20 Questions on the Federal Budget

1. What do our federal taxes pay for?

About two-thirds of our budget goes towards defense and security spending, Medicare, Medicaid and Social Security. The remaining third is divided between interest on our debt (6%); social safety net programs like unemployment insurance, food stamps, school lunches, home energy heating assistance, and low-income housing (14%); benefits for federal retirees and veterans (7%); transportation and infrastructure (3%); scientific and medical research (3%); education (3%); and foreign aid (1%).

2. What's the timeline for when a budget is approved?

The Federal government's fiscal year runs from September 30 to October 1 of every year. Typically, the President proposes a budget in February, and the Congress spends the spring and fall considering the President's budget, authoring and voting on their own plan, and sending a finished budget to the President.

If it becomes clear that passing a comprehensive budget may not be possible, Congress will pass "continuing resolutions" (CRs) or bills that prevent a government shutdown and keep the government running, typically at existing funding levels. If Congress doesn't pass a budget or a CR by October 1, a government shutdown becomes possible.

3. How was the budget funded in fiscal year 2011 and where is Congress currently in the budget process?

Congress passed a series of short-term CRs to keep the government running in fiscal year 2011, and narrowly averted a government shutdown. Those CRs included significant cuts to certain programs, but no changes to large programs like Social Security, Medicaid, or Medicare. Defense spending actually increased.

The President proposed a budget in February 2011. Republicans in the House of Representatives rejected that plan, passed their own budget (the "Ryan Budget"), and rejected several Democratic Congressional alternatives. The Appropriations Committee in Congress is now determining funding levels for individual programs within the framework of the Ryan budget. If a budget is not passed by October 1, 2011, a government shutdown becomes possible.

4. What is the "Ryan Budget" I've heard about?

The "Ryan Budget" refers to a budget blueprint authored by Congressman Paul Ryan, the Chairman of the House of Representatives' Budget Committee. His blueprint was passed by the House in April of 2011, but failed in the U.S. Senate.

5. What does the "Ryan Budget" do?

The Ryan Budget would cut $5.8 trillion from projected spending in 10 years (through 2021) through drastic cuts to Medicare, Social Security and programs that serve low- and moderate-income Americans. Specifically, Medicare is turned into a voucher, Medicaid would be turned into a block grant, and the health care expansion President Obama recently signed into law would be overturned. Taxes on the very rich, however, would be deeply cut, while tax deductions, exemptions and credits that benefit working families would likely be eliminated.

Many details about cuts under the Ryan Budget are still unclear, because his plan is just an outline. However, advocates estimate that two-thirds of the projected program cuts under the Ryan Budget would come from programs that serve low-income Americans (Center on Budget and Policy Priorities). The Ryan plan also doesn't balance the budget until sometime in the 2030s.

6. *How would the Ryan Budget change Medicare and Medicaid?*

The Ryan Budget would reduce benefits for current Medicare beneficiaries and effectively eliminate Medicare as we know it for anyone under the age of 55. For current beneficiaries, the Ryan Budget would eliminate free preventive health services and allow the coverage gap in the Medicare prescription drug program (known as the "donut hole") to continue indefinitely. Individuals who are 54 and younger would not get government-paid Medicare benefits like their parents and grandparents. Instead, they would receive a voucher-like payment to purchase health insurance from a private insurance company. Finally, the Ryan Budget would increase the age of eligibility from 65 to 67 years of age.

The Ryan Budget would convert Medicaid into a block grant program. The federal government would send each state a lump sum to cover all Medicaid recipients, including low-income children, people with disabilities, and seniors in nursing homes. There would be no requirement that states cover everyone who is currently eligible. States could reduce benefits, cut payments to doctors, and even freeze enrollment. Medicaid funding would be slashed by more than $700 billion over the next decade. That is more than one-third of the program's funding. Funding cuts of this magnitude would leave states like California with no alternative but to reduce benefits drastically.

7. Have Democrats in the House of Representatives presented an alternative budget?

Yes; in fact, several alternatives have been suggested. The House Democratic Caucus, the Congressional Black Caucus and the Congressional Progressive Caucus all presented alternatives that were voted down by the Republican majority in Congress. Each of these plans balance the budget years before the Ryan plan would, and offer a more reasonable approach to balancing the budget that includes both the revenue (taxes) and expenditure (spending) sides of the equation.

8. *How do health programs contribute to the federal budget?*

Medicare and Medicaid are the two of the largest programs in the federal budget. Medicare cost the federal government almost $504 billion in fiscal year 2009 and covered more than 47 million seniors and persons with disabilities. Medicaid cost the federal government approximately $381 billion in fiscal year 2009 and covered more than 68 million low-income children and adults. Medicare, Medicaid and the Children's Health Insurance Program (CHIP) together account for 21% of the federal budget.

9. Why is health care so expensive?

The cost of health care services is increasing faster than the cost of other goods and services in our economy. This is partly a result of new medical treatments that are very expensive but significantly improve health and save lives. In many cases, these costs cannot be reduced significantly without denying patients the care they need. However, health care costs are often unnecessarily high as a result of inefficiencies in the health care system, such as unnecessary paperwork, excessive insurance company profits, and duplicative medical tests. Carefully-crafted reforms can reduce these costs while improving the quality of health services.

10. What else can we do to control health care costs?

One of the easiest ways to reduce costs in Medicare would be to allow the federal government to negotiate directly with pharmaceutical companies to lower prescription drug prices. According to a 2008 report by the House Committee on Oversight and Government Reform, the federal government could save $156 billion over ten years by requiring the Secretary of Health and Human Services to enter into negotiations on Medicare Part D drug prices. Furthermore, Medicare beneficiaries could save up to $27 billion over the same period.

Enacting a “public option” for health care could also control health care costs. A public option is a government-run health insurance plan that would compete with private plans in the market, and provide another choice to individuals shopping for health insurance coverage. The Congressional Budget Office (CBO) found that legislation creating a public option would reduce the deficit by $68 billion from 2014 to 2020. Despite likely providing lower reimbursements to medical providers than private plans do, CBO found that providers would likely participate in large numbers because of the number of enrollees. CBO estimates the average public plan premium would be 5 to 7% lower than other private plans available within the exchange, making it more affordable to individuals.

11. How does military spending in the U.S. compare to other nations?

The U.S. spends nearly more on the military than every other country in the world combined. In fact, we spend more than 6 times as much as the country with the next highest budget: China (Stockholm International Peace Research Institute, as reported by the NY Times).

12. How much did the President’s “stimulus” cost and what has been the impact on our economy?

The American Recovery and Reinvestment Act of 2009 (also known as the “stimulus”) was signed into law in February of 2009, and included about $800 billion in expenditures.

The stimulus included $507 billion in spending and $282 billion in tax cuts. It also provided a one-time payment of $250 to recipients of Social Security and government disability support. The bill contained more than $150 billion in public works projects for transportation, energy and technology, and $87 billion to help states meet rising Medicaid costs. The stimulus also retained a $70 billion tax break to spare millions of middle-income Americans from paying the alternative minimum tax in 2009. It also created a new tax credit for 95% of working families at a cost of $116 billion.

The non-partisan Congressional Budget Office estimates that as many as 3.3 million jobs were created as a result of the stimulus, and that the unemployment rate was lowered by about 1.8 percentage points. The stimulus added between 1.7 and 4.5% to our GDP.

However, the stimulus was clearly not large enough and was not structured to last long enough. Most of the funding is now running out, and is causing the momentum on job growth to stall.

13. Does the Affordable Care Act increase the deficit?

No. Passed last year, the Affordable Care Act (ACA)—also referred to as health care reform---actually saves the government money. According to the Congressional Budget Office (CBO), the ACA cuts the deficit by $143 billion over the next 10 years and by $1.2 trillion in the following decade. The ACA includes many provisions to reduce costs and improve efficiency. For example, the ACA eliminates overpayments to Medicare Advantage plans, which contribute to health insurance company profits but do not improve patient care. The ACA also strengthens the Health Care Fraud and Abuse Control Fund to fight Medicare and Medicaid fraud and establishes new penalties for submitting false payment claims.

14. What is the "debt ceiling" and why does it need to be raised?

Established in 1939, the "debt ceiling" is a cap on how much can be borrowed by the U.S. government. The debt ceiling currently stands at $14.294 trillion.

It has been raised many times by Congress during times when both Republican and Democratic Presidents were in the White House. Though long-term changes to reduce our deficit are needed, we must take the short-term step of raising the debt ceiling because America has made commitments to pay our creditors, to pay veterans' benefits, to provide Social Security checks and Medicare benefits, and to pay the salaries of federal workers, among many other things. If we do not pay our bills on time, our national "credit score" will quickly and deeply drop, ruining our ability to borrow in the future. Paying our bills on time as a nation keeps interest rates low for all American borrowers, because interest rates on bonds sold by the Treasury to fund our government directly link to the interest rates paid by consumers on student loans, car loans, mortgages, etc.

15. Do we need to act quickly to cut our deficit?

We absolutely need to reorganize programs, reexamine our military commitments and restructure our tax code to reduce the deficit, and ensure the long-term sustainability of our country's finances. But if we cut too much, too soon, we run the risk of destabilizing the economy and forcing more job losses. Since consumer spending continues to drag, the government needs to maintain some level of stimulus to ensure that the bottom of the economy doesn't drop out.

16. How do federal budget cuts impact state and local governments?

Cutbacks at the federal level force state and local governments to cut services, and, therefore, cut jobs. In June, the private sector added 18,000 jobs, but the public sector lost 39,000 jobs. We must balance our budget, but be careful not to do so in ways that force state and local governments to push more people out of work.

17. How does unemployment contribute to our debt and deficit?

Joblessness means that individuals are not paying taxes on their income. This is a significant contributor to our current debt. The Congressional Budget Office has projected that just a 1% increase in employment sustained for five years would net the government over $415 billion in deficit reduction. $315 billion would come from increased taxes paid by more people working and greater business profits; $32 billion would be saved from less money needed for unemployment insurance and other social programs; and $68 billion would result from less money being spent on interest payment in service to that debt.

18. Weren't there record surpluses under the Clinton Administration? What happened to them?

Yes. In 2000, the last year of the Clinton Administration, the government had a budget surplus of $236 billion. That surplus began to be spent down in 2001 and had been erased by 2002 when the government began to run a deficit. In addition to the unfunded wars in Afghanistan and Iraq, the largest factor contributing to the loss of the surplus accumulated under President Clinton was the tax cuts for the wealthy implemented by President George W. Bush. Through 2012, the total cost of these tax cuts will be $2.8 trillion.

19. Wouldn't a balanced budget amendment solve our budget problems?

No. In fact, a balanced budget amendment would probably make our budget problems worse. This is because, to comply with such an amendment, the government would either have to cut spending or raise taxes. While this may seem like an ideal solution, we must keep in mind that the government does have to spend money in the event of emergencies such as Hurricane Katrina and the collapse of Wall Street, to name a few recent examples. If spending cuts were mandated to pay for those events, programs that help our most vulnerable populations could be on the chopping block. If taxes were raised to pay for those events, Americans could experience more financial hardship. In short, even though the government must pay its bills, tying its hands through a balanced budget amendment would complicate matters while placing the vulnerable or the middle class at risk.

20. Who owns most of our debt?

Most of the U.S. debt is owned by American individuals and institutions. As of March 2011, these persons and institutions owned about 42% of the U.S. debt. The next largest holder of U.S. debt is the Social Security Trust Fund, which owns about 18%. Six percent is owned by the U.S. Civil Service Retirement Fund and 2% is owned by the U.S. Military Retirement Fund. Foreign governments own the remaining 32% of the debt. As of May 2011, the largest foreign owner of our debt is China, which owns $1.16 trillion or 8% of our debt. The next largest foreign owner is Japan, which owns $912 billion or 6% of our debt.

Congressional Progressive Caucus Budget Balances the Budget By 2020

Healthcare

- enacts a public option

Domestic discretionary spending is increased across key progressive priority areas (CPC budget outlines funding changes across budget functions, not specific programs):

- **Energy**: up 10 percent
- **Natural Resources and the Environment**: up 5 percent
- **Community and Regional Development** (includes CDBG): up 5 percent
- **Education, Training and Social Services** (includes Head Start, Pell Grants, job training, youth summer jobs, etc.): up 20 percent
- **Health** (includes domestic HIV/AIDS programs, community health centers, etc.): up 10 percent
- **Income Security** (child nutrition, LIHEAP, TANF, food stamps): up 20 percent
- **Veterans Benefits and Services**: up 10 percent
- **Administration of Justice** (includes juvenile justice programs): up 5 percent
- **International Affairs** (includes programs like USAID, global fund to fight AIDS, foreign aid): up 15 percent

Military and Defense

- Eliminates all emergency defense funding starting in 2012, saving $674 billion over 2012-16 and $1.6 trillion until 2021.
- Reduces baseline defense spending by reducing strategic capabilities, conventional forces, procurement and R&D programs.
- Achieves a total of $2.3 trillion in savings in 10 years.

Taxes

- Ends Bush tax cuts and restores taxation levels to the Clinton-era rates, but extends marriage relief, credits and incentives for children, families and education.
- Immediately rescinds December 2010 tax deal for highest-income households.
- Imposes new millionaire tax brackets on income.
- Imposes the Social Security tax on 90 percent on an individual's income, rather than capping the amount at $106,800.
- Imposes a new financial transactions tax.
- Makes structural reforms to US corporate income tax system.

What is the Debt Ceiling and Why Do We Need to Raise It?

What Is the Debt Ceiling?

Established in 1939, the "debt ceiling" is a cap on how much can be borrowed by the U.S. government. It has been raised 89 times by Congress.

Why Do We Need to Raise It?

America has made commitments to pay our creditors, to pay veterans' benefits, to provide Social Security checks and Medicare benefits, and to pay the salaries of federal workers, among many other things.

- If we do not pay our bills on time, our national "credit score" will quickly and deeply drop, ruining our ability to borrow in the future.

- Paying our bills on time as a nation keeps interest rates low for all American borrowers, because interest rates on bonds sold by the Treasury to fund our government directly link to the interest rates paid by consumers on student loans, car loans, mortgages, etc.

- Long-term changes in the structure of our programs are needed to lower our debt, and prevent the need for future borrowing. But these changes can't be accomplished overnight. Not raising our debt ceiling would have disastrous consequences for both the U.S. government and American families.

- If we do not raise the debt ceiling, the consequences could include:

    - Social Security checks not being sent;
    - Veterans benefits not being available;
    - Medicare reimbursements to doctors stopping;
    - A government shutdown (including a shutdown of federal courts, national parks, federal offices);
    - Skyrocketing interest rates on consumer loans; and
    - A U.S. default to our creditors.

Protecting Medicare & Medicaid

<u>How Did the Affordable Care Act Change Medicare?</u>

- The Affordable Care Act (ACA), which became law last year, provides free preventive health services, such as annual wellness visits and diabetes and cancer screening.
- The ACA reduces drug costs for seniors by closing the coverage gap in the Medicare Part D prescription drug program, commonly known as the “donut hole.” The donut hole will be eliminated completely by 2020.

<u>How Would the Ryan Budget Change Medicare?</u>

- The Ryan Budget, which was passed by the Republicans in the House of Representatives, would reduce benefits for current beneficiaries and effectively eliminate the program as we know it for anyone under the age of 55.
- The Ryan Budget would eliminate free preventive health services.
- The Ryan Budget would repeal the provisions of the ACA that close the donut hole.
- Individuals who are 54 and younger would not get government-paid Medicare benefits like their parents and grandparents. Instead, they would receive a voucher-like payment to purchase health insurance from a private insurance company.
- Finally, the Ryan Budget would increase the age of eligibility from 65 to 67 years of age.

<u>How Did the Affordable Care Act Change Medicaid?</u>

- The ACA also included provisions to improve Medicaid (known as Medi-Cal in California).
- The ACA expands Medicaid to cover most low-income individuals under the age of 65. This will allow many people who cannot afford health insurance to obtain health care.
- Medicaid payments to doctors for primary care services will be increased in order to encourage more doctors to accept Medicaid patients.

<u>How Would the Ryan Budget Change Medicaid?</u>

- The Ryan Budget would convert Medicaid into a block grant program. The federal government would send each state a lump sum to cover all Medicaid recipients, including low-income children, people with disabilities, and seniors in nursing homes.
- There would be no requirement that states cover everyone who is currently eligible.
- States could reduce benefits, cut payments to doctors, and even freeze enrollment.
- Medicaid funding would be slashed by more than $700 billion over the next decade. That is more than one third of the program’s funding.
- Funding cuts of this magnitude would leave states like California with no alternative but to reduce benefits drastically.

<u>What if We Didn’t Raise the Debt Ceiling?</u>

- President Obama and the Treasury would have to start deciding which bills get paid and which don’t.
- Fully funding Social Security, Medicare, Medicaid, our troops, interest on the debt, and nothing else would already put us above the ceiling.
- The President would almost certainly have to stop making payments for one or more of these essential programs, in addition to shutting down the government.

Protecting Social Security

How Social Security is Funded:

- Social Security is primarily financed by payroll taxes on workers and their employers.
- The government holds this money in U.S. Government securities
- It was meant to be a pay-as-you-go system where current revenues were used to pay for current costs; however, there have since been numerous changes to the program as well as the nation's demographics which have led the Social Security trust fund to run at a deficit since 2010.
- The Social Security trust fund is projected to remain solvent until 2036 when funding for the program will have to draw from other money in the Treasury's general fund.

Recent Changes to the Payroll Tax:

- In 2010 Congress temporarily reduced the Social Security payroll tax from 6.2% to 4.2% for employees, and from 12.4 to 10.4% for the self-employed.
- The thinking behind this reduction was that it would provide a needed, additional "stimulus" to the economy and would help create jobs. This loss of revenue resulting from this temporary reduction was paid for by transfers from the Treasury's general fund to the trust fund.
- Many are concerned that this might become a permanent cut which would weaken Social Security's primary source of funding.

Suggestions to Change Social Security:

- In the spring budget negotiations Rep. Paul Ryan suggested we begin negotiations to alter Social Security.
- President Obama has made the point that Social Security is not contributing to the current national debt and it should be dealt with separately in a bipartisan agreement.
- Republicans have suggested that we raise the retirement age in order to keep Social Security solvent and President Obama has agreed to "put it on the table" for debt negotiations.
- President Bush proposed privatizing the fund, though this would close only 9% of the shortfall and would not protect contributions from inflation and it would subject them to fluctuations in the stock market.
- Democrats have proposed raising the income cap on the program. Currently, if you make over about $106,000 you stop paying Social Security tax on that income. President Obama has supported lifting this cap which would keep the program solvent.
- Others have suggested taxing Social Security like pensions, changing the formula we use to adjust benefits for inflation, and increasing the payroll tax.

What if We Didn't Raise the Debt Ceiling?

- President Obama and the Treasury would have to start deciding which bills get paid and which don't.
- Deciding to continue paying interest on the debt could prevent a financial crisis in which interest rates rise sharply and investor confidence in the United States is shattered.
- Paying on the interest, however, could mean halting or delaying payments for Social Security, Medicare, or our troops.
- Fully funding interest payments, Social Security, Medicare, Medicaid, the military, and nothing else would already put us above the ceiling.
- The President would almost certainly have to stop making payments for one or more of these essential programs, in addition to shutting down the government.

The Social Security "Notch"

What is the Social Security "Notch" Issue?

Social Security was originally not adjusted for inflation, but in 1972 Congress passed legislation to begin automatically adjusting benefits for rising costs of living. However, they unintentionally used a flawed formula that led to ballooning benefits.

- Under the system, each increase for current beneficiaries raised the initial benefits for future beneficiaries
- Social Security would have become insolvent within five years
- The term "notch" refers to the steep downward adjustment in benefits Congress soon made in response

What did Congress do?

- In 1977, Congress phased in a new system that indexed initial benefits to wages and then adjusted them for inflation
- Those born from 1910-1916 were still allowed to receive the windfall benefits
- Those born 1917-1921 received a transition formula that was still lower than the windfall amounts
- Those born after 1921 received the new formula

Why all the Confusion?

- Some advocacy groups want to increase benefits to people born during the transition period to be on par with those who received the windfall. However, most organizations representing older Americans, led by AARP, have opposed notch legislation. The AFL-CIO, the National Association of Manufacturers, and the National Taxpayers Union also have come out in opposition, as did the Carter, Reagan, and George H. W. Bush Administrations.
- **A Congressional commission in 1992 concluded that those in the notch group will still receive some of the highest relative benefits in the history of Social Security and that, therefore, further action on this issue wasn't needed.**

The Ryan Budget

Background: The Ryan Budget (proposed by Chairman of the House Budget Committee, Paul Ryan, and approved by a vote in the House with the support of Republicans) would cut $5.8 trillion from projected spending in 10 years (through the 2021). Total cuts in spending are derived from three major categories:

- $4.3 trillion in net program cuts;
- $1.04 trillion in savings based on the assumption that the Iraq and Afghanistan wars will be phased down on the Obama Administration's timetable; and
- $446 billion in savings on interest payments.

In total, advocates estimate that two-thirds of the projected program cuts under the Ryan plan would come from programs that serve low-income Americans.

Domestic Discretionary Programs

$400 billion in cuts to programs like public housing, LIHEAP, community service block grants, etc. The Center on Budget and Policy Priorities (CBPP) projects that the Ryan plan would include $400 billion in cuts in discretionary programs serving low-income Americans (such as low-income housing, home heating aid, community service block grants, etc).

Domestic Mandatory Programs (other than Medicaid, Medicare and Social Security)

$350 billion in cuts to programs like food stamps, Pell Grants. The Ryan plan proposes $715 billion in cuts in mandatory programs other than Medicare, Medicaid, and Social Security, but does not specify how much will be cut from various programs. CBPP estimates that $350 billion of that $715 billion would come from programs that serve low-income Americans (prime targets under this heading include the food stamp program and the mandatory portion of the Pell Grant program).

Domestic Mandatory Programs – Medicare and Medicaid

The Ryan Republican Budget for FY 2012 slashes Medicaid by more than $700 billion over the next decade and turns Medicare into a voucher program.

Medicare

- Individuals who are 54 and younger will not get government-paid Medicare benefits like their parents and grandparents. Instead, they will receive a voucher-like payment to purchase health insurance from a private insurer.
- When the first of these seniors retire in 2022, they will receive an average of $8,000 to buy a private insurance plan. That is less than the amount of the subsidy Members of Congress receive for our health plans today ($9,012)!
- The coverage gap in the Medicare prescription drug program will continue indefinitely. Under the Affordable Care Act, which was enacted last year, this so-called "doughnut hole" is scheduled to be phased out. The Republican Budget will allow seniors to continue to pay exorbitant prices for their prescriptions when they reach the doughnut hole.

- The age of eligibility for Medicare would be gradually increased from 65 to 67.

Medicaid

- Medicaid would be converted to a block grant program. The federal government would send each state a lump sum to cover Medicaid recipients, including low-income children, disabled Americans, and seniors in nursing homes.
- There would be no requirement that states cover everyone who is currently eligible for Medicaid. States could reduce benefits, cut payments to doctors, and even freeze enrollment.
- Medicaid funding would be slashed by more than $700 billion over the next decade. That is over one third of the program's funding.

Health Insurance Expansion

- The Ryan plan cancels the expansion of health insurance coverage under the Affordable Care Act enacted last year. The more than 30 million people who now lack health insurance coverage will not get coverage.

Social Security

The Ryan plan largely avoids discussing Social Security, instead calling for President Obama to submit a plan to Congress for a vote. However, Ryan released a more detailed plan last year on budget reform that had a greater level of detail on his desired changes to Social Security. Ryan's plan presented last year would:

- Cut benefits and partially privatize Social Security by diverting money intended to pay for benefits into private accounts.
- Refuse to consider raising the cap above which earnings are not taxed (currently $106,800).

Taxes

Though Rep. Ryan's proposal is opaque, it is almost certain to raise taxes on the middle class, and is designed to be misleading and to deliberately obscure its tax hike. To summarize, the proposal would:

- Maintain the Bush-era tax cuts beyond their expiration in 2012 and **cut the top individual tax rate down to 25 percent from 35 percent.**
- Ryan would pay for the enormous tax cut for the top by eliminating some unspecified tax expenditures. In general, lost revenue would be offset by ending various deductions, exemptions, and credits that help the middle class.
    - According to the Center for Tax Justice, <u>taxes for the lowest-income 90 percent of Americans would rise under this plan</u>.
    - CTJ also estimates that <u>taxes for the richest 1 percent of Americans would decrease by 15 percent</u>, while <u>taxes for the lowest-income 20 percent of Americans would increase by 12 percent</u>.