Moment of Truth
PROJECT
The era of deficit denial is over.

A Bipartisan Path Forward to Securing America's Future: How the policies meet the principles

Principle: Put debt on a clear downward path relative to the economy

- The specific savings in the plan would reduce the debt from a high of 78% of GDP in 2014 to 69% of GDP in 2023 under conventional assumptions
- The savings from the additional long term reforms called for in step four would further reduce the debt to approximately 68% of GDP
- Smart, targeted deficit reduction and pro-growth tax reforms will produce economic benefits which conservative estimates based on studies by the CBO and JCT suggest could reduce the debt to 65% of GDP by 2023, including savings from expedited war drawdown
- Deficit reduction measures in the plan are robust enough to ensure that the debt remains on a downward path as a percentage of GDP even if economic growth is weaker than CBO projects and spending grows faster than CBO currently projects
- Debt will continue to decline as a share of the economy through at least 2040

Principle: Promote, don't disrupt, economic growth

- Reduces the amount of spending that will be taken out of the economy in fiscal years 2013 and 2014 by more than two-thirds, replacing a $130 billion reduction in discretionary outlays under the sequester with a more modest $41 billion reduction
- Nearly 95% of the deficit reduction in the plan would occur in 2016 and beyond, when most economists project the economy to be strong
- Reduces cuts to public investment and reforms spending to encourage work, savings, and success in school
- The gradual deficit reduction and tax reform in the plan will strengthen economic growth over the medium and long term.
    - A recent CBO report suggests that a deficit reduction plan of the size we are proposing would increase GNP about 1% by 2023. The JCT has estimated that a tax reform plan which broadens the base and reduces marginal rates in both the individual and corporate tax code could increase economic growth by 1.2 to 2.0% in the second half of the decade.

Principle: Protect the disadvantaged

- Does not include any reductions in benefits for SSI, SNAP (food stamps), Medicaid and other means tested programs
- All of the entitlement reforms in the plan are accompanied by protections and enhancements to ensure low income and vulnerable populations are not harmed by the reforms
    - A portion of the chained CPI savings are set aside for benefit enhancements for low income and very old seniors and other low-income populations affected by the switch to chained CPI, including a flat-dollar benefit bump-
    - The Medicare cost sharing reforms call for a lower deductible for seniors below 200% of poverty and stronger catastrophic cost protections for low income seniors through an income adjusted out of pocket limit
    - The increase in Medicare eligibility age is accompanied by a new Medicare buy-in option with partially subsidized premiums for seniors up to 400% of poverty to ensure low and moderate income seniors have access to affordable health care options. Most 65- and 66-year-olds making below 300% of poverty will see a reduction in out of pocket costs

- Repeals the mindless across-the-board sequester, which decimates certain low-income programs like heating assistance, housing, and Title 1 education
- Closes the shortfall in the Pell Grant program so it is able to continue to fund higher education for lower-income and middle-class Americans. It also prevents the student loan interest rate from doubling this summer from 3.4 to 6.8%
- Does not include any reductions in Medicaid benefits; the only major Medicaid savings in the plan come from preventing states from using a tax gimmick to obtain excessive federal funding
- Calls for tax reform to maintain or increase progressivity. The Fiscal Commission illustrative plan was a modest tax cut for the bottom quintile
- Calls for comprehensive Social Security reform to prevent a scheduled 25% cut in benefits while protecting benefit levels for the bottom quintile. The appendix includes a specific design – including an increase in the bottom PIA factor from 90 to 95% and a minimum benefit which phases in rapidly up to 20 years of work and further up to 40 years – which would accommodate this call

Principle: Reform the tax code in a progressive and pro-growth manner

- Calls for an expedited process for the committees of jurisdiction to produce tax reform legislation in accordance with the following key principles:
  - Lower rates, broaden the base and reduce the deficit by $585 billion over ten years
  - Significantly reduce or reform the number of tax expenditures by starting from zero
  - Require supporters of each tax expenditure to justify why it should be preserved and show how they would pay for it
  - Maintain or increase progressivity of the tax code
  - Move to a territorial tax system
  - Promote economic growth and competitiveness
- Includes a tax reform failsafe that would apply an across-the-board limit on tax expenditures to keep pressure on Congress to enact tax reform and ensure revenue targets are met if the House and Senate fail to enact tax reform meeting the targets

Principle: Get Serious About Population Aging

- Puts in place policies that address the pressures that the aging population will inevitably put on our entitlement programs
- Would gradually increase the eligibility age for Medicare by one month a year beginning in 2017 until it reaches 66, then by two months a year until it reaches the Social Security Normal Retirement age
- Calls for comprehensive Social Security reform to make the program sustainably solvent, which could include an increase in Normal Retirement Age
- Increases Medicare premiums over time for wealthier seniors, who are the ones most likely to live the longest
- At the same time, the plan recognizes that meeting the commitments to an aging society will require greater revenues

Principle: Bend the Health Care Cost Curve

- Includes numerous structural reforms in how we deliver and pay for health care in order to change incentives for providers and beneficiaries that will reduce the growth of health care spending, including:
  - Reforming cost sharing rules and restricting first dollar coverage by Medigap plans and other health plans to make beneficiaries cost sensitive and reduce overutilization of care
  - Providing for reforms of the SGR to move away from fee for service to a system that encourages coordinated care and quality

    - Building on and expanding the delivery system reforms included in the Affordable Care Act, including bundled payments, penalties for preventable readmissions and giving IPAB and CMS tools to implement reforms that are successful in bending the curve
    - Encouraging care coordination with alternative benefit packages
    - Transforming FEHB into a premium support model to evaluate the usefulness of that design
    - Reforming TRICARE and FEHB benefits to increase first-dollar cost-sharing and slow the growth of health spending
    - Implementing medical mal practice reforms to reduce the costs of defensive medicine
    - Reducing various provider overpayments identified by MedPAC to ensure the government is getting the best value for its dollar
    - Allowing for competitive bidding on Durable Medical Equipment (DME) pricing
    - Free the states to experiment with new cost-bending reforms while maintaining quality and coverage
- Step four of the plan proposes limiting the per capita growth of the federal budgetary commitment to health care to GDP after 2018
- If the reforms in this plan and other reforms fail to bring cost growth within those limits, Congress and the President would be required to consider additional reforms to control costs. The plan includes a back-up enforcement mechanism providing for reductions in Medicare payments for providers that fail to meet cost and quality targets, increases in Medicare premiums and limits on the value of the tax exclusion for employer provided health insurance if Congress and the President fail to act

Principle: Cut Spending We Cannot Afford – No Exceptions

- Includes cuts in all parts of the budget except for means tested benefits
    - Strengthens caps on defense and non-defense discretionary spending to force greater efficiencies and reductions in low-priority programs
    - Eliminates or reduces many subsidies and provides for increased contributions by beneficiaries of government benefits and services to reflect private sector
    - Targets overpayments and waste in the Medicare program in addition to structural reforms
    - Calls for reducing spending in the tax code through tax expenditures
- Approximately 70% of the new savings in the plan come from lower spending (including interest). When the savings from the Budget Control Act and fiscal cliff deal are included, nearly 73% of the total deficit reduction comes from lower spending

Principle: Replace Dumb Cuts with Smart Reforms

- Eliminates approximately 70% of the sequester cuts in 2013 and allows Congress and the administration to set priorities in restoring funding
- Across-the-board cuts in other mandatory programs are replaced by targeted reforms and cuts to promote efficiency and reduce unwarranted subsidies
- The 2% across-the-board reduction in Medicare provider payments and 25% scheduled cut in physician payments is replaced by a package of targeted reductions in overpayments identified by MedPAC, savings from structural reforms to bend the cost curve and value-based withholding in payments to providers that fail to meet cost and quality goals

Principle: Focus on the long term

- The Medicare savings in the plan emphasize structural reforms that have the potential to bend the cost curve and reduce spending over the long term

- Establishes an enforceable limit per capita growth of federal health care obligations to no faster than the economy, and this and cap would be enforced through an equally-divided combination of the following:
    - Reductions in Medicare provider payments implemented through a "value based withhold"
    - Across-the-board increases in Medicare premiums
    - A reduction in the value of the employer health exclusion which treats some percentage of the exclusion as ordinary income for income tax purposes
- Puts in place a mechanism for action on reforms to make Social Security sustainably solvent
- Focuses on long-term savings throughout, including structural health reforms, adjustments to the Medicare age, the chained CPI which compounds over time, and reforms to federal worker health and retirement programs to make them more sustainable in future decades

Principle: Protect the Full Faith and Credit of the US Government

- Eliminates the politically divisive debates and economic uncertainty caused by the need for legislation increasing the debt limit by indexing the debt limit to GDP, which would avoid the need legislation as long as the debt remains stable or declining as a percentage of GDP
- Puts in place a mechanism requiring action by the President and Congress if the debt is projected to grow faster than GDP in order to avoid the need for an increase in the debt limit