A ROADMAP FOR AMERICA'S FUTURE

H.R. 6110

A PLAN TO SOLVE AMERICA'S LONG-TERM ECONOMIC AND FISCAL CRISIS

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PREFACE

America faces a choice between two fiscal and economic futures.

In one, the Federal Government attempts to satisfy the multiple needs of a changing population, in a rapidly changing world, with outdated policies that demand ever-rising levels of public spending. The effort overwhelms the government's capacities, and smothers the economy under crushing burdens of debt and high taxes. It is a future in which America's best century is the past century.

The second future calls for a transformation – or more accurately, a *restoration* of the principles that created America's freedom and prosperity. It is the path set out in a plan I have developed called *A Roadmap for America's Future*.

To examine the distinction further: Currently, we are on a path of unsustainable Federal Government spending. The main problem, and greatest threat to our nation's economic future, is the looming crisis of entitlement spending. The well-intentioned social insurance strategies of the past century – particularly Social Security, Medicare, and Medicaid – are headed toward financial collapse.

As numerous experts have long warned Congress, not only will these programs grow *themselves* into extinction, they will immensely burden our economy and budget – piling massive amounts of debt on future generations, crippling our ability to compete in the international marketplace, and dramatically reducing Americans' standards of living.

In fact, by the time my three kids are my age, they will have to pay double the taxes we pay today, just to keep the government afloat. This will occur with no *new* programs, no *new* spending – *double the taxes just to maintain the status quo*.

Compounding this problem is a tax code that discourages work, saving, and investment – and puts American companies at a significant competitive disadvantage with businesses overseas.

This is the future we face if we do nothing.

We can – and we must – set a different course. *If we begin to act immediately*, there remains the opportunity for a dramatically better American future. But the time for talk has passed. *We need a plan.*

Over the past few years, I've solicited input from many people – policy experts, budget and economic analysts, and working people in Wisconsin and throughout the country. From those discussions, I've developed a comprehensive plan to transform the Federal Government – to fix healthcare, Medicare, Social Security, our tax system, and our growing debt.

My legislation – *A Roadmap for America's Future* – achieves the following:

- First, it ensures universal access to health insurance; and rescues and strengthens Medicare, Medicaid, and Social Security, allowing them to fulfill their missions and making them *permanently* solvent.

- Second, it returns Federal spending growth to sustainable levels, and removes the massive debt burden facing future generations.

- Third, my plan promotes solid, sustained economic growth and job creation, ensures that Americans keep more of what they earn, and levels the playing field for U.S. businesses to compete with foreign businesses.

This plan addresses all these issues at once, because – whether the issue is health care, international competitiveness, or debt – piecemeal, incremental "fixes" cannot match the magnitude, the urgency, and the interrelated nature of America's domestic challenges. I believe a comprehensive approach is critical to achieving real, long-term solutions.

My plan also is backed up by numbers. Based on analysis by government actuaries, the plan is projected to make Social Security and Medicare *permanently* solvent, and lift the growing debt burden on future generations, while keeping tax rates low.

We are going to have to tackle these problems, or they're going to tackle us. The entitlement crisis is real, it's serious, it's not going away, and it's getting dramatically worse with every year we fail to act.

It may be one of our greatest challenges, but it is also a truly historic opportunity. This report examines the nature of these challenges; describes the principles that have guided my approach to addressing it; and explains my proposal in detail. *A Roadmap for America's Future* is a real plan, with real proposals, real numbers to back them up, and real legislation to implement it.

While the severity of the problem probably cannot be overstated, as demonstrated time and again in the past, when Americans put their ingenuity and resolve to work on a problem, they solve it. The 20th century was an extraordinary period of American achievement. It is my belief this Roadmap gives Americans the means and tools to solve the problem, to make the 21st century even better, and to continue the legacy of leaving the next generation better off.

I recognize this is an ambitious proposal. Not everyone will agree with every aspect of it, and that's fine. But if nothing else, it is my sincere hope that it will spur Congress to move beyond simply rehashing the problem – to debating, and implementing actual *solutions* for the American people.

PAUL D. RYAN
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EXECUTIVE SUMMARY

INTRODUCTION

- The proposal *A Roadmap for America's Future* achieves three key objectives:

  - *Health and Retirement Security*. It assures universal access to health insurance, and rescues and strengthens Medicare, Medicaid, and Social Security – allowing them to fulfill their missions and making them *permanently* solvent.

  - *Lift the Debt Burden*. It returns Federal spending growth to sustainable levels, and lifts the huge projected debt burden looming over future generations.

  - *American Jobs and Business Competitiveness*. It promotes solid, sustained economic growth that ensures Americans keep more of what they earn, and levels the playing field for U.S. businesses to compete with foreign businesses.

- These objectives cannot be met under current policies. The U.S. faces an unsustainable path of Federal Government spending, levels of projected debt that threaten to bankrupt the country, trillions of dollars of unfunded liabilities in the government's major benefit programs, and an accelerating erosion of health care and retirement security. These trends threaten the U.S. economy's ability to continue raising living standards, or to compete in an increasingly international marketplace.

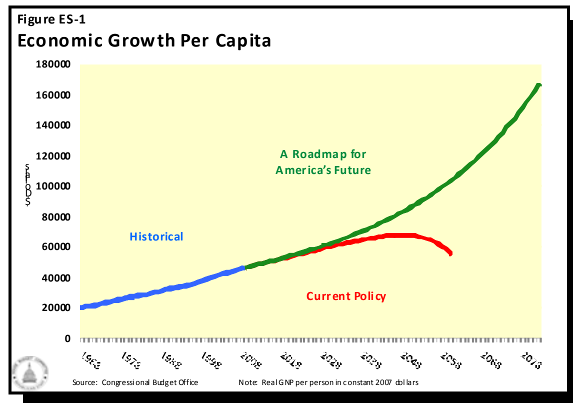


Figure ES-1
Economic Growth Per Capita

- These challenges also create an historic opportunity to transform the Federal Government to the realities of the 21st century.

MEETING THE CHALLENGE

Health Care

- The U.S. spends more than $2.1 trillion per year, roughly 15.9 percent of U.S. gross domestic product [GDP], on health care – about twice as much as any other

industrialized country. Medical costs are rising at about 6.7 percent per year, significantly faster than the growth of inflation and real GDP, and at current rates are projected to consume nearly half of all economic resources during this century. These rising costs are the main reason roughly 47 million Americans lack health insurance coverage.

- A key component of the problem is the Federal tax code's exclusion for employer-provider health insurance, which shields consumers from the true costs of medical care, and has evolved into an expensive, inflexible, and unfair government subsidy.

- Rapidly rising health costs also drive the unsustainable rates of spending in the Federal Government's two major health entitlements, Medicare and Medicaid. Without reform, Medicare and Medicaid face financial collapse. Medicare in particular would require a doubling of income taxes, an immediate reduction in benefits, or some combination of the two just to keep pace.

Retirement

- As soon as 2017, Social Security will have to begin redeeming the trust fund bonds that have accumulated in recent decades, forcing one of four options: squeezing other government programs, sharply raising taxes, cutting benefits, or running large budget deficits. By 2041, the Social Security Trust Fund will be exhausted and the program will be unable to pay all benefits promised to seniors. Without reform, benefits will have to be cut by 22 percent, or taxes raised by 28 percent.

- The main problem is demographic – the result of the forthcoming baby-boom retirements and lengthening life spans. Today there are only 3.3 workers for each Social Security beneficiary, and that number is projected to fall to 2.2 by 2030, and continue dropping thereafter. These figures compare with the 42 workers per Social Security-eligible retiree in 1935, and 16 workers per beneficiary in 1950.

- Without changes in the program, the combination of demographics and scheduled benefit increases will drive Social Security spending upward throughout the century from its current level of 4.3 percent of GDP.

Unfunded Liabilities

- The trends in these Federal entitlement programs are driving the growth of what are often called "unfunded liabilities."

    - Medicare has an unfunded liability of $36 trillion over the next 75 years, or about $317,000 per U.S. household. In just the next 5 years, by 2013, Medicare's unfunded liability is projected to grow by 33 percent, to $48 trillion – or about $412,402 per household.

- When Social Security and Medicare are taken together, the total unfunded liability is $40 trillion, or about $353,000 per household. By 2013, that total will grow to $54 trillion, or $474,077 per household.

The International Marketplace

- With the deployment of broadband technology and a host of other technological advancements, the U.S. economy is increasingly interrelated with the international economy. The force of competition is fierce, with countries such as India and China playing especially vigorous roles. Virtually no worker or industry is immune from these new competitive realities.

- To support continued prosperity and rising standards of living, it is crucial for the U.S. to embrace policies that will promote its leadership in the international marketplace, and to acknowledge the increasing importance of individual freedom and free markets.

The Need to Act Now

- Each year of delay makes the problem more intractable and the needed corrections more difficult to implement. Delay also causes government debt to rise, exacerbates uncertainty, and raises the cost of interest on the national debt.

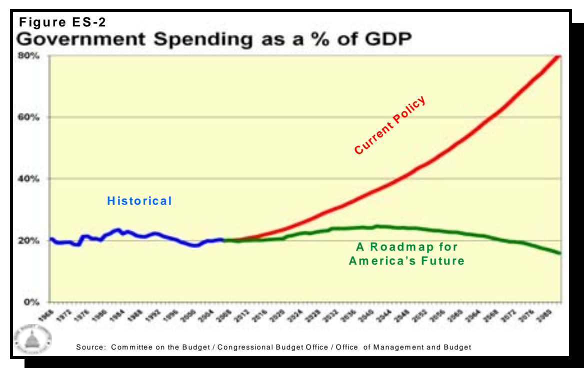
- Acting promptly avoids an otherwise inevitable crisis, and provides time for Americans to adjust to the needed changes.

A CHOICE OF TWO FUTURES

- The trends described above translate into one of two potential futures for the U.S.

  - The status quo leads to a level of government spending, financed by taxes or debt, that will cripple the U.S. economy, depriving future working families of the their potential prosperity, and future retirees of the very benefits government promises.

  - The other path transforms health care, Federal entitlements, and Federal taxes; restrains the growth of government spending to sustainable levels; and fulfills America's promises from one generation to another.



- The latter is the course of *A Roadmap for America's Future.*

GUIDING PRINCIPLES

- This proposal is built on four guiding principles:

  - *Comprehensiveness.* Because America's major domestic challenges are interrelated, they cannot be solved with piecemeal, incremental "fixes." Successfully addressing them requires a *comprehensive* approach – one that energizes the productive capacities of Americans, to generate sustained economic growth.

  - *Ownership.* The proposal is built on the moral and economic principle of personal ownership. The obvious benefit is a nation in which more and more people become active participants in preserving the hope and promise of a prosperous country.

  - *Security*. The proposal recognizes that some face chronic or temporary limitations, making it difficult for them to navigate successfully in the market. Therefore the plan repairs gaps in America's social safety net and places these programs on a path of fiscal sustainability.

  - *Competitiveness.* Moderating health care spending without rationing services, restraining the growth of government, and expanding ownership in America's free enterprise system are essential to America's ability to compete in the international marketplace. The Federal tax code also needs reform to boost incentives for growth and productivity.

A ROADMAP FOR AMERICA'S FUTURE

The Health Care Marketplace

- The plan promotes personal ownership of health insurance coverage by leveling the playing field between those with employer-sponsored health coverage and those who purchase health coverage in the individual market. Every American (except those enrolled in Medicare or a military health plan) will have the option of receiving a refundable tax credit – $2,500 for individuals and $5,000 for families – to pay for health coverage.

- The plan allows each individual to use the refundable tax credit toward the purchase of health insurance in *any* State, greatly expanding the choices of coverage available, and encouraging competition and diversity among insurers.

- To promote transparency in health care quality and price information, the proposal restructures the current Agency for Healthcare Research and Quality [AHRQ] and removes it from the Department of Health and Human Services. The new agency, renamed the Healthcare Services Commission [HSC] – which will operate similarly to the Securities and Exchange Commission and the Financial Accounting Standards Board – will enhance the quality, and reduce the cost of health care services through the publication and enforcement of quality and price information.

- Among the benefits of these health care reforms:

  - *Broad Availability*. Individuals without income tax liability are still eligible for the credit, which is both refundable and advanceable.

  - *Responsive Care for the Chronically Ill.* State high-risk pools will provide coverage for those with chronic medical conditions, protecting them from going bankrupt due to catastrophic illnesses. In the process, this reform will help stabilize premiums in other group health plans.

  - *Portability*. Individuals will be able to take their health insurance from job to job, or State to State.

  - *A More Responsive Market.* Placing those decisions in the hands of individuals and families will encourage insurance companies to offer more variety, higher quality, and more cost-effective plans to meet the needs of their customers.

  - *Greater Opportunity for Small-Business Coverage.* The refundable tax credit allows employees to take responsibility for purchasing their own health care, but also allows small businesses to make defined contributions to accounts – such as Health Savings Accounts [HSAs].

  - *Enhanced Health Care Quality.* With individuals controlling their own health care dollars, providers will be encouraged to compete for business by increasing quality and charging more competitive prices. For providers, increased competition will mean they are less likely to be locked in to prices set by insurance plans.

- The proposal establishes a modern market-driven approach to building a National Health Information Network, giving every American ownership over his or her own medical record, and transitioning the health care industry from paper-based to electronic medical records – improving health care quality, reducing medical errors, and ensuring that appropriate information is easily accessible.

Modernizing Medicaid

- The proposal modernizes Medicaid and strengthens the health care safety net by reforming high-risk pools, and giving States maximum flexibility to tailor Medicaid programs to the specific needs of their populations.

- It allows Medicaid recipients to take part in the same variety of options and high-quality care available to everyone through the tax credit option, removing the stigma Medicaid recipients face.

- It allows States to choose whether their Medicaid populations participate in the tax credit or continue in their current Medicaid programs. States that select the latter receive their Federal Medical Assistance Percentage [FMAP] funding in the

form of a block grant, indexed to inflation by a blended rate of the consumer price index [CPI] and the medical care component of the CPI.

Medicare

- The proposal fulfills the mission of Medicare by creating a new program in which future beneficiaries (those now 55 or younger) receive income-related government payments to choose the most affordable coverage that best suits their needs, while preserving the existing Medicare program for those older than 55.

  - For those 55 and younger, the plan creates a new Medicare Program that will provide payments of up to $9,500– adjusted for inflation and based on income, with low-income individuals receiving greater support – for the purchase of private health coverage. The payment also is risk-adjusted, so those with greater medical needs receive a higher payment.

  - The plan establishes and funds medical savings accounts [MSAs] for low-income beneficiaries, while continuing to allow all beneficiaries, regardless of income, to set up tax-free MSAs.

- The combination will fully restore Medicare's promise to provide seniors the assistance they need to have access to health care services. The proposal also combines the Part A and Part B trust funds to streamline financing, and creates a new measure of program solvency as a percentage of GDP.

- The plan also provides enhanced benefits for those with low incomes. While any Medicare beneficiary, regardless of income level, is able to set up a tax-free Medical Savings Account [MSA] if he or she desires, the new Medicare Program establishes and funds MSAs for low-income beneficiaries.

- Following consultation with the Office of the Actuary of the Centers for Medicare and Medicaid Services, this plan is found to make Medicare permanently solvent.

Social Security

- As with Medicare, the proposal preserves the existing Social Security program for those 55 or older.

- For those under 55, it offers the option of investing more than one-third of their current Social Security taxes into personal retirement accounts, similar to the Thrift Savings Plan available to Federal employees.

- The personal accounts will be the property of the individual account holders, allowing them to pass on these assets to their heirs.

- In addition, the plan guarantees that total benefits from the personal accounts will not be less than they would have been under the current system.

- According for the actuary for the Social Security Administration, these enhancements, combined with a more realistic measure of growth in Social Security's initial benefits and an eventual modernization of the retirement age, will make Social Security *permanently* solvent.

Tax Reform

- The current individual income tax code is needlessly complex, unfair, and inefficient. This proposal corrects those flaws. It eliminates the alternative minimum tax [AMT], and offers individual income taxpayers a choice of how to pay their taxes – through existing law, or through a simplified tax with just two rates and virtually no special tax deductions, credits, or exclusions (except the health care tax credit).

  - Simplified tax rates are 10 percent on income up to $100,000 for joint filers, and $50,000 for single filers; and 25 percent on taxable income above these amounts.

  - The simplified tax also includes a generous standard deduction and personal exemption (totaling $39,000 for a family of four).

- The proposal also puts an end to the double taxation of savings. The current system essentially taxes savings twice – individuals pay tax on their earnings and, if they choose to invest those after-tax funds, they must pay another tax on the return from their savings (i.e. interest, capital gains or dividends). This plan eliminates the second layer of taxation. The plan also eliminates the death tax.

- The proposal replaces the corporate tax – currently the second highest in the industrialized world – with a border-adjustable Business Consumption Tax [BCT] of 8.5 percent. The plan also allows immediate expensing of investments.

- Among the benefits of the BCT are the following:

  - It will reverse the current uncompetitive business tax climate, which has forced many U.S. companies to relocate abroad.

  - International businesses will have a greater incentive to invest in the U.S. and expand production here, creating jobs.

  - It will bring earnings and profits back to the U.S. The high statutory corporate income tax in the U.S. has led to multinational corporations shifting profits to lower-tax countries, essentially shifting the tax base overseas. Many U.S. businesses also delay the repatriation of earnings from their foreign affiliates.

BUDGET ENFORCEMENT

- The proposal establishes a binding cap on total spending as a percentage of gross domestic product at the spending levels projected to result from this legislation.

- It creates mechanisms for regular congressional review of entitlement programs, and automatic spending-restraint mechanisms if Congress fails to take needed actions to stay within the spending cap.

- It also includes a supermajority vote in Congress to raise tax revenue above 18.5 percent of GDP.

APPENDICES

- Appendix I summarizes details of the legislative proposal, by title.

- Appendix II explains fiscal assumptions and methodology, and describes the projected path of Federal spending over the next 75 years under *A Roadmap for America's Future*.

INTRODUCTION

The proposal described in this report has three objectives:

- To Fulfill the Mission of Health and Retirement Security for All Americans.
- To Lift the Burden of Debt Facing Future Generations.
- To Ensure American Jobs and Competitiveness in a 21st Century Economy.

Achieving these goals requires nothing less than recasting the relationship between individual Americans and their government. To put the matter bluntly: the well-intentioned social insurance strategies of the past century – which sprang from the New Deal, expanded in the Great Society, and continue to dominate the Federal budget – are headed toward collapse. Their very worthy aims can no longer be met using models created nearly 80 years ago – with large, centralized institutions, especially government, serving as sole providers for an increasingly dependent population.

Among the inescapable signs of the problem are the following: an unsustainable path of Federal Government spending; levels of projected debt that threaten to bankrupt the country; trillions of dollars of unfunded liabilities in the government's major benefit programs; and the erosion of Americans' confidence in health care and retirement. These conditions pose significant potential burdens not only for the government, but for the U.S. economy as well, threatening its ability to continue raising standards of living, to compete successfully in an increasingly international marketplace, and to continue the legacy of leaving the next generation better off.

The ultimate consequences will not occur immediately: they will unfold over the next several decades, becoming more intractable with each succeeding year. But they are inevitable under the policies in place today.

To willfully ignore these facts and delay action not only perpetuates false expectations about the future; it also disregards an extraordinary opportunity to transform government programs and tax policies to the realities of the new century. Such a transformation can, at the same time, reinforce personal initiative and responsibility, and thereby strengthen American society. This entails not a radically new approach, but the *restoration* of a longstanding, proven philosophy – one that recognizes the individual as the nucleus of American society.

This proposal restructures health care, the Federal health entitlements, retirement security, and Federal taxation. Because piecemeal, incremental "fixes" cannot truly match the magnitude and interrelated nature of the challenge, the approach of this reform plan is comprehensive. Its aim is *not* to retreat from the commitments made over the past eight decades, but to *fulfill* them – which cannot be accomplished under the status quo.

This approach need not be viewed as a finished product. It is a *framework* on which to build, designed with the capacity to evolve and adapt with the inevitable changes in domestic and global conditions that will emerge throughout the century. But it is offered as a coherent and integrated approach that is both *bold and achievable*.

The discussion that follows describes the contours of the challenge; the alternate futures for America; the principles that guide this proposed response; and the details of the proposal, *A Roadmap for America's Future*.

MEETING THE CHALLENGE

To achieve the goals set out in the introduction to this report, it is necessary to understand the economic and fiscal challenge facing the country. That challenge is broad, deep, and multifaceted. The discussion below aims not only to examine its separate components, but also to show how they are interrelated, requiring a *comprehensive* strategy for addressing them.

HEALTH CARE

Spending on health care in the United States, counting both private and public expenditures, currently totals more than $2.1 trillion per year – roughly 15.9 percent of gross domestic product [GDP]. In part, this level of spending reflects the generally high standards of care available in the U.S., the extraordinary advances in medical technology, and the value Americans place on this most personal of services.

But whether Americans receive a commensurate value for this level of health spending is in doubt. Says Harvard Professor Regina E. Herzlinger: "Sure, we have some great doctors, hospitals, and medical technology; but quality varies wildly among and within providers of health care. And because of the lack of integration of medical care delivery for the chronic diseases and disabilities that account for 80 percent of health care costs, patients fall between the cracks – for example, kidney disease patients don't get the preventive care they desperately need to halt the progression of their deadly disease." (Herzlinger, *Who Killed Health Care?*, 2007)

Isabel V. Sawhill, a senior fellow at the Brookings Institution, puts it another way: "We spend about twice as much on health care in this country as in any other industrialized country and we do not get better outcomes." (Sawhill, *Does It Take a Commission? Health Care and the Federal Budget*, speech to the National Press Club, 5 May 2008)

Moreover, medical costs are rising at about 6.7 percent per year, significantly faster than the growth of real GDP and inflation. According to the Congressional Budget Office [CBO], under current trends, total spending on health care will rise to 25 percent of GDP by 2025, 37 percent in 2050, and 49 percent – nearly half of all U.S. economic resources – by 2082. (CBO, *The Long-Term Outlook for Health Care Spending*, November 2007) As a result, health care spending will increasingly crowd out other priorities, from education to infrastructure.

This rate of growth is pushing up health insurance premiums, making coverage more and more difficult for many Americans to afford. The average monthly worker premium contribution to an employer-sponsored family insurance plan has risen from $129 in 1999 to $273 in 2007, an increase of 112 percent. (The Kaiser Family Foundation and the Health Insurance and Educational Trust, *Employer Health Benefits – 2007 Annual Survey*, 2007) Small businesses frequently cannot afford group insurance for their

employees, and large companies have tended to restrict the choices of employee coverage on the premise that such restrictions would restrain cost growth. At the same time, policies for self-employed persons are often prohibitively expensive. Worse, individuals suffering chronic medical conditions often are branded "uninsurable," because insurance for them would be too expensive.

Rising costs are the main reason why an estimated 47 million Americans have no health insurance coverage, from either the market or the government. The uninsured often fail to seek appropriate medical care, for themselves or their children, until their needs become critical – risking more serious, and more expensive, illnesses. In addition, they have no means of paying for catastrophic medical events, should they occur – and may face bankruptcy because of it. Alternatively, doctors and hospitals that provide care shift the costs to other patients and insurers.

Rising health care spending also is the major contributor to the unsustainable projected increases in the Federal Government's two major health programs, Medicare and Medicaid, which are the main contributors to projected chronic Federal budget deficits. The effect of this spending growth is even greater than that of lengthening life-spans and the forthcoming retirement of the baby boomers. "Long-term deficits are driven not only by the aging of the population," says Dr. Sawhill. "[T]hey are much more driven by increasing health care costs per capita . . . The demographics play a role. But if you look at the numbers carefully you will see that the problem has been health care spending per capita that has been growing 2 to 3 percent faster than per-capita incomes or per-capita GDP." (Sawhill, *Does It Take a Commission? Health Care and the Federal Budget*, speech to the National Press Club, 5 May 2008) During the period 1999 through 2008, the monthly premium for seniors who participate in Medicare has risen at nearly the same rate as those in private insurance, from $45.50 to $96.40. (*The 2007 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Fund*, March 2007)

Table 1: U.S. Health Care Spending, by Source of Funds, 2006

	Billions of Dollars	Percent of Total Spending
Private Spending		
Private Health Insurance	723.4	34.4
Out-of-Pocket Payments	256.5	12.2
Other Private Spending[a]	155.3	7.4
Subtotal: Private Health Spending	**1,135.2**	**53.9**
Public Spending		
Medicare	401.3	19.1
Medicaid[b]	308.6	14.7
Other Public Spending[c]	260.5	12.4
Subtotal: Public Health Spending	**970.4**	**46.1**
Total	**2,105.6**	**100.0**

[a] Includes philanthropy and spending by on-site clinics maintained by employers.
[b] Includes both Federal and State spending.
[c] Includes spending by State and local health departments, the Department of Veterans Affairs, the Department of Defense, workers' compensation programs, and the State Children's Health Insurance Program.
Source: Congressional Budget Office, and Centers for Medicare and Medicaid Services.

Furthermore, the government health programs rely on the infrastructure of private health care. As CBO notes: "[M]ost [public] services are furnished by private providers. For example, Medicare and Medicaid beneficiaries receive most of their care from physicians, hospitals, and other providers that deliver services to the general population." (CBO, *The Long-Term Outlook for Health Care Spending*, December 2007) Therefore, inadequacies or inefficiencies in private health care services affect Medicare and Medicaid as well. It is another reason why correcting problems in the government health entitlements requires addressing inefficiencies in the market.

But if rising private health costs drive the growth of Medicare and Medicaid spending, *the converse also is true*: Medicare and Medicaid themselves contribute in their own way to medical inflation. These two programs account for roughly 34 percent of all health care spending nationally (including the State share of Medicaid), according to the most recent figures from CBO (see Table 1). Another 12 percent comes from other public programs, including those of State and local health departments, the Department of Veterans Affairs, and workers' compensation. Such large infusions of government funds inevitably stoke rising medical costs. Furthermore, real per-capita growth in Medicare and Medicaid spending has outpaced that occurring in the market (see Table 2). This demonstrates that government spending tends to be less efficient than spending in the market. Hence, *overall medical costs cannot be tamed without also addressing the structure of the Federal health entitlements*.

Table 2: Real Per Capita Growth in Medicare, Medicaid, and All Other Health Care Spending
(percent growth)

	Medicare	Medicaid	All Other	Total
1975 to 1990	5.4	5.4	4.8	5.1
1990 to 2005	3.8	3.3	3.1	3.4
1975 to 2005	4.6	4.4	4.1	4.3

Source: Congressional Budget Office, *The Long-Term Outlook for Health Care Spending*, November 2007

Given that all these elements of health care are interrelated, the following sections examine the separate components more closely. The aim is to build a better understanding of what kinds of remedies might succeed, and what kinds will not.

The Private Health Care Market

Private health care in America is not a "system," as many casually describe it: it has no formalized organization, and no single designated authority to run it. Like most enterprises in the U.S. economy, private health care financing and delivery operates in a *market*, with numerous participants – including the government – who interact voluntarily, and readjust their activities in response to incentives and disincentives and other changes. This is not a flaw, but a necessary recognition: because of the market's naturally dynamic nature, attempts to further "systematize" health care will only make it either more costly or more restrictive. As Michael J. Novak Jr. explains: "In most economic markets, particularly those with millions of participants, no single human intelligence seems adequate to grasping the needs of individuals. Central planners have a record of building up wasteful surpluses in some areas, precipitating unplanned-for

shortages in others. Queues and illicit black markets result. . . . Perhaps worse, incentives to individual intelligence are few and the common fund of invention shrinks." (Novak, *The Spirit of Democratic Capitalism*, 1982)

This insight explains much of what has gone wrong in health care over the past several decades. The problems have been caused not by a failure of the health care market, but mainly by distortions imposed on the market from several directions. For example, the potential for competition by physician-controlled specialty hospitals, which can provide better and less expensive services than larger institutions, often has been suppressed. Large employers have tended to restrict employees' choices of health insurance policies under an assumption that this would control costs. Some managed care organizations have drifted more toward reducing costs than focusing on providing better, more integrated, and less expensive health care – to the frustration of patients. Government bureaucrats have tended to prescribe, and thereby interfere in the ways doctors serve patients. All of this has occurred with the endorsement or assistance of government at the local, State, and Federal levels.

While medical prices have risen, the return to medical professionals has not; and this trend has limited the *supply* of medical providers, which also tends to keep prices higher than necessary. As Professor Herzlinger writes:

> [P]hysicians' inflation-adjusted incomes dropped by 7 percent from 1995 to 2003, while those of professional and technical workers increased by 7 percent. And, increasingly, physicians are asked to follow medical care recipes concocted by insurers and government bureaucrats. With their professional autonomy and financial well-being compromised, small wonder that the number of applicants to medical schools decreased by nearly 20 percent between 1996 and 2006. (Herzlinger, *Who Killed Health Care*, 2007)

Yet with all this, there is another, even more fundamental problem. It lies in the *Federal tax code* – specifically the tax exclusion for employer-provided health coverage. This policy undermines the health care market by hiding the true cost of insurance from those covered by it, and contributing to more expensive care and more costly insurance. As C. Eugene Steuerle of the Urban Institute describes it:

> The exclusion is open-ended. The more insurance we buy, the larger the amount of income we get to exclude from tax and the more the government subsidizes us. The exclusion favors most those of us who have the most generous health insurance policies. Moreover, because more insurance means that we face even less of the cost of what we buy – we and our doctors now bargain over what the plan, not us, will pay – we demand more care and more expensive care. . . . Additionally, the increased demand for health care tends to encourage growth in the health care sector in a less than optimal way. For instance, it tends to encourage suppliers of medical care to increase the quantity of what we get, with less incentive to increase quality. (Steuerle, "Congress Spends More to Increase Number of Uninsured," 12 April 2004)

It is important to note that this tax policy came about not by plan, but as an accident of historical events. During the Second World War, when the Federal Government imposed wage and price controls, employers sought to attract workers from a tight labor pool by offering modest health coverage, and excluding the costs from wages. When these employers sought endorsement of the practice from the Internal Revenue Service [IRS], the IRS approved. After the war, when the IRS tried to rescind this decision, Congress wrote it into law. The exclusion, which this year totals an estimated $151.8 billion, has made employer-provided coverage the most common form of health insurance.

Although the employer-based tax benefit has been important to the provision of health care, it has evolved into an expensive, inflexible, and unfair subsidy. It also contributes to the insecurities felt by those who have employer-based health insurance, because they fear sacrificing coverage if they lose or change jobs.

The tax provision also has failed to encourage the expansion of health coverage. Since 2000, the percentage of businesses offering health benefits has fallen 69 percent – mainly due to the continued rise in insurance costs. Rising costs also make health coverage unaffordable to many small businesses, self-employed persons, and low-income persons. Indeed, the current tax policy actually *increases* the number of the uninsured, according to Dr. Steuerle:

> As the increased amount of money spent on the exclusion effectively increases the average cost of health care and of health care insurance, the greater the number of individuals in the economy who forego purchasing private health insurance. Not only are low-income people more likely to avoid purchasing health insurance, but many middle-class people and people between jobs decide to take a chance and save the amount of the health insurance premium. Employers, beset by demands from their workers for cash wages, are also more likely to drop health insurance. At times, this happens directly, but more often than not it works its way into the system indirectly. The company with expensive health care insurance reduces the number of its employees, or, if growing, tries to outsource to groups for whom it does not have to pay for insurance. New companies without health insurance displace older ones that carry health insurance. (Steuerle, "Congress Spends More to Increase Number of Uninsured," 12 April 2004)

The third-party insurance arrangement also sharply reduces the options of health coverage packages available. Americans are limited in their choices of health insurance plans based on what their employers can afford – if a health plan is even offered at all. Consequently, Americans are deprived of a diverse health insurance market in which they can find affordable coverage options truly suited to their needs.

Adding to the problem is the lack of transparency in health care price and quality data, which further prevents patients from making the kinds of judgments they do in purchasing other services. For example, in the Milwaukee, WI area a heart bypass operation costs $100,000 at one hospital, while the same procedure costs $48,000 at another. Yet patients, and sometimes even doctors, are unaware of this difference.

Obviously, nearly all patients would rely on third-party coverage for such an event; it is the kind of episode for which consumers most need insurance. But because prices are opaque, patients have no incentive even to consider and compare them – let alone variations in the quality of services – in choosing where to undergo such procedures.

Medicaid

In fiscal year 2006, 63.2 million people were enrolled in Medicaid at some time during the year. Some 31.1 million of these beneficiaries were children, and 16.2 million were adults in families with dependent children. The program has provided Americans of limited means access to health care they could not have obtained otherwise.

But Medicaid spending, too, is spiraling out of control: it is growing at a rate of about 7.5 percent per year, and the combined Federal and State costs to run this program in fiscal year 2006 was $308.6 billion. State budgets are overwhelmed with these costs and Federal officials are struggling to meet the growing fiscal needs required to keep this program running. At the same time, Medicaid has fostered a two-tiered hierarchy within the health care marketplace that stigmatizes Medicaid enrollees. Providers are paid based on bureaucratically determined formulas that do not reflect the market. As a result, fewer and fewer providers are willing to participate in the program, meaning longer lines for beneficiaries, fewer operational clinics, and insufficient care.

Patients suffer as a result. With administrators looking to control costs and providers refusing to participate in a system that severely under-reimburses their services, Medicaid beneficiaries ultimately are left navigating an increasingly complex system for even the most basic of procedures.

Medicare

When President Johnson signed Medicare into law more than 40 years ago, he cited a principal goal of the program that cannot be achieved under its current spending path: "No longer will young families see their own incomes, and their own hopes, eaten away simply because they are carrying out deep moral obligations to their parents, and to their uncles, and their aunts." Absent reform, however, the program will end up delivering exactly what it was created to avoid: it will consume the prosperity of today's younger generation to finance an unsustainable path of spending.

Medicare was created with the worthy mission of providing health coverage for America's retirees, and for many it has done so. But the program suffers from unsustainably rapid spending increases that continue to drain economic and fiscal resources on its way to insolvency. In short, the program, as currently structured, cannot keep its promises to future generations.

The cost of Medicare has always been higher than expected. For example, in 1965 it was estimated that benefit payments for Medicare's Hospital Insurance [HI] program would total $8.8 billion in 1990. The actual spending was $65.7 billion (see Table 3). (Note: Robert J. Myers, the actuary who made the estimate, has disputed this comparison,

arguing it would be more appropriate to compare benefits based on percentages of taxable payroll, and making other adjustments. But even on his terms, he concedes actual 1990 spending was 165 percent higher than estimated in 1965.)

Today, Medicare outlays are growing at a rate of 6.5 percent per year, more than twice the rate of current real GDP growth. Over the next 20 years, during which per-capita GDP is projected to grow an average of 1.1 percent per year, per-capita Medicare spending will increase by twice that amount, 2.2 percent, rising from $10,685 in 2006 to $18,116 in 2030 (adjusted for inflation). In coming decades, Medicare's per-capita spending rates will combine with a shift in the character of the U.S. population – toward one with a larger pool of retirees relative to workers – worsening its financial problems.

To rescue Medicare from financial collapse requires transforming the program to make it financially sustainable, and more consistent with the character of medical care in the 21st century.

Table 3: Estimated and Actual Benefit Payments for Medicare Hospital Insurance (Part A) Program
(dollars in millions)

Calendar Year	Estimated Part A Benefit Payments, 1965[a]	Actual Part A Benefit Payments[b]
1970	2,860	4,804
1975	4,047	10,353
1980	5,307	23,793
1985	6,860	47,710
1990	8,797	65,722

[a] From the Committee on Ways and Means, *Actuarial Cost Estimates and Summary of Provisions of the Old-Age, Survivors, and Disability Insurance System as Modified by the Social Security Amendments of 1965 and Actuarial Cost Estimates and Summary of Provisions of the Hospital Insurance and Supplementary Medical Insurance Systems as Established by Such Act*, 30 July 1965, Table 11.
[b] From the Office of Management and Budget, Historical Tables: *Budget of the U.S. Government – Fiscal Year 2009*, Table 13.1.
Note: Robert J. Myers, the actuary who prepared the 1965 estimates, has disputed comparisons such as those above, arguing that a more accurate comparison would be based on percentages of taxable payroll, along with other adjustments.

RETIREMENT

In 1935, the year Social Security was enacted, there were about 42 working-age Americans for each retiree. The average life expectancy for men in America was 60 years; for women it was 64. With these demographics, it was easy for the program to generate sufficient revenue to meet its promises to those over 65. The initial Federal Insurance Contributions Act [FICA] tax rate was 1 percent each for workers and employers, up to $3,000 of income.

But even President Roosevelt knew this could not last. "Roosevelt himself saw that while the program's revenues might cover its costs now, the numbers from the actuaries suggested that there would not be enough money for old-age pensions for future generations." (Amity Shlaes, *The Forgotten Man: a New History of the Great Depression*, 2007)

President Roosevelt was right; and today, the challenge facing Social Security is more inexorable than at any time in the past – including the near-collapse of 1983. What's more, the risk to Social Security is nearer at hand than most acknowledge. The Social Security surplus will begin to shrink starting next year, 2009, and the program will hit a "negative cash flow" – when annual benefit payments exceed annual payroll tax revenue – less than a decade from now.

The cash flow trend is significant for the following reasons. Since the 1983 Social Security reform, the program's trust fund has run substantial cash surpluses: it has been collecting significantly more in dedicated tax revenue than it needed to pay annual benefits. These cash surpluses were "borrowed" by the general fund to finance other government programs, and were replaced by government bonds that promised the cash would be returned when needed, with interest.

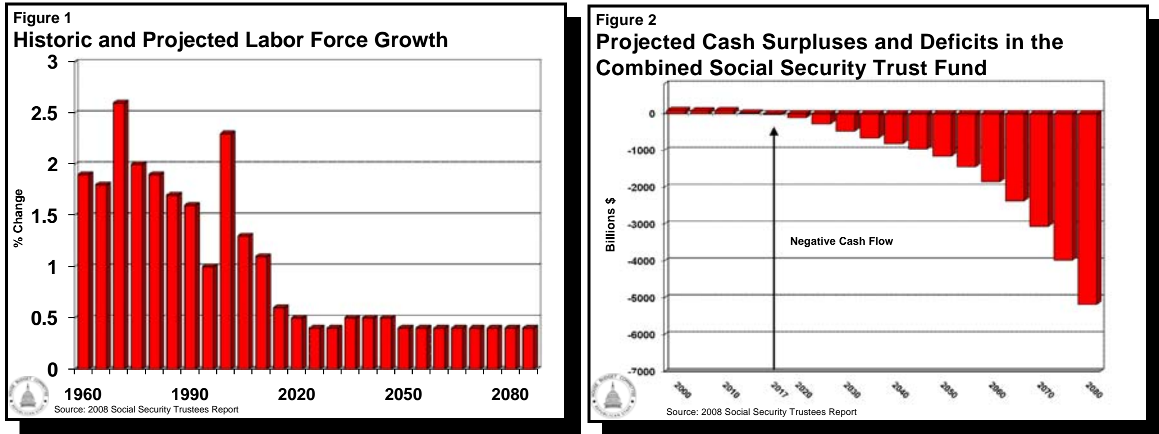
In 2017, Social Security will have to begin redeeming the trust fund bonds that have accumulated in recent decades. This will lead to one of four options, or some combination: 1) other government programs will have to be squeezed to finance Social Security; 2) taxes will have to be raised sharply to cover benefits; 3) benefits will have to be cut; or 4) the government will have to run large and chronic deficits to pay Social Security benefits. By 2041, the Social Security Trust Fund will be exhausted and the program will be unable to pay all of promised benefits to seniors. Without reform, benefits will have to be cut by 22 percent, or payroll taxes raised by 28 percent.

The latter would tear the social fabric of the program itself. "Hiking payroll taxes is neither an economically sound nor a generationally equitable option." says Robert L. Bixby, Executive Director of the Concord Coalition. "The burden will fall most heavily on lower- and middle-income workers and on future generations. Younger Americans in particular will be skeptical of any plan that purports to improve their retirement security by increasing their tax burden and by further lowering the return on their contributions." (Bixby testimony to the Senate Finance Subcommittee on Long-Term Growth and Debt Reduction, 28 September 2006)

As is well known, a major part of the problem is demographic. The first members of the baby-boom generation – those born between 1946 and 1964 – are now eligible for early retirement. At the same time, life expectancies now average 75 years for men and 80 years for women – and these too are expected to lengthen. These factors result in a permanent, long-term shift in which the percentage of the U.S. population over 65 will grow from 12 percent in 2007 to 19 percent by 2030, and the share of those who are 20 years old to 64 years old is projected to decline from 60 percent to 56 percent. The effect on Social Security translate as follows: today there are only 3.3 workers for each Social Security beneficiary, and that number is projected to fall to 2.2 by 2030, and continue dropping thereafter. These figures compare with the 42 workers per Social Security-eligible retiree in 1935, and 16 workers per beneficiary in 1950.

This demographic realignment is not a temporary phenomenon, associated solely with the retirement of the baby boomers, but a long-lasting shift; and it is more than a problem for Federal Government spending: it poses a challenge to the economy to generate sufficient resources to support the income and health needs of a growing population of retirees. Long-term economic growth depends on two factors: employment growth and

productivity growth. But employment growth is tied to an expanding labor force, which under current projections is expected to decline (see Figure 1). As the nonworking-age population grows, there will be lower labor force participation and therefore lower per-capita output and consumption. The economy will need some means of boosting labor-force growth, or compensating for the lack of it, to support future retirees.



But even if the prospects for economic growth could be vastly improved – by enhancing productivity and wages, for example – it would not ease the problem with Social Security, because the program's benefits are partly indexed to such economic factors. "[B]ecause of the structure of Social Security, that growth in productivity and wages automatically translates into higher future benefits, offsetting a significant portion of the fiscal gains from a larger economy," says a recent paper by the Brookings-Heritage Fiscal Seminar. "In short, if the status quo continues and entitlement programs are not reformed, there is no feasible growth rate of the economy that will produce a sustainable budget path." (The Brookings-Heritage Fiscal Seminar, *Taking Back Our Fiscal Future*, April 2008) (The Seminar is a bipartisan group that includes representatives from The Brookings Institution, The Heritage Foundation, The Urban Institute, The American Enterprise Institute, The Concord Coalition, The New America Foundation, and The Progressive Policy Institute.)

The combination of demographic and benefit patterns will drive total Social Security spending to unprecedented levels. CBO estimates that by 2030 the average Social Security benefit will have grown by about 29 percent in real terms, and adds: "[U]nless changes are made to Social Security, spending for the program will rise from 4.3 percent of GDP in fiscal year 2007 to 6.1 percent of GDP by 2030. With further increases in life spans, spending for Social Security will gradually rise thereafter, reaching 6.4 percent of GDP in 2082." (CBO, *The Long-Term Budget Outlook*, December 2007)

There are other reasons to reform Social Security.

First, the current program is not a good deal for workers. For the average individual currently paying in to the system, the real rate of return from Social Security is between 1 percent and 2 percent. For some individuals, particularly younger ones, the rate of return is expected to fall below 1 percent. To place this in context, the average rate of return from the stock market since 1926 has been at least 7 percent.

Second, the current system is unfair to minorities. The projected shorter life expectancies of minorities significantly reduces their benefits compared with Caucasians. For example, a 30-year old white man with average earnings and average life expectancy will receive nearly $70,000 more in lifetime Social Security benefits than an African American man with the same characteristics.

Third, women who work outside the home also are treated unfairly. The reason is that a woman is entitled to the benefit based on her lifetime earnings or 50 percent of her husband's benefits, but not both. Consequently, a woman who has worked for many years and paid into the system but elects to accept benefits based on her husband's income will receive nothing more than a woman who worked for a short period of time or not at all. This method of calculating benefits is outdated and based on the single-worker home that was much more prevalent in the U.S. in the 1930s.

Fourth, today's workers have no rights in their Social Security benefits. According to the Supreme Court in *Flemming v. Nestor*, workers and their families have no legal claim on the payments that they make into the U.S. Treasury. As a result, Congress is free to change these benefits at any time.

Finally, Social Security benefits are not inheritable. A worker may pay into the Social Security system for a lifetime and have nothing to pass on to heirs – in stark contrast with other types of retirement funds that *are* inheritable.

UNFUNDED LIABILITIES

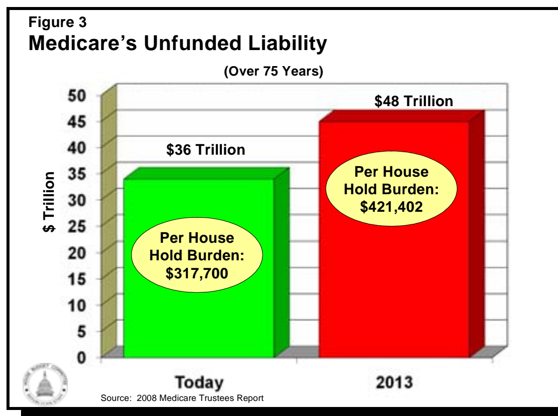
The fiscal challenges resulting from these health and retirement trends are best illustrated by what are frequently called the "unfunded liabilities" of the Federal Government's major benefit programs. These liabilities reflect the excess of projected spending in these programs over the amount of revenue currently estimated to be available for them.

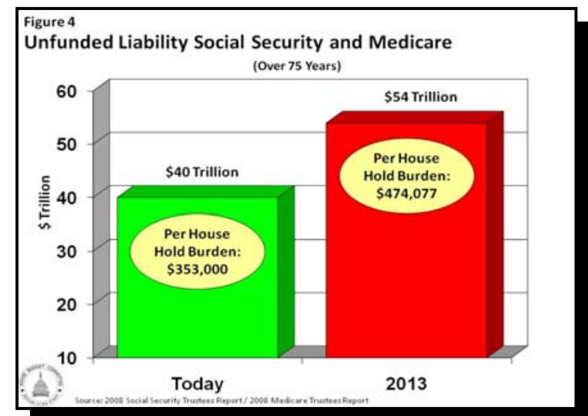
The problem is most acute in Medicare. The program faces similar demographic patterns as those confronting Social Security. But its much larger challenge is that of medical costs, which are rising at roughly double the rate of growth in the economy. Today Medicare has an unfunded liability of $36 trillion over the next 75 years (see Figure 3 on the next page). This means that the Federal Government would have to set aside $36 trillion today to cover future benefits for the three generations of Americans: retirees, workers, and their children. This translates to a burden of about $317,000 per U.S. household. Moreover, the problem worsens rapidly: in just the next 5 years, by 2013, Medicare's unfunded liability is projected to grow by 33 percent, to $48 trillion – or about $412,402 per household.

When Social Security and Medicare are taken together, the total unfunded liability is $40 trillion, or about $353,000 per household (see Figure 4, next page). In the next 5 years, that total will grow to $54 trillion, or $474,077 per household.

Without fundamental changes, the government would have to finance these obligations with substantially higher taxes, higher debt, or a combination of the two. Either way, the results would be crippling for the U.S. economy, because they would entail transferring

an unprecedented level of economic resources away from growth-generating activities of the private sector. "[A]bsent a significant rise in revenue beyond the historical level of GDP, spending on Social Security, Medicare, and interest on the debt could squeeze out all other areas of the budget," write Maya C. MacGuineas, Director of the Fiscal Policy Program at the New America Foundation, and Stuart M. Butler, Vice President for Domestic and Economic Studies at the Heritage Foundation. "Taxes could, in principle, be increased to cover these costs, but the unprecedented tax levels required would have an extremely negative impact on employment, wage growth, and our ability to compete internationally. Borrowing to pay for the programs, on the other hand, would lead to such high deficits that the debt would be unsustainable." (MacGuineas and Butler, *Rethinking Social Insurance*, 19 February 2008)





But this is not all. Former Comptroller General David M. Walker has noted that apart from the three major entitlement programs, the Federal Government incurs a range of other obligations that already are binding future resources.

> The Federal Government undertakes a wide range of programs, responsibilities, and activities that obligate it to future spending or create an expectation for spending and potentially limit long-term budget flexibility. GAO has described the range and measurement of such fiscal exposures – from explicit liabilities such as environmental cleanup requirements to the implicit obligations presented by life-cycle costs of capital acquisition or disaster assistance. . . . [I]f we wanted to put enough aside today to cover these promises, it would take $170,000 for each and every American or approximately $440,000 per American household. Considering that median household income is about $46,000, the household burden is about 9.5 times median income. (Walker testimony to the Committee on the Budget, U.S. House of Representatives, 23 January 2007)

Even without these additional obligations, reforming Federal entitlements would be imperative; with them, the need is absolute.

THE INTERNATIONAL MARKETPLACE

In the 21st century, the oceans no longer separate national economies. With the deployment of broadband technology and a host of other, new technological advancements, the U.S. economy is interrelated and international. The force of competition is fierce, with the rapidly growing economies of China and India playing especially vigorous roles. Virtually no worker or industry is immune from these new competitive realities. In confronting this new economic environment, America needs a plan that not only helps workers cope with this new economic anxiety, but also wins this new international competition. In this respect, lessons from past failures and successes are instructive.

In the 19th and 20th centuries, America came into a league of its own in terms of rapid economic achievement, rising living standards, and international competitiveness. Several factors contributed – principally a reliance on the individual and private markets – which generated innovation and growth that laid the groundwork for increased prosperity.

Since 1995, The Heritage Foundation and *The Wall Street Journal* have published the *Index of Economic Freedom*, which tracks the economic progress of 162 nations. The results are clear: countries with relatively modestly sized governments that embrace economic and individual freedom are the wealthiest in the world. Consistently, America ranked among the top; and today, other nations are providing stiff competition to the U.S. by reforming their economic policies to emulate this economic strategy (see Table 4).

Table 4: Index of Economic Freedom, 2008: Top 10 Countries

Country	Overall	Size of Government	Fiscal Freedom	Property Rights	Business Freedom	Labor Freedom
Hong Kong	90.25	93.07	92.8	90	88.18	93.3
Singapore	87.38	93.87	90.3	90	97.79	99
Ireland	82.35	64.5	71.5	90	92.22	80.4
Australia	82	62.83	59.2	90	89.32	94.2
United States	80.56	59.81	68.3	90	91.69	92.3
New Zealand	80.25	55.99	60.5	90	99.9	85.5
Canada	80.18	53.67	75.5	90	96.74	82.9
Chile	79.79	88.24	78.1	90	67.48	90
Switzerland	79.72	61.55	68.0	90	83.89	82
United Kingdom	79.55	40.06	61.2	90	90.79	80.7

Source: Copyrighted data from The Heritage Foundation and *The Wall Street Journal*.
Note: Scores are based on a scale of 0 to 100, with 100 reflecting "an economic environment or set of policies that is most conducive to economic freedom." These are selected items from the index, which ranks 162 nations on the basis of 10 benchmarks of "liberty, prosperity, and economic freedom." The other benchmarks in the complete index are trade freedom, monetary freedom, financial freedom, investment freedom, and freedom from corruption.

The Federal Reserve Bank of Dallas, which has been researching the link between global competition and pubic policy, concludes that in such a world, "countries win by instituting better policies and lose by *overburdening* their economies with taxes, regulations, trade barriers, and policy instability." (Federal Reserve Bank of Dallas, *Racing to the Top*: *How Global Competition Disciplines Public Policy*) The Dallas Fed's research shows that the most successful countries in this era are the ones that promote faster growth, lower inflation, higher incomes, and greater economic freedom.

Unfortunately, America's status as the world's leading economic power is clearly threatened by the trajectory of current Federal Government fiscal policies. As a result, to support continued prosperity and rising standards of living, it is crucial for the U.S. to embrace policies that will promote its leadership in the international marketplace, and to acknowledge the increasing importance of individual freedom and private markets.

Government Spending

Most analyses of the Federal Government's fiscal outlook focus on growing budget deficits and growing debt. These are legitimate concerns; but they should not obscure the fundamental problem: *government spending*.

In contrast to a business – which seeks to raise income as an end in itself – government raises revenue solely because it must, to support its spending. With government, therefore, spending is the root cause of all fiscal consequences. Put another way, all government spending gets financed, through either taxes or borrowing; and both consume resources that otherwise could be used for consumption or investment in the economy. The more government spending grows, the less resources are available for expanding the economy. This is why economic research generally confirms the theory that high levels of government spending tend to be associated with slower economic growth.

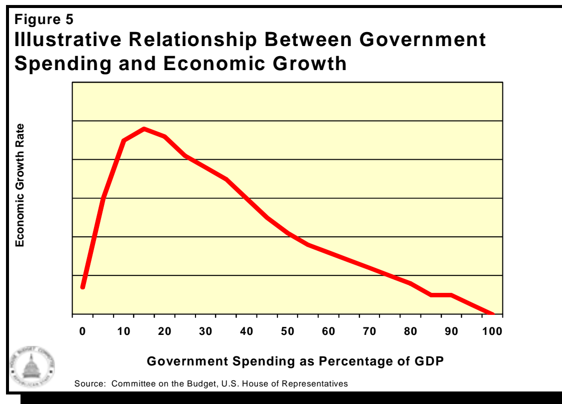
According to CBO, government spending as a share of the economy (a proxy for the size of government) is projected to double to more than 40 percent of gross domestic product by 2050 (see further discussion in the next section). Raising taxes or borrowing to meet these spending needs will cripple the economy and destroy U.S. international competitiveness.

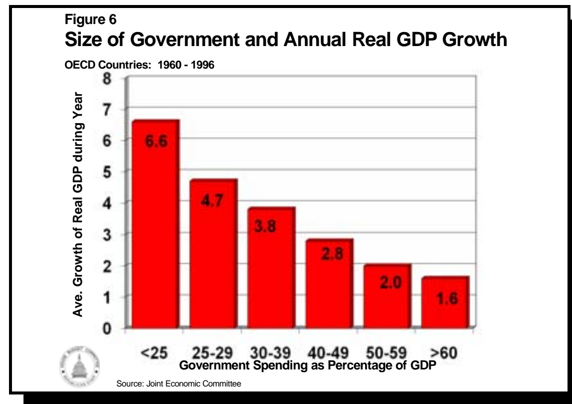
High government spending tends to crowd out more productive private sector investment, which leads to declines in productivity and lower GDP growth. Redistributive spending – the kind involved in Federal entitlement programs – also distorts the allocation of resources in the economy; and an increasing domination in the form of government intervention and spending can erode private markets. Redistributive government spending also sets up incentives to capture the benefits of government transfers and subsidies rather than engaging in productive behavior. As government grows and assumes increasing responsibility for services that could be more efficiently provided by private markets, diminishing rates of return on government spending set in. In addition, the high tax rates needed to fund government spending also depress the incentives to work, save, and invest. High tax rates dampen entrepreneurial activity and risk taking, factors that are particularly important in a modern, dynamic economy.

In short, *higher tax rates discourage the forms of productive behavior that are crucial for long-term economic growth.*

Figure 5 on the next page shows the general relationship between government spending and economic growth. Obviously, some government spending is necessary to foster a functioning market economy. Governments must provide for a limited set of public goods: they must build roads and other infrastructure, foster the protection of property rights, and maintain internal and external security. As the upward-sloping portion of the

curve illustrates, this "core" government spending tends to foster economic growth. But when government spending increasingly exceeds these core functions, economic growth begins to suffer. (i.e. countries reach the downward sloping portion of the curve). As the figure illustrates, past a certain level, more government spending and higher levels of taxation begins to lead to slower rates of economic growth.





This general observation is borne out in the real world. The Joint Economic Committee has studied the relationship between the size of government and economic growth in 23 industrialized countries during 1960 through 1996 (see Figure 6). The results show, for instance, that countries with government spending in excess of 40 percent of GDP experienced less than half the rate of GDP growth, on average, than countries with leaner governments (i.e. between 25 percent and 39 percent of GDP). The committee's econometric analysis of the international data yields a convenient rule of thumb: an increase in government spending of 10 percentage points tends to reduce a country's annual rate of GDP growth by about 1 percentage point.

These kinds of studies show that America's budgetary problems cannot be solved by simply increasing government and raising taxes. The economic cost of this route would be devastating.

Taxes

While government spending drives the need to tax (or borrow), the Federal tax code as currently written will become a kind of "revenue machine," claiming ever-growing shares of individuals' income and the economy's resources. Under current-law projections by CBO, tax revenue is scheduled to approach an unprecedented one-fourth of GDP by mid-century. To put this in context, Federal revenue has exceeded 20 percent of GDP only once since the Second World War, and it has averaged about 18.3 percent in the past 40 years.

The start of this reckoning is near at hand. As Professor Michael J. Graetz of Yale Law School recently put it:

> [T]he scheduled expiration in 2010 of large tax cuts enacted in 2001 and 2003 builds a large tax increase into the current tax law. If Congress fails

> to act, income tax rates will rise, as will tax rates on capital gains and dividends, and people will lose many current benefits, including credits for children and relief from marriage penalties. Under current law, the estate tax exemption rises to $3.5 million next year with a 45-percent top rate, the tax is repealed in 2010, and in 2011 the tax comes back with a $1 million exemption and a 55 percent top rate. . . . And, as this committee knows well, the Alternative Minimum Tax [AMT] is currently structured in a way to catch millions more Americans and must be fixed or repealed. (Graetz testimony to the Committee on the Budget, U.S. Senate, 15 April 2008)

The AMT is in fact a perfect example of the faulty assumptions in Federal tax law. When originally enacted, the tax was designed to prevent a small number of high-income individuals to avoid paying taxes by manipulating the complex rules of an already flawed tax code. But because Congress failed to index the AMT for inflation, the tax threatens, every year, to ensnare millions of middle-income families. CBO estimates that, if left unchanged, the AMT would hit about two-thirds of American taxpayers by 2050. Nearly everyone agrees this scheduled AMT expansion is illegitimate; and though each year Congress has tried to "patch" the AMT, its expected revenue increase is built into current law projections, creating a presumption of higher revenue that masks the magnitude of budget deficits that the current path of government spending will create.

In addition, individual income taxes are needlessly complex, riddled with special provisions that manipulate individuals taxpayers' behavior and reduce economic efficiency. Professor Daniel N. Shaviro of the New York University School of Law has testified: "[T]he tax system needlessly aggravates and complicates the lives of lower and middle income taxpayers. Congress can and should address this, by making filing and compliance less painful, even insofar as taxes paid by such individuals remain approximately constant." (Shaviro testimony to the Committee on the Budget, U.S. Senate, 15 April 2008)

Taxes impose two types of economic costs: the direct cost of the taxes themselves, and the indirect costs of the changes in behavior that result. For instance, taxes can affect the incentive to work. When marginal income tax rates are high, they penalize productivity, as people keep less of their earnings. This reduces the potential to maximize labor force participation.

The U.S. tax system also discourages capital investment, a necessary component of long-term growth and rising living standards, by essentially taxing savings twice. Individuals pay income taxes on their wages and salaries and, if they choose to save these funds, pay another round of taxes when they reap investment gains. This arrangement encourages individuals to consume their wages and salaries immediately rather than saving and investing them.

The double-taxation of corporate profits offers another example of the disincentive effects on investment of the current U.S. tax code. Corporate profits are taxed once at the business level and once again at the individual level, when the profits are distributed as dividends or capital gains. This double taxation boosts the cost of capital and leads to lower investment in the corporate sector.

In short, tax policy is a key element that will influence the two components of long-term economic growth: investment and labor force participation.

Here are several other factors that come into play in tax policy.

Tax Rates. The importance of taxes to competitiveness is echoed by a recent study released by the U.S. Treasury. Treasury finds that business location and investment decisions are becoming more sensitive to country tax rates as global integration increases. Foreign investment is important to an economy because it is a key source of innovation and jobs. In response, many countries have been lowering business taxes. But the U.S. risks falling behind: it already has the second highest corporate income tax in the Organisation of Economic Cooperation and Development [OECD] (see Figure 7 on the next page). The U.S. may soon have the highest rate, as Japan, Germany, France, and the United Kingdom have signaled their intention to lower their corporate income tax rates. As described in recent testimony by Robert J. Carroll, Vice President for Economic Policy at the Tax Foundation:

> By standing still, the United States can expect to see reduced inflows of foreign capital and investment because the United States will be a less attractive place in which to invest, innovate and grow. U.S. firms will face a higher cost of capital than foreign firms, making it more difficult to compete in foreign markets. In the near-term, this would translate into slower economic growth, a slower advance in labor productivity, and less employment. The industries that are being hurt the most are those that manufacture or buy capital-intensive products. (Carroll testimony to the Committee on the Budget, U.S. Senate, 15 April 2008)

Although corporate taxes may be a politically popular revenue source, they actually create perverse incentives that impede economic growth, and therefore penalize workers and consumers.

> Economists are unanimous . . . that the corporate tax is a bad one. It creates incentives for investing in noncorporate businesses and housing instead of corporations, and it induces many distortions in corporate finance. For example, since interest but not dividends are deductible and thereby not subject to the corporate tax, the tax creates a bias in favor of debt over equity finance. The combination of individual and corporate income taxes also has created an advantage for corporations to repurchase shares rather than paying dividends. The invention and deployment of innovative financial products has added new distortions as companies structure their financial transactions to achieve income tax advantages. The internationalization of businesses, along with the greater mobility of capital, has made collecting corporate income taxes much more difficult. Companies, for example, now routinely manipulate their corporate structures, finances and inter-company prices to take advantage of lower corporate tax rates in other countries. These are just some of the reasons that economists hate a tax the public seems to love. (Graetz testimony to the Committee on the Budget, U.S. Senate, 15 April 2008)

Elevated corporate tax rates hinder American competitiveness by making the U.S. a less desirable destination for investment and jobs. By deterring potential investment, the tax restrains economic growth and job creation. The U.S. tax rate differential with other countries also fosters a variety of complicated multinational corporate behaviors intended to avoid the tax – profit shifting, corporate inversions, and transfer pricing – which have the effect of moving the tax base offshore, costing jobs and decreasing corporate revenue.

U.S. tax policies also create an unlevel playing field in the international market. One example is the General Motors Tahoe, manufactured in Janesville, WI. When the vehicle is exported to a foreign country, such as Japan, taxes are paid in the U.S. before it is shipped, and again when it reaches its destination. By contrast, when a Toyota Sequoia is shipped from Japan, the Japanese government lifts taxes before it is exported, and the vehicle arrives tax-free when it reaches the U.S. Clearly, this combination of tax policies places the American-built vehicle at a competitive disadvantage when compared with its Japanese counterpart.

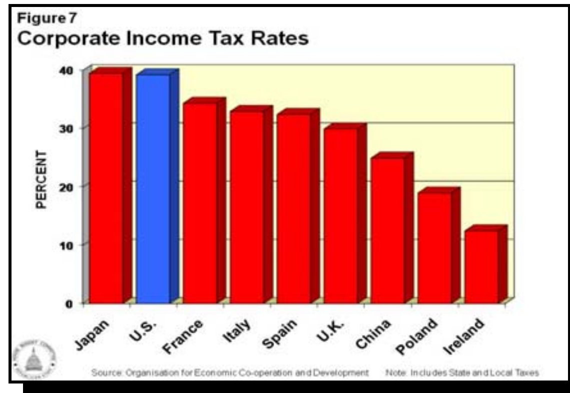


Figure 7
Corporate Income Tax Rates

Tax Certainty and Consistency. Equally important over time is maintaining a consistent and predictable tax policy. Only in such an environment can businesses effectively plan the long-term investments needed to sustain economic growth. In addition, foreigners will be unlikely to invest in the U.S. if they conclude that U.S. tax laws are likely to keep changing, or rates to keep rising.

Flexibility and Adaptability. In an ever-changing international marketplace, economic flexibility and adaptability are increasingly important. The U.S. economy has been successful historically due in part to its flexible and efficient capital markets, which direct investment resources to their most productive uses – seeking out new and profitable ventures and redeploying investment from old industries into the fields. High tax rates on investment and capital can impair this innovation dynamic and can harm U.S. economic competitiveness.

Debt

Even the unprecedented levels of taxation described in the previous section will be inadequate to match the path of government spending embraced in current law. The result will be increasing government borrowing and debt. The accumulating debt will crowd out more productive private-sector investment, and thereby lower capital formation. That in turn will lead to productivity declines and lower rates of real economic growth, materially affecting living standards. The U.S. will have to rely on foreign investors to finance this debt, but these investors would soon realize that the path of the deficit was unsustainable. As a result, foreign investors will likely reduce their purchases of U.S. securities, which

could cause a reduction in the exchange rate of the dollar; interest rates could rise, and consumer prices would face upward pressure. With higher interest rates, sharp inflationary pressures, and a mix of fundamentals that will lower business profits, the stock market would also dip.

In short, the debt arising from current government spending trends is sacrificing the prosperity of future generations. This trend is in place now, under current laws, and is inevitable without a fundamental transformation of America's domestic priorities.

THE NEED TO ACT NOW

Even Friedrich A. Hayek, who warned about the limitations of central planning in addressing social needs, acknowledged that government could play a legitimate and effective role in assuring the domestic welfare of a society, including the maintenance of a safety net for those less well off:

> All modern governments have made provision for the indigent, unfortunate, and disabled and have concerned themselves with questions of health and the dissemination of knowledge. There is no reason why the volume of these pure service activities should not increase with the general growth of wealth. There are common needs that can be satisfied only by collective action and which can thus be provided for without restricting individual liberty. . . . There is little reason why the government should not also play some role, or even take the initiative, in such areas as social insurance or education, or temporarily subsidize certain experimental developments. (Hayek, *The Constitution of Liberty*, 1960)

What he objected to were attempts by central planners in governments – especially central governments – to monopolize these efforts. Such approaches tend to be cumbersome and excessively costly. They also limit personal liberty.

To the extent the Federal Government has moved in that direction since the 1930s – from the New Deal, through the Great Society, to today's debate about government's role in health care – the point is especially significant now: the social insurance strategies of the 20th century, however well intentioned, are unsustainable fiscally and economically. Their missions can be fulfilled – but only by transforming them.

The challenge is long term, but the need to address it is urgent. The longer policymakers delay, the worse circumstances will become, in many ways. As CBO has put it:

> Delays in taking action would create three major problems: First, delay would cause the amount of government debt to rise, which would displace private capital (reducing the total resources available in the economy) and increase borrowing from abroad. Second, delay would exacerbate uncertainty. The longer that action was put off, the greater the chance that policy changes would occur suddenly, which could create difficulties for some individuals and households, especially those in or

> near retirement. Announcing changes in popular entitlement programs or in the tax structure well before they take place gives people time to adjust their plans for saving and retirement. Those adjustments can significantly reduce the impact of changes in policy on people's standard of living. Third, delay would raise the cost of interest on the Federal debt, so that lawmakers would have to make ever-larger changes in policy to finance those additional costs. As interest costs rose, policymakers would be less able to finance other national spending priorities and would have less flexibility to deal with unexpected developments (such as a war or recession). Moreover, rising interest costs would make the economy more vulnerable to a crisis. (Testimony of CBO Director Peter R. Orszag to the Committee on the Budget, U.S. House of Representatives, 13 December 2007)

On the other hand, early action can be beneficial. It provides time to phase in changes, allowing future beneficiaries time to adjust.

Nor will small or incremental actions suffice. "The American people know – or sense – that there is something wrong," says former Comptroller General David M. Walker. "[W]e cannot grow our way out of this problem; eliminating earmarks will not solve the problem; wiping out fraud, waste, and abuse will not solve the problem; ending the war or cutting way back on defense will not solve the problem; restraining discretionary spending will not solve the problem; and letting the recent tax cuts expire will not solve this problem." (Walker testimony to the Committee on the Budget, U.S. House of Representatives, 23 January 2007)

Transformation need not be some radical departure from American tradition. Instead it should rely on the fundamental strengths that have always brought out the best in American society: a reliance on individual creativity in free markets and a free society, with the support – not the interference – of government. It is the kind of fundamental restoration called for in this proposal and described in this report.

A Choice of Two Futures

The trends described in the previous section – especially those concerning the health care marketplace and Federal entitlement spending – translate into one of two possible fiscal futures for the U.S. The status quo leads to a level of government spending, financed by taxes or debt, that will cripple the U.S. economy and, as a result, deprive future working families of their potential prosperity, and future retirees of the very benefits government promises.

The other path entails a transformation of health care, Federal entitlements, and Federal taxes; restrains the growth of Federal Government spending to sustainable levels; and fulfills America's promises from one generation to another.

AN UNSUSTAINABLE PATH

According to estimates by the Congressional Budget Office [CBO], current Federal spending trends are leading toward an unprecedented level of taxes or debt. Because entitlement spending is governed by permanent law and runs automatically, unless Congress enacts new laws to address the problem, the country marches down this path of unsustainable debt or sharply higher tax levels.

In its December 2007 report, *The Long-Term Budget Outlook*, CBO presented estimates of Federal spending, revenue, and deficits shown in Table 5 on the next page. The table is developed from two assumptions: 1) that Congress increases spending only for specific policies approved in the past, such as adjustments to physician payments under Medicare; and 2) that current tax polices are extended, including provisions of the 2001 and 2003 tax laws, and the alternative minimum tax [AMT] is indexed for inflation.

As Table 5 shows, the rate of "primary" Federal spending – excluding interest – rapidly outpaces the revenue path. But because all Federal spending must be financed somehow, the spending excess (reflected in the table as the budget "deficit") causes increased amounts of borrowing and interest payments. When these interest costs are included, Federal spending exceeds an alarming 40 percent of GDP by mid-century, and consumes three-fourths of economic resources by 2082.

The substantial borrowing demanded by this trend would rapidly increase to unprecedented levels. By 2031, Federal debt – which was 37 percent of GDP at the end of 2007 – would reach 109 percent of GDP, more than double the level of debt reached during the Civil War. But unlike those war years, when debt temporarily jumped to this escalated level and then quickly declined, the debt under the current fiscal outlook keeps rising, and at an accelerating rate.

The effect on economic performance and standards of living will be devastating, and it will be felt as those born today are completing college and beginning their careers.

Workers and families will begin to see the growth in their wages and incomes erode. Another decade after that, standards of living begin to stagnate, and then decline in real terms. By 2060, the economy enters a free-fall, and CBO cannot model the economic impact later in that decade because debt rises to levels the economy cannot support.

Table 5: Projected Federal Spending and Revenue, as Percentages of Gross Domestic Product

	2007	2030	2050	2082
Primary Spending[a]				
Social Security	4.3	6.1	6.1	6.4
Medicare	2.7	5.9	9.4	15.6
Medicaid	1.4	2.5	3.1	3.7
Other Noninterest	9.9	9.8	9.7	9.6
Subtotal: Primary Spending	18.2	24.2	28.3	35.3
Interest	1.7	4.8	13.6	40.1
Total Spending	**20.0**	**29.0**	**41.8**	**75.4**
Revenue	18.8	18.9	19.4	20.9
Deficit (-)	-1.2	-10.1	-22.5	-54.5

[a] Assumes spending increases that Congress typically has approved, such as adjustments in physician payments under Medicare.
[b] Assumes continuation of current tax law – including the provisions enacted in 2001 and 2003 – and adjustment of the alternative minimum tax for inflation.
Source: Based on figures in *The Long-Term Budget Outlook*, Congressional Budget Office, December 2007.

The other alternative would be to raise taxes to finance growing entitlement spending. Notably, even large and unprecedented tax increases – from the scheduled expiration of the 2001 and 2003 tax provisions, and expansion of the AMT – could not keep pace with the rate of spending growth driving this scenario. As summarized recently by the Brookings-Heritage Fiscal Seminar:

> [R]estoring tax rates to pre-2001 levels will not close the gap between spending and revenues. . . . Even raising revenues as a percent of GDP to European levels – levels that are unprecedented in the United States – will not be sufficient. If the wedge between spending and revenues attributable to social insurance programs continues to grow, taxes would have to be raised continuously and would eventually cripple the economy. (The Brookings-Heritage Fiscal Seminar, *Taking Back Our Fiscal Future*, April 2008)

CBO also concluded that financing this unrestrained rate of Federal spending with higher marginal tax rates yielded results similar to those from financing it with debt: over the long run, the economy cannot sustain the tax rates needed to finance this spending. CBO focused on three points in time: 2030, 2050, and 2080. CBO found that by 2050, income tax rates (individual and corporate rates) would have to rise by 90 percent to fund the projected spending path. In other words, the current 10-percent income tax bracket would rise to 19 percent, and the current top rate of 35 percent would rise to 66 percent.

Translating such a tax trend to its impact on families produces the following result: today, a family of four with a median income of roughly $66,000 pays slightly more than $3,100 in individual income taxes; applying the high-tax scenario to today's dollars, this family's income tax bill would jump to $5,900 – an increase of $2,800 (and this figure does not include payroll taxes). By the end of the period (just past 2080), the top individual and corporate tax rates would have to increase by 150 percent – a tax burden that the economy simply could not sustain, CBO concluded.

THE PATH OF SUSTAINABLE GROWTH

By contrast, *A Roadmap for America's Future* charts a path of fiscal sustainability by keeping revenues as a percent of GDP at their historical average, and restraining spending to hold deficits within their historical levels. The result, shown in Table 6 below, is that interest and debt accumulate at much slower rates than projected under current fiscal policy, and actually begin to decrease after peaking in mid-century.

Table 6: *A Roadmap for America's Future* – Projected Federal Spending and Revenue, as Percentages of Gross Domestic Product

	2007	2030	2050	2082
Primary Spending[a]				
Social Security	4.3	6.5	6.4	4.1
Medicare	2.7	5.3	5.1	5.0
Medicaid	1.4	1.3	1.2	1.0
Other Noninterest	9.8	7.3	6.1	3.1
Subtotal: Primary Spending	18.2	20.3	18.7	13.1
Interest	1.7	2.9	5.3	2.9
Total Spending	**19.9**	**23.2**	**24.0**	**16.0**
Revenue	18.7	18.5	18.5	18.5
Deficit (-)	-1.2	-4.7	-5.5	2.5

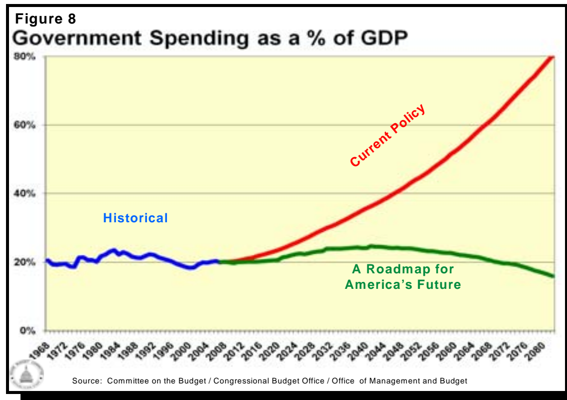
Source: Committee on the Budget.

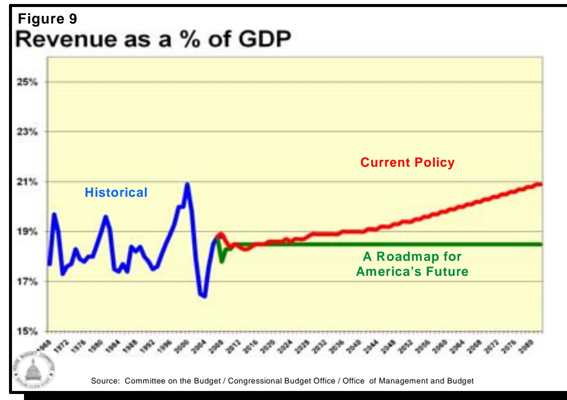
Under this plan, Federal spending peaks in 2041 at 24.7 percent of GDP. With revenue projections held to 18.5 percent of GDP, this means the largest deficit faced under this plan is 6.2 percent of GDP. Although this number is large, recent history shows it is sustainable for a short period. (In 1983, the Federal Government ran a deficit of 6 percent of GDP.) What is important about this plan, however, is not how it compares with the past, but how it compares with the trajectory under current policy – and whether the economy can sustain these deficit levels. Absent policy reforms, the Federal Government will face a deficit of 6.2 percent of GDP in 2022, which will then swell to nearly 20 percent of GDP in 2041, and continue growing to more than 50 percent of GDP in 2082. In contrast, deficits in *A Roadmap for America's Future* peak in 2041 and then begin a rapid decline, until the budget reaches surplus.

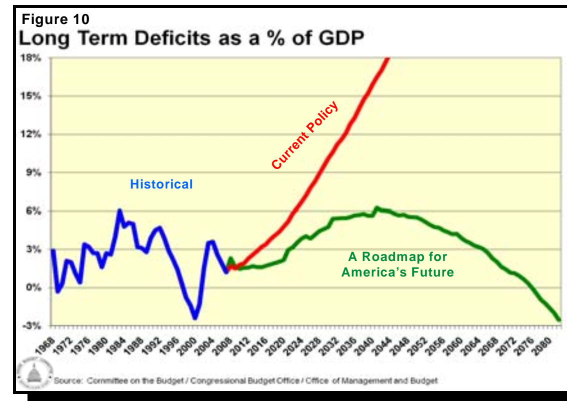
Similarly, *A Roadmap for America's Future* keeps debt held by the public from spiraling to unsustainable levels. Under current policy, debt held by the public soars to the improbable level of more than 800 percent of GDP (though the economy would crash

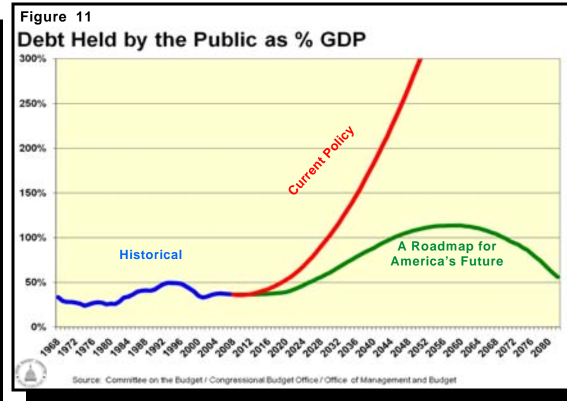
well before this level were reached). As CBO notes in *The Long-Term Budget Outlook*, countries that carry debt of more than 100 percent of GDP must change their fiscal policies because those levels are not sustainable over the long run.

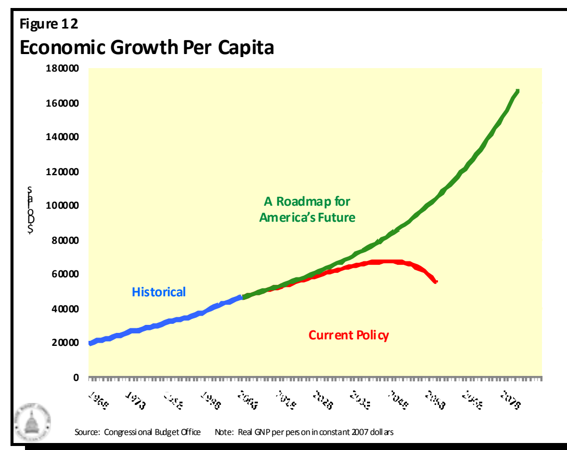
The *Roadmap* also slows the accumulation of debt held by the public, and eventually reduces debt year over year beginning just after the middle of the century. Although deficit and debt levels rise in the *Roadmap*, CBO concluded the economy could sustain them, and would be "considerably stronger" than under current policy (see Appendix II).











Most important, real living standards continue to increase under this budget path. Data from CBO show that, under this scenario, the standard of living for a child born today would double (i.e. per-capita output would rise from $45,000 to more than $90,000) by the time he or she reached middle age, just after the middle of the century (see Figure 12). In this way, the sustainable budget path continues the American legacy of leaving the next generation better off. *This is in sharp contrast with current fiscal policy, which would lead to stagnant, and eventually declining, standards of living.*

GUIDING PRINCIPLES

This roadmap is built on a fundamental conviction that America's greatest strengths lie in *Americans themselves* – in their creativity, their productive capacities, and their personal initiative. One clear expression of these strengths is a diverse, resilient, and growing economy. Economic growth is the source of all the material benefits, and enhancements in the quality of life, that Americans enjoy. It also provides the expanding opportunities necessary for individual progress, and for individuals' confidence and trust in the society to which they belong. As Novak has written: "Democratic polities depend upon the reality of economic growth. . . . [L]egitimacy flows from the belief of all individuals that they can better their condition. This belief can be realized only under conditions of economic growth. Liberty requires expanse and openness." (Michael J. Novak Jr., *The Spirit of Democratic Capitalism*, 1982)

Therefore this plan, to the greatest extent possible, builds on the initiative of individual Americans, exercised responsibly in a free economy and a democratic political system. Strengthening the role of the individual is the key to invigorating the society, and the economy, at large. It also will keep alive the American legacy of leaving the next generation better off.

At the same time, the plan keeps faith with Americans' compassion toward those who are less well off. It strengthens the safety net, and makes it sustainable for the long term – which cannot be done under current policies.

With these values in mind, the plan is built on four guiding principles:

Comprehensiveness. As is clear from the previous section, America's major domestic challenges are interrelated. Successfully addressing them requires a *comprehensive* approach – one that energizes the productive capacities of Americans, to generate sustained economic growth. It also demands restraining the increases in government spending, which otherwise, through taxes or borrowing, will absorb resources that contribute to growth. Therefore, this proposal addresses all four domestic priorities in a broad, integrated approach. It corrects distortions in the health care market while strengthening the safety net for those who need it. It restructures the Federal health entitlements and retirement security to make them sustainable, while assuring they do not smother the prosperity of future generations. It also reforms the Federal tax code to make it more competitive in the 21st century economy.

As a matter of practical application, the components of this plan could be enacted in several steps, and some are even designed with deliberate transitional stages. The ultimate aim, however, is to reach a point at which the entire package is in place as *an integrated whole.*

Ownership. From an economic standpoint, it is private ownership, along with property rights, that make free markets possible (i.e. they form the institutional basis for free

exchange). Basically, with personal ownership, people maximize their free will and creativity to improve their conditions (ownership of a home is a classic example). This activity, above all, generates dynamic economic growth and prosperity.

But ownership is more than an economic matter. The concept is fundamental to social organization. As Hayek put it:

> Property, in the wide sense in which it is used to include not only material things, but (as John Locke defined it) the "life, liberty and estates" of every individual, is the only solution men have yet discovered to the problem of reconciling individual freedom with the absence of conflict. Law, liberty, and property are an inseparable trinity. There can be no law in the sense of universal rules of conduct which does not determine boundaries of the domains of freedom by laying down rules that enable each to ascertain where he is free to act. (Friedrich A. Hayek, *Law, Legislation, and Liberty*, Vol 1, 1973)

From a moral standpoint, ownership promotes personal responsibility. When a person owns something – such as a home – he or she gains the pride and energy to care for it, nurture it, improve it. Such individuals become stakeholders in a society in which ownership is more decentralized and less concentrated. The obvious benefit is a nation in which more and more people become active participants in preserving the hope and promise available for so many.

The increased participation in the stock market over the past 25 years is another tangible example of the link between ownership and prosperity. The stock market is one of the key avenues to prosperity in this country because the U.S. has essentially democratized and institutionalized ownership stakes in businesses.

For all these reasons, it only makes sense that America's most important priorities, such as health and retirement security, should benefit from this same system of personal ownership, to the greatest extent possible. In addition, the proposal recognizes that taxpayers' income belongs to them, not the government. It is based on the principle that the government is the beneficiary of the taxpayer, not the other way around; and therefore the government should keep taxes low, and make it easy for taxpayers to determine and pay their taxes.

Security. While the plan reflects an abiding confidence in free markets, individual initiative, and personal responsibility, it recognizes that some individuals face chronic or temporary problems or limitations, and need additional help. Americans have long embraced this view – and so does this proposal.

The plan repairs gaps in America's social safety net and places these policies on a path of fiscal sustainability. For example, this plan seeks to ensure people do not face personal bankruptcy due to chronic illness. It enhances the Social Security safety net to provide that no one falls beneath the poverty level in retirement.

In fact, one of the plan's most important achievements is making the policies of health and retirement security fiscally sustainable for the long term. Because of this, current and

future generations can be given the full opportunity and potential to prosper during their working lives, and dignity in retirement. The plan also embraces Americans' compassion for those in need.

What this strategy avoids, however, is the notion that the only solution is a centralized government that monopolizes these efforts. Government does have a role. But this plan first mobilizes the vital economic resources that have always generated prosperity in America, expanding them as widely as possible – including to those who would otherwise become dependent on public funds. The plan also employs the ingenuity and diversity of State governments, which are closer to the particular needs and characteristics of their populations, and therefore more responsive to them.

Competitiveness. America's prosperity will not be maintained in a vacuum. The international marketplace is a permanent reality of the 21st century, and America must successfully compete to continue its own economic growth; and this, too, depends on building on the individual's central role in American society. As Thomas L. Friedman of *The New York Times* has written:

> If this moment has any parallel in American history, it is the height of the Cold War, around 1957, when the Soviet Union leaped ahead of America in the space race by putting up the Sputnik satellite. Yes, there are many differences between that age and our own. The main challenge then came from those who wanted to put up walls; the main challenge to America today comes from the fact that all the walls are being taken down, and other countries can now compete with us much more directly. The main challenge in that world was from those practicing extreme communism – namely, Russia, China, and North Korea. The main challenge to America today is from those practicing extreme capitalism – namely, China, India, and South Korea. The main objective in that era was building a strong state; the main objective in this era is building strong individuals. (Friedman, *The World is Flat: A Brief History of the Twenty-First Century*, 2005)

Moderating the rise in health care spending without rationing services, restraining the growth of government, and expanding ownership in America's free enterprise system are essential to America's ability to compete. It is also necessary to reform the Federal tax code to boost incentives for growth and productivity.

Each of these reforms, based on these guiding principles, is designed to reclaim this American spirit. *A Roadmap For America's Future* is therefore a plan to solve America's fiscal and economic dilemma, building strong individuals throughout the 21st century.

A ROADMAP FOR AMERICA'S FUTURE

As noted in the introduction, this proposal restructures health care, the Federal health care programs, retirement security, and Federal taxation. Its aim is not to back away from the missions of these programs and activities, but to *fulfill* them – which can only be done through reform.

It is important to reiterate that this proposal should not be viewed as a rigid, absolute plan. It is a legislative plan built on a *strategy* for approaching the major components of the challenge America faces, and has flexibility built into it so that it can adapt to conditions that surely will change over the course of the century. Nevertheless, it is a complete and comprehensive approach in which the most important aspects of this multifaceted challenge are addressed.

Details of the full legislative proposal are contained in Appendix 1 of this report. Below is a summary and explanation of the major components.

THE STATE OF HEALTH CARE TODAY

The rising health care costs described previously in this report have become the most burdensome financial hardship American families face today. The estimated $2.1 trillion spent by the U.S. in 2007 to provide, administer, and finance health care translates to nearly twice the amount per capita that any other industrialized nation in the world spends. Moreover, the rapid growth of health care costs is eroding paychecks for millions of Americans; and skyrocketing insurance costs are overburdening businesses across the U.S., and leaving 47 million individuals without access to affordable coverage.
Even with public health programs such as Medicare and Medicaid, families and individuals face increasingly limited access to care. State budgets are unable to keep pace with the financial resources these programs demand while the number of physicians and health care practitioners choosing to participate are steadily declining. Failed Federal policies and inadequate reimbursement levels are threatening the existence of these programs for future generations.

The personal realities of this crisis also have a distressing effect on U.S. economic stability. The Federal Government devotes more than 18 percent of its budget to health programs, which is second only to national defense (20 percent, including war costs). Overall health care costs are absorbing 15.9 percent of national gross domestic product [GDP]. If the status quo continues, health care costs will consume 20 percent of GDP in 8 years.

The current third-party-payer model that serves as a framework for the financial underpinnings of the U.S. health care system can no longer meet the needs of patients, doctors, hospitals, and governments. It has undermined the doctor-patient relationship and removed the individual patient from the decision-making process. Transforming

America's fractured and antiquated health care network demands wholesale and fundamental reform.

HEALTH CARE SECURITY

Every American should be able to afford and acquire preventive health care and treatment – regardless of employment, health status, or income level. No one should face bankruptcy because of a catastrophic illness; no one should be denied health coverage because they are branded "uninsurable." Yet few will be able to afford health care or insurance if rising costs continue to spiral out of control. The only way to ensure that all Americans have access to quality health care is to confront these rising costs and the market distortions that created them. Such an approach will not solve every problem in the complex network of health care delivery and financing; but it *will* correct the most fundamental flaws.

Central to this idea is putting American families and their doctors back in control of their health care needs. Current arrangements remove patients from the decision-making process and hide the true cost of services. In an effort to contain costs, employers have consistently limited choice, flexibility, and coverage options for their employees. Yet health coverage is currently linked to employment by the tax exclusion for employer-sponsored health care. This tax treatment effectively discriminates against workers and families who do not have employer-sponsored health insurance. Compounding the problem, the number of employers providing health insurance has dropped 69 percent since 2000; and this alarming trend is continuing.

Equalizing the tax treatment of health care and coverage will give workers and families much more freedom to acquire a plan that best suits their needs. What's more, people will no longer live in fear of losing their health care if they lose their job. As the marketplace begins to respond to this new patient centered control, the resulting increase in competition will necessitate an improvement in the quality of services and provide more options to meet the diverse needs of Americans.

The Health Care Marketplace

Changing the Tax Treatment of Health Coverage. To correct this problem, ownership of health insurance must be shifted away from third parties to those who are actually using it. In place of the current Federal tax law creating the market distortion – the tax exclusion for employer-sponsored health insurance – every American (except those enrolled in Medicare or a military health plan) will have the option to receive a refundable tax credit – $2,500 for individuals and $5,000 for families – to pay for health coverage. The tax credit is available solely for the purchase of health insurance. A family or individual may apply the credit to an employer-sponsored plan, if available, or to an alternative plan that better suits their needs. Employers continuing to offer insurance continue to claim contributions as a business expense deduction.

The payment will be made directly to the health plan designated by the individual, allowing those who use the health care to choose the insurance product that best suits

their needs. Any individual who obtains health coverage that costs less than the credit will receive any leftover amount as a payment from the health plan. Alternatively, those who choose to purchase policies with premiums higher than the credit will assume responsibility for the additional amount themselves. This will encourage individuals to shop for policies best suited to their needs, at the best prices; and as a result, *every American will play a role in restraining health insurance premiums*, and enhancing the quality of health care services.

There are several other advantages to this approach:

- *Broad Availability.* Individuals without income tax liability are still eligible for the credit. Due to the refundable nature of the tax credit, ownership of health insurance is available to every American, regardless of income level. It is also "advanceable," enabling individuals to purchase coverage at the beginning of a year, rather than waiting for their tax returns.

- *Portability.* Individuals will be able to take their health insurance from job to job. The choice of physician and insurance plan would belong to the employee, not the employer. This is especially important for younger Americans who change jobs more frequently and are more apt to start their own businesses. It is also an important advantage for individuals with pre-existing health conditions, who may feel less free to change jobs for fear of losing health care coverage.

- *A More Responsive Market.* Because current tax law encourages the employer, not the individual, to be the purchaser and owner of health insurance, insurance companies tend to market their products to employers, whose chief concern is keeping operating costs low. Placing those decisions in the hands of individuals and families will encourage insurance companies to offer more variety, higher quality, and more cost-effective plans to meet the needs of their consumers.

- *Greater Opportunity for Small-Business Coverage.* The proposal creates an alternative for small businesses to offer a health care benefit. Currently, unless a business can afford to offer a full-scale health insurance plan, its options are limited in terms of health care benefits it can offer employees. The refundable tax credit model allows employees to take responsibility for purchasing their own health care with the tax credit, but also allows small businesses to make defined contributions to accounts – such as Health Savings Account [HSAs] – to help fund their employees' health care expenses.

- *Enhanced Health Care Quality.* Health care quality will improve under this proposal due to increased competition among providers. The current market reimburses providers at a specified rate set by health insurance companies almost irrespective of the quality of the care they provide to their patients, or the efficiency with which they deliver the care. With individuals controlling their own health care dollars, providers will be encouraged to compete for business by increasing quality and charging more competitive prices. For providers, increased competition will mean they are less likely to be locked in to prices set by insurance plans, and will have more flexibility to determine the appropriate charges for services based on quality and demand.

Increasing Affordable Options Through Interstate Purchasing. Currently, individuals and families can only purchase health insurance in the States in which they live, and insurance companies are prohibited from marketing polices outside their respective States. Thus, consumers are prevented from purchasing coverage from another State that might be better suited to their needs, more affordable, or both.

This proposal breaks the lock, allowing each individual to use the refundable tax credit toward the purchase of health insurance in *any* State. This will greatly expand the choices of coverage available to the consumer, and also will encourage broader competition and diversity among insurers, who will be able to sell their policies to individuals and families in every State, as other companies do in other sectors of the economy. After analyzing Federal Employee Health Benefits Program [FEHBP] preferred provider organization [PPO] prices, the Government Accountability Office reports: "We found that FEHBP PPO hospital prices differed by 259 percent and physician prices differed by about 100 percent across metropolitan areas in the United States, after we removed the geographic variation associated with the costs of doing business such as rents and salaries, and differences in the types of services provided." (Government Accountability Office, *Federal Employee Health Benefits Program: Competition and Other Factors Linked to Wide Variation in Health Care Prices*, August 2005)

The arrangement also will balance State regulation of health insurance. Individuals no longer will have to pay for health benefits mandated by their home States that they do not need; they will be able to choose policies from States whose mandates better fit their personal circumstances. States will then have an incentive to balance their insurance mandates against costs to remain competitive with other States.

Making Price and Quality Data Available to All. For individuals and families to shop for their health care, they must have a better sense of what they are expected to pay – and what they are getting for their money. Making data on the pricing and effectiveness of health care services widely available is critical to the success of an effective health care marketplace. So far, however, the market has been unable to develop a process for defining industry-accepted metrics that measure "quality" and define "price." The result has been a flurry of reports by trade organizations, specialty groups, and government agencies, each using different terminology and definitions. The lack of uniform standards has prevented effective, "apples-to-apples" comparisons.

The environment resembles what existed in the securities markets before the stock market crash of 1929. Abuse, fraud, and misinformation about the nature of stocks and the rules governing their purchase were rampant. In response, the Securities and Exchange Commission [SEC] was formed with the main purpose of bringing transparency to the market and restoring consumer confidence. With the increasingly rapid transformation of the financial markets and the growing complexity of financial transactions, the private sector began to take a more prominent role in developing accounting guidelines; and eventually the SEC began relying on the private sector to establish the basic standards by which it would be regulated. Since 1973, the SEC has recognized the nongovernment Financial Accounting Standards Board [FASB] as the authoritative standard-setting organization for financial accounting and reporting information. While the SEC has statutory authority to establish such financial standards, it has historically adopted FASB rules. The SEC allows the private sector to establish its own disclosure standards, so long

as it demonstrates the ability to fulfill the responsibility in the public interest. The authority to enforce the standards, however, falls solely to the SEC.

Applying this model to the health care industry will allow all stakeholders to come together, without heavy-handed government intervention, to establish uniform and reliable measures by which to report quality and price information. To accomplish this goal, this proposal restructures the current Agency for Healthcare Research and Quality [AHRQ] and removes it from the Department of Health and Human Services. The new agency, renamed the Healthcare Services Commission [HSC], will be governed along the same lines as the Securities and Exchange Commission, and managed by five commissioners chosen from the private sector (with no more than three from the same political party), appointed by the President, and approved by the Senate.

The HSC's purpose – to enhance the quality, appropriateness, and effectiveness of health care services through the publication and enforcement of quality and price information – will be guided by a standard-setting Forum for Quality and Effectiveness in Health Care. The group will play a role similar to that of FASB in establishing accounting principles. The forum will consist entirely of private-sector representation, with the authority to establish and promulgate metrics to report price and quality data. Forum members will represent views from medical providers, insurers, researchers, and consumers, and will serve independently of any other employment.

The forum, designed to keep pace with innovation, will publish, for public comment, a preliminary analysis on standards for reporting price, quality, and effectiveness of health care services. After the comment period, the group will publish a final report containing guidelines for regulating the publication and dissemination of health care information. The HSC will be authorized to enforce these standards.

Protection for Those Who Need It Most. Uninsured individuals with pre-existing health conditions have the most difficult time finding and affording health care coverage. As a result, many individuals with pre-existing conditions often face bankruptcy to pay for health care expenses or, worse, go without treatment. If these individuals are fortunate enough to have group health insurance, their high costs are spread among their coworkers and employers in the form of ever-higher premiums, making coverage expensive for all.

Ensuring that "high-risk" individuals – those with the greatest medical costs – can obtain high-quality coverage is critical to the success of any plan to reform health care. High-risk individuals not only face an insurmountable burden in medical expenses themselves, but that burden is often transferred to taxpayers in the form of uncompensated care expenses from hospitals, or due to the likelihood that these individuals end up on Medicaid after having exhausted their financial resources paying for their medical costs.

This plan strengthens the health care safety net for these individuals. As further explained below, States choosing to let their Medicaid populations participate in the tax credit must spend previously allocated Medicaid funds on a Maintenance of Effort [MOE] program. A State's base MOE amount is equal to the amount the State spent in calendar year 2008 for its State Children's Health Insurance Program and Medicaid for healthy adults and children. The MOE amount increases each year by the same inflation adjustment as the health care tax credit. Each State is to apply these funds to the following:

- *Establishing High Risk Pools*. State health insurance high-risk pools will offer affordable coverage to individuals who would otherwise be denied coverage due to pre-existing medical conditions, making coverage affordable for those currently deemed "uninsurable." As part of offering affordable coverage to high-risk individuals, States may offer direct assistance with health insurance premiums and/or cost-sharing for low-income and/or high-cost families.

- *Auto-Enrollment.* Each State is to develop auto-enrollment health insurance procedures (similar to those for dual-eligibles under the Medicare Modernization Act) for previously eligible Medicaid recipients. Under this procedure, any uninsured person seeking medical care could be enrolled in an insurance plan, so that he or she no longer continues without coverage.

- *Setting Reasonable Limits on Premiums*. As part of high-risk pool reform, States will define premium standards such that individuals may be deemed high-risk if their health insurance premiums exceed a certain amount. Covering these individuals in high-risk pools dramatically improves the actuarial health and price of existing group health insurance plans, thereby lowering and stabilizing premiums for the vast majority of Americans with average health profiles.

- *Creating Reinsurance Mechanisms*. The establishment of State reinsurance mechanisms will ensure that high-risk pools are adequately funded, and that individuals receiving coverage through high-risk pools are not subject to prohibitively high premiums.

Relief for Small Businesses. The problem of rising health care costs is especially acute for small businesses, who cannot pool risks of thousands of employees, as large companies do – and therefore cannot afford group coverage for their workers. To correct the problem, this proposal allows the establishment of association health plans [AHPs], giving small businesses a means of offering health coverage to their employees. Under this strategy, small businesses will be able to pool together nationally to offer coverage to their employees. The plans offered would be subject to the same new rules for flexibility (using the tax credit to pay for health insurance at the workplace) and portability (being able to take insurance from job to job) described above.

Encouraging the Adoption of Health Information Technology. Just as individuals must own their own health coverage, so too should own their own health records. By establishing a modern market-driven approach to building a National Health Information Network, the plan will give every American ownership over his or her own medical record, transitioning the health care industry from paper-based medical records to electronic medical records through the creation of Independent Health Record Trusts. With electronic accounts, medical records travel with the individual, allowing timely and more accurate diagnoses and treatments. The Health Record Trusts, modeled on the framework of credit unions, will allow medical information to be managed in the same manner that financial institutions, such as banks and credit card companies, manage financial data – establishing a nationwide health information technology network designed to improve health care quality, reduce medical errors, and ensure that appropriate information is easily accessible.

Medicaid

Modernizing the Benefit. Medicaid, the Federal-State health care entitlement program for qualifying low-income and indigent individuals, is outdated and fiscally unsustainable. Without major reform, Medicaid recipients' access to health care is in jeopardy. The right changes can form a more effective program, and also make the health care safety net stronger and more reliable for the neediest populations.

Allowing States to offer their Medicaid populations the option of using the refundable tax credit to enroll in private insurance, in lieu of traditional Medicaid coverage, will restrain rising health costs and level the playing field for those with Medicaid coverage. The increased number of individuals shopping for health coverage and services will not only restrain prices, but also will increase competition in the marketplace. Additionally, Medicaid recipients – like all other Americans – will be able to purchase more affordable coverage from other States with the refundable tax credit if they find health insurance plans that better suit their needs.

Below are some of the particular benefits of this approach.

Removing the Stigma. Medicaid recipients deserve to choose their own doctors and make their own health care decisions, instead of having the government dictate those decisions for them. But instead of helping the neediest gain access to the same level of care available to those with private insurance, the current Medicaid Program forces both doctors and patients to accept bureaucratically determined standards of care at government-set prices. The result has been a fraying safety net that fails to sustain the most vulnerable; forces the medical community into making the impossible choice of providing care or going bankrupt (more than half of doctors will not take Medicaid recipients); and threatens to overrun State budgets. Additionally, Medicaid often fails to offer vision and dental care and various other services available in private health plans.

Low-income individuals should not be subject to second rate care simply because they receive more assistance from the government. Offering Medicaid beneficiaries the option to enroll in private plans with the refundable tax credit will remove the stigma Medicaid recipients face, and allow them to take advantage of the same range of options available to those with private plans.

State Flexibility. States may choose whether to allow their Medicaid populations participate in the tax credit plan, or to continue their current Medicaid Programs. States that select the latter receive their Federal Medical Assistance Percentage [FMAP] funding in the form of a block grant, adjusted for population growth and indexed to inflation by a blended rate of the consumer price index [CPI] and the medical care component of the CPI. This gives States maximum flexibility to adapt their programs to their specific populations. Any State opting to let its Medicaid population to take part in the tax credit must agree to use its previously allocated Medicaid funds to assist the Medicaid population in enrolling and purchasing health insurance plans. As mentioned above, States can use their MOE funds to supplement the tax credit for low-income and high-risk families if they choose to do so.

Retention of Medicaid for Specific Populations. States' long-term care and disabled populations do not take part in the tax credit, but continue in the current Medicaid program, with each state receiving a block grant of this portion of its Medicaid funds. This change allows States maximum flexibility to tailor their Medicaid programs to the specific needs of their populations. The long-term care block grant is indexed for inflation by a blended rate of the CPI and the medical care component of the CPI, and adjusted for population growth.

State Children's Health Insurance Program [SCHIP]. The current SCHIP population becomes eligible for the health care tax credit. This ensures that the children who need it most have access to the same variety of options and high quality care.

Medicare

A New Medicare Program. As the long-term fiscal burden of Medicare becomes more unsustainable, it is clear that – to fulfill the mission of Medicare – small and gradual changes to the program will not suffice. The entire methodology of the program must be converted away from a program that shelters beneficiaries from prices – and is therefore inefficient in restraining rising costs and proficient at sheltering prices from beneficiaries – into one in which Medicare beneficiaries choose the most affordable coverage that best suits their needs.

Just as the Medicare Program requires a new methodology, so too does its structure of financing. The Part A and Part B trust funds are combined to create one unified trust fund. The new Medicare Program and the existing program continue to be financed by trust fund revenues, Medicare payroll taxes, and general revenue contributions. The measure of solvency is converted away from one based on the unfunded liability of the Part A trust fund and into one in which the program's solvency is measured as a percentage of GDP.

Medicare Payment. For future Medicare beneficiaries who are now 55 or younger (those who first become eligible on or after 1 January 2019), the proposal creates a standard Medicare payment to be used for the purchase of private health coverage. For current beneficiaries, and those older than 55, the plan preserves the existing Medicare Program, as further described below. The payment will be made directly to the health plan designated by the beneficiary (similar to the administration of the refundable health care tax credit), with the beneficiary receiving any leftover amount as a payment from the health plan, or assuming financial responsibility for any difference in the payment and the total cost of the premium. Additionally, this allows the Medicare beneficiary to invest the leftover amount in a Medical Savings Account [MSA] to pay for other medical expenses, or to purchase long-term care insurance.

Each Medicare beneficiary becomes eligible for the payment by enrolling in a health insurance plan. Medicare will publish an annual list of plans that are "Medicare certified." Medicare enrollees are able to use their payment to pay for one of the Medicare certified plans, or any other plan, such as those offered by former employers or available from the private market.

The standard payment is $9,500 (the average amount Medicare currently spends per beneficiary), and is indexed for inflation by a blended rate of the CPI and the medical care component of the CPI. For affected beneficiaries, the payment replaces all components of the current Medicare program (Medicare fee-for-service, Medicare Part B, Medicare Advantage, and Medicare Part D). Payment amounts are risk-adjusted. They also are partially geographically adjusted, with the geographic adjustment phasing out over time.

Risk Adjustment. Medicare beneficiaries receive the standard amount – $9,500 – once they enroll for the benefit, with the flexibility to receive a positive adjustment of that amount based on a risk-assessment from their chosen health plan. Once enrolled in a plan, Medicare beneficiaries may complete initial health exams through their health insurance plan to determine whether they are eligible to receive a higher risk-adjusted payment. The health plan must submit to the Medicare program any necessary results of the exam in order for Medicare to determine an adjusted risk-assessment.

Under the current system, Medicare frequently overpays for some services and beneficiaries and underpays for others. This reform targets support to those who truly need additional help by risk-adjusting their payments based on their health condition.

Income-Relating. The payment amount is modified based on income, in a manner similar to that for current Medicare Part B premium subsidies. Specifically: beneficiaries with incomes below $80,000 ($160,000 for couples) receive the full standard payment amount; beneficiaries with annual incomes between $80,000 and $200,000 ($160,000 to $400,000 for couples) receive 50 percent of the standard amount; beneficiaries with incomes above $200,000 ($400,000 for couples) receive 30 percent.

Enhanced Support for Low-Income Beneficiaries. While any Medicare beneficiary, regardless of income level, is able to set up a tax-free MSA if he or she desires, the new Medicare Program establishes and funds an MSA for low-income beneficiaries. Specifically, for those who are fully "dual eligible" (eligible under current policies for both Medicare and Medicaid), and beneficiaries with incomes below 100 percent of the poverty level, the plan provides an MSA payment. Those with incomes between 100 percent and 150 percent of poverty receive 75 percent of the full deposit.

Retention of Medicare for Those Over 55. Clearly, the transition to this restructured Medicare Program must protect those at or near retirement – people who have long planned on the existing Medicare Program for their retired years. That is why the transition to the individual purchase of private health insurance applies to those eligible starting on 1 January 2019. For those eligible prior to that date (those over 55), the existing Medicare Program remains, and is strengthened with changes, such as income-relating of drug benefit premiums, to ensure its long-term sustainability.

Premiums continue to be based on an all-beneficiary average, so the phasing of the younger population into the new program will not increase premiums for the population continuing in the existing program.

The proposal also retains the Medicare payroll tax of 2.9 percent of the Federal Insurance Contributions Act [FICA] and Self-Employed Contributions Act [SECA] payroll tax, as

is the case now. Following consultation with the Office of the Chief Actuary of the Centers for Medicaid and Medicare Services, this reform plan has been found to assure the solvency of the overall Medicare Program for the long term.

RETIREMENT SECURITY

More than 30 million Americans depend on Social Security to provide a significant share of their retirement income. Since the program was enacted in 1935, it has served as a vital piece of the "three-legged stool" of retirement security, which today includes employer-provided pension plans and personal savings. Still, President Roosevelt himself viewed Social Security as an *evolving* program. As he wrote in a 1939 message to Congress: "We shall make the most orderly progress if we look upon Social Security as a development toward a goal rather than a finished product. We shall make the most lasting progress if we recognize that Social Security can furnish only a base upon which each one of our citizens may build his individual security through his own individual efforts." (Cited by the Historian's Office of the Social Security Administration, May 1996). In this regard, Social Security is one critical, if unfinished, piece of the retirement security safety net for seniors – especially those with limited incomes.

That evolution must continue today, because Social Security as currently structured is going bankrupt and cannot fulfill its promises to future retirees. Without reform, future retirees face benefit cuts of up to 22 percent in 2041. Attempts to fix the problem without fundamental reform will excessively burden future workers and sacrifice U.S. prosperity.

Further, even if the current system could be sustained, it is no longer a good deal for American workers. The real rate of return for current workers is only about 1 percent to 2 percent, and the expected rate of return for today's children is expected to fall below 1 percent. By comparison, even through periods of economic downturn, the average rate of return of the stock market has been at least 7 percent. As discussed in a previous section, the current system also unfairly discriminates against minorities and women who work outside the home.

Social Security's shrinking value and fragile condition pose a serious problem that threatens to break the broader compact in which workers support the generation preceding them, and earn the support of those who follow. To maintain the program's significant role as a part of the retirement security safety net, the share of future retirees' income promised by Social Security must be fulfilled somehow. The legacy envisioned by President Roosevelt must be completed without bankrupting future workers.

This proposal addresses the shortcomings of the current system and strengthens the retirement safety net by providing workers with the voluntary option of investing a portion of their FICA payroll taxes into personal savings accounts. Due to the higher rate of return received by investments in secure funds consisting of equities and bonds, these accounts would allow workers to build a significant nest egg for retirement that far exceeds what the current program can provide. Each account will be the property of the individual, and fully inheritable, which will allow workers to pass on their prosperity to their descendants.

Individuals over 55 will remain in the current system and will not be affected by this proposal in any way: they will receive the benefits they have been promised, and have planned for, during their working years. All other workers will have a choice to stay in the current system or begin contributing to personal accounts. Those who choose the personal account option will have the opportunity to begin investing a significant portion of their payroll taxes into a series of funds managed by the U.S. government. The system closely resembles the investment options available to Members of Congress and Federal employees through the Thrift Savings Plan [TSP]. As these personal accounts continue to accumulate wealth, they will eventually replace the funding that comes through the government's pay-as-you-go system. This will reduce the demand on government spending, lead to a larger overall benefit for retired workers, and restore solvency to the Social Security Program.

As with Medicare, the Social Security component of this plan will make the program sustainable for the long run. It will do so without overtaxing future workers and crippling the economy. Based on estimates by the Chief Actuary of the Social Security Administration, the program will be solvent with permanent and growing surpluses by 2066. Finally, it will allow hard-working Americans to accumulate more than $10 trillion in their accounts by 2040, all money which they can pass on to their heirs.

In addition, the creation of personal investment accounts for future retirees will provide additional capital stock for the U.S. economy, increasing the potential for growth. This will be especially important in coming decades in helping compensate for the projected slowdown in labor force growth, a key component to increases in GDP.

Guarantee of Benefits. Individuals who choose to invest in personal accounts will be ensured that their total benefits are at least as large as the benefits would be if they decided to remain in the traditional system. If an individual's personal account is too small to provide a monthly annuity payment equal to this level, the government will make up the difference.

Personal Choice in Retirement Accounts. Beginning in 2011, the proposal allows each worker younger than 55 to shift a portion of his or her Social Security payroll tax payment into a personal retirement account, chosen from a group of investment funds approved by the government (see below). When fully phased in, the personal accounts will average 5.1 percentage points of the current 12.4-percent Social Security payroll tax.

The personal investment component is phased in to allow a smooth transition. Initially, workers are allowed to invest 2 percent of their first $10,000 of annual payroll into personal accounts, and 1 percent of annual payroll above that up to the Social Security earnings limit. The $10,000 level will be constantly indexed for inflation. After 10 years, the amount that workers can invest will be increased to 4 percent up to the inflation-adjusted level, and 2 percent above that. After 10 more years, these amounts will be increased to 6 percent and 3 percent. Eventually, by 2041, workers will be able to invest 8 percent up to the inflation-adjustment level, and 4 percent of payroll above that, for an account averaging 5.1 percent.

The choice of personal retirement accounts is entirely voluntary. Even those under 55 can remain in the current system if they choose. Further, those who choose to enter the

personal account system also have an opportunity to leave the system, and those who initially opt out of the system of personal accounts can enter into it later on.

Property Right. Each personal account is the *property* of the individual, and the resources accumulated can be passed on to the individual's descendants. This contrasts with current government Social Security benefits, which are subject to reductions or other changes by Congress, and which cannot be passed on. Benefits are tilted in favor of low-income individuals who do not have disposable income to invest. As a result, these individuals will be able to join the investor class for the first time. As Social Security benefits become an individual's property, the government no longer will be able to raid this money to pay for spending on other programs.

Soundness of Accounts. Those who choose the personal account option will select from a list of managed investment funds approved by the government for soundness and safety. After an account reaches a low threshold, a worker will be enrolled in a "life cycle" fund that automatically adjusts the portfolio based on age. A worker may continue with the life cycle option or choose from a list of five funds similar to the Thrift Savings Plan options. After workers accumulate more than $25,000 in their account, they can choose to invest in additional nongovernment options approved by the Personal Social Security Savings Board.

Protection for Current Retirees and Those Nearing Retirement. As with Medicare, this plan recognizes the obligation to preserve the existing Social Security Program for those who already are retired, and for those near retirement who have planned on its benefits for most of their working lives. Therefore, persons now retired and receiving Social Security benefits, and those over 55, will remain in the existing system and will receive their promised benefits. Their benefits will in fact be more secure because the transformation of the program, along with other reforms in this proposal, ensures the Federal Government will be able to pay promised benefits.

Enhanced Benefits for Low-Income Americans. Low-income Americans are likely to benefit most from the personal account arrangement, should they choose it. They will have an unprecedented opportunity to join the investor class and increase their personal wealth, and also will be allowed to have larger personal accounts than others. Further, both those who remain in the current system, and those who opt for personal savings accounts, will receive increased benefits. All individuals in the traditional system who meet certain working requirements will be ensured that their minimum benefits are equal to at least 120 percent of poverty, an improvement from current law. Those in the personal account system will be guaranteed a minimum of at least 150 percent of poverty.

The use of progressive price indexing for lower-income workers (see below) will also allow the benefits of those who most need the safety net to grow faster than those who have greater means to provide for their retirement. These changes will ensure the system favors those individuals who are most reliant on it for support.

No Change for Survivors and the Disabled. Survivor and disability benefits will continue as under the current system unchanged.

Fiscal Sustainability. The plan makes adjustments in the determination of future initial Social Security benefits that will modernize the program, provide greater support for lower-income beneficiaries, and at the same time make the program's overall spending sustainable for the long run. This would continue to allow benefits to grow for all individuals. Further, it would only affect individuals under 55. To accomplish these objectives, the proposal uses progressive price indexing and modernizes the Social Security retirement age.

- *Progressive Price Indexing*. At present, an individual's initial level of Social Security benefits are based on the individual's average career earnings. To determine average career earnings, an individual's income from previous years is adjusted upward by the rate that average American wages have increased over time. This approach, called "wage indexing," exceeds the amount of initial benefit growth needed to keep pace with economic conditions, and contributes to the unsustainable projected burden on Social Security. An alternative approach is "price indexing," under which initial benefits are adjusted according to the consumer price index.

  This reform, starting in 2016, employs "progressive price indexing" – a mix of wage indexing and price indexing – for initial Social Security benefits. Individuals who make less than approximately $29,000 per year will continue to receive initial benefits based on wage indexing. Those who make between $29,000 and $113,000 (in 2016) will have their initial benefits adjusted upward by a combination of wage and price indexing that becomes more oriented toward price indexing as they move up the income scale. For example, an individual whose income is half way between roughly $29,000 and $113,000 will have his initial benefit adjusted upward approximately 50 percent by wage indexing and 50 percent by price indexing. Individuals making more than $113,000 will have their initial benefits adjusted upward by price indexing. These amounts will consistently be indexed for inflation.

  As a result, all future Social Security beneficiaries will see their benefits grow by an amount at least equal to inflation over time. The reform will not affect the cost-of-living adjustment that Social Security beneficiaries receive each year once they have begun receiving benefits.

  The use of progressive price indexing will peg the growth of future Social Security outlays to a realistic index of the cost of living, while rescuing the program from the insolvency that will otherwise occur. It will place the program on a sustainable fiscal and economic course.

- *Modernizing the Retirement Age*. When Social Security was enacted, the average life expectancy for men in America was 60 years; for women it was 64. Today, average life expectancy has increased to 75 years for men and 80 years for women (2007 figures). Life expectancies are expected to continue lengthening throughout the century.

  Given these facts, and the choice among many Americans to work additional years, this proposal extends the gradual increase in the retirement age, from 65 to

67, occurring under existing policies, and speeds it up by 1 year. Once the current-law retirement age reaches 67 in 2026, this proposal continues its progression in line with expected increases in life expectancy. This will have the effect of increasing the retirement age by 1 month every 2 years. The retirement age will still be under 70 years of age for nearly all of the 21st century.

The modernization of the retirement age will not affect the ability of an individual who chooses the personal account system to retire early, as long as his or her account has accumulated enough funds to provide an annuity equivalent to 150 percent of poverty.

FEDERAL TAX REFORM

As noted previously, the Federal tax code is needlessly complex and burdensome, and it discourages economic growth and U.S. competitiveness in the international marketplace. Further, taxpayers and their families face, in the next few years, sharply higher tax rates on income and investment, the reinstitution of the marriage penalty, and higher taxes per child, among numerous other tax increases as a result of the schedule expiration of the 2001 and 2003 tax laws. There is also the Alternative Minimum Tax [AMT], which becomes a more intractable problem every year.

For the longer term, the overall Federal tax burden is projected to reach unprecedented levels as a share of economic resources. The current tax code also puts American businesses and American-made products at a competitive disadvantage against foreign competitors, making it harder to keep jobs in the U.S. and to grow the economy.

As is true with the structure of major Federal entitlement programs, the problems in the Federal tax law cannot be corrected by merely tinkering with an excessively complex and burdensome tax code. What is needed is a restructuring of the tax laws – one that is broad and yet achievable. It is the kind of tax reform called for in this proposal.

This proposal eliminates the AMT and allows individuals to choose how they will pay their Federal income taxes. It eliminates the tax on savings and shifts toward a consumption tax for businesses, making it easier for U.S. businesses to invest in their own businesses and create more jobs in the U.S. Most important, this plan is designed to hold overall Federal tax revenue at roughly 18.5 percent of GDP for the foreseeable future – consistent with the historical average of the past 40 years – rather than allowing the tax burden to rise to unprecedented levels, as is assumed under current tax law.

Individual Income Taxes

A world-class tax system should be simple, fair, and efficient. The U.S. tax code fails on all three counts. The system is notoriously complex, as families must spend significant time and money navigating a labyrinth of deductions and credits, a host of different rules for characterizing income, and a variety of schedules for taxing that income. The code is also patently unfair, as many of the tax deductions and preferences in the system – which serve to narrow the tax base – are mainly used by a relatively small share of mostly

higher-income individuals. It is also highly inefficient, as tax considerations (rather than economic fundamentals) often distort individual decisions to work, save, and invest, leading to a misallocation of resources and lower economic growth.

Individuals react negatively toward the tax code partly because it steers them toward certain activities and away from others. In addition, there are always a few "surprises" – such as the AMT – that end up raising their tax bills. They lack a certain control over their own financial lives.

This reform proposal attempts to solve these problem in a fundamentally American way: by offering individuals a choice. Individuals can choose to pay their Federal taxes under the existing tax code, with all the familiar deductions and schedules, or they could move to a highly simplified income tax system. The simplified plan broadens the tax base by clearing out nearly all of the existing tax deductions and credits, compresses the tax schedule down to two low rates and retains a generous standard deduction and exemption level. The tax form for this system could fit on a postcard. The goal is a more simple, fair and efficient tax code, the components of which are described below.

Full Repeal of the AMT. The Alternative Minimum Tax originally was intended to apply to a small fraction of wealthy taxpayers. But because it was never indexed for inflation, it has in recent years threatened to ensnare millions of middle-income filers. To date, Congress has only extended protection from this AMT expansion on a year-by-year basis. This proposal eliminates the AMT entirely and permanently.

Eliminates Double Taxation of Savings. The current system essentially taxes savings twice – individuals pay tax on their earnings and, if they choose to invest those after-tax funds, they must pay another tax on the return from their savings (i.e. interest, capital gains, or dividends). The plan eliminates this second layer of taxation. Not only is this fair to individual taxpayers, it also is good for the economy. Greater savings leads to more investment and higher rates of productivity. Higher productivity ultimately drives increased living standards. The plan also eliminates the Death Tax, another form of double taxation that is particularly harmful to small businesses.

Offers Taxpayers a Choice. The proposal allows individual income taxpayers to make their own choice about how best to pay their taxes. Within 10 years of enactment of this legislation, individuals would choose one of the two tax systems. But individuals are allowed *one* additional changeover between the two tax systems over the course of their lifetimes. Individuals are also allowed to change tax systems when a major life event (death, divorce, or marriage) alters their tax filing status.

Simplified Income Tax Rates. In contrast to the six tax rates in the current code, the simplified tax has just two rates: 10 percent on adjusted gross income [AGI] (as defined below) up to $100,000 for joint filers, and $50,000 for single filers; and 25 percent on taxable income above these amounts. These tax brackets are adjusted each year by a cost-of-living adjustment as measured by increases in the consumer price index [CPI]. (See Table 7 on the next page for a comparison with current tax brackets.) Taxable income equals earnings minus a standard deduction and personal exemption.

Broader Tax Base. The new, simplified code eliminates nearly all existing tax deductions, exclusions, and other special provisions, but retains the health care tax credit described above.

Generous Standard Deductions, and Personal Exemptions. The standard deduction is $25,000 for joint tax filers, $12,500 for single filers. The personal exemption is $3,500. The combination is equivalent to a $39,000 exemption for a family of four.

The tables below compare the tax rates in the Simplified Tax with those in the current Federal tax code.

Table 7: Tax Rate Comparison - Single Filers

Current Tax Code		Simplified Tax	
Marginal Rate	Taxable Income	Marginal Rate	Taxable Income
10 percent	$0-$7,825	10 percent	$0-$50,000
15 percent	$7,825-$31,850		
25 percent	$31,850-$77,100	25 percent	$50,000 and over
28 percent	$77,100-$160,850		
33 percent	$160,850-$349,700		
35 percent	$349,700 and over		

Table 8: Tax Rate Comparison - Joint Filers

Current Tax Code		Simplified Tax	
Marginal Rate	Taxable Income	Marginal Rate	Taxable Income
10 percent	$0-$15,650	10 percent	$0-$100,000
15 percent	$15,650-$63,700		
25 percent	$63,700-$128,500	25 percent	$100,000 and over
28 percent	$128,500-$195,850		
33 percent	$195,850-$349,700		
35 percent	$349,700 and over		

Prevents Future Increase in Tax Burdens. This individual tax system – in combination with the business tax described below – is designed to keep Federal revenues at approximately 18.5 percent of GDP for the foreseeable future, roughly equivalent to the historical average.

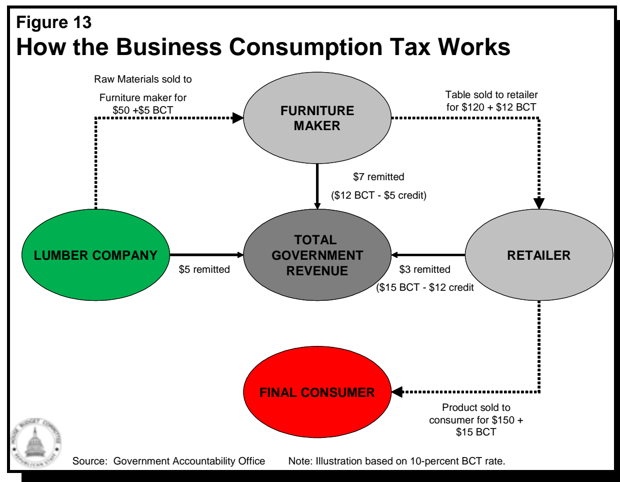
Gives Taxpayers Greater Certainty. Under current law, the scheduled expiration of the 2001 and 2003 tax relief measures along with a growing expansion of the AMT would push overall tax burdens to an unprecedented level in the coming years. By reforming the entire tax code and removing these upward pressures on taxes, this plan gives Americans peace of mind so that they can adequately plan for their financial future.

Business Taxation

In addition to creating a simpler and fairer income tax system for individuals and families, this plan does away with the corporate income tax, which discourages investment and job creation, distorts business activity and puts American businesses at a competitive disadvantage against foreign competitors. In its place, this proposal establishes a simple and efficient Business Consumption Tax [BCT] that will enhance the international competitiveness of U.S. businesses and put the economy on solid footing to meet the challenges of the 21st century.

Business Consumption Tax. The proposal creates an 8.5-percent BCT on goods and services. It operates under what is known as the "credit invoice method," in which businesses apply the BCT to the sales of their products or services and then claim a credit for the BCT paid on purchases of material costs from other businesses shown on purchase invoices. The difference between the BCT collected on sales and credit for the BCT paid on input purchases is then paid to the Federal Government. Thus, this system provides a clear audit trail of the business tax, because the amount is clearly stated on sales and purchase receipts.

The flow chart alongside shows how the BCT would operate for businesses involved in the production of a wood table. Revenues are remitted to the government at each stage of the production process and the BCT is incorporated in the final sale price to the end consumer.



Transition to the BCT. The plan incorporates temporary "transition relief" to facilitate the switch from the current income tax system to the BCT. The plan also addresses complications in the treatment of the financial services industry under a tax system such as the BCT.

Leveling the Playing Field. To level the playing field and eliminate the competitive disadvantage on American businesses and American-made products, the BCT is not imposed on U.S. exports when it leaves the U.S. It is instead imposed on foreign imports when it enters the U.S. As a result, the BCT is "border adjustable."

Currently, the U.S. corporate income tax is not border adjustable (i.e., the tax cannot be removed from exports or imposed on imports). In contrast, foreign competitors in Europe have the advantage of removing their own taxes on their exports. The World Trade Organization [WTO] established the requirements for a border adjustable tax system. Direct taxes, such as the corporate income tax, are not border adjustable, but indirect taxes, such as the BCT, are border adjustable. (It is important to note that the WTO has ruled that the credit invoice method business tax is border adjustable.)

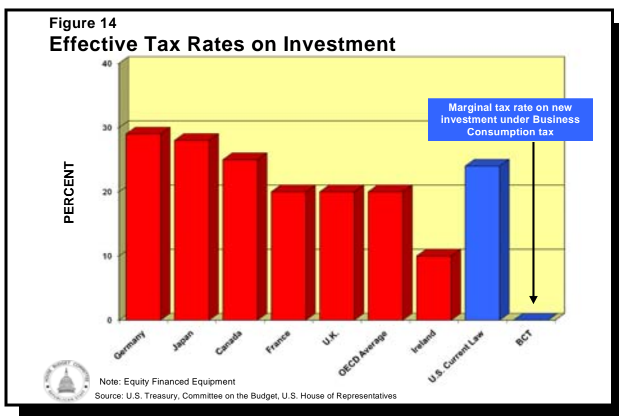
Encouraging Investment. Under the current corporate income tax, investments are typically depreciated gradually over the life of an asset. A portion of the cost of the investment is deducted from revenues each year until the full price is recaptured over time (depending on the length of the depreciation schedule).

Under the BCT, the cost of an investment is fully deducted immediately – in other words, investments are expensed. That becomes important from a tax perspective because a dollar's worth of tax benefit today is worth more than a tax benefit in the future for any business. Expensing becomes the key element in shifting from a system that taxes income to a system that taxes consumption (i.e. income less investment). This would boost overall investment in the economy, which would in turn spur job creation, productivity and rising living standards.

Elimination of the Corporate Income Tax. Like the individual income tax, the corporate income tax contains a host of tax preferences that end up narrowing the corporate tax base by up to 25 percent, according to the Treasury Department. That narrow tax base requires higher tax rates to raise a given amount of revenue. The current statutory U.S. corporate tax rate (including State corporate taxes) is 39 percent, the second highest tax rate in the Organisation for Economic Cooperation and Development [OECD] and 8 percentage points higher than the OECD average. This adds to the disadvantage already placed on American businesses and, in turn, American jobs. In addition, a country's corporate income tax rate can become one of the key determinants of where businesses choose to locate and invest.

The plan eliminates the corporate income tax entirely, replacing it with the Business Consumption Tax on a broad tax base. The tax base is broadened by eliminating various business tax preferences in today's system, which allows for a significantly lower tax rate under the BCT.

Boost to Competitiveness. By eliminating the corporate income tax and instituting a single-digit business consumption tax with immediate expensing, the U.S. would dramatically enhance its investment climate.



The figure alongside gives a sense of how much. It shows a cross-country comparison of the marginal effective tax rates on new business investment. Effective tax rates are a useful way to distill all of the elements of the tax code that influence the burden on new investment (e.g. statutory business tax rates and depreciation treatment). Currently, the marginal effective tax rate on new business investment in the U.S. is roughly 25 percent, above the OECD average of 20 percent. By implementing the BCT, the U.S. would essentially drive down the marginal effective rate to *zero*. In other words, the BCT would essentially eliminate the tax distortion on new business investment in the U.S. The result would be a quantum leap in terms of establishing a competitive business tax for the 21st century.

The move would also help to level the playing field so American businesses and American-made products are no longer at a competitive disadvantage against foreign competitors. In fact, this plan gives the U.S. a leg up on its foreign competitors by only taxing investment *once* – at the business level. Foreign competitors will continue to tax investment twice – at the business level and at the individual level via a tax on capital gains or dividends – which has the effect of raising their cost of capital.

One further metric of the enhanced competitiveness of U.S. businesses under this plan is the level of the consumption tax itself. A U.S. Business Consumption Tax of 8.5 percent is roughly *half* that of the OECD average. (Other countries typically employ a consumption tax along with a corporate income tax and their businesses taxes as a whole typically raise more revenues as a share of their overall economy than the U.S.)

Key Benefits

To summarize some of the principal benefits of the tax policy described above:

- An uncompetitive business tax climate has forced many U.S. companies to relocate and send jobs abroad, often through mergers and acquisitions with foreign companies. This tax plan would reverse this trend.
- With an enhanced investment climate, international businesses, particularly capital-intensive industries such as manufacturing, would have a greater incentive to invest in the U.S. and expand production here, which creates jobs.
- The United States' relatively high statutory corporate income tax has led to multinational corporations shifting their profits to lower-tax countries, essentially shifting the tax base overseas. Many U.S. businesses also delay the repatriation of earnings from their foreign affiliates. This plan would bring these earnings and profits back to the U.S.
- Greater investment in the U.S. would also help to speed the pace of technological innovation in the U.S. economy, a key factor in raising productivity.
- There is a clear link between investment and capital formation and productivity and rising living standards. Between 1973 and 1995, for instance, productivity grew at just under 1.5 percent, implying that living standards in the U.S. would double every 50 years. Since 1995, productivity, spurred by technological innovation and investment, has increased at a 3.0-percent rate. This rate implies it will take only 25 years for living standards to double, half as long as under a slower rate of productivity. A business climate that fosters investment, therefore, is one of the keys to future U.S. prosperity.
- The way the U.S. taxes international business operations is important because roughly two-thirds of U.S. export trade (a growing share of the U.S. economy) is facilitated by U.S. multinational companies and their foreign affiliates.

CONCLUSION

The proposal described above is broad and comprehensive because it must be: piecemeal, incremental "fixes" cannot match the scope and magnitude of America's challenges in health care, Federal entitlement programs, Federal tax policy, and economic competitiveness. It is built on the principle of personal ownership exercised in a free economy, because that has been the source of U.S. prosperity through America's history. It maintains a reliable safety net, because Americans have always shown compassion for those who are less well off. Finally, it enhances America's ability to compete successfully in the international market that is the permanent reality of the 21st century – because this competitiveness is a necessary component of expanding jobs and opportunities for Americans.

Above all, however, the importance of this proposal is that it lays out a plan for meeting these challenges – because it is time to get beyond debating the problem, and to begin aggressively pursuing solutions.

REFORMING THE BUDGET PROCESS

One reason the Federal Government's major entitlement programs are difficult to control is that they are designed that way. A second is that current congressional budgeting provides no means of identifying the long-term effects of near-term program expansions. A third is that these programs are not subject to regular review, as annually appropriated discretionary programs are; and as a result, Congress rarely evaluates the costs and effectiveness of entitlements except when it is proposing to enlarge them.

Nothing can substitute for sound and prudent policy choices. But an improved budget process, with enforceable limits on total spending, would surely be a step forward. This proposal calls for such a reform.

THE FUNDAMENTAL PROBLEM OF ENTITLEMENT SPENDING

Entitlement spending has become an increasingly dominant part of the Federal budget over the past several decades. As Congressional Budget Office Director Peter R. Orszag has noted:

> Spending for mandatory programs has increased from less than one-third of total Federal outlays in the early 1960s to more than one-half in recent years. Most of that growth has been concentrated in Medicare, Medicaid, and Social Security. Together, gross outlays for those programs now account for about 45 percent of Federal outlays, compared with 2 percent in 1950 (before the health programs were created) and 25 percent in 1975. (Orszag testimony to the Committee on the Budget, 13 December 2007)

Within the next 10 years, entitlement spending is projected to exceed 60 percent of the budget; and the largest contributors will be Social Security, Medicare, and Medicaid, which are growing faster than the economy.

For the purposes of current budget rules and conventions, entitlement spending is projected to grow according to the formulas established in permanent law, regardless of the rate of growth and whether the government has the means to support it. Benefits to individuals are guaranteed, so that total spending for any one program depends on factors *outside* the control of Congress – such as caseloads, inflation, and other economic and technical factors. This is a prescription for losing control of such spending. In addition, any proposal to slow the growth in this spending is characterized as a "spending cut."

In most cases, once an entitlement program is enacted, there is no additional review or approval required by Congress – it simply keeps running – and the President cannot veto an increase that arises from existing law. The only way to slow the growth in mandatory spending is through a change in law.

WEAKNESSES IN THE BUDGET PROCESS

The current Federal budget process has a short-term focus and does not systematically review the huge and growing commitment the Federal Government is making for entitlement programs. While Congress and the administration thoroughly review discretionary programs annually and this spending must be appropriated in laws annually, discretionary spending represents less than half of the Federal budget.

Although both the Office of Management and Budget [OMB] and the Congressional Budget Office [CBO] make long-term projections, the current budget process lacks a comprehensive and enforceable mechanism for current-law mandatory spending and its long-term impact. Current budget rules are designed to enforce discretionary spending levels on an annual basis and mandatory revenue levels over a 10-year period. Under the current process, it is difficult to make trade-offs between discretionary and mandatory spending, and there is no current enforcement on spending levels beyond the 10-year budgeting period.

The current budget process uses a "baseline" to measure the budgetary impact of legislation that instills an upward bias in mandatory spending. For example, the baseline projects the automatic growth in entitlement spending that will occur under current-law formulas, regardless of whether the government has the means to finance this spending. If legislation slows the growth of spending for a program relative to the baseline, it is considered a "cut in spending."

As a result, the current budget process does not fully capture the long-term cost of these programs and shields them from changes to address their unsustainable growth. Unfortunately, Congress is more likely to take action to aggravate the problem. At best, Congress will attempt to offset the cost according to current rules that cover the 1- or 10-year timeframe, but usually uses revenue, spending gimmicks or both to offset the cost, which hides the long-term spending impacts.

PROPOSED REFORM

In their report, *Taking Back Our Fiscal Future*, a diverse group of 16 budget experts included a recommendation to reform the Federal budget process, focusing especially on Social Security, Medicare, and Medicaid. They wrote:

> We believe that these three programs must be subjected to serious periodic review and decision. Their estimated future costs must be shown clearly and budgeted in advance. If they run significantly over budget, a triggering mechanism should force the President and Congress to deal with the shortfall. This requirement would give the public and their elected representatives a chance to decide explicitly how much they want to spend on these three entitlements, how much on other priorities – such as national defense, education, and scientific research – and what level of taxes they are willing to pay to support these programs. (The Brookings-Heritage Fiscal Seminar, *Taking Back Our Fiscal Future*, April 2008)

Based on this recommendation, *A Roadmap for America's Future* establishes a binding cap on total spending as a percentage of GDP at the spending levels that are projected to result from the plan. It requires the President's budget and the CBO to make projections annually in comparison to these spending limits. It requires a comprehensive review of the long-term budget outlook every 5 years. If spending gets out of control again, and Congress fails to address the problem during the 5-year review, the proposal provides a mechanism to slow the growth in faster spending programs by no more than 1 percent, to bring spending back in line with the spending limits.

The proposal also requires a three-fifths supermajority vote in the House and Senate to raise Federal revenue above 18.5 percent of GDP.

APPENDIX I
SUMMARY OF THE LEGISLATION

TITLE I: HEALTH CARE REFORM

- **Repeal of Employer Exclusion for Group Health Insurance.** Repeals, for purposes of income taxes and Federal Insurance Contribution Act [FICA] taxes, the current-law exemption of employer-sponsored health coverage. Employers that continue to provide group health insurance to employees continue to claim contributions as a business expense deduction.

- **Individual Tax Credit.** Provides a flat, refundable income tax credit for individual and family purchase of health insurance. Credit is available only for the purchase of health insurance and may be used toward employer-provided coverage, if applicable. States have the option of allowing their Medicaid-eligible populations to take part in the tax credit, in lieu of the current Medicaid program. The credit may not be used by those enrolled in Medicare or a military health coverage plan.

  - *Credit Amount.* The tax credit equals $2,500 for individual tax filers and $5,000 for joint filers and families.

  - *Refundable and Advanceable.* The credit is refundable, and therefore available to low-income persons with no tax liability. Credit also is "advanceable," enabling individuals to purchase coverage at the beginning of a year, rather than waiting for their tax returns.

  - *Assignable.* The credit would be forwarded directly to the insurer of the tax credit recipient's choice, leaving the balance of the premium, if any, to be billed to the recipient.

  - *Inflation Adjustment.* The credit is adjusted for inflation: specifically, by an average of consumer price index and the percentage increase in the medical care component of the consumer price index.

- **Portability.** Allows individuals to carry personally owned insurance through changes of jobs or residences.

- **Interstate Purchasing.** Allows individuals who reside in one State to buy a more affordable health insurance plan in another State. Likewise, health insurance plans would be able to sell their policies to individuals and families in every State, as other companies do in every other sector of the economy.

- **Small Business Relief.** Allows small businesses to pool together nationally to offer coverage to their employees through association health plans [AHPs]. Plans are regulated at the Federal level and would have advantages similar to those of larger employer plans.

- **Health Information Technology.** Establishes a market-driven National Health Information Network, providing for individual ownership of medical records, and transitioning the health care industry from paper-based medical records to electronic medical records.

- **Other Tax Components.** Retains current-law income and FICA tax exclusions for Health Savings Accounts. Retains the 7.5-percent itemized deduction for medical expenses, but provides that taxpayers who claim the new health care tax credit may not take into account premiums for such coverage for purposes of the tax deduction.

- **Transparency.** See details in the Medicare component of this legislation.

- **Maintenance of Effort/High-Risk Pools.** Requires States choosing that their Medicaid population take part in the tax credit to spend previously allocated Medicaid funds on a Maintenance of Effort [MOE] program. Sets base MOE amount at the level the State spent in calendar year 2008 for its State Children's Health Insurance Program [SCHIP] and Medicaid for healthy adults and children. Increases MOE amount each year by the same inflation adjustment as the health care tax credit. Requires each State to prioritize its MOE spending in the following order:

  - *Auto-Enrollment.* Each State is to develop auto-enrollment health insurance procedures (similar to those for dual-eligibles under the Medicare Modernization Act) for previously eligible Medicaid recipients.

  - *High Risk Pools.* Funds are to be used to help low-income individuals and families (as defined by the State) and high-cost individuals and families (those for whom insurance is unavailable or highly expensive due to health status) purchase qualifying insurance. Eligible expenses shall include, but not be limited to, direct assistance with premiums and cost-sharing for low-income and/or high-cost families.

  - *Reinsurance Mechanisms*. Each State is to establish and finance reinsurance mechanisms, ensuring high risk pools are adequately funded and that individuals receiving coverage through high risk pools are not subject to prohibitively high premiums.

  - *Transparency Networks*. Each State is to establish and maintain a network designed to improve consumer information, transparency in price and quality data, and reductions in transition costs associated with health insurance enrollment.

TITLE II: MEDICAID AND SCHIP REFORM

- **Modernizing the Medicaid Benefit.** Allows States to choose whether to allow their respective Medicaid populations to participate in the tax credit plan, or to

continue their current Medicaid programs. Provides block grants for the latter, totaling their respective 2008 Federal Medical Assistance Percentage [FMAP] funding, indexed to an average of consumer price index and the percentage increase in the medical care component of the consumer price index. Also adjusts the index for population growth.

- **Retention of Medicaid for Specific Populations.** Retains the Medicaid Program for States' long-term care and disabled populations, who do not take part in the tax credit. Provides to each State a block grant for such funds. Allows States maximum flexibility in tailoring Medicaid programs to the specific needs of the State. Indexes the long-term care block grant for inflation and adjusts for population growth in the same manner as the block grant option described above.

- **SCHIP.** Makes the current SCHIP population eligible for the health care tax credit.

TITLE III: MEDICARE REFORM

- **New Medicare Program.** Establishes a new Medicare Program – applicable for beneficiaries eligible on or after 1 January 2019 – transitioning to a program in which Medicare beneficiaries receive standard payments to pay for their health care coverage.

- **Eligibility for Payment.** Makes Medicare beneficiaries eligible for payments by enrolling in a health insurance plan. Pays the amount in each case directly to the health plan designated by the beneficiary (similar to the mechanics of the administration of the health care tax credit), with the beneficiary receiving any leftover amount as a refund payment from the health insurance plan, or assuming financial responsibility for any difference between the payment and the total cost of the premium.

- **Medicare Payment.** For beneficiaries first becoming eligible on or after 1 January 2019, creates a standard Medicare payment to be used for the purchase of private-sector health coverage.

  - *Payment Amount.* Standard payment is $9,500 (the average amount Medicare currently spends per beneficiary), and is indexed for inflation by the projected average of the consumer price index and the medical economic index. For affected beneficiaries, the payment replaces all components of the current Medicare program (Medicare Part A fee-for-service, Medicare Part B, Medicare Advantage, and Medicare Part D).

  - *Risk and Geographical Adjustments.* Payment amounts are risk-adjusted and partially geographically adjusted, with the geographic adjustment phasing out over time. Medicare beneficiaries received the standard amount – $9,500 – once they enroll for the benefit, with the flexibility to receive a positive adjustment of that amount based on a risk-assessment from their chosen health plan.

- *Income-Relating*. Payment amount is modified based on income, in a manner similar to that for current Medicare Part B premiums subsidies. Specifically: beneficiaries with incomes below $80,000 ($160,000 for couples) receive the full standard payment amount; beneficiaries with annual incomes between $80,000 and $200,000 ($160,000 to $400,000 for couples) receive 50 percent of the standard amount; beneficiaries with incomes above $200,000 ($400,000 for couples) receive 30 percent.

- **Extra Support for Low-Income Beneficiaries.** Establishes and funds Medical Savings Accounts [MSAs] for low-income beneficiaries. (Current law allows any Medicare beneficiary to set up a tax-free MSA; the reform proposal provides the additional support for low-income beneficiaries.)

  - *Dual-Eligibles and Incomes Below 100 Percent of Poverty.* For those fully "dual eligible" (eligible under current policies for both Medicare and Medicaid), and beneficiaries with incomes below 100 percent of the poverty level, an MSA subsidy is provided equaling the full deductible amount of an average high-deductible health plan.

  - *Incomes Between 100 Percent and 150 Percent of Poverty.* Those with incomes between 100 percent and 150 percent of poverty receive 75 percent of the full deposit.

- **Retention of Existing Program.** Retains current Medicare Program for those eligible prior to 1 January 2019. Premiums for Part A, Part B, and Part D are not affected by the phasing of the younger population into the new program. Strengthens the current program with changes such as income-relating drug benefit premiums to ensure long-term sustainability.

- **Continuation of Medicare Financing at Current Tax Rates.** Retains the Medicare payroll tax of 2.9 percent of the FICA and Self-Employed Contributions Act [SECA] payroll tax, as is the case now.

- **Transparency.** Restructures the current Agency for Healthcare Research and Quality [AHRQ] and removes it from the Department of Health and Human Services. Renames it the Healthcare Services Commission [HSC] governed along the same lines as the Securities and Exchange Commission, and managed by five commissioners chosen from the private sector, appointed by the President, and approved by the Senate.

  - *Purpose.* The purpose of the HSC is to enhance the quality, appropriateness, and effectiveness of health care services through the publication and enforcement of quality and price information.

  - *Standard-Setting Group.* Similar to the Financial Accounting Standards Board [FASB] role in establishing accounting principles, the bureau will have a standard-setting body – a Forum for Quality and Effectiveness in Health Care – consisting entirely of private-sector representation, with the authority to establish and promulgate metrics to report price and

quality data. The forum members will represent views from medical providers, insurers, researchers, and consumers, and will serve independently of any other employment. The forum will publish, for public comment, a preliminary analysis on standards for reporting price, quality, and effectiveness of health care services. After the comment period, the group will publish a final report containing guidelines for regulating the publication and dissemination of health care information. The HSC is authorized to enforce these standards.

TITLE IV: SOCIAL SECURITY REFORM

- **Creation of Personal Accounts.** Beginning in 2011, provides workers under 55 the option of dedicating portions of their FICA payroll taxes toward personal accounts, or remaining in the current Social Security system. Automatically enrolls these workers in personal accounts, but provides the option to withdraw. Those who opt out have one opportunity to re-enter the system. Those who originally decide to enter the system will have one opportunity to withdraw.

- **Account Phase-In.** Gradually phases in accounts equivalent to 5.1 percent of the current 12.4-percent payroll tax over a 30-year period. Allows lower-income workers to contribute a higher percentage of their payroll taxes than high-income workers. Phase-in proceeds in four periods, as follows:

  - *First-Stage Initial Phase-In.* For the first 10 years of the program, workers are allowed to invest 2 percent of their first $10,000 of annual payroll into personal accounts, and 1 percent of annual payroll above that up to the Social Security taxable maximum amount of $115,500. The $10,000 level is indexed to inflation. Taxable payroll also is indexed for inflation, as under current law.

  - *Second-Stage Phase-In.* Beginning in 2021, workers are allowed to invest up to 4 percent of payroll of the first $10,000 (indexed to inflation), and 2 percent of payroll above that up to the Social Security taxable maximum amount (indexed to inflation).

  - *Third-Stage Phase-In.* Beginning in 2031, workers are allowed to invest up to 6 percent of payroll of the first $10,000 (indexed to inflation), and 3 percent of payroll up to the Social Security taxable maximum amount (indexed to inflation).

  - *Fourth-Stage Phase-In*. Beginning in 2041, workers are allowed to invest up to 8 percent of payroll of the first $10,000 (indexed to inflation), and 4 percent of payroll up to the Social Security taxable maximum amount (indexed to inflation).

- **Personal Accounts Deposits.** Deposits each personal account contribution into a Social Security Savings Fund, bearing the individual's name. Converts individual accounts into annuities upon retirement.

- **Guaranteed Minimum Benefit.** Guarantees that those who select personal accounts the minimum benefits they would receive if they stayed in the current system, subject to the changes made to the current system. Should an individual's account be too small to provide an annual annuity equal to this minimum level, the Social Security Trust Fund would make up the difference.

- **Property Right.** Provides that each account is the *property* of the individual, allowing holders to pass on accumulated wealth to descendants.

- **No Change for Those Over 55.** Retains the current system for those currently over 55, with no changes.

- **No Change for Survivors and the Disabled.** Retains current survivor and disability benefits as under the current system, without change.

- **Increased Minimum Benefits for Low-Income Individuals.** Provides that all individuals choosing personal accounts receive annuity payments of at least 150 percent of the poverty level. Increases to at least 120 percent of the poverty level the benefits for low-income individuals who choose to remain in the current system and meet certain working requirements.

- **Social Security Personal Savings Account Board.** Creates a Board to administer the Savings Fund into which contributions to the personal accounts are deposited. Makes the Board responsible for paying administrative expenses and regulating investment options offered by nongovernment firms. Provides that the Board consist of five members – required to have substantial experience, training, and expertise in the management of financial investments and pension benefit plans – appointed by the President, two of whom are appointed after consideration of the recommendations by the House and Senate. Establishes 4-year terms for Board members.

- **Three-Tier Structure.** Structures individual accounts in three tiers, with investment options similar to the Thrift Savings Plan [TSP].

  - *Tier One*. Originally, the Board would invest the contributions in regulated, low-risk instruments until the personal account reached a low threshold.

  - *Tier Two.* Once this threshold is reached, individuals are automatically enrolled into a "life cycle" fund that adjusts for risk and automatically invests the portfolio in a blend of equities and bonds appropriate for the individual's age. An individual could remain in the "life cycle" fund or choose from five different options that are the same as offered under the TSP: 1) a Government Securities Investment Account; 2) a Fixed Income Investment Account; 3) a Common Stock Investment Account; 4) a Small Capitalization Stock Index Investment Account; and 5) an International Stock Index Investment Account.

- *Tier Three.* Once an account accumulated over $25,000 in inflation-adjusted dollars, an individual could choose an option provided by a non-government firm certified by the Board. The Board certifies only those firms meeting a set of standards. These nongovernment funds also are subject to regulation by the Board to ensure their safety and soundness.

- **Purchase of Annuity.** Provides that, when an individual either reaches the normal retirement age or decides to retire early, the individual will purchase an annuity to provide monthly payments equivalent to at least 150 percent of poverty. An individual may purchase a larger annuity if they choose. As described above, if the individual's personal account is inadequate to purchase an annuity that would provide a monthly payment as large as would be received under the traditional system, the government will make up the difference. If an individual has excess money in their account, they may receive it in a lump sum payment and use it as they choose.

- **Early Retirement for Personal Account Participants.** Allows an individual to retire and begin receiving an annuity at any time that their personal account has accumulated enough funds to purchase an annuity equivalent to at least 150 percent of poverty.

- **Annuity Purchase and Regulation.** Establishes within the Office of the Board, an Annuity Issuance Authority [AIA], which will provide annuity options to be purchased by retiring individuals.

- **Provision for Early Death.** Provides that, if an individual dies before their full annuity has been paid, the amount of funds left over in their annuity or personal account will be made available to their designated beneficiaries or estate.

- **No Taxation of Personal Account Benefits.** No tax will be paid on the receipt of Social Security benefits generated from personal account payments either as a part of an individual's Federal income tax or estate tax.

- **Progressive Price Indexing.** *Excluding those now over 55*, employs, starting in 2016, a mix of wage indexing and "progressive price indexing" for calculating initial Social Security benefits under the traditional system, with adjustments for income levels as follows:

  - *Low-Income.* Individuals who make less than a certain threshold level (approximately $25,000 per year in 2016) will continue to receive initial benefits based on wage indexing. Threshold will be indexed for inflation.

  - *Middle-Income.* Individuals who make between the minimum threshold and the maximum taxable amount (approximately $25,000 and $113,000 in 2016) will have initial benefits adjusted upward by a combination of wage and price indexing that becomes more oriented toward price indexing as they move up the income scale. For example, an individual whose income is half way between $25,000 and $113,000 (in 2016 dollars) will have his initial benefit adjusted upward approximately

50 percent by wage indexing and 50 percent by price indexing. These amounts will also be adjusted for inflation.

- *Upper-Income.* Individuals who make more than the taxable maximum amount (approximately $113,000 in 2016) will have initial benefits adjusted upward by price indexing, also adjusted for inflation.

- *No Effect on COLAs.* The proposal does not affect the cost-of-living adjustment [COLA] that Social Security beneficiaries receive each year once they have already begun receiving benefits. Further, it does not affect any individuals over 55, as it is not applied to Social Security beneficiaries until 2016.

- **Acceleration of Ongoing Retirement Age Increase.** Advances by 1 year the current retirement age adjustment, which, under current law, gradually rises to 67 years of age for those who reach that age in 2027.

- **Modernizes the Retirement Age.** After the normal retirement age of 67 is reached in 2026, indexes further adjustments in the retirement age in accordance with the Social Security Administration's projected life expectancy, which is expected to gradually increase the normal retirement age by 1 month every 2 years. At this rate, the normal retirement age would remain below 70 years until 2098. Does not affect the ability of an individual to retire early if he or she elects to retire early and has accumulated enough wealth to retire early.

TITLE V: SIMPLIFIED INCOME TAX

- **Revenue Projections.** In combination with Title VI below, holds total Federal revenue to an average of 18.5 percent of GDP for the foreseeable future.

- **Offers Individual Taxpayers a Choice.** Provides individuals the choice of paying income taxes in either of two ways: 1) under a new Simplified Tax, or 2) under the existing tax code.

  - *Current Code Taxpayers*. Those choosing the current code will pay their income taxes with existing tax forms ,the current set of exemptions, exclusions, deductions, and credits; but the alternative minimum tax [AMT] is eliminated.

  - *Individuals Choosing Simplified Tax.* The new, Simplified Tax broadens the tax base by clearing out nearly all of the existing tax deductions and credits, compresses the tax schedule down to two low rates and retains a generous standard deduction and personal exemption.

- **AMT Repeal.** Eliminates the AMT entirely and permanently.

- **Selection of Simplified Individual Income Tax.** Applies the following rules for choice of individual income tax:

- *Initial Election.* The election must be made within 10 years from the time that the simplified tax is established. Individuals are not allowed to switch between tax systems on a year-by-year basis.

- *Changeover Options.* After the initial choice is made, however, individuals are allowed *one* additional changeover between the two tax systems over the course of a lifetime. Individuals are also allowed to change tax systems when a major life event (death, divorce, marriage) alters their tax filing status.

Applies the Simplified Tax solely to Federal individual income taxes. Does not affect other Federal individual taxes, such as payroll taxes and excise taxes.

- **Two-Rate Tax Schedule.** Creates the following Simplified Tax rates:

  - *Ten-Percent Rate.* A rate of 10 percent applies to adjusted gross income [AGI] (defined below) up to $100,000 for joint filers, and $50,000 for single filers.

  - *Twenty-Five Percent Rate.* A rate of 25 percent applies to taxable income above $100,000 for joint filers and $50,000 for single filers. (See Table for a comparison with current tax brackets.)

Table A1-1: Tax Rate Comparison - Single Filers

Current Tax Code		Simplified Tax	
Marginal Rate	Taxable Income	Marginal Rate	Taxable Income
10 percent	$0-$7,825	10 percent	$0-$50,000
15 percent	$7,825-$31,850		
25 percent	$31,850-$77,100	25 percent	$50,000 and over
28 percent	$77,100-$160,850		
33 percent	$160,850-$349,700		
35 percent	$349,700 and over		

Table A1-2: Tax Rate Comparison - Joint Filers

Current Tax Code		Simplified Tax	
Marginal Rate	Taxable Income	Marginal Rate	Taxable Income
10 percent	$0-$15,650	10 percent	$0-$100,000
15 percent	$15,650-$63,700		
25 percent	$63,700-$128,500	25 percent	$100,000 and over
28 percent	$128,500-$195,850		
33 percent	$195,850-$349,700		
35 percent	$349,700 and over		

- **Adjusted Gross Income, Standard Deductions, and Personal Exemptions.** Defines taxable income as equal to earnings minus a standard deduction and personal exemption. The standard deduction is $25,000 for joint tax filers, $12,500 for single filers. The personal exemption is $3,500. The combination is equivalent to a $39,000 exemption for a family of four.

- **Returns to Savings Tax Exempt.** Contains no tax on interest, capital gains or dividends.

- **Broader Tax Base.** Eliminates, in the Simplified Tax, virtually all of the credits and deductions in the existing tax code, but retains a generous standard deduction amount while lowering tax rates. Retains health care tax credit described above.

TITLE VI: BUSINESS CONSUMPTION TAX

- **Business Consumption Tax.** Eliminates the current corporate income tax and replaces it with the Business Consumption Tax of 8.5 percent on goods and services. BCT calculated using "credit invoice method."

    - Businesses apply the BCT to the sales of their products or services, and then claim a credit for the BCT paid on purchases of material costs from other businesses shown on purchase invoices.

    - The difference between the BCT collected on sales and credit for the BCT paid on input purchases is then paid to the Federal Government. The system provides a clear audit trail of the business tax because the amount is clearly stated on sales and purchase receipts.

- **Treatment of Investments.** Allows immediate expensing of investments.

- **Border-Adjustability.** Does not impose BCT on exports leaving the U.S., but instead imposes it on imports when arriving in the U.S.

TITLE VII: BUDGET ENFORCEMENT

- **Cap on Total Government Spending.** Establishes a binding cap on total spending as a percentage of GDP at the spending levels projected to result from this legislation.

- **Annual Long-Term Projections.** Requires that, every year, the Office of Management and Budget [OMB] and the Congressional Budget Office project Federal Government spending levels and compare those levels to the government spending limits.

- **Excess Spending.** Creates a mechanism to automatically slow the growth in faster-spending entitlement programs, applied every 5 years, if spending is projected to exceed the established limits, and Congress has failed to address the

problem during the previous 5 years. Under the mechanism, requires OMB to make across-the-board spending reductions in both mandatory and discretionary programs by a percentage calculated to bring spending under the cap, but applies the reduction only to fast-growing programs, and is limited to no more than 1 percent of a program's spending.

- **Congressional Grace Period.** Provides that, after the spending reduction is ordered, it does not go into effect until the next fiscal year, affording the Congress time to act to correct the problem before the automatic spending reductions go into effect.

- **Suspension in Times of Low-Growth or War.** Provides that spending reductions would not be required if the nation is at war or suffering an economic downturn.

- **Supermajority Requirement for Tax Increase.** Requires a three-fifths vote in the House and Senate to raise Federal revenue above 18.5 percent of GDP.

APPENDIX II
SUMMARY OF ESTIMATES

ANALYTICAL CONSULTATION

The proposal, *A Roadmap for America's Future*, was prepared using analysis by the Republican Staff of the Committee on the Budget, U.S. House of Representatives.

Currently, there is no single governmental entity capable of providing comprehensive analysis of a plan of this scope and nature. The Congressional Budget Office [CBO], for instance, provides analysis to the Committee on the Budget on spending bills, but does not currently have the capacity to score a proposal as far-reaching as this one. Similarly, the Social Security and Medicare actuaries provide estimates of their programs, but it is not their mission to provide estimates outside their areas of expertise.

As a result, the Republican Staff of the Committee on the Budget has spent more than a year consulting with the experts in their respective fields to develop credible analysis and estimates for this proposal. In general, the committee staff described in detail the workings of the plan with the respective experts and derived estimates based upon extensive consultation. The government agencies consulted in preparing this analysis are the CBO, the Centers for Medicare and Medicaid Services, the Social Security Administration, and the Department of the Treasury.

These estimates and the interactions that necessarily exist among the proposals were then further analyzed by committee staff to ensure accuracy. Projections were made using current conventions and scoring – that is, without attempting to incorporate various macroeconomic "feedback" effects that are known to exist but are difficult to quantify reliably. Again, the current government methodology for scoring these types of proposals relies on "static" analysis, which does not capture such positive feedback effects.

ANALYTICAL METHODOLOGY

The proposal started with CBO's long-term budget projections – published in *The Long-Term Budget Outlook* in December, 2007 – and used CBO's "Alternative Fiscal Scenario" for a comparison of what occurs under current budget policies. CBO describes this scenario in the report as "one interpretation of what it would mean to continue today's underlying fiscal policy." CBO explains: "This scenario deviates from CBO's baseline even during the next 10 years because it incorporates some changes in policy that are widely expected to occur and that policymakers have regularly made in the past."

A Roadmap for America's Future overlays its spending and revenue assumptions on top of CBO's Alternative Fiscal Scenario to estimate primary spending, interest, deficits or surpluses, and debt held by the public over the next 75 years. These estimates are all made as percentages of gross domestic product [GDP].

ASSUMPTIONS

Although more detailed programmatic assumptions may be found elsewhere in this report, the following general assumptions are used in deriving estimates used by *A Roadmap for America's Future*.

- The economic assumptions used in this analysis are from CBO's long-term projections.
- "Other spending" is estimated to grow above CPI, but is not estimated to grow as a fixed percent of GDP.
- Medicaid spending is estimated to grow at a rate equal to a blended medical inflation rate with an upward adjustment that is equivalent to the growth in the population. It is not estimated to grow as a fixed percent of GDP.
- Interest and debt estimates are derived using a 100 year debt matrix calculator provided by CBO and measured from an Alternative Fiscal Scenario that held revenue constant in all years.

Table A2-1: Summary of Estimates for A Roadmap for America's Future
(in percentages of gross domestic product)

	Outlays							Revenue	Deficit (-) Surplus (+)
Calendar Year	Social Security	Medicare	Medicaid	Other Non-Interest	Interest	Total	Primary Spending	Total	Total
2007	4.3%	2.7%	1.4%	9.8%	1.7%	19.9%	18.2%	18.7%	-1.2%
2008	4.3%	2.8%	1.5%	9.8%	1.7%	20.1%	18.4%	17.8%	-2.3%
2009	4.3%	3.3%	1.5%	9.1%	1.7%	19.9%	18.2%	18.3%	-1.6%
2010	4.3%	3.4%	1.5%	8.9%	1.7%	19.8%	18.1%	18.3%	-1.5%
2011	4.4%	3.5%	1.5%	9.1%	1.7%	20.0%	18.4%	18.5%	-1.5%
2012	4.5%	3.6%	1.4%	8.9%	1.6%	20.1%	18.5%	18.5%	-1.6%
2013	4.6%	3.7%	1.4%	8.8%	1.7%	20.2%	18.5%	18.5%	-1.7%
2014	4.6%	3.8%	1.4%	8.7%	1.6%	20.1%	18.5%	18.5%	-1.6%
2015	4.6%	3.8%	1.4%	8.6%	1.7%	20.1%	18.4%	18.5%	-1.6%
2016	4.7%	3.9%	1.4%	8.5%	1.7%	20.2%	18.5%	18.5%	-1.7%
2017	4.8%	4.1%	1.4%	8.4%	1.7%	20.3%	18.6%	18.5%	-1.8%
2018	5.0%	4.1%	1.4%	8.2%	1.7%	20.4%	18.7%	18.5%	-1.9%
2019	5.0%	4.4%	1.3%	8.1%	1.7%	20.5%	18.8%	18.5%	-2.0%
2020	5.1%	4.5%	1.3%	8.0%	1.7%	20.7%	19.0%	18.5%	-2.2%
2021	5.7%	4.7%	1.3%	7.9%	1.8%	21.5%	19.7%	18.5%	-3.0%
2022	5.8%	4.7%	1.3%	7.8%	2.0%	21.7%	19.7%	18.5%	-3.2%
2023	6.0%	4.9%	1.3%	7.8%	2.1%	22.0%	20.0%	18.5%	-3.5%

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Table A2-1: Summary of Estimates for A Roadmap for America's Future (continued)

2024	6.1%	5.1%	1.3%	7.7%	2.2%	22.3%	20.2%	18.5%	-3.8%
2025	6.2%	5.1%	1.3%	7.7%	2.2%	22.5%	20.3%	18.5%	-4.0%
2026	6.3%	4.9%	1.3%	7.6%	2.3%	22.3%	20.1%	18.5%	-3.8%
2027	6.4%	5.0%	1.3%	7.6%	2.4%	22.6%	20.3%	18.5%	-4.1%
2028	6.4%	5.1%	1.3%	7.5%	2.6%	22.9%	20.3%	18.5%	-4.4%
2029	6.4%	5.2%	1.3%	7.4%	2.8%	23.1%	20.3%	18.5%	-4.6%
2030	6.5%	5.3%	1.3%	7.3%	2.9%	23.2%	20.3%	18.5%	-4.7%
2031	7.1%	5.3%	1.3%	7.2%	3.0%	23.9%	20.9%	18.5%	-5.4%
2032	7.1%	5.4%	1.3%	7.1%	3.0%	23.9%	20.9%	18.5%	-5.4%
2033	7.1%	5.4%	1.3%	7.1%	3.2%	23.9%	20.8%	18.5%	-5.4%
2034	7.0%	5.4%	1.3%	7.0%	3.2%	23.9%	20.7%	18.5%	-5.4%
2035	7.1%	5.4%	1.3%	6.9%	3.3%	24.0%	20.7%	18.5%	-5.5%
2036	7.0%	5.5%	1.2%	6.9%	3.6%	24.2%	20.6%	18.5%	-5.7%
2037	7.0%	5.4%	1.2%	6.8%	3.8%	24.2%	20.4%	18.5%	-5.7%
2038	6.9%	5.4%	1.2%	6.7%	3.9%	24.3%	20.3%	18.5%	-5.8%
2039	6.9%	5.4%	1.2%	6.7%	4.0%	24.1%	20.1%	18.5%	-5.6%
2040	6.8%	5.4%	1.2%	6.6%	4.1%	24.1%	20.0%	18.5%	-5.6%
2041	7.4%	5.3%	1.2%	6.6%	4.3%	24.7%	20.5%	18.5%	-6.2%
2042	7.2%	5.3%	1.2%	6.5%	4.3%	24.5%	20.2%	18.5%	-6.0%
2043	7.2%	5.2%	1.2%	6.4%	4.5%	24.5%	20.0%	18.5%	-6.0%
2044	7.1%	5.2%	1.2%	6.4%	4.6%	24.4%	19.9%	18.5%	-5.9%
2045	7.0%	5.1%	1.2%	6.3%	4.6%	24.3%	19.6%	18.5%	-5.8%
2046	6.8%	5.1%	1.2%	6.3%	4.8%	24.2%	19.4%	18.5%	-5.7%
2047	6.8%	5.1%	1.2%	6.2%	4.9%	24.2%	19.4%	18.5%	-5.7%
2048	6.6%	5.1%	1.2%	6.2%	4.9%	24.0%	19.1%	18.5%	-5.5%
2049	6.5%	5.1%	1.2%	6.1%	5.1%	24.0%	18.9%	18.5%	-5.5%
2050	6.4%	5.1%	1.2%	6.1%	5.3%	24.0%	18.7%	18.5%	-5.5%
2051	6.3%	5.0%	1.2%	6.0%	5.3%	23.8%	18.5%	18.5%	-5.3%
2052	6.2%	5.0%	1.2%	6.0%	5.3%	23.6%	18.4%	18.5%	-5.1%
2053	6.1%	5.0%	1.2%	5.9%	5.2%	23.4%	18.2%	18.5%	-4.9%
2054	5.9%	5.0%	1.2%	5.9%	5.3%	23.3%	18.0%	18.5%	-4.8%
2055	5.8%	5.0%	1.1%	5.8%	5.4%	23.2%	17.8%	18.5%	-4.7%
2056	5.7%	5.0%	1.1%	5.8%	5.4%	23.0%	17.6%	18.5%	-4.5%
2057	5.5%	5.0%	1.1%	5.8%	5.5%	22.9%	17.4%	18.5%	4.4%
2058	5.4%	5.0%	1.1%	5.7%	5.5%	22.7%	17.2%	18.5%	-4.2%
2059	5.3%	5.0%	1.1%	5.7%	5.6%	22.7%	17.1%	18.5%	-4.2%

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Table A2-1: Summary of Estimates for A Roadmap for America's Future (continued)

2060	5.2%	5.0%	1.1%	5.6%	5.5%	22.4%	16.9%	18.5%	-3.9%
2061	5.0%	5.0%	1.1%	5.6%	5.5%	22.2%	16.7%	18.5%	-3.7%
2062	4.9%	5.0%	1.1%	5.5%	5.4%	22.0%	16.6%	18.5%	-3.5%
2063	4.7%	5.0%	1.1%	5.5%	5.4%	21.8%	16.4%	18.5%	-3.3%
2064	4.6%	5.0%	1.1%	5.5%	5.5%	21.7%	16.2%	18.5%	-3.2%
2065	4.4%	5.0%	1.1%	5.4%	5.6%	21.5%	15.9%	18.5%	-3.0%
2066	4.4%	5.0%	1.1%	5.3%	5.5%	21.2%	15.7%	18.5%	-2.7%
2067	4.3%	5.0%	1.1%	5.1%	5.3%	20.8%	15.5%	18.5%	-2.3%
2068	4.4%	5.0%	1.1%	5.0%	5.1%	20.5%	15.5%	18.5%	-2.0%
2069	4.4%	5.0%	1.1%	4.8%	4.9%	20.1%	15.3%	18.5%	-1.6%
2070	4.3%	5.0%	1.1%	4.7%	4.9%	19.9%	15.0%	18.5%	-1.4%
2071	4.3%	4.9%	1.1%	4.5%	4.8%	19.7%	14.8%	18.5%	-1.2%
2072	4.3%	5.0%	1.1%	4.4%	4.9%	19.6%	14.7%	18.5%	-1.1%
2073	4.3%	5.0%	1.0%	4.2%	4.9%	19.4%	14.5%	18.5%	-0.9%
2074	4.3%	4.9%	1.0%	4.1%	4.8%	19.2%	14.4%	18.5%	-0.7%
2075	4.2%	5.0%	1.0%	4.0%	4.7%	18.9%	14.2%	18.5%	-0.4%
2076	4.2%	4.9%	1.0%	3.8%	4.5%	18.5%	14.0%	18.5%	0.0%
2077	4.1%	4.9%	1.0%	3.7%	4.3%	18.0%	13.8%	18.5%	0.5%
2078	4.2%	4.9%	1.0%	3.6%	3.8%	17.5%	13.7%	18.5%	1.0%
2079	4.2%	4.9%	1.0%	3.4%	3.7%	17.3%	13.5%	18.5%	1.2%
2080	4.1%	5.0%	1.0%	3.3%	3.5%	16.9%	13.4%	18.5%	1.6%
2081	4.1%	5.0%	1.0%	3.2%	3.2%	16.5%	13.3%	18.5%	2.0%
2082	4.1%	5.0%	1.0%	3.1%	2.9%	16.0%	13.1%	18.5%	2.5%

Source: Committee on the Budget, U.S. House of Representatives, based on consultation with the Congressional Budget Office, the Centers for Medicare and Medicaid Services, the Social Security Administration, and the Department of the Treasury.

CONCLUSIONS

In modeling and analyzing the *Roadmap* proposal, CBO found that it was fiscally sustainable and economically beneficial. CBO's account, delivered to the Ranking Member of the Committee on the Budget on 19 May 2008, included the following statement: "The target path provided by the committee staff would be economically sustainable. . . . The economy would be considerably stronger under the target path than it would be under the Alternative Fiscal Scenario. By 2060 (the last year for which it is possible to simulate the effects of the alternative fiscal policy using the textbook growth model), real GNP per person under the target path would be about 85 percent higher than that under the Alternative Fiscal Scenario." (Letter from CBO Director Peter R. Orszag to Congressman Ryan, 19 May 2008)

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