



BIPARTISAN  
COMMISSION  
ON ENTITLEMENT  
AND  
TAX REFORM

FINAL REPORT  
TO THE PRESIDENT



**Statement of U.S. Senator Judd Gregg**

***Bipartisan Commission on Entitlement and Tax Reform***

***Attachment to the Final Commission Report***

**December 15, 1994**

In conjunction with my support for the Chairmen's letter, including all its recommendations for action, I wanted to take up that letter's challenge to state what specific reforms I would support.

The Commission's documents and Interim Report provide a stark picture of the extremely dismaying fiscal future being dictated by rapidly rising entitlement spending. As our population ages, and as medical costs rise, the federal government's entitlement programs jeopardize our nation's fiscal stability. They also significantly diminish the opportunities of our children and grandchildren. We have been poor stewards of the American dream.

I also believe there must be a rhetorical cease fire. As demonstrated by the highly charged debate over the "Rivlin memo" prior to November's elections, a partisan rhetorical war can be highly destructive to entitlement reform. As I stated in the middle of that debate, we must keep our eye on the ball. I firmly believe that when the American public fully understands the entitlement dilemma, they will demand corrective action. During partisan media wars, however, policy positions prematurely harden and the public receives false assurances that a problem does not exist.

We must also recognize certain political realities. This Commission was appointed, in the absence of a crisis situation, to develop recommendations for entitlement reform. As Chairman Kerrey noted during the December 9, 1994 Commission meeting, whether we can perform in a non-crisis environment is the pivotal issue. While I believe we can, we most certainly cannot without Presidential leadership. President Clinton created this Commission, and that was the last we heard of him. If the Commission is viewed as a failure for not agreeing to a single package of specific reforms, the President's studied silence must share a large measure of blame. We can only hope he changes course and boldly acts upon the Commission report.

Still, we cannot ignore the Commission's successes, and must pledge to build upon them. In its Interim Report, the Commission agreed, 30-1, that an entitlement problem exists. In this report, the Commission agreed upon some criteria by which to judge an overall solution to that problem, and suggested to the President a wide variety of reform options. The Commission also succeeded in beginning to candidly inform the public on the extent of the problem, and to engage the public in a debate on proposed solutions. The Commission's release -- through GPO and Internet -- of an interactive computer model, "Budget Shadows", and of a more extensive model on CD-ROM, sends the entitlement dilemma out onto the information highway. The public can now join in the struggle to develop comprehensive solutions.

(more)

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Unless we act swiftly, the very programs that make Congressmen and Presidents most nervous about enacting reforms -- Social Security and Medicare -- will go bankrupt or confront severe benefit cuts. Social Security was enacted before the first baby boomer was born, and its authors did not foresee the fiscal stress that will soon be placed on the system as the baby boom generation retires. In 1994, the Social Security trustees projected significant cash flow problems in 2013, and bankruptcy in 2029. These projections are expected to worsen in 1995. Medicare was created on the Social Security model, and will go bankrupt in just a few years. Accordingly, the ironic and unfortunate result of the current political skittishness may be the effective end of Social Security and Medicare as viable programs for those who depend upon them.

This Commission is about preserving popular and worthwhile programs, not threatening them. Toward that end, I am willing to support some significant and specific reforms:

- I would correct the Consumer Price Index. The government's inflation index currently overstates actual inflation by up to 25 percent, so all the automatic indexing that relies on the CPI now provides more than intended.
- I would support affluence-testing. American taxpayers can no longer afford providing government benefits to wealthy individuals who do not truly need or depend upon them.
- With respect to Social Security and Medicare, I would support a gradual increase in the retirement age, so that these programs are brought in line with modern-day lifespans before being bankrupted by unalterable demographic forces. Such an increase would not affect current recipients of Social Security benefits, or those entering the system until after the year 2007.
- I also intend to work with the new Republican majority to aggressively undertake a task that this Commission has not: assessing the very need for some entitlement programs. Under this review, I expect we will be eliminating programs that no longer work or that have outlived their purpose, specifically in the agriculture area. We will also be consolidating programs, and returning certain responsibilities to the states.
- I would not, however, raise taxes. Any tax increases -- such as limiting so-called tax expenditures -- should only occur if other taxes are equally cut -- such as our highly regressive payroll taxes. An entitlement reform package that contained affluence-testing and a cut in payroll taxes would be revolutionary, and its distributional effects would be highly progressive. The political dynamics that presently surround entitlement reform badly need such a jolt.

The Commission has taken some vitally important steps. If we can succeed in gaining the public's attention for a frank discussion of the problem, I trust the public will soon demand a fair and balanced solution. I intend to work with Senator Kerrey and others during the 104th Congress and beyond to implement some *significant* entitlement reforms. The problems we confront developed over decades, and perhaps it will take years to fully restore long-term balance between entitlement spending and revenues, and to ultimately balance the budget. Thus, I do not view my vote today as the end of the responsibility I accepted when I agreed to become a Commissioner. I view it as the start.

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BIPARTISAN  
COMMISSION  
ON ENTITLEMENT  
AND  
TAX REFORM

★  
FINAL REPORT

WITH REFORM PROPOSALS  
AND ADDITIONAL VIEWS  
OF COMMISSIONERS

J. ROBERT KERREY  
CHAIRMAN

JOHN C. DANFORTH  
VICE-CHAIRMAN

★  
TRANSMITTED PURSUANT TO  
EXECUTIVE ORDER NO. 12878,  
AS MODIFIED

WASHINGTON, DC ★ JANUARY 1995





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## BIPARTISAN COMMISSION ON ENTITLEMENT AND TAX REFORM

The Honorable William J. Clinton  
The White House  
Washington, DC

Dear Mr. President:

When you created the Bipartisan Commission on Entitlement and Tax Reform, you charged us with addressing perhaps the most challenging fiscal issues facing this country. Left unchecked, the Federal government's long-term spending commitments on entitlement programs and will lead to excessively high deficit and debt levels, unfairly burdening America's children and stifling standards of living for this and future generations of Americans. The problem, however, is not simply one of numbers. In addition to demographic problems created by the aging of America's population, we are also faced with human problems caused by the increasing inadequacy of Federal health care and retirement programs.

The Commission was not formed to "sugar coat" the issues or provide easy but dishonest answers. Rather, it was created to frame the long-term issue, educate the American people and policy leaders about the problem and potential choices, and make specific recommendations on how to bring our future entitlement commitments and revenues into balance.

On August 8, 1994, the Commission adopted by a 30-to-1 vote an Interim Report that graphically lays out the economic and social future the country faces if action is not taken. It is a stark call to action, alerting Americans about the burden that is being shifted to future generations, about the deteriorating national savings rate, the squeezing out of public funds for essential and appropriate government investment, and the impending insolvency of both the Social Security and Medicare Trust Funds. The Commission echoed the urging of the Trustees of two of our most successful support programs — Medicare and Social Security — by calling for action that would result in their continued solvency for this and future generations of Americans. The issue has been framed.

Educating the American public is the second essential step to a successful reform effort. With public education, people will have an unprecedented opportunity to participate in the problemsolving process. A person with any ideological orientation can solve the problem, provided that we — as a Nation — acknowledge it exists.

The Commission has taken its public education obligation very seriously. All Commission hearings and meetings were carried on C-SPAN. Our meetings and hearings were aimed at defining the problem in a way that the American people could understand and evaluate. In addition, Commission charts and materials were used by Commission members, and other Members of Congress, on the House and Senate floors and in town meetings.

The Commission has published materials designed to stimulate debate about the future of Federal entitlement programs, and to help the public better understand options for reform. The Commission has published an Interim Report and a Final Report. The Reports are short and graphic. By presenting the information in a short and understandable manner, the Commission sought the broadest base of readership for the Reports.

The Commission Staff created “Budget Shadows,” a user-friendly interactive computer model that lets the American people see the fiscal future and design different policies to alter it. The Commission has given the public access to the computer model by placing it on numerous on-line computer networks as well as preparing diskettes for those who do not have access to these services. While the computer model is not meant to be an exhaustive list of policy options, it provides the user with more than 50 choices and lets him or her see the range of potential solutions and the tradeoffs that must be evaluated. The model went one step beyond problem identification and invited the American people to join the debate on potential solutions.

The Commission Staff has also prepared “Crossroads,” a CD-ROM available to the American public starting in January — that contains a comprehensive database of Commission documents, transcripts and reports. Finally, the Commission Staff prepared a report containing more than 50 options (most with numerous variations) compiled from Commission member suggestions, government, and other sources. All of these tools should be useful in furthering the public debate.

In the end, the Commission was unable to settle on a specific set of recommendations on how to combat the issue it framed in the Interim Report. That should not be surprising in an environment where political leaders in both parties are focusing more on short-term initiatives than the long-term, politically sensitive economic and social issues that sit on the horizon.

But there is encouraging news. Before this Commission began, entitlement reform was a hollow concept. The Commission fostered a shift in the entitlement reform debate. By the end of the Commission’s tenure, members were openly speaking about the need for reform and the magnitude of the economic and social consequences we face as a Nation if action is not taken. In this Final Report, we are forwarding to you many recommendations for reform submitted by various Commission members. You will find that many of the individual proposals are common to more than one reform plan. The debate now centers on the best means for reform. The sea change in the debate has been important. There is no turning back.



The Commission voted 24 to 6 to recommend broad principles to be used when crafting solutions to our fiscal problems. **First**, reform of our tax and spending programs should be made with reference to a time period longer than the traditional five-year budget window, such as the 30-year timeframe relied upon in the Commission's Interim Report. This will not only enable future beneficiaries to plan for program changes, but will also provide for informed debate and decisions with less reliance on gimmickry that so often plays a role in five-year budget plans. **Second**, current laws must be changed to create a future in which we balance our entitlement commitments and the funds available to honor those promises. This is important for generational equity. **Third**, we must empower the American people to participate in developing satisfactory solutions. Washington does not have all of the answers and unless the public participates, reform will not take place until more dramatic solutions are required. **Fourth**, the Administration and Congress should consider reform of the tax system. **Fifth**, the Commission, in this Final Report, restates its plea for *immediate* action on reform.

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We strongly believe that the Commission's work is the beginning of the process. While the road to reform may be difficult, we are embarked on a course of hope and promise. Our solutions can embrace the notions we cherish as a people: we are self-reliant; we welcome responsibility and accountability; and we are eager to ensure greater opportunities and better lives for our children.

We thank you for establishing this Commission and thank the Commission members for their dedicated commitment. We look forward to working with you and Congress in guiding a course for a sound and prosperous future for all Americans.

Respectfully,



J. Robert Kerrey  
Chairman



John C. Danforth  
Vice-Chairman

## THE BIPARTISAN COMMISSION ON ENTITLEMENT AND TAX REFORM

J. Robert Kerrey (D-NE)  
Chairman  
United States Senate

John C. Danforth (R-MO)  
Vice-Chairman  
United States Senate

Bill Archer (R-TX)  
United States House of Representatives

Judd Gregg (R-NH)  
United States Senate

Dale Bumpers (D-AR)  
United States Senate

Karen N. Horn  
Chairman and Chief Executive Officer  
Bank One Cleveland

Michael N. Castle (R-DE)  
United States House of Representatives

Thomas H. Kean  
President, Drew University

Eva M. Clayton (D-NC)  
United States House of Representatives

J. Alex McMillan (R-NC)  
United States House of Representatives

Thad Cochran (R-MS)  
United States Senate

Carol Moseley-Braun (D-IL)  
United States Senate

Christopher Cox (R-CA)  
United States House of Representatives

Daniel Patrick Moynihan (D-NY)  
United States Senate

E. (Kika) de la Garza (D-TX)  
United States House of Representatives

Peter G. Peterson  
Chairman of the Blackstone Group

Robert E. Denham  
Chairman and Chief Executive Officer  
Salomon Inc.

Harry Reid (D-NV)  
United States Senate

John D. Dingell (D-MI)  
United States House of Representatives

Roy Romer  
Governor, State of Colorado

Pete Domenici (R-NM)  
United States Senate

Dan Rostenkowski (D-IL)  
United States House of Representatives

Thomas J. Downey  
Thomas J. Downey & Associates, Inc.

Martin O. Sabo (D-MN)  
United States House of Representatives

Sandra W. Freedman  
Mayor, City of Tampa

Jim Sasser (D-TN)  
United States Senate

Porter J. Goss (R-FL)  
United States House of Representatives

Alan K. Simpson (R-WY)  
United States Senate

William H. Gray, III  
President and Chief Executive Officer  
United Negro College Fund

Richard L. Trumka  
President, United Mine  
Workers of America

Robert Greenstein  
Executive Director  
Center on Budget and Policy Priorities

Malcolm Wallop (R-WY)  
United States Senate



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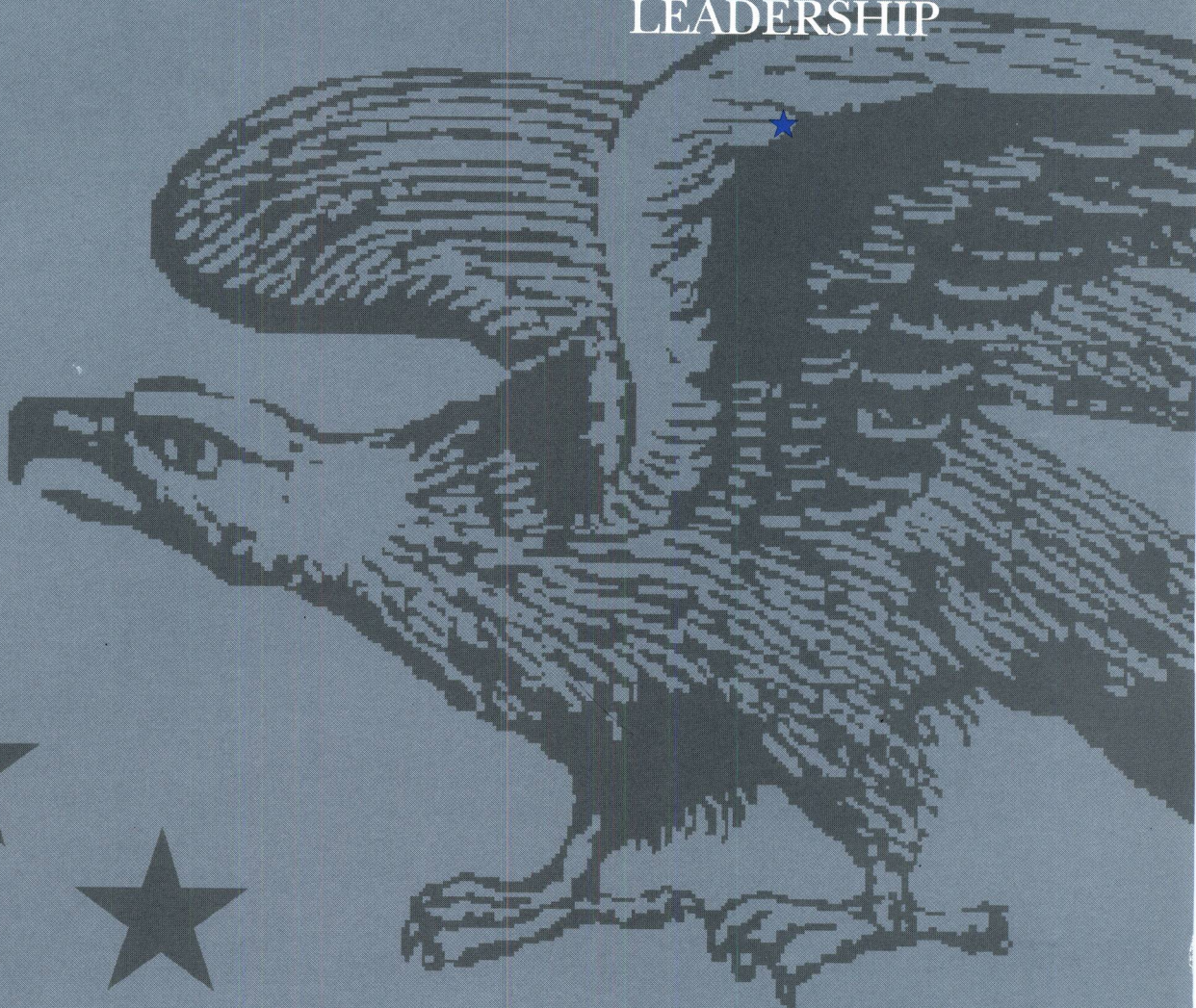
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COMMISSION  
LETTER TO  
THE PRESIDENT  
AND  
CONGRESSIONAL  
LEADERSHIP





## BIPARTISAN COMMISSION ON ENTITLEMENT AND TAX REFORM

Dear Mr. President:

The Bipartisan Commission on Entitlement and Tax Reform concluded in its Interim Report that:

*... the government must act now. A bipartisan coalition of Congress, led by the President, must resolve the long-term imbalance between the government's entitlement promises and the funds it will have available to pay for them.*

According to our Report, we acquire false optimism when we look only five years ahead, as we do with our traditional budgeting process. Only when we look at the next 30 years — the horizon of our children — does the problem and its size come into full view.

The future impact of current law is described in the chart that follows this letter. It is clear from this chart why we are lulled into complacency. Life looks good for the next five years. However, the next 30 years is a period of significant increases in entitlement costs plus net interest. Two crucial moments conspire to make our lives miserable.

The first moment is the year 2001 when the Medicare Hospital Insurance program (currently funded with a 2.9 percent payroll tax) becomes insolvent. Rapidly rising health care costs and longer life-spans combine to make our policy choices very difficult.

The hard fact is that we must confront the inexorable laws of arithmetic and demographics. As important as it is to identify and eliminate waste, fraud, and abuse, and as vital as it is for reform to begin with congressional and government programs, our principal challenge is the good news that we are living longer. We are an aging population.

This condition becomes painfully evident when we arrive at the second crucial moment. In 2008, the first of the Baby Boom generation — Americans who are now 48 years old — will begin to retire. In a single decade, while our overall population increases by 2 percent, our retired population will increase nearly 30 percent. Thus, in a single decade, the ratio of the number of Americans working versus Americans retired will be cut by 40 percent, from 5:1 to 3:1.

While this situation may have relatively little impact on Americans over the age of 48, it may have considerable impact on younger Americans. Specifically, if we delay action now, the choices will be higher taxes for Americans still in the workforce or larger benefit reductions for retirees.

Thus, the first and most important of our recommendations is that our major spending and tax decisions should be made with reference to a time period longer than the traditional five-year budget window, such as the 30-year timeframe relied on in the Commission's Interim Report (or a 10- or 20-year period when available data does not allow use of a 30-year timeframe), so that appropriate planning is incorporated in budget decisions. When discretionary spending was the largest share of our budget, short-term planning may have been appropriate. However, today we are in the business of operating the world's largest social insurance programs, and their costs are expected to exceed their revenues substantially over coming decades.

The Commission's Interim Report has established that the projected imbalance between spending and revenues — particularly with regard to health care and retirement entitlement programs — will, together with interest on the Federal debt, undermine America's capacity to make appropriate investments in the well-being of our citizens and undertake other essential government functions, such as national defense.

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Our second recommendation is that we change our current laws to create a future in which we balance our entitlement commitments and the funds available to honor those promises. We must restore balance to our Social Security Trust Fund and strengthen the confidence of all Americans that Social Security will endure on a sound footing.

To be clear, this Commission could not reach agreement on the details of a plan to achieve our objective. Nonetheless, those of us who are prepared to recommend partial or complete solutions have included our proposals in this Report.

Our third recommendation is that we empower the American people to participate in developing satisfactory solutions. To that end, we believe the computer program produced by this Commission should be maintained and improved by the Office of Management and Budget and/or the Congressional Budget Office. The program can be part of the public education process and help us honestly and calmly assess the options that affect our economic future.

This Report contains the numerous policy options which the Commission staff has developed, none of which have been specifically endorsed by the Commission as a whole. While the list is by no means all inclusive, it makes clear that few easy and popular decisions are available to the American people. That is where leadership is so urgently needed. We must describe the future that current law dictates so that Americans will know why tough action is needed sooner rather than later. And, we must describe the alternative future as well as the benefits that will accrue to all Americans.

Eliminating this long-term problem will go a long way towards balancing our budget. It also will help stabilize our currency and preserve a low inflation-high growth economy which lifts the American standard of living.

The Commission believes there is a window of opportunity for policymakers to enact reforms now. Acting sooner rather than later enables us to protect current beneficiaries from financial hardship and allows future beneficiaries to take steps to offset the effects of any changes.

On the question of tax reform, the Commission heard criticism of the structure of the current tax system. This is a topic that has been getting increased attention. The Commission recommends that the Administration and Congress consider reform of the tax system.

While this Commission does not endorse detailed recommendations — our most ambitious goal — this Final Report forwards many solutions to be considered in addressing the problem and underscores the need for immediate action.

Respectfully,

Dale Bumpkin	Sandra W. Freedman	J. Ambr. Miller
Michael R. Luttie	Porter Soss	Carol Kennedy Brown
Thad Cochran	W. J. [Signature]	Peter J. Poulos
Chris Cox	Robert L. [Signature]	Harold [Signature]
Jack [Signature]	Jack Gray	Ray [Signature]
B. deLo [Signature]	Karen R. Hain	Alan [Signature]
Robert E. Dunham	Th H Keen	A. Simpson
De [Signature]	J. [Signature]	Malcolm [Signature]

**THE PRESENT TREND IS NOT SUSTAINABLE**

The gap between Federal spending and revenues is growing rapidly. Absent policy changes, entitlement spending and interest on the national debt will consume almost all Federal revenues in 2010. In 2030, Federal revenues will not even cover entitlement spending.

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