D. COMPREHENSIVE BENEFIT REFORMS

38. Revise the Consumer Price Index to measure inflation more accurately for use in benefit and income tax calculations

CURRENT LAW

Social Security, civil and military retirement, veterans compensation, and several aspects of the Federal income tax system (*e.g.*, tax rate brackets, the standard deduction, and personal exemptions) are adjusted annually based on annual increases in the Consumer Price Index (CPI). Although the CPI is not a cost-of-living index, it is used as a measure of the rise in the cost of living for these programs.

The CPI is a weighted average of goods and services (the market basket) purchased by a representative urban worker. The market basket includes components such as housing, food, medical, transportation, and other goods and services. Goods and services included in the market basket, as well as relative shares for each component, are determined by a consumer survey and are adjusted every 10 years. The market basket was last revised in 1987 using data for the period 1982 to 1984.

OPTION

This option would require the Bureau of Labor Statistics (BLS) to modify the CPI in several ways to better reflect changes in the cost of living. If the changes are not implemented by December 31, 1998, cost-of-living adjustments would be limited to the CPI minus 0.5 percentage points until the adjustments are complete.

The option is designed to address two reasons why the CPI is believed to overstate the cost of living. First, the market basket on which the CPI is based is updated once every 10 years. As a result, the CPI does not capture dynamic annual changes in the pattern of consumer preferences. For example, the CPI does not capture the substitution of cheaper products for more expensive brand-name products, and the substitution of discount purchasing locations for more costly alternatives. This is believed to overstate increases in the rate of inflation as measured by the current CPI. The option would require annual adjustments to the market basket and sources of price information.

Second, the CPI may not adequately measure the consumer benefit derived from improvements in the quality of existing goods or from the introduction of new goods. The option would require the BLS to implement techniques to evaluate more accurately the impact of changes in product quality and the introduction of new products. The development of more advanced techniques may require more budgetary resources for the BLS. The BLS has taken the lead in increasing awareness of the possible overstatement of inflation in the CPI. In fact, the Bureau is about to implement some changes in January 1995 that may reduce the degree of bias and are scheduled to unveil more in-depth changes in January 1998.

EFFECT

The outlay effects increase over time as the impact of a lower CPI compounds. The revenue effects increase over time as the impact of smaller increases in the tax brackets, standard deduction, and exemptions compound. Outlay projections do not include savings from application of the revised CPI to the SSI program or savings resulting from application of the revised CPI to discretionary programs. This option would improve the actuarial balance of the Social Security Trust Funds by 0.70 percent, compared with an overall imbalance of 2.13 percent over the 75-year valuation period.

Percentage of Gross Domestic Product

	2000	2010	2020	2030
Outlay savings				
Social Security	0.06%	0.19%	0.30%	0.38%
Medicare	Outlay estimates are not available for Medicare.			
Other	0.02%	0.06%	0.07%	0.08%
Total*	0.08%	0.25%	0.38%	0.45%
Revenue increase	0.06%	0.28%	0.53%	0.80%

* Percentages may not sum to total due to rounding.

39. Suspend indexing of entitlement outlays and individual income tax revenues for one year

CURRENT LAW

Social Security, civil and military retirement, veterans compensation, and several aspects of the Federal income tax system (*e.g.,* tax rate brackets, the standard deduction, and personal exemptions) are adjusted annually based on increases in the cost of living. The index used to measure the rise in cost of living for these programs is the Consumer Price Index (CPI).

OPTION

This option would suspend entitlement program cost-of-living adjustments and personal income tax indexing for the year. Benefit levels would be permanently reduced for persons receiving benefits in 1998. The savings would decline over time as the affected recipient population drops from the benefit rolls. Revenues would permanently increase from a permanent reduction in tax brackets, the standard deduction, and the personal exemption. This option would improve the overall imbalance of the Social Security Trust Funds by 0.09 percent, compared with an imbalance of 2.13 percent.

EFFECT

Percentage of Gross Domestic Product

	2000	2010	2020	2030
Outlay savings				
Social Security	0.13%	0.06%	0.03%	0.02%
Other	0.04%	0.02%	0.02%	0.01%
Total*	0.16%	0.08%	0.05%	0.03%
Revenue increase	0.13%	0.13%	0.14%	0.14%

* Percentages may not sum to total due to rounding.

40. Means test entitlements only for high-income earners

CURRENT LAW

Under current law, only certain entitlement programs provide benefits based on income levels or wealth of recipients (*i.e.*, only certain entitlements are means tested). They include Supplemental Security Income (SSI), Aid to Families with Dependent Children (AFDC), Food Stamps, Medicaid, and veterans' pensions. Outlays for means-tested programs totalled $162.3 billion in fiscal year 1993. The largest entitlement programs, Social Security and Medicare, do not condition benefits on income or wealth.

Social Security, Medicare, unemployment insurance, veterans service-connected compensation, and Federal government employee pensions are among the non-means-tested entitlements that totalled $599.7 billion in fiscal year 1993.

OPTION

This option would reduce Social Security and Railroad Retirement Tier I, Medicare Part A, Medicare Part B, unemployment compensation, and veterans' compensation benefits going to individuals with income above $100,000 phased in over a $10,000 income range. At $110,000 of income, all benefits would be eliminated. Reduced benefits for couples would be phased in over a $10,000 income range beginning at $120,000. It does not subject Federal civilian and military pensions to the means test. The option is phased in over five years starting in 2000.

EFFECT

The option would improve the actuarial imbalance of the Social Security Trust Funds by 0.32 percent compared with an overall imbalance of 2.13 percent.

Percentage of Gross Domestic Product

	2000	2010	2020	2030
Outlay savings				
Social Security	0.02%	0.09%	0.12%	0.15%
Medicare	*	0.09%	0.14%	0.19%
Other	0.00%	0.00%	0.00%	0.00%
Total*	0.03%	0.18%	0.25%	0.34%

*Percentages may not sum to total due to rounding.

41. Means test entitlements using a framework similar to the Concord Coalition approach

CURRENT LAW

Under current law, only certain entitlement programs provide benefits based on income levels or wealth of recipients (*i.e.*, only certain entitlements are means tested). They include Supplemental Security Income (SSI), Aid to Families with Dependent Children (AFDC), Food Stamps, Medicaid, and veterans' pensions. Outlays for means-tested programs totalled $162.3 billion in fiscal year 1993.

Social Security, Medicare, unemployment insurance, veterans' service-connected compensation and Federal government employee pensions are among the non-means-tested entitlements that totalled $599.7 billion in fiscal year 1993.

OPTION

This option would reduce Social Security and Railroad Retirement Tier I, Medicare Part A, Medicare Part B, unemployment compensation, and veterans' compensation benefits going to families with incomes above certain limits. It does not subject Federal civilian and military pensions to the means test.

Under this option, the sum of income from government payments, earned income, and unearned income would determine the rate of benefit reduction. The option would gradually reduce benefits for families with incomes over certain thresholds. Under the Concord Coalition plan, the reductions would start at $0.10 for each additional dollar of income between $40,000 and $50,000; rise to $0.20 for each additional dollar of income between $50,000 and $60,000; and increase thereafter up to $0.85 for each additional dollar of income above $120,000. (Income levels specified in 1995 dollars.) For example, a retired couple that has $40,000 of pension and investment income and $20,000 of Social Security benefits would lose $3,000 of their benefits. For a couple earning $100,000, the maximum benefit reduction would be $21,000. The income limits would be the same for married couples, families, and single people. The option would index all dollar values for inflation. In contrast to the Concord Coalition approach, this option would be phased in over five years starting in 2000. (The Concord Coalition proposal phased in the benefit reductions over six years beginning in 1995.) As a result, the income levels at which benefit reductions occur will be higher than those described above to reflect inflation over the 1995 to 2000 period.

EFFECT

This option would improve the actuarial imbalance of the Social Security Trust Funds by 1.36 percent, compared with the overall imbalance of 2.13 percent.

Percentage of Gross Domestic Product

	2000	2010	2020	2030
Outlay savings				
Social Security	0.07%	0.37%	0.49%	0.62%
Medicare	0.04%	0.33%	0.50%	0.71%
Other	0.01%	0.04%	0.03%	0.03%
Total*	0.12%	0.75%	1.03%	1.35%

* Percentages may not sum to total due to rounding.

42. Broaden taxable income to include all entitlement program benefits

CURRENT LAW

Under current law, many cash and in-kind payments (such as Food Stamps, Medicare, and Medicaid) from Federal and State governments are excluded from Federal income taxes. Significant portions of Social Security payments and veterans' compensation and pensions are also exempt from tax. In contrast, unemployment benefits and civil and military pensions are already fully subject to Federal income taxes.

OPTION

This option would broaden the measure of income for Federal taxation to include all entitlement programs. It would not affect taxation of unemployment benefits or civil and military pensions because these programs are already taxable to recipients.

This option would also include 85 percent of Social Security and Railroad Retirement benefits in taxable income. For Medicare Part B, the insurance value of Part B coverage less the premium payments made by enrollees would be included in taxable income. For Medicare Part A coverage, 85 percent of the average insurance value of the coverage would be included in income.

This option would not tax the full value of other entitlement benefits, including Aid to Families with Dependent Children, Supplemental Security Income, veterans' compensation and pensions, the face value of Food Stamps, and the insurance value of Medicaid. This option will be phased in over five years starting in 2000.

EFFECT

This option would improve the actuarial imbalance of the Social Security Trust Funds by 0.42 percent, compared with an overall imbalance of 2.13 percent.

Percentage of Gross Domestic Product

	2000	2010	2020	2030
Outlay savings				
Social Security	0.07%	0.27%	0.23%	0.19%
Medicare	0.06%	0.49%	0.67%	0.84%
Other	0.01%	0.02%	0.02%	0.01%
Total*	0.14%	0.78%	0.91%	1.05%

* Percentages may not sum to total due to rounding.

43. Limit spending for entitlement programs, excluding Social Security, Medicare, Medicaid, and Civil and Military Retirement

CURRENT LAW

The Budget Enforcement Act of 1990 (BEA) established procedures intended to increase control of the Federal budget and the deficit through 1995. The BEA, with some changes, was extended through 1998 in the Omnibus Budget Reconciliation Act of 1993 (OBRA 93).

Pay-As-You-Go (PAYGO) rules under the BEA apply to revenue and most "mandatory" or "direct" spending legislation. Deposit insurance and Social Security, however, are excluded from the PAYGO procedures. In addition, special rules in the House and Senate make it difficult to change Social Security. Most other entitlement programs — such as Medicare, Medicaid, farm price supports, and student loans — are included in PAYGO.

The PAYGO rules of the BEA require that deficit-increasing PAYGO legislation must be offset by other PAYGO legislation. If the sum of all PAYGO legislation (direct spending and taxes) increases the deficit for a fiscal year, automatic across-the-board cuts are made to reduce spending in selected direct spending programs to erase the annual PAYGO deficit. These reductions are called sequesters. Non-legislative changes in "baseline" spending, such as unanticipated increases in Medicare spending and administrative (regulatory) decisions, are not covered by the PAYGO process and do not require offsets.

In connection with OBRA 93, the President and the House also established "entitlement review" procedures providing for target limits on direct spending. The President signed Executive Order No. 12857 on August 4, 1993. The Order requires the President to monitor entitlement spending levels for fiscal years 1994 through 1997 and publish spending "targets" in the President's annual budget submission to the Congress. If actual or projected spending levels exceed the targets during these years, the President must make recommendations for dealing with the excess spending, including recommending no legislative changes (though a recommendation of no changes must be accompanied by an explanation).

The House of Representatives passed H.R. Res. 235 on August 5, 1993, in connection with the entitlement review provisions. H.R. Res. 235 provided an expedited "House Rules" process for the House of Representatives to respond to the President's proposed offsets for excess entitlement spending. Under House Rules, if the House does not enact legislation to eliminate an overage reported by the President, it must take action to increase this spending limit. Failure to increase this limit precludes action on appropriations bills.

Executive Order No. 12858, also signed on August 4, 1993, created a deficit reduction fund to guarantee that the net deficit reduction achieved by OBRA 93 is dedicated exclusively to reducing the deficit.

Total spending on entitlement programs other than Social Security, Medicare, Medicaid, and Federal employee retirement in 1993 was $177 billion, or 2.7 percent of gross domestic product (GDP). The

Congressional Budget Office projects that spending on other entitlements will reach $205 billion in 1999, or 2.4 percent of GDP. This represents a nominal increase of $28 billion in 1993, but adjusting for inflation, it represents a $7 billion decrease.

OPTIONS

(a) Cap all other entitlements. This objective of this option would be to set spending targets for entitlement programs — excluding Social Security, Medicare, Medicaid, and Federal civil and military retirement — that only allow for increases in spending based on changes in the Consumer Price Index (CPI) and U.S. population.

The specific budget process modifications would be: (1) Executive Order No. 12857 and the current House rules provided for in H.R. Res. 235 would be codified; (2) Senate procedures for responding to the President's offset recommendations would be established; (3) Social Security, Medicare, Medicaid, and Civil and Military Retirement would not be included in the spending target; (4) across-the-board prospective sequester procedures would be established; and (5) the entitlement review targets would be extended through the year 2030.

(b) Cut other entitlements by 25 percent in 2000 and cap their growth thereafter. This option would require an unspecified 25 percent reduction in all other entitlements from the 1999 level of spending (*i.e.*, about a $51 billion cut equal to all projected 1999 outlays for the Food Stamp and Aid to Families with Dependent Children (AFDC) programs). This could be met through an across-the-board reduction, or reductions in specific programs (*e.g.*, if welfare programs were used to meet the 25 percent reduction, it would be necessary to terminate the Food Stamp and Aid to Families with Dependent Children programs). Total spending for these programs would then be subject to a cap that allows for changes in the CPI and U.S. population, as in Option (a).

(c) Cut other entitlements by 10 percent in 2000 and cap their growth thereafter. This option would require an unspecified 10 percent reduction in all other entitlements from the 1999 level of spending (*i.e.*, about a $20 billion cut). This could be met through an across-the-board reduction, or reductions in specific programs, as in Option (b).

Programs affected by these options include Supplemental Security Income (SSI), Food Stamps, AFDC, veterans' pensions and compensation, farm price supports, and unemployment compensation.

EFFECT

Percentage of Gross Domestic Product

	2000	2010	2020	2030
a. Outlay savings	0.02%	0.24%	0.38%	0.51%
b. Outlay savings	0.59%	0.76%	0.88%	0.99%
c. Outlay savings	0.25%	0.46%	0.60%	0.73%

44. Process changes to lock in budget savings from entitlement reform

CURRENT LAW

In general, Federal budget policies are enforced under the Congressional Budget and Impoundment Control Act of 1974 and the Gramm-Rudman-Hollings (GRH) Act of 1985. The Budget Enforcement Act of 1990 (BEA) revised these Acts to establish procedures intended to increase control of the Federal budget and the deficit through 1995. The BEA, with some changes, was extended through 1998 in the Omnibus Budget Reconciliation Act of 1993 (OBRA 93).

The BEA procedures depended on two separate disciplines: discretionary spending caps and Pay-As-You-Go (PAYGO) rules. The discretionary spending caps limited the amount of discretionary appropriations that may be enacted each year. For fiscal years 1991 through 1993, separate caps were established in each of three discretionary spending categories: international, defense, and domestic. For fiscal years 1994 and 1995, caps were set for total discretionary spending, without separate spending categories. If these caps were exceeded, automatic across-the-board cuts in appropriations would reduce aggregate spending. The OBRA 93 amendments to the BEA provides for a single discretionary spending cap (like those in fiscal years 1994 and 1995) for each of fiscal years 1996 through 1998.

PAYGO procedures apply to revenue and most "mandatory" or "direct" spending legislation. However, deposit insurance and Social Security are excluded from the PAYGO procedures. In addition, special rules in the House and Senate make it difficult to change Social Security. Most other entitlement programs — such as Medicare, Medicaid, farm price supports, and student loans — are included in PAYGO.

The PAYGO rules of the BEA require that deficit-increasing PAYGO legislation must be offset by other PAYGO legislation. If the sum of all PAYGO legislation (direct spending and taxes) increases the deficit for a fiscal year, automatic across-the-board cuts are made to reduce spending in selected direct spending programs to erase the annual PAYGO deficit. These reductions are called sequesters. Non-legislative changes in "baseline" spending, such as unanticipated increases in Medicare spending and administrative (regulatory) decisions, are not covered by the PAYGO process and do not require offsets.

In connection with OBRA 93, the President and the House also established "entitlement review" procedures providing for target limits on direct spending. The President signed Executive Order No. 12857 on August 4, 1993. The Order requires the President to monitor entitlement spending levels for fiscal years 1994 through 1997 and publish spending "targets" in the President's annual budget submission to the Congress. If actual or projected spending levels exceed the targets during these years, the President must make recommendations for dealing with the excess spending. The President may recommend legislative changes to eliminate all or part of the excess, or recommend no legislative changes (though a recommendation of no changes must be accompanied by an explanation).

47. Eliminate the deduction of State and local income taxes

CURRENT LAW

Under current law, taxpayers who itemize their deductions can deduct State and local income and property taxes from their adjusted gross income (AGI).

OPTIONS

(a) Income taxes. This option would eliminate the deduction of State and local income taxes on non-business income for taxpayers who itemize.

(b) Property taxes. This option would eliminate the deduction of State and local property taxes for taxpayers who itemize.

These options would take effect starting in 2000 and would be phased in over five years.

EFFECT

Percentage of Gross Domestic Product

	2000	2010	2020	2030
a. Revenue increase	0.07%	0.37%	0.37%	0.37%
b. Revenue increase	0.04%	0.21%	0.21%	0.21%