

**PRELIMINARY REPORT (PROPOSALS)
BY CO-CHAIRS
NATIONAL COMMISSION ON FISCAL RESPONSIBILITY AND REFORM**

On Wednesday, November 10, 2010, a 50 page, highly preliminary report was released by the bipartisan Co-chairs, Erskine Bowles and former Senator Alan Simpson. It is Bowles' and Simpson's own draft proposal for reducing the national debt and eventually balancing the federal budget. Please keep in mind that this report has **NOT** been approved by the Commission. This report was received by the commission members as a starting point for continued discussion. The report does not include specific details about their proposals; therefore, some questions about the draft report cannot be answered yet. A report on the approval of a final report is required not later than December 1, 2010. A vote of 14 of the 18 members is required to send a set of recommendations to the President. However, a smaller number of commission members can join together to release recommendations or policy suggestions if there is no formal agreed-upon recommendation. The co-chairs feel their proposal would bring spending down to 22 percent and then 21 percent of U.S. Gross Domestic Product (GDP) and reduce the deficit from 60 percent of GDP to under 40 percent by 2037. The co-chairs acknowledged the plan was "dead on arrival", but feel it will prompt a more realistic national debate about what it'll take to solve the nation's huge fiscal woes.

BACKGROUND: In Feb 2010, President Obama signed an executive order establishing the bipartisan National Commission on Fiscal Responsibility and Reform. The 18-member commission is tasked with producing policy recommendations that will reduce the deficit and control the long-term growth in the national debt. NARFE has been closely following the progress of the commission and has kept NARFE members abreast of the progress. NARFE will continue to fight any and all proposals that put an unequal and inaccurate burden on the federal community.

In the November 2nd elections, voters sent Washington a message to wrestle the spiraling debt under control. Doing this is going to hurt! Actions will be taken that are difficult. As you will note in the synopsis of the proposals, there were no "sacred cows." To avoid slowing the economic recovery, nothing will go into effect until 2012.

WHAT YOU CAN DO: Contact members of Congress via NARFE's Legislative Action Center or NARFE's toll free telephone number (1-866-220-0044) to contact your Representative or both Senators and urge them to oppose recommendations of the Fiscal Commission Co-chairs to cut your earned federal civilian retirement and health benefits, freeze federal pay, and reduce the federal workforce by 10%. The commission is also accepting public statements. You can send an e-mail or mail comments to the commission at: E-mail – commission@fc.eop.gov . Mailing address is: 1650 Pennsylvania Ave, NW, Washington, DC 20504.

SYNOPSIS OF PROPOSALS

Impact on Federal Retirement: The co-chairs proposal would “achieve mandatory savings from civil service retirement” by:

- Calculating federal civil service annuities by using highest five years of salary instead of the highest three years.
- Requiring Federal Employees Retirement System covered workers to contribute a much higher share of payroll to their defined benefit annuity.
- Basing Social Security, federal civilian and military retirement cost-of-living adjustments (COLA) on the “chained consumer price index” which would result in lower payments than under current law. This means that current recipients would receive smaller-than-anticipated annual increases.
- Requiring federal civilian retirees to pay a larger share of Federal Employees Health Benefits Program (FEHBP) premiums.

Impact on Federal Employees: Federal employees would be especially impacted by the recommendation to enact tough discretionary caps and provide \$200 billion in domestic and defense savings by 2015. This includes a three-year pay freeze in the pay of most federal employees and a 10 percent reduction in the federal workforce.

Impact on Social Security:

- Could make the “benefit formula” for Social Security more progressive – meaning benefits would target those who need them the most. As a result, Social Security would reduce payments to upper income recipients.
- The amount of income subject to Social Security taxes would be increased.
- The retirement age would be increased based on the average American's greater longevity. The retirement age for full Social Security benefits would be increased to age 68 by 2050 and age 69 by 2075.
- Include newly hired state and local workers in Social Security after 2020.

Impact on Medicare:

- Address the Medicare “Doc Fix” not through deficit spending, but through savings “by asking doctors and other health care providers, lawyers, and individuals to take responsibility for slowing health care cost growth.” This would be done by paying health care providers less, among other tactics. Please note that many providers are no longer accepting new Medicare patients because of the current less than desirable reimbursement rate. The proposed “doc fix” will only make the problem worse because the reimbursement rate will be less than the current rate.
- Medicare spending would be curtailed.
- Deductibles and co-pays by patients would go up.

Health Care: In addition to the “Doc Fix”, the following are a few of the proposals that were recommended.

- Pay lawyers less and reduce the cost of defensive medicine. This means that comprehensive medical malpractice liability reform to cap non-economic and punitive damages (tort reform) would be enacted.
- Cut Federal spending on Graduate and Indirect Medical Education.
- Reform “Tricare for Life” (military retirees over 65 years old) to increase cost sharing for military retirees.
- Modernize Tricare, DoD Health.
- Reform FEHB Retiree plans to increase cost sharing for Federal civilian retirees.
- Establish Veterans Administration (VA) health co-pays. This option would increase out-of-pocket costs for veterans in Priority Group 5 (those who do not have service-connected disabilities and whose income is below a VA-defined threshold).

Revenue Summary: Pass tax reform that dramatically reduces rates, simplifies the code, broadens the base and reduces the deficit. However, in reality the plan creates \$1 trillion in tax increases over the coming decade. The bad news is that cherished tax breaks such as exemptions for mortgage interest and employee health benefits would end.

- Calls for a major overhaul of both the individual income tax and the corporate tax systems, with the idea of lowering overall tax rates, simplifying the tax code and broadening the taxpayer base. It would significantly reduce income tax

rates, with the top rate dropping from 35 percent to 23 percent. However, don't get too excited because of the numerous other tax increases in the proposal.

- Consolidate the tax code into three individual rates (15%, 25%, and 35%) and one corporate rate (26%). The corporate rate is currently 35%.
- Tax breaks for many health care plans would be reduced. It would limit or eliminate altogether the tax-free status of employer-provided health benefits, which would provide a stiff nudge to force people into cost-conscious insurance plans.
- Eliminate the current tax deduction that homeowners receive for interest they pay on their mortgages. This is very controversial because it would be a "kiss of death" for the housing market.
- For individuals and families, the proposal would eliminate a host of popular tax credits and deductions, including the child tax credit and the mortgage interest deduction as specified in the above bullet. Would take effect in 2013 if reform is not yet enacted.
- Gradually increase gas tax by 15 cent-a-gallon in 2013 to fund transportation spending.
- Congressional pet spending projects, known as "earmarks," would be eliminated. Currently, earmarks are not competitively bid and are not subject to accountability metrics.
- Change to biennial budgeting. This is probably the best item in the proposal.
- Cuts in farm subsidies, foreign aid, and the Pentagon's budget. Farm subsidies would be reduced by \$3 billion per year by reducing direct payments and other subsidies.
- Reduce Congressional and White House budgets by 15%.
- Capital gains taxes will be raised to the same level as taxes on wages.
- Reform military retirement system to vest after 10 years (not 20) and defer collection until age 60.