Our Fiscal Future

A Conversation about our Nation's Debt with Congressman Mike Thompson

Where we are today:

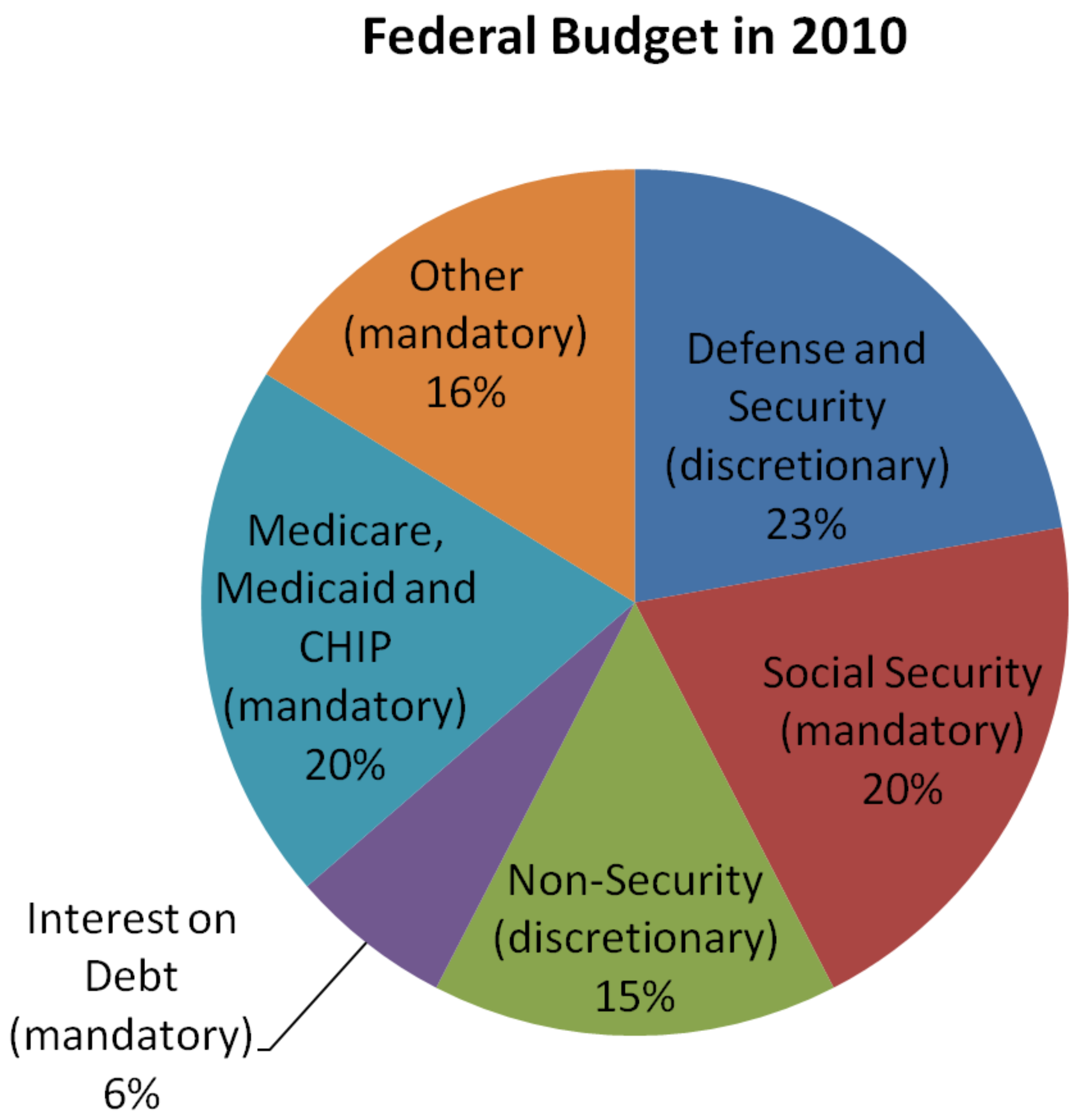
- The National Debt= **$14 trillion**
  - *This is equivalent to $43,000 per person in the U.S.*

- The Annual Deficit for FY2010 = **$1.3 trillion**

- FY2010 the Government Spent = **$3.5 trillion**
  - **$2.2 trillion** in revenues
  - **$1.3 trillion** financed by borrowing

Federal Spending in 2010

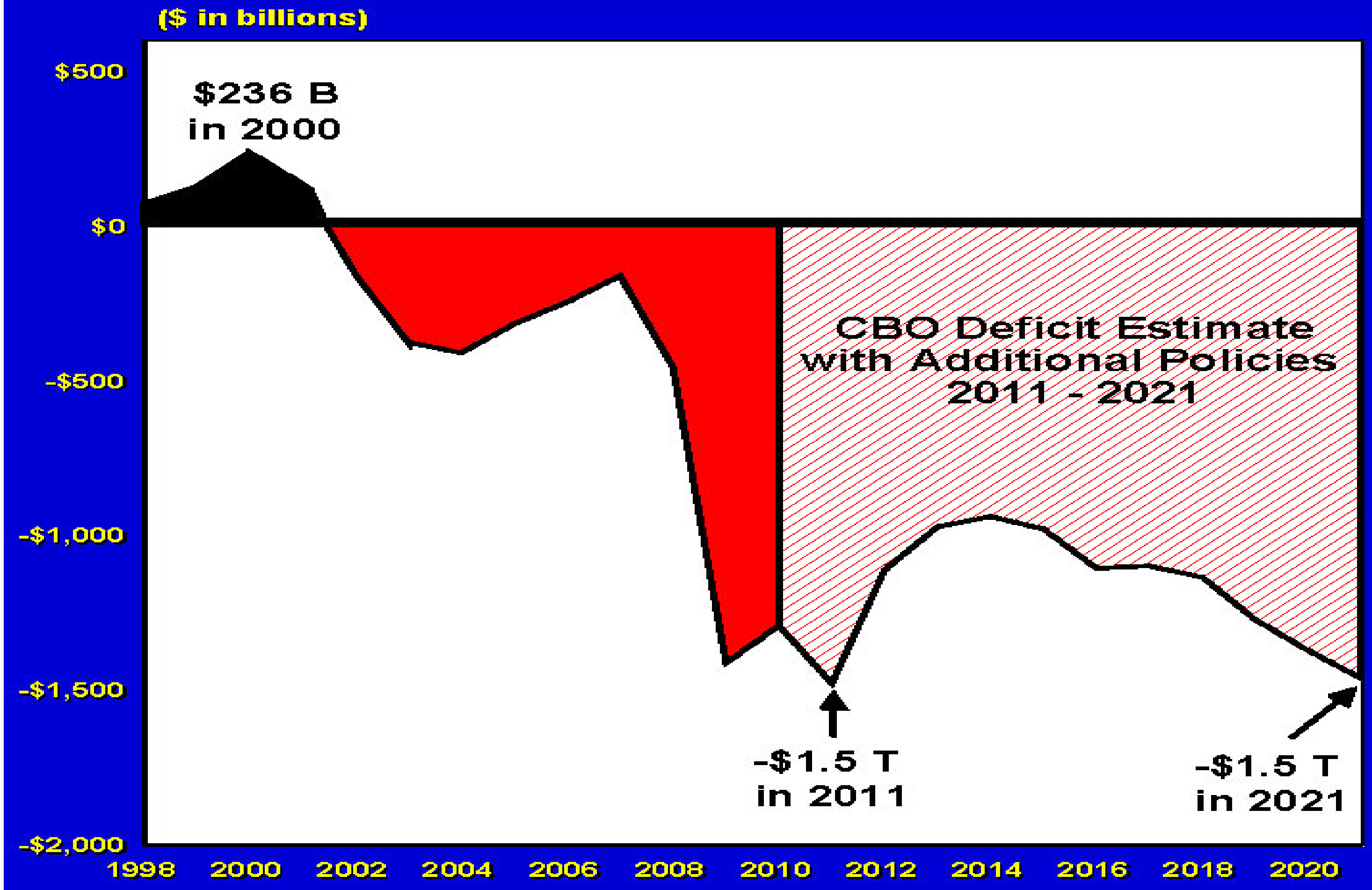
- Defense Spending = 23% of budget ($800 b)
- Social Security = 20% of the budget ($708 b)
- Medicare, Medicaid and CHIP= 21% of budget ($724b, of that Medicare is $468 b)
- Interest payments on our debt= 6% of budget
- Other mandatory spending= 14% of budget
- Other non-security discretionary= 15% of budget


Federal Budget in 2010
Other (mandatory) 16%
Defense and Security (discretionary) 23%
Medicare, Medicaid and CHIP (mandatory) 20%
Social Security (mandatory) 20%
Non-Security (discretionary) 15%
Interest on Debt (mandatory) 6%

What is non-security defense spending?

- 2% Scientific and Medical Research
- 3% Education
- 1% Foreign Aid, USAID
- 3% on Transportation and Infrastructure
- 1% on Natural Resources and the Environment

Ten-Year Budget Outlook

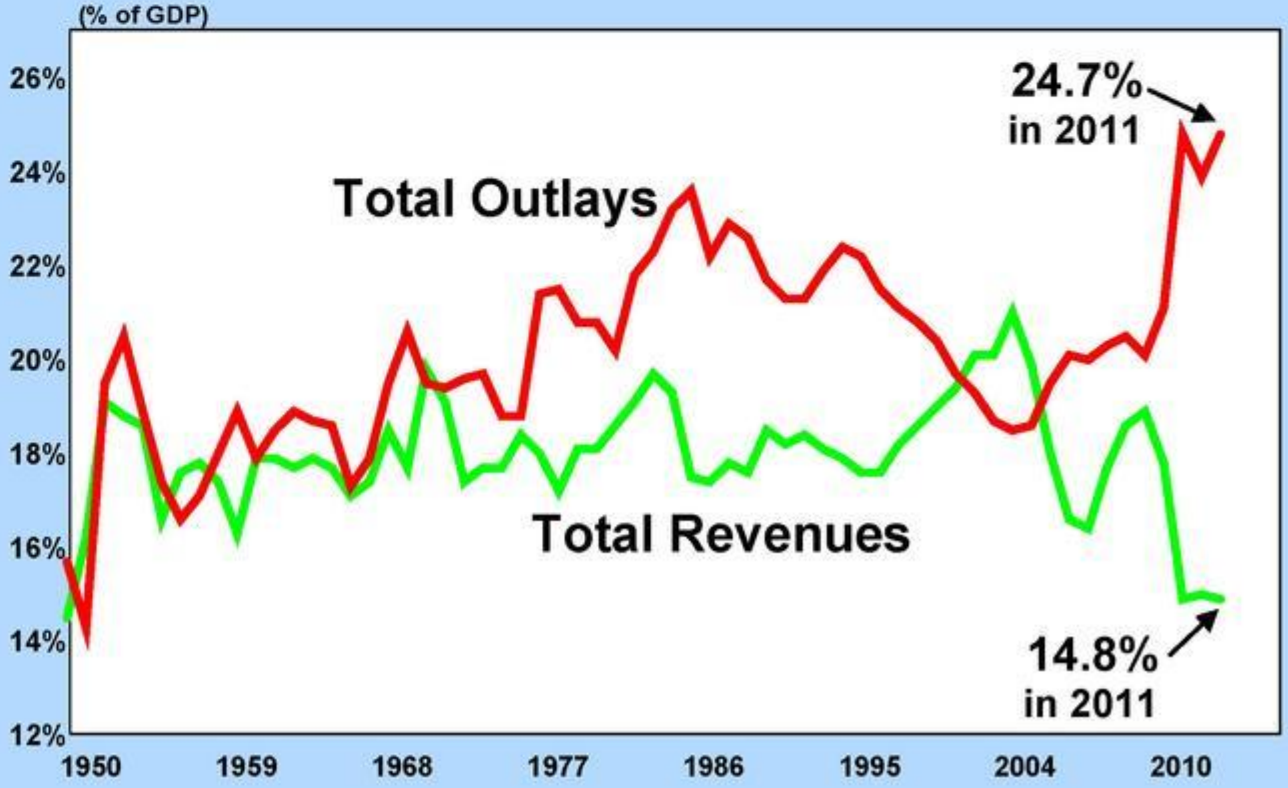


Sources: CBO and SBC
Note: CBO's "The Budget and Economic Outlook: Fiscal Years 2011 to 2021," adjusted for alternative policies: extension of 2001 and 2003 tax cuts, traditional tax extenders, AMT reform, SGR reform, and ongoing overseas military operations.

How did we get here?

- We have had a fundamental imbalance between revenues and spending.
- In 2001, we had a budget surplus of $236 billion.
- Nation’s debt in 2001= $5.8 trillion
- Nation’s debt in 2009= $11.8 trillion
- Nation’s debt in 2011= $14 trillion

Spending and Revenues



Sources: OMB, CBO

How did we get here?

- We “deficit financed,” aka did not pay for:
  - Two wars ($1.15 trillion for Iraq and Afghanistan)
  - Medicare Part D, Drug Benefits ($380b)
  - Tax cuts (over $2 trillion between 2001-2010)
  - Bailed out Fannie Mae and Freddie Mac ($291b)
  - The economy collapsed in 2008, adding, by some estimates, $479 billion to the debt
  - American Recovery and Reinvestment Act ($862b)

What happens if we do nothing?

- By 2025, revenue will only be able to pay for:
  - Interest Payments on our debt and,
  - Medicare, Medicaid and Social Security

The President’s Fiscal Commission

- 18 bipartisan member panel created by the President, not by statute, to come up with a solution to long-term fiscal problems

- 11 of the 18 members voted in favor of the Commission’s recommendation

Fiscal Commission Proposal

- Proposed to start in 2012 and balance budget by 2015
- Cuts deficits by $4 trillion through 2020
- A long term plan to improve the country's fiscal outlook
- Six major Components:
  1. Discretionary Spending Cuts
  2. Comprehensive Tax Reform
  3. Health Care Cost Containment
  4. Mandatory Savings
  5. Social Security Reform to Ensure Long-term Solvency and Reduce Poverty
  6. Process Changes in how the Federal Government Budgets

(I) Discretionary Spending Cuts

Discretionary Spending

- Caps discretionary spending through 2020
- Adopt immediate cuts-- $50b in 2015
  - It requires that an equal share of cuts come from security and non-security spending
- Truly budget for wars and disaster funds

(II) Comprehensive Tax Reform

- Broaden the tax base by reducing the amount of tax expenditures.
  - Tax expenditures are tax breaks that go to certain groups —they cost $1.1 trillion a year.
- Lower the rates.
  - Because tax expenditures are reduced you are able to lower the income tax rate.

(III) Health Care Cost Containment

- Improve how doctors are paid under Medicare
- Give greater authority to combat fraud and waste in Medicare
- Increase cost sharing for Medicare enrollees
- Require drug companies to give discounts on brand name drugs for Medicare.
- Enact medical malpractice changes
- Implement some of the provisions in Health Care Reform sooner

(IV)Mandatory Savings

- Bring federal government and military pensions more in line with the private sector
- Reduce agriculture subsidies, such as direct payments to farmers.
- Eliminate in-school deferment of interest payments in the federal loans.
- Allow the Postal Service greater autonomy

(V) Social Security Reform

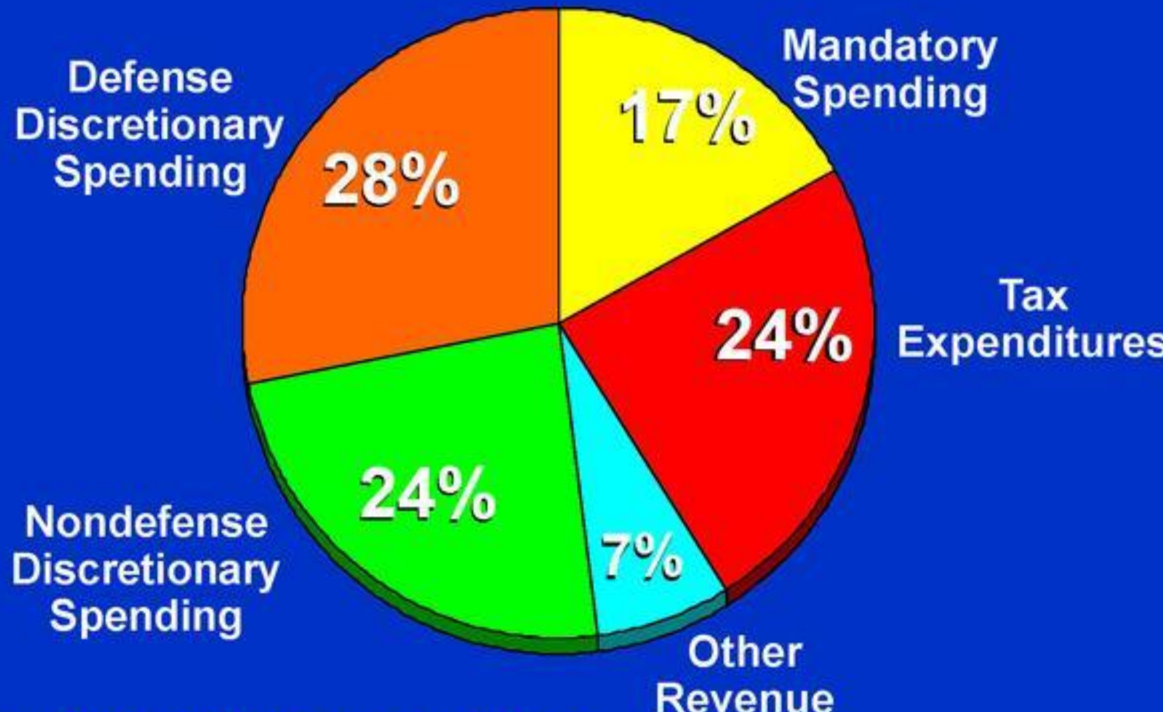
- Fiscal Commission Proposals:
  - Make social security more progressive, so that those who need it the most get it.
  - Add a 20 year bump, so older retirees who may have outlived their savings get an increase in benefits.
  - Gradually increase the retirement age to 68 in 2050 and 69 by 2075. Allow for hardship exemptions for those who can no longer work.
  - Increase payroll taxes so that the wealthier pay social security tax on more of their wages. Right now they do not pay tax on any income above $106,800.
  - Change the measure of inflation for cost of living increase.

(VI) Process Changes in how the Federal Government Budgets

- Enact controls that make it harder to add to the debt.
- Design triggers in programs, such as unemployment benefits, so they go into effect when certain events happen and turn off at certain points.
- Change the measure of inflation for cost of living increase for government programs.

Where Do Savings Come From Under Commission Proposal

2012 - 2020



Source: National Commission on Fiscal Responsibility and Reform
Note: Rates do not include interest savings.