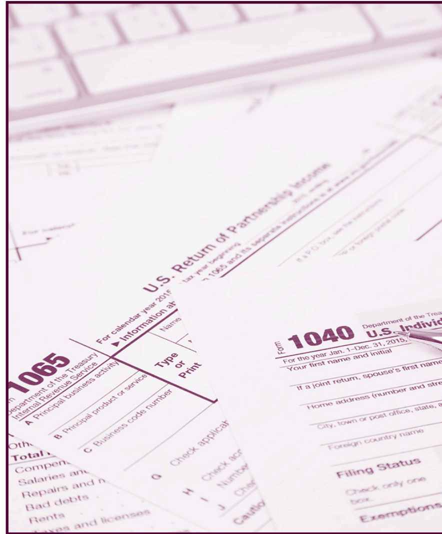
CONGRESS OF THE UNITED STATES
CONGRESSIONAL BUDGET OFFICE

CBO

Options for Reducing the Deficit: 2021 to 2030



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DECEMBER 2020

Notes

The estimates for the options in this report were completed in November 2020. They may differ from any previous or subsequent cost estimates for legislative proposals that resemble the options presented here.

Unless this report indicates otherwise, all years referred to regarding budgetary spending and revenues are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end.

The numbers in the text and tables are in nominal (current-year) dollars. Those numbers may not add up to totals because of rounding. In the tables, for changes in outlays, revenues, and the deficit, negative numbers indicate decreases, and positive numbers indicate increases. Thus, negative numbers for outlays and positive numbers for revenues reduce the deficit, and positive numbers for spending and negative numbers for revenues increase it.

Certain changes in tax provisions would reduce outlays for refundable credits; those effects are incorporated in the increase in revenues.

Some of the tables in this report give values for two related concepts: budget authority and outlays. Budget authority is the authority provided by federal law to incur financial obligations that will result in immediate or future outlays of federal government funds.

The budgetary effects of options are generally calculated relative to the 10-year spending and revenue projections in Congressional Budget Office, *An Update to the Budget Outlook: 2020 to 2030* (September 2020), www.cbo.gov/publication/56517.

As referred to in this report, the Affordable Care Act comprises the Patient Protection and Affordable Care Act, the health care provisions of the Health Care and Education Reconciliation Act of 2010, and the effects of subsequent judicial decisions, statutory changes, and administrative actions.

CBO's website includes a search tool that allows users to filter options by savings amounts, major budget category, budget function, topic, and date (www.cbo.gov/budget-options). The tool includes all of the options that appear in this report. It also includes options that were analyzed in the past and were not updated for this report but that remain informative. In addition, the website includes previous editions of this report (go.usa.gov/xPdC9).

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Chapter 1: Introduction

The Congress faces an array of policy choices as it confronts a daunting budgetary situation. At 14.9 percent of gross domestic product (GDP), the deficit in 2020 was the largest it has been since the end of World War II. Much of that deficit stemmed from the 2020 coronavirus pandemic and the government's actions in response—but the projected deficit was large by historical standards ($1.1 trillion, or 4.9 percent of GDP) even before the disruption caused by the pandemic. In the Congressional Budget Office's projections, deficits as a percent of GDP fall between 2021 and 2027 (from 8.6 percent of GDP to 4.0 percent), and then increase to 5.3 percent of GDP by 2030—more than one-and-a-half times the average over the past 50 years.

CBO projects that if current laws governing taxes and spending generally remained unchanged, federal debt held by the public would first exceed 100 percent of gross domestic product (GDP) in 2021 and would reach 107 percent of GDP, its highest level in the nation's history, by 2023.[1] Debt would continue to increase in most years thereafter, reaching 195 percent of GDP by 2050. High and rising federal debt makes the economy more vulnerable to rising interest rates and, depending on how that debt is financed, rising inflation. The growing debt burden also raises borrowing costs, slowing the growth of the economy and national income, and it increases the risk of a fiscal crisis or a gradual decline in the value of Treasury securities.

To help inform lawmakers as they address budgetary challenges, CBO periodically issues a compendium of policy options and their effects on the federal budget; this is the most recent. The agency also issues separate reports that present policy options in particular areas.

This document provides estimates of the budgetary savings from 83 options that would decrease federal spending or increase federal revenues over the next decade. All of the options appear in the previous edition of this volume, which was published in 2018; however, certain options from that edition are omitted in this report because they have been superseded by subsequent legislation or administrative action.[2] Other options are omitted in order to release this report when it would be most useful to the Congress.

The options in this report originally come from various sources. Some originated in proposed legislation or budget proposals of various Administrations; others come from Congressional offices or from entities in the federal government or the private sector. As a collection, the options are intended to reflect a range of possibilities, not a ranking of priorities or an exhaustive list. Inclusion or exclusion of any particular option does not imply approval or disapproval by CBO, and the report makes no recommendations.

The options cover many areas in the federal budget (see Table 1-1). The budgetary effects identified for the options span the 10 years from 2021 to 2030 (the period covered by the baseline budget projections CBO produced in 2020). This document presents options in the following categories:

- **Mandatory spending** (or direct spending), which includes outlays for some federal benefit programs and for certain other payments to people, businesses, and state and local governments. Such outlays are generally governed by statutory criteria and are not normally constrained by the annual appropriation process.

- **Discretionary spending**, which is controlled by appropriation acts in which policymakers specify how much money will be provided for certain government programs and activities in specific years.

- **Revenues**.

1. For CBO's most recent long-term projection of federal debt, see Congressional Budget Office, *The 2020 Long-Term Budget Outlook* (September 2020), www.cbo.gov/publication/56516.

2. See Congressional Budget Office, *Options for Reducing the Deficit, 2019 to 2028* (December 2018), www.cbo.gov/publication/54667.

This report includes some background information and a description of the policy involved for each option. For additional information, including more detailed background information, a discussion of the basis of the estimates, the largest sources of uncertainty, and arguments for and against the change, see the version of that option in the 2018 volume.

The estimates in this report generally reflect changes in the behavior of individuals, businesses, and other entities. However, they do not incorporate macroeconomic effects—that is, behavioral changes that affect total output in the economy.

Options that would increase an excise tax (or any other indirect tax imposed at an intermediate stage of production and sale) or the employer contribution for payroll taxes would reduce the amount of income subject to income and payroll taxes. The estimates for options in this report that increase indirect taxes or employer contributions for payroll taxes include an offset that accounts for that reduction.[3]

The ways in which specific federal programs, the budget as a whole, and the economy will evolve under current law are uncertain, as are the possible effects of proposed changes to federal spending and revenue policies. CBO's projections, especially its projections of how the economy will evolve, are even more uncertain than usual this year because of the 2020 coronavirus pandemic.

Estimates for options could differ from cost estimates for similar proposals that CBO or the staff of the Joint Committee on Taxation (JCT) might produce later for several reasons. First, the proposals on which those estimates were based might not precisely match the options presented here. Second, the baseline budget projections against which such proposals would be measured might have changed and thus would differ from the projections used for this report. Finally, CBO has not yet developed specific estimates of secondary effects for some options.

Many of the options in this report could be used as building blocks for broader changes. In some cases, however, combining various spending or revenue options would produce budgetary effects that would differ from the sums of those estimates as presented here because some options would overlap or interact in ways that would change their budgetary impact. Furthermore, some options are mutually exclusive.

3. For information on JCT's methodology in estimating income and payroll tax offsets to excise taxes, see Joint Committee on Taxation, *The Income and Payroll Tax Offset to Changes in Excise Tax Revenues*, JCX-59-11 (December 23, 2011), www.jct.gov/publications/2011/jcx-59-11. For information on JCT's methodology in estimating income and payroll tax offsets to payroll taxes, see Joint Committee on Taxation, *The Income and Payroll Tax Offset to Changes in Payroll Tax Revenues, JCX-89-16* (November 18, 2016), www.jct.gov/publications/2016/jcx-89-16/. For JCT's current excise tax offsets, see Joint Committee on Taxation, *Updated Income and Payroll Tax Offsets to Changes in Excise Tax Revenues for 2020–2030*, JCX-20-20 (August 6, 2020), www.jct.gov/publications/2020/jcx-20-20/.

Table 1-1.

Options for Reducing the Deficit

Option	Title	Savings, 2021–2030[a] (Billions of dollars)
	Mandatory Spending	
1	Limit Enrollment in the Department of Agriculture's Conservation Programs	3 to 8
2	Eliminate Title I Agriculture Programs	39
3	Reduce Subsidies in the Crop Insurance Program	29
4	Limit ARC and PLC Payment Acres to 30 Percent of Base Acres	21
5	Raise Fannie Mae's and Freddie Mac's Guarantee Fees and Decrease Their Eligible Loan Limits	10 to 36
6	Eliminate or Reduce the Add-On to Pell Grants, Which Is Funded With Mandatory Spending	29 to 57
7	Limit Forgiveness of Graduate Student Loans	6 to 27
8	Reduce or Eliminate Subsidized Loans for Undergraduate Students	7 to 19
9	Reduce or Eliminate Public Service Loan Forgiveness	12 to 28
10	Remove the Cap on Interest Rates for Student Loans	3 to 5
11	Adopt a Voucher Plan and Slow the Growth of Federal Contributions for the Federal Employees Health Benefits Program	21 to 24[b]
12	Establish Caps on Federal Spending for Medicaid	353 to 959
13	Limit States' Taxes on Health Care Providers	32 to 429
14	Reduce Federal Medicaid Matching Rates	57 to 529
15	Introduce Enrollment Fees Under TRICARE for Life	14
16	Introduce Minimum Out-of-Pocket Requirements Under TRICARE for Life	27
17	Change the Cost-Sharing Rules for Medicare and Restrict Medigap Insurance	33 to 92
18	Increase Premiums for Parts B and D of Medicare	39 to 462
19	Reduce Medicare's Coverage of Bad Debt	21 to 69
20	Require Manufacturers to Pay a Minimum Rebate on Drugs Covered Under Part D of Medicare for Low-Income Beneficiaries	148
21	Consolidate and Reduce Federal Payments for Graduate Medical Education at Teaching Hospitals	34 to 40
22	Eliminate Subsidies for Certain Meals in the National School Lunch, School Breakfast, and Child and Adult Care Food Programs	9
23	Eliminate Supplemental Security Income Benefits for Disabled Children	103[b]
24	Link Initial Social Security Benefits to Average Prices Instead of Average Earnings	69 to 109
25	Make Social Security's Benefit Structure More Progressive	8 to 36
26	Raise the Full Retirement Age for Social Security	72
27	Require Social Security Disability Insurance Applicants to Have Worked More in Recent Years	47
28	Eliminate Eligibility for Starting Social Security Disability Benefits at Age 62 or Later	21
29	End VA's Individual Unemployability Payments to Disabled Veterans at the Full Retirement Age for Social Security	8 to 40
30	Reduce VA's Disability Benefits to Veterans Who Are Older Than the Full Retirement Age for Social Security	25
31	Narrow Eligibility for VA's Disability Compensation by Excluding Veterans With Low Disability Ratings	6 to 38
32	Use an Alternative Measure of Inflation to Index Social Security and Other Mandatory Programs	223

Continued

Table 1-1. Continued

Options for Reducing the Deficit

Option	Title	Savings, 2021–2030[a] (Billions of dollars)
	Discretionary Spending	
1	Reduce the Department of Defense's Budget	317 to 607
2	Reduce DoD's Operation and Maintenance Appropriation (Excluding Funding for the Defense Health Program)	60 to 168
3	Cap Increases in Basic Pay for Military Service Members	19
4	Replace Some Military Personnel With Civilian Employees	14
5	Stop Building Ford Class Aircraft Carriers	3
6	Reduce Funding for Naval Ship Construction to Historical Levels	51
7	Reduce the Size of the Nuclear Triad	10 to 12
8	Cancel the Long-Range Standoff Weapon	11
9	Defer Development of the B-21 Bomber	36
10	Reduce the Size of the Bomber Force by Retiring the B-1B	13
11	Reduce the Size of the Fighter Force by Retiring the F-22	33
12	Reduce the Basic Allowance for Housing to 80 Percent of Average Housing Costs	15[b]
13	Reduce Funding for International Affairs Programs	117
14	Eliminate Funding for Amtrak and the Essential Air Service Program	2 to 20[b]
15	Eliminate Federal Funding for National Community Service	9
16	Eliminate Head Start	95
17	Tighten Eligibility for Pell Grants	4 to 64[b]
18	Reduce the Annual Across-the-Board Adjustment for Federal Civilian Employees' Pay	59
19	Reduce Funding for Certain Grants to State and Local Governments	1 to 40
20	Repeal the Davis-Bacon Act	11[b]

Continued

Table 1-1. Continued

Options for Reducing the Deficit

Option	Title	Savings, 2021–2030[a] (Billions of dollars)
	Revenues	
1	Increase Individual Income Tax Rates	114 to 884
2	Raise the Tax Rates on Long-Term Capital Gains and Qualified Dividends by 2 Percentage Points	75
3	Eliminate or Modify Head-of-Household Filing Status	62 to 158
4	Eliminate Itemized Deductions	1,718
5	Limit the Deduction for Charitable Giving	208 to 232
6	Change the Tax Treatment of Capital Gains From Sales of Inherited Assets	110
7	Eliminate the Tax Exemption for New Qualified Private Activity Bonds	15
8	Expand the Base of the Net Investment Income Tax to Include the Income of Active Participants in S Corporations and Limited Partnerships	210
9	Include Disability Payments From the Department of Veterans Affairs in Taxable Income	113
10	Further Limit Annual Contributions to Retirement Plans	99
11	Tax Social Security and Railroad Retirement Benefits in the Same Way That Distributions From Defined Benefit Pensions Are Taxed	459
12	Eliminate Certain Tax Preferences for Education Expenses	153
13	Lower the Investment Income Limit for the Earned Income Tax Credit and Extend That Limit to the Refundable Portion of the Child Tax Credit	8
14	Require Earned Income Tax Credit and Child Tax Credit Claimants to Have a Social Security Number That Is Valid for Employment	21
15	Increase the Payroll Tax Rate for Medicare Hospital Insurance	878 to 1,736
16	Increase the Payroll Tax Rate for Social Security	712 to 1,406
17	Increase the Maximum Taxable Earnings for the Social Security Payroll Tax	647 to 1,024
18	Expand Social Security Coverage to Include Newly Hired State and Local Government Employees	101
19	Increase the Corporate Income Tax Rate by 1 Percentage Point	99
20	Repeal the “LIFO” Approach to Inventory Identification and the “Lower of Cost or Market” and “Subnormal Goods” Methods of Inventory Valuation	60
21	Require Half of Advertising Expenses to Be Amortized Over 5 or 10 Years	66 to 133
22	Repeal the Low-Income Housing Tax Credit	44
23	Increase All Taxes on Alcoholic Beverages to $16 per Proof Gallon and Index for Inflation	83 to 96
24	Increase Excise Taxes on Tobacco Products	37
25	Increase Excise Taxes on Motor Fuels and Index for Inflation	237 to 512
26	Impose an Excise Tax on Overland Freight Transport	351
27	Impose a 5 Percent Value-Added Tax	1,820 to 2,830
28	Impose a Tax on Emissions of Greenhouse Gases	1,033
29	Impose a Tax on Financial Transactions	752
30	Increase Federal Civilian Employees’ Contributions to the Federal Employees Retirement System	43
31	Increase Appropriations for the Internal Revenue Service’s Enforcement Initiatives	41

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

ARC = Agriculture Risk Coverage; DoD = Department of Defense; LIFO = last in, first out; PLC = Price Loss Coverage; VA = Department of Veterans Affairs.

a. For options affecting primarily mandatory spending or revenues, savings sometimes would derive from changes in both. When that is the case, the savings shown include effects on both mandatory spending and revenues. For options affecting primarily discretionary spending, the savings shown are the decrease in discretionary outlays.

b. Savings do not encompass all budgetary effects.

Chapter 2: Mandatory Spending Options

Mandatory Spending—Option 1 | **Function 300**

Limit Enrollment in the Department of Agriculture's Conservation Programs

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Outlays												
Phase out the Conservation Stewardship Program	0	*	-0.1	-0.2	-0.2	-0.3	-0.5	-0.6	-0.7	-0.8	-0.5	-3.3
Scale back the Conservation Reserve Program	0	0	-0.3	-0.5	-0.7	-0.7	-0.7	-0.7	-0.6	-0.6	-1.6	-5.0
Implement both alternatives	0	*	-0.4	-0.7	-1.0	-1.1	-1.2	-1.2	-1.3	-1.4	-2.1	-8.3

This option would take effect in October 2021.

* = between -$50 million and zero.

Under the Conservation Stewardship Program, owners of working farms and ranches enter into contracts with the Department of Agriculture (USDA) to undertake new, and to maintain existing, conservation measures in exchange for annual payments and technical help. Contracts last five years and can be extended for another five years.

Under the Conservation Reserve Program, owners of working farms and ranches enter into contracts to stop production on specified tracts of land in exchange for annual payments and cost-sharing grants from USDA to establish conservation practices on that land. Acreage may be added to the Conservation Reserve Program through general enrollment (which is competitive and conducted periodically) for larger tracts of eligible land, or through continuous enrollment (which is available during annual sign-up periods announced by USDA) for smaller tracts of eligible land. Contracts last for 10 or 15 years, and landowners can reenroll for an additional term.

This option has two alternatives. The first would prohibit new enrollment in the Conservation Stewardship Program; land currently enrolled would be eligible to continue in the program until the contract for that land expired (up to 10 years if the contract is extended). The second alternative would prohibit new enrollment and reenrollment in the general enrollment portion of the Conservation Reserve Program; continuous enrollment would remain in effect.

RELATED OPTIONS: Mandatory Spending, “Eliminate Title I Agriculture Programs” (page 8), “Reduce Subsidies in the Crop Insurance Program” (page 9), “Limit ARC and PLC Payment Acres to 30 Percent of Base Acres” (page 10)

Mandatory Spending—Option 2 Function 350

Eliminate Title I Agriculture Programs

											Total	
Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021–2025	2021–2030
Change in Outlays	0	0	0	*	-0.7	-8.3	-7.8	-7.7	-7.4	-7.3	-0.7	-39.2

This option would take effect in October 2023.

* = between -$50 million and zero.

Lawmakers enact, and often modify, a variety of programs that support commodity prices, farm income, and agricultural producers' liquidity. The Agriculture Improvement Act of 2018, known as the 2018 farm bill, was the most recent comprehensive legislation addressing farm income and price support programs. Title I of that bill authorized specialized programs for dairy and sugar and programs for producers of other major commodities.

Under this option, Title I programs would not be renewed for the 2024 crop year, when authorizations under the 2018 farm bill expire. (A crop year begins in the month that the crop is harvested and ends 12 months later.) In addition, the permanent agriculture legislation enacted in 1938 and 1949 that provides income and price support (which is normally suspended for the duration of each farm bill) would be suspended or repealed.

RELATED OPTIONS: Mandatory Spending, "Limit Enrollment in the Department of Agriculture's Conservation Programs" (page 7), "Reduce Subsidies in the Crop Insurance Program" (page 9), "Limit ARC and PLC Payment Acres to 30 Percent of Base Acres" (page 10)

Mandatory Spending—Option 3 Function 350

Reduce Subsidies in the Crop Insurance Program

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Outlays												
Reduce premium subsidies	-0.3	-2.2	-2.3	-2.3	-2.3	-2.4	-2.4	-2.4	-2.5	-2.5	-9.4	-21.6
Limit administrative expenses and the rate of return	-0.2	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-3.4	-7.4
Total	-0.5	-3.0	-3.1	-3.1	-3.1	-3.2	-3.2	-3.2	-3.3	-3.3	-12.8	-29.0

This option would take effect in June 2021.

The federal crop insurance program protects farmers from losses caused by natural disasters and low market prices. Farmers can choose various amounts and types of insurance protection. The Department of Agriculture sets premiums for federal crop insurance so that they equal the expected payments to farmers for crop losses. The federal government pays about 60 percent of total premiums, on average, and farmers pay about 40 percent.

Private insurance companies sell and service insurance policies purchased through the program, and the federal government reimburses them for their administrative costs. The current Standard Reinsurance Agreement sets a limit for those administrative expenses (currently roughly $1.5 billion per year) and establishes the terms and conditions under which the federal government provides subsidies and reinsurance on eligible crop insurance contracts sold or reinsured by private insurance companies. Current law targets the rate of return for the private insurance companies at 14.5 percent.

This option would reduce benefits for both farmers and crop insurance companies. The federal government would subsidize 40 percent of crop insurance premiums, on average. The option would also limit the federal reimbursement to crop insurance companies for administrative expenses to an average of 9.25 percent of estimated premiums (or roughly $950 million each year from 2022 through 2030) and target the rate of return on investment for those companies at 12 percent each year.

RELATED OPTIONS: Mandatory Spending, “Limit Enrollment in the Department of Agriculture’s Conservation Programs” (page 7), “Eliminate Title I Agriculture Programs” (page 8), “Limit ARC and PLC Payment Acres to 30 Percent of Base Acres” (page 10)

Mandatory Spending—Option 4 **Function 350**

Limit ARC and PLC Payment Acres to 30 Percent of Base Acres

											Total	
Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021–2025	2021–2030
Change in Outlays	0	0	0	0	0	-4.6	-4.2	-4.1	-3.9	-3.8	0	-20.6

This option would take effect in crop year 2024.

The Agriculture Improvement Act of 2018 (known as the 2018 farm bill) provides support to producers of certain covered commodities through the Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) programs. Eligibility under the ARC and PLC programs is determined by a producer's planting history. Only producers who have established base acres with the Department of Agriculture (USDA) under statutory authority granted by previous farm bills may participate.

The ARC program pays farmers when revenue in a crop year falls short of guaranteed amounts at either the county level (ARC-County, or ARC-CO) or the individual farm level (ARC-Individual Coverage, or ARC-IC). (A crop year begins in the month that the crop is harvested and ends 12 months later.) The PLC program pays farmers when the national average market price for a covered commodity in a given crop year falls below a reference price specified in the law. When a payment is triggered, total payments are calculated by multiplying the payment per acre by a producer's payment acres for that crop. For ARC-CO and PLC, the number of payment acres equals 85 percent of base acres; for ARC-IC, it is 65 percent of base acres.

This option would limit payment acres for ARC-CO and for PLC to 30 percent of base acres and payment acres for ARC-IC to 23 percent of base acres. Under the current programs, producers enter into contracts with USDA that extend through 2023. Therefore, the Congressional Budget Office assumes that the option's new limits on payment acres would take effect in crop year 2024, when the current farm bill expires. Savings would begin in fiscal year 2026, when ARC and PLC payments for crop year 2024 would be made.

RELATED OPTIONS: Mandatory Spending, "Limit Enrollment in the Department of Agriculture's Conservation Programs" (page 7), "Eliminate Title I Agriculture Programs" (page 8), "Reduce Subsidies in the Crop Insurance Program" (page 9)

Mandatory Spending—Option 5 **Function 370**

Raise Fannie Mae's and Freddie Mac's Guarantee Fees and Decrease Their Eligible Loan Limits

											Total	
Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021–2025	2021–2030
Change in Outlays[a]												
Increase guarantee fees	0	-3.8	-4.0	-3.9	-3.7	-3.5	-3.1	-2.8	-2.6	-2.5	-15.5	-30.0
Decrease loan limits	0	-0.3	-0.4	-0.5	-0.7	-1.0	-1.3	-1.6	-1.9	-2.4	-1.9	-10.0
Implement both alternatives[b]	0	-4.0	-4.3	-4.2	-4.1	-4.0	-3.7	-3.7	-3.8	-4.1	-16.5	-35.9

This option would take effect in October 2021.

a. Excludes the potential effects on federal spending for the Federal Housing Administration and the Government National Mortgage Association. Spending for those agencies is set through annual appropriation acts and thus is classified as discretionary, whereas spending for Fannie Mae and Freddie Mac is not determined by appropriation acts and thus is classified by the Congressional Budget Office as mandatory.

b. If both alternatives were enacted together, the total effects would be less than the sum of the effects for each alternative because of interactions between the approaches.

Fannie Mae and Freddie Mac are government-sponsored enterprises (GSEs) that were federally chartered to help ensure a stable supply of financing for residential mortgages. The GSEs carry out that mission in the secondary mortgage market (the market for buying and selling mortgages after they have been issued): They buy mortgages from lenders and pool those mortgages to create mortgage-backed securities (MBSs), which they sell to investors and guarantee (for a fee) against losses from defaults. Under current law, in 2020 Fannie Mae and Freddie Mac generally can purchase mortgages of up to $765,600 in areas with high housing costs and up to $510,400 in other areas; regulators can alter those limits if house prices change, and those limits will be higher in 2021.

In September 2008, the federal government took Fannie Mae and Freddie Mac into conservatorship. As a result, the Congressional Budget Office concluded, the institutions had effectively become governmental entities whose operations should be reflected in the federal budget. By contrast, the Administration considers the GSEs to be nongovernmental entities. CBO projects that under current law, the mortgage guarantees issued by the GSEs will have a budgetary cost—that is, the cost of the guarantees is expected to exceed the fees received by the GSEs.

This option includes two alternatives. In the first alternative, the average guarantee fee that Fannie Mae and Freddie Mac assess on loans they include in their MBSs would increase by 15 basis points (100 basis points equal 1 percentage point) starting in October 2021, when an increase of 10 basis points that was put in place in 2011 is scheduled to expire. (Under current law, CBO projects the average guarantee fee to be about 60 basis points in 2021.) In the second alternative, the size of the mortgages that Fannie Mae and Freddie Mac can include in their MBSs would be reduced, beginning by setting the maximum mortgage in all areas at $510,400 (eliminating the higher limit in high-cost areas) and then reducing that maximum by 5 percent a year until it reaches about $340,000 by 2030.

RELATED CBO PUBLICATIONS: *Effects of Recapitalizing Fannie Mae and Freddie Mac Through Administrative Actions* (August 2020), www.cbo.gov/publication/56496; *Accounting for Fannie Mae and Freddie Mac in the Federal Budget* (September 2018), www.cbo.gov/publication/54475; *Transitioning to Alternative Structures for Housing Finance: An Update* (August 2018), www.cbo.gov/publication/54218; *Modeling the Subsidy Rate for Federal Single-Family Mortgage Insurance Programs* (January 2018), www.cbo.gov/publication/53402; *Transferring Credit Risk on Mortgages Guaranteed by Fannie Mae or Freddie Mac* (December 2017), www.cbo.gov/publication/53380; *The Effects of Increasing Fannie Mae's and Freddie Mac's Capital* (October 2016), www.cbo.gov/publication/52089; *The Federal Role in the Financing of Multifamily Rental Properties* (December 2015), www.cbo.gov/publication/51006

Mandatory Spending—Option 6 **Function 500**

Eliminate or Reduce the Add-On to Pell Grants, Which Is Funded With Mandatory Spending

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Outlays												
Eliminate mandatory add-on funding	-1.4	-5.4	-5.7	-6.0	-6.2	-6.4	-6.5	-6.6	-6.6	-6.6	-24.6	-57.2
Reduce mandatory add-on funding	-0.7	-2.7	-2.9	-3.0	-3.1	-3.2	-3.3	-3.3	-3.3	-3.3	-12.4	-28.9

This option would take effect in July 2021.

The Federal Pell Grant Program is the largest source of federal grant aid to low-income students for undergraduate education. A student's Pell grant eligibility is chiefly determined on the basis of his or her expected family contribution (EFC)—the amount, calculated using a formula established under federal law, that the federal government expects a family to pay toward the student's postsecondary education expenses. Students with an EFC exceeding 90 percent of the maximum grant are ineligible for a grant.

Funding for the Pell grant program has both discretionary and mandatory components. The maximum award funded by the discretionary component is set in each fiscal year's appropriation act. There are two mandatory components. One is funding from the Higher Education Act that is dedicated to supporting the discretionary program. The other mandatory component is known as add-on funding, which under current law increases the maximum award by $1,060.

This option would reduce the maximum award in the Pell grant program. There are two alternatives under the option. One would eliminate the mandatory add-on component of Pell grant funding. The other would reduce the mandatory add-on component by half.

RELATED OPTIONS: Mandatory Spending, "Reduce or Eliminate Subsidized Loans for Undergraduate Students" (page 14); Discretionary Spending, "Tighten Eligibility for Pell Grants" (page 54); Revenues, "Eliminate Certain Tax Preferences for Education Expenses" (page 70)

RELATED CBO PUBLICATIONS: *The Volume and Repayment of Federal Student Loans: 1995 to 2017* (November 2020), www.cbo.gov/publication/56706; *Federal Aid for Postsecondary Students* (June 2018), www.cbo.gov/publication/53736; *Distribution of Federal Support for Students Pursuing Higher Education in 2016* (June 2018), www.cbo.gov/publication/53732; *The Pell Grant Program: Recent Growth and Policy Options* (September 2013), www.cbo.gov/publication/44448

Mandatory Spending—Option 7 Function 500

Limit Forgiveness of Graduate Student Loans

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Savings Estimated Using the Method Established in the Federal Credit Reform Act												
Change in Outlays												
Increase monthly payments under IDR plans	-0.5	-1.1	-1.5	-2.0	-2.4	-2.9	-3.4	-4.0	-4.3	-4.6	-7.4	-26.6
Extend repayment period for IDR plans	-0.3	-0.7	-0.9	-1.1	-1.3	-1.6	-1.9	-2.1	-2.3	-2.4	-4.3	-14.5
Change definition of discretionary income	-0.1	-0.2	-0.4	-0.4	-0.5	-0.6	-0.8	-0.9	-1.0	-1.0	-1.7	-5.9
Savings Estimated Using the Fair-Value Method												
Change in Outlays												
Increase monthly payments under IDR plans	-0.4	-0.9	-1.3	-1.7	-2.1	-2.5	-3.0	-3.4	-3.8	-4.0	-6.4	-23.1
Extend repayment period for IDR plans	-0.2	-0.4	-0.6	-0.7	-0.8	-1.0	-1.2	-1.3	-1.5	-1.5	-2.7	-9.2
Change definition of discretionary income	-0.1	-0.2	-0.3	-0.4	-0.5	-0.6	-0.7	-0.8	-0.9	-0.9	-1.5	-5.3

This option would take effect in July 2021.

By law, the costs of federal student loan programs are measured in the budget according to the method established in the Federal Credit Reform Act. The fair-value method is an alternative approach that more fully accounts for market risk; it is included in this table for informational purposes.

IDR = income-driven repayment.

Federal student loans can be forgiven under certain circumstances. The federal government offers several income-driven repayment (IDR) plans in which monthly payments are calculated each year based on a percentage of a borrower's discretionary income. (Discretionary income is typically defined as adjusted gross income (AGI) above 150 percent of the federal poverty guidelines for a borrower's household.) Under such plans, after the borrower has made payments for a certain period of time, usually 20 years, the outstanding balance of his or her loans is forgiven. IDR plans do not limit the amount that can be forgiven. The Congressional Budget Office expects that the biggest benefits of those plans currently go to people who borrow to attend graduate or professional school.

This option includes three alternatives that would reduce loan forgiveness for new borrowers who take out federal student loans to pay for graduate school. The first alternative would increase the percentage of discretionary income that graduate borrowers in IDR plans pay on loans to 15 percent, up from the current 10 percent in most plans. (The amount those borrowers pay in some IDR plans is capped, so borrowers with sufficiently high income would pay less than 15 percent of their income.) The second alternative would extend the repayment period until loan forgiveness to 25 years for several IDR plans used by borrowers who take out loans to finance graduate school. The third alternative would change the definition of discretionary income to AGI above 125 percent of the federal poverty guidelines.

RELATED OPTION: Mandatory Spending, "Reduce or Eliminate Public Service Loan Forgiveness" (page 15)

RELATED CBO PUBLICATIONS: *The Volume and Repayment of Federal Student Loans: 1995 to 2017* (November 2020), www.cbo.gov/publication/56706; *Income-Driven Repayment Plans for Student Loans: Budgetary Costs and Policy Options* (February 2020), www.cbo.gov/publication/55968

Mandatory Spending—Option 8 **Function 500**

Reduce or Eliminate Subsidized Loans for Undergraduate Students

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Savings Estimated Using the Method Established in the Federal Credit Reform Act												
Change in Outlays												
Restrict access to subsidized loans to students eligible for Pell grants	-0.1	-0.3	-0.4	-0.5	-0.6	-0.8	-0.9	-1.0	-1.1	-1.1	-1.8	-6.7
Eliminate subsidized loans altogether	-0.2	-0.7	-1.1	-1.4	-1.7	-2.2	-2.6	-2.8	-3.0	-3.1	-5.2	-18.9
Savings Estimated Using the Fair-Value Method												
Change in Outlays												
Restrict access to subsidized loans to students eligible for Pell grants	-0.1	-0.2	-0.3	-0.4	-0.5	-0.6	-0.7	-0.8	-0.8	-0.8	-1.4	-5.2
Eliminate subsidized loans altogether	-0.2	-0.6	-0.9	-1.1	-1.4	-1.7	-2.0	-2.2	-2.3	-2.4	-4.1	-14.7

This option would take effect in July 2021.

By law, the costs of federal student loan programs are measured in the budget according to the method established in the Federal Credit Reform Act. The fair-value method is an alternative approach that more fully accounts for market risk; it is included in this table for informational purposes.

Through the William D. Ford Federal Direct Loan Program, the federal government lends money directly to students and their parents to help finance postsecondary education. Two types of loans are offered to undergraduate students: subsidized loans, which are available only to undergraduates who demonstrate financial need, and unsubsidized loans, which are available to undergraduates regardless of need (and to graduate students as well).

For undergraduates, the interest rates on the two types of loans are the same, but the periods during which interest accrues differ. Subsidized loans do not accrue interest while students are enrolled at least half time, for six months after they leave school or drop below half-time status, and during certain other periods when they may defer making repayments. Unsubsidized loans accrue interest from the date of disbursement. The program's rules cap the amount—per year and over a lifetime—that students may borrow in subsidized and unsubsidized loans.

This option includes two possible changes to subsidized loans for new borrowers. In the first alternative, only students who are eligible for Pell grants would have access to subsidized loans. (Pell grants are provided to students who can demonstrate financial need, but the eligibility criteria are more stringent than those for subsidized loans, so some students are eligible for subsidized loans but not for Pell grants.) In the second alternative, subsidized loans would be eliminated altogether. In both alternatives, the total amount a student may borrow from the program would remain unchanged.

RELATED OPTIONS: Mandatory Spending, "Eliminate or Reduce the Add-On to Pell Grants, Which Is Funded With Mandatory Spending" (page 12), "Remove the Cap on Interest Rates for Student Loans" (page 16); Discretionary Spending, "Tighten Eligibility for Pell Grants" (page 54); Revenues, "Eliminate Certain Tax Preferences for Education Expenses" (page 70)

RELATED CBO PUBLICATIONS: *The Volume and Repayment of Federal Student Loans: 1995 to 2017* (November 2020), www.cbo.gov/publication/56706; *Federal Aid for Postsecondary Students* (June 2018), www.cbo.gov/publication/53736; *The Pell Grant Program: Recent Growth and Policy Options* (September 2013), www.cbo.gov/publication/44448; *Options to Change Interest Rates and Other Terms on Student Loans* (June 2013), www.cbo.gov/publication/44318

Mandatory Spending—Option 9 **Function 500**

Reduce or Eliminate Public Service Loan Forgiveness

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
	Savings Estimated Using the Method Established in the Federal Credit Reform Act											
Change in Outlays												
Cap PSLF at $57,500	-0.2	-0.5	-0.7	-0.9	-1.1	-1.4	-1.6	-1.9	-2.0	-2.1	-3.4	-12.5
Eliminate PSLF	-0.5	-1.3	-1.8	-2.2	-2.7	-3.1	-3.5	-4.0	-4.4	-4.7	-8.6	-28.3
	Savings Estimated Using the Fair-Value Method											
Change in Outlays												
Cap PSLF at $57,500	-0.1	-0.4	-0.5	-0.6	-0.8	-0.9	-1.1	-1.3	-1.4	-1.5	-2.4	-8.6
Eliminate PSLF	-0.4	-1.0	-1.4	-1.7	-2.0	-2.4	-2.7	-3.1	-3.4	-3.6	-6.5	-21.6

This option would take effect in July 2021.

By law, the costs of federal student loan programs are measured in the budget according to the method established in the Federal Credit Reform Act. The fair-value method is an alternative approach that more fully accounts for market risk; it is included in this table for informational purposes.

PSLF = Public Service Loan Forgiveness.

Federal student loans can be forgiven for a number of reasons. For borrowers participating in an income-driven repayment (IDR) plan, monthly payments are calculated each year based on the borrower's income and family size. After the borrower has made payments for a certain period of time, usually 20 years, the outstanding balance of the loan is forgiven, although the borrower is liable for income taxes on that forgiven debt.

Borrowers in an IDR plan are also eligible for a second kind of loan forgiveness program, the Public Service Loan Forgiveness (PSLF) program, if they are employed full time in public service. That program provides debt forgiveness after 10 years of monthly payments, and borrowers are not liable for income taxes on the forgiven debt. Neither IDR plans nor the PSLF program impose a limit on the amount of debt that can be forgiven.

This option includes two alternatives that would apply to federal student loans taken out by new borrowers. One alternative would cap the amount of debt that could be forgiven under PSLF at $57,500—the current overall limit on loans to independent undergraduate students. Borrowers with a balance remaining after receiving the maximum forgiveness under PSLF would continue making payments under a repayment plan of their choice, including IDR plans, and, as a result, could receive additional forgiveness after making payments for the required additional time. The other alternative would eliminate the PSLF program. Borrowers would still have the option of choosing an IDR plan and, as a result, could receive loan forgiveness (albeit after making payments for a longer period of time).

RELATED OPTION: Mandatory Spending, "Limit Forgiveness of Graduate Student Loans" (page 13)

RELATED CBO PUBLICATIONS: *The Volume and Repayment of Federal Student Loans: 1995 to 2017* (November 2020), www.cbo.gov/publication/56706; *Income-Driven Repayment Plans for Student Loans: Budgetary Costs and Policy Options* (February 2020), www.cbo.gov/publication/55968; *Federal Aid for Postsecondary Students* (June 2018), www.cbo.gov/publication/53736

Mandatory Spending—Option 10 Function 500

Remove the Cap on Interest Rates for Student Loans

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Savings Estimated Using the Method Established in the Federal Credit Reform Act												
Change in Outlays												
Remove the cap on graduate and PLUS loans	*	*	*	*	-0.1	-0.2	-0.4	-0.6	-0.9	-1.1	-0.1	-3.3
Remove the cap on all loans	*	*	*	*	-0.1	-0.3	-0.6	-0.9	-1.3	-1.6	-0.1	-4.8
Savings Estimated Using the Fair-Value Method												
Change in Outlays												
Remove the cap on graduate and PLUS loans	*	*	*	*	*	-0.2	-0.3	-0.5	-0.7	-0.8	*	-2.5
Remove the cap on all loans	*	*	*	*	-0.1	-0.2	-0.4	-0.7	-0.9	-1.2	-0.1	-3.5

This option would take effect in July 2021.

By law, the costs of federal student loan programs are measured in the budget according to the method established in the Federal Credit Reform Act. The fair-value method is an alternative approach that more fully accounts for market risk; it is included in this table for informational purposes.

* = between -$50 million and zero.

Through the William D. Ford Federal Direct Loan Program, the federal government lends money directly to students and their parents to help finance postsecondary education. The loans are issued with fixed interest rates, which are determined in the year of disbursement and then remain constant for the life of the loan. Those fixed interest rates are set equal to the 10-year Treasury note rate (in the year of disbursement) plus a certain number of additional percentage points depending on the type of loan. For undergraduate subsidized and unsubsidized loans, the interest rate is the 10-year Treasury note rate plus 2.05 percentage points, with a cap of 8.25 percent. For unsubsidized loans to graduate students, the interest rate is the 10-year Treasury note rate plus 3.6 percentage points, with a cap of 9.5 percent. Finally, for PLUS loans, which are additional unsubsidized loans to parents or graduate students, the rate is the 10-year Treasury note rate plus 4.6 percentage points, with a cap of 10.5 percent.

This option includes two alternatives. The first would remove the interest rate cap on all graduate loans and PLUS parent loans. The second would remove the interest rate cap on all federal student loans. Both alternatives are projected to lower the government's costs because there is some possibility that the 10-year Treasury note rate will rise enough so that the interest rate caps could constrain the rates on student loans under current law, even though that outcome does not occur in the Congressional Budget Office's 10-year economic projections.

RELATED OPTIONS: Mandatory Spending, "Reduce or Eliminate Subsidized Loans for Undergraduate Students" (page 14); Revenues, "Eliminate Certain Tax Preferences for Education Expenses" (page 70)

RELATED CBO PUBLICATIONS: *The Volume and Repayment of Federal Student Loans: 1995 to 2017* (November 2020), www.cbo.gov/publication/56706; *Estimating the Cost of One-Sided Bets: How CBO Analyzes the Effects of Spending Triggers* (October 2020), www.cbo.gov/publication/56698; *Options to Change Interest Rates and Other Terms on Student Loans* (June 2013), www.cbo.gov/publication/44318

Mandatory Spending—Option 11 **Function 550**

Adopt a Voucher Plan and Slow the Growth of Federal Contributions for the Federal Employees Health Benefits Program

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Adopt a Voucher Plan, With Growth Based on the CPI-U												
Change in Mandatory Outlays[a]	0	0	-0.5	-1.0	-1.6	-2.2	-2.9	-3.7	-4.6	-5.5	-3.1	-22.0
Change in Revenues[b]	0	0	*	*	*	*	*	-0.1	-0.1	-0.1	-0.1	-0.4
Decrease (-) in the Deficit From Changes in Mandatory Outlays and Revenues[c]	0	0	-0.4	-1.0	-1.6	-2.2	-2.9	-3.7	-4.5	-5.3	-3.0	-21.5
Change in Discretionary Spending												
Budget authority	0	0	-0.4	-0.9	-1.4	-1.9	-2.5	-3.3	-4.0	-4.8	-2.8	-19.3
Outlays	0	0	-0.4	-0.9	-1.4	-1.9	-2.5	-3.3	-4.0	-4.8	-2.8	-19.3
Adopt a Voucher Plan, With Growth Based on the Chained CPI-U												
Change in Mandatory Outlays[a]	0	0	-0.5	-1.2	-1.8	-2.5	-3.3	-4.2	-5.1	-6.0	-3.5	-24.5
Change in Revenues[b]	0	0	*	*	*	*	*	-0.1	-0.1	-0.2	-0.1	-0.6
Decrease (-) in the Deficit From Changes in Mandatory Outlays and Revenues[c]	0	0	-0.5	-1.1	-1.8	-2.4	-3.2	-4.1	-5.0	-5.9	-3.4	-23.9
Change in Discretionary Spending												
Budget authority	0	0	-0.5	-1.1	-1.6	-2.2	-2.8	-3.7	-4.5	-5.4	-3.2	-21.7
Outlays	0	0	-0.5	-1.1	-1.6	-2.2	-2.8	-3.7	-4.5	-5.4	-3.2	-21.7

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

This option would take effect in January 2023.

CPI-U = consumer price index for all urban consumers; * = between -$50 million and zero.

a. Includes estimated savings by the Postal Service, whose spending is classified as off-budget.

b. Estimates include the effects on Social Security payroll tax receipts, which are classified as off-budget.

c. As the dashed line below this total indicates, changes in discretionary spending are not included in the total because they would be realized only if future appropriations were adjusted accordingly and because the Congress uses different procedures to enforce its budgetary goals related to discretionary spending.

The Federal Employees Health Benefits (FEHB) program provides health insurance coverage to federal workers and annuitants, as well as to their dependents and survivors. Policyholders, whether they are active employees or annuitants, generally pay 25 percent of the premium for lower-cost plans and a larger share for higher-cost plans; the federal government pays the rest of the premium.

This option consists of two alternatives to replace the current premium-sharing structure with a voucher, which would be excluded from income and payroll taxes. Under both alternatives, the value of the voucher in 2023 for each type of coverage (self only, self plus one, and family) would be equal to the government's average expected contributions to FEHB premiums in 2022 adjusted for inflation. Under the first alternative, the value of the voucher in 2023 and each subsequent year would be determined using the projected rate of inflation as measured by the consumer price index for all urban consumers (CPI-U). The second alternative would index the voucher to the chained CPI-U, which is another measure of inflation designed to account for changes in spending patterns and to address several types of statistical biases that exist in the traditional CPI measures. The chained CPI-U has grown by an average of about 0.25 percentage points per year more slowly since 2001 than the traditional CPI-U.

Both alternatives would reduce mandatory spending for the FEHB program because the federal government

would make lower payments for premiums for annuitants and postal workers than under current law. In addition, they would have other effects on mandatory spending because some FEHB participants would leave the program. The net effect of those disenrolled FEHB participants on changes in mandatory spending would be small relative to savings from the voucher. Revenues would also be affected because of changes in the number of people with employment-based health insurance. Both alternatives would also reduce discretionary spending by lowering federal agencies' payments toward FEHB premiums for current employees and their dependents, provided that appropriations were reduced to reflect those lower payments.

Mandatory Spending—Option 12 **Function 550**

Establish Caps on Federal Spending for Medicaid

											Total	
Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021–2025	2021–2030
					Caps on Overall Spending[a]							
Apply Caps to All Eligibility Categories, With Growth of Caps Based on the CPI-U												
Change in Outlays	0	0	-44	-61	-76	-93	-110	-126	-145	-163	-182	-818
Change in Revenues[b]	0	0	-2	-3	-3	-4	-4	-5	-5	-5	-8	-31
Decrease (-) in the Deficit	0	0	-42	-58	-73	-89	-105	-122	-140	-157	-174	-787
Apply Caps to All Eligibility Categories, With Growth of Caps Based on the CPI-U Plus 1 Percentage Point												
Change in Outlays	0	0	-23	-45	-56	-68	-80	-91	-104	-117	-124	-584
Change in Revenues[b]	0	0	-1	-2	-2	-3	-3	-3	-4	-4	-6	-23
Decrease (-) in the Deficit	0	0	-22	-43	-53	-65	-76	-88	-100	-113	-118	-561
Apply Caps to Adult and Children Eligibility Categories Only, With Growth of Caps Based on the CPI-U[c]												
Change in Outlays	0	0	-26	-37	-46	-56	-67	-77	-89	-101	-108	-499
Change in Revenues[b]	0	0	-2	-2	-3	-3	-4	-4	-4	-5	-7	-28
Decrease (-) in the Deficit	0	0	-24	-34	-43	-53	-63	-73	-85	-96	-101	-472
Apply Caps to Adult and Children Eligibility Categories Only, With Growth of Caps Based on the CPI-U Plus 1 Percentage Point[c]												
Change in Outlays	0	0	-17	-28	-35	-43	-51	-58	-67	-76	-80	-375
Change in Revenues[b]	0	0	-1	-2	-2	-3	-3	-3	-3	-4	-5	-21
Decrease (-) in the Deficit	0	0	-16	-26	-32	-40	-48	-55	-64	-72	-75	-353

Continued

Mandatory Spending—Option 12 Continued

Establish Caps on Federal Spending for Medicaid

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Caps on Spending per Enrollee[d]												
Apply Caps to All Eligibility Categories, With Growth of Caps Based on the CPI-U												
Change in Outlays	0	0	-2	-63	-90	-111	-135	-161	-192	-217	-155	-972
Change in Revenues[b]	0	0	*	*	-1	-1	-2	-2	-3	-4	-1	-13
Decrease (-) in the Deficit	0	0	-2	-63	-90	-110	-133	-159	-189	-213	-154	-959
Apply Caps to All Eligibility Categories, With Growth of Caps Based on the CPI-U Plus 1 Percentage Point												
Change in Outlays	0	0	-2	-42	-64	-79	-96	-115	-139	-157	-108	-694
Change in Revenues[b]	0	0	*	*	-1	-1	-1	-2	-2	-3	-1	-10
Decrease (-) in the Deficit	0	0	-2	-42	-63	-78	-95	-114	-136	-154	-107	-683
Apply Caps to Adult and Children Eligibility Categories Only, With Growth of Caps Based on the CPI-U[c]												
Change in Outlays	0	0	-2	-44	-61	-75	-90	-106	-125	-141	-108	-646
Change in Revenues[b]	0	0	*	*	*	-1	-1	-1	-2	-2	-1	-10
Decrease (-) in the Deficit	0	0	-2	-44	-61	-74	-89	-105	-123	-139	-106	-636
Apply Caps to Adult and Children Eligibility Categories Only, With Growth of Caps Based on the CPI-U Plus 1 Percentage Point[c]												
Change in Outlays	0	0	-2	-32	-47	-57	-69	-81	-96	-109	-81	-493
Change in Revenues[b]	0	0	*	*	-1	-1	-1	-1	-2	-2	-1	-8
Decrease (-) in the Deficit	0	0	-2	-32	-46	-56	-67	-80	-95	-107	-80	-485

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

CPI-U = consumer price index for all urban consumers; * = between -$500 million and zero.

a. This approach would take effect in October 2023, although some changes to outlays and revenues would occur earlier.

b. Estimates include the effects on Social Security payroll tax receipts, which are classified as off-budget.

c. Excludes elderly and disabled people.

d. This approach would take effect in October 2024, although some changes to outlays and revenues would occur earlier.

Medicaid is a joint federal-state program that pays for health care services for low-income people in various demographic groups, chiefly families with dependent children, elderly people (people over the age of 65), nonelderly people with disabilities, and—at the discretion of individual states—other nonelderly adults whose family income is up to 138 percent of the federal poverty guidelines. Under current law, the federal and state governments share in the financing of Medicaid, and almost all federal funding is open-ended: If a state spends more because enrollment increases or costs per enrollee rise, larger federal payments are generated automatically. On average, the federal government pays about 65 percent of program costs, with the federal share ranging among states from 53 percent to 79 percent, reflecting variations in each state's per capita income and its share of enrollees (if any) that became eligible for Medicaid as a result of the optional expansion under the Affordable Care Act (ACA).

This option includes two approaches to limit federal Medicaid spending. The first approach would establish

overall caps that set a maximum amount of funding that the federal government would provide a state to operate Medicaid. The second approach would establish per-enrollee caps with an upper limit on the amount a state could spend on care for each Medicaid enrollee with different limits set for different eligibility groups. For each approach, the Congressional Budget Office analyzed two alternatives to implement those caps: The first alternative would limit spending for all eligibility groups, and the second would limit spending for adults and children only (spending for elderly and disabled people would not be limited). Using 2019 as the base year, CBO then applied two different growth factors to the alternatives in each approach: the annual change in the consumer price index for all urban consumers (CPI-U) and the annual change in the CPI-U plus 1 percentage point. Both approaches would exclude Medicaid's disproportionate share hospital payments to inpatient facilities that serve a higher percentage of Medicaid enrollees and uninsured patients, spending under the Vaccines for Children program, administrative spending, and assistance with Medicare cost sharing and premiums for those dually eligible for Medicaid and Medicare.

This option would affect more than just outlays for Medicaid. CBO estimates that the option would result in lower Medicaid enrollment; consequently, the option would also affect other types of mandatory spending and revenues as some of the people losing coverage would qualify for subsidies to buy coverage through the marketplaces established by the ACA, others would enroll in coverage through an employer, and others would become uninsured. Those effects are incorporated in the estimates for this option.

RELATED CBO PUBLICATIONS: *Preliminary Analysis of Legislation That Would Replace Subsidies for Health Care With Block Grants* (September 2017), www.cbo.gov/publication/53126; *Federal Grants to State and Local Governments* (March 2013), www.cbo.gov/publication/43967

Mandatory Spending—Option 13 **Function 550**

Limit States' Taxes on Health Care Providers

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Outlays												
Lower the safe-harbor threshold to 5 percent	0	0	-3	-3	-4	-4	-4	-4	-5	-5	-10	-32
Lower the safe-harbor threshold to 2.5 percent	0	0	-17	-19	-20	-21	-23	-24	-25	-27	-56	-176
Eliminate the safe-harbor threshold	0	0	-42	-46	-49	-52	-55	-58	-62	-65	-137	-429

This option would take effect in October 2022.

Medicaid is a joint federal-state program that pays for health care services for low-income people in various demographic groups. Both the federal and state governments share in the cost of the program. The federal government reimburses a portion of each state's costs; the rest of the funding comes from the states' general funds or from other state sources. Most states finance a portion of their Medicaid spending through taxes collected from health care providers. Until 1991, some states had established hold-harmless arrangements with providers, wherein they taxed only providers with large Medicaid revenues or taxed Medicaid providers at higher rates than other providers of the same type with the intention of returning the collected taxes to those providers in the form of higher Medicaid payments. Such arrangements led to large increases in federal Medicaid outlays but not to corresponding increases in states' net costs.

In the early 1990s, the Congress required states that taxed health care providers to collect those taxes at uniform rates (regardless of the number of Medicaid patients served) from all providers of the same type (hospitals, for example). In addition, states were no longer allowed to establish hold-harmless arrangements in which they offset taxes on providers with increased Medicaid payments to those same providers. However, federal law provided for a "safe-harbor" exception, which allows a state to use hold-harmless arrangements when it collects taxes at a rate that does not exceed 6 percent of a provider's net patient revenues.

This option consists of three alternatives. Under the first alternative, the safe-harbor threshold would be lowered to 5 percent. Under the second alternative, the threshold would be lowered to 2.5 percent. Under the third alternative, the threshold would be eliminated and no hold-harmless arrangements would be permitted. For each alternative, the Congressional Budget Office expects federal spending would decline because states would reduce their Medicaid spending in response to decreases in taxes paid by providers.

Mandatory Spending—Option 14 Function 550

Reduce Federal Medicaid Matching Rates

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Use the Same Matching Rate for All Categories of Administrative Services												
Change in Outlays	0	0	-6	-6	-7	-7	-7	-8	-8	-8	-19	-57
Remove the FMAP Floor												
Change in Outlays	0	0	-56	-58	-61	-64	-67	-71	-74	-78	-175	-529
Reduce the Matching Rate for Enrollees Made Eligible by the ACA												
Change in Outlays	0	0	-37	-53	-58	-64	-70	-74	-78	-83	-149	-518
Change in Revenues[a]	0	0	-1	-2	-2	-2	-2	-3	-3	-3	-5	-18
Decrease (-) in the Deficit	0	0	-36	-51	-56	-62	-67	-71	-76	-80	-143	-500

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

This option would take effect in October 2022.

ACA = Affordable Care Act; FMAP = federal medical assistance percentage.

a. Estimates include the effects on Social Security payroll tax receipts, which are classified as off-budget.

Medicaid is a joint federal-state program that pays for health care services for low-income people in various demographic groups. Both the federal and state governments share in the costs of the program; the federal government's share varies by state, by eligibility category, and by the type of cost (that is, medical services or administrative).

For most Medicaid services and enrollees, the share of Medicaid costs paid for by the federal government is determined according to the federal medical assistance percentage (FMAP). The FMAP is based on a formula that provides higher federal reimbursement to states with lower per capita incomes (and vice versa) relative to the national average. States receive an FMAP of no less than 50 percent and no more than 83 percent. The matching rate for medical services provided to enrollees made eligible as a result of the Affordable Care Act (ACA) is 90 percent and does not vary by state. The federal government's share of administrative expenses varies by cost category but not by state. Several categories of administrative expenses are evenly divided between the federal and state governments, but other categories of administrative costs have higher federal matching rates.

This option consists of three alternatives. Under the first alternative, the federal government's share for all categories of administrative spending would be 50 percent. Under the second alternative, the 50 percent floor on the FMAP for most Medicaid services and enrollees would be removed. Under the third alternative, the federal share of medical expenditures for enrollees made eligible by the ACA would be based on the same FMAP formula that applies to otherwise eligible enrollees.

The third alternative would affect more than just outlays for Medicaid. The Congressional Budget Office anticipates that, in response to the reduced matching rates for enrollees made eligible by the ACA, some states would discontinue coverage for that category of enrollees, and all states that would have adopted such coverage in the future would no longer choose to do so. As a result, there would be an increase in outlays and a decrease in revenues because some people losing Medicaid coverage would instead receive subsidies through the marketplaces established by the ACA or obtain employment-based coverage. Still others would become uninsured; therefore, CBO estimates that there would be an increase in outlays for Medicare payments to inpatient facilities that serve a higher percentage of low-income patients because such payments are determined on the basis of the uninsured rate. Those effects are incorporated in the estimates for that alternative.

Mandatory Spending—Option 15 Function 550

Introduce Enrollment Fees Under TRICARE for Life

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Outlays												
MERHCF	0	0	-1.2	-1.9	-2.4	-2.6	-2.8	-2.9	-3.1	-3.2	-5.5	-20.1
Medicare	0	0	0.2	0.5	0.7	0.8	0.8	0.8	0.9	0.9	1.4	5.6
Total	0	0	-1.0	-1.4	-1.7	-1.8	-2.0	-2.1	-2.2	-2.3	-4.1	-14.5

This option would take effect in January 2023.

MERHCF = Department of Defense Medicare-Eligible Retiree Health Care Fund.

TRICARE for Life (TFL) is a supplement to Medicare for military retirees and their Medicare-eligible family members. Beneficiaries who are eligible for TRICARE are automatically enrolled in TFL, and there are no enrollment fees (although beneficiaries must pay their premium for Medicare Part B, which covers physicians' and other outpatient services).

This option would require most Medicare-eligible beneficiaries who choose to enroll in TFL to pay an annual enrollment fee of $550 for individual coverage or $1,100 for family coverage. (Members who received a disability retirement and survivors of members who died on active duty would not be required to pay the fee.) The enrollment fees would be set to match the Congressional Budget Office's estimate (for 2023) of the fees for the preferred-provider plan in TRICARE paid by retirees who are not yet eligible for Medicare and who entered service after 2017. The enrollment fees would be indexed to grow at the same rate as average Medicare costs in later years. This option would result in some beneficiaries switching to other Medicare supplemental plans, which would cause Medicare spending to increase because some costs currently paid by TFL would shift to Medicare.

RELATED OPTION: Mandatory Spending, "Introduce Minimum Out-of-Pocket Requirements Under TRICARE for Life" (page 24)

RELATED CBO PUBLICATIONS: *Long-Term Implications of the 2021 Future Years Defense Program* (September 2020), www.cbo.gov/publication/56526; *Approaches to Changing Military Compensation* (January 2020), www.cbo.gov/publication/55648; *Approaches to Changing Military Health Care* (October 2017), www.cbo.gov/publication/53137

Mandatory Spending—Option 16 Function 550

Introduce Minimum Out-of-Pocket Requirements Under TRICARE for Life

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Outlays												
MERHCF	0	0.1	0.1	-1.5	-2.4	-2.6	-2.8	-2.9	-3.1	-3.2	-3.7	-18.3
Medicare	0	0	0	-0.5	-1.1	-1.3	-1.4	-1.5	-1.5	-1.6	-1.6	-8.9
Total	0	0.1	0.1	-2.0	-3.5	-3.9	-4.2	-4.4	-4.6	-4.8	-5.3	-27.2

This option would take effect in January 2024, although some changes to outlays would occur earlier.

MERHCF = Department of Defense Medicare-Eligible Retiree Health Care Fund.

TRICARE for Life (TFL) is a supplement to Medicare for military retirees and their Medicare-eligible family members. The program pays nearly all medical costs not covered by Medicare and requires few out-of-pocket fees.

This option would introduce minimum out-of-pocket requirements for TFL beneficiaries. For calendar year 2024, TFL would not cover any of the first $700 of an enrollee's cost-sharing payments (those for which enrollees are responsible when they receive health care) under Medicare and would cover only 50 percent of the next $6,300 in such payments. Because all further costs would be covered by TFL, enrollees would not be obligated to pay more than $3,850 in 2024. Thereafter, those dollar limits would be indexed to grow at the same rate as average Medicare costs (excluding Part D drug benefits). To reduce beneficiaries' incentive to avoid out-of-pocket costs by switching to military facilities (which currently charge no copayments for hospital services provided to TFL beneficiaries), this option would also require TFL beneficiaries seeking care from those facilities to make payments roughly comparable to the charges they would face at civilian facilities. This option would reduce spending for Medicare as well as for TFL because higher out-of-pocket costs would lead beneficiaries to use fewer medical services.

RELATED OPTIONS: Mandatory Spending, "Introduce Enrollment Fees Under TRICARE for Life" (page 23), "Change the Cost-Sharing Rules for Medicare and Restrict Medigap Insurance" (page 25)

RELATED CBO PUBLICATIONS: *Long-Term Implications of the 2021 Future Years Defense Program* (September 2020), www.cbo.gov/publication/56526; *Approaches to Changing Military Compensation* (January 2020), www.cbo.gov/publication/55648; *Approaches to Changing Military Health Care* (October 2017), www.cbo.gov/publication/53137

Mandatory Spending—Option 17   Function 570

Change the Cost-Sharing Rules for Medicare and Restrict Medigap Insurance

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Outlays												
Establish uniform cost sharing and an out-of-pocket cap for Medicare	0	0	0	-3.5	-4.8	-4.9	-5.0	-5.1	-5.2	-5.1	-8.2	-33.4
Restrict medigap policies	0	0	0	-5.8	-8.0	-8.4	-8.8	-9.3	-9.5	-9.9	-13.8	-59.7
Implement both alternatives[a]	0	0	0	-9.3	-12.8	-13.2	-13.7	-14.1	-14.4	-14.6	-22.2	-92.2

This option would take effect in January 2024.

a. Although the total savings of this alternative would approximate the sum of the savings from the first two alternatives, that relationship might not apply if different dollar amounts for the deductible and catastrophic cap were used.

In the traditional fee-for-service (FFS) portion of the Medicare program, cost sharing—the payments for which enrollees are responsible when they receive health care—varies significantly depending on the type of service provided. Cost sharing in FFS Medicare can take the following forms: deductibles, coinsurance, or copayments. Deductibles are the amount of spending an enrollee incurs before coverage begins, and coinsurance (a specified percentage) and copayments (a specified dollar amount) represent the portion of spending an enrollee pays at the time of service.

Under Medicare Part A, which primarily covers services provided by hospitals and other facilities, enrollees are liable for an initial copayment (sometimes called the Part A deductible) of $1,484 (in 2021) for each “spell of illness” that requires hospitalization and substantial daily copayments for extended stays. Under Medicare Part B, which mainly covers outpatient services, enrollees pay an annual deductible of $203 (in 2021) and generally pay 20 percent of allowable costs in excess of that deductible. There is no catastrophic cap on Medicare cost sharing. Therefore, most people enrolled in FFS Medicare have some form of supplemental insurance that reduces or eliminates their cost-sharing obligations and protects them from high medical costs. Most commonly, people either retain coverage from a former employer as retirees, or they purchase an individual medigap policy directly from an insurer.

This option consists of three alternatives. The first alternative would replace Medicare’s current cost sharing with a single annual deductible of $700 for all Part A and Part B services; a uniform coinsurance rate of 20 percent for all spending above that deductible; and an annual out-of-pocket cap of $7,000. The second alternative would leave Medicare’s cost-sharing rules unchanged but would restrict existing and new medigap policies. Specifically, it would bar those policies from paying any of the first $700 of an enrollee’s cost-sharing obligations for Part A and Part B services in calendar year 2024 and would limit coverage to 50 percent of the next $6,300 of an enrollee’s cost sharing. Medigap policies would cover all further cost-sharing obligations, so policyholders would not pay more than $3,850 in cost sharing in 2024. The third alternative would combine the changes from the first and second alternatives. After 2024, dollar amounts in all three alternatives, such as the combined deductible and cap (the first and third alternatives) and the medigap thresholds (the second and third alternatives), would be indexed to the rate of growth of average FFS Medicare spending per enrollee.

RELATED OPTION: Mandatory Spending, “Introduce Minimum Out-of-Pocket Requirements Under TRICARE for Life” (page 24)

RELATED CBO PUBLICATION: Noelia Duchovny and others, *CBO’s Medicare Beneficiary Cost-Sharing Model: A Technical Description*, Working Paper 2019-08 (October 2019), www.cbo.gov/publication/55659

Mandatory Spending—Option 18 Function 570

Increase Premiums for Parts B and D of Medicare

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Outlays												
Increase basic premiums	0	-8	-18	-30	-43	-58	-62	-67	-72	-76	-99	-435
Freeze income thresholds for income-related premiums	0	*	-1	-1	-2	-3	-5	-7	-9	-11	-4	-39
Implement both alternatives[a]	0	-8	-19	-31	-45	-60	-66	-72	-78	-83	-103	-462

This option would take effect in January 2022.

* = between -$500 million and zero.

a. If both alternatives were enacted together, the total of their effects would be less than the sum of the individual effects because of interactions between the approaches.

All enrollees in Medicare Part B (which covers physicians' and other outpatient services) and Part D (the outpatient prescription drug benefit, which is delivered through private-sector companies) are charged basic premiums for that coverage. Those premiums are set to cover 25 percent of expected Part B costs and 25.5 percent of expected Part D costs. Enrollees with relatively high income pay an income-related premium that is determined on the basis of the beneficiary's modified adjusted gross income (adjusted gross income plus tax-exempt interest). The thresholds established for income-related premiums create five income brackets with corresponding premiums. The highest income threshold is frozen through 2027 and will be adjusted annually by the consumer price index for all urban consumers (CPI-U) starting in 2028, whereas the rest are indexed annually by the CPI-U.

This option consists of three alternatives that would raise the premiums for Parts B and D of Medicare. The first alternative would increase the basic premiums from 25 percent of Part B costs per enrollee and 25.5 percent of Part D costs per enrollee to 35 percent of both programs' costs; that increase would occur over a five-year period beginning in 2022. For Part B, the percentage of costs per enrollee covered by the basic premium would rise by 2 percentage points a year through 2026 and then remain at 35 percent. For Part D, that percentage would increase by 1.5 percentage points in the first year and 2 percentage points a year from 2023 through 2026 and then remain at 35 percent. The second alternative would freeze all the income thresholds for income-related premiums from 2022 to 2030. The third alternative would combine the changes in the first two: increasing basic premiums for Parts B and D to 35 percent of costs per enrollee and freezing the income thresholds for income-related premiums. (All years mentioned in this option are calendar years.)

The option would affect enrollees differently depending on their income. The alternatives that would increase the basic premiums would raise premiums for beneficiaries who are not required to pay income-related premiums and who have less modified adjusted gross income. However, beneficiaries who have the lowest income tend to have their premiums paid by premium assistance programs. The alternatives that would freeze income thresholds for income-related premiums would increase premiums for beneficiaries with relatively higher income.

Mandatory Spending—Option 19 Function 570

Reduce Medicare's Coverage of Bad Debt

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Outlays												
Reduce the percentage of allowable bad debt to 45 percent	0	-0.6	-1.3	-2.1	-2.3	-2.5	-2.7	-3.1	-3.1	-3.5	-6.4	-21.3
Reduce the percentage of allowable bad debt to 25 percent	0	-1.3	-2.7	-4.1	-4.7	-5.1	-5.5	-6.2	-6.2	-6.9	-12.7	-42.6
Eliminate the coverage of allowable bad debt	0	-2.1	-4.3	-6.7	-7.6	-8.2	-8.9	-10.1	-10.0	-11.3	-20.7	-69.2

This option would take effect in October 2021.

When hospitals and other health care providers cannot collect out-of-pocket payments from their patients, those uncollected funds are called bad debt. Historically, Medicare has paid some of the bad debt owed by fee-for-service beneficiaries on the grounds that doing so prevents those costs from being shifted to others (that is, private insurance plans and people who are not Medicare beneficiaries). The unpaid and uncollectible cost-sharing amounts for covered services furnished to Medicare beneficiaries are referred to as allowable bad debt. In the case of dual-eligible beneficiaries—Medicare beneficiaries who also are enrolled in Medicaid—out-of-pocket obligations that remain unpaid by Medicaid are uncollectible and therefore are also included in Medicare's allowable bad debt. Under current law, Medicare reimburses eligible facilities—hospitals, skilled nursing facilities, various types of health care centers, and facilities treating end-stage renal disease—for 65 percent of allowable bad debt.

This option consists of three alternatives. Under the first and second alternatives, the percentage of allowable bad debt that Medicare reimburses to participating facilities would be reduced to 45 percent and 25 percent, respectively. Under the third alternative, Medicare's coverage of allowable bad debt would be eliminated. The reductions would start to take effect in 2022 and would be phased in evenly until becoming fully implemented in 2024.

Mandatory Spending—Option 20 **Function 570**

Require Manufacturers to Pay a Minimum Rebate on Drugs Covered Under Part D of Medicare for Low-Income Beneficiaries

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Outlays	0	0	-4	-21	-25	-23	-21	-17	-20	-17	-50	-148

This option would take effect in January 2023.

Medicare Part D is a voluntary, federally subsidized prescription drug benefit delivered to beneficiaries by private-sector plans. Private drug plans can limit the costs they incur for providing benefits to Part D enrollees by negotiating to receive rebates from manufacturers of brand-name drugs in return for charging enrollees smaller copayments for those drugs. Currently, the rebates on drug sales to Medicare beneficiaries enrolled in Part D's low-income subsidy (LIS) program, most of whom are also enrolled in Medicaid, are established in the same way as those for drugs used by other Part D enrollees.

Before Part D took effect in 2006, most LIS enrollees received drug coverage through Medicaid, where rebates on drug sales are set differently. Under federal law, drug manufacturers that participate in Medicaid must pay a portion of their revenues from that program back to the federal and state governments through rebates. Those rebates are equal to at least 23.1 percent of the average manufacturer price (AMP) for a drug. (The AMP is the amount, on average, that manufacturers receive for sales to retail pharmacies.) If some purchasers in the private sector obtain a price lower than 23.1 percent off of the AMP, then Medicaid's basic rebate is increased to match the lowest price paid by private-sector purchasers. If a drug's price rises faster than overall inflation, the drug manufacturer pays a larger rebate. On average, the rebates negotiated for brand-name drugs in Medicare Part D are smaller than the statutory discounts obtained by Medicaid.

This option would establish a minimum rebate for brand-name drugs sold to LIS enrollees in Medicare Part D. Manufacturers would be required to pay the federal government an amount equal to the difference (if any) between the minimum rebate for a given drug and the average negotiated rebate that manufacturers paid to plans for all purchases of that drug in Part D. The minimum rebate would equal 23.1 percent of the drug's AMP plus an additional, inflation-based amount. (That rebate would be similar to Medicaid's rebate, except it would not be directly affected by the lowest price paid by private-sector purchasers.) Such rebates would be mandatory for manufacturers who wanted their drugs to be covered by Part B (which covers physicians' and other outpatient services) and Part D of Medicare, by Medicaid, and by the Veterans Health Administration.

If the average Part D rebate negotiated between the manufacturer and the Part D plans exceeded the minimum rebate for a given drug, then no additional payment would be owed to the federal government for that drug. However, under this option, only negotiated rebates that apply equally to all Part D enrollees in a given plan would count toward the average negotiated rebate. For example, current law requires drugmakers to provide a discount on purchases of certain brand-name drugs by non-LIS Part D enrollees but does not require them to provide a discount on those purchases made by LIS Part D enrollees; that discount, therefore, would not reduce the rebates owed to the federal government under this option.

RELATED CBO PUBLICATION: *Competition and the Cost of Medicare's Prescription Drug Program* (July 2014), www.cbo.gov/publication/45552

Mandatory Spending—Option 21 Functions 550, 570

Consolidate and Reduce Federal Payments for Graduate Medical Education at Teaching Hospitals

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Outlays												
Establish a grant program, with growth of funding based on the CPI-U	0	-1.4	-2.0	-2.5	-3.1	-3.7	-4.3	-5.0	-5.7	-6.3	-9.0	-34.0
Establish a grant program, with growth of funding based on the CPI-U minus 1 percentage point	0	-1.4	-2.1	-2.8	-3.6	-4.3	-5.1	-6.0	-6.9	-7.6	-9.9	-39.9

This option would take effect in October 2021.

CPI-U = consumer price index for all urban consumers.

Under certain circumstances, hospitals with teaching programs can receive funds from Medicare and Medicaid for costs related to graduate medical education (GME). Medicare's payments cover two types of costs: those for direct graduate medical education (DGME) and those for indirect medical education (IME). DGME costs are for the compensation of medical residents and institutional overhead. IME costs are other teaching-related costs—for instance, costs associated with the added demands placed on staff as a result of teaching activities and the greater number of tests and procedures ordered by residents as part of the educational process. Additionally, the federal government matches a portion of what state Medicaid programs pay for GME. The Congressional Budget Office projects that total mandatory federal spending for hospital-based GME will grow at an average annual rate of 5 percent from 2022 through 2030 (about 3 percentage points faster than the average annual growth rate of the consumer price index for all urban consumers, or CPI-U).

This option would consolidate all mandatory federal spending for GME into a grant program for teaching hospitals. Total funds available for distribution in 2022 would be fixed at an amount equaling the sum of Medicare's 2020 payments for DGME and IME and the federal share of Medicaid's 2020 payments for GME. CBO examined two alternatives for how the funding for the grant program would grow over time. Under the first alternative, funding for the grant program would grow with the CPI-U; under the second alternative, funding for the grant program would grow with the CPI-U minus 1 percentage point per year.

Mandatory Spending—Option 22 Function 600

Eliminate Subsidies for Certain Meals in the National School Lunch, School Breakfast, and Child and Adult Care Food Programs

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Outlays	-0.1	-0.7	-0.9	-0.9	-1.0	-1.0	-1.0	-1.1	-1.1	-1.1	-3.5	-8.9

This option would take effect in July 2021.

The National School Lunch Program, the School Breakfast Program, and the Child and Adult Care Food Program provide funds that enable public schools, nonprofit private schools, child and adult care centers, and residential child care institutions to offer subsidized meals and snacks to participants. The programs provide subsidies for all meals served, though those subsidies are larger for meals served to participants from households with income at or below 185 percent of the federal poverty level (FPL).

This option would eliminate the subsidies for meals and snacks served to participants from households with income greater than 185 percent of the FPL through the National School Lunch Program, the School Breakfast Program, and in child and adult care centers through the Child and Adult Care Food Program. Meals and snacks served to participants from households with income at or below 185 percent of the FPL would still be subsidized. This option would not affect Child and Adult Care Food Program participants in day care homes.

RELATED CBO PUBLICATION: *Child Nutrition Programs: Spending and Policy Options* (September 2015), www.cbo.gov/publication/50737

Mandatory Spending—Option 23 Function 600

Eliminate Supplemental Security Income Benefits for Disabled Children

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Mandatory Outlays	0	-11	-10	-10	-11	-12	-12	-13	-11	-13	-43	-103
Change in Discretionary Outlays	0	-1	-1	-1	-1	-1	-1	-1	-1	-1	-3	-8

This option would take effect in October 2021.

The Supplemental Security Income (SSI) program provides cash assistance to people with low income and few assets who are disabled, aged, or both. In fiscal year 2020, 14 percent of SSI recipients were disabled children.

This option would eliminate SSI benefits for disabled children. Benefits for adult recipients would be unchanged. Because annual discretionary appropriations cover SSI's administrative costs, this option would also generate discretionary savings.

RELATED CBO PUBLICATION: *Supplemental Security Income: An Overview* (December 2012), www.cbo.gov/publication/43759

Mandatory Spending—Option 24 **Function 650**

Link Initial Social Security Benefits to Average Prices Instead of Average Earnings

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Outlays												
Apply pure price indexing	0	0	*	-2	-5	-8	-13	-19	-27	-36	-7	-109
Apply progressive price indexing	0	0	*	-1	-3	-5	-8	-12	-17	-23	-4	-69

This option would take effect in January 2022.

* = between -$500 million and zero.

Initial Social Security benefits for retired and disabled workers are based on their average lifetime earnings. That average is calculated using a process known as wage indexing, whereby the Social Security Administration adjusts a person's previous earnings to reflect changes in economywide wages. Average initial benefits for Social Security recipients therefore tend to grow at the same rate as do average wages.

This option consists of two alternatives to change the computation of initial benefits. The first alternative, called pure price indexing, would change the computation of initial benefits beginning with participants who became eligible for benefits in 2022. It would link the growth of initial benefits to the growth of prices (as measured by changes in the consumer price index) rather than to the growth of average wages. Under this alternative, the real (inflation-adjusted) value of average initial benefits would not rise over time, and benefits for each successive cohort of beneficiaries would be smaller than those scheduled under current law. The extent of the reduction would depend on the growth of average real wages, which the Congressional Budget Office projects will average slightly above 1 percent per year for the period 2022 to 2030.

The second alternative, called progressive price indexing, would keep the current benefit formula for workers who had lower earnings and would reduce the initial benefits for workers in later cohorts who had higher earnings. Under this alternative, initial benefits for the 30 percent of workers with the lowest lifetime earnings would increase with average wages for each successive cohort, as they are scheduled to do, but initial benefits for each successive cohort of other workers would increase more slowly, at a rate that depended on their position in the distribution of earnings. For example, for the highest earners—workers with 35 years of earnings at or above the taxable maximum—benefits would rise with prices, as they would under pure price indexing. Thus, under progressive price indexing, the initial benefits for most workers would increase more quickly than prices but more slowly than average wages for each successive cohort. As a result, the benefit structure would gradually become flatter.

CBO projects that under current law, the Disability Insurance trust fund would be exhausted in fiscal year 2026, and the Old-Age and Survivors Insurance trust fund would be exhausted in calendar year 2031. Under section 257 of the Deficit Control Act, in its projections CBO must assume that scheduled Social Security benefits would be paid even after the program's trust funds were exhausted. However, the government's legal authority to pay benefits would then be limited to the amount received in dedicated tax revenues, which would be insufficient to pay scheduled benefits in full. After trust-fund exhaustion, therefore, for the people whose benefits would be lower under this option, the reduction in payable benefits would be smaller than the reduction in scheduled benefits.

RELATED OPTIONS: Mandatory Spending, "Make Social Security's Benefit Structure More Progressive" (page 32), "Raise the Full Retirement Age for Social Security" (page 33)

RELATED CBO PUBLICATIONS: *CBO's 2019 Long-Term Projections for Social Security: Additional Information* (September 2019), www.cbo.gov/publication/55590; *Social Security Policy Options, 2015* (December 2015), www.cbo.gov/publication/51011

Mandatory Spending—Option 25 Function 650

Make Social Security's Benefit Structure More Progressive

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Outlays												
Use 90/32/5 PIA factors	0	*	*	-0.1	-0.3	-0.6	-0.9	-1.3	-1.9	-2.5	-0.4	-7.6
Use 100/25/5 PIA factors	0	*	-0.2	-0.7	-1.5	-2.7	-4.2	-6.2	-8.6	-11.6	-2.4	-35.7

This option would take effect in January 2022.

PIA = primary insurance amount; * = between -$50 million and zero.

The amount of the Social Security benefit paid to a disabled worker or to a retired worker who claims benefits at the full retirement age is called the primary insurance amount (PIA). The Social Security Administration (SSA) calculates that amount using a formula applied to a worker's average indexed monthly earnings (AIME), a measure of average taxable earnings over that worker's lifetime. The benefit formula is progressive, meaning that the benefit is larger as a share of lifetime earnings for someone with a lower AIME than it is for a person with a higher AIME. To calculate the PIA, the SSA separates AIME into three brackets by using two threshold amounts, often called "bend points." In calendar year 2020, the first bend point is $960 and the second bend point is $5,785. Average indexed earnings in each of the three brackets are multiplied by three corresponding factors to determine the PIA: 90 percent, 32 percent, and 15 percent. (Bend points rise each year with average wages, whereas the factors remain constant.)

This option would make the Social Security benefit structure more progressive by reducing benefits for people with higher average earnings relative to the benefits they are scheduled to receive under current law, while either holding constant or increasing benefits for people with lower earnings. Starting with people newly eligible in 2022, the first alternative in this option would affect only beneficiaries with an AIME above the second bend point. That alternative would reduce the 15 percent PIA factor by 1 percentage point per year until it reached 5 percent in 2031. It would reduce scheduled benefits for about 13 percent of all newly eligible beneficiaries—those with higher average monthly earnings.

The second alternative in this option would reduce scheduled benefits for more beneficiaries with higher lifetime earnings while increasing scheduled benefits for people with lower lifetime earnings. It would increase the 90 percent factor and lower both the 32 percent and 15 percent factors. The factors would change gradually over 10 years until they reached 100 percent, 25 percent, and 5 percent, respectively. (The 15 percent and 90 percent factors would change by 1 percentage point per year; the 32 percent factor would change by 0.7 percentage points per year.) About 45 percent of new beneficiaries—those with lower average monthly earnings—would receive larger benefits than they would be scheduled to receive under current law. About 55 percent of new beneficiaries—those with higher average monthly earnings—would receive benefits that are smaller than they are scheduled to receive under current law.

The Congressional Budget Office projects that under current law, the Disability Insurance trust fund would be exhausted in fiscal year 2026, and the Old-Age and Survivors Insurance trust fund would be exhausted in calendar year 2031. Under section 257 of the Deficit Control Act, in its projections CBO must assume that scheduled Social Security benefits would be paid even after the program's trust funds were exhausted. However, the government's legal authority to pay benefits would then be limited to the amount received in dedicated tax revenues, which would be insufficient to pay scheduled benefits in full. After trust-fund exhaustion, therefore, for the people whose benefits would be lower under this option, the reduction in payable benefits would be smaller than the reduction in scheduled benefits.

RELATED OPTIONS: Mandatory Spending, "Link Initial Social Security Benefits to Average Prices Instead of Average Earnings" (page 31), "Raise the Full Retirement Age for Social Security" (page 33)

RELATED CBO PUBLICATIONS: *CBO's 2019 Long-Term Projections for Social Security: Additional Information* (September 2019), www.cbo.gov/publication/55590; *Social Security Policy Options, 2015* (December 2015), www.cbo.gov/publication/51011

Mandatory Spending—Option 26 **Function 650**

Raise the Full Retirement Age for Social Security

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Outlays	0	0	-0.2	-0.9	-2.2	-4.3	-7.0	-12.4	-19.0	-26.2	-3.3	-72.2

This option would take effect in January 2023.

The age at which workers become eligible for full retirement benefits from Social Security—known as the full retirement age (FRA)—depends on their year of birth. For workers born after 1959, the FRA is 67. (For workers born earlier, the FRA is lower.) Workers, regardless of their year of birth, may claim benefits as early as age 62. Their scheduled benefit is adjusted depending on how much earlier or later than their FRA they choose to start receiving benefits. Up to age 70, the later a worker begins receiving benefits, the larger the monthly benefit.

Under this option, the FRA would increase from 67 by two months per birth year for workers born between 1961 and 1978. As a result, for all workers born in 1978 or later, the FRA would be 70. As under current law, workers could still choose to begin receiving benefits as early as age 62, but the reduction in their initial scheduled monthly benefit for claiming benefits early would be larger under this option than under current law. An increase in the FRA would reduce scheduled lifetime benefits for every affected Social Security recipient, regardless of the age at which a person claimed benefits. Workers could maintain the same scheduled monthly benefit by claiming benefits at a later age, but they would then receive benefits for fewer months.

The Congressional Budget Office projects that under current law, the Disability Insurance trust fund would be exhausted in fiscal year 2026 and the Old-Age and Survivors Insurance trust fund would be exhausted in calendar year 2031. Under section 257 of the Deficit Control Act, in its projections CBO must assume that scheduled Social Security benefits would be paid even after the program's trust funds were exhausted. However, the government's legal authority to pay benefits would then be limited to the amount received in dedicated tax revenues, which would be insufficient to pay scheduled benefits in full. After trust-fund exhaustion, therefore, for the people who would be affected by this option, the reduction in payable benefits would be smaller than the reduction in scheduled benefits.

RELATED OPTIONS: Mandatory Spending, "Link Initial Social Security Benefits to Average Prices Instead of Average Earnings" (page 31), "Make Social Security's Benefit Structure More Progressive" (page 32), "Eliminate Eligibility for Starting Social Security Disability Benefits at Age 62 or Later" (page 35)

RELATED CBO PUBLICATIONS: *CBO's 2019 Long-Term Projections for Social Security: Additional Information* (September 2019), www.cbo.gov/publication/55590; *Social Security Policy Options, 2015* (December 2015), www.cbo.gov/publication/51011; *Raising the Ages of Eligibility for Medicare and Social Security* (January 2012), www.cbo.gov/publication/42683

Mandatory Spending—Option 27 | Function 650

Require Social Security Disability Insurance Applicants to Have Worked More in Recent Years

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Outlays	0	-0.7	-1.8	-3.0	-4.3	-5.4	-6.4	-7.4	-8.3	-9.3	-9.8	-46.6

This option would take effect in January 2022.

Estimates include effects on Social Security only and not on other federal programs that could be affected, such as Supplemental Security Income, Medicare, Medicaid, and subsidies for coverage obtained through marketplaces established by the Affordable Care Act.

To be eligible for benefits under Social Security Disability Insurance, most disabled workers must have worked 5 of the past 10 years. Specifically, workers over age 30 must have earned at least 20 quarters of coverage in the past 10 years. (In this option, the 10-year time frame is referred to as the look-back period.)

This option would increase the share of recent years that disabled workers must have worked while shortening the look-back period. It would require disabled workers older than 30 to have earned 16 quarters of coverage in the past 6 years—usually equivalent to working 4 of the past 6 years. That change in policy would apply to new applicants seeking benefits and would not affect blind applicants, who are exempt from the recency-of-work requirement. Disabled workers already receiving disability benefits would not be affected.

The Congressional Budget Office projects that under current law, the Disability Insurance trust fund would be exhausted in fiscal year 2026, and the Old-Age and Survivors Insurance trust fund would be exhausted in calendar year 2031. Under section 257 of the Deficit Control Act, in its projections CBO must assume that scheduled Social Security benefits would be paid even after the program's trust funds were exhausted. However, the government's legal authority to pay benefits would then be limited to the amount received in dedicated tax revenues, which would be insufficient to pay scheduled benefits in full. After trust-fund exhaustion, therefore, for the people who would lose eligibility under this option, the reduction in payable benefits would be smaller than the reduction in scheduled benefits.

RELATED OPTION: Mandatory Spending, "Eliminate Eligibility for Starting Social Security Disability Benefits at Age 62 or Later" (page 35)

RELATED CBO PUBLICATIONS: *Social Security Disability Insurance: Participation and Spending* (June 2016), www.cbo.gov/publication/51443; *Social Security Policy Options, 2015* (December 2015), www.cbo.gov/publication/51011; *Policy Options for the Social Security Disability Insurance Program* (July 2012), www.cbo.gov/publication/43421

Mandatory Spending—Option 28 **Function 650**

Eliminate Eligibility for Starting Social Security Disability Benefits at Age 62 or Later

											Total	
Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021–2025	2021–2030
Change in Outlays	0	-0.2	-0.6	-1.2	-1.7	-2.3	-2.9	-3.4	-4.0	-4.5	-3.7	-20.8

This option would take effect in January 2022.

Estimates include effects on Social Security only and not on other federal programs that could be affected, such as Supplemental Security Income, Medicare, Medicaid, and subsidies for coverage obtained through marketplaces established by the Affordable Care Act.

Under current law, people who qualify for Social Security Disability Insurance (DI) are eligible until they reach their full retirement age (FRA). For workers born after 1959, the FRA is 67. (For those born earlier, the FRA is lower.) Workers who claim retirement benefits after turning 62 but before reaching their FRA receive smaller benefits for as long as they live. By contrast, workers who claim DI benefits before their FRA are not subject to a reduction in DI benefits, and when they reach their FRA, their DI benefits are automatically converted to full retirement benefits. That difference in benefits encourages some people between age 62 and their FRA to apply for DI when they apply for Social Security retirement benefits. Those people receive reduced retirement benefits until they are approved for the DI program. If approved, they then receive larger benefits for the rest of their life than they would if they had applied only for retirement benefits.

Under this option, workers would not be allowed to apply for DI benefits after their 62nd birthday, nor would they receive DI benefits for a qualifying disability that begins after that date. Under such a policy, people who would have become eligible for DI benefits at age 62 or later under current law would instead have to claim retirement benefits if they wanted to receive Social Security benefits based on their own earnings. Those people would receive up to 30 percent lower monthly benefits than they are scheduled to receive under current law. Workers who became disabled and applied for benefits before age 62 would not be affected by this option.

The Congressional Budget Office projects that under current law, the Disability Insurance trust fund would be exhausted in fiscal year 2026 and the Old-Age and Survivors Insurance trust fund would be exhausted in calendar year 2031. Under section 257 of the Deficit Control Act, in its projections CBO must assume that scheduled Social Security benefits would be paid even after the program's trust funds were exhausted. However, the government's legal authority to pay benefits would then be limited to the amount received in dedicated tax revenues, which would be insufficient to pay scheduled benefits in full. After trust-fund exhaustion, therefore, for the people who would be affected by this option, the reduction in payable benefits would be smaller than the reduction in scheduled benefits.

RELATED OPTIONS: Mandatory Spending, "Raise the Full Retirement Age for Social Security" (page 33), "Require Social Security Disability Insurance Applicants to Have Worked More in Recent Years" (page 34)

RELATED CBO PUBLICATION: *Social Security Disability Insurance: Participation and Spending* (June 2016), www.cbo.gov/publication/51443

Mandatory Spending—Option 29 Function 700

End VA's Individual Unemployability Payments to Disabled Veterans at the Full Retirement Age for Social Security

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Outlays												
End IU payments to all veterans age 67 or older	0	-3.2	-4.2	-3.9	-4.5	-4.6	-4.8	-5.4	-4.6	-5.2	-15.8	-40.4
End IU payments to all veterans age 67 or older who would begin receiving IU after December 2021	0	*	-0.3	-0.5	-0.7	-0.9	-1.1	-1.5	-1.5	-1.9	-1.6	-8.5

This option would take effect in January 2022.

IU = Individual Unemployability; * = between -$50 million and zero.

The Department of Veterans Affairs (VA) provides disability compensation to veterans with medical conditions or injuries that were incurred or worsened during active-duty service. The amount of compensation depends on the severity of their disabilities (which are rated between zero and 100 percent) and other factors. In addition, VA may increase certain veterans' disability compensation to the 100 percent level even though the department has not rated their service-connected disabilities at that level. To receive the resulting supplemental compensation, termed Individual Unemployability (IU) payments, disabled veterans must apply for the benefit and meet two criteria. First, they generally must be rated between 60 percent and 90 percent disabled. Second, VA must determine that the veterans cannot maintain substantially gainful employment because of the severity of a service-connected disability. Receipt of IU is not based on age, voluntary withdrawal from work, or other factors.

This option consists of two alternatives. Under the first, VA would stop making IU payments to veterans age 67 or older (the full retirement age for Social Security benefits for those born after 1959). That restriction would apply to both current and prospective recipients. When veterans reach age 67, all VA disability payments would revert to the amount associated with the rated disability level; veterans age 67 or older who are already receiving IU payments would no longer receive them after the effective date of the option. Under the second alternative, veterans who begin receiving the IU supplement after December 2021 would no longer receive those payments once they reach age 67, and no new applicants age 67 or older would be eligible for IU benefits after that date. Veterans who are already receiving IU payments and are age 67 or older after the effective date of the option would continue to collect the IU supplement.

RELATED OPTIONS: Mandatory Spending, "Reduce VA's Disability Benefits to Veterans Who Are Older Than the Full Retirement Age for Social Security" (page 37), "Narrow Eligibility for VA's Disability Compensation by Excluding Veterans With Low Disability Ratings" (page 38); Revenues, "Include Disability Payments From the Department of Veterans Affairs in Taxable Income" (page 67)

RELATED CBO PUBLICATIONS: *Possible Higher Spending Paths for Veterans' Benefits* (December 2018), www.cbo.gov/publication/54881; *Veterans' Disability Compensation: Trends and Policy Options* (August 2014), www.cbo.gov/publication/45615

Mandatory Spending—Option 30 **Function 700**

Reduce VA's Disability Benefits to Veterans Who Are Older Than the Full Retirement Age for Social Security

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Outlays	0	-0.9	-1.5	-1.9	-2.3	-2.7	-3.2	-3.6	-4.1	-4.5	-6.6	-24.8

This option would take effect in January 2022.

Veterans with medical conditions or injuries that occurred or worsened during active-duty service receive disability compensation from the Department of Veterans Affairs (VA). VA's disability payments are intended to compensate for the average earnings that veterans would be expected to lose given the severity of their service-connected medical conditions or injuries, whether or not a particular veteran's condition actually reduced his or her earnings. Disability compensation is not means-tested: Veterans who work are eligible for benefits, and most working-age veterans who receive such compensation are employed. After veterans reach Social Security's full retirement age, VA's disability payments continue at the same level. By contrast, the income that people receive from Social Security or private pensions after they retire usually is less than their earnings from wages and salary before retirement.

Under this option, veterans who start receiving disability compensation payments in 2022 or later would have those payments reduced by 30 percent at age 67. (Social Security's full retirement age is 67 for people born after 1959). Social Security and pension benefits would be unaffected by this option. Veterans who are already collecting disability compensation would see no reduction in their VA disability benefits when they reach age 67.

RELATED OPTIONS: Mandatory Spending, "End VA's Individual Unemployability Payments to Disabled Veterans at the Full Retirement Age for Social Security" (page 36), "Narrow Eligibility for VA's Disability Compensation by Excluding Veterans With Low Disability Ratings" (page 38); Revenues, "Include Disability Payments From the Department of Veterans Affairs in Taxable Income" (page 67)

RELATED CBO PUBLICATIONS: *Possible Higher Spending Paths for Veterans' Benefits* (December 2018), www.cbo.gov/publication/54881; *Veterans' Disability Compensation: Trends and Policy Options* (August 2014), www.cbo.gov/publication/45615

Mandatory Spending—Option 31 Function 700

Narrow Eligibility for VA's Disability Compensation by Excluding Veterans With Low Disability Ratings

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Outlays												
Require disability ratings of 30 percent or higher for disability compensation for all veterans	0	-2.6	-3.6	-3.9	-4.1	-4.4	-4.6	-4.8	-5.0	-5.2	-14.4	-38.2
Require disability ratings of 30 percent or higher for disability compensation for new applicants	0	*	-0.3	-0.4	-0.6	-0.7	-0.9	-1.0	-1.1	-1.3	-1.3	-6.3

This option would take effect in January 2022.

* = between -$50 million and zero.

Veterans with medical conditions or injuries that occurred or worsened during active-duty service receive disability compensation from the Department of Veterans Affairs (VA). The base amount of compensation veterans receive depends on the severity of their disabilities, which are rated between zero (least severe) and 100 percent (most severe) in increments of 10; the most common rating is 10 percent. The amount of compensation is intended to offset the average amount of earnings that veterans would be expected to lose given the severity of their service-connected medical conditions or injuries, whether or not a particular veteran's condition actually reduced his or her earnings.

Under this option's first alternative, VA would narrow eligibility for disability compensation by requiring a disability rating of 30 percent or higher for all veterans; as a result, some current recipients would no longer receive benefits. The second alternative would require a 30 percent or higher disability rating only for new disability compensation applicants. (Current recipients would not be affected.)

RELATED OPTIONS: Mandatory Spending, "End VA's Individual Unemployability Payments to Disabled Veterans at the Full Retirement Age for Social Security" (page 36), "Reduce VA's Disability Benefits to Veterans Who Are Older Than the Full Retirement Age for Social Security" (page 37); Revenues, "Include Disability Payments From the Department of Veterans Affairs in Taxable Income" (page 67)

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Mandatory Spending—Option 32 **Multiple Functions**

Use an Alternative Measure of Inflation to Index Social Security and Other Mandatory Programs

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Outlays												
Social Security	0	-2.1	-5.1	-8.4	-11.9	-15.8	-19.7	-23.8	-28.1	-32.7	-27.5	-147.6
Other benefit programs with COLAs[a]	0	-0.7	-1.6	-2.4	-3.2	-4.1	-5.0	-5.9	-6.7	-7.5	-7.8	-37.0
Effects on SNAP from interactions with COLA programs[b]	0	0.1	0.1	0.2	0.3	0.4	0.4	0.5	0.6	0.6	0.7	3.1
Health programs[c]	0	-0.4	-1.3	-2.2	-3.0	-3.9	-5.0	-6.1	-7.3	-8.7	-6.8	-37.7
Other federal spending[d]	0	*	-0.2	-0.2	-0.3	-0.4	-0.5	-0.6	-0.7	-0.7	-0.7	-3.7
Total	0	-3.1	-8.0	-13.0	-18.1	-23.8	-29.7	-35.9	-42.3	-49.0	-42.2	-223.0
Change in Revenues[e]	0	*	*	*	*	*	*	*	*	-0.1	-0.1	-0.2
Decrease (-) in the Deficit	0	-3.1	-8.0	-13.0	-18.1	-23.8	-29.7	-35.9	-42.2	-49.0	-42.2	-222.7

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

This option would take effect in January 2022.

COLA = cost-of-living adjustment; SNAP = Supplemental Nutrition Assistance Program; * = between -$50 million and zero.

a. Other benefit programs with COLAs include civil service retirement, military retirement, Supplemental Security Income, veterans' pensions and compensation, and other retirement programs whose COLAs are linked directly to those for Social Security or civil service retirement.

b. The policy change would reduce payments from other federal programs to people who also receive benefits from SNAP. Because SNAP benefits are based on a formula that considers such income, a decrease in those other payments would lead to an increase in SNAP benefits.

c. Outlays for health programs consist of spending for Medicare (net of premiums and other offsetting receipts), Medicaid, and the Children's Health Insurance Program as well as outlays to subsidize health insurance purchased through the marketplaces established by the Affordable Care Act and related spending.

d. Other federal spending includes changes to benefits and various aspects (eligibility thresholds, funding levels, and payment rates, for instance) of other federal programs, such as those providing Pell grants and student loans, SNAP, child nutrition programs, and programs (other than health programs) linked to the federal poverty guidelines. (The changes in spending on SNAP included here are those besides the changes in benefits that result from interactions with COLA programs.)

e. The effects on revenues reflect slightly higher enrollment in employment-based health insurance coverage under the option.

Cost-of-living adjustments (COLAs) for Social Security and many other parameters of federal programs are indexed to increases in traditional measures of the consumer price index (CPI). The CPI measures overall inflation and is calculated by the Bureau of Labor Statistics (BLS). In addition to the traditional measures of the CPI, BLS computes another measure of inflation—the chained CPI—which is designed to account for changes in spending patterns and to eliminate several types of statistical biases that exist in the traditional CPI measures. Under current law, the chained CPI is used for indexing most parameters of the tax system, including the individual income tax brackets. The chained CPI-U has grown by an average of about 0.25 percentage points more slowly per year since 2001 than the traditional CPI measures have, and the Congressional Budget Office expects that trend to continue.

This option would expand the use of the chained CPI. It would be used to index COLAs for Social Security and to compute inflation-indexed parameters of other federal programs.

RELATED CBO PUBLICATION: Testimony of Jeffrey Kling, Associate Director for Economic Analysis, before the Subcommittee on Social Security, Committee on Ways and Means, U.S. House of Representatives, *Using the Chained CPI to Index Social Security, Other Federal Programs, and the Tax Code for Inflation* (April 18, 2013), www.cbo.gov/publication/44083

Chapter 3: Discretionary Spending Options

Discretionary Spending—Option 1 **Function 050**

Reduce the Department of Defense's Budget

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Reduce DoD's Budget by 10 Percent Relative to the Amount Planned for 2024												
Change in Planned Defense Spending												
Budget authority	0	-24	-49	-75	-70	-87	-95	-98	-93	-96	-218	-687
Outlays	0	-14	-34	-57	-64	-76	-86	-92	-91	-93	-169	-607
Reduce DoD's Budget by 5 Percent Relative to the Amount Planned for 2024												
Change in Planned Defense Spending												
Budget authority	0	-12	-25	-37	-31	-47	-54	-55	-50	-50	-105	-361
Outlays	0	-7	-17	-28	-29	-39	-47	-51	-50	-49	-81	-317

This option would take effect in October 2021.

Estimates of savings displayed in the table are based on the Department of Defense's 2021 Future Years Defense Program and the Congressional Budget Office's extension of that plan.

DoD = Department of Defense.

According to its Future Years Defense Program (FYDP) for 2021, the Department of Defense (DoD) anticipates that its budget will average about $735 billion per year through 2025.

This option includes two alternative decreases in DoD's budget. The first would reduce DoD's budget over three years so that funding in 2024 would be 10 percent less than the funding planned for that year in the Administration's 2021 FYDP. The second would reduce DoD's budget by 5 percent over that same period. Both alternatives would allow for real (inflation-adjusted) growth of 1 percent annually after 2024.

RELATED OPTION: Discretionary Spending, "Reduce DoD's Operation and Maintenance Appropriation (Excluding Funding for the Defense Health Program)" (page 42)

RELATED CBO PUBLICATIONS: *Long-Term Implications of the 2021 Future Years Defense Program* (September 2020), www.cbo.gov/publication/56526; *The U.S. Military's Force Structure: A Primer* (July 2016), www.cbo.gov/publication/51535; *Approaches for Scaling Back the Defense Department's Budget Plans* (March 2013), www.cbo.gov/publication/43997

Discretionary Spending—Option 2 Function 050

Reduce DoD's Operation and Maintenance Appropriation (Excluding Funding for the Defense Health Program)

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Freeze O&M Budget for Five Years and Then Limit Its Growth to the Rate of Inflation												
Change in Planned Defense Spending												
Budget authority	0	-6	-8	-13	-18	-21	-25	-28	-32	-36	-45	-187
Outlays	0	-4	-7	-11	-15	-19	-23	-26	-30	-33	-37	-168
Limit the Growth of O&M Budget to the Rate of Inflation												
Change in Planned Defense Spending												
Budget authority	0	-2	-2	-3	-3	-5	-8	-12	-15	-19	-10	-69
Outlays	0	-1	-2	-3	-3	-4	-7	-10	-13	-17	-9	-60

This option would take effect in October 2021.

Estimates of savings displayed in the table are based on the Department of Defense's 2021 Future Years Defense Program and the Congressional Budget Office's extension of that plan.

DoD = Department of Defense; O&M = operation and maintenance.

The Department of Defense (DoD) uses funds from its operation and maintenance (O&M) accounts to pay the salaries and benefits of most of its civilian employees, to train its military personnel, and to purchase goods (such as paper clips and jet fuel) and services (including equipment maintenance and repair and information technology support). O&M accounts are also used to fund health care for military personnel, mainly through the Defense Health Program (DHP). Based on DoD's 2021 Future Years Defense Program, the Congressional Budget Office projects that O&M spending will grow faster than inflation through 2030.

This option has two alternatives. Both would reduce growth in DoD's O&M appropriations (both base funding and overseas contingency operations funding) without affecting O&M funding for the DHP. CBO excluded funding for the DHP from this option because the causes of growth in that program are well known and distinct from the factors that underlie growth in other O&M accounts.

Under the first alternative, DoD's O&M appropriations for 2022 through 2025 would equal the amount that the department requested in its budget for 2021. That portion of the budget would grow by no more than inflation from 2026 through 2030. Under the second alternative, DoD's O&M appropriations would grow by no more than inflation from the 2021 amount throughout the entire 10-year period.

RELATED OPTIONS: Discretionary Spending, "Reduce the Department of Defense's Budget" (page 41), "Replace Some Military Personnel With Civilian Employees" (page 44)

RELATED CBO PUBLICATION: *Trends in Spending by the Department of Defense for Operation and Maintenance* (January 2017), www.cbo.gov/publication/52156

Discretionary Spending—Option 3 **Function 050**

Cap Increases in Basic Pay for Military Service Members

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Spending												
Budget authority	0	-0.4	-0.9	-1.5	-2.0	-2.6	-2.8	-2.9	-3.0	-3.1	-4.8	-19.2
Outlays	0	-0.4	-0.9	-1.4	-2.0	-2.6	-2.8	-2.9	-3.0	-3.1	-4.7	-19.1

This option would take effect in January 2022.

About 30 percent of the savings are intragovernmental transactions and thus would not reduce the deficit. Such transactions would transfer resources from one category of the budget to another: Capping increases in basic pay would lower the Department of Defense's payments for retirement accruals and Social Security contributions, but those lower payments would reduce federal receipts by an equal amount and thus would fully offset the savings.

Basic pay is typically the largest component of military service members' cash compensation. Under current law, the annual pay raise for service members is, by default, set to equal the percentage change in the employment cost index (ECI) for wages and salaries of workers in private industry. Lawmakers have sometimes enacted pay raises that are larger or smaller than the default adjustment.

This option would cap basic pay raises for military service members at 0.5 percentage points below the increase in the ECI until 2027.

RELATED OPTION: Discretionary Spending, "Reduce the Annual Across-the-Board Adjustment for Federal Civilian Employees' Pay" (page 55)

RELATED CBO PUBLICATIONS: *Long-Term Implications of the 2021 Future Years Defense Program* (September 2020), www.cbo.gov/publication/56526; *Approaches to Changing Military Compensation* (January 2020), www.cbo.gov/publication/55648; *Analysis of the Long-Term Costs of the Administration's Goals for the Military* (December 2017), www.cbo.gov/publication/53350

Discretionary Spending—Option 4 Function 050

Replace Some Military Personnel With Civilian Employees

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Spending												
Budget authority	0	-0.3	-0.8	-1.3	-1.9	-2.3	-2.4	-2.5	-2.6	-2.7	-4.3	-16.8
Outlays	0	-0.2	-0.6	-1.1	-1.6	-1.9	-2.1	-2.2	-2.3	-2.4	-3.5	-14.4

This option would take effect in October 2021.

About 40 percent of the savings displayed are intragovernmental transactions and thus would not reduce the deficit. Such transactions would transfer resources from one category of the budget to another: Fewer military personnel would lower the Department of Defense's payments for retirement accruals and Social Security contributions, but those lower payments would reduce federal receipts by an equal amount and thus would fully offset the savings.

The workforce of the Department of Defense (DoD) consists of members of the active-duty and reserve military, federal civilian employees, and private contractors. According to data from DoD, more than 300,000 active-duty members of the military work in support, or commercial, jobs that could be performed by civilian employees or contractors at a lower overall cost to the federal government.

Under this option, DoD would replace, over four years, 80,000 active-duty military personnel in commercial jobs with 64,000 civilian employees.

RELATED OPTION: Discretionary Spending, "Reduce DoD's Operation and Maintenance Appropriation (Excluding Funding for the Defense Health Program)" (page 42)

RELATED CBO PUBLICATION: *Replacing Military Personnel in Support Positions With Civilian Employees* (December 2015), www.cbo.gov/publication/51012

Discretionary Spending—Option 5 **Function 050**

Stop Building Ford Class Aircraft Carriers

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Planned Defense Spending												
Budget authority	0	0	0	0	0	-0.7	-1.5	-1.6	-2.4	-3.3	0	-9.5
Outlays	0	0	0	0	0	*	-0.2	-0.6	-0.9	-1.4	0	-3.1

This option would take effect in October 2021.

Estimates of savings displayed in the table are based on the Department of Defense's 2021 Future Years Defense Program and the Congressional Budget Office's extension of that plan.

* = between −$50 million and zero.

The Navy's current 30-year shipbuilding plan includes the construction of new aircraft carriers.

Under this option, the Navy would stop building new aircraft carriers after completion of the fourth of its modern Ford class carriers, which lawmakers authorized in 2019 and which is expected to be completed in 2032. Plans to start building the fifth Ford class carrier in 2028 would be canceled, as would the Navy's plans to purchase additional carriers in subsequent years.

RELATED OPTION: Discretionary Spending, "Reduce Funding for Naval Ship Construction to Historical Levels" (page 46)

RELATED CBO PUBLICATIONS: *Long-Term Implications of the 2021 Future Years Defense Program* (September 2020), www.cbo.gov/publication/56526; *An Analysis of the Navy's Fiscal Year 2020 Shipbuilding Plan* (October 2019), www.cbo.gov/publication/55685; *How CBO Estimates the Cost of New Ships* (April 2018), www.cbo.gov/publication/53785; *Comparing a 355-Ship Fleet With Smaller Naval Forces* (March 2018), www.cbo.gov/publication/53637; *Costs of Building a 355-Ship Navy* (April 2017), www.cbo.gov/publication/52632

Discretionary Spending—Option 6 Function 050

Reduce Funding for Naval Ship Construction to Historical Levels

											Total	
Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021–2025	2021–2030
Change in Planned Defense Spending												
Budget authority	0	-4.8	-7.2	-9.1	-10.1	-9.7	-9.4	-9.0	-8.6	-8.2	-31.2	-76.1
Outlays	0	-0.2	-1.3	-3.0	-5.0	-6.8	-8.0	-8.7	-8.9	-8.9	-9.5	-50.8

This option would take effect in October 2021.

Estimates of savings displayed in the table are based on cost estimates from the Navy.

The Congressional Budget Office estimates that the annual cost of the Navy's fiscal year 2020 shipbuilding plan, which covers fiscal years 2020 to 2049, is almost double in real (inflation-adjusted) terms the average annual amount the Navy has spent on shipbuilding over the past 30 years.

This option would decrease annual budget authority for naval ship construction to its 30-year average in real terms.

RELATED OPTION: Discretionary Spending, "Stop Building Ford Class Aircraft Carriers" (page 45)

RELATED CBO PUBLICATIONS: *Long-Term Implications of the 2021 Future Years Defense Program* (September 2020), www.cbo.gov/publication/56526; *An Analysis of the Navy's Fiscal Year 2020 Shipbuilding Plan* (October 2019), www.cbo.gov/publication/55685; *How CBO Estimates the Cost of New Ships* (April 2018), www.cbo.gov/publication/53785; *Comparing a 355-Ship Fleet With Smaller Naval Forces* (March 2018), www.cbo.gov/publication/53637; *Costs of Building a 355-Ship Navy* (April 2017), www.cbo.gov/publication/52632; *Preserving the Navy's Forward Presence With a Smaller Fleet* (March 2015), www.cbo.gov/publication/49989

Discretionary Spending—Option 7 Function 050

Reduce the Size of the Nuclear Triad

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Retain a Nuclear Triad With 10 Submarines, 300 ICBMs, and 1,550 Warheads												
Change in Planned Defense Spending												
Budget authority	0	-0.1	-1.1	-1.4	-1.1	-2.7	-3.7	-0.4	-0.9	0.2	-3.7	-11.2
Outlays	0	*	-0.2	-0.5	-1.0	-1.2	-1.7	-2.1	-1.9	-1.7	-1.7	-10.3
Retain a Nuclear Triad With 8 Submarines, 150 ICBMs, and 1,000 Warheads												
Change in Planned Defense Spending												
Budget authority	0	-0.3	-1.2	-1.6	-1.2	-2.7	-3.9	-0.9	-1.4	-0.3	-4.3	-13.6
Outlays	0	*	-0.2	-0.6	-1.1	-1.4	-2.0	-2.5	-2.4	-2.1	-2.0	-12.4

This option would take effect in October 2021.

Estimates of savings displayed in the table are based on the Department of Defense's 2021 Future Years Defense Program, the Department of Energy's 2021 Future Years Nuclear Security Program, and the Congressional Budget Office's extension of those plans.

ICBM = intercontinental ballistic missile; * = between −$50 million and zero.

The United States' nuclear deterrence strategy is built around the strategic nuclear triad, which comprises long-range bombers, intercontinental ballistic missiles (ICBMs), and submarines that launch ballistic missiles (SSBNs). The United States maintains a strategic nuclear force that complies with the limits of the New START arms control treaty. That force consists of the following components: 12 deployed (14 total) Ohio class SSBNs that together carry up to 1,090 warheads on 240 missiles; 400 deployed (454 total) Minuteman III ICBMs, each carrying a single warhead; and 60 deployed (66 total) B-52H and B-2A bombers, each of which counts as a single warhead under the terms of New START. Almost all components of the triad are scheduled to be modernized (refurbished or replaced by new systems) over the next 20 years.

This option would reduce modernization costs for the ICBM and SSBN systems (two legs of the triad) by retiring some existing delivery systems early and by purchasing fewer of the new systems. The Congressional Budget Office examined two alternative approaches. The first would maintain the current number of deployed warheads at 1,550 (as defined by the terms of New START) but would reduce forces to 10 SSBNs and 300 ICBMs. The Navy would retire 4 Ohio class SSBNs at a rate of one per year starting in 2022; delay by one year the purchase of new SSBNs included in its current shipbuilding plan; and cancel orders for the last 2 SSBNs scheduled to be purchased under the current plan. In addition, the Department of Defense would retire 150 ICBMs—50 each year for three years starting in 2022—and procure 482 new ICBMs instead of the 642 that are in the current plan. The second alternative would make deeper cuts to forces and reduce the number of deployed warheads to 1,000 but still retain a triad structure. The Navy would field 8 SSBNs, and the Air Force would deploy 150 ICBMs.

RELATED OPTION: Discretionary Spending, "Cancel the Long-Range Standoff Weapon" (page 48)

RELATED CBO PUBLICATIONS: *The Potential Costs of Expanding U.S. Strategic Nuclear Forces If the New START Treaty Expires* (August 2020), www.cbo.gov/publication/56475; *Approaches for Managing the Costs of U.S. Nuclear Forces, 2017 to 2046* (October 2017), www.cbo.gov/publication/53211; *Projected Costs of U.S. Nuclear Forces, 2015 to 2024* (January 2015), www.cbo.gov/publication/49870

Discretionary Spending—Option 8 Function 050

Cancel the Long-Range Standoff Weapon

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Planned Defense Spending												
Budget authority	0	-1.4	-1.5	-1.4	-1.4	-1.3	-1.5	-1.5	-1.3	-1.2	-5.7	-12.5
Outlays	0	-0.8	-1.3	-1.4	-1.4	-1.3	-1.2	-1.1	-1.1	-1.1	-4.9	-10.7

This option would take effect in October 2021.

Estimates of savings displayed in the table are based on the Department of Defense's 2021 Future Years Defense Program, the Department of Energy's 2021 Future Years Nuclear Security Program, and the Congressional Budget Office's extension of those plans.

The Department of Defense (DoD) and the Department of Energy (DOE) are currently overseeing two programs aimed at developing nuclear weapons for the new B-21 stealth bomber. In the B61-12 life extension program (LEP), DOE is working to refurbish and combine several varieties of the B61 bomb into a single hybrid design. In the other program, DoD is developing the Long-Range Standoff Weapon (LRSO), a new nuclear air-launched cruise missile designed to replace the ALCM (the air-launched cruise missile currently carried by the B-52H). DOE is currently producing a warhead, the W80-4, for the LRSO to carry.

This option would cancel the LRSO and the W80-4 warhead development program but retain the B61-12 LEP. Thus, the Air Force would stop equipping bombers with cruise missiles armed with nuclear warheads after the current ALCMs reached the end of their service life (around 2030). This option would not change the planned size of the strategic bomber fleet or its ability to conduct nonnuclear missions, and aircraft that are capable of carrying nuclear bombs would still be able to do so.

RELATED OPTION: Discretionary Spending, "Reduce the Size of the Nuclear Triad" (page 47)

RELATED CBO PUBLICATIONS: *Long-Term Implications of the 2021 Future Years Defense Program* (September 2020), www.cbo.gov/publication/56526; *Approaches for Managing the Costs of U.S. Nuclear Forces, 2017 to 2046* (October 2017), www.cbo.gov/publication/53211; *Projected Costs of U.S. Nuclear Forces, 2015 to 2024* (January 2015), www.cbo.gov/publication/49870

Discretionary Spending—Option 9 Function 050

Defer Development of the B-21 Bomber

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Planned Defense Spending												
Budget authority	0	-2.9	-3.8	-5.2	-6.3	-7.3	-6.1	-5.9	-5.7	-5.8	-18.2	-49.0
Outlays	0	-1.4	-2.4	-2.7	-3.2	-4.2	-5.0	-5.5	-5.7	-5.8	-9.7	-35.9

This option would take effect in October 2021.

Estimates of savings displayed in the table are based on the Department of Defense's 2021 Future Years Defense Program and the Congressional Budget Office's extension of that plan.

The Air Force is developing a new bomber—designated the B-21—which it plans to field in the mid- to late 2020s. The Air Force currently operates a fleet of long-range bombers that entered service between the 1960s and 1990s and should be able to continue flying through at least the late 2030s.

This option would defer further development of the B-21 bomber until after 2030.

RELATED OPTION: "Reduce the Size of the Bomber Force by Retiring the B-1B" (page 50)

RELATED CBO PUBLICATIONS: *Long-Term Implications of the 2021 Future Years Defense Program* (September 2020), www.cbo.gov/publication/56526; *The Potential Costs of Expanding U.S. Strategic Nuclear Forces If the New START Treaty Expires* (August 2020), www.cbo.gov/publication/56475; *Approaches for Managing the Costs of U.S. Nuclear Forces, 2017 to 2046* (October 2017), www.cbo.gov/publication/53211

Discretionary Spending—Option 10 Function 050

Reduce the Size of the Bomber Force by Retiring the B-1B

											Total	
Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021–2025	2021–2030
Change in Planned Defense Spending												
Budget authority	0	-1.7	-1.7	-1.7	-1.7	-1.8	-1.5	-1.4	-1.2	-1.0	-6.8	-13.7
Outlays	0	-1.1	-1.5	-1.6	-1.7	-1.7	-1.6	-1.4	-1.2	-1.1	-5.9	-12.9

This option would take effect in October 2021.

Estimates of savings displayed in the table are based on cost estimates from the Air Force.

The Air Force uses B-1B bombers for conventional (nonnuclear) missions. Although the Air Force plans to replace them with B-21 bombers that are under development, the potential service life of many B-1B bombers extends well into the 2030s.

This option would retire the entire B-1B bomber fleet in 2022 and eliminate the military personnel positions in the squadrons that would be removed from the force. If the positions were reassigned to other parts of the Air Force rather than eliminated, then the outlay savings would be $3 billion lower.

RELATED OPTION: Discretionary Spending, "Defer Development of the B-21 Bomber" (page 49)

RELATED CBO PUBLICATION: *Long-Term Implications of the 2021 Future Years Defense Program* (September 2020), www.cbo.gov/publication/56526

Discretionary Spending—Option 11 Function 050

Reduce the Size of the Fighter Force by Retiring the F-22

											Total	
Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021–2025	2021–2030
Change in Planned Defense Spending												
Budget authority	0	-3.7	-3.8	-3.9	-4.0	-4.1	-4.2	-4.3	-4.4	-4.5	-15.4	-36.8
Outlays	0	-2.1	-3.0	-3.4	-3.7	-3.9	-4.0	-4.1	-4.2	-4.3	-12.2	-32.7

This option would take effect in October 2021.

Estimates of savings displayed in the table are based on cost estimates from the Air Force.

The Air Force's F-22 fighter aircraft are designed to engage in combat with enemy aircraft. The F-22 represents only one part of the Air Force's stealth fighter fleet.

This option would retire the entire F-22 fleet in 2022 and eliminate the military personnel positions in the squadrons that would be removed from the force. The Air Force would rely on other aircraft, stealthy and nonstealthy, to carry out the F-22's mission. If the positions were reassigned to other parts of the Air Force rather than eliminated, then the outlay savings would be $6 billion lower.

RELATED CBO PUBLICATION: *The Cost of Replacing Today's Air Force Fleet* (December 2018), www.cbo.gov/publication/54657

Discretionary Spending—Option 12 Function 050

Reduce the Basic Allowance for Housing to 80 Percent of Average Housing Costs

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Discretionary Spending												
Budget authority	0	-0.1	-0.2	-0.6	-1.0	-1.5	-2.0	-2.6	-3.2	-3.8	-1.9	-15.0
Outlays	0	-0.1	-0.2	-0.6	-1.0	-1.5	-2.0	-2.6	-3.1	-3.7	-1.9	-14.8
Change in Mandatory Outlays	0	*	-0.1	-0.1	-0.3	-0.4	-0.5	-0.8	-0.7	-1.0	-0.4	-3.8

This option would take effect in January 2022.

* = between −$50 million and zero.

The Department of Defense provides assistance to eligible personnel and their families to ensure they have access to affordable and quality housing. If government-owned military housing is not available (which is typically the case because it is very limited), service members are provided a Basic Allowance for Housing (BAH) to offset most of their costs for rent and utilities. Although initially BAH was set to cover about 80 percent of the costs for rent and utilities, it now covers 95 percent of average costs.

This option would return BAH to its original level by reducing it by 1.7 percentage points each January for nine years. (To minimize disruptions for service members currently in private housing, BAH would not change until they moved.) As a result, by 2030, BAH would once again cover 80 percent of rental and utility costs. Because the housing benefit that the Department of Veterans Affairs (VA) provides as part of the Post-9/11 GI Bill is tied to BAH rates, this option would also reduce mandatory VA spending.

Discretionary Spending—Option 13 Function 150

Reduce Funding for International Affairs Programs

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021-2030
Change in Spending												
Budget authority	0	-15	-15	-15	-16	-16	-17	-17	-17	-18	-61	-146
Outlays	0	-5	-9	-12	-13	-14	-15	-16	-16	-17	-38	-117

This option would take effect in October 2021.

The budget for international affairs funds diplomatic and consular programs, global health initiatives, security assistance, and other programs. Most funding for international affairs programs is administered by the Department of State or the Agency for International Development.

This option would reduce the total international affairs budget by 25 percent.

Discretionary Spending—Option 14 Function 400

Eliminate Funding for Amtrak and the Essential Air Service Program

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Eliminate Funding for Amtrak												
Change in Discretionary Spending												
Budget authority	0	-2.0	-2.1	-2.1	-2.2	-2.2	-2.3	-2.3	-2.3	-2.4	-8.4	-19.9
Outlays	0	-2.0	-2.1	-2.1	-2.2	-2.2	-2.3	-2.3	-2.3	-2.4	-8.4	-19.9
Discontinue the Essential Air Service Program[a]												
Change in Discretionary Spending												
Budget authority	0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.7	-1.6
Outlays	0	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.6	-1.6
Change in Mandatory Outlays	0	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.5	-1.5

This option would take effect in October 2021.

a. Changes in discretionary spending stem from discontinuing payments to air carriers; changes in mandatory spending stem from eliminating spending associated with fees charged to aircraft that fly over U.S. airspace but take off and land elsewhere.

The federal government subsidizes intercity travel by providing funding for the National Railroad Passenger Corporation—or Amtrak—as well as for the Essential Air Service (EAS) program, which was created to guarantee a minimal level of airline service to eligible communities. The EAS program has both discretionary and mandatory budget authority.

This option would eliminate funding for Amtrak and discontinue the EAS program.

Discretionary Spending—Option 15 Function 500

Eliminate Federal Funding for National Community Service

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Spending												
Budget authority	0	-1.1	-1.1	-1.2	-1.2	-1.2	-1.2	-1.3	-1.3	-1.3	-4.6	-11.0
Outlays	0	-0.2	-0.7	-0.9	-1.0	-1.1	-1.1	-1.2	-1.2	-1.3	-2.8	-8.7

This option would take effect in October 2021.

The Corporation for National and Community Service (CNCS), which operates the AmeriCorps and Senior Corps programs, receives public funding—from the federal, state, and local governments—and funding from private entities. CNCS programs provide financial and in-kind assistance to students, seniors, and others who volunteer in their communities in areas such as education, public safety, the environment, and health care. Participants in those programs receive one or more types of compensation, which can include living allowances, training, health coverage, and child care. In addition, upon completing their service, participants in certain programs can earn education awards, paid from the National Service Trust (NST).

This option would eliminate all federal funding for CNCS except for funding for the NST. In the absence of federal funding, the volunteer programs could continue to operate to the extent that state and local governments and private entities chose to fund them.

Discretionary Spending—Option 16 Function 500

Eliminate Head Start

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Spending												
Budget authority	0	-11	-11	-11	-12	-12	-12	-12	-12	-13	-45	-106
Outlays	0	-4	-10	-11	-11	-11	-12	-12	-12	-12	-36	-95

This option would take effect in October 2021.

The Head Start program provides comprehensive development services for children from low-income families. It is comprised of Head Start programs for preschoolers, which primarily serve 3- and 4-year-olds, and Early Head Start programs, which provide services to pregnant women and children under age 3. In 2019, Head Start served roughly 1 million children and pregnant women.

This option would eliminate Head Start.

RELATED CBO PUBLICATIONS: "How CBO Analyzes the Economic Effects of Changes in Federal Subsidies for Education and Job Training," *CBO Blog* (May 3, 2017), www.cbo.gov/publication/52361; *The Macroeconomic and Budgetary Effects of Federal Investment* (June 2016), www.cbo.gov/publication/51628

Discretionary Spending—Option 17 Function 500

Tighten Eligibility for Pell Grants

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Lower the EFC Cutoff Point to 65 Percent of the Maximum Pell Grant Award												
Change in Discretionary Spending												
Budget authority	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-2.1	-4.2
Outlays	-0.1	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-1.8	-3.9
Change in Mandatory Outlays	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4	-0.8
Restrict Pell Grants to Students With an EFC of Zero												
Change in Discretionary Spending												
Budget authority	-6.0	-6.2	-6.6	-6.9	-7.1	-7.3	-7.4	-7.5	-7.5	-7.6	-32.8	-70.0
Outlays	-1.6	-6.0	-6.3	-6.7	-6.9	-7.2	-7.3	-7.4	-7.5	-7.5	-27.5	-64.3
Change in Mandatory Outlays	-0.6	-2.1	-2.2	-2.3	-2.4	-2.5	-2.6	-2.6	-2.7	-2.7	-9.7	-22.8
Limit Pell Grants to Students in Families With Income Below 250 Percent of the Federal Poverty Level												
Change in Discretionary Spending												
Budget authority	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-2.4	-4.7
Outlays	-0.1	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-2.0	-4.3
Change in Mandatory Outlays	-0.1	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-1.6	-3.4

This option would take effect in July 2021.

EFC = expected family contribution; * = between −$50 million and zero.

The Federal Pell Grant Program is the largest source of federal grant aid to low-income students for undergraduate education. Eligibility for Pell grants is chiefly determined on the basis of a student's expected family contribution (EFC)—the amount, calculated using a formula established under federal law, that the government expects a family to contribute toward the cost of the student's postsecondary education. Students with an EFC exceeding 90 percent of the maximum Pell grant award do not qualify for a grant. Funding for the Pell grant program has both discretionary and mandatory components.

This option would tighten eligibility for Pell grants and could be implemented in one of three ways: lower the EFC cutoff point from 90 percent to 65 percent of the maximum Pell grant award, restrict eligibility to students whose EFC is zero, or limit eligibility to students from families with adjusted gross income below 250 percent of the federal poverty level.

RELATED OPTIONS: Mandatory Spending, "Eliminate or Reduce the Add-On to Pell Grants, Which Is Funded With Mandatory Spending" (page 12), "Reduce or Eliminate Subsidized Loans for Undergraduate Students" (page 14); Revenues, "Eliminate Certain Tax Preferences for Education Expenses" (page 70)

RELATED CBO PUBLICATIONS: *Federal Aid for Postsecondary Students* (June 2018), www.cbo.gov/publication/53736; *Distribution of Federal Support for Students Pursuing Higher Education in 2016* (June 2018), www.cbo.gov/publication/53732; *The Pell Grant Program: Recent Growth and Policy Options* (September 2013), www.cbo.gov/publication/44448

Discretionary Spending—Option 18 | Multiple Functions

Reduce the Annual Across-the-Board Adjustment for Federal Civilian Employees' Pay

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Spending												
Budget authority	0	-0.9	-2.2	-3.5	-4.9	-6.4	-7.9	-9.5	-11.2	-13.0	-11.6	-59.7
Outlays	0	-0.9	-2.2	-3.5	-4.9	-6.3	-7.9	-9.5	-11.2	-13.0	-11.4	-59.2

This option would take effect in January 2022.

Under the Federal Employees Pay Comparability Act of 1990 (FEPCA), most federal civilian employees receive a pay adjustment each January. The adjustment is 0.5 percentage points less than the annual growth in the employment cost index (ECI) for wages and salaries of workers in private industry, measured from the third quarter in one calendar year to the third quarter in the next. In recent years, however, policymakers have often lowered the adjustment.

This option would reduce the annual across-the-board adjustment by an additional 0.5 percentage points. As a result, from 2022 through 2030, the adjustment would equal the growth rate in the ECI minus 1 percentage point. If the growth rate for the ECI was less than 1 percent, which has not occurred since the enactment of FEPCA, then no across-the-board adjustment would be granted for that year.

RELATED OPTION: Discretionary Spending, "Cap Increases in Basic Pay for Military Service Members" (page 43)

RELATED CBO PUBLICATIONS: Justin Falk and Nadia Karamcheva, *Comparing the Effects of Current Pay and Defined Benefit Pensions on Employee Retention,* Working Paper 2018-06 (June 2018), www.cbo.gov/publication/54056; *Comparing the Compensation of Federal and Private-Sector Employees, 2011 to 2015* (April 2017), www.cbo.gov/publication/52637

Discretionary Spending—Option 19 | Multiple Functions

Reduce Funding for Certain Grants to State and Local Governments

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Reduce Department of Energy Grants for Energy Conservation and Weatherization												
Change in Spending												
Budget authority	0	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.7	-1.8
Outlays	0	*	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.4	-1.4
Reduce Environmental Protection Agency Funding for Wastewater and Drinking Water Infrastructure and Other Grants												
Change in Spending												
Budget authority	0	-1.2	-2.4	-2.4	-2.5	-2.5	-2.6	-2.6	-2.7	-2.7	-8.4	-21.5
Outlays	0	-0.1	-0.8	-1.7	-2.2	-2.4	-2.5	-2.5	-2.6	-2.6	-4.9	-17.6
Reduce Department of Housing and Urban Development Funding for Community Development Block Grants												
Change in Spending												
Budget authority	0	-0.9	-1.8	-1.8	-1.9	-1.9	-1.9	-2.0	-2.0	-2.0	-6.3	-16.2
Outlays	0	*	-0.2	-0.8	-1.5	-1.7	-1.8	-1.8	-1.9	-2.0	-2.4	-11.7
Reduce Funding for Certain Department of Education Grants												
Change in Spending												
Budget authority	0	-0.3	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-3.0	-5.9
Outlays	0	*	-0.2	-0.5	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	-2.0	-4.8
Reduce Funding for Certain Department of Justice Grants												
Change in Spending												
Budget authority	0	-0.7	-1.5	-1.5	-1.5	-1.6	-1.6	-1.6	-1.7	-1.7	-5.2	-13.3
Outlays	0	*	-0.1	-0.5	-0.9	-1.2	-1.4	-1.5	-1.5	-1.6	-1.5	-8.8
Total												
Change in Spending												
Budget authority	0	-3.0	-6.0	-6.0	-6.2	-6.3	-6.4	-6.5	-6.7	-6.7	-21.1	-53.8
Outlays	0	-0.1	-1.3	-3.2	-4.9	-5.6	-6.0	-6.1	-6.3	-6.5	-9.5	-40.3

This option would take effect in October 2021.

* = between −$50 million and zero.

The federal government provides grants to state and local governments in order to redistribute resources among communities around the country, finance local projects that may have national benefits, encourage policy experimentation by state and local governments, and promote national priorities. Although federal grants to state and local governments fund a wide variety of programs, spending is concentrated in the areas of health care, income security, education, the environment, and transportation.

This option would reduce funding for a group of grants by 50 percent over two years. New funding would be decreased by 25 percent in 2022 and by 50 percent for the remaining years through 2030. The option includes several possible changes that could be implemented individually or together. Those changes would reduce funding for the following programs:

- The Department of Energy's grants for energy conservation and weatherization through the Weatherization and Intergovernmental Programs Office.

- The Environmental Protection Agency's grants for wastewater and drinking water infrastructure, as well

as other grants that help states implement federal water, air, waste, and chemical programs.

- The Department of Housing and Urban Development's Community Development Block Grant (CDBG) program. The reduction includes only base CDBG funding and does not include any anticipated future disaster recovery funding.
- Certain Department of Education grants, like those for the 21st Century Community Learning Centers, which fund nonacademic programs that address students' physical, emotional, and social well-being.
- Certain Department of Justice grants to nonprofit community organizations and state and local law enforcement agencies. Those grants include State and Local Law Enforcement Assistance programs, Juvenile Justice programs, Community Oriented Policing Services grants, and grants administered through the Office on Violence Against Women.

RELATED CBO PUBLICATION: *Federal Grants to State and Local Governments* (March 2013), www.cbo.gov/publication/43967

Discretionary Spending—Option 20 **Multiple Functions**

Repeal the Davis-Bacon Act

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Discretionary Spending												
Spending authority	0	-0.9	-1.9	-1.9	-2.0	-2.0	-2.0	-2.1	-2.1	-2.2	-6.7	-17.1
Budget authority	0	-0.4	-0.8	-0.8	-0.8	-0.8	-0.9	-0.9	-0.9	-0.9	-2.8	-7.2
Outlays	0	-0.4	-1.0	-1.1	-1.2	-1.3	-1.4	-1.4	-1.4	-1.5	-3.7	-10.7
Change in Mandatory Outlays	0	*	*	*	*	-0.1	*	*	*	*	-0.2	-0.4

This option would take effect in October 2021.

Spending authority includes both budget authority and obligation limitations (such as those for certain transportation programs).

* = between -$50 million and zero.

The Davis-Bacon Act requires that workers on all federally funded or federally assisted construction projects whose contracts total more than $2,000 be paid no less than the prevailing wages in the area where the project is located. In 2020, about half of all federal or federally financed construction was funded through the Department of Transportation.

This option would repeal the Davis-Bacon Act, which would lower the federal government's costs for construction; the option would make corresponding reductions in appropriations and in limits on the government's authority to enter into obligations for certain transportation programs to reflect those lower costs. Most of the spending for federal or federally financed construction is discretionary, but this option would also have a small effect on mandatory outlays.

Chapter 4: Revenue Options

Revenues—Option 1

Increase Individual Income Tax Rates

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Revenues												
Raise all tax rates on ordinary income by 1 percentage point	54.7	81.4	85.7	90.3	95.3	89.0	89.8	94.7	99.2	103.8	407.4	884.0
Raise all tax rates on ordinary income in the top four brackets by 1 percentage point	13.1	19.8	21.0	22.3	23.8	20.0	19.3	20.4	21.3	22.3	100.0	203.3
Raise all tax rates on ordinary income in the top two brackets by 1 percentage point	7.0	10.6	11.2	11.8	12.6	11.6	11.6	12.1	12.5	12.9	53.2	113.8

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

The estimates include the effects on outlays resulting from changes in refundable tax credits.

As specified by the tax code, different statutory tax rates apply to different portions of people's taxable ordinary income. (Taxable ordinary income is all income subject to the individual income tax other than most long-term capital gains and dividends, minus allowable adjustments, exemptions, and deductions.) Tax brackets—the income ranges to which different rates apply—vary depending on taxpayers' filing status and are adjusted, or indexed, each year to include the effects of inflation. Through calendar year 2025, taxable ordinary income earned by most individuals is subject to the following seven statutory rates: 10 percent, 12 percent, 22 percent, 24 percent, 32 percent, 35 percent, and 37 percent. At the end of 2025, nearly all provisions of the 2017 tax act that affect individual income taxes are scheduled to expire, and the rates will revert to those under pre-2018 tax law. Beginning in 2026, the rates will be 10 percent, 15 percent, 25 percent, 28 percent, 33 percent, 35 percent, and 39.6 percent.

This option consists of three alternative approaches for increasing statutory rates under the individual income tax. The first alternative would raise all tax rates on ordinary income by 1 percentage point; the second would raise all tax rates on ordinary income in the top four brackets by 1 percentage point; and the third would raise all tax rates on ordinary income in the top two brackets by 1 percentage point. Under all three alternatives, the scheduled changes to the underlying tax brackets and rates would still take effect in 2026.

RELATED OPTION: Revenues, "Raise the Tax Rates on Long-Term Capital Gains and Qualified Dividends by 2 Percentage Points" (page 60)

RELATED CBO PUBLICATION: *The Distribution of Household Income, 2017* (October 2020), www.cbo.gov/publication/56575

Revenues—Option 2

Raise the Tax Rates on Long-Term Capital Gains and Qualified Dividends by 2 Percentage Points

											Total	
Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021–2025	2021–2030
Change in Revenues	1.4	6.4	7.1	7.6	8.1	8.5	8.4	8.8	9.3	9.6	30.6	75.2

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

When people sell an asset for more than the price at which they obtained it, they generally realize a capital gain that is subject to taxation. Under current law, long-term capital gains (those realized on assets held for more than a year) and qualified dividends (which includes most dividends) are usually taxed at lower rates than other sources of income, such as wages and interest. The statutory rate on most long-term capital gains and qualified dividends is 0 percent, 15 percent, or 20 percent, depending on a taxpayer's filing status and taxable income.

This option would raise the statutory tax rates on long-term capital gains and qualified dividends by 2 percentage points. The new rates would then be 2 percent, 17 percent, and 22 percent. It would not change other provisions of the tax code that affect taxes on capital gains and dividends.

RELATED OPTIONS: Revenues, "Increase Individual Income Tax Rates" (page 59), "Change the Tax Treatment of Capital Gains From Sales of Inherited Assets" (page 64), "Expand the Base of the Net Investment Income Tax to Include the Income of Active Participants in S Corporations and Limited Partnerships" (page 66), "Increase the Corporate Income Tax Rate by 1 Percentage Point" (page 77), "Impose a Tax on Financial Transactions" (page 86)

RELATED CBO PUBLICATIONS: *The Distribution of Asset Holdings and Capital Gains* (August 2016), www.cbo.gov/publication/51831; *The Distribution of Major Tax Expenditures in the Individual Income Tax System* (May 2013), www.cbo.gov/publication/43768; Tim Dowd, Robert McClelland, and Athiphat Muthitacharoen, *New Evidence on the Tax Elasticity of Capital Gains*, Working Paper 2012-09 (June 2012, updated August 2012), www.cbo.gov/publication/43334

Revenues—Option 3

Eliminate or Modify Head-of-Household Filing Status

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Revenues												
Eliminate head-of-household filing status	10.7	15.8	16.9	17.8	18.8	15.4	14.4	15.2	15.9	16.6	80.0	157.6
Limit head-of-household filing status to unmarried people with a qualifying child under 17	4.1	6.2	6.5	6.9	7.4	6.1	5.7	6.1	6.4	6.6	31.1	62.0

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

On their tax returns, people must indicate their filing status (such as married, single, or head of household), which has implications for the amount of taxes they owe. Those who are not married generally file as single or as a head of household. A head of household receives tax preferences that are not available to other unmarried individuals: They are eligible for a larger standard deduction, and lower tax rates apply to a greater share of their income. Moreover, heads of households qualify for some tax preferences at higher levels of income than those who file as single.

To qualify as a head of household, unmarried people must pay most of the costs of maintaining the household in which they have resided with a qualifying person for more than half of the year. The rules for claiming a qualifying person vary. In addition to meeting certain residency and relationship criteria, a child claimed as a qualifying person must be under the age of 19, under 24 and a full-time student, or permanently and totally disabled. Other dependent relatives, who also must meet residency and relationship criteria, must receive more than half of their support from the head of household and have gross income below a specified amount ($4,300 in 2020).

This option consists of two alternatives. The first alternative would eliminate the head-of-household filing status. The second alternative would retain that status but limit it to taxpayers who pay more than half of the costs of maintaining the household in which they have resided with a qualifying child under the age of 17.

RELATED CBO PUBLICATION: *How Dependents Affect Federal Income Taxes* (January 2020), www.cbo.gov/publication/56004

Revenues—Option 4

Eliminate Itemized Deductions

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Revenues	42.1	77.1	80.3	84.3	89.1	188.8	268.2	280.4	296.2	311.5	372.9	1,718.0

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

When preparing their income tax returns, taxpayers may choose either to take the standard deduction—which is a fixed dollar amount—or to itemize and deduct certain expenses, such as state and local taxes, mortgage interest, charitable contributions, and some medical expenses. Taxpayers benefit from itemizing when the value of their deductions exceeds the amount of the standard deduction.

This option would eliminate all itemized deductions.

RELATED OPTION: Revenues, "Limit the Deduction for Charitable Giving" (page 63)

RELATED CBO PUBLICATION: *The Distribution of Major Tax Expenditures in the Individual Income Tax System* (May 2013), www.cbo.gov/publication/43768

Revenues—Option 5

Limit the Deduction for Charitable Giving

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Revenues												
Limit deductibility to charitable contributions in excess of 2 percent of adjusted gross income	2.7	13.5	14.2	14.9	15.7	19.0	29.6	31.3	32.9	34.3	61.0	208.1
Limit deductibility to cash contributions	3.4	17.3	18.2	19.3	20.5	23.0	28.8	31.3	33.8	36.1	78.7	231.7

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

Taxpayers who itemize can deduct the value of their contributions to qualifying charitable organizations. Two restrictions apply to the deduction. First, deductible charitable contributions may not exceed a certain percentage of a taxpayer's adjusted gross income (AGI). (AGI includes income from all sources not specifically excluded by the tax code, minus certain deductions.) The second restriction, which was temporarily lifted but will resume in 2026, reduces the total value of certain itemized deductions—including the deduction for charitable donations—for higher-income taxpayers.

This option consists of two alternatives that would curtail the deduction for charitable donations. Under the first alternative, only the amount of a taxpayer's contributions that exceeded 2 percent of his or her AGI would be deductible. Under the second alternative, the deduction would be eliminated for noncash contributions. Both alternatives would be limited to taxpayers who itemize, and higher-income taxpayers would still be subject to the additional reduction in the total value of certain deductions after 2025.

RELATED OPTION: Revenues, "Eliminate Itemized Deductions" (page 62)

RELATED CBO PUBLICATION: *Options for Changing the Tax Treatment of Charitable Giving* (May 2011), www.cbo.gov/publication/41452

Revenues—Option 6

Change the Tax Treatment of Capital Gains From Sales of Inherited Assets

											Total	
Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021–2025	2021–2030
Change in Revenues	1.2	4.8	7.0	9.0	11.3	12.8	14.1	15.1	16.5	18.4	33.3	110.3

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

When people sell an asset for more than the price for which they obtained it, they realize a net capital gain. The net gain is typically calculated as the sale price minus the asset's adjusted basis—generally the original purchase price adjusted for improvements or depreciation. To calculate the gains on inherited assets, taxpayers generally use the asset's fair-market value at the time of the owner's death, often referred to as stepped-up basis, instead of the adjusted basis derived from the asset's value when the decedent initially acquired it. When the heir sells the asset, capital gains taxes are assessed only on the change in the asset's value relative to the stepped-up basis. As a result, any appreciation in value that occurred while the decedent owned the asset is not included in taxable income and therefore is not subject to the capital gains tax.

Under this option, taxpayers would generally adopt the adjusted basis of the decedent (known as carryover basis) on assets they inherit. As a result, the decedent's unrealized capital gain would be taxed at the heirs' tax rate when they eventually sell the assets. (This option would adjust the basis of some bequeathed assets that would be subject to both the estate tax and the capital gains tax. That adjustment would minimize the extent to which the asset's appreciation in value would be subject to both taxes.)

RELATED OPTION: Revenues, "Raise the Tax Rates on Long-Term Capital Gains and Qualified Dividends by 2 Percentage Points" (page 60)

RELATED CBO PUBLICATION: *The Distribution of Asset Holdings and Capital Gains* (August 2016), www.cbo.gov/publication/51831

Revenues—Option 7

Eliminate the Tax Exemption for New Qualified Private Activity Bonds

											Total	
Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021–2025	2021–2030
Change in Revenues	0.1	0.2	0.5	0.9	1.2	1.5	2.0	2.4	3.0	3.6	2.9	15.4

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

The U.S. tax code permits state and local governments to finance certain projects by issuing bonds whose interest payments are exempt from federal income taxes. For the most part, proceeds from tax-exempt bonds are used to finance public projects, such as the construction of highways and schools. In some cases, however, state and local governments issue tax-exempt bonds to finance private-sector projects. Such bonds—known as qualified private activity bonds—may be used to fund private projects that provide at least some public benefits. Eligible projects include the construction or repair of infrastructure and certain activities, such as building schools and hospitals, undertaken by nonprofit organizations.

This option would eliminate the tax exemption for new qualified private activity bonds.

RELATED CBO PUBLICATIONS: *Public-Private Partnerships for Transportation and Water Infrastructure* (January 2020), www.cbo.gov/publication/56003; *Federal Support for Financing State and Local Transportation and Water Infrastructure* (October 2018), www.cbo.gov/publication/54549; testimony of Joseph Kile, Assistant Director for Microeconomic Studies, before the Senate Committee on Finance, *The Status of the Highway Trust Fund and Options for Paying for Highway Spending* (June 18, 2015), www.cbo.gov/publication/50297; *Federal Grants to State and Local Governments* (March 2013), www.cbo.gov/publication/43967; testimony of Frank Sammartino, Assistant Director for Tax Analysis, before the Senate Committee on Finance, *Federal Support for State and Local Governments Through the Tax Code* (April 25, 2012), www.cbo.gov/publication/43047

Revenues—Option 8

Expand the Base of the Net Investment Income Tax to Include the Income of Active Participants in S Corporations and Limited Partnerships

											Total	
Billions of Dollars	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2021–2025**	**2021–2030**
Change in Revenues	10.1	15.9	17.8	19.5	21.1	23.0	24.6	25.3	25.8	26.5	84.4	209.8

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

In addition to the individual income tax, high-income taxpayers face two taxes on certain types of income above specified thresholds. The first—the additional Medicare tax—is a 0.9 percent tax on wages and self-employment income in excess of those thresholds (bringing their overall Medicare tax rate to 3.8 percent). The second tax faced by high-income taxpayers—the net investment income tax (NIIT)—is a 3.8 percent tax on qualifying investment income, such as interest, dividends, capital gains, rents, royalties, and passive income from businesses not subject to the corporate income tax.

Income generated by certain types of businesses—specifically, limited partnerships (wherein certain partners are not liable for the debts of the business in excess of their initial investment) and S corporations (which are not subject to the corporate income tax because they meet certain criteria defined in subchapter S of the tax code)—may be excluded from both taxes under certain circumstances. If a high-income taxpayer is actively involved in running such a business, as some limited partners and most owners of S corporations are, his or her share of the firm's net profits is not subject to either the additional Medicare tax or the NIIT. (If the taxpayer receives a salary from the firm, however, that income would be subject to the additional Medicare tax.)

This option would impose the NIIT on all income derived from business activity that is subject to the individual income tax but not to the additional Medicare tax.

RELATED OPTION: Revenues, "Raise the Tax Rates on Long-Term Capital Gains and Qualified Dividends by 2 Percentage Points" (page 60)

RELATED CBO PUBLICATION: *Taxing Businesses Through the Individual Income Tax* (December 2012), www.cbo.gov/publication/43750

Revenues—Option 9

Include Disability Payments From the Department of Veterans Affairs in Taxable Income

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Revenues	1.0	9.7	10.8	11.0	10.8	11.8	12.6	13.4	16.6	15.7	43.3	113.4

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

The Department of Veterans Affairs (VA) provides disability compensation to veterans with medical conditions or injuries that occurred or worsened during active-duty service. VA's disability payments are intended to compensate the average earnings that veterans would be expected to lose given the severity of their service-connected medical conditions or injuries, whether or not a particular veteran's condition actually reduced his or her earnings. Disability compensation is not means-tested (that is, restricted to those with income below a certain amount), and payments are exempt from federal and state income taxes. Payments are in the form of monthly annuities and typically continue until the beneficiary's death.

This option would include VA disability benefit payments in taxable income.

RELATED OPTIONS: Mandatory Spending, "End VA's Individual Unemployability Payments to Disabled Veterans at the Full Retirement Age for Social Security" (page 36), "Reduce VA's Disability Benefits to Veterans Who Are Older Than the Full Retirement Age for Social Security" (page 37), "Narrow Eligibility for VA's Disability Compensation by Excluding Veterans With Low Disability Ratings" (page 38)

RELATED CBO PUBLICATION: *Veterans' Disability Compensation: Trends and Policy Options* (August 2014), www.cbo.gov/publication/45615

Revenues—Option 10

Further Limit Annual Contributions to Retirement Plans

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Revenues	5.7	7.4	8.0	8.8	8.9	10.1	11.0	11.8	13.1	14.1	38.8	99.1

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

To the extent that the option would affect Social Security payroll taxes, a portion of the revenues would be off-budget. In addition, the option would increase outlays for Social Security by a small amount. The estimates do not include those effects on outlays.

Current law allows taxpayers to make contributions to certain types of tax-preferred retirement plans up to a maximum annual amount that varies depending on the type of plan and the age of the taxpayer. The most common such plans are defined contribution plans (any plan that does not guarantee a particular benefit amount upon retirement) and individual retirement accounts (IRAs). Defined contribution plans are sponsored by employers. Some—most commonly, 401(k) plans—accept contributions by employees; others are funded entirely by the employer. IRAs are established and funded by the participants themselves. Traditional tax-preferred retirement plans allow participants to exclude contributions from their taxable income and defer the payment of taxes until they withdraw funds. Contributions to Roth retirement plans, by contrast, cannot be excluded from taxable income but are not subject to tax when withdrawn.

People under the age of 50 may contribute up to $19,500 to 401(k) and similar employment-based plans in 2020; participants ages 50 and above are also allowed to make "catch-up" contributions of up to $6,500. Contributions to 457(b) plans, which are available primarily to employees of state and local governments, are subject to a separate limit. Employers may also contribute to their workers' defined contribution plans, up to a maximum of $57,000 per person in 2020, minus any contributions made by the employee.

Under current law, combined contributions to traditional and Roth IRAs are limited to $6,000 for taxpayers under the age of 50 and $7,000 for those age 50 or older. Taxpayers with income above certain thresholds are not allowed to contribute to Roth IRAs. However, some participants can circumvent those limits by contributing to a traditional IRA and then converting it to a Roth IRA.

Under this option, a participant's maximum allowable contributions would be reduced to $17,500 per year for 401(k)–type plans and $5,000 per year for IRAs, regardless of the person's age. The option would also require that all contributions to employment-based plans—including 457(b) plans—be subject to a single combined limit. Total allowable employer and employee contributions to a defined contribution plan would be reduced from $57,000 per year to $51,000. Finally, conversions of traditional IRAs to Roth IRAs would not be permitted for taxpayers whose income is above the top threshold for making Roth contributions.

RELATED OPTION: Revenues, "Tax Social Security and Railroad Retirement Benefits in the Same Way That Distributions From Defined Benefit Pensions Are Taxed" (page 69)

Revenues—Option 11

Tax Social Security and Railroad Retirement Benefits in the Same Way That Distributions From Defined Benefit Pensions Are Taxed

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Revenues	17.4	35.8	37.9	39.9	41.9	48.7	55.8	58.2	60.5	62.8	172.9	458.7

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

Under current law, roughly two-thirds of the benefits paid by the Social Security and Railroad Retirement programs are not subject to the federal income tax because most recipients have income below a specified threshold. By contrast, distributions from defined benefit pensions (plans offered by some employers that provide a fixed benefit amount upon retirement based on a predetermined formula) are taxable except for the portion that represents the recovery of an employee's "basis"—that is, the employee's after-tax contributions to the plan.

This option would treat Social Security and Railroad Retirement benefits in the same way that defined benefit retirement plan distributions are treated—by defining a basis and taxing the benefits that exceed that amount. For employed individuals, the basis would be the payroll taxes they contributed to those programs (but not the equal amount that their employers paid on their behalf). For self-employed people, the basis would be the portion (50 percent) of their self-employment taxes that were not deductible from their taxable income.

RELATED OPTION: Revenues, "Further Limit Annual Contributions to Retirement Plans" (page 68)

RELATED CBO PUBLICATION: *Social Security Policy Options, 2015* (December 2015), www.cbo.gov/publication/51011

Revenues—Option 12

Eliminate Certain Tax Preferences for Education Expenses

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Revenues	3.1	15.6	15.8	16.0	16.1	16.4	17.0	17.3	17.6	17.9	66.6	152.8

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

The estimates include the effects on outlays resulting from changes in refundable tax credits.

Three major tax preferences support higher education. First, the American Opportunity Tax Credit (AOTC) covers qualifying educational expenses for up to four years of postsecondary education. In 2020, the AOTC can total as much as $2,500 per student and is partially refundable—that is, families whose income tax liability (before the credit is applied) is less than the total amount of the credit may receive a portion of the credit as a payment. Second, the nonrefundable Lifetime Learning tax credit provides up to $2,000 per tax return per year for qualifying tuition and fees. Finally, tax filers may deduct from their taxable income up to $2,500 per year for interest payments on student loans. Those tax preferences are available to taxpayers whose income is below certain thresholds.

This option would eliminate the AOTC and the Lifetime Learning tax credit and would gradually phase out the deductibility of interest payments for student loans in annual increments of $250 over a 10-year period.

RELATED OPTIONS: Mandatory Spending, “Eliminate or Reduce the Add-On to Pell Grants, Which Is Funded With Mandatory Spending” (page 12), “Reduce or Eliminate Subsidized Loans for Undergraduate Students” (page 14); Discretionary Spending, “Tighten Eligibility for Pell Grants” (page 54)

RELATED CBO PUBLICATION: *Distribution of Federal Support for Students Pursuing Higher Education in 2016* (June 2018), www.cbo.gov/publication/53732

Revenues—Option 13

Lower the Investment Income Limit for the Earned Income Tax Credit and Extend That Limit to the Refundable Portion of the Child Tax Credit

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Revenues	*	1.1	1.1	1.1	1.0	1.0	0.6	0.6	0.6	0.6	4.3	7.8

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

The estimates represent the change in the overall budget balance that would result from the sum of changes to revenues and outlays.

* = between zero and $50 million.

Low- and moderate-income people are eligible for certain refundable tax credits under the individual income tax if they meet specified criteria. Refundable tax credits differ from other tax preferences, such as deductions, in that their value may exceed the amount of income taxes that the person owes. If the amount of a refundable tax credit exceeds a taxpayer's tax liability before that credit is applied, the government pays the excess to that person. Refundable tax credits thus can result in net payments from the government to a taxpayer, and those payments are classified as outlays in the federal budget. Two refundable tax credits are available only to workers: the earned income tax credit (EITC) and the refundable portion of the child tax credit (referred to in the tax code as the additional child tax credit).

To qualify for the EITC and the refundable portion of the child tax credit, people must meet several income requirements. First, they must have income from wages, salaries, or self-employment. Second, their adjusted gross income cannot exceed certain thresholds, which vary according to family characteristics. Finally, for the EITC only, eligibility is restricted to filers with investment income that is $3,650 or less in 2020. (Investment income comprises interest including tax-exempt interest, dividends, capital gains, royalties and rents from personal property, and returns from passive activities—that is, business pursuits in which the person is not actively involved.)

This option would lower the EITC threshold for investment income to $1,800. As under current law, that threshold would be adjusted, or indexed, to include the effects of inflation. Moreover, the option would extend the investment threshold to the refundable portion of the child tax credit.

RELATED OPTION: Revenues, "Require Earned Income Tax Credit and Child Tax Credit Claimants to Have a Social Security Number That Is Valid for Employment" (page 72)

RELATED CBO PUBLICATIONS: *Marginal Federal Tax Rates on Labor Income, 1962 to 2028* (January 2019), www.cbo.gov/publication/54911; *Effective Marginal Tax Rates for Low- and Moderate-Income Workers in 2016* (November 2015), www.cbo.gov/publication/50923; *The Distribution of Major Tax Expenditures in the Individual Income Tax System* (May 2013), www.cbo.gov/publication/43768; *Growth in Means-Tested Programs and Tax Credits for Low-Income Households* (February 2013), www.cbo.gov/publication/43934; *Refundable Tax Credits* (January 2013), www.cbo.gov/publication/43767

Revenues—Option 14

Require Earned Income Tax Credit and Child Tax Credit Claimants to Have a Social Security Number That Is Valid for Employment

											Total	
Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021–2025	2021–2030
Change in Revenues	0.1	2.5	2.4	2.3	2.3	2.3	2.4	2.3	2.3	2.3	9.6	21.2

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

The estimates represent the change in the overall budget balance that would result from the sum of changes to revenues and outlays.

The earned income tax credit (EITC) and the child tax credit both provide assistance to certain low- and moderate-income taxpayers, but the eligibility rules differ. Most EITC claimants and their qualifying children must have a Social Security number that is issued by the Social Security Administration solely to people authorized to work in the United States. (However, there are exceptions for some Social Security numbers issued before 2003.) By contrast, eligibility for the child tax credit currently only requires that the qualifying child have a Social Security number that is valid for employment purposes. After 2025, noncitizens will be able to claim the credit if they and their qualifying child have a Social Security number (with no restriction on the reason for issuance) or an individual taxpayer identification number, which is issued by the Internal Revenue Service (IRS) to anyone who is required to file a tax return but cannot obtain a Social Security number.

Under this option, people who are not authorized to work in the United States would not be eligible for either the EITC or the child tax credit. For both credits, taxpayers, spouses, and qualifying children would be required to have Social Security numbers issued to U.S. citizens and noncitizens authorized to work in the United States. The IRS would be authorized to deny the credits using "mathematical and clerical error" (math-error) procedures when taxpayers and their children did not have those types of Social Security numbers. Using math-error procedures prevents the credits from being paid to those taxpayers and does not require the IRS to take further action, although the taxpayers retain the right to dispute the IRS's decision.

RELATED OPTION: Revenues, "Lower the Investment Income Limit for the Earned Income Tax Credit and Extend That Limit to the Refundable Portion of the Child Tax Credit" (page 71)

RELATED CBO PUBLICATIONS: *How Dependents Affect Federal Income Taxes* (January 2020), www.cbo.gov/publication/56004; *How Changes in Immigration Policy Might Affect the Federal Budget* (January 2015), www.cbo.gov/publication/49868; *Growth in Means-Tested Programs and Tax Credits for Low-Income Households* (February 2013), www.cbo.gov/publication/43934; *Refundable Tax Credits* (January 2013), www.cbo.gov/publication/43767

Revenues—Option 15

Increase the Payroll Tax Rate for Medicare Hospital Insurance

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Revenues												
Increase rate by 1 percentage point	50.4	78.8	82.0	85.2	88.8	91.6	95.0	98.4	101.9	105.4	385.2	877.5
Increase rate by 2 percentage points	99.8	156.0	162.2	168.7	175.7	181.3	188.0	194.8	201.4	208.5	762.4	1,736.3

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

Hospital Insurance (HI) benefits provided under Medicare Part A are primarily financed through the HI payroll tax, which is 2.9 percent of total earnings. For employees, 1.45 percent is deducted from their paychecks, and 1.45 percent is paid by their employers. Self-employed individuals generally pay 2.9 percent of their net self-employment income in HI taxes. Workers with higher earnings are also subject to a surtax on all earnings above a certain threshold.

This option consists of two alternatives. The first alternative would increase the HI tax on total earnings by 1 percentage point. The second alternative would increase the HI tax on total earnings by 2 percentage points. Those rate increases would be evenly split between employers and employees. The rate paid by self-employed people would rise by the full amount of the increase. Under both alternatives, workers with higher earnings would still be subject to the surtax.

RELATED OPTION: Revenues, “Increase the Payroll Tax Rate for Social Security” (page 74)

Revenues—Option 16

Increase the Payroll Tax Rate for Social Security

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Revenues												
Increase rate by 1 percentage point	44.9	63.5	66.2	68.9	71.8	73.9	76.2	79.2	82.2	85.1	315.3	711.9
Increase rate by 2 percentage points	88.8	125.5	130.8	136.2	141.8	146.0	150.4	156.4	162.1	167.9	623.1	1,406.0

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

The change in revenues would consist of an increase in receipts from Social Security payroll taxes (which would be off-budget), offset in part by a reduction in individual income tax revenues (which would be on-budget).

Social Security—which consists of Old-Age and Survivors Insurance and Disability Insurance—is financed primarily by payroll taxes on employers, employees, and the self-employed. Earnings up to a maximum ($137,700 in calendar year 2020) are taxed at a rate of 12.4 percent. Employees have 6.2 percent of earnings deducted from their paychecks, and the remaining 6.2 percent is paid by their employers. Self-employed individuals generally pay 12.4 percent of their net self-employment income.

This option consists of two alternative increases to the Social Security payroll tax rate. The first alternative would increase the rate by 1 percentage point; the second alternative would increase it by 2 percentage points. Those rate increases would be evenly split between employers and employees. The rate paid by self-employed people would rise by the full amount of the increase. This option would not change Social Security benefits in any way.

RELATED OPTIONS: Revenues, "Increase the Payroll Tax Rate for Medicare Hospital Insurance" (page 73), "Increase the Maximum Taxable Earnings for the Social Security Payroll Tax" (page 75), "Expand Social Security Coverage to Include Newly Hired State and Local Government Employees" (page 76)

RELATED CBO PUBLICATIONS: *CBO's 2019 Long-Term Projections for Social Security: Additional Information* (September 2019), www.cbo.gov/publication/55590; *Social Security Policy Options, 2015* (December 2015), www.cbo.gov/publication/51011

Revenues—Option 17

Increase the Maximum Taxable Earnings for the Social Security Payroll Tax

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Raise Taxable Share to 90 Percent												
Change in Outlays	0.1	0.2	0.4	0.7	1.0	1.4	1.9	2.4	3.1	3.8	2.5	15.1
Change in Revenues	18.5	61.1	65.0	65.0	68.3	71.1	73.9	77.2	79.7	82.0	277.9	661.8
Decrease (-) in the Deficit	-18.4	-60.9	-64.6	-64.3	-67.3	-69.7	-72.0	-74.8	-76.6	-78.2	-275.4	-646.7
Subject Earnings Greater Than $250,000 to Payroll Tax												
Change in Revenues	26.6	88.9	93.6	98.0	104.0	109.5	115.1	122.5	129.4	136.5	411.1	1,024.0

Data sources: Staff of the Joint Committee on Taxation; Congressional Budget Office.

This option would take effect in January 2021.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

The change in revenues would consist of an increase in receipts from Social Security payroll taxes (which would be off-budget), offset in part by a reduction in individual income tax revenues (which would be on-budget). The outlays would be for additional payments of Social Security benefits and would be classified as off-budget.

Social Security—which consists of Old-Age and Survivors Insurance and Disability Insurance—is financed primarily by payroll taxes on employers, employees, and the self-employed. Earnings up to a maximum ($137,700 in calendar year 2020) are taxed at a rate of 12.4 percent. In 2018, about 83 percent of earnings from employment covered by Social Security fell below the maximum taxable amount and were thus subject to the Social Security payroll tax.

This option considers two alternatives that would increase the share of earnings subject to Social Security payroll taxes. The first alternative would raise the threshold for maximum taxable earnings such that the taxable share of earnings from jobs covered by Social Security was 90 percent. (In later years, the maximum would grow at the same rate as average wages, as it would under current law.) The additional taxed earnings would be included in the benefit calculation. As a result, outlays for Social Security would increase, and that effect would grow for many decades beyond the 10-year period of the estimates as more individuals subject to the new taxable maximum claimed their benefits.

The second alternative would apply the 12.4 percent payroll tax to earnings over $250,000 in addition to earnings below the maximum taxable amount under current law. The taxable maximum would continue to grow with average wages but the $250,000 threshold would not change, so the gap between the two would shrink. The Congressional Budget Office projects that the taxable maximum would exceed $250,000 in calendar year 2039; after that, all earnings from jobs covered by Social Security would be subject to the payroll tax. Earnings under the current-law taxable maximum would still be used for calculating benefits, so scheduled benefits would not change under this alternative.

RELATED OPTIONS: Revenues, "Increase the Payroll Tax Rate for Social Security" (page 74), "Expand Social Security Coverage to Include Newly Hired State and Local Government Employees" (page 76)

RELATED CBO PUBLICATIONS: *The 2020 Long-Term Budget Outlook* (September 2020), www.cbo.gov/publication/56516; *CBO's 2019 Long-Term Projections for Social Security: Additional Information* (September 2019), www.cbo.gov/publication/55590; *Social Security Policy Options, 2015* (December 2015), www.cbo.gov/publication/51011

Revenues—Option 18

Expand Social Security Coverage to Include Newly Hired State and Local Government Employees

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Revenues	1.2	3.0	4.9	7.0	9.3	11.2	13.1	15.1	17.2	18.8	25.4	100.8

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

The change in revenues would consist of an increase in receipts from Social Security payroll taxes (which would be off-budget), offset in part by a reduction in individual tax revenues (which would be on-budget). In addition, the option would increase outlays for Social Security by a small amount. The estimates do not include those effects on outlays.

Under federal law, state and local governments can opt out of enrolling their employees in the Social Security program as long as they provide a separate retirement plan for those workers. As a result, about a quarter of workers employed by state and local governments are not covered by Social Security.

Under this option, Social Security coverage would be expanded to include all state and local government employees hired after December 31, 2020. Consequently, all newly hired state and local government employees would pay the Social Security payroll tax. Expanding Social Security coverage to all newly hired state and local government employees would have little impact on the federal government's spending for Social Security in the short term; therefore, the 10-year estimates shown above do not include any effects on outlays. The increased outlays for Social Security would grow in the following decades and would partly offset the additional revenues generated by newly covered employees.

RELATED OPTIONS: Revenues, "Increase the Payroll Tax Rate for Social Security" (page 74), "Increase the Maximum Taxable Earnings for the Social Security Payroll Tax" (page 75)

RELATED CBO PUBLICATIONS: *The 2020 Long-Term Budget Outlook* (September 2020), www.cbo.gov/publication/56516; *CBO's 2019 Long-Term Projections for Social Security: Additional Information* (September 2019), www.cbo.gov/publication/55590; *Social Security Policy Options, 2015* (December 2015), www.cbo.gov/publication/51011

Revenues—Option 19

Increase the Corporate Income Tax Rate by 1 Percentage Point

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Revenues	4.5	7.3	8.5	9.1	9.8	11.0	12.0	12.3	12.4	12.5	39.2	99.3

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

The U.S. statutory corporate income tax rate is 21 percent.

This option would increase the corporate income tax rate by 1 percentage point, to 22 percent.

Revenues—Option 20

Repeal the "LIFO" Approach to Inventory Identification and the "Lower of Cost or Market" and "Subnormal Goods" Methods of Inventory Valuation

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Revenues	6.7	13.5	13.5	13.5	7.3	1.1	1.1	1.1	1.2	1.2	54.5	60.2

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

To compute its taxable income, a business must first deduct from its receipts the cost of purchasing or producing the goods it sold during the year. Most companies calculate the cost of those goods by adding the value of the inventory at the beginning of the year to the cost of goods purchased or produced during the year, and then subtracting from that total the value of the inventory at the end of the year. To determine the value of its year-end inventory, a business must distinguish between goods that were sold from inventory that year and goods that remain in inventory.

Businesses can choose between several approaches to identify and determine the value of items in their inventory. Under one approach, the specific-identification approach, firms itemize and value goods by tracking each item in inventory and matching it to its actual cost. Other approaches do not require firms to track specific items. The "last in, first out" (LIFO) approach permits them to assume that the last goods added to the inventory were the first ones sold; the "first in, first out" (FIFO) approach allows them to assume that the first goods added to their inventory were the first ones sold. Firms that use the FIFO approach or the specific-identification approach can then value their inventory using the "lower of cost or market" (LCM) method. The LCM method allows firms to use the current market value of an item (that is, the current-year cost to reproduce or repurchase it) in their calculation of year-end inventory values if that market value is less than the cost assigned to the item. In addition, businesses can qualify for the "subnormal goods" method of inventory valuation, which allows a company to value its inventory below cost if its goods cannot be sold at cost because they are damaged or flawed.

This option would eliminate the LIFO approach to identifying inventory, as well as the LCM and subnormal-goods methods of inventory valuation. Businesses would be required to use either the specific-identification or the FIFO approach to account for goods in their inventory and to set the value of that inventory on the basis of cost. Those changes would be phased in over a period of four years.

Revenues—Option 21

Require Half of Advertising Expenses to Be Amortized Over 5 or 10 Years

											Total	
Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021–2025	2021–2030
Change in Revenues												
Require half of advertising expenses to be amortized over 5 years	11.2	16.4	12.5	8.3	4.0	2.4	2.6	2.7	2.8	2.8	52.4	65.8
Require half of advertising expenses to be amortized over 10 years	11.9	19.2	17.9	16.4	15.0	14.0	12.7	10.9	8.8	6.7	80.4	133.4

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

Business expenses can generally be categorized as either investments, which create assets whose value persists over a multiyear period, or current expenses, which go toward goods or services whose value dissipates during the first year after they are purchased. They are often treated differently for tax purposes: Current expenses can be deducted from income in the year they are incurred, but some investment costs, such as the cost of constructing buildings, must be deducted over a multiyear period. Advertising is treated by the tax system as a current expense; its costs can therefore be immediately deducted, even in cases where it creates longer-term value.

This option consists of two alternatives. Both would recognize half of advertising expenses as immediately deductible current expenses. The other half would be treated as an investment in brand image and would be amortized over a period of years. Under the first alternative, that period of amortization would be 5 years; under the second alternative, it would be 10 years.

RELATED CBO PUBLICATION: *How Taxes Affect the Incentive to Invest in New Intangible Assets* (November 2018), www.cbo.gov/publication/54648

Revenues—Option 22

Repeal the Low-Income Housing Tax Credit

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Revenues	0.1	0.5	1.3	2.3	3.5	4.7	5.9	7.3	8.7	10.1	7.7	44.4

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

Real estate developers who provide rental housing to people with low income may qualify for low-income housing tax credits (LIHTCs), which are designed to encourage investment in affordable housing. The credits, which can be used to reduce the federal tax liability of the developer or an investor in the project over a period of 10 years, cover a portion of the costs of constructing new housing units or substantially rehabilitating existing units. For a property to qualify for the credits, developers must agree to meet two requirements for at least 30 years. First, they must set aside a certain percentage of rental units for people whose income is below a certain threshold. Second, they must agree to limit the rent they charge on the units occupied by low-income people.

This option would repeal the LIHTC, although real estate investors could continue to claim credits granted before 2021 until their eligibility expired.

RELATED CBO PUBLICATION: *Federal Housing Assistance for Low-Income Households* (September 2015), www.cbo.gov/publication/50782

Revenues—Option 23

Increase All Taxes on Alcoholic Beverages to $16 per Proof Gallon and Index for Inflation

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Revenues												
Increase tax	6.1	8.3	8.4	8.5	8.6	8.5	8.6	8.7	8.8	8.9	39.9	83.4
Increase tax and index for inflation	6.1	8.3	8.7	9.1	9.6	9.8	10.2	10.7	11.3	11.8	41.8	95.6

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

Alcoholic beverages are not taxed uniformly: The alcohol content of beer (including other malt beverages and hard seltzers) and wine is taxed at a lower rate than the alcohol content of distilled spirits. The tax rates are currently governed by temporary provisions in place through December 31, 2020. After those provisions expire, distilled spirits will be taxed at a flat rate of $13.50 per proof gallon. (A proof gallon is a liquid gallon that is 50 percent alcohol by volume.) A tax rate of $13.50 per proof gallon translates to about 21 cents per ounce of pure alcohol. The tax on beer will be equivalent to about 10 cents per ounce of pure alcohol, and the tax on wine that is no more than 14 percent alcohol will be about 6 cents per ounce of pure alcohol. (Wines with high volumes of alcohol and sparkling wines face a higher tax per gallon.) Other factors affect how alcoholic beverages are taxed. Specific provisions of tax law can lower the effective tax rate on small quantities of beer and nonsparkling wine for certain small producers. Additionally, small volumes of beer and wine that are produced for personal or family use are exempt from taxation.

This option consists of two alternatives. The first alternative would standardize the base on which the federal excise tax is levied by using the proof gallon as the measure for all alcoholic beverages. The tax rate would be raised to $16 per proof gallon, or about 25 cents per ounce of pure alcohol. That alternative would also eliminate the provisions of law that lower effective tax rates for small producers, thus making the tax rate equal for all producers and quantities of alcohol. The second alternative would also raise the tax rate to $16 per proof gallon and eliminate the provisions that lower effective tax rates for small producers, but it would adjust, or index, the tax for the effects of inflation each year.

RELATED OPTION: Revenues, "Increase Excise Taxes on Tobacco Products" (page 81)

RELATED CBO PUBLICATION: *Raising the Excise Tax on Cigarettes: Effects on Health and the Federal Budget* (June 2012), www.cbo.gov/publication/43319

Revenues—Option 24

Increase Excise Taxes on Tobacco Products

											Total	
Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021–2025	2021–2030
Change in Outlays	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-0.8
Change in Revenues	3.1	4.1	3.8	3.8	3.8	3.6	3.6	3.5	3.5	3.4	18.6	36.2
Decrease (-) in the Deficit	-3.1	-4.1	-3.9	-3.9	-3.9	-3.7	-3.7	-3.6	-3.6	-3.5	-18.9	-37.0

Data sources: Staff of the Joint Committee on Taxation; Congressional Budget Office.

This option would take effect in January 2021.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

* = between -$50 million and zero.

The federal government taxes tobacco products, including cigarettes, cigars, pipe tobacco, and roll-your-own tobacco. The federal excise tax on cigarettes is just over $1.00 per pack. Large cigars are taxed at 52.75 percent of the manufacturer's sales price, with a maximum tax of 40.26 cents per cigar. Pipe and roll-your-own tobacco are taxed at $2.83 and $24.78 per pound, respectively.

This option would make several changes to the federal excise taxes on tobacco products. It would raise the federal excise tax on all tobacco products by 50 percent. In addition, it would raise the tax on pipe tobacco to equal that for roll-your-own tobacco and set a minimum tax rate on large cigars equal to the tax rate on cigarettes. This option would also reduce mandatory outlays, mainly because of reduced spending for Medicaid and Medicare due to improvements in people's health status.

RELATED OPTION: Revenues, "Increase All Taxes on Alcoholic Beverages to $16 per Proof Gallon and Index for Inflation" (page 80)

RELATED CBO PUBLICATION: *Raising the Excise Tax on Cigarettes: Effects on Health and the Federal Budget* (June 2012), www.cbo.gov/publication/43319

Revenues—Option 25

Increase Excise Taxes on Motor Fuels and Index for Inflation

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Revenues												
Increase the tax rates by 15 cents	9.6	21.9	23.0	23.9	24.8	25.2	25.8	26.8	27.7	28.6	103.2	237.3
Increase the tax rates by 35 cents	22.2	50.0	51.6	52.9	54.1	54.2	54.9	56.2	57.5	58.7	230.8	512.3

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

Since 1993, federal excise tax rates on traditional motor fuels have been set at 18.4 cents per gallon of gasoline and 24.4 cents per gallon of diesel fuel. The revenues from those taxes are credited to the Highway Trust Fund to pay for highway construction and maintenance as well as for investment in mass transit. (A portion of the fuel tax—0.1 cent per gallon—is credited to the Leaking Underground Storage Tank Trust Fund.) Those tax rates are not adjusted for inflation.

This option consists of two alternative increases in the excise tax rates on motor fuels. Under the first alternative, federal excise tax rates on gasoline and diesel fuel would increase by 15 cents per gallon. Under the second alternative, those tax rates would increase by 35 cents per gallon. Under each alternative, the tax would be indexed for inflation each year using the chained consumer price index.

RELATED OPTION: Revenues, "Impose an Excise Tax on Overland Freight Transport" (page 83)

RELATED CBO PUBLICATIONS: *Reauthorizing Federal Highway Programs: Issues and Options* (May 2020), www.cbo.gov/publication/56346; *Issues and Options for a Tax on Vehicle Miles Traveled by Commercial Trucks* (October 2019), www.cbo.gov/publication/55688; *Approaches to Making Federal Highway Spending More Productive* (February 2016), www.cbo.gov/publication/50150; *How Would Proposed Fuel Economy Standards Affect the Highway Trust Fund?* (May 2012), www.cbo.gov/publication/43198

Revenues—Option 26

Impose an Excise Tax on Overland Freight Transport

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Revenues	17.2	32.0	35.6	36.4	37.1	37.2	37.7	38.5	39.2	39.9	158.3	350.9

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2021.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

Under current law, federal taxes related to overland freight transport by truck consist of a tax on diesel fuel; excise taxes on new freight trucks, tires, and trailers; and an annual heavy-vehicle use tax. Rail carriers pay a small per-gallon assessment on diesel fuel. There is no existing per-mile federal tax on freight transport.

This option would impose a new tax on freight transport by truck and rail. Freight transport by heavy-duty trucks (Class 7 and above in the Federal Highway Administration's classification system) would be subject to a tax of 30 cents per mile and freight transport by rail to a tax of 12 cents per mile (per railcar). The tax would not apply to miles traveled by trucks or railcars without cargo.

RELATED OPTION: Revenues, "Increase Excise Taxes on Motor Fuels and Index for Inflation" (page 82)

RELATED CBO PUBLICATIONS: *Issues and Options for a Tax on Vehicle Miles Traveled by Commercial Trucks* (October 2019) www.cbo.gov/publication/55688; David Austin, *Pricing Freight Transport to Account for External Costs*, Working Paper 2015-03 (March 2015), www.cbo.gov/publication/50049

Revenues—Option 27

Impose a 5 Percent Value-Added Tax

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Revenues												
Apply a 5 percent VAT to a broad base	0	200	290	300	320	320	330	340	360	370	1,110	2,830
Phase in a 5 percent VAT to apply to the same broad base	0	40	100	160	230	290	330	340	360	370	530	2,220
Apply a 5 percent VAT to a narrow base	0	120	190	200	200	210	210	220	230	240	710	1,820

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2022.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

A value-added tax (VAT) is a type of consumption tax that is levied on the incremental increase in value of a good or service at each stage of the supply chain, up until the final point of sale. Currently, the United States does not have a broad consumption-based tax. Most states impose sales taxes, but, unlike a VAT, those are only levied at the final point of sale.

This option consists of three alternatives. The first alternative would impose a 5 percent VAT on a broad base of goods and services that would become fully effective in January 2022. Certain goods and services would be excluded from the base because their value is difficult to measure. Those include financial services without explicit fees, existing housing services, primary and secondary education, and other services provided by government agencies and nonprofit organizations for a small fee or at no cost. Government-reimbursed expenditures for health care—primarily costs paid by Medicare and Medicaid—would also be excluded from the tax base. The second alternative would gradually introduce a 5 percent VAT to the same broad base of goods and services. The VAT would be phased in over five years, starting at 1 percent in 2022 and increasing by 1 percentage point each year. The third alternative would impose a 5 percent VAT on a narrower base and would, like the first alternative, become fully effective in January 2022. In addition to those items excluded under the broad base, the narrow base would exclude certain goods and services that are considered necessary for subsistence or that provide broad social benefits—specifically, new residential housing, food purchased for home consumption, health care, and postsecondary education.

Revenues—Option 28

Impose a Tax on Emissions of Greenhouse Gases

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Revenues	58.2	89.9	92.1	96.6	101.8	106.2	111.4	117.9	125.1	133.4	438.6	1,032.5

Data sources: Staff of the Joint Committee on Taxation; Congressional Budget Office.

This option would take effect in January 2021.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

The accumulation of greenhouse gases in the atmosphere—particularly of carbon dioxide (CO_2) released when fossil fuels (such as coal, oil, and natural gas) are burned—contributes to climate change, which imposes costs and increases the risk of severe economic harm to countries around the globe, including the United States. The federal government regulates some emissions in an effort to reduce them; however, emissions are not directly taxed.

This option would impose a tax of $25 per metric ton on most emissions of greenhouse gases in the United States—specifically, on most energy-related emissions of CO_2 (for example, from electricity generation, manufacturing, and transportation) and on some other greenhouse gas emissions from large manufacturing facilities. The tax would increase at a constant real (inflation-adjusted) rate of 5 percent per year.

RELATED CBO PUBLICATIONS: Evan Herrnstadt and Terry Dinan, *CBO's Projection of the Effect of Climate Change on U.S. Economic Output*, Working Paper 2020-06 (September 2020), www.cbo.gov/publication/56505; *Effects of a Carbon Tax on the Economy and the Environment* (May 2013), www.cbo.gov/publication/44223

Revenues—Option 29

Impose a Tax on Financial Transactions

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Revenues	-43.3	20.4	67.4	90.1	98.0	99.0	101.1	103.9	106.5	109.0	232.6	751.9

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2022, although some changes to revenues would occur earlier because of an immediate reduction in the value of financial assets.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

The United States is home to large financial markets with a lot of daily trading. Under current federal tax law, no tax is imposed on the purchase of securities (stocks and bonds) or other financial products. However, the Securities and Exchange Commission charges a fee of approximately 0.002 percent on most transactions.

This option would impose a tax on the purchase of most securities and on transactions involving derivatives (contracts requiring one or more payments that are calculated by reference to the change in an observable variable). For purchases of stocks, bonds, and other debt obligations, the tax generally would be 0.1 percent of the value of the security. For purchases of derivatives, the tax would be 0.1 percent of all payments actually made under the terms of the contract, including the price paid when the contract was written, any periodic payments, and any amount to be paid when the contract expires. The tax would not apply to the initial issuance of stock or debt securities, transactions of debt obligations with fixed maturities of no more than 100 days, or currency transactions (although transactions involving currency derivatives would be taxed). It would be imposed on transactions that occurred within the United States and on transactions that took place outside of the country and involved at least one U.S. taxpayer (whether a corporation, partnership, citizen, or resident).

RELATED OPTION: Revenues, “Raise the Tax Rates on Long-Term Capital Gains and Qualified Dividends by 2 Percentage Points” (page 60)

Revenues—Option 30

Increase Federal Civilian Employees' Contributions to the Federal Employees Retirement System

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Revenues	1.4	2.7	4.0	5.3	5.2	5.1	5.0	4.9	4.7	4.5	18.6	42.8

This option would take effect in January 2021.

The federal government provides most of its civilian employees with a defined benefit retirement plan through the Federal Employees Retirement System (FERS). The plan provides retirees with a monthly benefit in the form of an annuity. Those annuities are jointly funded by the employees and the federal agencies that hire them. Employees' contributions are counted as federal revenues. Over 95 percent of federal employees participate in FERS, and most of them contribute 0.8 percent of their salary toward their future annuity. However, the contribution rates for employees hired in 2013 or later generally are higher: Most employees hired in 2013 contribute 3.1 percent, and most hired in 2014 or later contribute 4.4 percent.

Under this option, most employees enrolled in FERS would contribute 4.4 percent of their salary toward their retirement annuity. The increase in the contribution rates (of 3.6 percentage points for employees who enrolled in FERS before 2013 and 1.3 percentage points for those who enrolled in 2013) would be phased in over four years. The dollar amount of future annuities would not change under the option, and the option would not affect employees hired in 2014 or later who already contribute 4.4 percent. Agencies' contributions would remain the same under the option.

RELATED CBO PUBLICATIONS: Justin Falk and Nadia Karamcheva, *Comparing the Effects of Current Pay and Defined Benefit Pensions on Employee Retention*, Working Paper 2018-06 (June 2018), www.cbo.gov/publication/54056; *Options for Changing the Retirement System for Federal Civilian Workers* (August 2017), www.cbo.gov/publication/53003; *Comparing the Compensation of Federal and Private-Sector Employees, 2011 to 2015* (April 2017), www.cbo.gov/publication/52637

Revenues—Option 31

Increase Appropriations for the Internal Revenue Service's Enforcement Initiatives

Billions of Dollars	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total 2021–2025	Total 2021–2030
Change in Outlays	0.5	1.0	1.5	2.0	2.5	2.5	2.5	2.5	2.5	2.5	7.5	20.0
Change in Revenues	0.3	1.5	3.3	5.1	6.8	8.1	8.8	9.0	8.9	8.8	17.1	60.6
Increase or Decrease (-) in the Deficit	0.2	-0.5	-1.8	-3.1	-4.3	-5.6	-6.3	-6.5	-6.4	-6.3	-9.6	-40.6

This option would take effect in October 2021.

Because of the budget scorekeeping guidelines used by the Congress, the revenue changes attributable to this option would not be counted for budget enforcement purposes. However, if an appropriation bill or another bill providing funding for this option was enacted, the Congressional Budget Office's next projection of the budget deficit would incorporate its effects on revenues.

The Internal Revenue Service (IRS) undertakes a variety of enforcement activities (including audits) to improve compliance with the tax system. Increasing funding for enforcement (often referred to as a program integrity initiative) would, in the Congressional Budget Office's estimation, boost federal revenues.

This option would gradually increase the IRS's funding for enforcement. Funding would rise by $500 million each year for the first five years and then remain at an additional $2.5 billion per year from 2026 to 2030. Each infusion of new funding would result in the start of new enforcement initiatives—expansions of audits and other activities that could improve compliance with the tax system. All the new initiatives would continue to be funded at the same level and would remain in effect through 2030 and beyond.

RELATED CBO PUBLICATIONS: *Trends in the Internal Revenue Service's Funding and Enforcement* (July 2020), www.cbo.gov/publication/56422; Janet Holtzblatt and Jamie McGuire, *Factors Affecting Revenue Estimates of Tax Compliance Proposals*, Working Paper 2016-05 (November 2016), www.cbo.gov/publication/52199; *Estimating the Revenue Effects of Proposals to Increase Funding for Tax Enforcement* (June 2016), www.cbo.gov/publication/51699

About This Document

At the request of the House and Senate Committees on the Budget, the Congressional Budget Office periodically issues a compendium of budget options to help inform federal lawmakers about the implications of possible policy choices. This report, the latest in the series, presents 83 options for altering spending and revenues to reduce federal budget deficits.

The options come from a variety of sources, including legislative proposals, various Administrations' budget proposals, Congressional staff, other government entities, and private groups. The options are intended to reflect a range of possibilities rather than to rank priorities or present a comprehensive list. The inclusion or exclusion of a particular option does not represent an endorsement or rejection by CBO. In keeping with CBO's mandate to provide objective, impartial analysis, this report makes no recommendations.

This report is the result of work by more than 110 people at CBO, whose names are listed on the following pages, as well as the staff of the Joint Committee on Taxation. The report is available on CBO's website (www.cbo.gov/publication/56783).

CBO continually seeks feedback to make its work as useful as possible. Please send any comments to communications@cbo.gov.

Phillip L. Swagel
Director
December 2020

Overview

The spending estimates that appear in this report were prepared by the staff of CBO's Budget Analysis Division (supervised by Theresa Gullo, Leo Lex, Sam Papenfuss, Christina Hawley Anthony, Chad Chirico, Sheila Dacey, Paul Masi, David Newman, and Susan Willie); Health, Retirement, and Long-Term Analysis Division (supervised by Julie Topoleski, Chapin White, Molly Dahl, Tamara Hayford, Alexandra Minicozzi, and Lyle Nelson); and Financial Analysis Division (supervised by Sebastien Gay). Most of the revenue estimates were prepared by the staff of the Joint Committee on Taxation, although some were done by CBO's Tax Analysis Division (supervised by John McClelland, Joseph Rosenberg, Edward Harris, and Joshua Shakin) and Budget Analysis Division.

The discussions of the options were written and reviewed by analysts and managers throughout CBO in the four divisions just mentioned, along with the Microeconomic Studies Division (supervised by Joseph Kile and Xiaotong Niu) and the National Security Division (supervised by David Mosher and Edward G. Keating).

Molly Dahl, Noelia Duchovny, and Molly Saunders-Scott coordinated work on the report and reviewed it in conjunction with Mark Doms, Mark Hadley, Jeffrey Kling, and Robert Sunshine.

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Editing and Publishing

The editing and publishing of the report were handled by CBO's editing and publishing group, supervised by Benjamin Plotinsky, and the agency's web team, supervised by Deborah Kilroe. Caitlin Verboon was the editor, and Casey Labrack was the graphics editor. Annette Kalicki prepared the online version of the report, and Julia Heinzel prepared a consolidated table of the options to be posted online.