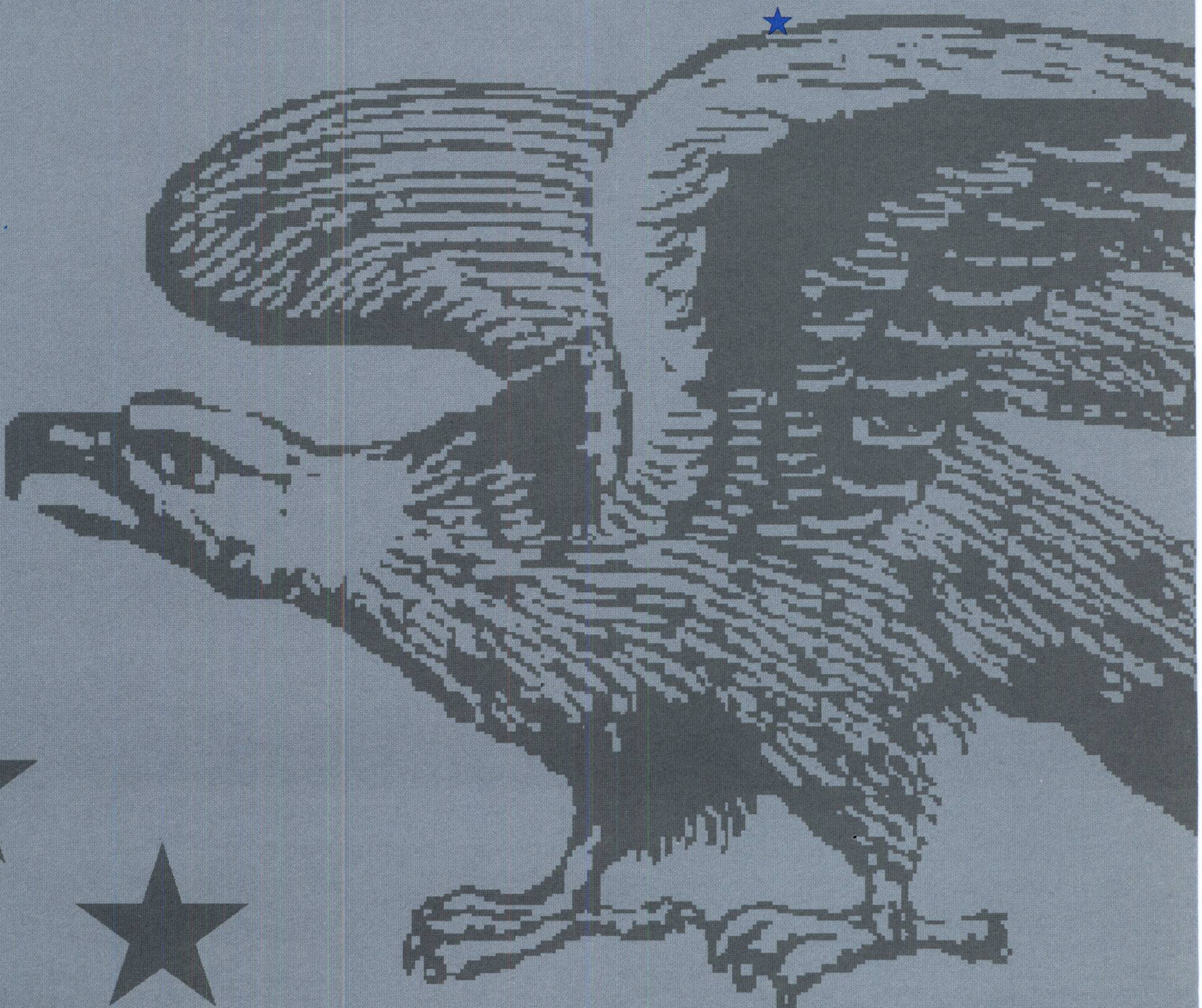
STAFF SUMMARY OF LONG-TERM REFORM OPTIONS



PREFACE

The Interim Report of the Bipartisan Commission on Entitlement and Tax Reform graphically illustrates the serious economic problem facing America. An aging population and sharp increases in health care spending lead to unsustainable growth in Federal entitlements. Without reform, this deepening problem will jeopardize the Nation's long-term economic growth and prosperity. That is not the legacy we want to leave our children and grandchildren.

The Commission's task is to propose how to reshape that legacy. If we act today, we can ensure that future generations are not unfairly burdened with today's debt and spending commitments, we can protect the Social Security and Medicare programs on which so many Americans depend, and we can increase the saving and investment needed for all Americans' future prosperity.

The November 8 election underscores the importance of the Commission's work. The American people want the truth and a clear sense of national purpose. By agreeing to the Interim Report's call to action, Commission members showed a willingness to present the hard truths to the American people.

The next step is to develop specific reform proposals that solve the problems identified in the Interim Report. The documents prepared by the Commission's staff describe numerous reform options and estimate their budgetary effects. The documents allow you to choose options reflecting your vision of reform and to see how those choices affect the future. Although the list of options is not exhaustive, it shows the trade-offs required to attain the goals of the Interim Report.

The staff documents also demonstrate that the goals of the Commission can be achieved without reducing current benefits or increasing current taxes. In general, the options can take effect after the turn of the century and be phased in gradually — so that Americans who will look to these programs in the future can plan for the changes.

As we prepare to recommend changes, it is important to remember that this effort is not solely a mathematical exercise. The numbers are mere tools for constructing a sound economic foundation that restores confidence in the American dream. The options are not substitutes for broader reform efforts. They are steps to devising a comprehensive long-term plan. Most important of all is the fact that options must soon be transformed into real changes that will affect people — and it is their well-being we must keep foremost in mind as reform is implemented.

Success is possible only if the American people understand the nature of the entitlement problem and how it affects their lives. Our recommendations must tap into the strong sense of commitment Americans feel toward their families and their country. Our actions must reinforce the national purpose of economic growth and improving each American's quality of life, and must support the family purpose of savings, retirement planning, and ensuring adequate health care.

In developing specific recommendations for change, the Commission must recognize that the privilege of being an American entails responsibility to future generations and to the Nation itself. Americans have always responded to a clear call to duty. Given the opportunity, they will do so again. Let us begin our deliberations with a profound gratitude for the freedoms and rights we have inherited as Americans, and balance those rights with the responsibility we have assumed for shaping America's future.

J. Robert Kerrey
Chairman

John C. Danforth
Vice-Chairman

INTRODUCTION

The Commission's Interim Report makes clear that the President and Congress must develop a long-term plan to reform entitlement programs. America's aging population and rising health care costs will have an inexorable impact on Federal retirement and health care programs and the Federal budget. The Commission concluded that the mounting impact of these trends over the next 30 years cannot be sustained.

The Commission determined that successful long-term reform depends on reaching two goals — (1) balancing the Federal government's entitlement promises with the funds available to pay for them, and (2) ensuring the long-term financial solvency of Social Security and Medicare. This document, prepared by the Commission staff, is designed to assist Commission members and other interested parties in formulating entitlement reform proposals that achieve those goals.

The analysis that follows demonstrates that reform can bring entitlement spending and revenues into long-term balance and restore Social Security and Medicare to long-term financial solvency. Whether reform focuses on reducing benefit growth, or requiring greater contributions during working years, the goals of the Interim Report can be met with a coherent, long-term plan. The analysis also shows that the goals of the Interim Report can be achieved without reducing current benefits or increasing current taxes. In general, the reforms can take effect after the turn of the century and can be phased in gradually.

The discussion below is divided into four parts. Parts I through III review the Interim Report's findings, consider 75 reform options that respond to those findings, and score the options based on their contribution to successful long-term reform.

Part IV takes the analysis one step further. It contains three sample reform packages that illustrate how the options could be combined to balance entitlement outlays and revenues and restore Social Security and Medicare to long-term solvency. For purposes of comparison, the sample packages reflect different philosophical approaches to solving the problem, including a "no tax increase" solution, a "no benefit reduction" approach, and an option that relies on a mix of tax increases and benefit reductions to accomplish the Interim Report's goals.

A separate set of reference materials that provides a more detailed description of each of the options and its impact on entitlement spending and revenues accompanies this document. ★

PART I: THE NEED FOR REFORM

In its Interim Report, the Commission found that, absent reform, the uncontrolled long-term growth in entitlements and the Federal budget deficit will jeopardize America's future economic prosperity and the promises that the Federal government has made to the American people.[17] Although Federal budget deficits are declining in the short term, projections indicate that the deficit will begin to grow rapidly before the end of the decade. The deficit is projected to remain under $200 billion through 1998, but will then rise quickly — reaching $400 billion in 2004. Without changes to programs or increased taxes, entitlements and interest on the national debt are projected to consume all Federal revenues by 2012. In 2030, entitlement spending alone will exceed all Federal receipts.

Without reform, unchecked growth in entitlements threatens the survival of the Nation's most important social programs on which many Americans depend. The public trustees of the Medicare and Social Security Trust Funds have warned that the Medicare Hospital Insurance Trust Fund will be exhausted by 2001 and the Social Security Trust Fund will be depleted by 2029, unless appropriate action is taken.

The Commission cautioned that, due to the growing share of resources consumed by entitlements, the Federal government may be unable to meet other priorities. In coming years, funding for essential programs such as national defense, highway construction, and education could be limited by the growth of entitlement spending. In addition, any new spending or tax reduction initiatives would be difficult to reconcile with the projected long-term fiscal imbalance. ★

PART II: OVERVIEW OF REFORM OPTIONS

This document lists a series of options that would reform existing entitlement programs and certain "tax expenditures." [18] These options are drawn from numerous government and private sector sources, as well as the suggestions of individual Commission members. The specifics of each option (*e.g.,* dollar thresholds, tax rates, and effective dates) are included for illustrative purposes only. A more comprehensive analysis of the impact of the options on individuals and on the economy is beyond the scope of this document. Those policy implications will require careful examination before any option is enacted into law.

17 The Interim Report was approved by the Commisson in a vote of 30 to 1 on August 8, 1994.

18 Tax expenditures consist of various personal and corporate income tax exclusions, exemptions, credits, deferrals, and preferential rates that afford favorable tax treatment to those who qualify. See Overview of Entitlement Programs, Ways and Means Committee Print No. 27, 103d Cong., 2d Sess. 675 (1994). It has been argued that tax expenditures constitute indirect Federal spending through the tax code, and that such "expenditures" should be analyzed like conventional entitlement programs. Id. It should be noted that some Commission members disagree with the concept of equating tax expenditures with entitlement outlays.

Each option has the effect of reducing spending, raising revenue, or both. All other things being equal, those reductions in spending or increases in revenue have the effect of reducing the Federal government's net borrowing and interest payments on the national debt. Accordingly, each option's score represents both the direct savings resulting from spending cuts and/or revenue increases plus the indirect savings from lower interest payments. Each point is equivalent to direct and indirect savings in 2030, worth $20 billion measured in 1994 dollars.

Long-term outlook. Entitlement reform requires a long-term perspective and a long-term response. The forces driving the projected growth in entitlement programs will have a mounting impact on Federal health and retirement programs and the Federal budget over the next 35 years. The five-year window used in the annual budget process is incapable of addressing those long-term trends.

The options listed below are generally limited to reforms that could make a significant long-term contribution to balancing entitlement promises and revenues and ensuring the future solvency of Social Security and Medicare programs. There are many additional proposals that could make entitlement programs more effective, such as cutting fraud and abuse, reducing outlays, or raising short-term revenues, but they would not significantly advance the goals of the Interim Report. While it is likely that a number of these other proposals would be included in any legislative reform package, they are generally not included in the materials that follow.

Options within the current entitlement framework. The options listed below generally operate within the current framework of entitlement programs. In so doing, they test whether the current system can be modified to meet the Interim Report's goals. While the options do not radically restructure current retirement, health care, and tax systems, they do represent major changes in existing programs and move in the direction of fundamental reform.

Deferred effective dates. There is a window of opportunity for policymakers to enact reforms now. In the near term, tax increases and cuts in discretionary spending already in place will partially offset the effect of entitlement spending growth on the Federal budget. In addition, the major impact of population aging and extraordinary increases in health care costs occurs after the turn of the century.

The options for reform can, as a consequence, be structured to take effect after the turn of the century and be phased in gradually. That approach protects current beneficiaries from financial hardship and allows future beneficiaries to take steps to offset the effects of the proposed changes. This does not, however, imply that legislative action can be delayed. Without action now, transition periods that allow affected persons to plan adequately for the future would be far more limited. ★

PART III: SUMMARY LIST OF OPTIONS

This staff-compiled list includes more than 75 options for reforming entitlement programs and tax expenditures. The list briefly describes each option and estimates its contribution to balancing entitlement outlays and revenues and restoring Social Security's solvency over the long term.

The list is designed to permit Commission members to choose reform options based on their policy preferences and see how their choices advance the goals of the Interim Report. To assist Commisson members, this summary uses a simple proxy measure to evaluate the contribution of each option toward reaching those goals —

Entitlement Balance: Reaching a target "score" of 100 offsets enough of the entitlement growth projected to occur by 2030 to prevent the Federal budget deficit from growing as a percentage of the economy from its projected level of 2.2 percent of gross domestic product in 1998. A more ambitious objective of balancing the Federal budget would require a score in excess of 115.[19] Each point represents program adjustments or revenue increases of about $9 billion in 2030 (measured in 1994 dollars).

Social Security Solvency: Social Security is scored as a separate program. Scoring 100 in Social Security reforms would offset fully the current long-term "actuarial imbalance" in the Social Security Trust Fund.[20]

The scoring method outlined above provides a useful surrogate for more complex approaches to measuring success in meeting the Interim Report's goals. The scoring does ignore certain complicating factors, such as the interactions between options. Each option is scored individually and interactions between options are not included because of the numerous ways in which Commission members can package the options. Certain categories of options with particularly significant interactions are noted merely to caution against undue reliance on the scoring when choosing more than one of the options from a single category.

All scores are based on projections from the Social Security Administration and Commission staff in conjunction with the Congressional Budget Office and other government agencies.[21] Although long-term estimates, by their nature, are imprecise, they do capture the magnitude of the impact of the long-term trends and policy options relative to the U.S. economy. ★

19 Reforms outside the area of entitlements could provide the additional savings necessary to achieve a balanced budget. For example, domestic and international discretionary spending could be limited to growth at the CPI after the current discretionary spending caps expire. This would result in a score of about 14.

20 A separate score is not needed for Medicare programs. Because Medicare and Social Security represent the bulk of all projected growth in entitlement spending, actions taken to restore Social Security's solvency and offset the growth in entitlements generally will eliminate the current financial imbalance in Medicare programs as well.

21 See Sources and Assumptions for Projected Options in the accompanying reference materials for further details on the projected savings from individual options.

A. CONGRESSIONAL, CIVIL, AND MILITARY RETIREMENT

	Percent of Entitlement Goal
1. Reduce congressional retirement benefits by as much as 40 percent (to match the benefits and contributions of Federal civilian employees) — *Effective immediately*	*
2. Reduce FERS retirement benefits by as much as 10 percent and CSRS retirement benefits by as much as 7 percent for future years of service — *Starting in 2000*	0.3
3. Structural reforms in Federal civil service retirement programs — *Starting in 2000*	
(a) retirement age to 57 (CSRS) and "high-four pay"	*
(b) retirement age to 62 (CSRS & FERS) and "high-five pay"	0.4
4. Reduce the health benefits subsidy for Federal retirees with at least five and less than 20 years of service — *Starting in 2000*	*
5. Cap combined military retirement and Social Security payments at 80 percent of active duty pay — *Starting in 2000*	*
6. Reduce the rate at which military retirement benefits accrue from 3.5 to 2 percent of basic pay for retirees with more than 20 years of service — *Starting in 2000*	*

B. HEALTH PROGRAMS

LIMIT GOVERNMENT SUBSIDIES

	Percent of Entitlement Goal
7. Require a monthly Medicare Part A premium, indexed to health program costs — *Starting in 2000*	
(a) $25 per month	3.7
(b) $40 per month	5.8
(c) $60 per month	8.8
8. Modify the $100 Medicare Part B deductible†	
(a) index the deductible to increases in program costs — *Starting now*	2.0
(b) index the deductible to increases in program — *Starting in 2000*	1.2

* Less than 0.25% of the goal
n/a Not Scored
† Only one option with this symbol can be chosen.

	Percent of Entitlement Goal
(c) increase the deductible from $100 to $150 and index it — *Starting in 2000*	1.8
(d) increase the deductible from $100 to $300 and index it — *Starting in 2000*	2.1
9. Replace the Medicare Part B premium (now $41.10 per month) with a higher deductible, indexed to increases in program costs† — *Starting in 2000*	
(a) increase the deductible from $100 to $800 (out-of-pocket neutral)	1.1
(b) increase the deductible from $100 to $1,200	3.9
10. Index the Medicare Part B premium to maintain the enrollees' share of program costs currently paid by enrollees† — *Starting in 1996*	9.4
11. Reduce the subsidy of Medicare Part B premiums for high-income enrollees — *Starting in 2000*	
(a) with incomes above $50,000 for individuals, $75,000 for couples†	1.2
(b) with incomes above $30,000 for individuals, $40,000 for couples†	3.2
12. Charge 20 percent coinsurance for home health and clinical laboratory services — *Starting in 2000*	3.1
13. Modify Medicare to expand coverage for large financial costs resulting from serious medical conditions, while limiting coverage for costs of less serious health conditions	n/a

CHANGE THE TAX TREATMENT OF HEALTH CARE BENEFITS

14. Tax Medicare benefits as individual income [22] — *5-year phase-in starting in 2000*	
(a) include insurance value of Part A in income	4.8
(b) same as (a), but not tax couples with income less than $32,000 and include only 50 percent for couples with income less than $44,000	2.9
(c) include the average Part B subsidy in income	4.8
(d) same as (c), but not tax couples with income less than $32,000 and include only 50 percent for couples with income less than $44,000	2.9
15. Include the value of employer-paid health insurance in income for income tax purposes — *5-year phase-in starting in 2000*	
(a) include the value over average insurance costs	9.4
(b) include the entire value	23.8

22 In addition, either (c) or (d) can be chosen. If (a) and (c) are chosen, the combined effect is 10.7. If (b) and (c) are chosen, the combined effect is 6.4 percent.

* Less than 0.25% of the goal
n/a Not Scored
† Only one option with this symbol can be chosen.

	Percent of Entitlement Goal
OFFSET POPULATION AGING	
16. Raise the eligibility age for Medicare	
(a) to age 67 (matching the Normal Retirement Age for Social Security) for persons currently under age 35	4.2
(b) to age 67 for persons currently under age 46	5.1
(c) to age 68 for persons currently under age 40	7.6
(d) to age 70 for persons currently under age 28	10.7
REDUCE PROVIDER PAYMENTS	
17. Modifications to Medicare provider payments — *Starting in 1996*	12.2
18. Cap Federal Medicaid acute care spending — *Starting in 1998*	2.4
19. Provide for a Medicaid voucher	n/a
20. Reduce the rate of growth of Medicaid payments to disproportionate share hospitals (DSH) — *Starting in 2000*	*
PAYROLL TAX INCREASES	
21. Increase Medicare Part A payroll tax rates 1 percent in 1995 (1/2 on employer, 1/2 on employee) *Note: for a 2 percent payroll tax, double the effect.*	
(a) in 1995	8.9
(b) in 2000	7.9
(c) in 2010	6.0
(d) in 2020	4.2
(e) in 2030	2.6
OTHER HEALTH MODIFICATIONS	
22. Limit growth in Federal health program spending	n/a

* Less than 0.25% of the goal
n/a Not Scored
† Only one option with this symbol can be chosen.

C. SOCIAL SECURITY

	Percent of Social Security Goal	Percent of Entitlement Goal
OFFSET DEMOGRAPHIC CHANGE		
23. Raise the Normal Retirement Age and retain the Early Retirement Age at 62		
(a) speed up the scheduled increase to age 67 for persons currently under age 46 instead of under age 35	5.6	4.0
(b) speed up the scheduled increase to age 67 and further increase the NRA to age 68 for persons currently under age 40	24.2	4.2
(c) speed up the scheduled increase to age 67 and further increase the NRA to age 70 for persons currently under age 28	47.9	5.0
(d) index the NRA to average life expectancy after 2022	8.9	*
REDUCE BENEFITS TO UPPER-INCOME PERSONS		
24. Limit growth of the "Primary Insurance Amount" formula for upper- and middle-income persons — *50-year phase-in starting in 2000*	28.6	2.6
25. Limit Social Security COLAs† — *Starting in 1998*		
(a) to the COLA for the Social Security beneficiary in the twentieth percentile	86.9	12.0
(b) to the COLA for the median Social Security beneficiary	n/a	n/a
26. Provide a personal investment plan option for all workers in lieu of 1.5 percentage points of the payroll tax† — *Starting in 1996*	n/a	n/a
OTHER MODIFICATIONS		
27. Reduce spousal benefits for non–working spouses† (does not affect survivors' benefits) — *17-year phase-in starting in 2000* *(1 percent per year)*		
(a) from 50 percent to 33 percent of the Primary Insurance Amount	8.0	1.0
(b) limit spousal benefits to 50 percent of median retiree's benefit	n/a	n/a

* Less than 0.25% of the goal
n/a Not Scored
† Only one option with this symbol can be chosen.

	Percent of Social Security Goal	Percent of Entitlement Goal
28. Index the benefit formula to the Consumer Price Index instead of average wages — *Starting in 1998*		
(a) for indexation of wage history & bend points	n/a	n/a
(b) for indexation of bend points	72.3	7.1
29. Expand Social Security coverage to include all new State and local government employees — *Starting in 2000 for employees who begin work after 1995*	6.6	1.8
30. Disability program reforms	n/a	n/a

CHANGE THE TAX TREATMENT OF BENEFITS

31. Modify the taxation of Social Security benefits† — *5-year phase-in starting in 2000*		
(a) tax 85 percent of benefits for taxpayers with incomes above $25,000 ($32,000 for couples)	0.9	*
(b) tax 85 percent of benefits for all taxpayers	13.2	2.3
(c) tax benefits like private pension income	18.8	3.1

INCREASE PAYROLL TAXES

32. Increase Social Security payroll tax rate 1 percent (1/2 on employer, 1/2 on employee) *Note: for a 2 percent payroll tax, double the effect.*		
(a) in 1995	41.3	7.3
(b) in 2000	38.0	6.5
(c) in 2010	31.0	4.9
(d) in 2020	24.4	3.4
(e) in 2030	18.3	2.1
33. Treat a portion of employer-provided fringe benefits as wages for purposes of the employer's share of Social Security payroll taxes so that 90 percent of all compensation is subject to tax† — *Starting in 2000*	44.5	6.4

* Less than 0.25% of the goal
n/a Not Scored
† Only one option with this symbol can be chosen.

	Percent of Social Security Goal	Percent of Entitlement Goal
34. Increase the maximum wage subject to the Social Security payroll tax for both employer and employee so that 90 percent of wages are subject to the tax[23]† — *Starting in 2000*	14.6	3.3
35. Apply the employer portion of the Social Security payroll tax to all wages — *Starting in 2000*	30.1	5.2

SOCIAL SECURITY REFORM PROPOSALS

36. H.R. 4245 — Rostenkowski Social Security reform proposal[24]	100	14.1
37. H.R. 4275 — Pickle Social Security reform proposal[24]	100	n/a

D. COMPREHENSIVE BENEFIT REFORMS

38. Revise the Consumer Price Index to measure inflation more accurately — for use in benefit and income tax calculations — *Starting in 1998*		
(a) Social Security	32.9	5.1
(b) other non-means-tested entitlements		1.2
(c) income tax calculations		9.5
39. Deny indexing of entitlement outlays and revenues for one year — *Starting in 2000*		
(a) Social Security	4.2	0.9
(b) other non-means-tested entitlements		0.4
(c) income tax calculations		2.6
40. Means test entitlements for high-income persons[25] † — *5-year phase-in starting in 2000*		
(a) Social Security	15.0	2.0
(b) Medicare		2.4
(c) other non-means-tested entitlements		0.6

23 This is roughly $96,000 in 1996.

24 Those options include other Social Security options, described above.

25 Above $100,000 for individuals, above $120,000 for couples.pensions.

* Less than 0.25% of the goal

n/a Not Scored

† Only one option with this symbol can be chosen.

	Percent of Social Security Goal	Percent of Entitlement Goal
41. Means test entitlements using a framework similar to the Concord Coalition approach[26] † — *5-year phase-in starting in 2000*		
(a) Social Security	63.9	8.7
(b) Medicare		9.1
(c) other non-means-tested entitlements[27]		0.6
42. Broaden taxable income to include all entitlements[28] † — *5-year phase-in starting in 2000*		
(a) Social Security	18.8	3.1
(b) Medicare		10.7
(c) other non-means-tested entitlements		0.3
43. Limit entitlement programs other than Social Security, Medicare, Medicaid, and civil and military retirement — *Starting in 2000*		
(a) cap all other entitlements		6.4
(b) cut all other entitlements 10 percent and cap thereafter		10.5
(c) cut all other entitlements 25 percent and cap thereafter (equal to total spending on AFDC & Food Stamps)		15.6
44. Process changes to lock in entitlement reform savings		n/a
45. Reform the budget process		n/a

E. REDUCE TAX EXPENDITURES

	Percent of Social Security Goal	Percent of Entitlement Goal
46. Modify the deduction for home mortgage interest expenses — *5-year phase-in starting in 2000*		
(a) reduce maximum mortgage principal eligible for interest deductions to $300,000		1.1
(b) deny the deduction		12.8

26 Affects families and individuals with income above $40,000.

27 Excludes government

28 If (a) and (b) are chosen, the combined effect is 8.8.

* Less than 0.25% of the goal

n/a Not Scored

† Only one option with this symbol can be chosen.

	Percent of Social Security Goal	Percent of Entitlement Goal
47. Eliminate the deduction of State and local taxes[29] — *5-year phase-in starting in 2000*		
(a) income taxes		6.3
(b) property taxes		3.6
48. Modify the deduction for charitable contributions — *5-year phase-in starting in 2000*		
(a) allow deduction only if they exceed 2 percent of AGI		1.9
(b) deny the deduction		4.1
49. Limit itemized deductions — *5-year phase-in starting in 2000*		
(a) limit itemized deductions to a 15 percent rate		16.9
(b) limit itemized deductions to a 28 percent rate		n/a
(c) deny 25 percent of itemized deductions		9.2
(d) decrease itemized deductions for high-income persons		2.3
50. Recognize gain on appreciated property at death — *5-year phase-in starting in 2000*		1.9
51. Modify accelerated depreciation — *5-year phase-in starting in 2000*		n/a
52. Include employer pension contributions — *5-year phase-in starting in 2000*		n/a
53. Include the value of employer-paid health insurance in income for income tax purposes (see option 15)		n/a

29 This option cannot be combined with options 46, 47, or 48.

* Less than 0.25% of the goal
n/a Not Scored
† Only one option with this symbol can be chosen.

PART IV: REALITY CHECK — THREE ILLUSTRATIVE REFORM PACKAGES

The following three sample packages of reform options (summarized in the tables and charts on the following pages) would each bring entitlement spending and revenues into balance by the year 2030, restore the long-term stability of Social Security and Medicare, and address the broader economic concerns identified in the Interim Report, such as increasing national savings.[30]

For simplicity, each package groups proposed reforms into five basic categories: (1) options directly addressing the aging of the population; (2) options offsetting Federal government health care cost increases; (3) options offsetting Federal retirement program cost increases; (4) options increasing dedicated payroll taxes or reducing tax expenditures; and (5) comprehensive reforms that operate across program lines.

Each of the packages adopts a different approach to entitlement reform to help Commission members and other persons assess the directions that reform could take. Two of the packages attempt to capture commonly discussed approaches to reform that would focus almost exclusively on either tax increases or benefit reductions. These two packages illustrate what those options would mean in concrete terms to allow Commision members to test the validity of either approach.

The three packages, as well as the individual options in Part III, need not be considered in isolation. Each could be viewed as an incremental step toward broader reform to be combined with other measures that promote private sector savings and investment, increase public sector investments, or address other aspects of health care reform. ★

30 The options numbered in the packages correspond to the numbers in the Summary List of Options as well as in the Reference document.

STAFF SAMPLE PACKAGE 1

No Tax Increases

Package 1 adopts a "no tax increase" approach. It focuses on reforms that would offset population aging, reduce subsidies to beneficiaries, and limit benefits to upper-income persons. Except where noted, all options begin in 2000. Most are phased in over many years.

Response to Population Aging: Package 1 directly addresses the effects of America's aging population. It increases the Social Security retirement age to 70, while retaining eligibility at age 62. It also conforms the Medicare eligibility age to the Social Security retirement age. Those changes would not affect anyone currently over age 51 in the case of Social Security or over age 56 in the case of Medicare. A 20-year phase-in period limits the full impact to those under age 28.

Health Program Reform: Package 1 reduces Federal subsidies to Medicare beneficiaries by requiring a premium for Part A health insurance, indexing the existing Part B premium to program cost increases, raising the current Part B deductible, and adding coinsurance payments where none are currently required. It indexes the Part B premium (and deductible) to keep the subsidy from increasing over time. Package 1 achieves additional spending restraint by reducing payments to health care providers and capping Federal Medicaid expenditures.

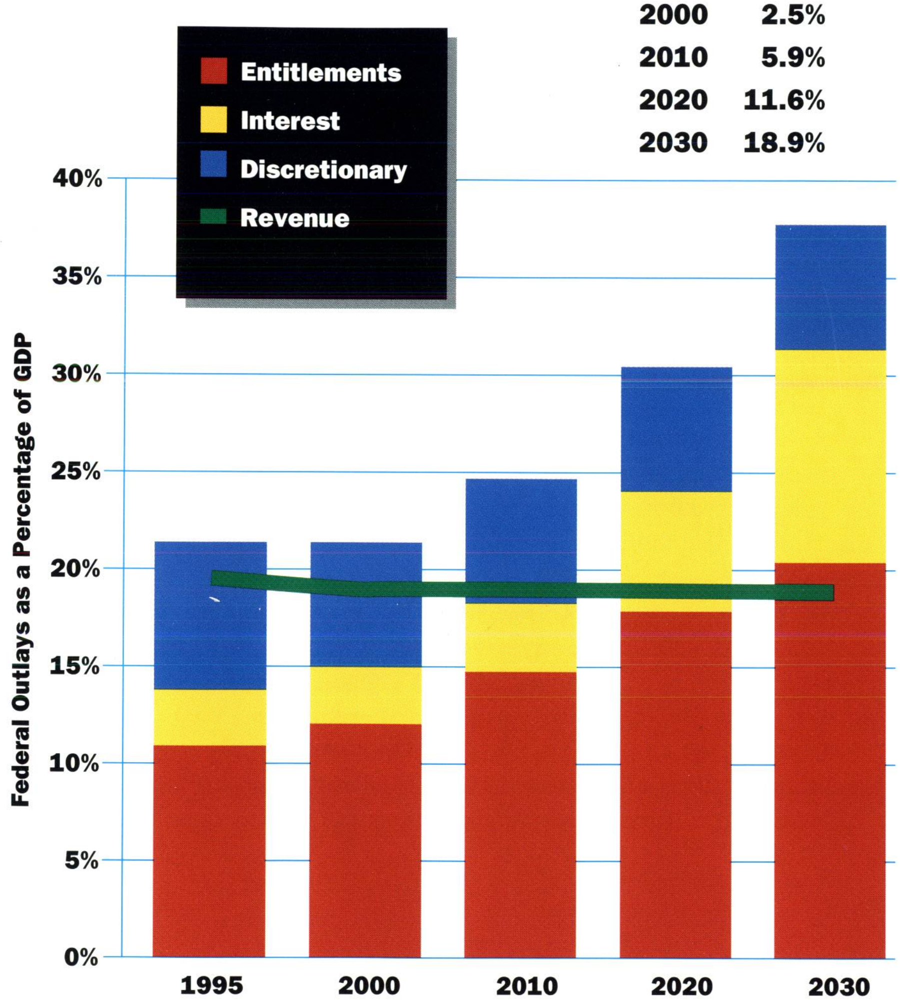
Retirement Program Reform: Package 1 reduces pensions for congressional employees (including Members) and other Federal employees.

Comprehensive Reforms: Package 1 adjusts the CPI used to calculate benefits and set tax rate brackets to more accurately reflect cost-of-living changes, cuts entitlements other than health and retirement programs by 25 percent, and gradually scales back non-means-tested entitlements, other than government pensions, by progressive amounts for persons earning more than $40,000.

Chart 1 below shows the effect of Package 1 on the long-term imbalance between projected entitlement outlays and revenues.

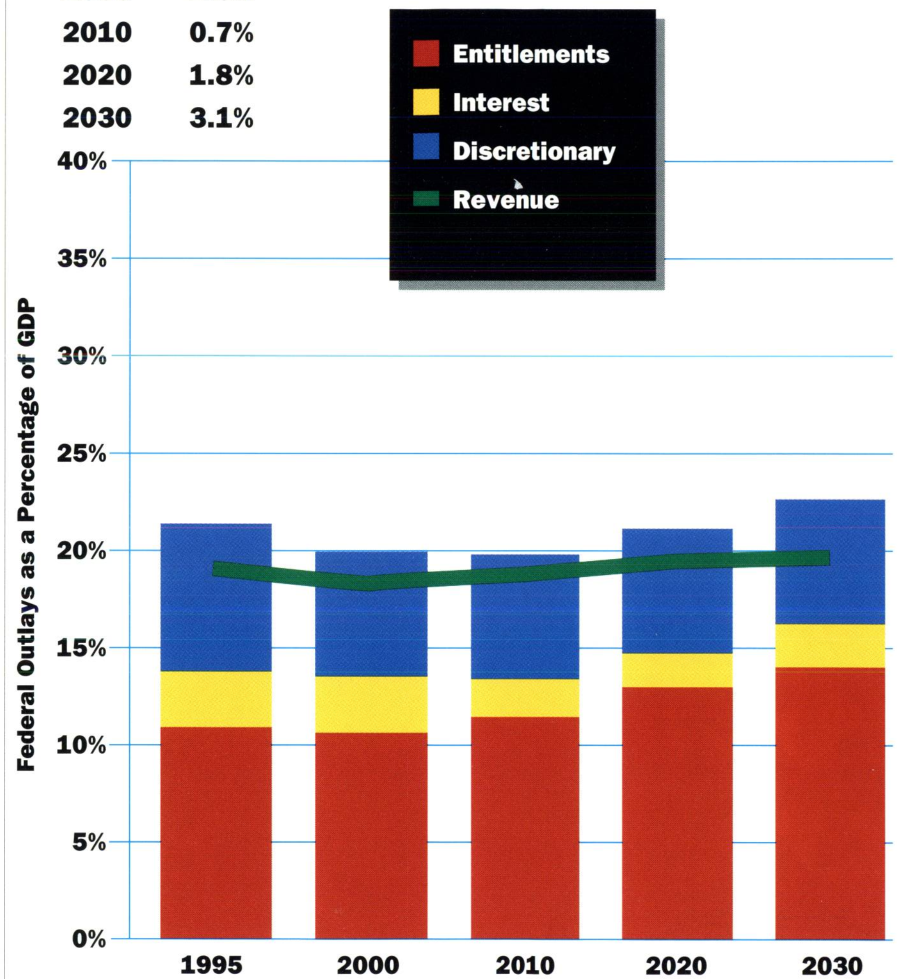
			Percent of Goal	
			Entitlement	**Social Security**
Population Aging	23c	Keep Soc Sec early retire. age at 62 & raise full benefit retire. to 70 by 2034	5.0	47.9
	16d	Medicare elig. age = Soc Sec age above	10.7	
Health Program Reform	7c	Add a $60 monthly Part A premium	8.8	
	10	Index Part B premium to costs (1996)	9.4	
	8d	Raise Part B deductible from $100 to $300	2.1	
	12	20% coinsurance for clinical labs and home health care	3.1	
	17	Reduce Medicare provider payments	12.2	
	18	Cap Medicaid acute care spending	2.4	
Retirement Program Reform	1,2 & 3b	Reduce pensions for Congress by up to 50% & FERS by up to 10% (plus other changes to retirement programs)	0.6	
Receipts & Tax Expenditures				
Comprehensive Reforms	38	Adjust CPI to better reflect inflation		
		Social Security effect	5.1	32.9
		Effect on other programs	1.2	
		Income tax effect	9.5	
	41	Means test all benefits	18.3	63.9
	43b	Cap & 25% cut in other entitlements	15.6	
TOTAL			104.0	144.7

Deficit as % GDP	
1995	2.3%
2000	2.5%
2010	5.9%
2020	11.6%
2030	18.9%



No Tax Increases

Deficit as % GDP	
1995	2.3%
2000	1.0%
2010	0.7%
2020	1.8%
2030	3.1%



STAFF SAMPLE PACKAGE 2

Minimize Benefit Reductions

Package 2 minimizes benefit reductions. It emphasizes reforms that increase contributions during working years and progressive tax increases, rather than reducing benefits. Except where noted, all options begin in 2000. Most are phased in over many years.

Response to Population Aging: Package 2 merely accelerates previously scheduled increases in Social Security's retirement age.

Health Program Reform: Package 2 makes more limited technical changes to Medicare — indexing the Part B premium and $100 deductible to program costs to prevent the government's share of program costs from rising. As in Package 1, it reduces Medicare payments to health care providers. Package 2 also subjects employer-paid health insurance above a "cap" to the income tax (reducing tax-based subsidies for upper-end plans).

Retirement Program Reform: Package 2 makes the same changes in Federal employee retirement programs as Package 1. In addition, it increases the coverage of Social Security, requiring participation by State and local employees.

Receipts and Tax expenditures: Package 2 limits itemized deductions (*e.g.*, home mortgage interest expenses, charitable contributions, and State and local taxes) to a maximum 15 percent tax rate. This reduces the value of itemized decisions, particularly for higher-income taxpayers. Package 2 also increases Medicare and Social Security payroll taxes by 1.5 to 1 percentage points, respectively, to help reduce the current Trust Fund imbalances.

Comprehensive Reforms: Package 2 makes the same technical adjustment to the CPI index to more accurately reflect cost-of-living changes as in Package 1. Package 2 also subjects non-means-tested entitlement benefits (*e.g.*, the insurance value of Medicare and veterans' compensation) to the income tax, so that these benefits are treated as other income.

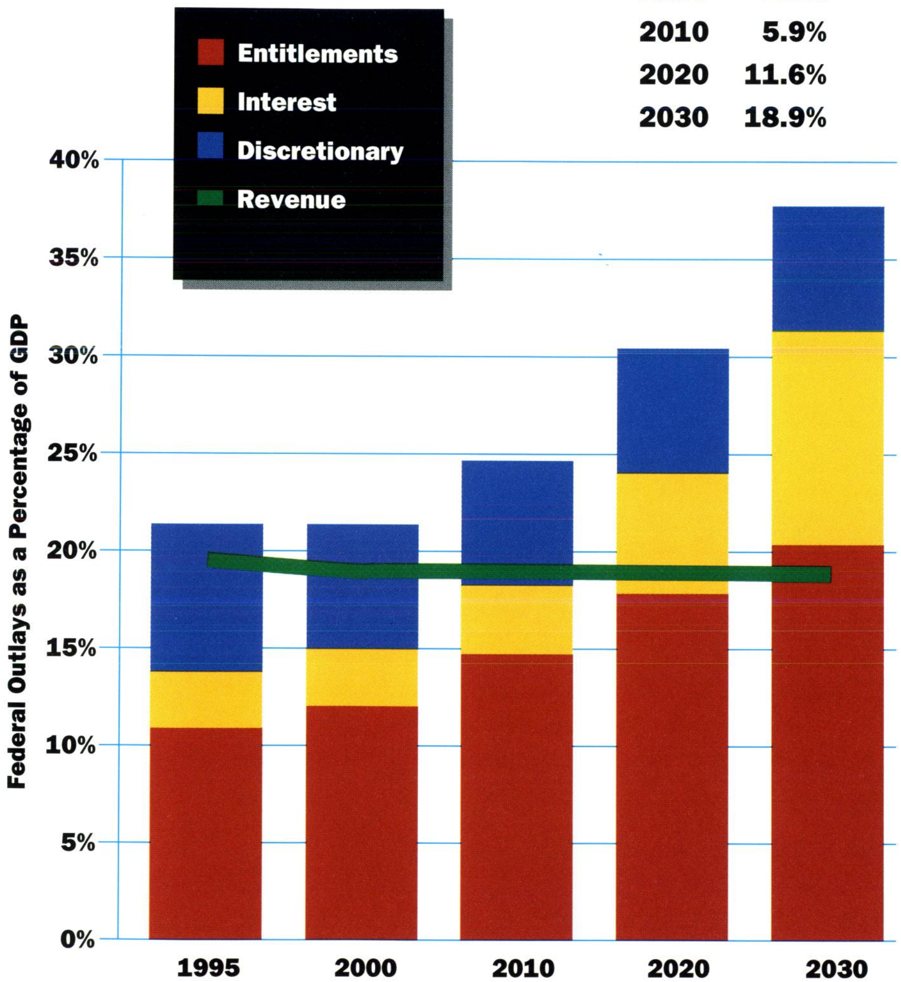
Chart II below shows the effect of Package 2 on the long-term imbalance of projected entitlement outlays and revenues.

			Percent of Goal	
			Entitlement	Social Security
Population Aging	23c	Speed up scheduled increase in Social Security retirement age to 67	4.0	5.6
Health Program Reform	10	Index Part B premium to costs (1996)	9.4	
	8a	Index $100 Part B deductible to costs	1.2	
	17	Reduce Medicare provider payments	12.2	
	15a	Cap employer-paid health insurance	9.4	
Retirement Program Reform	1,2 & 3b	Reduce pensions for Congress by up to 50% & FERS by up to 10% (plus other changes to retirement programs)	0.6	
	29	Include State and local workers in Social Security	1.8	6.6
Receipts & Tax Expenditures	49a	Limit itemized deductions to a 15% rate regardless of income	16.9	
	21b	1.5% Part A payroll tax increase	11.9	
	32b	1% Soc Sec payroll tax increase	6.5	38.0
Comprehensive Reforms	38	Adjust CPI to better reflect inflation		
		Social Security	5.1	32.9
		Effect on other programs	1.2	
		Income tax effect	9.5	
	42	Tax all entitlement benefits	14.1	18.8
TOTAL			103.8	101.9

CURRENT BUDGET OVERVIEW

Deficit as % GDP

1995	2.3%
2000	2.5%
2010	5.9%
2020	11.6%
2030	18.9%

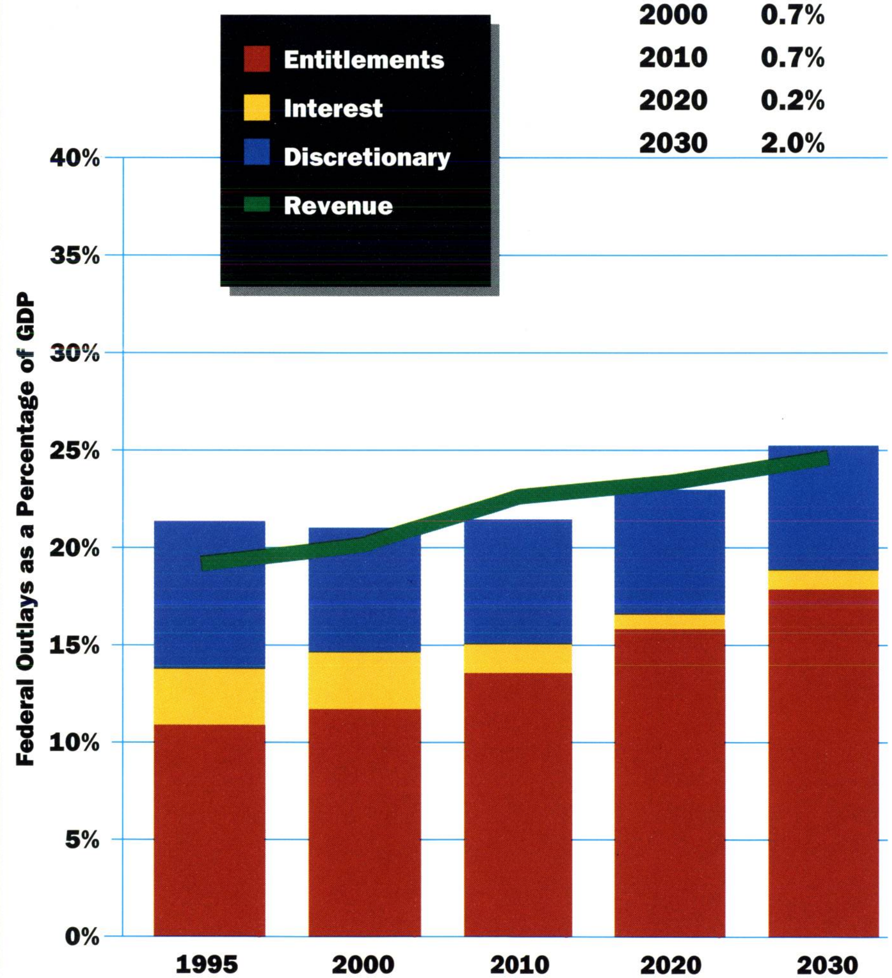


STAFF SAMPLE PACKAGE 2

Minimize Benefit Reductions

Deficit as % GDP

1995	2.3%
2000	0.7%
2010	0.7%
2020	0.2%
2030	2.0%



Blended Approach

Package 3 relies on a mix of adjustments to both benefits and revenues. The package includes more limited actions on population aging, health program subsidies, Social Security benefits, revenues, and tax expenditures than either Package 1 or 2. Except where noted, all options begin in 2000. Most are phased in over many years.

Response to Population Aging: Like Package 1, Package 3 directly addresses America's aging population, raising the threshold for full benefits to age 68 (instead of age 70 in Package 1). The changes are phased in gradually so that the full effect applies to persons currently under age 40.

Health Program Reform: Package 3 restricts the growth of Medicare subsidies using more limited measures than Package 1. As in Package 2, Package 3 subjects employer-paid health insurance above a "cap" to the income tax.

Retirement Program Reform: In addition to the reforms included in Packages 1 and 2, Package 3 makes certain gradual adjustments to Social Security benefits over the next 20 to 50 years. These are reductions in benefits for higher-wage workers using a more progressive benefit formula and in spousal benefits (which are currently paid regardless of wage earnings and contributions to the system).

Receipts and Tax Expenditures: Package 3 denies one-quarter of the itemized deductions allowed under current law. In addition, Package 3 raises the Part A tax 1 percent.

Comprehensive Reforms: Package 3 adjusts the CPI, like Package 1 and 2. Package 3 taxes certain benefits, but in contrast to Package 2, it does not change the taxation of Social Security and does not apply to benefits received by low-income persons. Package 3 also includes a cap on other entitlements, but, unlike Package 1, it does not require an immediate 25 percent cut.

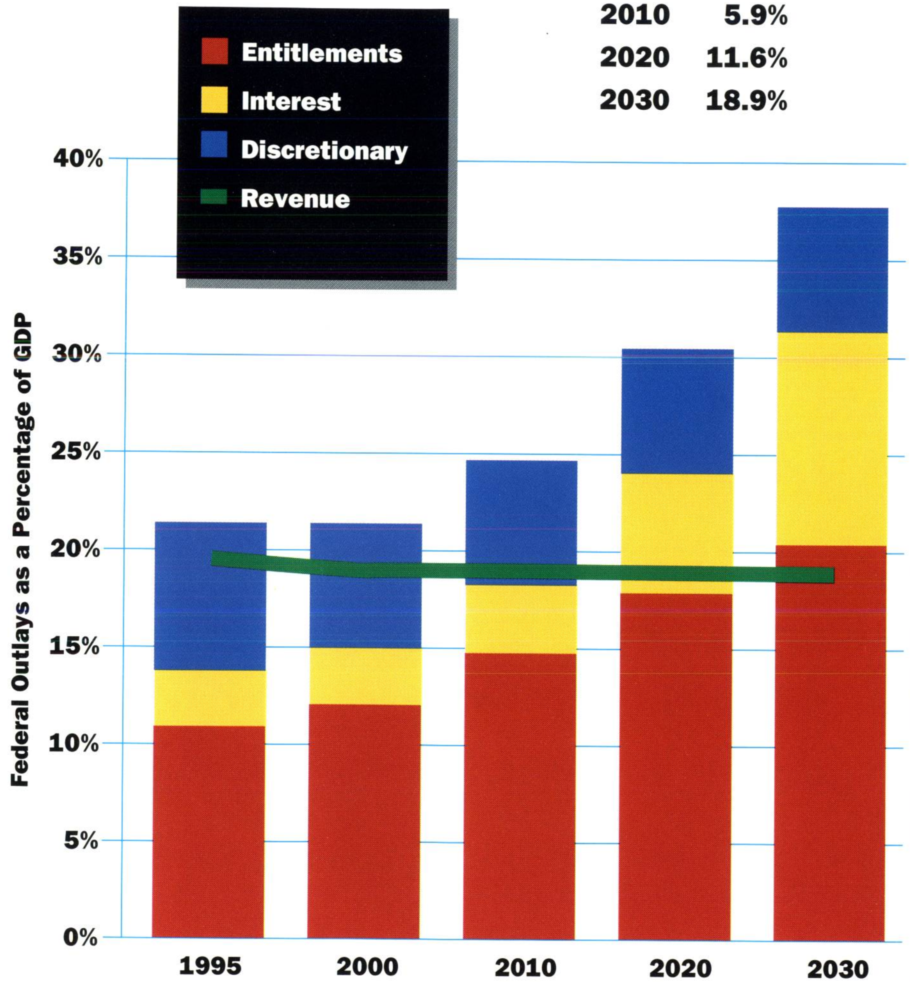
Chart III below shows the effect of Package 3 on the long-term balance of projected entitlement outlays and revenues.

			Percent of Goal	
			Entitlement	Social Security
Population Aging	23b	Keep Soc Sec early retire. age at 62 & raise full benefit retire. age to 68 by 2017	4.2	24.2
	16c	Medicare elig. age = Soc Sec age above	7.6	
Health Program Reform	7a	Add a $25 monthly Part A premium	3.7	
	10	Index the Part B prem to costs (1996)	9.4	
	8c	Raise Part B deduct from $100 to $150	1.8	
	12	20% coinsurance of clinical labs and home health care	3.1	
	17	Reduce Medicare provider payments	12.2	
	15a	Cap employer-paid health insurance	9.4	
Retirement Program Reform	1,2 & 3b	Reduce pensions for Congress by up to 50% & FERS by up to 10% (plus other changes to retirement programs)	0.6	
	29	Include State and local workers in Social Security	1.8	6.6
	24	Reduce benefits to mid- and upper-wage workers — add 3rd "bend point"	2.6	28.6
	27a	Reduce spouse benefits	1.0	8.0
Receipts & Tax Expenditures	49c	Deny 25% of itemized deductions	9.2	
	21b	1% Part A payroll tax increase	7.9	
Comprehensive Reforms	38	Adjust CPI to better reflect inflation		
		Social Security effect	5.1	32.9
		Effect on other programs	1.2	
		Income tax effect	9.5	
	14b & d	Tax entitlements (50% for couples with >$32,000 income, 85% if >$44,000)	6.4	
	43a	Cap other entitlements	6.4	
TOTAL			103.1	100.3

CURRENT BUDGET OVERVIEW

Deficit as % GDP

1995	2.3%
2000	2.5%
2010	5.9%
2020	11.6%
2030	18.9%



STAFF SAMPLE PACKAGE 3

Blended Approach

Deficit as % GDP

1995	2.3%
2000	1.2%
2010	0.5%
2020	1.3%
2030	2.8%