A BIPARTISAN PATH FORWARD TO SECURING AMERICA'S FUTURE

SUMMARY AND HIGHLIGHTS

April 2013

Moment of Truth
PROJECT

1899 L St., N.W., Suite 400 Washington, DC 20036 • www.momentoftruthproject.org • 202-596-3597

About the Moment of Truth Project

In its final report, "The Moment of Truth," the President's bipartisan National Commission on Fiscal Responsibility and Reform ("Fiscal Commission") declared that the era of deficit denial is over. The debt crisis in Europe, the sobering election results, and the work of the Fiscal Commission have transformed the debate from a question of if we will reduce long-term deficits, to a matter of when and how we will do so.

The Moment of Truth project was established to spearhead a sustained, coordinated effort to capitalize and expand on the momentum generated by the Fiscal Commission. Though the Fiscal Commission did not have all the answers, it showed that broad bipartisan support for an ambitious deficit reduction plan is possible – as demonstrated by the bipartisan 11 out of 18 supermajority vote in favor of the plan, which included five Democrats, five Republicans, and one Independent.

The Moment of Truth project has built on this effort, working with Congress, the Administration, and the public at large. The project is co-chaired by Erskine Bowles and Senator Alan Simpson and staffed by several senior members of the Fiscal Commission staff. It focuses primarily on public education, Congressional outreach, and technical and policy analysis.

To contact the Moment of Truth project, or for media and other inquiries, please email Lawrence Kluttz at kluttz@crfb.org.

The Moment of Truth (MOT) project is a non-profit, non-partisan effort that seeks to foster honest discussion about the nation's fiscal challenges, the difficult choices that must be made to solve them, and the potential for bipartisan compromise that can move the debate forward and set our country on a sustainable path.

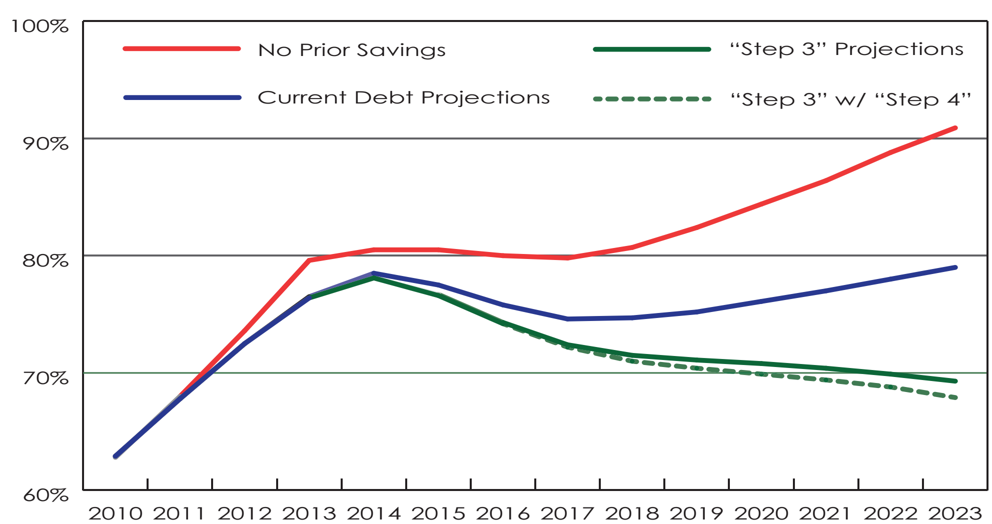
A Bipartisan Path Forward to Securing America's Future

There is no perfect solution to our fiscal problems. However, we believe strongly and sincerely that an agreement on a comprehensive plan to bring our debt under control is possible if both sides are able to put their sacred cows on the table in the spirit of principled compromise. The plan we are putting forward is our effort to demonstrate what needs to be done to bring our debt under control and what can be done if both sides are willing to go beyond their comfort zones to reach a bipartisan agreement. By picking up on where budget negotiations left off last December, we have crafted a plan that we believe could be enacted into law over the course of this year and would represent a tremendous step forward in putting our nation on a fiscally sustainable course. Specifically, the plan would:

- Replace mindless sequestration and unnecessary tax rate hikes with intelligent spending cuts, structural entitlement changes, and comprehensive tax reform.
- Put the debt on a clear downward path relative to the economy, falling to 69 percent by 2023 under base projections and as low as 65 percent if the reforms in the plan produce the increases in economic growth that reports by the Congressional Budget Office and Joint Committee on Taxation suggest are possible and if war spending declines faster than our projections assume.
- Increase total deficit reduction achieved since 2010 to \$5.2 trillion through 2023, with over 72 percent of those savings coming from spending reductions.
- Reduce the deficit by over \$500 billion in 2023 alone, compared to the \$60 billion that would be generated by sequestration, reducing deficits to 1.9 percent of GDP in that year.
- Reform the tax code in a way that improves fairness, lowers rates, raises revenue, and promotes economic growth.
- Make structural changes to reduce the growth of federal health programs, backed up with a cap to ensure per capita health obligations grow no faster than the economy.
- Establish mechanisms and procedures to ensure long-term sustainability of entitlement programs and keep debt under control over the long term.

Debt under the Bipartisan Path Forward would fall from a peak of 78 percent of GDP in 2014 to nearly 69 percent in 2023 – putting the debt on a clear downward path as a share of the economy. By some measures, lawmakers have already enacted about \$2.7 trillion in deficit reduction since the Fiscal Commission's 2010 report through discretionary caps and tax increases. We recommend two additional steps to put debt on a sustainable path:

FIG 1. Debt Projections under the Bipartisan Path Forward (Percent of GDP)



Building Upon Prior Deficit Reduction Since the Fiscal Commission

"Step 1" (Oct. 2010 – Aug. 2011: ~$1.85 trillion) reduced discretionary spending and set lower discretionary limits through 2021

"Step 2" (Jan. 2013: ~$850 billion) raised revenue from the wealthiest Americans in the fiscal cliff deal

"Step 3" ($2.5 trillion over ten years) would complete the job of putting debt on a downward path as percentage of GDP through:

- Stronger discretionary limits
- Health care reforms
- Reductions in mandatory spending
- Fundamental tax reform
- Cross-cutting government reforms

"Step 4" (longer-term reforms) would provide for additional steps to put entitlement programs on a fiscally sustainable course in order for the debt to remain under control over the long term, including:

- A parallel process for action on reforms to make Social Security sustainably solvent
- An enforced limit on per capita growth of the federal budgetary commitment to health care to GDP after 2018
- A requirement that spending and revenues from the highway trust fund be brought in line

Highlights of "Securing America's Future"

In this plan for "Step 3" of deficit reduction, going beyond the discretionary spending limits and tax increases contained in Steps 1 and 2, we have suggested targets for each area of deficit reduction along with specific policies for achieving them. However, in many cases we have left open precise parameters, which will depend in part on the official budgetary score and in some cases will require additional technical work by congressional committees and executive branch agencies. We have also included alternative methods of achieving savings targets in each area where possible. Policymakers will need to work on a bipartisan basis to decide precise details.

Strengthen Limits on Discretionary Spending – $385 billion

- Restore 70 percent of across-the-board sequester of discretionary programs in 2013 and limit discretionary growth to the rate of inflation through 2025.
- Require roughly $220 billion of defense savings and $165 billion of non-defense savings, compared to pre-sequester levels, through 2023.
- Cap spending on overseas contingency operations (OCO) based on CBO's drawdown path, with any savings from spending below limits dedicated for (but not counted towards) deficit reduction and not higher spending elsewhere, and establish a strict definition for OCO spending to ensure that any reductions in spending below the limits is dedicated to deficit reduction and not used to fund unrelated defense spending.
- Enforce overall limits and defense/non-defense firewalls through a strengthened 67 vote point of order against legislation breaking the spending limit.
- Include new enforcement provisions preventing the abuse of emergency spending and limiting the amount of allowable war spending above the caps.

FIG 2. Savings by Category Relative to CRFB Realistic Baseline

	2014-2023
Discretionary Caps	**$385 billion**
Reduce defense levels	$220 billion
Reduce non-defense levels	$165 billion
Health Care	**$585 billion**
Enact delivery system and payment reforms	$60 billion
Reform Medicare cost-sharing rules	$90 billion
Enact medical malpractice reform	$20 billion
Increase income-related premiums	$65 billion
Increase the Medicare age with an income-related Medicare buy-in	$35 billion
Reduce and reform post-acute care payments	$70 billion
Reduce various payments to hospitals	$65 billion
Reduce the cost of prescription drugs in Medicare	$90 billion
Reduce Medicare fraud and excessive payments	$25 billion
Reform Medicaid financing by reducing over-payments to states	$65 billion
Other Mandatory	**$265 billion**
Reduce and reform agriculture spending	$40 billion
Reform civilian and military health and retirement programs	$100 billion
Reform higher education programs	$35 billion
Increase or impose user fees	$50 billion
Enact additional savings	$40 billion
Revenues	**$585 billion**
Enact tax reform in 2014 enforced by failsafe trigger	$585 billion
General Government	**$330 billion**
Adopt Chained CPI w/ benefit enhancements for vulnerable populations	$280 billion
Fund program integrity measures	$50 billion
Net Interest	**$350 billion**
Total Savings	**$2.50 trillion**
Potential Additional Savings from "Step 4"*	~$350 billion
Total Savings Including "Step 4"	**~$2.85 trillion**

*Assumes roughly $125 billion from reforms to the transportation trust fund, $125 billion from Social Security reforms, $75 billion from the health cap, and additional savings from interest – though actual numbers could differ substantially.

Health Care Reforms – $585 billion

- Provide a permanent fix for the Medicare Sustainable Growth Rate that encourages quality and coordinated care at a lower cost than current "doc fixes."
- Enact delivery system and payment reforms to reduce avoidable complications and readmissions, expand payment bundling, unleash competition to reduce prices, encourage care coordination with innovative benefits packages, increase transparency, and give Medicare programs new tools to experiment and improve delivery and payment for care.
- Replace Medicare's complex cost-sharing rules with a simple income-based system of deductibles, co-insurances, and out-of-pocket limits designed to introduce "skin in the game" while offering new protections for seniors with catastrophic health care costs.
- Restrict and disincentivize private Medigap plans and other private and public insurance plans from distorting Medicare incentives through first-dollar coverage.
- Expand means-tested premiums in Medicare.
- Gradually increase the Medicare age while implementing a Medicare "buy-in" program with income-related premiums and subsidies for lower-income seniors.
- Reform medical malpractice rules to reduce the costs of defensive medicine.
- Reduce and reform post-acute care payments.
- Reduce and reform various payments to hospitals, including for graduate medical education, bad debts, and reforming payments to rural hospitals.
- Apply Medicaid drug discounts to dual eligible beneficiaries who participate in Medicare Part D and enact other drug reforms.
- Crack down on overpayments to states, including by ending gimmicks used by states to increase federal matching funds such as Medicaid provider taxes.
- Address overpayments, overutilization of services, and waste, fraud, and abuse throughout Medicare and Medicaid.

Reductions in Other Mandatory Spending – $265 billion

- Reduce agriculture subsidies by replacing direct payments with new risk protections and identifying additional savings from other farm programs.
- Bring military and civilian federal employee pension programs more in line with the private sector by gradually increasing contributions and modifying benefits.
- Transform FEHBP into a premium support program, and convert FEHBP retirement coverage into a subsidy for Medicare premiums instead of wrap-around coverage.
- Apply Medigap restrictions to the TRICARE for Life program.
- Reduce excessive student loan subsidies to avoid dramatic interest rate spike, fully-fund a reformed Pell Grant program, and contribute to deficit reduction.
- Increase or improve user fees to ensure government services are paid for.
- Improve the financial integrity of the United States Postal Service and the Pension Benefit Guaranty Corporation; eliminate unnecessary subsidies and wasteful spending.

Tax Reform – $585 billion

- Direct the House and Senate committees of jurisdiction to produce comprehensive tax reform to bring down individual and corporate rates while reducing the deficit, using a "zero plan" approach that starts by eliminating all tax expenditures, lowering rates, and requiring restoration of tax expenditures to be offset with higher rates.
- Require tax reform to reduce rates, maintain progressivity of the tax code, adopt a territorial tax system, promote economic growth and competitiveness, and generate $585 billion in net new revenue under traditional scoring.
- Enforce the revenue target with an across-the-board limitation of tax expenditures if Congress fails to enact the specified tax reforms, either through a limit on the value of itemized deductions and exclusions or a cap on the amount of tax expenditures an individual can claim, with a portion of savings devoted to deficit reduction and a portion to reducing rates.

Government-Wide Reforms – $330 billion

- Adopt the Chained CPI to more accurately measure inflation throughout government on both the tax and spending side of the budget.
- Set aside approximately nearly one fifth of savings from CPI reforms for benefits enhancements for vulnerable populations, including a flat dollar increase for the old-old and long-term disabled beneficiaries who have received benefits for 20 years.
- Provide "program integrity" funding to reduce fraud in the budget and tax code.
- Establish a 67-vote point of order against allowing spending above limits or reducing deficit reduction from a comprehensive plan.
- Index the debt ceiling so that further increases will not be necessary so long as the debt remains on a downward trajectory as a share of the economy.
- Establish a debt stabilization mechanism requiring the President to submit and Congress to consider legislation putting the debt on a downward trajectory if it is projected to be growing.

Ensuring Long-Term Deficit Reduction

Our "Step 3" proposal would substantially improve our debt situation, but further actions would be necessary to ensure sustainability over the long-run. Although our plan would improve the financial state of the Social Security program, that program would still be insolvent over the next 75-years. And although our plan would make substantial progress to slow the growth of health care costs, it will not guarantee that cost growth is limited to the rate of GDP per beneficiary. Finally, the current highway bill will expire after 2014 and faces more than a $125 billion shortfall. A fourth step will be necessary to address these concerns.

"Step 4" for the Long-Term

- Put in place a process for action on comprehensive Social Security reform that should make the program sustainably solvent while slowing benefit growth for higher earners, making adjustments for an aging population, bringing new revenue into the program, and strengthening benefits for the most vulnerable.
- Beginning in 2018, limit the growth of the net federal commitment to health care at the rate of GDP per beneficiary and require Congress and the President to enact further reforms if costs are growing faster than the targets. This would be enforced with value-based reductions in provider payments, increases in Medicare premiums, and limitations on the value of the employer provided health exclusion if Congress and the President fail to enact reforms to bring projected costs back within the target growth rate.
- Pass a comprehensive "highway bill" to bring transportation spending and revenues in line on a long-term basis.