

“RESTORING AMERICA’S FUTURE” BY BIPARTISAN POLICY CENTER DEBT REDUCTION TASK FORCE

On November 17, 2010, a report, which was developed by a bipartisan task force chaired by former Senate Budget Committee Chairman Pete Domenici and former White House Budget Director and Federal Reserve Vice Chair Alice Rivlin, was released. This task force includes 19 former White House and cabinet officials, former Senate and House members, former governors and mayors, and business, labor, and other leaders. This plan reduces and stabilizes the debt at 60 percent of the economy; reforms personal and corporate taxes to make America more competitive; ensures that Social Security can pay benefits to future generations; and controls health care costs. It is a bold, comprehensive plan to solve the problem of soaring federal deficits and debt while dramatically simplifying taxes for businesses and individuals, strengthening Social Security, and creating up to seven million new jobs. The plan is entitled, “**Restoring America’s Future**.” Specifically, the plan would rein in federal health care spending by reforming Medicare and Medicaid; ensure that Social Security can pay benefits for the next 75 years; find savings in other entitlement programs; freeze both defense and non-defense discretionary spending for several years; establish a 6.5 percent Debt Reduction Sales Tax; and enforce all of these through strict budget rules.

The Task Force recognized that the starting point for any effective plan to reduce deficits and debt is a strong economy, and this plan takes steps to strengthen the economy both immediately and in the long run.

- **Short Term** – Plan proposes a “payroll tax holiday” for 2011, suspending Social Security payroll taxes for employers and employees in a move that the Congressional Budget Office estimates could create as many as seven million jobs. It would phase in the steps to reduce deficits and debt gradually beginning in 2012.
- **Long Term** – Plan would do more than reduce deficits and debt to economically sustainable levels. It would dramatically simplify the tax system, establishing individual tax rates of 15 and 27 percent (from the current high of 35), cutting the corporate tax rate to 27 percent (from the current high of 35), ending most deductions and credits while simplifying the rest, and ensuring that nearly 90 million household no longer have to file returns.

The U.S. Chamber of Commerce and various budget organizations are very supportive of this plan. They feel it is a credible and comprehensive path to a more responsible federal budget. This report, along with the recommendations made by Erskine Bowles and Alan Simpson of the President’s Deficit Commission, are powerful reminders of three things: (1) The tremendous harm we are inflicting on our economy by failing to get the deficit under control; (2) The unconscionable burden we are passing on to future generations; and (3) That practical solutions can be found when public leaders work together on a bipartisan basis and with the long-term interests of the country in mind. Joint Chiefs of Staff Chairman Admiral Mike Mullen calls the debt “the single biggest threat to our national security.” That’s a powerful statement!

In summary, “**Restoring America’s Future**” makes tough choices. It freezes discretionary spending, reforms programs, ends tax deductions, and raises new taxes. But, by stabilizing the debt, reforming the tax codes, and controlling health care costs, it lays the groundwork for a brighter future.

SYNOPSIS OF RECOMMENDATIONS

Revive the Economy and Create Jobs: Enact a "Payroll Tax Holiday" for one year (2011). Employers and employees would not have to pay 12.4% tax into the Social Security Trust Funds which in turn would create between 2.5 and 7 million jobs.

Reduce and Stabilize the Debt:

- By 2020, reduce and stabilize the federal debt below 60 percent of GDP and reduce annual budget deficits to manageable levels.
- On a "unified budget basis", which includes interest, it will ensure that future budget deficits are small and manageable. We all know that the higher the debt, the more interest we have to pay. For example, based on the current deficit, in 2020 the federal government will pay \$1 trillion (17% of all federal spending) just for interest payments; this is not acceptable
- Reduce federal spending from a projected 26% of GDP to 23% by 2020, with revenues at 21.4%.

Create a Simple, Pro-Growth Tax System: Cut tax rates; broaden the tax base; boost incentives to work, save, and invest; and ensure, by 2018, that nearly 90 million households no longer have to file tax returns.

- Cut individual income tax rates and establish just two rates – 15% and 27%, replacing the current six rates that go up to 35%.
- Cut the top corporate tax rate to 27% from current 35%.
- Eliminate most deductions and credits and simplify those that remain while making them better targeted and more effective.
- Replace the deductions for mortgage interest and charitable contributions, with 15% refundable credits that anyone who owns a home or gives to charity can claim.
- Restructure provisions that benefit low-income tax payers and families with children by making them simpler, more progressive and enabling most recipients to receive them without filing tax returns.
- Establish a new 6.5 % national Debt Reduction Sales Tax (DRST).

Restrain Rising Healthcare Costs:

- Incentivize employers and employees to select more cost-effective health plans.
 - ✓ **Cap the exclusion of employer-provided health benefits in 2018, and then phase it out over ten years.**
- Control Medicare costs in the short term:
 - ✓ **Gradually raise Medicare Part B premiums from 25 to 35 % of total program costs (over five years).**
 - ✓ Use Medicare buying power to increase rebates from pharmaceutical companies.
 - ✓ Modernize Medicare's benefits package, including the copayment structure.
 - ✓ Bundle Medicare's payments for post-acute care to reduce costs.
- Preserve Medicare for the long term:
 - ✓ **Transition Medicare, starting in 2018, to a "premium support" program that limits growth in per-beneficiary federal support. The new system maintains traditional Medicare as the default, but will charge higher premiums if costs rise faster than the established limits. Alternatively, beneficiaries can opt to purchase a private plan on a health insurance exchange.**
- Control Medicaid costs in the short term by applying Managed Care principles in all states to aged Supplementary Security Income (SSI) beneficiaries.
- Control Medicaid costs in the long term: Beginning in 2018, reduce annual per-beneficiary costs growth by 1%.
- **Reform Medical Malpractice Laws: Cap awards for noneconomic and punitive damages for medical malpractice.**
- Help reduce long-term healthcare spending to treat obesity-related illnesses, including diabetes, heart disease, cancer, and stroke, by imposing an Excise Tax on the manufacture and importation of beverages sweetened with sugar or high-fructose corn syrup.
- **"Doc Fix" - A permanent fix to the sustainable growth rate (SGR) mechanism that currently requires unrealistic automatic cuts in physician payments.**

Strengthen Social Security:

- **Gradually raise the amount of wages subject to payroll taxes over the next 38 years to cover 90% of all wages.**
- **Change the calculation of annual Cost-of-Living Adjustments (COLAs) for benefits to more accurately reflect inflation. This is a technical change that will be applied in all government programs that use COLAs, including the indexation of tax brackets. This would mean the adoption of a modified CPI that would probably result in lower COLAs.**
- Slightly reduce the growth in benefits compared to current law for approximately the top 25% of beneficiaries.

- Increase the minimum benefit for long-term, lower-wage earners, and protect the most vulnerable elderly with a modest benefit increase.
- Beginning in 2023, index the benefit formula for increases in life expectancy and require Social Security Administration to ensure early retirees understand that they are opting for a lower monthly benefit.
- **Cover newly-hired state and local government workers under the Social Security system, beginning in 2010.**

Freeze Domestic Discretionary Spending:

- Freeze domestic (i.e., non-defense) discretionary spending for four years and cap at GDP thereafter.
- Terminate ineffective program and set priorities across the broad range of government programs.
- Enforce the freeze through statutory spending caps, enforceable through automatic across-the-board cuts in all domestic discretionary programs.

Freeze Defense Spending:

- Freeze Defense discretionary spending for five years and cap at GDP thereafter.
 - ✓ **Streamline military end strength, prioritize defense investment, maintain intelligence capabilities, reform military health care (probably means an increase in Tricare fees and could also impact "Tricare for Life"), and apply savings from Secretary Gates' efficiency measures to deficit reduction.**
 - ✓ **Implement the freeze through statutory spending caps, enforceable through automatic across-the-board cuts in all defense programs.**

Cut Spending in Other Programs:

- **Federal Civilian Retirement - Calculate benefits based on annual salary from his/her highest five years of government service (currently high three).**
- **Military Retirement - Change the age a career military can retire to be consistent with federal civilian retirement. If an individual serves 10 years or more, he/she would be eligible for some retirement at age 60. Retirement pay for an individual that completes a traditional 20-year career would not start until age 57.**
- Eliminate all farm payments to producers with adjusted gross income greater than \$250,000.

- Raise fees for aviation security, actuarially adjust flood insurance subsidies for risk, adjust Pension Benefit Guaranty Corporation fees to better cover unfunded liabilities; and adopt a more accurate inflation measurement to calculate COLAs for all federal programs.

Enforce the Budget, Reform the Process:

- Enforce the four-year domestic discretionary freeze and the five-year defense discretionary freeze, and the limits in annual growth in the years thereafter, by imposing statutory caps on both categories of spending.
 - Prevent new tax cuts or new entitlement spending from worsening the fiscal situation by enacting a strict, statutory "pay-as-you-go" (PAYGO) requirement.
 - Convert the federal budget process from annual to biennial budgeting.
 - Enact explicit long-term budgets for the major entitlement programs.
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NOTE: Proposals that will affect most active and retired federal employees as well as other retirees are reflected in bold print.