# 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

| | | | | | | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Billions of Dollars | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2021–2025 | 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

| | | | | | | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Billions of Dollars | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2021–2025 | 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

| | | | | | | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Billions of Dollars | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2021–2025 | 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

| | | | | | | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Billions of Dollars | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2021–2025 | 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

| | | | | | | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Billions of Dollars | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2021–2025 | 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

| | | | | | | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Billions of Dollars | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2021–2025 | 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

| | | | | | | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Billions of Dollars | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2021–2025 | 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

| | | | | | | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Billions of Dollars | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2021–2025 | 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

| | | | | | | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Billions of Dollars | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2021–2025 | 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

| | | | | | | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Billions of Dollars | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2021–2025 | 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

| | | | | | | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Billions of Dollars | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2021–2025 | 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

| | | | | | | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Billions of Dollars | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2021–2025 | 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

| | | | | | | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Billions of Dollars | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2021–2025 | 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

| | | | | | | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Billions of Dollars | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2021–2025 | 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

| | | | | | | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Billions of Dollars | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2021–2025 | 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)

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 32** **Multiple Functions**

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

| | | | | | | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Billions of Dollars | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2021–2025 | 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