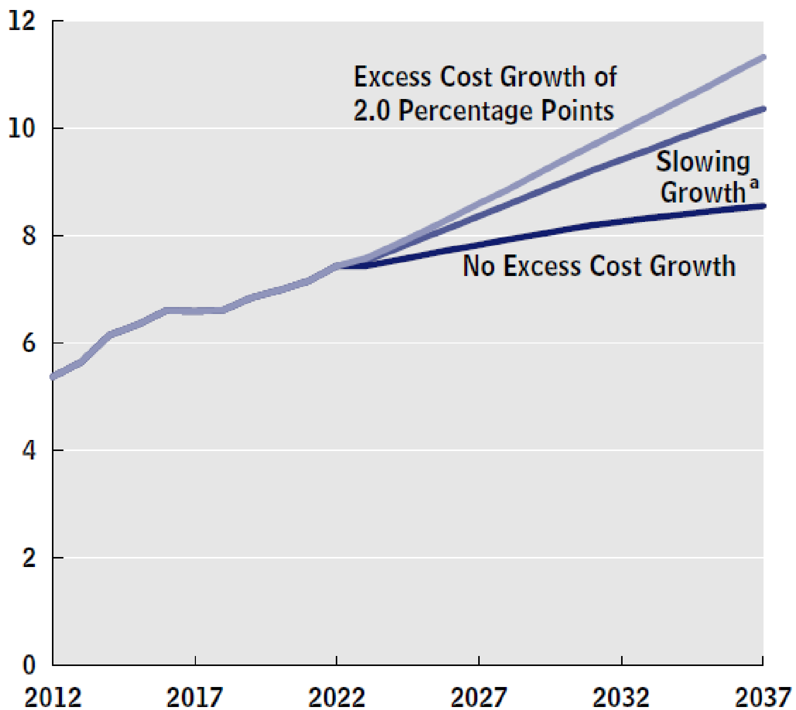
Source: Congressional Budget Office.

Note: Benefits are the present value of all retired-worker benefits received. To calculate their present value, benefits are adjusted for inflation (to produce constant dollars) and discounted to age 62. All values are net of income taxes paid on benefits and credited to the Social Security trust funds.

CBO Report—*The 2012 Long-Term Budget Outlook*

Federal Spending on Major Health Care Programs Under CBO's Extended Alternative Fiscal Scenario and Different Assumptions About Excess Cost Growth After 2022

(Percentage of gross domestic product)



Other CBO Reports on Mandatory Programs