“Growing the Economy and Stabilizing the Debt”
Testimony of Alice M. Rivlin*
to the
Joint Economic Committee
U.S. Congress
Thursday, March 14, 2013

Chairman Brady, Vice Chairman Klobuchar, and members of the Committee:

This hearing is called: “Flirting with Disaster: Solving the Debt Crisis.” I would like to suggest an alternative title: “Avoiding Disaster: Growing the Economy and Stabilizing the Debt.” I make this suggestion because I believe strongly that future American prosperity requires bipartisan cooperation to achieve two goals at once:

- Faster economic growth that will create more jobs and bring the unemployment rate steadily down at least to the 5-6 percent range.
- A sustainable long-run budget plan that will halt the projected rise in the debt/GDP ratio and put it on a downward trajectory by the end of the decade.

The two goals reinforce each other and neither can be achieved without the other. Weak economic growth—or worse, sliding back into recession—will reduce revenues and make it much harder to reduce or even stabilize the ratio of debt to GDP. But the prospect of debt growing faster than the economy for the foreseeable future reduces consumer and investor confidence, raises a serious threat of high future interest rates and unmanageable federal debt service, and reduces likely American prosperity and world influence.

Stabilizing and reducing future debt does not require immediate austerity—on the contrary, excessive budgetary austerity in a still-slow recovery undermines both goals—but it does require a firm plan enacted soon to halt the rising debt/GDP ratio and reduce it over coming decades. Financial markets will not provide advance warning of when such a plan is required to avert negative market reactions. At present the United States appears to have unlimited access to world markets at low interest rates But this market confidence could evaporate quickly, possibly because of developments elsewhere around the world and beyond our control. The sooner we enact such a plan, the better the prospects for our economy. There is no valid argument for delay.

Putting the budget on a sustainable path and reducing the debt/GDP ratio will require bipartisan agreement on entitlement reform that slows the growth of health care spending and puts Social Security on a firm foundation for future retirees. It will also require

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raising additional revenue through comprehensive tax reform. I have spent much of the last several years participating in two high-profile bipartisan groups that crafted plans to grow the economy and stabilize the debt—the Simpson-Bowles Commission and the Domenici-Rivlin Task Force. That experience convinced me that bipartisan problem-solving is possible when participants are willing to confront facts objectively, listen to each other, and seek common ground. An updated version of Domenici-Rivlin is attached.

Although detailed recommendations of the two groups differed, each involved three elements: (1) restraining discretionary spending; (2) reducing the growth of Medicare, Medicaid and stabilizing Social Security: and (3) comprehensive tax reform to cut spending in the tax code and raise additional revenue. Indeed, the arithmetic of the problem makes all three elements necessary. More than enough discretionary spending restraint has already been accomplished. The task remaining is to find agreement on an acceptable set of entitlement and tax reforms.

Why Sequestration is Bad Policy and Should be Replaced

Sequestration is a mindless across-the-board cut designed to be such bad policy that it would never happen, and they should not be continued. Cutting discretionary spending will add to the restraining effect that the declining federal deficit is already having on the still-slow recovery, will reduce job creation, and will possibly even trigger a new recession. Domestic discretionary spending has already been reduced by more than the two bipartisan groups recommended and is scheduled to fall to historic lows. Such low levels of domestic discretionary spending endanger the government's ability to perform essential functions that the public wants and needs. Indeed, higher investment in science, education, and modern infrastructure is needed to foster future productivity and job creation. While savings in defense can be made over time, they should result from serious planning, not meat-ax proportional cuts regardless of priorities. Since discretionary spending is not a driver of future deficits, cutting it contributes next to nothing to slowing the projected increases in spending that will push the debt/GDP ratio upward over the next several decades. Sequestration weakens both the economy and the government's ability to do its job. It should be replaced by gradually phased in tax and entitlement reforms that will stabilize the debt. I am concerned that Chairman Ryan's budget blueprint released on Tuesday continues to target nondefense discretionary spending, cutting it substantially more than the current sequester.

Why Entitlement Reforms are Necessary Now

Over the coming decades federal spending is projected to increase faster than the economy can grow, because a tsunami of older citizens are reaching retirement age and living longer than their predecessors, and spending for health care, disproportionately consumed by seniors, is likely to rise faster than other spending. This combination of demographics and health spending growth makes Medicare, Medicaid and Social Security drivers of unsustainable federal spending in future years.

Social Security should be the easiest to reform, because it involves only money—without the complexity of health care delivery—and requires fairly minor, well understood

tweaks in benefits and revenue to regain fully funded status. Social Security is an extremely successful program, which keeps millions of seniors from destitution in old age. Workers now in the labor force need to know that Social Security will be there for them when they retire or if they become disabled and that they can plan their retirement around it. The Domenici-Rivlin Task Force recommended indexing benefits to longevity (rather than further increasing the age of full retirement beyond 67); adding a bend point in computing initial benefits to reduce payments to high income people, switching to a chained CPI for indexing benefits, while protecting the lowest income and most aged recipients; and raising the cap on wages faster than under current law. Taken together, the Domenici-Rivlin Social Security recommendations ***increased*** benefits for low-income seniors while reducing those for affluent beneficiaries in order to achieve solvency.

Enactment of such a bipartisan package now would reassure current workers, demonstrate that our democracy works to solve problems before they reach crisis proportions, and contribute to stabilizing the debt. Fixing Social Security would send a strong signal to the financial markets that the nation was addressing its long-term budget problem, and, because its effects would be felt in future years, it would not threaten the current economic recovery.

Some have suggesting waiting until the Social Security Trust Fund runs out of money around 2033 before instituting reforms. This would be shortsighted and irresponsible. Workers who will be retiring in 2033 are already in their mid-forties. We owe it to them to fix Social Security now, so that they can plan their retirement with the confidence that their Social Security benefits will be there. This motivation for early action is even more important than the modest contribution that a Social Security fix will make to stabilizing the debt.

Medicare raises more complex issues than Social Security, but bipartisan compromise to slow Medicare growth without depriving seniors of needed health care is also possible. Indeed, sensible reforms of the Medicare reimbursement regime could lead the way to slowing the unsustainable growth of spending in the whole healthcare sector, relieving pressure on state, local, business, and family budgets—not just federal programs.

American health care is expensive compared to that in other developed nations and its quality is uneven. Part of the reason is that so much health care is compensated on a fee-for-service basis, which encourages providers to deliver more services, but does not reward quality, efficiency, or positive health outcomes. Medicare is the most important payer of health providers. It should be possible to shift the Medicare reimbursement regime toward bundled payments for episodes of care, reimbursement of Accountable Care Organizations, and capitated payments to integrated health systems—all designed to reward delivery of effective care, meeting quality standards, and keeping beneficiaries healthy.

There are two possible approaches to improving the performance of health providers along these lines. One is to change incentives in traditional Medicare by regulation. The other is to foster competition among health plans on a regulated exchange or market place. In the original Domenici-Rivlin plan we recommended doing both—improving traditional Medicare by regulation, but also introducing the option of competition among

integrated health plans in a premium support model. Subsequent analysis has suggested that it may be possible to introduce the competitive element more smoothly by ensuring that Medicare Advantage plans compete in a more transparent market place with effective incentives to improve health outcomes and lower costs. The recent slowing of healthcare spending suggests that it *may* be possible to keep the increase in spending close to the rate of growth of GDP without enforcing a cap.

Changing health care reimbursement and delivery practice will take time. That is why it must start soon if it is to make the necessary future contribution to stabilizing and eventually reducing the debt/GDP ratio.

Why Tax Reform Must Raise Additional Revenue

Even extremely successful efforts to deliver health care more efficiently and slow the growth of health spending will not make it possible to absorb the coming avalanche of seniors without additional revenues. Benefits for older people are already crowding out investment in knowledge and skills of young people and modernization of infrastructure needed to increase future productivity.

Our tax code contains enormous amounts of spending that is poorly designed for its ostensible purpose, disproportionately benefits upper-income people, and narrows the tax base. Reducing spending in the tax code could raise additional revenue at lower rates and make the tax system more progressive at the same time. Both Simpson-Bowles and Domenici-Rivlin recommended drastic comprehensive reform of both the individual and corporate income taxes to broaden the base and lower the rates.

The Domenici-Rivlin plan did away with almost all deductions, exclusions and other special provisions. It had two individual income tax rates—15 and 28 percent—gradually phased out the exclusion of employer-paid health insurance from taxable income, taxed capital and earned income at the same rates, converted the home mortgage and charitable deductions to credits at the 15 percent rate, and retained earned income and child credits. The result was a fairer, simpler, more pro-growth tax system that increased progressivity and raised more revenue. Such a drastic revamping of our current code would have multiple opponents, but might be easier to accomplish than a more incremental approach – which could have as many losers but no winners, without nearly as much of the potential benefit for the economy.

Importance of Both Growth and Debt Stabilization

Those of us who advocate near-term action to curb future debt increases have been called "debt scolds" and "deficit hawks." We have been unfairly accused of favoring immediate austerity and not understanding the need for accelerating job growth and improving productivity. But pursuing the double goal of growth and debt stabilization is possible, provided we get the timing right. We should not have austerity now, but we should take immediate steps to slow the growth of entitlement spending in the future and raise more revenue through a more progressive and pro-growth tax system.

Thank you, Mr. Chairman, Madam Vice-Chair and Members of the Committee.

BIPARTISAN POLICY CENTER

Domenici-Rivlin Debt Reduction Task Force Plan 2.0
Senator Pete Domenici and Dr. Alice Rivlin

In 2010, the Bipartisan Policy Center (BPC) convened a Debt Reduction Task Force (DRTF) of 19 former elected officials and experienced citizens with diverse backgrounds from across the political spectrum. We co-chaired the task force with the goal of addressing the projected explosion of U.S. federal debt. As we released our report, the National Commission on Fiscal Responsibility and Reform, led by former Sen. Alan Simpson and former White House Chief of Staff Erskine Bowles, also delivered their plan.

These bipartisan groups came to similar conclusions: First, the present debt trajectory of the United States federal government cannot be sustained and poses grave dangers to the American economy; second, policymakers must make difficult decisions to get our fiscal house in order; and third, any realistic solution must include structural reforms to entitlements and fundamental tax reform that raises significant new revenue.

These bipartisan proposals have increased awareness of the nation's severe fiscal problems. Further, Congress has passed components of these plans into law – most notably, the caps on annually appropriated spending contained in the Budget Control Act of 2011. But much work remains and that is why we are updating our proposals and renewing our effort with the release of Domenici-Rivlin 2.0.

No debt reduction plan can be sustained without strong and steady economic growth. The financial crisis caused a protracted economic downturn, and unemployment remains unacceptably high. We continue to believe that the economy needs additional near-term support. To that end, we recommend an immediate, large income tax rebate, similar in structure to those used in 2001 and 2008, to spur economic activity by putting money into the pockets of those most likely to spend it. Importantly, while we believe lawmakers must agree to a debt reduction plan in 2013, many of the provisions ought to be phased in over time as employment and economic growth return to more typical levels.

The Domenici-Rivlin Plan: Five Challenges

1. **Restrain defense and non-defense discretionary spending**

   Of the original recommendations from the Debt Reduction Task Force, this is the one area that Congress and the president have fully addressed. The caps placed on defense and non-defense discretionary spending – enacted as part of the Budget Control Act of 2011 – along with previous spending cuts, have placed discretionary spending on a path similar to that recommended by the Domenici-Rivlin plan (see Figure 1).

   Sequestration, which is scheduled to go into effect in January 2013, would slash discretionary spending far below the levels recommended by the Task Force, and thus, we believe that those cuts should be avoided as part of a comprehensive plan that addresses our remaining fiscal challenges.

   If policymakers wish to address discretionary spending further, they should reform the budget process. We recommend a regular, systematic analysis by Congress of each area of discretionary spending to identify those programs that deserve reauthorization and those that can be made more efficient. (For example, analysts from across the political spectrum have called for reform of procurement within the Department of Defense.) Such periodic reviews will improve the effectiveness and accountability of government.

2. **Promote short- and medium-term economic growth**

   Long-term fiscal sustainability requires reforming and cutting government spending programs, raising additional revenues, and spurring the economy to create more jobs and increase investment. Near-term growth can be boosted through a variety of stimulative policies, but few of them are likely to garner bipartisan support in the current polarized environment. We believe that an income tax rebate, similar in structure to those implemented in 2001 and 2008, could appeal to both parties and be effective. This one-time rebate, which should be similar in size to the expiring reduction in the payroll tax, will boost consumption and investment to accelerate the recovery. Of course, this and any other policies that add to the short-term deficit should be paired with a long-term debt reduction agreement rather than be enacted in isolation.

3. **Reform the corporate and individual tax codes by eliminating or curbing nearly all tax expenditures, reducing marginal rates, and raising significant new revenues for deficit reduction, while maintaining progressivity**

   Every plausible route to long-term fiscal sustainability includes substantial additional revenue. At the same time, however, we can reform the tax code to spur economic growth through a simpler system that stops picking winners and losers. The relevant congressional

committees should build broad, bipartisan support around such a reform.

4. **Reform health care entitlements to bend the cost curve, transitioning from volume-based reimbursement toward rewarding quality and positive health outcomes**

   We currently face immense budgetary pressures from the combination of rising per-capita health care spending and an aging cohort of baby boomers. To reduce the growing pressure on all budgets — federal, state/local, business, and household — we must control the growth of health care spending. Fee-for-service reimbursement, which dominates health care delivery, rewards volume of services rather than quality and effectiveness, and it leads to waste, duplication, and poor coordination of care. As the country's largest health care payers and spending drivers, Medicare and Medicaid urgently need reform and could help transform the whole health care system.

   Our proposal for Medicare (described in more detail below) improves the cost effectiveness of traditional Medicare through innovations in reimbursements and other incentives while strengthening competition among comprehensive, integrated health plans. Increasing competition and reducing government overpayments – using Medicare Advantage (MA) as a vehicle (through the application of competition among traditional Medicare and private MA plans) – can produce savings, while simultaneously improving quality and preserving the Medicare guarantee.

5. **Pass a balanced package of policies that achieves long-term solvency of Social Security**

   Social Security reform should not be approached from the vantage point of deficit reduction but rather with the goal of securing and strengthening a critical foundation for retirement for future generations. Without adjustments, the program will soon reach a point at which benefits must be slashed across the board or large transfers from general funds will be required. Accordingly, both parties in Congress should work with the president to adjust benefits and enhance revenues to set the program back on sound financial footing.

SPENDING CUTS AND REFORMS

The only realistic way to close the gap between how much the federal government spends and how much it collects is to reduce outlays and increase revenues. On the spending side, in addition to structural reforms to the major health entitlement programs, this requires sensible adjustments to nearly all discretionary and mandatory spending programs. Although we recommend that policymakers enact these changes as soon as possible, they should not take effect until 2014 or later so as not to damage the fragile economic recovery.

Domestic Discretionary. The Budget Control Act of 2011 (BCA) already imposed ten years of caps on this category of spending – reductions that are roughly consistent with the restraint recommended by our original Task Force plan. We do not feel that any additional cuts to this area would be prudent.

Defense. Similarly, the BCA also established ten years of caps on defense spending similar to the DRTF proposal. Experts from across the political spectrum believe that the procurement and retirement components of the U.S. defense budget require major reforms. We agree on the need for these changes, and believe that they can produce some additional savings from the Department of Defense. We do not believe, however, that they will provide major additional deficit reduction in the near term.

Health Care. Most of the nation's long-term fiscal imbalance is the result of unsustainable growth in health care costs. The federal government must play a significant role in health system change, not only to reduce budget deficits, but to help restrain the growth in health care costs and improve health care quality system-wide.

The centerpiece of our Medicare reform proposals is the Domenici-Rivlin Protect Medicare Act, which will establish competition on the basis of quality and price between traditional Medicare and Medicare Advantage plans. Public and private plans will compete in a well-regulated Medicare Exchange where the cost and quality of all plans will be presented clearly to beneficiaries.

The federal contribution will be based on the cost of the second-least-expensive plan or traditional Medicare, whichever is less expensive, and the growth of the per-beneficiary federal support will be capped at GDP + 1%. (Under current law, however, CBO projects costs to grow, on average, more slowly than that rate for the next two decades, in which case the cap would not come into play. In fact, we are confident that competition will save more than the cap will in the long run, and that the cap therefore will never bind.) The competition among plans could be introduced as part of a reform of Medicare Advantage.

Efficiency in the private sector will be encouraged by slowly phasing out the tax exclusion for employer-provided health benefits. This tax expenditure, in addition to being regressive, encourages expensive plans with inefficient cost-sharing, helping to drive unsustainable growth in health care costs.

We also propose a variety of reforms to Medicare, Medicaid, and other federal health programs to encourage greater efficiency, quality and consumer protections. In Medicare, we will modernize the benefit structure to have uniform cost-sharing and, for the first time, implement an out-of-pocket maximum to protect beneficiaries from catastrophic costs. We will end first-dollar supplemental coverage, increase Part B premiums over five years from 25 percent to 35 percent of total program costs, and use Medicare's buying power to reduce the program's drug costs. We will bundle Medicare payments for post-acute care to encourage care coordination and reward efficiency. In addition to deficit reduction, these cost savings can permanently replace the Sustainable Growth Rate (SGR) formula for Medicare physician payments.

We propose two major changes to Medicaid federal-state financing. We will replace the current matching funds system, in which the federal and state governments split the cost of care for different beneficiaries at different rates, with a single, blended rate for each state that will automatically rise in times of recession and decline in times of growth. We will bar states from gaming the system to collect matching funds based on provider taxes, which are invariably returned to the providers after the states spend the federal matching dollars.

Our other proposals improve parts of the health system where costs are particularly high. To address public health and the rising costs of obesity, we will establish a two cent per ounce excise tax on sugary beverages. We will cap medical liability awards for noneconomic damages and launch large-scale tests, including safe harbors for following professional guidelines and administrative claims processing systems. We will accelerate savings in the Medicare home health program and reduce special Medicare payments that cover bad debts, graduate medical education, and rural hospitals, all of which will benefit from expanded coverage from the Affordable Care Act. We will increase TRICARE premiums and drug copayments. We will limit Medicaid reimbursement for durable medical equipment to Medicare rates. Finally, we will crack down on "pay for delay" agreements that restrict access to generic drugs and shorten the exclusivity period for brand name biologics.

Other Mandatory Spending. Many other programs run on autopilot, with no recurring oversight by Congress. We propose reforms listed below to constrain the growth of these programs and improve their effectiveness:

- Implement a package of farm program reforms;

- Adjust the age at which career military can retire to be consistent with federal civilian retirement;

- Reform civilian retirement by calculating benefits based on a retiree's annual salary from his or her highest five years of government service, and increase employee contributions to the defined retirement benefit to be more consistent with the private sector;

- Raise fees for aviation security;

- Adopt a more accurate inflation measurement to calculate cost-of-living-adjustments (COLAs) for all federal programs;

- Cease production of dollar bills and the one-cent piece, while increasing production of dollar coins;

- Index mandatory user fees to inflation; restructure the power marketing administrations to charge market rates;

- Sell non-hydropower Tennessee Valley Authority electric utility assets to private investors;

- Reform the Postal Service; and

- Sell unneeded federal property.

Social Security. Our balanced package of policies achieves sustainable solvency, prevents the program from adding to the deficit in the coming decades, and, even more importantly, preserves and strengthens it for future generations. Changes include:

- Gradually raise payroll taxes to cover 90 percent of all wages;

- Use a more accurate calculation of annual COLAs (which applies to all indexed programs, including the tax code);

- Implement modest additional means testing for high-income beneficiaries;

- Increase the minimum benefit;

- Index the benefit formula for increases in life expectancy; and

- Cover newly-hired state and local workers under Social Security.

TAX REFORM AND REVENUE INCREASES

BPC's Tax Reform Plan radically simplifies the current tax code and raises approximately $1.6 trillion more than current policy (which is $2.9 trillion less than current law, with the expiration of all temporary tax cuts). To best explain it, forget what you know about the complex current tax system, and start fresh. Outlined below are the core elements of the plan. Unless otherwise indicated, all changes are implemented beginning in 2014.

- A **two-bracket income tax with rates of 15 percent and 28 percent**. Because there is no standard deduction or personal exemption, the 15-percent rate applies to the first dollar of income.[1]

- The **corporate tax rate will be a flat 28 percent**, instead of the current 35 percent top rate.

- Capital gains and dividends will be taxed **as ordinary income** (**with a top rate of 28 percent**), excluding the first $1,000 of realized net capital gains (or losses).[2]

- To replace the overly-complex Earned Income Tax Credit (EITC) and the personal exemptions, the standard deduction and the child credit, the BPC Plan will:
    - Establish a flat **refundable per child tax credit of $1,600** (higher than current law);
    - Retain the **child and dependent care credit**; and
    - Establish a **refundable earnings credit**[3] similar in structure to the recent Making Work Pay credit, but substantially larger.

- Instead of the current system of itemized deductions, which disproportionately subsidizes the housing and charitable giving of upper-income taxpayers, the BPC Plan will:
    - Provide a **flat 15-percent refundable tax credit for charitable contributions** and for up to $25,000 per year (not indexed) **mortgage interest on a primary residence**. (These refundable credits will begin at 20 percent in 2014, and then phase down to 15 percent over five years.)
    - Eliminate the deduction for state and local taxes.
    - Provide a flat, **15-percent refundable tax credit** or a deduction (for those in the higher bracket) **for contributions to retirement savings accounts** up to 20 percent of earnings or a maximum of $20,000.

- Include 100 percent of Social Security benefits in taxable income, but:
    - Create a non-refundable credit for Social Security beneficiaries equal to 15 percent of the current standard deduction; and

[1] The 28% rate applies approximately to income above $51,000 for single filers and $102,000 for couples.
[2] $500 for singles and heads of household
[3] The refundable earnings credit is equal to 17.5% of the first $20,000 of earnings.

- Create a non-refundable credit equal to 15 percent of an individual's Social Security benefits.

- Effective in 2015, cap and then phase out over 10 years the tax exclusion for employer-sponsored health insurance benefits.

- Limit the deduction for medical expenses to the amount exceeding 10 percent of adjusted gross income (AGI) (unchanged from current law).

- Limit miscellaneous itemized deductions to the amount exceeding 5 percent of AGI (increased from 2 percent in current law).

- Increase the gas tax by 15 cents and index it to inflation, dedicating the revenue to the highway trust fund.

- Increase taxes on tobacco and alcohol.

The BPC Tax Reform Plan enormously simplifies the tax code by **aligning the top individual, capital gains and dividend tax rates with the significantly-reduced corporate tax rate, while eliminating the Alternative Minimum Tax**. Additionally, **most individuals will no longer have to file an annual tax return**[4] beyond an initial declaration of status because the most commonly taken deductions are either converted into refundable credits, determined solely based on the number of children and earnings, or can be deducted only above a substantial floor. Despite a low top rate of 28 percent, the BPC tax system will increase progressivity and will **raise the requisite revenue to achieve our debt-reduction goal.**

[4] According to Tax Policy Center projections, only 50% of tax units would be required to file tax returns, as opposed to 88% under the current tax system.

CONCLUSION

This updated BPC Domenici-Rivlin deficit reduction plan addresses the nation's fiscal problem with a balanced and workable approach. Our plan shows that the challenge can be met if lawmakers demonstrate leadership and put everything on the table. The changes we suggest are not easy, but they improve the quality and efficiency of government and strengthen the economy for all Americans.

The experience of BPC fellows and staff – former elected officials, cabinet secretaries, business leaders, senior congressional staff members, and senior executive branch officials – informs our recommendations, which also benefit from the work of the Congressional Budget Office and other experts. But despite literally millions of words deployed on analysis, legislative proposals, and recommendations, the policy changes to achieve fiscal sustainability and strengthen the American economy have not yet been made.

The nation needs substantial fiscal reforms no later than the first session of the 113th Congress. BPC has proposed a legislative framework to be enacted this year to facilitate a 2013 agreement, which could be similar to the Domenici-Rivlin proposal. To provide the time lawmakers need to reach a comprehensive agreement, the fiscal cliff (automatic spending cuts and tax increases scheduled to take effect in January 2013) should be replaced with a more realistic backstop that will guarantee $4 trillion in deficit reduction if Congress fails to act by the end of 2013. The framework limits procedural delays and removes supermajority requirements that could prevent an agreement. To show good faith, Congress should add to the framework a combination of initial spending cuts and revenue increases that offset part of the cost of addressing the fiscal cliff.

Time is running out. The election is over. The options are clear. Now our leaders must show the courage to take risks and make hard decisions, and the American people should support those who do. We stand ready to help.

Appendix: Tax Expenditures Retained in the New Tax Structure

401(k) plans, Individual Retirement Accounts, and Keogh plans, but the total amount employees and employers may contribute to tax-deferred retirement saving plans is limited to the smaller of 20 percent of earnings or $20,000.

Accelerated depreciation of buildings other than rental housing (normal tax method)

Accelerated depreciation of machinery and equipment (normal tax method)

Capital gains exclusion on home sales

Carryover basis of capital gains on gifts

Deductibility of casualty losses

Deductibility of charitable contributions is replaced by a 15 percent refundable credit for contributions that all taxpayers may claim.

Deductibility of medical expenses

Deductibility of mortgage interest on owner-occupied homes is replaced with a refundable credit of 15 percent for the first $25,000 of mortgage interest paid that all homeowners may claim. The new credit is limited to principal residences.

Deferral of income from controlled foreign corporations (normal tax method)

Deferral of interest on U.S. savings bonds

Deferred taxes for financial firms on certain income earned overseas[5]

Employer defined-benefit retirement plans

Exclusion of benefits and allowances to armed forces personnel

Exclusion of interest on public purpose state and local bonds

Exclusion of interest spread of financial institutions

Exclusion of net imputed rental income

Expensing of certain small investments (normal tax method)

Expensing of research and experimentation expenditures (normal tax method)

Income averaging for farmers

Low and moderate income savers credit is expanded. In place of a deduction, taxpayers may claim a 15 percent refundable credit. This helps those in the 15 percent bracket with no liability.

Ordinary income treatment of loss from small business corporation stock sale

Tax credit for the elderly and disabled, and additional deduction for the elderly and blind are replaced with a new tax credit for those 65 and over or blind.

[5] The Task Force plan leaves in place the provision that allows U.S. multinationals to defer taxation of the profits of their foreign subsidiaries until those profits are repatriated to the U.S. parent (deferral). Some view deferral as an incentive for U.S.-based companies to invest overseas, but others believe eliminating deferral would damage the ability of U.S. corporations to compete with foreign-based corporations and note that most of our major trading partners have enacted territorial systems that exempt completely the active foreign income of their corporations. While the Task Force plan does not address our complex system of taxing international income flows of corporations, the substantially lower corporate tax rate that the Task Force proposes will increase the incentive for both U.S. and foreign-based multinationals to invest in the United States.

BIPARTISAN POLICY CENTER'S DOMENICI-RIVLIN 2.0

	Fiscal Years, Billions of $							Cumulative Savings:		
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2013-2022**	**2013-2032**	**2013-2042**
1. Current Debt Projections (debt held by the public)										
In billions of dollars	12,354	13,223	13,966	14,709	15,448	16,193	17,050	20,149	41,178	90,201
As a percent of GDP	73%	78%	81%	80%	79%	78%	78%	81%	109%	155%
HEALTH CARE SAVINGS - BENDING THE COST CURVE										
2. Cap employer-sponsored health insurance exclusion in 2015 and phase-out over 10 years (net effect on deficit)	0	1	12	0	-15	-37	-64	-460	-2,576	-6,224
Medicare Savings:										
Near Term:										
3. Raise Part B premiums from 25% to 35% of program costs (over 5 years)	0	-5	-11	-18	-26	-34	-37	-263	-966	-2,330
4. Modernize Medicare's benefit structure and provide catastrophic coverage / Medigap reform	0	-7	-10	-10	-10	-11	-12	-102	-322	-749
5. Post-Acute bundling (mandate instead of pilot)	0	0	0	-3	-3	-3	-3	-25	-85	-203
6. Require minimum Part D Rebate	0	-7	-11	-13	-13	-15	-18	-142	-516	-1,242
7. TRICARE: Introduce min out-of-pocket requirements	0	-1	-1	-1	-1	-1	-1	-11	-34	-81
8. Shorten exclusivity for brand name biologic drugs	0	0	0	0	0	0	0	-3	-13	-34
9. Prohibit pay for delay	0	0	0	0	0	-1	-1	-4	-15	-35
10. Reduce graduate medical education expenses (Includes IME)	0	-5	-6	-6	-7	-7	-8	-65	-204	-476
11. Reduce subsidies to rural hospitals	0	0	0	0	0	0	0	-2	-6	-15
12. Accelerate home health savings from ACA	0	-1	-1	-1	-1	-1	-2	-9	-9	-9
13. Reduce coverage of bad debts	0	0	-1	-1	-2	-2	-2	-16	-56	-134
14. Reform QIOs	0	0	0	0	0	0	0	-3	-13	-32
15. **Long Term:** Convert to Defined Support in 2016 utilizing competitive bidding, with growth per beneficiary capped at GDP+1%	0	0	0	-30	-32	-34	-38	-274	-1,483	-4,857
Total Medicare Savings (including interactions)	**0**	**-27**	**-42**	**-82**	**-92**	**-105**	**-117**	**-888**	**-3,704**	**-10,265**

	Fiscal Years, Billions of $							Cumulative Savings:		
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2013-2022**	**2013-2032**	**2013-2042**
Medicaid Savings:										
16. Phase down provider tax threshold beginning 2015	0	0	-3	-4	-6	-6	-7	-48	-158	-351
17. Limit Medicaid DME reimbursement	0.0	-0.1	-0.1	-0.2	-0.3	-0.3	-0.4	-3	-9	-21
18. Apply single blended matching rate to Medicaid/CHIP	0	0	0	0	-3	-3	-3	-18	-60	-133
Total Medicaid Savings	**0**	**0**	**-3**	**-5**	**-10**	**-10**	**-10**	**-69**	**-227**	**-504**
19. Medical malpractice reform	0	-1	-3	-6	-8	-9	-10	-70	-241	-556
SUBTOTAL: Health Care Savings (including interactions)	**2,013**	**1,959**	**1,934**	**1,834**	**1,787**	**1,738**	**1,686**	**-1,487**	**-6,748**	**-17,548**

STRENGHTEN SOCIAL SECURITY FOR FUTURE GENERATIONS

	2013	2014	2015	2016	2017	2018	2019	2013-2022	2013-2032	2013-2042
Revenue:										
20. Increase taxable base to 90% over 36 years (begin in 2014)	0	0	8	14	17	20	22	192	730	1,942
21. Cover state and local workers (beginning in 2020) and share pension info w/ state & local govt's	0	0	0	0	0	0	0	13	194	710
Benefits:										
22. Index benefit formula for longevity (begin in 2023)	0	0	0	0	0	0	0	0	-29	-355
23. Change to more accurate annual COLA calculation	0	-2	-4	-7	-10	-13	-16	-123	-621	-1,643
24. Adjust benefit formula (protecting bottom 75% - 15% replacement rate goes to 10% over 20 years and create new 8% bend point, beginning in 2023)	0	0	0	0	0	0	0	0	-10	-83
25. Update minimum benefit for long-term low-wage earners and protect the most vulnerable elderly with a modest benefit increase	0	5	7	8	9	10	11	91	308	756
SUBTOTAL: Social Security Savings (including interactions)	**0**	**5**	**11**	**16**	**21**	**26**	**30**	**-238**	**-1,278**	**-3,994**

	Fiscal Years, Billions of $							Cumulative Savings:		
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2013-2022**	**2013-2032**	**2013-2042**
OTHER ENTITLEMENT (MANDATORY) SAVINGS										
26. Reform federal civilian and military retirement	0	-2	-6	-11	-12	-13	-14	-107	-337	-739
27. Change to more accurate annual inflation adjustment for federal benefit programs	0	0	-1	-1	-2	-2	-3	-21	-107	-318
28. Modernize farm programs	0	-2	-3	-4	-4	-4	-4	-37	-102	-208
29. Increase fees for aviation security	0	-2	-2	-2	-2	-2	-2	-19	-44	-74
30. Restructure the Power Marketing Administration to charge market-based rates	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-2	-5	-8
31. Transfer the Tennessee Valley Authority's electric utility functions and associated a:	0.0	0.0	0.0	-0.1	-0.5	-0.5	-0.5	-3	-8	-13
32. Replace the dollar bill with a $1 coin and stop production of pennies	0.0	-0.1	0.1	0.0	-0.1	-0.6	-0.3	-2	-6	-10
33. Increase cost sharing for pharmaceuticals under TRICARE	0.0	-0.5	-1.0	-1.1	-1.2	-1.4	-1.5	-12	-40	-94
SUBTOTAL: Other Mandatory (including interactions)	**0**	**-8**	**-13**	**-20**	**-22**	**-24**	**-26**	**-202**	**-646**	**-1,457**
FUNDAMENTAL TAX REFORM										
34. Income tax rebate to spur economy in 2013	-90	-30	0	0	0	0	0	-120	-120	-120
35. BPC Tax Reform Plan (net new revenues)[1]	-17	-86	61	104	146	195	247	1,664	7,707	22,533

1) The effects of policies # 2, 20, and 21 are included in "35. BPC Tax Reform Plan (net new revenues)."

	Fiscal Years, Billions of $							Cumulative Savings:		
	2013	2014	2015	2016	2017	2018	2019	2013-2022	2013-2032	2013-2042
TOTAL: SPENDING POLICY REDUCTIONS (excluding already enacted savings)	0	33	58	111	133	151	168	1,261	5,172	14,124
TOTAL: NET NEW REVENUES	-107	-116	61	104	146	195	247	1,544	7,587	22,413
TOTAL DEBT SERVICE SAVINGS	0	-1	0	2	9	23	41	342	4,434	19,802
TOTAL DEBT REDUCTION	-107	-83	119	217	288	369	456	3,147	17,193	56,339

								In Year:		
	2013	2014	2015	2016	2017	2018	2019	2022	2032	2042
Bipartisan Plan Debt as % of GDP	79%	82%	81%	78%	76%	74%	73%	69%	63%	58%
Baseline Debt as % of GDP	78%	81%	80%	79%	78%	78%	78%	79%	109%	155%
Bipartisan Plan Deficit as % of GDP	-6.6%	-5.2%	-3.0%	-2.3%	-1.8%	-1.4%	-1.5%	-1.4%	-2.2%	-1.6%
Baseline Deficit as % of GDP	-5.9%	-4.7%	-3.7%	-3.5%	-3.2%	-3.2%	-3.6%	-4%	-8%	-11%
Bipartisan Plan Outlays as % of GDP	22.7%	22.2%	21.6%	21.4%	21.2%	21.1%	21.4%	22.1%	23.8%	24.6%
Baseline Outlays as % of GDP	22.7%	22.4%	21.8%	21.9%	21.7%	21.7%	22.1%	22.4%	26.8%	30.3%
Bipartisan Plan Revenue as % of GDP	16.1%	16.9%	18.6%	19.1%	19.4%	19.7%	19.9%	20.7%	21.6%	23.0%
Baseline Revenue as % of GDP	16.8%	17.6%	18.2%	18.4%	18.5%	18.5%	18.6%	19%	19%	19%