



STAFF REFERENCE
MATERIALS ON
LONG-TERM
REFORM OPTIONS



INTRODUCTION

This document is released as a companion to the Summary Materials.³¹ It is intended as a reference guide to review reform options in greater detail. For each option, the narrative describes —

- Current law;
- The option; and,
- Effect of the option on outlays or revenues.

The options are drawn from Commission member suggestions, as well as government and private sector sources. The list of options is not exhaustive. In general, the reforms included are limited to options within the scope of the Commission's charter. Thus, for example, while the document includes options raising payroll taxes — the principal source of dedicated revenues for the Social Security and Medicare (entitlement programs) — the document does not include general increases in the individual or corporate income taxes.³² Reforms of tax expenditures are included in this package because some Commission members believe that tax expenditures are equivalent to entitlements.³³

The options are generally limited to reforms that would make a significant contribution towards meeting the goals of the Commission's Interim Report, approved on August 8, 1994. Thus, options that would not have a significant effect on balancing entitlement spending and revenues or restoring the long-term solvency of the Social Security and Medicare Trust Funds are not included, even though they may be justified on other policy grounds.

The options are also limited to reforms that operate within the current framework of entitlement programs. In so doing, they test whether the current system can be modified to meet the Interim Report's goals. Although the options do not radically restructure current retirement and health programs, and the tax system, they do represent major changes in existing programs and move in the direction of fundamental reform.

³¹ Bipartisan Commission on Entitlement and Tax Reform: Staff Report on Entitlement Options, Summary Materials, (December 1994).

³² In general, a government program is an entitlement program if a court would find that a public law legally obligates the government to make payments to persons meeting the program's eligibility criteria. Congress has included a series of definitions in the Congressional Budget Act (CBA) (e.g., direct spending) that largely correspond to the general concept of "entitlements."

³³ Tax expenditures, as defined under the CBA, are reductions in individual and corporate income tax liabilities that result from special tax provisions or regulations that provide tax benefits to qualifying individuals. Some Commission members have suggested that tax expenditures are therefore the revenue equivalents of entitlements. Other members believe they are not entitlements.

This document includes an estimate of the outlay or revenue effects of the options measured as a percentage of the economy Gross Domestic Product (GDP) for the years 2000, 2010, 2020, and 2030³⁴. The estimates can be given context by comparing them to the outlay reductions and revenue increases needed to offset projected entitlement growth and keep the deficit from growing (as a percentage of GDP). Those spending reductions and revenue increases would be about 3 percent, 6 percent, and 8.5 percent of GDP for the years 2010, 2020, and 2030, respectively. Spending reductions and revenue increases needed to balance the Federal budget would be greater.

Several of the options have not been scored. These are indicated in the document. This is due either to insufficient data or to the absence of a reliable methodology for making a projection. An asterisk “*” is used to indicate the impact on revenues or spending is less than 0.02 percent of the economy and the dashes “—” are used to indicate the option is not in effect in that year. ★

³⁴ Unlike the Summary Materials, these estimates consist of direct program savings only. The associated interest savings are not included in any of these estimates.