Committee for a Responsible Federal Budget

Chairmen
Bill Frenzel
Jim Nussle
Tim Penny
Charlie Stenholm

President
Maya MacGuineas

Directors
Barry Anderson
Charles Bowsher
Dan Crippen
Vic Fazio
William Gradison
William Gray, III
William Hoagland
Jim Jones
Lou Kerr
Jim Kolbe
James McIntyre, Jr.
David Minge
Marne Obernauer, Jr.
June O'Neill
Paul O'Neill
Bob Packwood
Rudolph Penner
Peter Peterson
Robert Reischauer
Alice Rivlin
Charles Robb
Martin Sabo
Alan K. Simpson
Gene Steuerle
David Stockman
John Tanner
Laura Tyson
Paul Volcker
Carol Cox Wait
David M. Walker
Joseph Wright, Jr.

Senior Advisors
Robert Strauss

What We Hope to See from the Fiscal Cliff Negotiations
December 10, 2012

Currently, leaders in Washington are working to reach a bipartisan agreement on solutions to avoid the so-called "fiscal cliff."

CRFB believes that any agreement should not only avoid the fiscal cliff – which threatens to put the economy back into recession – but must address our mounting debt, which remains a serious threat to continued economic growth over the long-term. By making real progress on deficit reduction in the lame duck session, lawmakers would send a reassuring signal to businesses, markets, credit rating agencies, and the American public that they can solve real challenges.

To this end, CRFB urges lawmakers to:

Agree to a Big Framework. Policymakers must ultimately enact a deficit-reduction plan that puts the debt on a clear downward path relative to the economy, while promoting rather than stifling economic growth. Such a plan may well require more detail than can be legislated in the few weeks left before year's end, and if that is the case, lawmakers should at least enact a broad framework of the deal – including savings targets in each budget area and some level of specificity about how the savings targets will be achieved.

Put in Place a Credible Process to Achieve the Framework. To ensure the framework is followed, lawmakers should specify a process and timeline through which they will achieve all the agreed-upon savings. A special process must be backed up with an enforcement mechanism to incentivize action and ensure the deficit reduction occurs even if Congress does not act.

Address the Fiscal Cliff. Along with an agreement on a larger debt reduction framework, lawmakers should address the elements of the fiscal cliff by extending some or all of the expiring policies and repealing or delaying the sequester. The changes could be temporary in order to help enforce further debt reduction, or permanent if a new enforcement mechanism is put in place.

Enact a Downpayment. To be credible, lawmakers should enact an initial savings package of less complex policies along with an extension or waiving of any fiscal cliff policies. Ideally, a downpayment would fully offset the costs of a temporary delay of the fiscal cliff – if policymakers choose this route – or would be at least enough to reassure markets that policymakers are capable of agreeing to hard choices on a bipartisan basis.

Between a Mountain of Debt and a Fiscal Cliff

Continuing on our current fiscal path is unsustainable, yet abruptly reversing course with large amounts of immediate deficit reduction when the economy is still recovering would lead to a double-dip recession. Neither scenario is an acceptable outcome for the economy. Policymakers should thus address the short- and long-term obstacles posed by the fiscal cliff and rising federal debt by pursuing a gradual and pro-growth deficit reduction package.

Earlier this year, CRFB discussed the elements of the fiscal cliff and the dangers posed by either going off of it or ignoring it in favor of a mountain of debt (read more here). In total, the policies that comprise the fiscal cliff could reduce the deficit by nearly $500 billion in FY2013 alone and could reduce economic growth by 2.9 percent below what it would be otherwise over the next two years. The abrupt fiscal cliff could cause Gross Domestic Product (GDP) to shrink by nearly 4 percent in the first quarter of 2013.

Fig. 1: Policies in the Fiscal Cliff

Policies Set to Expire or Activate After 2012	Cost of Renewal (Fiscal Years)		Economic Impact
	FY2013	FY2013-FY2014	FY2013-FY2014
2001/2003/2010 Tax Cuts	$110 billion	$325 billion	1.4%
AMT Patches (with tax cut interaction)	$140 billion	$245 billion	
“Tax Extenders”*	$40 billion	$75 billion	
Health Care Reform Taxes	$25 billion	$50 billion	
Jobs Measures	$115 billion	$150 billion	0.7%
Doc Fixes	$10 billion	$25 billion	0.8%
The Sequester	$55 billion	$150 billion	
Total	**~$500 billion**	**~$1.0 trillion**	**2.9%**

Source: Congressional Budget Office and authors’ calculations.
Note: Numbers are rounded. Other estimates of the fiscal cliff can make different assumptions of which policies to include.
*Excludes bonus depreciation and expensing rules.

Extending the expiring provisions and waiving the sequester would avert this recession, but at the cost of ever-rising debt with serious medium- and long-term repercussions. Today, debt held by the public stands at about 73 percent of GDP – about twice the historical average. On our current course, it could increase to 90 percent by 2022, exceed 200 percent by 2038, and pass 450 percent by 2060. No economy could sustain debt at these levels, which would crowd out private investment, slow economic growth, and could ultimately bring on a severe fiscal crisis. In the meanwhile, both Moody’s and Fitch have made it clear that failing to address our debt would likely lead to a downgrade of U.S. debt in 2013.

Policymakers need to replace the cliff with a sensible deficit-reduction plan. Luckily, lawmakers do not have to start from scratch. Substantial progress has been made on identifying the potential components of a final debt agreement. These ideas come from the Simpson-Bowles Fiscal Commission, the Domenici-Rivlin Debt Reduction Task Force, the President’s budget

submission, the House Republican budget resolution, and many rounds of prior negotiation and discussion from the deficit reduction talks last August and the so-called Super Committee.

Agreeing to a Framework: Go Big, Go Smart, and Go Long

In a paper written last year, CRFB called on the Joint Select Committee on Deficit Reduction ("The Super Committee") to **Go Big, Go Smart, and Go Long** – and these same messages apply to current negotiations.[1]

We must ultimately **Go Big**, because putting the debt on a clear downward path will require looking beyond foreign aid, fraud, earmarks, and corporate jets, and will instead require addressing all areas of the budget and the tax code in a significant way. The ultimate goal should focus on gradually reducing debt as a share of the economy this decade *and* over the long-term. *Debt as a share of the economy is the critical metric*, since any dollar level of savings – say $4 or $5 trillion in savings – can easily be manipulated depending on the baseline. Appendix A of this analysis presents the savings needed to stabilize or reduce debt to various levels under several different baselines.

We must **Go Smart** because any package should reform our tax code and spending policies to *promote* growth, rather than to disrupt it through mindless and abrupt spending cuts and tax rate increases. Importantly, going smart means making gradual changes to give the economy time to recover, it means identifying spending reductions that could promote or at least not inhibit economic growth, and it means enacting pro-growth comprehensive tax reform.

And we must **Go Long** because our real fiscal problems are attributable to the rapidly-growing costs of our health and retirement programs that need to be slowed not only this decade but in future ones as well. This means structural changes to make Social Security sustainably solvent and to truly slow the growth of federal health spending.

Importantly, an agreed-upon package must put the debt on a clear downward path, without relying on budget gimmicks – including counting phony savings like the war drawdown, using timing shifts to reduce deficits now while increasing them outside the budget window, or assuming expiring policies will expire when there is no intention of allowing them to.

While policymakers are unlikely to work out every legislative detail of this plan in the few remaining weeks this year, they should at least agree to the basic contours of a deal that would stabilize and then reduce the debt as a share of the economy. Policymakers should reach agreement on how much deficit reduction they intend to achieve from each policy area – for example, how much from health programs, how much from revenue, how much from discretionary spending, and how much from mandatory programs. It would also be helpful to

[1] See Committee for a Responsible Federal Budget, "What We Hope to See from the Super Committee." http://crfb.org/document/what-we-hope-see-super-committee.

agree on some details or specificity within each area of the budget. The savings from all instructions, however, would have to be sufficient to control rising debt.

Policymakers should recognize and navigate the tradeoff between providing enough specific parameters and having too many details. Without sufficient specifics the plan might not be seen as credible and might not be able to receive the necessary bipartisan support to pass. Yet too many specifics might tie the hands of committees of jurisdiction and make it difficult to ultimately enact the desired policies. Negotiators must set realistic goals and be careful to avoid parameters that are mutually exclusive (or can only be met under the most perfect of circumstances) with each other.

A Credible Process and Enforcement

A bipartisan agreement on a framework to address the growing debt would in itself be a major accomplishment. However, policymakers should go further by designing or at least agreeing to a specific process for achieving the savings. Though this process could be structured in a number of ways, the most straightforward would be to offer reconciliation-like instructions to congressional committees, a timeline for reporting, and an enforcement mechanism to automatically take effect if they fail to act.

An expedited procedure for consideration could be put in place, limiting debate time and amendments, setting up procedures to ensure the objectives are met if the committees fail to comply with the instructions, and possibly suspending certain other rules like the filibuster.

Instructions to committees could include both savings targets and some directives about how to achieve the savings. Some directives could be binding requirements that must be met both to qualify for fast-track consideration and to avoid triggering the enforcement mechanism. These, of course, would have to be objective standards that could be evaluated by impartial parties. Other parameters could be non-binding recommendations put forward through a *Sense of Congress* or even an informal understanding.

Committees should be given a **specific date** by which they need to report in each house of Congress, and there should be an alternative method of introducing legislation if a committee or committees do not report. Committing to a specific date will contribute to making a plan appear credible, and can help keep up the pressure if or when the discussions focus on more difficult topics. If one or more committees fail to report legislation that meets their specific targets, the Budget Committee or a bipartisan group of lawmakers could then propose reforms to meet the targets.

Any plan should also include some type of **enforcement mechanism** that would be a "failsafe" or "trigger" to take effect if the required deficit reduction legislation is not enacted. Any failsafe should serve to create pressure for Congress to implement reforms, but also ensure that the required savings are attained if legislation implementing the agreement is not enacted.

Box 1: Gimmicks to Avoid

Even though reducing the debt as a share of the economy should be the ultimate goal, achieving that result in a two-stage process with instructions to committees would require setting specific savings targets for Committees to fulfill. It will be imperative for lawmakers to avoid using budget gimmicks both in creating the instructions and later proposing policies to achieve those directives. Gimmicks to watch out for include:

Relying on phony savings. Lawmakers should avoid counting savings from policies that are already occurring on their own or which simply hide liabilities off the budget. For instance, relying on the war drawdown for savings would claim credit for a policy already in place for years.

Counting savings while ignoring costs. Lawmakers may be tempted to accompany jobs measures or other forms of relief along with new deficit reduction. Although such policies may be sensible as part of a large package, it is important that their costs are counted as part of the package.

Timing shifts that increase costs beyond the ten-year window. Though lawmakers must begin to bring the debt under control this decade, it is also important to set long-term trends in the right direction – particularly given population aging and rising health costs. Some policies would generate savings over the next decade only by increasing deficits in the following decade. Absent a strong specific policy justification, these changes should be avoided.

Excessively back loading savings. While it is desirable to gradually phase in savings to give the economy time to recover and the public time to prepare, excessively putting off savings until the end of the decade can call into question whether policymakers are serious about fiscal restraint.

The enforcement mechanism could be designed in any of a number of ways, and its purpose could vary from purely punitive to instituting an acceptable alternative to action. Importantly, the enforcement mechanism must be credible enough that enough Members of Congress would not simply waive it.

It will be important to distinguish the enforcement mechanism that is intended to be a failsafe from the actual policy being proposed. For example, a revenue increase failsafe would likely be unable to perfectly meet all policy goals of tax reform, whether in terms of rates or progressivity, Likewise, a failsafe on health care or other spending would by necessity take more of a blunt approach than thoughtful programmatic reforms.

Box 2: Designing an Enforcement Mechanism

A failsafe mechanism to ensure lawmakers make further reforms to the budget could take several forms. Below are four broad approaches for a failsafe, though there could be multiple versions for failsafes within each approach:

1) Impose automatic across-the-board spending cuts (through a sequester of all or most spending programs) and revenue increases (through a haircut on tax expenditures or a tax surcharge) to achieve a certain ratio of spending cuts to increased revenues;
2) Establish separate failsafes for each major area of the framework that would take effect if the legislation does not meet the targets in that area (for example, enforcing the health target through a combination of provider and beneficiary changes and enforcing the tax reform through a tax expenditures haircut);
3) Impose default policies in each area that would take effect if deficit reduction legislation is not enacted. For example, specific cost-sharing and/or payment reforms could automatically take effect if health care instructions do not materialize, and specific reforms to tax expenditures could kick in absent comprehensive reform; or
4) Use the "fiscal cliff" as enforcement by delaying the expiration of its policies and activation of the sequester only temporarily and requiring the enactment of a full deficit reduction plan to remove the fiscal cliff policies permanently.

Any of the failsafe options could be strengthened by including restrictions on the ability of Congress to waive or circumvent the enforcement mechanism such as requiring a 67-vote supermajority in the Senate for legislation waiving or changing the enforcement mechanism. The debt ceiling could also be incorporated into any of the approaches if policymakers so chose.

Address the Fiscal Cliff

After lawmakers have agreed to an overall framework to put the debt on a stable and downward path as a share of the economy, lawmakers should repeal or at least delay most elements of the fiscal cliff.

Many of the fiscal cliff policies are poorly designed, but some are simply poorly timed. Lawmakers will need to differentiate between those policies they might allow to occur immediately, those policies they wish to permanently cancel, those policies that might occur at some point in the future but not immediately, and/or those policies that might be replaced or modified.

Once these questions have been answered, policymakers can decide how long to delay each policy in the context of the broader deal. If a new strong enforcement mechanism has been designed, for example, they may choose to permanently erase most policies in the fiscal cliff. If

there is an agreement on a weaker enforcement mechanism, they may delay the cliff policies in order to create additional pressure for action.

In addition to the policies within the fiscal cliff, the country is on course to reach the national debt ceiling early next year. Lawmakers must increase the debt ceiling before that, and ideally far in advance to avoid creating unneeded market uncertainty. It may make sense to enact only a small increase in the debt ceiling at first, leaving the remaining increase for the broader policy agreement.

Enact a Downpayment

Passing legislation that avoids all or parts of the fiscal cliff would add hundreds of billions to the debt. Waiving or violating existing budget enforcement rules in order to do so, with only a promise of deficit reduction in the future, would justifiably lead to skepticism about policymakers' commitment to deficit reduction. A downpayment that enacts policies upfront to offset most if not all of the costs of delaying the fiscal cliff will demonstrate a willingness to make tough choices that will give a promise of action on further deficit reduction next year more credibility.

There are many models for structuring a downpayment, but any version enacted should include policies that already have **bipartisan support**, can be **quickly enacted** without having to work through many technical details, generate savings from both **spending and revenues**, and **would not interfere** with more detailed and comprehensive reforms in 2013. See the appendix table below for a listing of policies addressed in many prominent plans.

Importantly, there are a number of "off the shelf" policies that can produce substantial savings and real structural reforms. Policymakers should first look at items that have been fully fleshed out and vetted through the Obama-Boehner discussions last summer, the preceding Biden discussions, the Super Committee, as well as the many deficit reduction plans proposed over the past few years.

To build credibility, any downpayment should include a combination of revenues, health care savings, and other spending reductions.

On the tax side, negotiators could enact targeted changes such as eliminating preferences for corporate jets and second homes and/or broad-based changes such as capping deductions for higher-earners.[2] On the health side, policymakers should consider both provider and beneficiary reforms recommended by the Medicare Payment Advisory Commission (MedPAC) and policies identified in past deficit reduction discussions. A downpayment could also include

[2] See Committee for a Responsible Federal Budget, "Raising Revenue from Higher Earners through Base Broadening" for more approaches to tax expenditure limits that could be implemented quickly. http://crfb.org/sites/default/files/Raising_Revenue_from_Higher_Earners_11_15-2_1.pdf.

a number of mutually agreed upon policies to reduce non-health mandatory spending and could revise the discretionary caps under the original Budget Control Act to produce additional savings. Policymakers should also look at cross-cutting changes like switching to the chained CPI for all inflation-indexed elements of the budget and tax code, which has already received bipartisan and expert backing and would achieve savings on both sides of the ledger.

Conclusion

America's leaders must heed the warnings from the American public, businesses, and global markets and take responsible action to reduce the debt over the long-term. It is encouraging that members of both political parties are continuing to negotiate, but time is running short.

The fiscal cliff represents a serious economic threat, but also offers an incredible opportunity to enact pro-growth reforms to both spending programs and the tax code to ultimately put debt on a clear but gradual downward path as a share of the economy. By agreeing to a framework and a process for responsibly addressing the fiscal cliff as well as rising debt, elected leaders in Washington can reassure the public about the country's finances and reduce the uncertainty surrounding the United States' budget.

Note: The Committee for a Responsible Federal Budget (CRFB) seeks to raise awareness of issues that have significant fiscal policy impact, and its analysis reflects the views of CRFB alone and not those of its partners or sponsors of affiliated projects, including the Campaign to Fix the Debt.

Appendix A: Savings Needed to Stabilize or Reduce the Debt to Specific Levels

Baselines	Debt Level in 2022 (% of GDP)				
	60%	65%	70%	75%	80%
Excluding Past Savings (Billions of Dollars)*					
Current Law					
Excluding savings from war drawdown	n/a	n/a	n/a	n/a	n/a
Including savings from war drawdown	n/a	n/a	n/a	n/a	n/a
Current Policy with Upper-Income Tax Cuts Expiring					
Excluding savings from war drawdown	$4,200	$2,950	$1,700	$500	n/a
Including savings from war drawdown	$5,200	$3,950	$2,700	$1,450	$250
Current Policy					
Excluding savings from war drawdown	$5,300	$4,050	$2,850	$1,600	$350
Including savings from war drawdown	$6,300	$5,050	$3,800	$2,600	$1,350
CBO's Alternative Fiscal Scenario					
Excluding savings from war drawdown	$6,350	$5,100	$3,900	$2,650	$1,400
Including savings from war drawdown	$7,350	$6,100	$4,850	$3,650	$2,400
Including Past Savings (Billions of Dollars)*					
Current Law					
Excluding savings from war drawdown	$350	n/a	n/a	n/a	n/a
Including savings from war drawdown	$1,350	$100	n/a	n/a	n/a
Current Policy with Upper-Income Tax Cuts Expiring					
Excluding savings from war drawdown	$5,900	$4,650	$3,400	$2,200	$950
Including savings from war drawdown	$6,900	$5,650	$4,400	$3,150	$1,950
Current Policy					
Excluding savings from war drawdown	$7,000	$5,750	$4,550	$3,300	$2,050
Including savings from war drawdown	$8,000	$6,750	$5,500	$4,300	$3,050
CBO's Alternative Fiscal Scenario					
Excluding savings from war drawdown	$8,050	$6,800	$5,600	$4,350	$3,100
Including savings from war drawdown	$9,050	$7,800	$6,550	$5,350	$4,100

Note: Numbers rounded to nearest $50 billion, and include interest savings that would accrue from reforms. Subtracting a rough rule of thumb of about 15 percent in interest savings from gradual deficit reduction measures, based on CBO's latest interest rate projections, can provide a rough estimate of the non-interest savings needed to achieve various debt levels.
*Past savings incorporates roughly $1.7 trillion in discretionary, other mandatory, revenues, and interest savings enacted over the past two years. However, there are several ways to calculate enacted savings, which can produce different estimates.
Baseline Assumptions: Current Law: All policies expire or activate as scheduled. Current Policy with upper-incomes: 2001/2003/2010 income and estate taxes extended for individuals and households earning less than $200,000/$250,000, AMT patches, sequester repealed, and doc fixes. Current Policy: All 2001/2003/2010 income and estate taxes extended, AMT patches, sequester repealed, and doc fixes. Alternative Fiscal Scenario: All 2001/2003/2010 income and estate taxes extended, AMT patches, all other expiring tax policies extended, sequester repealed, and doc fixes.

Appendix B: Overlapping Policies Across Major Deficit Reduction Plans

(2012-2021, Savings Based off Current Policy Baseline)

Deficit-Reducing Policies	FY2013 President's Budget	FY2013 House Republican Budget	Original Simpson-Bowles	Domenici-Rivlin (BPC)[a]	August 2011 Debt Limit Discussions[b]	Lieberman-Coburn Health Proposal
Government-Wide						
Use Chained CPI for All Inflation-Indexed Programs**			**$200 billion** from implementing chained CPI	**$200 billion** from implementing chained CPI	Under discussion by Obama and Boehner	
Health Care						
Reform Medicaid Formula	**$15 billion** from introducing a reduced blended matching rate in 2017	**$625 billion** from block granting Medicaid and indexing to CPI + population	Recommends consideration of block granting to meet long-term health cap	Replaces matching rates with reallocation of federal/state responsibilities beginning in 2018	**$100 billion** from unspecified FMAP changes (with possible increased state flexibility)	
Reduce State Medicaid Gaming	**$40 billion** from reducing Medicaid provider tax threshold beginning in 2015		**$50 billion** from phasing out Medicaid provider tax threshold beginning in 2013		Under discussion as part of Medicaid reform	
Improve Dual Eligible Care			**$15 billion** from mandating dual eligibles be placed in Medicaid managed care (with Medicare capitated payments)	**$8 billion** from removing barriers for states to place dual eligibles in managed care	**$0-$5 billion** from better care coordination	

Deficit-Reducing Policies	FY2013 President's Budget	FY2013 House Republican Budget	Original Simpson-Bowles	Domenici-Rivlin (BPC)[a]	August 2011 Debt Limit Discussions[b]	Lieberman-Coburn Health Proposal
Enact Tort Reform		**$39 billion** from reforms in reconciliation package, including caps to non-economic and punitive damages	**$20 billion** from reforms such as collateral source rule changes and consideration of aggressive reforms	**$60 billion** from requiring states to cap non-economic and punitive damages		
Reduce Medicare Payments for Pharmaceutical Drugs	**$123 billion** from prohibiting pay for delay for generic drugs ($4b), shortening exclusivity for generics ($2b), and drug rebates ($117b)		**$55 billion** by applying Medicaid drug rebates to low income seniors covered by Medicaid and Medicare Part D	About **$160 billion** by expanding Medicaid drug rebates to Medicare Part D	Part D rebates proposed by Dems; other reforms, such as average wholesale price (AWP) rules for Part D drugs and drug reclassifications also considered	
Increase Medicare Cost-Sharing	More than **$2 billion** from increasing the Part B deductible and introducing a home health co-payment for new beneficiaries in 2017		**$65 to $75 billion** from a $550 deductible, 20% co-insurance up to $5,500, 5% co-insurance up to $7,500, and catastrophic cap above that	About **$25 billion** from a $560 deductible, 20% co-insurance up to $5,250 and catastrophic cap above that	Up to **$66 billion** from clinical lab and skilled nursing facilities (SNF) / Home Health co-pays (though money could also come from payment reduction)	**$65 to $75 billion** from a $550 deductible, 20% co-insurance up to $5,500, 5% co-insurance up to $7,500, and catastrophic cap above that

Deficit-Reducing Policies	FY2013 President's Budget	FY2013 House Republican Budget	Original Simpson-Bowles	Domenici-Rivlin (BPC)[a]	August 2011 Debt Limit Discussions[b]	Lieberman-Coburn Health Proposal
Increase Basic Medicare Premium				About **$240 billion** from raising basic Part B premiums from 25% to 35% of costs (5-year phase-in)		About **$240 billion** from raising basic Part B premiums from 25% to 35% of costs (5-year phase-in)
Increase Medicare Means-Testing	**$20 billion** from increasing means-testing premiums and freezing brackets beginning in 2017				**$38 billion** from freezing premium brackets after 2019 and increasing costs for high-earners	Increases catastrophic cap for high-earners and requires high-earners to pay 100% of premiums
Restrict Medigap Coverage	Over **$2 billion** from a Medicare Part B surcharge on beneficiaries who purchase Medigap policies with low cost-sharing requirements for new beneficiaries beginning in 2017		**$50 billion** from restricting first-dollar coverage of Medigap plans		Up to **$53 billion** from restricting first-dollar coverage of Medigap plans	**$53 billion** from restricting first-dollar coverage of Medigap plans
Strengthen the Independent Payment Advisory Board (IPAB)	Lowers IPAB's target rate for Medicare spending per beneficiary from GDP+1% to GDP+0.5%		Broadens IPAB's authority by eliminating exemptions from its recommendations, including hospitals and other providers	Requires IPAB to review Medicare benefit structure every two years and recommend changes in private market		

Deficit-Reducing Policies	FY2013 President's Budget	FY2013 House Republican Budget	Original Simpson-Bowles	Domenici-Rivlin (BPC)[a]	August 2011 Debt Limit Discussions[b]	Lieberman-Coburn Health Proposal
Enact Medicare Premium Support		Implements premium support for new retirees in 2023, with $7,500 yearly subsidy indexed to inflation and health status	Pilots premium-support in FEHB and recommends consideration of premium support after 2020	Implements premium support in 2018 for current and new retirees, allowing traditional Medicare to compete, indexed to GDP+1%		
Reduce Post-Acute Care Payments	**$38 billion** from reducing payment updates for post-acute care providers and other reforms		**$9 billion** from accelerating home health cuts under PPACA	About **$10 billion** from bundling payments for post-acute care	Up to **$50 billion** from cutting home health and SNF payments (though savings could come from cost-sharing)	**$9 billion** from accelerating home health cuts under PPACA
Raise Medicare Eligibility Age			Recommends consideration of eligibility age increase to meet long-term targets		Raising age from 65 to 67 under discussion by Obama and Boehner	**$124 billion** from raising the eligibility age to 67 between 2014 and 2025
Reform TRICARE and/or TRICARE for LIFE	Increases TRICARE drug co-pays and TRICARE for Life premiums (savings net to zero)		**$43 billion** from applying Medigap restrictions on first dollar coverage to TRICARE for Life		Up to **$17 billion** from increasing drug co-pays under TRICARE	

Deficit-Reducing Policies	FY2013 President's Budget	FY2013 House Republican Budget	Original Simpson-Bowles	Domenici-Rivlin (BPC)[a]	August 2011 Debt Limit Discussions[b]	Lieberman-Coburn Health Proposal
Reform Federal Employees Health Benefits (FEHB) Program	**$2 billion** from reforming FEHB pharmacy benefit contracting		**$22 billion** from converting FEHB into premium support with fixed contribution amounts and having FEHBP subsidize Medicare premium instead of first dollar coverage		Up to **$11 billion** from allowing FEHB benefit to subsidize Medicare premium instead of first dollar coverage	
Reduce Medicare Bad Debt Payments	**$20** billion from reducing bad debts payment		About **$25 billion** from phasing out payments for bad debts		**$14-$26 billion** from phasing out payments for bad debts	**$25 billion** from phasing out payments for bad debts
Changes in Special Hospital Payment Policies	**$7 billion** from reducing graduate medical education payments and payments to rural hospitals		**$70 billion** from reducing subsidies to hospitals for direct and indirect graduate medical education costs		**$28 billion**, half from graduate (direct and indirect) medical payments and half from rural hospitals	
Reduce Spending from the Affordable Care Act	About **$20 billion** from correcting income definition rules for insurance subsidies and reducing spending on the Prevention and Public Health Fund	About **$1,335 billion** from repealing the coverage provisions of the Affordable Care Act	Calls for reforming or repealing the CLASS Act, which could *cost* up to $87 billion in the first decade but reduce the deficit in future decades		**$10 billion** from not allowing the Prevention and Public Health Fund to grow and repealing Frontier State Adjustments	

Deficit-Reducing Policies	FY2013 President's Budget	FY2013 House Republican Budget	Original Simpson-Bowles	Domenici-Rivlin (BPC)[a]	August 2011 Debt Limit Discussions[b]	Lieberman-Coburn Health Proposal
Reform the Sustainable Growth Rate (SGR)	Assumes a permanent freeze to reimbursement rates		**$36 billion** (compared to a 10-year freeze) from a -1% update in 2014 and directing CMS to develop an improved payment formula that encourages care coordination and quality over quantity			Provides 3-year SGR fix to give time for lawmakers to develop new Medicare reimbursement mechanism for physicians

Deficit-Reducing Policies	FY2013 President's Budget	FY2013 House Republican Budget	Original Simpson-Bowles	Domenici-Rivlin (BPC)[a]	August 2011 Debt Limit Discussions[b]
Other Mandatory Spending					
Reduce Farm Subsidies	**$22 billion in net savings** from reducing direct payments, reducing subsidies for crop insurance, and better targeting of conservation assistance programs, with a portion of the savings used to extend mandatory disaster assistance		**$12 billion in net savings** from $18 billion in savings from reductions in direct payments and other subsidies as well as reduction in conservation and market assistance programs), with $6 billion in new spending to extend disaster fund	**$34 billion** from cutting payments to commercial farms, reforming crop insurance, and cutting conservation program spending	**$33 billion** from $31 billion in farm subsidy cuts and $2 billion in cuts to conservation programs
Reform Pension Benefit and Guaranty Corporation (PBGC)	**$12 billion** from allowing PBGC to set its own premium rates		**$10 billion** from allowing PBGC to set its own premium rates	**$5 billion** from increasing PBGC premiums	**$9 billion** from unspecified changes
Auction Spectrum Licenses	**$4 billion** from spectrum auction user fee and allowing FCC to auction services		Less than **$5 billion** from continuing existing auction authority; recommends Congress consider incentive auctions		**$20-$25 billion** in net savings from incentive auctions with a portion of auction proceeds redirected to new spending

Deficit-Reducing Policies	FY2013 President's Budget	FY2013 House Republican Budget	Original Simpson-Bowles	Domenici-Rivlin (BPC)[a]	August 2011 Debt Limit Discussions[b]
Reform Federal Civilian and Military Pension Benefits	Establishes a BRAC-like process to review military retirement benefits, but does not set a savings target or assume any savings		Establishes a task force to evaluate federal health and retirement benefits, but makes illustrative suggestions of up to **$27 billion** for pension savings from increasing computation years from 3 to 5 and eliminating COLAs before age 62 with a 1-time catch up	**$9 billion** from using highest 5 years of earnings to calculate civilian benefits and reforming military retirement into one based on FERS	**$47 billion** ($36 billion from civilian and $11 billion from military) including from increasing contributions and benefits changes. Also, chained CPI for COLAs under consideration by Obama and Boehner
Increase Pension Contributions for Federal Employees	**$18 billion** from increasing employee pension contributions	**$72 billion** from increasing employee contributions by 5%	Up to **$66 billion** from gradually equalizing employer and employee contributions to civilian pensions[#]		
Aviation Security / FAA Fees	**$22 billion** from increasing aviation security fees and introducing a new surcharge for air traffic services			**$21 billion** from moving to $5 flat fee per one-way flight for aviation security	Up to **$18 billion** from moving to $5 flat fee for aviation security, and a per flight plan FAA fee
U.S. Postal Service Reforms	Gives Postal Service greater management authority, including ability to move to five-day delivery, restructuring retiree health benefits, and better aligning postage with costs		Calls for removal of restrictions that prevent Postal Service from taking action to reduce losses, such as five-day delivery and closing down of some offices		**$11-$26 billion** from allowing Postal Service to adjust postal rates, among other changes

Deficit-Reducing Policies	FY2013 President's Budget	FY2013 House Republican Budget	Original Simpson-Bowles	Domenici-Rivlin (BPC)[a]	August 2011 Debt Limit Discussions[b]
Improve Tax Enforcement	Up to **$37 billion** from "cap adjustments" for tax enforcement		Up to **$30 billion** from "cap adjustments" for tax enforcement		
Reduce Food Stamps		**$31 billion** from sun setting temporary increase from ARRA sooner, restricting categorical eligibility, and other changes			Republicans proposed **$20 billion** in savings from categorical eligibility, "heat & eat", and job training
Sell Excess Federal Real Property	**$2 billion** from disposing of excess real property		Directs GSA to loosen agency restrictions on selling unused buildings and land		
Reform National Flood Insurance		**$5 billion** from increasing premiums for certain policyholders		**About $10 billion** from adjusting insurance subsidies for risk	

Deficit-Reducing Policies	FY2013 President's Budget	FY2013 House Republican Budget	Original Simpson-Bowles	Domenici-Rivlin (BPC)[a]	Under Consideration in Debt Limit Discussions[b]
Tax Reform					
Reform Employer Health Exclusion	**$450 billion** in additional revenue by limiting itemized deductions for high earners, and then calls for tax expenditure reform. Also allows the upper-income tax cuts to expire and implements the "Buffett Rule" in which people with income over $1 million cannot face a lower effective tax rate than people earning less than $1 million	Calls for revenue neutral comprehensive tax reform, which could include elimination of various tax preferences to reduce and consolidate tax rates to 10% and 25% and eliminate the AMT	Calls for comprehensive reform. Illustrative plan phases out exclusion between 2014 and 2038	Phases out exclusion between 2018 and 2028	
Reform Mortgage Interest Deduction			Calls for comprehensive reform. Illustrative plan replaces deduction with 12% credit up to $500,000, only for primary residences	Replaces deduction with 15% credit up to $500,000 for primary residences only	Elimination of deduction on second homes under discussion by Biden group
Reform Charitable Deduction			Calls for comprehensive reform. Illustrative plan replaces deduction with 12% credit and 2% of AGI floor	Replaces deduction with 15% refundable credit given directly to charitable organization	Democrats proposed limiting itemized deduction for high-earners
Reform State and Local Deduction			Calls for comprehensive reform. Illustrative plan eliminates deduction	Eliminates deduction	
Reform Tax Treatment of Retirement Accounts			Calls for comprehensive reform. Illustrative plan consolidates accounts, caps contributions, and expands savers' credit	Caps contributions and expands saver's credit	

Deficit-Reducing Policies	FY2013 President's Budget	FY2013 House Republican Budget	Original Simpson-Bowles	Domenici-Rivlin (BPC)[a]	Under Consideration in Debt Limit Discussions[b]
Corporate Tax Reform	Put forward a framework to reduce the corporate rate to 28%, while reducing and eliminating many corporate tax expenditures	Calls for comprehensive tax reform which targets a rate of 25%	Calls for comprehensive reform. Illustrative plan eliminates corporate all tax expenditures, lowers rate to 28%, and moves to a territorial system	Eliminates most corporate tax expenditures and reduces rate to 27%	White House offered corporate tax reform, including corporate jets and LIFO rules, but offer was rejected
Eliminate Fossil Fuel Tax Preferences	**$23 billion** in budget from reducing various preferences, and calls for tax expenditure reform in framework	Comprehensive tax reform which could include elimination of various preferences	Comprehensive tax reform which could include elimination of various preferences	Eliminates all tax expenditures related to oil and gas	Elimination of domestic manufacturing credit for big five integrated oil companies under discussion
Capital Gains and Dividends	**Nearly $200 billion** from increasing capital gains rate from 15% to 20% in 2013 and taxes dividends as ordinary income for higher earners		**Roughly $400 billion** from taxing all capital gains and dividends as ordinary income (with a top rate of 28% in the illustrative plan)	**About $250 billion** from taxing all capital gains and dividends as ordinary income (with a top rate of 27%), with $1,000 exclusion for capital gains or losses	

Deficit-Reducing Policies	FY2013 President's Budget	FY2013 House Republican Budget	Original Simpson-Bowles	Domenici-Rivlin (BPC)[a]	Under Consideration in Debt Limit Discussions[b]
Social Security					
Raise Social Security Retirement Age	Calls for improved WEP/GPO compliance with states and localities, but does not address or mention Social Security reform beyond that. However, the April Budget Framework called for Social Security reform, parallel to deficit reduction, which would strengthen security for low-income earners and the most vulnerable and restore long-term solvency without privatization or reducing the "basic benefit" for current beneficiaries.	Establishes Social Security trigger requiring action by the Administration and Congress in any year in which the Social Security Trustees project the system to be insolvent over the next 75 years. The President would be required, in conjunction with the Social Security Trustees, to put forward a plan to restore solvency, and Congress would be required to consider those recommendations or alternative proposals under an expedited process.	**Closes 18% of 75-year shortfall** from indexing the retirement age to life expectancy, with hardship exemption	**Closes 22% of 75-year shortfall** from indexing benefit formula to account for increases in life expectancy	
Reduce Benefit Formula for Higher Earners			**Closes 29% of 75-year shortfall** from creating bend point at median income and reducing PIA factors to 90%|30%|10%| 5%	**Closes 4% of 75-year shortfall** from reducing top PIA factor from 15% to 10%	
Increase Social Security Taxable Maximum			**Closes 35% of 75-year shortfall** from gradually raising the payroll tax cap to cover 90% of wages	**Closes 35% of 75-year shortfall** from gradually raising the payroll tax cap to cover 90% of wages	
Add State and Local Government Workers to Social Security			**Closes 8% of 75-year shortfall** from adding newly hired state and local workers beginning in 2021	**Closes 8% of 75-year shortfall** from adding newly hired state and local workers beginning in 2020	
Apply Chained CPI to Social Security*			**Closes 26% of 75-year shortfall** from using chained CPI to calculate annual COLAs	**Closes 26% of 75-year shortfall** from using chained CPI to calculate annual COLAs	Under consideration by Obama and Boehner

Note: This list is not necessarily an exhaustive list of overlapping policies.

[a] Estimates for BPC proposals extrapolated out to 2021 and estimated without interaction from premium support or Medicaid overhaul by CRFB staff.

**Switching to the chained CPI would increase revenues by $72 billion, reduce Social Security outlays by $112 billion, and reduce other spending by $48 billion over ten years. To read more, see CRFB's Moment of Truth project policy paper at http://crfb.org/document/measuring-case-chained-cpi.

[b] Policies under discussion during the August 2011 debt ceiling debate as defined by memo from Congressman Eric Cantor, unless otherwise noted.