



Living Within Our Means and Investing in the Future

The President's Plan for Economic
Growth and Deficit Reduction

September 2011

OFFICE OF MANAGEMENT AND BUDGET

BUDGET.GOV



Living Within Our Means and Investing in the Future

The President's Plan for Economic
Growth and Deficit Reduction

OFFICE OF MANAGEMENT AND BUDGET

BUDGET.GOV

THE MESSAGE OF THE PRESIDENT

TO THE CONGRESS OF THE UNITED STATES:

This continues to be a time of challenge for our country. We face an economic crisis that has left millions of our neighbors jobless, and a political crisis that has made things worse. Millions of Americans are looking for work. Across our country, families are doing their best just to scrape by—giving up nights out with the family to save on gas or make the mortgage, or postponing retirement to send a child to college.

These men and women grew up with faith in an America where hard work and responsibility paid off. They believed in a country where everyone gets a fair shake and does their fair share; they believed that if you worked hard and played by the rules, you would be rewarded with a decent salary and good benefits. If you did the right thing, you could make it in America.

For decades now, Americans have watched that compact erode. They have seen the decks too often stacked against them. And they know that Washington has not always put their interests first. Too often, our Nation's capital has been consumed by partisanship. Too often, the needs of special interests or politics have been put ahead of what is best for the country.

That is what must change. The American people work hard to meet their responsibilities. Now, as the Nation faces an economy that is not growing and creating jobs as it should, so must its leaders. While the continued recovery of our economy will be driven by the businesses and workers across our land, policymakers in Washington can take steps to help Americans right now and set the most favorable conditions we can for growth and job creation for years to come. We can live within our means and invest for the future.

That is why last week I presented to the Congress and the American people the American Jobs Act, to provide a jolt to the economy and give companies confidence that if they invest and hire, there will be customers for their products and services. This jobs bill will put more people back to work and more money in the pockets of those who are working. It will create more jobs for construction workers, more jobs for teachers, more jobs for veterans, and more jobs for the long-term unemployed. It will provide a tax break for companies that hire new workers, and it will cut payroll taxes in half for every working American and every small business. It will create jobs for people to rebuild our aging infrastructure and repair and modernize at least 35,000 schools. Moreover, the proposals in the American Jobs Act are the kind of proposals that have been supported by Democrats and Republicans in the past.

I am committed to paying for this jobs bill. The Budget Control Act that I signed into law last month will cut annual Government spending by about \$1 trillion over the next 10 years. It also charges the Joint Select Committee on Deficit Reduction with finding an additional \$1.5 trillion in savings. As part of this jobs bill, I am asking the Congress to increase that amount so that it covers the full cost of the American Jobs Act. In addition, I believe that the Congress should seize the opportunity that this new Committee presents and do much more so that we can put the country on a sustainable fiscal path, which is critical for our long-term economic growth and competitiveness.

For this reason, I am sending to the Congress this detailed plan to pay for this jobs bill and realize more than \$3 trillion in net deficit reduction over the next 10 years. Combined with the approximately \$1 trillion in savings from the first part of the Budget Control Act, this would generate more than \$4 trillion in deficit reduction over the next decade. This would bring the Nation to the point where current spending is no longer adding to our debt and where our debt is no longer increasing as a share of our economy—an important milestone on the way to restoring fiscal discipline and moving us toward balance.

This plan is a balanced one that asks everyone to do their part. It includes nearly \$580 billion in cuts and reforms to mandatory programs, of which \$320 billion is savings from Federal health programs such as Medicare and Medicaid. These changes are necessary to maintain the promise of Medicare as we know it.

The plan also realizes more than \$1 trillion in savings over the next 10 years from our drawdowns in Afghanistan and Iraq. And the plan calls for the Congress to undertake comprehensive tax reform that lowers tax rates, closes loopholes, boosts job creation here at home, cuts the deficit by \$1.5 trillion, and observes the Buffett Rule—that people making more than \$1 million a year should not pay a smaller share of their income in taxes than middle-class families pay. To assist the Committee in its work, I also included specific tax loophole closers and measures to broaden the tax base. Together with the expiration of the high-income tax cuts from 2001 and 2003, these measures would be more than enough to reach this \$1.5 trillion target.

They include cutting tax preferences for high-income households, eliminating tax breaks for oil and gas companies, closing the carried interest loophole for investment fund managers, and eliminating benefits for those who use corporate jets.

In sum, the plan I am sending to the Congress today is a blueprint for how we can reduce this deficit, pay down our debt, and pay for the American Jobs Act in the process. I have little doubt that some of these proposals will not be popular with those who benefit from these affected programs. And some of these changes are ones that we would not make if it were not for our fiscal situation. But we are all in this together, and all of us must contribute to getting our economy moving again and on a firm fiscal footing.

After all, we are all connected. No single individual built America on his or her own. We built it together. We have been, and always will be, “one Nation, under God, indivisible, with liberty and justice for all.” We have always been a people with responsibilities to ourselves and with responsibilities to one another. This means that as Americans work hard to find a job, keep their businesses afloat and grow, and provide for their kids, their representatives in Washington must meet their responsibilities and make the tough choices needed to get our economy back on track.

This plan lives up to a simple idea: as a Nation, we can live within our means while still making the investments we need to prosper. It follows a balanced approach: asking everyone to do their part, so no one has to bear all the burden. And it says that everyone—including millionaires and billionaires—has to pay their fair share.

These may be tough times for our country, but I have a deep faith in the American spirit, and we are tougher than the times we live in and bigger than the politics we have recently seen. If we all put partisanship aside and roll up our sleeves, I have no doubt that we can meet the challenges of the moment and show the world once again why the United States of America remains the greatest country on Earth.

BARACK OBAMA

THE WHITE HOUSE,
SEPTEMBER 19, 2011.

TABLE OF CONTENTS

	<i>Page</i>
The Message of the President	i
List of Tables	v
List of Charts	v
Introduction	1
The American Jobs Act	7
Mandatory Savings	17
Health Savings	35
Tax Reform	45
Summary Tables	53

GENERAL NOTES

1. Unless otherwise noted, years referenced for budget data are fiscal years, and years referenced for economic data are calendar years.
2. All totals in the text and tables include both on-budget and off-budget spending and receipts unless otherwise noted.
3. Details in the tables and text may not add to totals due to rounding.
4. The savings estimates for health and mandatory savings included in this volume reflect OMB's best understanding of the economic and technical assumptions that the Congressional Budget Office (CBO) uses in preparing its estimates as well as CBO's approach to scoring various types of legislative proposals. CBO's estimates of these proposals will inevitably differ from the scores in this volume. The Administration hopes that CBO will be asked to score the full proposal.
5. Web address: <http://www.budget.gov>

LIST OF TABLES

	<i>Page</i>
Table S-1. Bridge between OMB Mid-Session Review Baseline and Deficit Assuming Enactment of Recommendations to the Joint Select Committee	55
Table S-2. Bridge between OMB Mid-Session Review BEA Baseline Deficit and Adjusted Mid-Session Review Baseline Deficit	56
Table S-3. Bridge between CBO August Baseline Deficit and Deficit Assuming Enactment of Recommendations to the Joint Select Committee	57
Table S-4. Bridge between CBO August Baseline Deficit and Adjusted CBO August Baseline Deficit	58
Table S-5. Joint Committee Recommendations	59
Table S-6. Deficit Reduction since January 2011	65

LIST OF CHARTS

	<i>Page</i>
Chart 1. Annual Deficits as a Percent of GDP	66
Chart 2. Debt Held by the Public as a Percent of GDP	67

INTRODUCTION

At the beginning of this year, our economy was finally gaining some traction after enduring a historic recession and coming back from the brink of a depression. During the previous six quarters, real gross domestic product (GDP) had grown at an average rate of 3 percent and, over the previous 12 months, the private sector had created 1.3 million new jobs. The financial system was no longer in crisis. The credit and capital markets were functioning, and the cost of stabilizing the financial and automobile sectors was amounting to a fraction of initial estimates. Yet we also learned that the recession was deeper than many experts first thought: revised estimates showed that the economy contracted at a 7.8 percent annualized rate in the last quarter of 2008 and first quarter of 2009, the steepest six-month period of contraction on record. Then, this past spring, a trio of world events created strong headwinds to continued strong growth: uprisings in the Middle East sent oil prices skyrocketing; an earthquake in Japan prevented American auto companies from getting the parts they needed to keep our factories churning; and a widespread debt crisis in Europe roiled markets across the globe.

Taken together, this has meant that economic growth and job creation, while remaining positive, have not been strong enough to significantly bring down a persistently high unemployment rate.

At the same time, our country must address years of fiscal irresponsibility. When the President took office, he faced an annual deficit of \$1.3 trillion and projected deficits of trillions more in the years thereafter. Driving these deficits were decisions made over the previous eight years not to pay for two tax cuts and a Medicare prescription drug benefit. The sharp decline in receipts along with the steep increase in automatic outlays to help those in need and the efforts needed to jumpstart economic growth also added to these deficits.

Even as the President has focused on getting the economy going again, he also has worked

to get the Nation's fiscal house in order. The President insisted on new transparency and accountability in budgeting, for instance, bringing the costs of overseas contingency operations (OCO) onto the budget. The President signed into law statutory pay-as-you-go legislation, a key ingredient in previous years of fiscal responsibility and budget surpluses. In March 2010, the President signed into law the Affordable Care Act, which will cut the deficit by more than \$200 billion in its first 10 years and more than \$1 trillion in its second, as well as addressing the central driver of our long-term debt: rising health care costs. And, this summer, he signed into law the Budget Control Act of 2011 (BCA), which represents a major down payment on deficit reduction by capping discretionary spending and reducing it to its lowest level as a share of the economy since the middle of the last century. Now that the economy is no longer in freefall, it is time to redouble this effort to put the Nation on the path toward fiscal sustainability.

The President's recommendations to the Joint Select Committee on Deficit Reduction build on what we have accomplished so far and address the twin challenges that the country now faces. In the short term, we must reinvigorate the economic recovery with measures to boost economic growth, and most critically, to spur job creation by passing the American Jobs Act—and we must pay for these measures over time. In the medium and long term, we must reduce the deficit and stabilize the debt as a share of the economy in order to put the country on firm fiscal footing. Taken together, the plan would produce net savings of more than \$3 trillion over the next decade, on top of the roughly \$1 trillion in spending cuts from the BCA—for a total savings of more than \$4 trillion over the next decade. This would bring the country to a place, by the middle of this decade, where current spending is no longer adding to our debt, debt is falling as a share of the economy, and deficits are at a sustainable—if not preferable—level.

To win the future and thrive in a competitive, global economy, the United States must focus on both job creation and deficit reduction. We must get our economy growing and people working, and at the same time, live within our means so that we can invest in the things that will power economic growth for decades to come: education, innovation, clean energy, and infrastructure. To do this, we must pursue a balanced approach that looks at all parts of the budget and that does not put too much of a burden on any one part of society.

Pursuing a balanced approach is what the President did in his 2012 Budget released in February, in the Framework for Shared Prosperity and Shared Fiscal Responsibility released in April that built on the Budget to identify \$4 trillion in deficit reduction, and in a similarly sized plan presented to congressional Republicans during negotiations this summer. Unfortunately, partisan divides precluded coming to agreement on a balanced package that included revenue increases.

Instead, the President signed into law the BCA, which put in place a down payment toward deficit reduction and a structure to accomplish even more. With approximately \$1 trillion in deficit reduction achieved over the next decade through the use of discretionary spending caps, it took a substantial step toward bringing down our deficit. Yet, with discretionary spending projected to reach historically low levels, we need to look at other parts of the budget for savings so that we pursue deficit reduction in a balanced way. This is not only critical to future economic growth, but if the Committee fails to achieve at least \$1.2 trillion in deficit reduction, then a sequester would be triggered that could have devastating consequences for both defense and non-defense programs.

The Administration believes that the Congress can and should enact sound policies and not rely on an automatic sequester to reduce our deficits. Accordingly, the Administration believes that the Committee should use its unique standing to put forward an ambitious, comprehensive, and balanced

deficit reduction plan that would place the country on firm fiscal footing by the middle of this decade and jumpstart economic growth and job creation.

THE AMERICAN JOBS ACT

To create jobs, the President on September 8th unveiled the American Jobs Act—a plan made up nearly entirely of the kind of proposals that have been supported by both Democrats and Republicans, and that the Congress should pass right away to get the economy moving now. The purpose of the American Jobs Act is simple: put more people back to work, put more money in the pockets of working Americans, and do so without adding a dime to the deficit.

First, the American Jobs Act will provide tax cuts to help America's small businesses hire and grow. The American Jobs Act would cut payroll taxes in half to 3.1 percent up to their first \$5 million in wages, providing broad tax relief to all businesses but targeting it to the 98 percent of firms with wages below this level, and it would completely eliminate payroll taxes next year for any business that increases its payroll by hiring new workers or increasing wages for existing workers. The Act would also extend 100 percent expensing through 2012, allowing all firms—small and large—to take an immediate tax deduction on investments in new plants and equipment.

Second, this jobs bill will put workers back on the job while rebuilding and modernizing America. Specifically, the President is proposing tax credits to hire veterans, including those with a service-connected disability, who have been unemployed for more than six months. He supports investing \$35 billion to prevent up to 280,000 teacher layoffs and to keep police officers and firefighters on the job. And to upgrade the Nation's infrastructure, the President is proposing a \$30 billion investment in modernizing public schools and community colleges; an immediate \$50 billion investment in America's roads, rails, and airports; a \$10 billion investment to establish a National Infrastructure Bank; and an expansion of

high-speed wireless networks to 98 percent of Americans. In addition, the President is calling for a \$15 billion investment in a national effort to put construction workers on the job rehabilitating and refurbishing hundreds of thousands of vacant and foreclosed homes and businesses.

Third, the American Jobs Act puts forward pathways back to work for Americans looking for jobs. It accomplishes this by undertaking the most significant reforms to the Nation's unemployment system in 40 years to help those without jobs transition to the workplace. Also, the Act will extend unemployment insurance, preventing 6 million people looking for work from losing their benefits and offers employers a tax credit of up to \$4,000 for hiring workers who have been looking for a job for over six months. And the President's plan will provide hundreds of thousands of low-income youth and adults with opportunities to work and to achieve needed training in growth industries through a new Pathways Back to Work fund.

Fourth, the American Jobs Act will put more money in pockets of every American worker and family. The Act will expand the payroll tax cut passed last December by cutting workers payroll taxes in half next year. This provision will provide a tax cut of \$1,500 to the typical family earning \$50,000 a year.

Taken together, these measures will provide a needed boost to our economy and do so in a way that maximizes the impact of every dollar invested and puts a premium on creating or retaining jobs. Moreover, the American Jobs Act will not add a dime to the deficit. It includes specific offsets that will, in combination, more than fully pay for its cost. These offsets are part of the larger deficit reduction plan detailed in this volume, but have been specifically made part of the American Jobs Act to ensure that it is paid for. This is accomplished by a provision in the American Jobs Act that increases the \$1.5 trillion Joint Committee deficit reduction target by \$450 billion to cover the full cost of the jobs creation provisions. The bill then

specifies that if the Joint Committee meets the increased deficit reduction target, the specific offsets in the American Jobs Act will be turned off. Thus, whatever the outcome of the Joint Committee's efforts, the deficit will not increase if the American Jobs Act is signed into law.

DEFICIT REDUCTION

The President is asking the Joint Committee to take into account the costs of the jobs bill and make sure that it proposes enough deficit reduction to cover these costs, the \$1.5 trillion it is charged to identify in the BCA, and additional deficit reduction that will put the country on a fiscally sustainable path. In total the plan, together with the spending cuts already enacted in the Budget Control Act, would cut the deficit by more than \$4 trillion over the next decade, with nearly \$2 of spending cuts for every \$1 raised through tax reform. As a result of this plan, the deficit would fall from 8.8 percent of GDP this year to 2.3 percent of GDP, while the Budget would be in what economists call "primary balance" by the middle of the decade. The debt under this plan would be on a declining path as a share of the economy over the next decade, falling from a high of 77 percent of GDP in 2013 to 73 percent of GDP in 2021.

To reach these amounts, the President is putting forward a balanced approach that both asks for shared sacrifice from all Americans and draws from across the budget. This should include additional spending cuts in mandatory programs, modest adjustments in important entitlement programs such as Medicare and Medicaid, capping spending on Overseas Contingency Operations (OCO), and reforming our tax code so that we ask our biggest corporations and wealthiest Americans to pay their fair share.

Specifically, the President is proposing \$257 billion in cuts and reforms to a wide range of mandatory programs from Federal retirement to agricultural subsidies, reform of the Pension Benefit Guaranty Corporation, new program integrity initiatives, and getting rid

of unneeded Federal real property to reduce the deficit.

In health care programs, the President is recommending a series of reforms that build on the historic savings in the Affordable Care Act. Overall, these proposals will save \$248 billion in Medicare over 10 years and \$73 billion in Medicaid and other health programs—and more than a trillion dollars in deficit reduction in the second decade. They accomplish this in a way that does not shift significant risks onto the individuals these programs serve, slash benefits, or undermine the fundamental compact they represent to our Nation's seniors, people with disabilities, and low-income families. Even though these reforms can and will save money, they also will strengthen these vital programs and ensure that they are robust and healthy to serve Americans for years to come.

In OCO, the Administration believes that the Joint Committee should reflect the Administration's current policy of drawing down our troop presence in Afghanistan and the transition from a military to a civilian-led mission in Iraq. Accordingly, the funding level matched to this plan caps OCO over the 10-year budget window for a savings of more than \$1 trillion.

Finally, the President is calling on the Congress to undertake comprehensive tax reform that meets five key principles: 1) lowers tax rates, 2) ends inefficient tax breaks, 3) cuts the deficit by \$1.5 trillion, 4) increases job creation and growth in the United States, and 5) observes the Buffett Rule that people making over \$1 million should not pay lower taxes than those in the middle class.

To advance tax reform, the President is offering a detailed set of specific tax loophole closers and measures to broaden the tax base that, together with the expiration of the high-income tax cuts, would be more than sufficient to hit the \$1.5 trillion target for tax savings. These measures include cutting tax preferences for high-income households, eliminating tax breaks for oil and gas companies, closing the

carried interest loophole for investment fund managers, and eliminating benefits for those who use corporate jets.

Tax reform should draw on these specific proposals, together with elimination of additional inefficient tax breaks. The President's preference would be to incorporate these specific tax measures into comprehensive tax reform that lowers rates and reduces complexity. However, they could also be passed on a standalone basis to help reduce the deficit in a balanced way. Either approach would significantly improve the country's fiscal standing, represent an important step toward more fundamentally transforming our tax code, and serve as a strong foundation for economic growth and job creation.

If the Joint Committee is unable to undertake comprehensive tax reform, the President believes the discrete measures he has proposed should be enacted on a standalone basis.

All together, the President's plan would, as of 2014, cut the debt as a share of the economy and put the country on a sustainable fiscal course. However, the President believes that we must lock in that path and make sure future policymakers do not roll back what we accomplish now as well as encourage further action if actual results turn out worse than expected. That is why he is including in his plan a debt cap which will ensure that our Nation's debt is on a declining path as a share of our economy.

If by 2014, budget projections do not show that the debt-to-GDP ratio has stabilized and is declining in the second half of the decade, the debt cap will trigger an across-the-board spending reduction, including spending through the tax code. The trigger will ensure that deficits as a share of the economy average no more than 2.8 percent of GDP in the second half of the decade. Consistent with prior fiscal enforcement mechanisms put in place by Presidents Ronald Reagan, George H.W. Bush, and Bill Clinton and agreed to by Republicans and Democrats under the BCA, the trigger

would not apply to Social Security, low-income programs, or benefits for Medicare enrollees. The cap would not apply during an economic downturn or interfere with our Nation's ability to respond to a national security emergency. Rather, it is in place as insurance against future political inaction or an unfortunate turn of events.

CONCLUSION

There are those who will oppose some of these proposals, whether it is savings in Medicare and Medicaid or revenue increases of any kind. There are powerful and vocal interests who will vigorously object to any changes to their programs. The President believes that we need to put aside politics as usual. We cannot afford the finger-pointing and kicking the can down the road. If we are all willing to sacrifice a little to put our fiscal house in order, then no one will have to sacrifice a lot. While there will be some worthy programs that will be cut and some revenue that will be raised from the wealthiest two percent of Americans, if we do

not act now, it will be more difficult to take action in the years to come. Moreover, if we do not act now, we will fail to get our economy out of its rut and millions of Americans back to work and put our Nation on firm fiscal footing.

For all that we have been through, the United States of America still has the capacity to meet big challenges. We have not lost the ability to shape our own destiny. We remain the wealthiest nation on Earth. We have the best workers and universities as well as the most daring innovators and entrepreneurs. Our problems today lie not with the character of our country, but with the state of our politics. Gridlock and partisanship are nothing new in Washington, but the American people have never been more fed up with this city than they are today. At this moment, we need to come together as Americans and do the work of the American people. That is the promise of the Joint Committee and the opportunity before it. The Administration hopes these recommendations assist the Joint Committee in its vital work.

THE AMERICAN JOBS ACT

While our economy is no longer at the brink of the second Great Depression, there are still millions of Americans who have not yet felt the effects of the recovery. Too many have spent months looking for a job to no avail. Others are doing their best just to scrape by—giving up a night out with the family to save on gas, spending less at the grocery store, or postponing their retirement to send a child to college—and know that they have no room for error. These men and women believe in the promise of America: that if you work hard and play by the rules, you will be able to provide for your family and give your children a brighter future. For too long, that promise has come up empty for too many Americans. They are meeting their responsibility, and now those in Washington must meet theirs by ending the political games, doing what they can to help the economy grow, providing the tools and assistance our businesses and workers need to succeed, and restoring some of the fairness and security that has made America the engine and envy of the world.

Policy pursued in Washington cannot solve our problems, but there are specific steps we can take immediately that will make a real difference in the economy and in people's lives. That is why the President sent to the Congress the American Jobs Act. The American Jobs Act will put more people back to work, put more money in the pockets of those who are working, and do so without adding a dime to the deficit. It will create more jobs for construction workers, more jobs for teachers, more jobs for veterans, and more jobs for the long-term unemployed. It will provide a tax break to companies that hire new workers, a tax break for small business owners, and a middle-class tax cut for 150 million workers.

Moreover, this jobs bill will help the country not just recover from this economic crisis, but also rebuild the economy the American way: based on balance, fairness, and the same set

of rules for everyone from Wall Street to Main Street. It will create the jobs of the future by helping small business entrepreneurs, by investing in education, and by making things the world buys.

The planks of the American Jobs Act are the kind of proposals that have been supported by both Democrats and Republicans, and it will be fully paid for with specific offsets.

TAX CUTS TO HELP AMERICA'S SMALL BUSINESSES HIRE AND GROW

Growing the economy and spurring job creation by America's businesses, especially the small businesses which are so important to our economic health, is the President's top priority. That is why, over the course of the last year, he pushed for additional measures to jump-start our economic recovery and help small businesses: tax credits for businesses that hire unemployed workers, and tax cuts and expanded access to credit for small businesses. In December, the President signed into law a bipartisan measure that provided tax cuts that also gave businesses two powerful incentives to invest and create jobs: 100-percent expensing on the purchase of equipment, and an extension of the research and experimentation tax credit.

With the President's jobs and growth plan, he builds on those steps that have been so critical to America's families and business owners by providing new tax cuts for millions of small businesses to provide incentives for investments and hiring. These tax cuts would be available to all businesses, regardless of size, but are designed to target their impact toward the smallest businesses.

Provide a payroll tax cut to businesses, with a focus on small employers. The President's plan will extend the payroll tax cut to firms by cutting in half their payroll tax on the first \$5 million in payroll. Next year, instead of paying 6.2 percent on their payroll

expenses, firms would pay only 3.1 percent. The President's plan would provide tax cuts for all of America's six million firms, with focused relief for the Nation's five million small firms with fewer than 20 employees. The Congressional Budget Office (CBO) estimates that every dollar in payroll tax cuts for employers increases economic output by \$0.40 to \$1.20 over the next five years. Under the President's plan, a typical company with 12 employees and an annual payroll of \$392,000 would get a tax cut of \$12,200 next year. Because of the additional employee-side payroll tax cut, its workers would get tax cuts that averaged \$1,000. There has been bipartisan support for a payroll tax cut for employers as a means to spur job growth.

Establish a complete payroll tax holiday for new jobs or wage increases.

In addition to the 3.1 percent payroll tax cut for all firms, the President's plan provides a direct incentive to encourage firms to hire additional employees or raise wages for their current employees. The American Jobs Act would completely refund payroll taxes paid on added workers or wage increases for current workers above the level of last year's payroll. To focus the benefit of this tax cut on small businesses, payroll tax relief would be capped at \$50 million in new wages. For example, under the President's plan, a warehouse with a payroll last year of \$7 million that hires 40 new workers this year and adds \$2 million in payroll would get a full refund on the 6.2-percent payroll taxes paid on the added \$2 million in payroll—for a tax cut of \$124,000. (That tax cut would come on top of the maximum 3.1-percent payroll tax reduction of \$155,000 on its base payroll.) This tax holiday would be augmented by targeted tax cuts for hiring the long-term unemployed as well as veterans who have been out of work six months or more. CBO has identified this type of job creation tax cut as one of the most effective ways to help accelerate job growth.

Extend 100 percent business expensing through 2012. The President is proposing an extension of the 100-percent expensing

provision that he signed into law in 2010, which rewards firms for making investments by allowing them to deduct the full value of those investments from their tax obligations through 2012. Extending 100-percent expensing for an additional year would put an additional \$85 billion in the hands of businesses in 2012. Most of this relief would be recouped by the Treasury as businesses regain their strength. An analysis of the 100-percent expensing provision in the December tax deal by the Treasury Department found that this policy would lower the average cost of capital for business investment by 75 percent and in 2011, businesses have cited the benefits of such policies.

Help entrepreneurs and small businesses access capital and grow.

The President also supports administrative, regulatory and legislative measures—including those developed and recommended by the President's Jobs Council—to help small firms start and expand. This includes changing the way the Government does business with small firms. The Administration recently announced a plan to accelerate Government payments to small business contractors to help put money in their hands faster. The President has also charged his Chief Information Officer and Chief Technology Officer to stand up a one-stop, online portal for small businesses to easily access Government services. As part of the President's Startup America initiative, the Administration will work with the Securities and Exchange Commission to conduct a comprehensive review of securities regulations from the perspective of these small companies to reduce the regulatory burdens on small business capital formation in ways that are consistent with investor protection, including expanding "crowdfunding" opportunities and increasing mini-offerings. In addition, the President's plan calls for the Congress to increase guarantees for bonds to help small businesses compete for infrastructure projects and remove burdensome withholding requirements that keep capital out of the hands of job creators.

**PUTTING WORKERS BACK ON THE JOB WHILE
REBUILDING AND MODERNIZING AMERICA**

The President's plan will put Americans back to work in key areas that are central to America's future competitiveness. It will repair and modernize classrooms across the country and make sure that teachers who have been laid off because of budget cuts can be brought back to work. It will take on the fact that the American Society of Civil Engineers awarded the United States a 'D' for the overall condition of its infrastructure. Both to modernize the Nation's roads, railways, airports, and schools and to put hundreds of thousands of workers back on the job, the President is proposing a strategy that combines immediate investments in infrastructure with innovative reforms to ensure that the best projects get financing. These investments in infrastructure would not only put people to work now, but also yield lasting benefits for the economy, increasing growth in the long run. In fact, we know that investments in infrastructure have a substantial multiplier effect—creating economic growth and jobs now and laying the foundation for the future as well. The Administration is proposing to:

Offer tax credits and career readiness efforts to boost veterans' hiring. The President believes we have an obligation to make sure our veterans are able to navigate this difficult labor market and succeed in the civilian workforce, and that is why he is proposing a plan to lower veteran unemployment and ensure that servicemembers leave the military career-ready with a new Returning Heroes Tax Credit of up to \$4,800 for unemployed veterans, and a Wounded Warriors Tax Credit of up to \$9,600 that will increase the existing tax credit for firms that hire unemployed veterans with service-connected disabilities. The President also plans to form a Department of Defense-led task force to maximize the career-readiness of all servicemembers, and enhancing job search services through the Department of Labor for recently-transitioning veterans.

Prevent teacher layoffs and keep police officers and firefighters on the job. As many as 280,000 education jobs are on the chopping block in the upcoming school year due to continued State budget constraints. These cuts could have a significant impact on children's education, through the reduction of school days, increased class size, and the elimination of key classes and services. The President's plan will support State and local efforts to retain, rehire, and hire early childhood, elementary, and secondary educators (including teachers, guidance counselors, classroom assistants, afterschool personnel, tutors, and literacy and math coaches). The President's plan will invest \$30 billion to ensure that schools are able to keep teachers in the classroom, preserve or extend the regular school day and school year, and also support important after-school activities. The President's plan also includes \$5 billion to support the hiring and retention of public safety and first responder personnel. By supporting such jobs, the plan aims to keep communities safe from crime and able to maintain critical emergency response capabilities.

Modernize at least 35,000 schools. The President's plan calls for substantial investments in our school infrastructure, modernizing and upgrading America's public schools to meet 21st Century needs. The cost of maintaining more than 100,000 public schools is substantial for already overstretched districts. The accumulated backlog of deferred maintenance and repair amounts to at least \$270 billion. Schools spend over \$6 billion annually on their energy bills, more than they spend on computers and textbooks combined. For children in the Nation's poorest districts, these deferred projects too often mean overcrowded schools with crumbling ceilings and a lack of the basic wiring infrastructure needed for computers, projectors, and other technology. The President's plan will invest \$30 billion in enhancing the condition of our Nation's public schools—with \$25 billion going to K-12 schools, including a priority for rural schools and dedicated funding for Bureau of Indian Education funded schools, and \$5 billion to community colleges (including

tribal colleges). The range of critical repairs and needed construction projects would put hundreds of thousands of Americans—construction workers, engineers, maintenance staff, boiler repairmen, and electrical workers—back to work.

Make an immediate investment in our roads, rails, and airports. In order to jumpstart critical infrastructure projects and create hundreds of thousands of jobs, the President’s plan includes \$50 billion in immediate investments for highway, highway safety, transit, passenger rail, and aviation activities—with one fifth of the funding advancing a transformation of how we finance transportation infrastructure and what we finance.

- **Investments in making our Nation’s highway systems safer and more efficient.** The President’s plan includes investments totaling \$27 billion to make our Nation’s highway systems more efficient and safer for passenger and commercial transportation.
 - **Repairing transit systems and improving our rail systems.** The plan includes \$9 billion of investments to repair our Nation’s transit systems, many of which are desperately in need of modernization. It also includes \$2 billion in funding to improve intercity passenger rail service. These funds will connect communities, reduce travel times and congestion, and create skilled manufacturing jobs.
 - **Improving our airports.** The plan also includes airport improvement grants of \$2 billion to improve safety, add capacity, and modernize airport infrastructure across the country.
 - **Opportunities for all in the transportation sector.** The President’s plan will invest an additional \$50 million in 2012 to enhance employment and job training opportunities that will benefit minorities, women, and socially and economically disadvantaged individuals in transportation-related activities, including construction, contract administration, inspection, and security. His plan will also invest an additional \$10 million in 2012 to help minority-owned and disadvantaged business enterprises gain better access to transportation contracts. And it will ensure that infrastructure investments allow for the hiring of local workers, to maximize economic benefits for communities where projects are located.
- **Funding for innovative transportation.** The plan includes \$10 billion for innovative mechanisms to finance and invest in infrastructure. This includes \$4 billion to develop high-speed rail corridors; \$1 billion to support NextGen Air Traffic Modernization efforts, which will employ technology to make the National Airspace System safer and more efficient; and \$5 billion for the TIGER and TIFIA programs, which target competitive dollars to innovative, multi-modal transportation programs.
 - **Expediting high-impact infrastructure projects.** The President recently issued a Presidential Memorandum in coordination with his Jobs Council directing departments and agencies to identify high impact, job-creating infrastructure projects that can be expedited through outstanding review and permitting processes within the control and jurisdiction of the Federal Government. The President also directed the creation of a Projects Dashboard to ensure the details of each project identified will be available for stakeholders to follow through the expedited review process and provide public input. This initiative will create infrastructure related jobs and use the lessons learned to develop best practices that can be applied more broadly to permitting and review processes going forward.

Establish a National Infrastructure Bank. To direct Federal resources for infrastructure to projects that demonstrate the most merit and may be difficult to fund under the current patchwork of Federal programs, the President is also calling for the creation of a National Infrastructure Bank (NIB), based on the bipartisan model proposed in the Senate. The NIB would represent a bold reform of our Nation's infrastructure financing, independent of the political process. It would fund the most important and economically viable infrastructure projects to the Nation across the transportation, energy, and water sectors. The NIB would also rely on the private sector, never extending loans or loan guarantees that finance more than 50 percent of a project's costs, and in many cases providing much less, just enough to induce private investment. The NIB's key provisions would include:

- **Independent, non-partisan operations led by transportation and financial experts.** While the NIB would be a Government-owned entity, it would not be controlled by any Federal agency and instead would operate independently. No more than four voting members of its seven-member board could be from the same political party. Board members would have to possess significant expertise either in the management of a relevant financial institution or in the financing, development, or operation of infrastructure projects.
- **Broad eligibility for infrastructure and unbiased project selection.** Eligible projects would include transportation, water, and energy infrastructure. In general, projects would have to be at least \$100 million in size and be of national or regional significance. Projects would have a clear public benefit, meet rigorous economic, technical and environmental standards, and be backed by a dedicated revenue stream. Geographic, sector, and size considerations would also be taken into account.
- **Addressing market gaps for infrastructure financing.** The NIB would issue loan and loan guarantees to eligible projects. Loans issued by NIB would use approximately the same interest rate as similar-length U.S. Treasury securities and could be extended up to 35 years, giving the NIB the ability to be a "patient" partner side-by-side with State, local, and private co-investors. To maximize leverage from Federal investments, the NIB would finance no more than 50 percent of the total costs of any project.

Put people back to work rehabilitating homes, businesses, and communities.

The recession has left communities across the country with large numbers of foreclosed homes and businesses, which is weighing down property values, increasing blight and crime, and standing in the way of economic recovery. In these same communities, there are also large numbers of people looking for work, especially in the construction industry, where more than 1.9 million jobs have been lost since the beginning of the recession in December 2007. The President is proposing Project Rebuild to help address both of these problems by connecting Americans looking for work in distressed communities with the work needed to repair and repurpose residential and commercial properties. Building on successful models piloted through the Neighborhood Stabilization Program, Project Rebuild will invest \$15 billion in proven strategies that leverage private capital and expertise to rehabilitate hundreds of thousands of properties in communities across the country. Key components include:

- **Focus on distressed commercial properties and redevelopment to stabilize communities.** Many regions with concentrated home foreclosures also have concentrations of vacant commercial structures that weigh on property values and make it less likely that new businesses will come into the community and invest new capital. Project Rebuild will tackle this problem

directly by allowing grantees to rebuild and repurpose distressed commercial real estate.

- **Participation of for-profit entities to gain expertise, leverage Federal dollars and speed program implementation.** Many successful redevelopment strategies involve unique collaborations between local governments, non-profit organizations, and developers and other private actors. Project Rebuild will seek to empower and expand these types of collaborations by allowing Federal funding to support for-profit development when consistent with project aims and subject to strict oversight requirements to ensure that the funds are being used as intended.
- **Increase support for “land banking.”** Land banks work with communities to buy, hold, and redevelop distressed properties as part of a long-term redevelopment strategy and have shown impressive results in stemming property price declines and stabilizing communities across the country. Project Rebuild will seek to scale successful land bank models, providing much needed infusions of capital that they can leverage to raise private sector investment. This will increase the breadth and depth of their reach in helping communities better handle their distressed properties.
- **Create jobs to maintain properties and avoid community blight.** In addition to creating jobs in the construction and redevelopment industry, Project Rebuild will enable grantees to use funds to establish property maintenance programs to create jobs and mitigate “visible scars” left by vacant or abandoned properties.

Expand nationwide wireless Internet services for the public and the first responders and reduce the deficit. The President’s plan follows the model in bipartisan legislation from Senators Jay

Rockefeller and Kay Bailey Hutchison and includes an investment to develop and deploy a nationwide, interoperable wireless network for public safety. The plan includes reallocating the D Block for public safety (costing \$3 billion) and an additional \$7 billion to support the deployment of this network and technological development to tailor the network to meet public safety requirements. This is part of a broader deficit-reducing wireless initiative that would free up public and private spectrum to enable the private sector to deploy high-speed wireless services to at least 98 percent of Americans, even those living in remote rural and farming communities. In addition, freeing up spectrum from the private sector through voluntary incentive auctions that were included in both the Rockefeller-Hutchison bill and the House-passed budget resolution would raise money to pay for these investments in public safety and also reduce the deficit.

PATHWAYS BACK TO WORK FOR AMERICANS LOOKING FOR JOBS

The President is proposing the most innovative reforms to the unemployment insurance (UI) system in more than 40 years, including changes that will prevent layoffs and give States more flexibility to use Federal UI funds to get Americans who have lost their jobs back to work. The President’s plan is targeted to address unemployment in an aggressive, multi-pronged way, drawing from ideas about what is working from around the country and from both parties. First, the President’s plan marks the most comprehensive attempt in decades to reshape the unemployment insurance system to grapple with long-term unemployment and scarce job openings. Second, the President’s plan will provide direct support to put hundreds of thousands of Americans back to work with tax credits for hiring people who have been unemployed the longest, and prevent six million Americans looking for work from losing their benefits. The Administration is proposing to:

Reform the UI system to provide greater flexibility while preserving benefits for six million people. Drawing on the best ideas of

both parties and the most innovative States, the President's plan will equip the UI system to better address our current long-term unemployment challenge. In these times, the Federal emergency unemployment system must offer not just a weekly check, but also an aggressive strategy to connect the unemployed to work—through reforms ranging from rigorous assessment and job-search assistance to flexible work-based uses of Federal funds to smart strategies to prevent layoffs in the first place:

- **Rigorous reemployment assistance.** Research has shown that providing more job search assistance can speed individuals' return to work. Robust reemployment services combined with eligibility assessments provide an opportunity to review the claimant's work-search activities—a step that not only reduces improper payments, but that also provides an opportunity for UI recipients to receive face-to-face job search counseling. By requiring these services for all new claimants for Emergency Unemployment Compensation (EUC, the Federal UI program for the long-term unemployed), the President's plan will ensure that the long-term unemployed receive maximum assistance and services to speed their return to work.

States will be required to conduct Reemployment and Eligibility Assessments, to review most EUC claimants' eligibility for benefits, and provide them with reemployment and career information to develop a work-search plan. New EUC claimants will be required to check-in with their local One-Stop Career Centers. This will serve three purposes: to provide the claimant with labor market and career information and support the claimant's development of a reemployment and work-search plan; to refer the claimant to reemployment services delivered through the One-Stop Career Center; and to review the claimant's eligibility for EUC benefits.

- **Work Sharing: UI reform to prevent layoffs.** Preventing layoffs in the first place is a win-win for workers and businesses. The President's plan—consistent with proposals championed by leaders like Senator Jack Reed—calls for work sharing that would let workers receive pro-rated UI benefits as compensation for a reduction in hours at businesses that would otherwise lay workers off.
- **State flexibility for bold reforms to put the long-term unemployed back to work.** The President is proposing to provide additional funds to allow States to introduce new programs aimed at long-term unemployed workers, including:

Bridge to Work. A number of States have innovative programs that give workers the opportunity to take temporary, voluntary work to keep up their skills and train at the workplace for a new job, while continuing to receive unemployment insurance. The President's plan builds on what works in programs like Georgia Works and Opportunity North Carolina, while instituting important fixes and reforms that ensure minimum wage and fair labor protections are being enforced. This plan would authorize States to implement "Bridge to Work" programs to help connect the long-term unemployed to employers—through temporary work that allows employers to bring on potential new employees and helps the unemployed maintain or learn new skills.

Wage insurance to support paths to re-hiring through a different career. Wage insurance compensates workers who take a new job for lower pay rather than claiming unemployment benefits. The President's plan would give States flexibility to set up wage insurance programs for older workers who take a loss of pay to return to work.

Starting a new business. A number of States—including Delaware, Maine, Maryland, New Jersey, Oregon, and Pennsylvania—have self-employment assistance programs that encourage and enable unemployed workers to create their own jobs by starting their own small businesses. The President’s plan would allow States across the Nation to support programs like these with Federal UI funds, rewarding dislocated workers willing to strike out on their own and removing barriers that discourage participation in existing programs.

- **Continue unemployment benefits next year.** To support unemployed people as they work their way back to a job, we need to make sure that benefits do not run out next year. EUC will prevent six million Americans from losing benefits in 2012.

Provide tax credits for businesses that hire the long-term unemployed.

The President’s plan includes a special bonus credit of \$4,000 for firms that hire the long-term unemployed. On top of cutting payroll taxes in half for all American businesses, and a full payroll tax holiday for hiring or raising wages, this credit will add \$8 billion to the “bang-for-the-buck” of dollars employers spend to hire unemployed workers. With 6.2 million people unemployed for at least six months, providing a targeted incentive to hire these out-of-work individuals ensures that we do not waste the skills and ambitions of those bearing the brunt of the painful recovery from recession. As economists across the political spectrum have noted—including Federal Reserve Chairman Ben Bernanke in recent weeks—long-term unemployment poses a risk to long-term growth by eroding skills and reducing attachment to the labor force.

Invest in low-income youth and adults.

The President is proposing an aggressive strategy to expand employment opportunities for communities that have been particularly hard hit by the recession, and that may take longer to get back on their feet due to greater income

losses and smaller savings than higher-income workers. In August 2011, African Americans had an unemployment rate of 16.7 percent and Hispanics had an unemployment rate of 11.3 percent. The numbers were even worse for youth: 45 percent of all youth between the ages of 16 to 24 were employed last month, and only 33.8 percent of African American youth. In fact, only 21 out of every 100 teens in low-income families had a job this past summer. Building on highly successful Recovery Act programs that provided job opportunities for low-income adults and youths, the President’s “Pathways Back to Work” Fund will make it easier for workers to remain connected to the workforce and gain new skills for long-term employment. This \$5 billion initiative will include:

- **Support for summer and year-round jobs for youth.** The Recovery Act provided over 367,000 summer job opportunities through the public workforce investment system to young people in the summers of 2009 and 2010. Such programs not only provided young people with their first paycheck, but taught them life-long employment skills. Building on this success, the new Pathways Back to Work Fund will provide States with support for summer job programs for low-income youth in 2012, and year-round employment for economically disadvantaged young adults.
- **Subsidized employment opportunities for low-income individuals who are unemployed.** This effort builds off the successful TANF Emergency Fund wage subsidy program that supported 260,000 jobs through the recovery. According to an analysis by the Center on Budget and Policy Priorities, this flexible program allowed States to reduce the cost and risk associated with new hiring, encouraging private-sector businesses to hire new workers.
- **Support for local efforts to implement promising work-based strategies and to provide training opportunities.** This initiative would support efforts that have good records

of placing low-income adults and youths in jobs quickly. Local officials, in partnership with local workforce boards, business, community colleges, and other partners, will be able to apply for funding to support promising strategies designed to lead to employment in the short-term.

Combat discrimination against the unemployed. Recent reports have highlighted companies that are increasingly expressing preferences for applicants who already have a job. Specifically, some companies are posting job listings that include language such as “unemployed candidates will not be considered” or “must be currently employed” or “must be employed within the last six months.” The exclusion of unemployed applicants is a troubling and arbitrary screen that is bad for the economy, bad for the unemployed, and ultimately bad for firms trying to find the best candidates. This is particularly true at a time when so many Americans have found themselves out of work through no fault of their own. New Jersey has passed legislation to address this practice, and members of the Congress also have introduced legislation. The President is calling for legislation that would make it unlawful to refuse to hire applicants solely because they are unemployed or to include in a job posting a provision that unemployed persons will not be considered.

MORE MONEY IN THE POCKETS OF EVERY AMERICAN WORKER AND FAMILY

The President’s plan would put more money in the pockets of working and middle-class Americans by providing tax relief to 160 million workers—extending the payroll tax cut passed last December. He is proposing to:

Cut the employee payroll tax in half next year for 160 million workers. Almost every working American pays payroll taxes, and middle-class Americans face a higher burden because more of their income comes from wages and salaries. The President’s plan will cut payroll taxes in half for employees

next year. Rather than having 6.2 percent of their wages deducted in payroll taxes, workers will only pay 3.1 percent next year. This builds on the 2 percentage point payroll tax reduction that the President secured for workers in 2011—providing 160 million Americans the certainty of ongoing tax relief and increasing the amount of that relief by more than 50 percent. Independent forecasters have stated that a failure to extend last year’s payroll tax cut would reduce growth next year by one-half to two-thirds of a percentage point. The President’s plan would not only extend this cut, but expand it by 50 percent.

Cutting the payroll tax cut in half for employees in 2012 will provide a tax cut of \$180 billion to American workers. A payroll tax cut provides middle-class families with substantial tax relief. This measure will result in a tax cut of more than \$1,500 for the typical family earning \$50,000. That represents a continuation of the \$1,000 tax cut they are receiving this year, plus an additional \$500 to help pay bills and cover expenses. For a family earning \$80,000 per year, the President’s plan would cut their taxes by about \$2,500. That is a continuation of the \$1,600 tax cut from last year, plus an additional \$900 tax cut next year. Providing certainty to American families now that they will receive a generous tax cut in their paychecks next year is a common sense idea that has enjoyed bipartisan support in the past.

Help more Americans refinance mortgages at today’s historically low interest rates. The President has instructed his economic team to work with Fannie Mae and Freddie Mac, their regulator the Federal Housing Finance Agency, major lenders and industry leaders to remove the barriers that exist in the current refinancing program (Home Affordable Refinance Program) to help more borrowers benefit from today’s historically low interest rates. This has the potential to not only help these borrowers, but their communities and the American taxpayer, by keeping borrowers in their homes and reducing risk to Fannie Mae and Freddie Mac.

MANDATORY SAVINGS

In the Budget Control Act, the President signed into law a measure that will generate approximately \$1 trillion in deficit reduction over the next decade through the use of discretionary spending caps. With discretionary spending projected to reach historically low levels, we need to look at other parts of the budget for savings. Mandatory programs, those that are not generally appropriated on an annual basis, are an important area to find savings. In some areas, these programs have not been updated or reformed for years. In others, parochial politics has allowed waste to pile up or programs to stray from their mission. The President is proposing \$257 billion in savings over 10 years in mandatory programs outside of the health area. This list does not include mandatory savings in higher education programs, because savings from these types of programs should be directed back into helping America's students enter and finish college.

AGRICULTURAL SECTOR

A strong agricultural sector is important to maintaining a strong rural economy. The Administration supports the farm and rural sectors through a number of means, including funding agricultural research programs, providing assistance to beginning and disadvantaged farmers, pursuing trade agreements, and increasing funding for programs to expand U.S. agricultural exports. For the past decade, the agricultural sector has been extremely strong. Farm income has been high and continues to increase, with net farm income forecast to be \$103.6 billion in 2011, up \$24.5 billion (31 percent) from the 2010 forecast—the highest inflation-adjusted value for net farm income recorded in more than 35 years. The top five earnings years for the past three decades have occurred since 2004, attesting to the profitability of farming this decade. The Administration remains committed to a strong safety net for farmers, one that protects them from revenue losses that result

from low yields or price declines, and strong crop insurance programs. But there are programs and places where funding is unnecessary or too generous. To reduce the deficit, the Administration proposes to eliminate or reduce those programs, while strengthening the safety net for those that need it most. The Administration is proposing to:

Eliminate direct payments. The direct payment program provides producers fixed annual income support payments for having historically planted crops that were supported by Government programs, regardless of whether the farmer is currently producing those crops—or producing any crop, for that matter. Direct payments do not vary with prices, yields, or producers' farm incomes. As a result, taxpayers continue to foot the bill for these payments to farmers who are experiencing record yields and prices; more than 50 percent of direct payments go to farmers with more than \$100,000 in income. Economists have shown that direct payments have priced young Americans out of renting or owning the land needed to enter into farming. In a period of severe fiscal restraint, these payments are no longer defensible, and eliminating them would save the Government roughly \$3 billion per year.

Reduce subsidies to crop insurance companies. Crop insurance is a foundation of our farm safety net. Our Nation's farmers and agricultural bankers understand the value of this effective risk management program, and currently 83 percent of eligible program crop acres are enrolled in the program. However, the program continues to be highly subsidized and costs the Government approximately \$8 billion a year to run: \$2.3 billion per year for the private insurance companies to administer and underwrite the program and \$5.7 billion per year in premium subsidies to the farmers. The Administration has made a continued effort to improve the crop insurance program by covering more crops, while implementing it more efficiently.

In 2010, the U.S. Department of Agriculture (USDA) and the crop insurance companies agreed to changes that saved \$6 billion over 10 years from administrative expense reimbursement and underwriting gains while also improving service to underserved States. The Administration believes there are additional opportunities for streamlining of the administrative costs of the program. A USDA commissioned study found that when compared to other private companies, crop insurance companies' rate of return on investment (ROI) should be around 12 percent, but that it is currently expected to be 14 percent. The Administration is proposing to lower the crop insurance companies' ROI to meet the 12 percent target, saving \$2 billion over 10 years. In addition, the current cap on administrative expenses is based on the 2010 premiums, which were among the highest ever. A more appropriate level for the cap would be based on 2006 premiums, neutralizing the spike in commodity prices over the last four years, but not harming the delivery system. The Administration, therefore, proposes setting the cap at \$0.9 billion adjusted annually for inflation, which would save \$3.7 billion over 10 years. Finally, the Administration proposes to price more accurately the premium for catastrophic (CAT) coverage policies, which will slightly lower the reimbursement to crop insurance companies. The premium for CAT coverage is fully subsidized for the farmer, so the farmer is not impacted by the change. This change will save \$600 million over 10 years.

The Administration also proposes modest changes in subsidies for producers. Today, producers only pay 40 percent of the cost of their crop insurance premium on average, with the Government paying for the remainder. This cost-share arrangement was implemented in 2000, when very few producers participated in the program and "ad-hoc" agricultural disaster assistance bills were regularly enacted. The Congress increased the subsidy for most insurance coverage by over 50 percent at the time to encourage greater participation. Today, participation rates are 83 percent on average, and the rationale for high subsidy rates has weakened. The proposal would shave two ba-

sis points off any coverage premium subsidy levels that are currently offered above 50 percent, saving \$2 billion over 10 years. Farmers who have premium subsidies of 50 percent or less would not be affected.

Better target agricultural conservation assistance. Farmers, ranchers, and forest landowners share a critical role in conserving the Nation's soil, water, and related natural resources. The Administration is very supportive of programs that create incentives for private lands conservation and has made great strides in leveraging these resources with those of other Federal agencies towards greater landscape-scale conservation; however, the dramatic increase in funding (roughly 500 percent since enactment of the Farm Security and Rural Investments Act of 2002) has led to difficulties in program administration and redundancies among our agricultural conservation programs. At the same time, high crop prices have both strengthened market opportunities to expand agricultural production on the Nation's farmlands and decreased producer demand for certain agricultural conservation programs. These current economic realities and the ability to better target existing funding for maximum environmental outcomes support a proposal to reduce the deficit while preserving the most important agricultural conservation programs. To reduce the deficit, the Administration proposes to reduce conservation funding by \$2 billion over 10 years by better targeting conservation funding to the most cost-effective and environmentally-beneficial programs and practices. Even under this proposal, conservation assistance is projected to grow by \$60 billion over the next decade.

Extend mandatory disaster assistance. The Administration strongly supports disaster assistance programs that protect farmers in their time of greatest need. The Food, Conservation, and Energy Act of 2008 provided producers with mandatory disaster assistance programs for the 2008 to 2011 crops. To strengthen the safety net, the Administration proposes to extend these programs, or simi-

lar types of disaster assistance that are of a similar cost, for the 2012 to 2016 crops. The programs provide financial assistance to producers when they suffer actual losses in farm revenue, loss of livestock or the ability to graze their livestock, loss of trees in an orchard, and other losses due to diseases or adverse weather. To be eligible for the programs, farmers must purchase crop insurance. The Supplemental Revenue Assistance Program provides whole farm revenue coverage to farmers at a revenue level that is essentially 15 percent higher than their crop insurance guarantee. Payments are limited so that the guaranteed level cannot exceed 90 percent of expected farm income in the absence of a natural disaster.

FEDERAL WORKER AND MILITARY RETIREMENT PROGRAMS

The men and women who serve their fellow Americans in the Armed Forces and civil service are patriots who work for the Nation often at great personal sacrifice. Just as families and businesses must tighten their belts to live within their means, so must the Federal Government. One area to examine is the retirement and health benefits offered to the Federal military and civilian workforce. Over the past several years, there have been significant shifts both in how people work and how their benefits are structured. Organizations of all sizes have had to reform and alter the retirement benefits they give in order to remain competitive and, in some cases, solvent. As a result, compared to the private sector, the Federal retirement program can seem generous. For example, defined benefit pensions are becoming increasingly rare, and are now available to only one-third of private industry workers in large firms and 21 percent of all private employees. Some estimates put the split between employer and employee contributions in the private sector at 55 percent paid by employers and 45 percent paid by employees (combining defined benefit and defined contribution plans), whereas on average Federal employers pay 67 percent of contributions to the Federal Employees Retirement System (FERS), while employees pay 33 percent. In addition, a marked disparity exists between the fees most retired private sector workers pay for

health care services and what retired military personnel pay. The Administration is proposing a group of reforms to better align these retirement programs with the private sector, while still preserving the Federal Government's ability to recruit and retain the personnel that the American people need. The reductions sought in these programs are evenly split between civilian and military retirement programs. The Administration proposes to:

Reform civilian Federal worker retirement. Whether it is defending our homeland, restoring confidence in our financial system and administering a historic economic recovery effort, providing health care to our veterans, or searching for cures to the most vexing diseases, we rely on a highly skilled workforce committed to public service. The Administration has implemented efforts to reform the hiring process and improve employee engagement, satisfaction, and wellness. In line with its strong commitment to Federal employees, the Administration believes that we can make modest changes to Federal worker retirement contributions while maintaining the ability to attract and retain highly qualified individuals to handle the challenging and complex work the Federal Government is expected to do.

The Administration is proposing that the employee contribution toward accruing retirement costs would increase by a total of 1.2 percent (0.4 percent a year over three years beginning in 2013), but the employee's total pension would remain unchanged. In addition, the Administration is proposing to eliminate the FERS Annuity Supplement for new employees. While Federal agency contributions for currently accruing costs of employee pensions would decline, these employers would pay an additional amount toward unfunded liabilities of the retirement system that would leave total agency contributions unchanged over the 10-year budget window. The Administration does not anticipate this policy change will negatively affect its human capital planning and management, nor inhibit the Government's ability to serve the American people. This proposal is estimated to save \$21 billion over 10 years.

While the modest retirement system change proposed above is important, we also need broader reform. The Federal personnel system that governs pay and performance for the majority of Federal employees was codified in 1949, when Government was composed of far more lower-grade employees handling relatively routine tasks that required few specialized or advanced skills and when computers were massive mainframes. Despite employee surveys revealing that Federal employees believe the current work environment fails to effectively deal with poor performers and does not reward innovation, reform efforts to date have not been able to address this foundational issue of Government performance. To manage the complex work agencies perform today in order to meet the needs of the American people, Federal managers and employees need a modernized personnel system that reflects the reality of the 21st century—where agencies offer compensation reflecting competing markets for employees, facilitate career-development mobility across agencies and with the private sector, address poor performers consistently and fairly, develop staff, and motivate better performance using the best evidence-based public and private sector practices. To advance this effort, the Administration recommends that the Congress establish a Commission on Federal Public Service Reform comprised of Members of the Congress, representatives from the President’s Labor-Management Council, members of the private sector, and academic experts. The Commission would develop recommendations on reforms to modernize Federal personnel policies and practices within fiscal constraints. Such reforms could include but would not be limited to compensation, staff development and mobility, and personnel performance and motivation.

Initiate annual fees for TRICARE-For-Life enrollment (TFL). One of the ways military retirees and their families are recognized for their essential service is through health insurance coverage called TRICARE. Upon turning 65, beneficiaries transition to Medicare coverage, with TFL becoming second payer. The TFL program pays the beneficiaries’ Medicare out-of-pocket costs for

medical services, generally leaving the beneficiary with no out-of-pocket costs aside from Medicare Part B premiums and drug co-pays. In the private sector, this type of “Medigap” policy would likely require premiums, deductibles, and co-pays. In 2009 the average annual premium for a “Medigap” policy was \$2,100. By contrast, there are no premiums under the TFL programs. The Administration is proposing to introduce modest annual fees for the TFL program, beginning with a \$200 annual fee in 2013. The fee then would increase to align with the modest increase in the fees under the regular TRICARE program for individuals under age 65 that was proposed in the President’s 2012 Budget. This proposal is estimated to save approximately \$6.7 billion in mandatory spending over 10 years.

Targeted increases to TRICARE pharmacy benefit co-payments. The Administration supports a generous health care benefit to recognize the service of military members and retirees. This includes providing affordable options to access prescriptions. However, the co-payments for military members have lagged behind other Federal and private plans. For example, the average co-payment for a costly brand-name drug purchased at a drug store by a Federal retiree in the most popular Federal Employees Health Benefits Program (FEHBP) plan option is estimated to be \$45, compared to \$9 for a military retiree. In an effort to slow the growth in DOD’s health care costs, the President’s 2012 Budget included minor pharmacy co-pay adjustments, for which both the House and Senate indicated support. This new proposal would move the TRICARE pharmacy program closer to parity with the most popular Federal employee health plan, BlueCross BlueShield Standard and closer to the health plans that most Americans have from their employers. The proposal would provide an incentive for consumers to choose less expensive pharmacy options by eliminating co-pays for generic mail-order drugs while, at the same time, shifting retail co-pays from a dollar figure to a percentage co-pay. This option would have no impact on active duty members, but would affect active duty families and all military re-

tirees regardless of the age of the beneficiary. The Administration's proposal is estimated to save \$15.1 billion in mandatory funds and \$5.5 billion in discretionary funds over 10 years.

Establish a commission to review military retirement benefits. The current military retirement system has served the military well in past years. In an era when defined-benefit plans were common, it helped the military to retain the personnel needed to maintain a vigorous and highly effective force. But the system was designed for a different era of work, and is now out of line with most other Government or private retirement plans. The non-disability program provides generous benefits to the relatively few members who stay for at least 20 years and no benefits for the roughly 80 percent of servicemembers who stay less than 20 years. To consider reforms the Administration plans to set up a commission to develop recommendations for reforming the current military retirement system. The commission will review the impacts of reform proposals on military readiness, recruiting, retention, costs, and the quality of the force. The Administration plans to propose that the Commission's recommendations be handled in a manner similar to the 2005 Base Realignment and Closure Commission's recommendations. Under this approach, DOD would make a proposal to the commission, which can alter the proposal as it deems appropriate. The commission proposals then go to the President, who may not alter the proposals but can decide whether to forward them to the Congress. The Congress must approve or disapprove without any modifications. The Administration believes that any major military retirement reforms should include grandfathering provisions that ensure that the country does not break faith with military personnel now serving, including those serving in Afghanistan and Iraq.

End the overpayment of Federal contractor executives. Just as the Government must be prudent in paying Federal employees, it must also not overpay contractors. Each year,

the Government is required to establish a dollar cap on the amount that the Government will reimburse Federal contractors for the compensation they pay to their senior-most executives under cost-based contracts, which account for roughly \$160 billion each year. The cap does not limit how much contractors pay their executives—only how much the Government will reimburse them. A statutory formula sets the Government's reimbursement cap to the annual compensation for the five top management employees at publicly-traded companies with annual sales over \$50 million. The cap started at \$250,000 in 1995, but rose to \$693,951 last year in line with the rapid growth of private sector executive compensation over the past 15 years. Application of the current statutory formula could push the reimbursement cap to \$750,000 for 2011. However, the Administration believes the Government is reimbursing too much for contractor executives, and the cap's amount cannot be justified. As a result, the Administration proposes to abolish the formula and instead tie the cap to the salary of senior-most Federal officials—specifically, Executive Schedule Level I, currently approximately \$200,000. Setting the cap at this level will bring greater parity between Federal and contractor executives' compensation.

GOVERNMENT LIABILITIES AND OPERATIONS

Increase fees charged by Fannie Mae and Freddie Mac. Since taking office in January 2009, the Administration has taken numerous actions to help stabilize the housing market and provide critical support for struggling homeowners. This has included continuing the financial support for Fannie Mae and Freddie Mac under agreements initiated in 2008 that ensure they have sufficient capital to honor their guarantees, meet their debt obligations, and facilitate the flow of mortgage capital to homeowners. To protect taxpayers and help rebuild the robust private mortgage market necessary to our Nation's long-term economic well-being, the Administration proposes to modestly increase the fees that Fannie Mae and Freddie Mac charge mortgage lenders to guarantee repayment of new mortgage loans.

Because of their Government support, Fannie Mae and Freddie Mac are able to price their mortgage guarantees below what it would cost private banks or financial institutions to provide the same guarantee. These “guarantee fees” should be increased over time to help the private market compete on a level playing field and reimburse taxpayer assistance, although the pace of these price changes will depend significantly on market conditions. The President is proposing to begin this process with a modest increase of 10 basis points, or one-tenth of one percent, to Fannie Mae and Freddie Mac’s existing fees. Existing mortgages would be unaffected by this change and the monthly cost of a typical \$220,000 new mortgage would increase by less than \$15. These small changes would reduce costs to the Government by \$28 billion over 10 years.

Reform the Aviation Passenger Security Fee to more accurately reflect the costs of aviation security. Reflecting its commitment to keeping air travel and commerce safe, the Administration has invested heavily in personnel, technology, and infrastructure to mitigate the constantly-evolving risks to aviation security. As risk changes, however, so too must the way in which we fund our aviation security efforts. In 2001, the Aviation and Transportation Security Act created the Aviation Passenger Security Fee, which was to be collected to offset the costs of the Transportation Security Administration’s (TSA’s) aviation security-related activities. The fee, in conjunction with a separate fee charged directly to air carriers, was put in place to ensure that the costs of aviation security were borne by the direct beneficiaries (e.g., air passengers, airlines) of aviation security services. The fee was originally intended to recover the full costs of aviation security. Since its establishment, however, the fee has been statutorily limited to \$2.50 per passenger enplanement with a maximum fee of \$5.00 per one-way trip. This recovers only 43 percent of TSA’s aviation security costs, which have risen over the years while the fee has remained the same.

The Administration proposes both to raise the fee and change the manner in which

it is collected. Modeled after Chairman Paul Ryan’s proposal in the House’s 2012 Concurrent Resolution on the Budget, the Administration’s proposal would:

- Replace the current “per-enplanement” fee structure with a “per one-way trip” fee structure so that passengers pay the fee only one time when travelling to their destination.
- Remove the current statutory fee limit and replace it with a statutory fee minimum of \$5.00, with annual incremental increases of 50 cents from 2013 to 2017, resulting in a fee of \$7.50 in 2017 and thereafter.
- Allow the Secretary of Homeland Security to adjust the fee (to an amount equal to or greater than the new statutory fee minimum) through regulation when necessary.
- Set aside a specific amount of fee revenue to be returned to the General Fund for deficit reduction over 10 years.

The proposed fee would collect an estimated \$8.8 billion in additional fee revenue over five years, and \$24.9 billion over 10 years. The Administration’s proposal would direct \$15 billion to be deposited into the General Fund for debt reduction, with any additional revenues in excess of this amount being applied as offsets to TSA’s discretionary appropriations.

More equitably share payments for air traffic services. Roughly two-thirds of the air traffic control system’s current costs are financed by aviation excise taxes. Most of the tax revenue is collected from commercial aviation through ticket taxes, segment fees, international head taxes, and fuel taxes. General aviation users currently pay a fuel tax, but this revenue does not cover their fair-share-use of air traffic services. All flights that use controlled air space require a similar level of air traffic services. However, commercial and general aviation can pay very different aviation fees for those same air traffic services. For ex-

ample, a large commercial aircraft would pay between \$1,300 to \$2,000 in taxes for a flight from Los Angeles to San Francisco while a corporate jet flying the same route and using the same Federal Aviation Administration (FAA) air traffic services would pay about \$60 in taxes. To reduce the deficit and more equitably share the cost of air traffic services across the aviation user community, the Administration proposes to establish a new mandatory surcharge for air traffic services. This proposal would create a \$100 per flight fee, payable to the FAA, by aviation operators who fly in controlled airspace. Military aircraft, public aircraft, recreational piston aircraft, air ambulances, aircraft operating outside of controlled airspace, and Canada-to-Canada flights would be exempted. The revenues generated by the surcharge would be deposited into the Airport and Airway Trust Fund. This fee would generate an estimated \$11 billion over 10 years. Assuming the enactment of the fee, total charges collected from aviation users would finance roughly three fourths of airport investments and air traffic control system costs.

Provide Postal Service financial relief and undertake reform. The Administration recognizes the enormous value of the U.S. Postal Service (USPS) to the Nation's commerce and communications, as well as the urgent need for reform to ensure its future viability. USPS faces a long-term, structural operating deficit that has been exacerbated by the precipitous drop in mail volume in the last few years due to the economic crisis and the continuing shift toward electronic communication. Absent legislative intervention, USPS will be insolvent by the end of September 2011 when it will be unable to make the statutory \$5.5 billion Retiree Health Benefit prefunding payment to the Office of Personnel Management, will have exhausted its cash reserves, and will have hit its cumulative statutory Treasury borrowing ceiling of \$15 billion. Bold action is needed to ensure that USPS can continue to operate in the short-run and achieve viability in the long-run. To that end, the President is proposing a comprehensive reform package that would: 1) restructure Retiree Health Benefit pre-funding in order to accelerate moving these Postal

payments to an accruing cost basis and reduce near-year Postal payments; 2) provide USPS with a refund over two years of the \$6.9 billion surplus in Postal contributions to the FERS program; 3) reduce USPS operating costs by giving USPS authority, which it has said it will exercise, to reduce mail delivery from six days to five days; 4) allow USPS to offer non-postal products and increase collaboration with State and local governments; and 5) give USPS the ability to better align the costs of postage with the costs of mail delivery while still operating within the current price cap, and permit USPS to seek the modest one-time increase in postage rates it proposed a year ago. These reforms would provide USPS with over \$20 billion in cash relief over the next several years and in total would reduce the Federal deficit by \$19 billion over 10 years.

Strengthen the safety net for workers' retirement benefits. All Americans deserve a secure retirement. The Administration has proposed to create new opportunities to save for retirement by establishing a system of automatic workplace pensions and doubling the small employer pension plan start-up credit. In addition, the Administration has issued regulations that would increase 401(k) fee disclosure, so that workers can make more informed choices about how to invest their retirement savings. The Pension Benefit Guaranty Corporation (PBGC), which protects the retirement security of 44 million workers in defined benefit pension plans, is also critical to the success of a robust pension system. When underfunded plans terminate, PBGC assumes responsibility for paying the insured benefits. PBGC is responsible for paying current and future retirement benefits to more than 1.5 million workers and retirees.

PBGC receives no taxpayer financing, and relies primarily on premiums paid by insured plans. PBGC premiums are currently much lower than what a private financial institution would charge for insuring the same risk and are insufficient for PBGC to meet its long-term obligations. As of the end of September 2010, PBGC faced a \$23 billion deficit. The

Administration proposes to encourage companies to fully fund their pension benefits and ensure PBGC's continued financial soundness by giving the PBGC Board the authority to adjust premiums to better account for the risk the agency is insuring. This proposal would raise much-needed revenue for PBGC while providing incentives for firms both to continue offering pensions and to improve plan funding so they can keep their pension promises. Without action, the PBGC's deficit will increase and we may face, for the first time, the need for an infusion of taxpayer funds to keep PBGC solvent.

The proposal consists of two parts: 1) a gradual increase in the single-employer flat-rate premium that will raise approximately \$4 billion by 2021; and 2) PBGC Board discretion to increase the single-employer variable-rate premium to raise \$12 billion by 2021. Beginning in 2014, the Board would be given discretion to increase variable-rate premiums, which are based on plan underfunding. Currently, premiums are set at \$9 per \$1,000 of underfunding. Under the proposal, two-thirds of the Board would have to certify that changes to the variable premium schedule would be estimated to generate at least \$12 billion through 2021. If the Board were unable to certify the premium schedule, it would be required to make adjustments to ensure generated revenues of at least \$12 billion. The Board would be prohibited from raising premiums to generate more than \$13 billion. In determining variable-rate premiums, the Board would consider a number of factors, including a plan's risk of losses to PBGC, the amount of a plan's possible claims, and other factors the Board's directors determine appropriate. In addition, the Board would be required to consult with stakeholders prior to setting a new premium schedule and would also establish a hardship waiver and other limitations on plan-specific premium increases. PBGC would be required to publish a notice of its determination in the Federal Register, including the basis for the determination and the amount of the expected increase in income. This proposal would save \$16 billion over the next decade.

Reform the National Flood Insurance Program (NFIP) by eliminating the premium subsidy for certain properties.

Currently, 1.2 million or 20 percent of all NFIP properties are charged premiums well below the actuarial value of the insured liability. On average (including subsidized and unsubsidized policies) NFIP premium collections cover approximately 70 percent of the actuarial value of the insured liability. To address this concern, the Administration supports a proposal, as passed by the House in H.R. 1309, which would impact approximately 375,000 or 30 percent of the 1.2 million subsidized policies. Specifically, the proposal would:

- Increase premiums over five years for a subset of subsidized properties: non-residential or non-primary residences, residences sold to new owners, and severe repetitive loss properties.
- Redefine severe repetitive loss properties as residences with at least four paid claims greater than \$5,000 or with two paid claims that cumulatively exceed the market value of the house.
- One year after enactment, increase premiums for all policy holders fitting the above named categories (non-residential or non-primary residences, residences sold to new owners, and severe repetitive loss properties) by no more than 20 percent per year until the amount collected covers the full expected cost of the insurance.
- New policies that fit this category of subsidized properties one year after enactment would immediately pay the full cost actuarial premium.

The Administration also supports other measures in H.R. 1309 that would increase the maximum policy coverage for structure and contents and authorize studies and pilots to test alternative approaches to flood insurance that are sustainable and cost-effective. The NFIP would collect about \$700 million in additional premium revenue over five years

and approximately \$4.2 billion over 10 years. These increased revenues could be deposited in either the National Flood Insurance Fund or into the General Fund.

GOVERNMENT ASSETS

Auction radio spectrum to expand wireless broadband and invest in a broadband network for public safety users. Expanding access to mobile Internet and other wireless communications will benefit American families and businesses and support a more competitive economy. The Federal Communications Commission (FCC) estimates that mobile data use will increase by 35 times over 2009 levels by 2014, thus creating greater demand for spectrum. Recognizing this, the Administration committed last year to repurpose 500 megahertz of spectrum through auctions and other means to meet the growing demand for spectrum placed on commercial network capacity from smartphones and other mobile technologies. The Administration also has strongly promoted vital improvements in the communication capabilities of first responders and other public safety users. A wide variety of public safety organizations and the National Governors Association have also supported a first responders broadband network.

To further these goals, the Administration proposes to raise more than \$24 billion by extending the FCC authority to auction spectrum and by providing new authority to hold incentive auctions, through which current spectrum licensees voluntarily relinquish spectrum rights in exchange for a fair portion of auction proceeds. In addition, the Administration would free-up spectrum currently used by Federal agencies for auction, including by providing enhanced flexibility through the existing Spectrum Relocation Fund to help agencies repurpose and relocate. This will enhance the Administration's ongoing interagency effort to develop options for relocating Federal agencies from valuable spectrum. In cases where auctions are not appropriate, the FCC would be directed to collect \$4.8 billion in fees over the next 10 years to promote efficient resource use. Spectrum assigned to television broadcasters

and public safety uses would be exempt from this fee. The proposal would also allow spectrum licenses for satellite services that are primarily domestic (such as satellite TV services) to be assigned via competitive bidding, as they had been prior to a 2005 court decision.

As long envisioned by the Administration and members of both parties in the Congress, the Administration would invest \$7 billion of spectrum auction proceeds and reserve spectrum valued at nearly \$3 billion for use in a modern, nationwide, and interoperable public safety broadband network. This network will provide first responders access to secure, interoperable video and voice communications. By achieving interoperable communications nationally and utilizing commercial infrastructure tailored to the requirements of first responders, this investment holds the potential to improve public safety communications and applications, promote cost-efficient networks through greater economies of scale, and achieve the security and reliability necessary for first responder communications. The Administration believes the build-out of a public safety network would be best managed by a new independent corporation—with a Board representing local, State and Federal public safety users—to promote nationwide interoperability and meet the collective requirements of public safety users. In total, the proposal would provide nearly \$10 billion in funds and spectrum for a public safety broadband network, while reducing the deficit by over \$18 billion over 10 years.

Get rid of unneeded Federal real property. The Administration proposes to create an independent real property board to recommend disposal and consolidation opportunities to the Congress. The Government Accountability Office (GAO) has recognized longstanding inefficiencies in the Federal real estate portfolio, identifying it as a prime candidate for reform in its recent March 2011 report on proposals to reduce the cost of Government operations. Within the 1.1 million buildings, structures, and land parcels that the Federal Government owns or operates are significant opportunities to sell unneeded property, con-

solidate agency leases, co-locate agency operations, and improve the sustainability of the Government's operations. The Civilian Property Realignment Act (CPRA) would establish an independent board of experts to expedite the disposal of unneeded properties and the consolidation of properties across and within agencies. Modeled after the successful Base Realignment and Closure (BRAC) Commission, the board would achieve this disposal and consolidation of Federal real property through a process that forwards bundled recommendations to the Congress for a direct vote. Although the Congressional Budget Office (CBO) does not score savings for this proposal, the Administration believes that this process would save the Federal Government at least \$4 billion over 10 years from sales proceeds. In addition, the Administration believes the proposal would result in decreased operating costs and efficiencies through better space management.

PROGRAM INTEGRITY

For many years, the Federal Government has erroneously cut checks to the wrong person at the wrong time or for the wrong reason. Cutting waste and combating these kinds of erroneous payments has been a priority for President Obama. He set a goal of preventing \$50 billion in improper payments and recapturing \$2 billion by the end of 2012. The Administration has taken important steps towards achieving the President's goals, which have yielded early results. The Administration began using cutting edge forensic technology to detect and prevent fraud and error before it happens and implemented new accountability to these errors, posting details of error rates at PaymentAccuracy.gov, and for the first time adding sanctions for programs that fail to meet a minimum threshold for error. In 2010, the Government-wide improper payment rate declined to 5.49 percent, a decrease from the 5.65 percent reported in 2009. Agencies also reported that they recaptured \$687 million in improper payments in 2010—the highest amount recovered to date. The President's 2012 Budget proposes even more aggressive tools that will help drive down this

waste. If enacted, these proposals will result in over \$160 billion in savings to the Federal Government over 10 years. Building on these efforts the Administration proposes to:

Crack down on tax cheats and delinquents through investments in Internal Revenue Service (IRS) tax enforcement and compliance.

In the BCA, funding was provided for program integrity efforts in the Social Security Administration and Department of Health and Human Services, but not the IRS. Yet the IRS's tax enforcement and compliance activities are critical to the fairness and integrity of the U.S. tax system, and also generate a positive ROI for taxpayers of roughly \$7-to-\$1. Because of this contribution to deficit reduction, the Administration has consistently proposed high-priority increases in IRS tax enforcement. Putting program integrity funding in the Joint Committee package is now especially urgent because tight discretionary caps will otherwise force lower investment and higher deficits. The Administration is seeking an incremental 10-year tax enforcement investment which includes more than \$350 million in new tax enforcement and compliance initiatives, plus the inflationary costs of maintaining current IRS enforcement activities. This additional 2012 funding will support new initiatives capable of bringing in over \$2 billion in additional revenue when the new resources reach maturity in 2014. Subsequent increases in 2013 through 2016 will include further additional funding increments for new revenue-generating initiatives, all of which will be sustained through 2021. CBO has scored such a policy as reducing the deficit by about \$3.2 billion over 10 years. OMB believes that relative to the current law BEA baseline, and particularly in light of the tight discretionary caps, a provision that provides protected funding for program integrity efforts will have a significantly larger effect, saving an estimated \$30 billion or more.

Reduce the improper payment rate in the Unemployment Insurance (UI) program.

The Administration is proposing a set of innovative reforms to the UI program, including changes that will prevent layoffs and

give States more flexibility to use Federal UI funds to get Americans who have lost their jobs back to work. The President's plan is targeted to address unemployment in an aggressive, multi-pronged way, drawing from ideas about what is working from around the country and from both parties. As we make UI more flexible and responsive to the needs of the unemployed and the Nation, we cannot tolerate waste in the program. However, UI is run as a Federal-State partnership; the error rates vary widely by State; and the high error rates in some States lead the UI program to have one of the highest improper payment rates of any Federal program. Reemployment and Eligibility Assessments (REAs)—in-person interviews with UI claimants to determine continued eligibility for benefits and whether additional reemployment assistance is needed—are an important part of the Administration's strong improper payments reduction strategy. The Administration proposes a multi-year discretionary allocation adjustment starting with \$10 million in 2012 along with \$60 million in base funding to allow States to conduct REAs. These assessments will strengthen UI program integrity by identifying ineligible claimants and reducing improper payments. They will also help reduce UI benefit costs by helping unemployed individuals return to work more quickly than they would were this targeted assistance not provided. This policy would reduce the deficit by \$256 million over 10 years.

Improve Collection of Pension Information from States and Localities. The Social Security Windfall Elimination Provision (WEP) and Government Pension Offset (GPO) provisions are adjustments to the Social Security formula which ensure that non-covered workers do not receive a higher proportional benefit than workers with similar earnings who worked their entire careers in covered employment. Currently, WEP and GPO adjustments are only applied when an individual worker attests that he or she has a pension in non-covered employment or the Social Security Administration (SSA) discovers that an individual is receiving a non-covered pension. While SSA is able to conduct data match-

es with the Office of Personnel Management to identify Federal workers who have been employed in non-covered employment, there is currently no similar data system to obtain information on State or local pensioners. This proposal provides up to \$50 million to State and local governments to develop such a system for more timely and accurate data collection and direct pension information reporting to SSA. This proposal would improve enforcement of the current law WEP and GPO provisions, resulting in improved payment accuracy for the Old-Age and Survivor, and Disability Insurance Programs, and is projected to save approximately \$3.1 billion over 10 years by preventing overpayments.

Step up collection of debts owed to the Federal Government. The Department of the Treasury manages the collection of delinquent tax and non-tax debt owed to various State and Federal agencies through the Treasury Offset Program (TOP), which collects delinquent non-tax debts (including child support) by offsetting outgoing Federal payments, and the Federal Payment Levy Program, which employs a continuous levy (deduction) on Federal payments to collect delinquent taxes from individual taxpayers. As of June 30, 2011, the Treasury's debtor database included approximately \$437 billion in delinquent debts, including \$308 billion in Federal debts (of which \$200 billion is tax debt), and \$129 billion in State debts (including \$111 billion in child support). In 2007, GAO estimated that approximately 60,000 Federal contractors were delinquent on over \$7 billion in Federal taxes, and in 2008, it found that over 27,000 Medicare providers owed more than \$2 billion in tax debt. This is money owed the Federal Government, and allowing those who cheat the system is unfair to us all. That is why the Administration is proposing the following reforms that will generate \$911 million in savings over 10 years:

- **Increase IRS levy authority to 100 percent for Federal contractor payments.** The tax code was amended by the American Jobs Creation Act of 2004, which sought to authorize a 100 per-

cent levy of Federal vendor payments. However, a technical error had the unintended effect of limiting the levy to 15 percent. This proposal, which was also included in the 2012 Budget, would correct the error and allow the Treasury to collect some of the sizable delinquent tax debt owed by Federal contractors. This will yield \$141 million over 10 years.

- **Increase IRS levy authority to 100 percent for Medicare payments.** The Congress recently authorized the levy (tax) and offset (non-tax) of Medicare payments to collect delinquent tax and non-tax debts through the Federal Payment Levy Program (FPLP); however, the Treasury currently levies only up to 15 percent of a payment to Medicare providers with delinquent tax debt. This reform would increase the levy to 100 percent when collecting tax debts, which would bring it in line with the 100 percent payment offset (through TOP) applied to non-tax debt collection. This will generate \$770 million in savings over 10 years.
- **Offset Federal tax refunds to collect State income taxes from debtors who currently reside in other States.** Under current law, Federal tax refunds may be offset to collect delinquent State income taxes only if the delinquent taxpayer resides in the State collecting the tax. This proposal would allow Treasury to offset tax refunds to collect delinquent State tax obligations regardless of where the debtor resides; however, collections are returned to States and do not score as Federal savings.
- **Allow agencies to contact delinquent debtors via their cellular phones.** The Administration also proposes to amend the Communications Act of 1934 to facilitate collection of debts owed to or guaranteed by the Federal Government, by facilitating contact of delinquent debtors who are most readily reached on their cell phones. This provision is expected to provide substantial increases in collec-

tions, particularly as an increasing share of households no longer have landlines and rely instead on cell phones.

OTHER REFORMS AND SAVINGS

Reform Abandoned Mine Lands (AML) payments. The coal industry as a whole is currently held responsible for cleaning up abandoned coal mines by paying a fee that finances grants to States and Tribes for reclamation. This linkage was lost, however, when the Congress in 2006 authorized additional unrestricted payments to certain States and Tribes that had already completed their coal mine reclamation work. In addition, regular reclamation funds are not well targeted at the highest priority abandoned mine lands, because amounts are distributed by a production-based formula so that funding goes to the States with the most coal production, not the greatest reclamation needs. States can use their funding for a variety of purposes, including the reclamation of abandoned hardrock mines, for which there is no other source of Federal funding.

The Administration proposes to reform the coal AML program to reduce unnecessary spending and ensure that the Nation's highest priority sites are reclaimed. First, the Administration proposes to terminate unrestricted payments to the States and Tribes that have been certified for completing their coal reclamation work, since these payments do not contribute to reclaiming abandoned coal mines. Second, the Administration proposes to reform the distribution process for the remaining funds to allocate available resources competitively to the highest priority coal AML sites. Through a competitive grant program, a new AML Advisory Council will review and rank the abandoned mine lands sites, so that the Department of the Interior, in coordination with States and Tribes, can distribute grants to reclaim the highest priority coal sites each year.

Mining for hardrock minerals (e.g., silver and gold) has also left a legacy of abandoned mines across the United States. The Administration

proposes to create a parallel AML program for abandoned hardrock sites. Like the coal program, hardrock reclamation would be financed by a new AML fee on the production of hardrock minerals on both public and private lands. This would hold the hardrock mining industry responsible for cleaning up the hazards left by its predecessors. The funds would be distributed through a competitive grant program to reclaim the highest priority hardrock sites on Federal, State, tribal, and private lands. Altogether, this proposal will save \$1.3 billion over the next 10 years. Equally important, it would focus available coal fees to better address the Nation's most dangerous abandoned coal mines and establish a new approach to cleaning up abandoned hardrock mines across the country.

Restore the solvency of the Unemployment Insurance system by helping employers now and restoring State fiscal responsibility. Unemployment Insurance (UI) provides a vital safety net for workers who are laid off. Over the past several years, UI benefits have kept many families afloat during tough financial times, and in 2010 these benefits prevented 3.2 million individuals—including nearly 1 million children—from falling into poverty. UI is also one of the most effective levers we have for promoting economic growth—generating up to \$2 of economic activity for every \$1 spent. The President has strongly supported expanding this critical safety net and has called for an extension of unemployment benefits for another year. At the same time, we must recognize the fact that the economic downturn has taken a toll on the solvency of the UI program. Twenty-eight States currently owe more than \$37 billion to the Federal Unemployment Trust Fund, and many have little prospect of paying these loans back in the foreseeable future. Employers in those States are now facing Federal tax increases as a result of this indebtedness. The Administration proposes to put the UI system back on the path to solvency by providing immediate relief to employers to encourage job creation now and reestablishing State fiscal responsibility going forward.

The Administration's proposal provides two forms of up-front, two-year relief to employers in indebted States: relieving States of interest payments on Federal borrowing that are typically paid through an automatic surtax on employers; and suspending automatic increases in Federal UI taxes on employers in indebted States. These two forms of relief would significantly reduce employers' UI tax burden, allowing them the flexibility to create jobs that the economy desperately needs.

The proposal also would encourage States to put their programs on sounder financial footing by increasing the Federal UI taxable wage base in 2014 from \$7,000 to \$15,000—near the same real level as set under President Ronald Reagan in 1983—and indexing it to average wages. At the same time, the Federal tax rate would be decreased to ensure that the Federal UI taxes employers pay are held roughly constant. States would also maintain flexibility in how they set the tax rate paid by employers to finance their own UI trust funds. While States would be required to set a wage base at least equal to the new Federal level by 2014, they could also choose to reduce their tax rates in response to the wage base increase.

Although States have been hit hard by the economic downturn, many have chronically underfunded their UI programs and relied on borrowing from the Federal Government to make up the shortfall. This borrowing often leads States to increase taxes on employers during recessions, when businesses can least afford the added burden. Increasing the wage base would encourage these States to adopt a responsible tax structure that is able to fully fund their UI benefits. By 2020, this proposal is projected to reduce the number of State programs still in debt to the Federal Government from 17 to 2. Taken together, this package of reforms will reduce the deficit by \$33 billion over 10 years.

Require the financial services industry to pay back taxpayers. The Administration is calling for a Financial Crisis Responsibility Fee on the largest financial institutions to fully compensate taxpayers for the extraordinary

support they provided to the financial sector through the Troubled Asset Relief Program (TARP) and other Government actions. The assistance given to the largest financial firms represented an extraordinary step that no one wanted to take, but one that was necessary in order to stem a deeper financial crisis and set the economy on a path to recovery. The cost associated with the excessive risk-taking by the largest financial institutions continues to ripple through the economy. Furthermore, although many of the largest financial firms have repaid the Treasury for their TARP assistance, they continue to implicitly benefit from the TARP funds that bolstered their balance sheets during a period of great economic upheaval. While the expected deficit cost of the TARP program has fallen by \$66 billion since the 2011 Mid-Session Review to approximately \$48 billion in the 2012 Budget, shared responsibility requires that the largest financial firms pay back the taxpayer for the extraordinary support they received. The fee will be restricted to financial firms with assets over \$50 billion and will be imposed until all TARP costs have been recouped. The Administration's Financial Crisis Responsibility Fee aligns with the congressional intent of the TARP legislation that requires the President to propose a way for the financial sector to pay back taxpayers so that not one penny of the Government's TARP-related debt is passed on to the next generation. It would extend beyond 2021 as necessary to achieve these ends. The structure of this fee would be consistent with principles agreed to by the G-20 Leaders and similar to fees proposed by other countries. This fee will reduce the deficit by \$30 billion over 10 years.

Increase pesticide user charges. The Environmental Protection Agency (EPA) screens and registers new pesticides before they reach the market and ensures that pesticides already in commerce are safe when used in accordance with the label. Presently, EPA collects fees from entities seeking to register their pesticides and from entities seeking to maintain their existing registrations; however, the fees only cover a small portion of the full cost for EPA to register a pesticide. The Administration proposes to better cover the costs of EPA's pes-

ticide registration services by increasing the amount charged for currently authorized pesticide user charges. Amendments to the Federal Insecticide, Fungicide, and Rodenticide Act require EPA to review all registered pesticides on a 15-year cycle to ensure that registrations reflect current science. The Administration's proposed increases to registration and maintenance fees are intended to cover the increased costs posed by these reviews and a greater portion of overall program costs. In addition, although the Federal Food, Drug, and Cosmetic Act of 1938, as amended, requires EPA to collect fees for the establishment and reassessment of pesticide tolerances, the collection of these fees has been blocked through 2012 by statute. The Administration proposes to eliminate this prohibition and collect the tolerance fee beginning in 2012. This will save \$740 million over 10 years.

Lift the cap on pre-manufacture notice user charges. EPA presently collects fees from chemical manufacturers seeking to market new chemicals. These fees are authorized by the Toxic Substances Control Act and are subject to a statutory cap. The Administration proposes to lift the cap so that EPA can recover a greater portion of the program cost. This will save \$76 million over 10 years.

Establish a hazardous waste electronic manifest system. The Resource Conservation and Recovery Act of 1976, as amended, (RCRA) requires transporters of hazardous waste to document information on the waste's generator, destination, quantity, and route. Currently, the tracking system relies on paper copies that are not frequently digitized for data analysis or quality control. The Administration proposes to collect fees from users of a new electronic manifesting system beginning in 2014. Use of electronic records will allow EPA to more efficiently monitor and analyze future waste shipments. Full implementation of the electronic system may reduce industry reporting costs under RCRA by \$77 million to \$126 million annually. This proposal is supported by industry stakeholders and members of the Congress as an efficient cost-saving measure. This will save \$31 million over 10 years.

Reauthorize the special assessment from domestic nuclear utilities. The Administration believes nuclear energy must be part of our energy mix and is committed to its safe development to help support a low-carbon energy future. For example, to advance the Nation's nuclear industry, the Administration has offered conditional commitments for \$8.33 billion in nuclear loan guarantees for two new nuclear reactors at a plant in Burke, Georgia and \$2 billion for AREVA's Eagle Rock Enrichment Facility near Idaho Falls, Idaho.

Along with this commitment to the industry is a shared responsibility to make sure our cleanup liabilities are met. The Department of Energy's Uranium Enrichment Decontamination and Decommissioning Fund was established in 1992 to pay the decontamination and decommissioning (D&D) costs of the Department of Energy's gaseous diffusion plants in Tennessee, Ohio, and Kentucky. These uranium enrichment plants served our defense mission as well as nuclear industry needs. The authorization of the special assessment from domestic utilities and Federal contribution expired in 2007, and there is currently insufficient funding to cover the remaining costs of D&D of the plants. The Administration proposes to reauthorize the special assessment from domestic utilities and Federal contribution into the Fund for another 15-year period. The amount collected from industry for a fiscal year would be \$200 million and the Federal contribution would be \$463 million (both annually adjusted for inflation). This proposal reiterates the ongoing need to decontaminate, decommission, and remediate the uranium processing facilities, and provides \$2 billion in savings over 10 years.

Repeal mandatory oil and gas research and development program. To foster the clean energy economy of the future and reduce our reliance on fossil fuels that contribute to climate change, the Administration proposes to repeal provisions in the 2005 Energy Policy Act which establish and fund the mandatory oil and gas research and development (R&D) program that promotes fossil fuel production.

These R&D activities have historically funded development of technologies that can be commercialized quickly, and are thus activities which should instead be funded by the companies that benefit from the projects. Mandatory funding for this program sunsets in 2014. Repeal of this program, effective for 2012 and beyond, will save \$150 million over the 10-year budget window.

Realize savings at the Department of the Interior (DOI). The Administration is proposing six mandatory savings proposals at DOI that would provide a total savings of \$1.6 billion over 10 years. These proposals would give taxpayers a fair return from energy development and mining on Federal lands and waters, while providing incentives for companies to get leases into production or relinquish them. In some cases, the proposals seek to share equitably the costs of oversight with the States or companies that benefit.

- **Institute a fee on non-producing oil and gas leases.** The Administration proposes to encourage energy production on Federal lands and waters leased for development. As noted in the March 2011 Blueprint for a Secure Energy Future, more than 70 percent of the tens of millions of offshore acres under lease are inactive. A \$4 per acre fee on non-producing Federal leases on lands and waters would provide a financial incentive for oil and gas companies to either get their leases into production or relinquish them so that the tracts can be leased to and developed by new parties. The proposed \$4 per acre fee would apply to all new leases and would be indexed annually. In October 2008, the GAO issued a report critical of past efforts by Interior to ensure that companies diligently develop their Federal leases. Although the GAO report focused on administrative actions, this legislative proposal is consistent with the GAO recommendations and is similar to other non-producing fee proposals recently considered by the Congress. This will save \$1 billion over 10 years.

- **Make permanent net receipts sharing for energy minerals.** Mineral and energy leases on Federal lands generate significant revenue, half of which is shared with the States. The costs of administering these leases should also be shared with the States, which is now accomplished through an annual appropriations provision, referred to as net receipts sharing. This proposal would make this equitable arrangement permanent, beginning in 2013. This will save \$412 million over 10 years.
 - **Reform hardrock mining on Federal lands.** The Administration proposes providing a fair return to the taxpayer from hardrock production on Federal lands by establishing a leasing program under the Mineral Leasing Act of 1920 for certain hardrock minerals (e.g., gold, silver, lead, zinc, copper, uranium, and molybdenum) currently covered by the General Mining Law of 1872. After enactment, mining for these metals on Federal lands would be governed by the new leasing process and subject to annual rental payments and a royalty of not less than five percent of gross proceeds. Half of the receipts would be distributed to the States in which the leases are located and the remaining half would be deposited in the Treasury. Existing mining claims would be exempt from the change to a leasing system, but would be subject to increases in the annual maintenance fees under the General Mining Law of 1872. Holders of existing mining claims for these minerals could, however, voluntarily convert claims to leases. This will save \$36 million over 10 years.
 - **Boost Federal share of geothermal energy receipts.** This proposal would provide a fair return to taxpayers from geothermal leases on Federal lands. Traditionally, the Treasury receives 50 percent of revenues from mineral leases on Federal lands, with the States receiving the rest. This proposal would restore this practice for geothermal leases, which currently return 25 percent of receipts to the Treasury. This will save \$70 million over 10 years.
 - **Repeal oil and gas fee prohibition and mandatory permit funds.** The Administration supports the environmentally sustainable development of energy resources on Federal lands, with industry sharing in the cost of administering permits. To facilitate this process, the Bureau of Land Management (BLM) relies on cost recovery fees for processing applications for oil and gas permits to drill. The Congress has implemented permit fees through appropriations language for the last several years and the 2012 Budget proposes to continue this practice. This proposal would make permanent the authority to establish fees, providing certainty to companies submitting applications. Fee receipts could then replace a mandatory funding account, which would be terminated to generate savings. This will save \$66 million over 10 years.
 - **Reauthorize the Federal Land Transaction Facilitation Act (FLTFA) of 2000.** FLTFA allows BLM to sell lands identified as suitable for disposal in recent land use plans and use the revenue to fund the acquisition of environmentally sensitive lands. The Administration proposes to reauthorize FLTFA, which recently expired, with small savings generated from a lag in spending revenue. This will save \$20 million over 10 years.
- Reform inland waterways funding.** In allocating funds within the Army Corps of Engineers (Corps) budget, the Administration gives priority to those projects that offer the greatest returns to the Nation in achieving economic, environmental, and public safety objectives. This includes providing priority funding for the maintenance of existing high-performing inland waterways. However, it has had to limit capital spending because the current way of producing the funds that support the user-financed share of these costs is not working as intended.

The Corps constructs and rehabilitates the locks, dams, channels, and other features that enable barges to travel along 12,000 miles of developed inland waterways. Some of these waterways, such as the Mississippi and Ohio Rivers and the Illinois Waterway, support a high level of commercial traffic. In 1986, the Congress authorized use of an existing inland waterways fuel tax (now 20 cents per gallon) to finance 50 percent of the cost of most inland waterways capital investments. The general taxpayer pays all of the remaining capital costs and all of the operation and maintenance (O&M) costs of inland waterways navigation.

While spending for capital investments on these waterways has increased significantly in recent years, revenue from the fuel tax has declined. The fuel tax now only covers

about eight percent of the total costs that the Corps spends on behalf of the users, which make barge transportation possible (including O&M, all of which the general taxpayer pays). By contrast, non-Federal partners in all of the other Corps programs contribute on average 35 percent or more.

To address these concerns, the Administration supports enactment of a new user financing structure for the inland waterways to supplement the existing diesel fuel tax. This new fee would generate about \$1 billion of additional revenue into the Inland Waterways Trust Fund over the next 10 years. This additional revenue would enable a more robust level of funding for safe, reliable, highly cost-effective, and environmentally sustainable waterways, and contribute to deficit reduction and economic growth.

HEALTH SAVINGS

For years, we have known that high health care costs are a major driver of our long-term deficits. The United States spent approximately \$2.6 trillion on health care in 2010, or 17.6 percent of our GDP—more than any other developed nation. Families with health insurance are seeing their take-home pay reduced and their budgets strained by high costs and spiraling premiums. State and local governments are also feeling this pinch. That is why the President signed into law the Affordable Care Act (ACA), which not only eliminated insurance company abuses and expanded access to health insurance to tens of millions of Americans but also took steps to reduce health care cost growth. The Congressional Budget Office (CBO) estimates that the ACA will reduce the deficit by over \$200 billion over the next 10 years and over \$1 trillion in the following decade. Beyond these savings, the ACA puts into place the most aggressive combination of reforms yet to cut waste, reduce errors and inefficiency, boost quality, and reduce the rate of health care cost growth.

While the ACA was an historic step toward getting health care costs under control, there is still more that we can do to realize efficiencies, cut waste, and improve Federal health care programs. Most importantly, we can make modest adjustments to strengthen Medicare and Medicaid in a way that does not undermine the fundamental compact they represent to our Nation's seniors, children, people with disabilities, and low-income families. The Administration's proposals will save approximately \$320 billion over the next decade. As these reforms save money, they also will strengthen these vital programs so that they are robust and healthy to serve Americans for years to come.

MEDICARE

The Medicare program helps give roughly 50 million seniors and individuals with

disabilities access to affordable health care. While the ACA helped extend Medicare's solvency by encouraging high-quality, efficient health care and addressing wasteful spending, the Medicare Trustees still estimate trust fund exhaustion in 2024. The new proposals would make changes to Medicare that are gradual, protect current and middle-class beneficiaries, and strengthen Medicare overall. These proposals would save about \$224 billion over 10 years by better aligning payments with the costs of care and improving providers' payment incentives to provide high quality care. The proposals also make structural changes that include reducing Federal subsidies for high-income beneficiaries and creating financial incentives for newly eligible beneficiaries to seek high-value health care services to achieve an additional \$24 billion in savings. These measures are expected to extend the solvency of the Medicare Hospital Insurance Trust Fund by about three years. These proposals are presented in the context of a Medicare baseline that assumes legislative action to permanently prevent current law reductions in Medicare physician payment rates consistent with the Administration's commitment to fix the sustainable growth rate policy in a fiscally responsible way. Failing to do so simply masks the worsening long-run deficit. To save money and strengthen Medicare, the Administration proposes to:

Reduce Medicare coverage of bad debts.

For most eligible provider types, Medicare currently generally reimburses 70 percent of bad debts resulting from beneficiaries' non-payment of deductibles and copayments after providers have made reasonable efforts to collect the unpaid amounts. Similar to the Fiscal Commission, this proposal will align Medicare policy more closely with private sector standards by reducing bad debt payments to 25 percent for all eligible providers over three years starting in 2013. This proposal will save approximately \$20 billion over 10 years.

Better align graduate medical education payments with patient care costs.

Medicare compensates teaching hospitals for the indirect costs stemming from inefficiencies created from residents “learning by doing.” The Medicare Payment Advisory Commission (MedPAC) has determined that these Indirect Medical Education (IME) add-on payments are significantly greater than the additional patient care costs that teaching hospitals experience, and the Fiscal Commission, among others, recommended reducing the IME adjustment. This proposal would reduce the IME adjustment by 10 percent beginning in 2013, and save approximately \$9 billion over 10 years.

Better align payments to rural providers with the cost of care.

Medicare makes a number of special payments to account for the unique challenges of delivering medical care to beneficiaries in rural areas. These payments continue to be important; however, in specific cases, the adjustments may be greater than necessary to ensure continued access to care. The Administration proposes to improve the consistency of payments across rural hospital types, provide incentives for efficient delivery of care, and eliminate higher than necessary reimbursement. First, the Administration proposes to end an add-on payment for hospitals and physicians in low-population States. Currently, hospitals and physicians in certain low-population States receive a special payment adjustment that exceeds the amount indicated by their labor costs or certain other costs. This proposal would end this add-on payment in 2013, to better align providers’ payments with their costs, and will save approximately \$2 billion over 10 years. Secondly, to improve payment accuracy for Critical Access Hospitals (CAHs), the Administration proposes to reduce payments from 101 percent to 100 percent of reasonable costs and to eliminate the CAH designation for those that are fewer than 10 miles from the nearest hospital. This will ensure that this unique payment system is better targeted to hospitals meeting the eligibility criteria. These two CAH proposals will save approximately \$4 billion over 10 years. Together, these rural proposals will save approximately \$6 billion over 10 years.

Encourage efficient post-acute care.

Medicare covers services in skilled nursing facilities (SNFs), long-term care hospitals (LTCHs), inpatient rehabilitation facilities (IRFs) and home health. Over the years, expenditures for these services have increased dramatically, and payments in excess of the costs of providing high quality and efficient care place a drain on Medicare. Recognizing the importance of these services, the Administration supports the following policies that will save \$42 billion over 10 years and improve the quality of care:

- **Adjust payment updates for certain post-acute care providers.** MedPAC analysis indicates that Medicare payment significantly exceeds the cost of patient care in post-acute care settings, resulting in high Medicare margins. This proposal would gradually realign payments with costs through adjustments to payment rate updates in 2014 through 2021 for these providers. These adjustments build on recommendations from MedPAC’s March 2011 Report to the Congress, in which they recommended that the Congress eliminate payment updates for each of these provider types in 2012. This proposal will save \$32 billion over 10 years.
- **Equalize payments for certain conditions commonly treated in IRFs and SNFs.** Post-acute care related to a number of conditions, including hip and knee replacements, hip fractures, and certain pulmonary diseases are currently provided in both IRFs and SNFs, although Medicare payments are significantly greater when treated in IRFs. This policy would reduce the differences in payment for treatment of specified conditions to encourage care in the most clinically appropriate setting beginning in 2013. This proposal will save approximately \$4 billion over 10 years.

- **Encourage appropriate use of inpatient rehabilitation hospitals.** Medicare pays IRFs at a rate that reflects specialized rehabilitation care to patients with the most intensive needs. IRFs must demonstrate this by meeting a compliance threshold which specifies a minimum percentage of patients with designated medical conditions that require intensive rehabilitation services. Starting in 1984, this compliance threshold was set at 75 percent, but it was reduced to 60 percent in 2007. This proposal would return the compliance threshold to its previous 75 percent level beginning in 2013 to better ensure that the higher IRF payments apply to cases requiring this level of care. This proposal will save approximately \$3 billion over 10 years.
- **Adjust SNF payments to reduce hospital readmissions.** The Affordable Care Act created payment adjustments for inpatient hospitals with high rates of readmissions, many of which could be avoided through better care. However, a comparable adjustment does not exist for SNFs. MedPAC analysis shows that nearly 14 percent of Medicare patients that are discharged from a hospital to a SNF are readmitted to the hospital for conditions that could have been avoided. To promote high quality care in SNFs, this proposal reduces SNF payments by up to three percent beginning in 2015 for facilities with high rates of care-sensitive, preventable hospital readmissions. This proposal will save approximately \$2 billion over 10 years.

Align Medicare drug payment policies with Medicaid policies for low-income beneficiaries. Under current law, drug manufacturers are required to pay specified rebates for drugs dispensed to Medicaid beneficiaries. In contrast, Medicare Part D plan sponsors negotiate with manufacturers to obtain plan-specific rebates at unspecified levels. The Department of Health and Human Services (HHS) Office of Inspector

General has found substantial differences in rebate amounts and net prices paid for brand name drugs under the two programs, with Medicare receiving significantly lower rebates and paying higher prices than Medicaid. Moreover, Medicare per capita spending in Part D is growing significantly faster than that in Parts A or B under current law. This proposal would allow Medicare to benefit from the same rebates that Medicaid receives for brand name and generic drugs provided to beneficiaries who receive the Medicare Low-Income Subsidy beginning 2013. Manufacturers previously paid Medicaid rebates for drugs provided to the dual eligible population prior to the establishment of Medicare Part D. The Fiscal Commission recommended a similar proposal to apply Medicaid rebates to dual eligibles for outpatient drugs covered under Part D. This option is estimated to save \$135 billion over 10 years.

Cut waste, fraud, and abuse in Medicare. In this fiscal environment, we cannot tolerate waste, fraud, and abuse in Medicare—or any Government program. That is why the Administration has made this a priority through its Campaign to Cut Waste, together with long-standing efforts to boost program integrity and reduce improper payments (that is, payments made to the wrong person, in the wrong amount, or at the wrong time). The Administration is proposing a series of policies to build on these efforts that will save approximately \$5 billion over the next 10 years. Specifically, the Administration proposes to:

- **Recover erroneous payments made to insurers participating in Medicare Advantage.** Medicare Advantage plans receive payments that are adjusted based on whether or not beneficiaries have certain health conditions that result in higher costs. The Centers for Medicare and Medicaid Services (CMS) audits a sample of plans' records to validate the accuracy of adjusted payments, based on beneficiaries' documented health conditions (validation audits).

This proposal would require CMS to extrapolate the error rate found in risk adjustment validation audits to the entire Medicare Advantage contract payment for a given year, leading to recoupment of overpayments made to these plans. This proposal will save approximately \$2.3 billion over 10 years.

- **Reduce improper payments in Medicare.** In June 2010, the President announced a goal of reducing the Medicare fee-for-service improper payment rate by half by 2012. Several robust proposals would contribute to reaching the President’s goal, as well as strengthen Medicare program integrity more broadly. These include: increasing scrutiny of providers using high-risk banking arrangements, allowing civil monetary penalties for providers who do not update enrollment information, creating a Medicare claims ordering system to validate physician orders for certain high-risk services, requiring prepayment or earlier review for all power wheelchairs, using a portion of Recovery Audit Contractor recoveries to implement actions that prevent improper payments and fraud, permitting exclusion of individuals affiliated with entities sanctioned for fraudulent or other prohibited actions from Federal health care programs, limiting the discharge of debt in bankruptcy proceedings in cases of fraudulent activity, and strengthening penalties for illegal distribution by others of Medicare, Medicaid, or Children’s Health Insurance Program (CHIP) beneficiary identification or billing privileges. These proposals will save nearly \$1 billion over 10 years.
 - **Dedicate penalties for failure to use electronic health records toward deficit reduction.** Current law offers incentive payments to hospitals and physicians who become meaningful users of electronic health records. Beginning in 2015, Medicare providers that fail to become meaningful users are subject to
- a penalty, and the penalty is credited to a special account beginning in 2020. This proposal would instead use these penalties for deficit reduction beginning in 2021; this will save approximately \$500 million over 10 years.
- **Update Medicare payments to more appropriately account for utilization of advanced imaging.** Medicare spending for imaging services paid for under the physician fee schedule has grown dramatically in recent years due to an increase in the number and intensity of these services. MedPAC has stated that this volume growth may signal that these services are mispriced and has supported Medicare payment changes for expensive imaging equipment. Beginning in 2013, this proposal implements a payment adjustment for advanced imaging equipment to account for higher levels of utilization of certain types of equipment. This proposal will save approximately \$400 million over 10 years.
 - **Require prior authorization for advanced imaging.** The rapid growth in the number and intensity of imaging services in recent years raises concerns about whether these services are being used appropriately. This proposal would adopt prior authorization for the most expensive imaging services, beginning in 2013, to ensure that these services are used as intended and protect the Medicare program and its beneficiaries from unwarranted use. This is consistent with practices by private health insurance to manage spending growth and a GAO recommendation to consider prior authorization and other approaches to address rapid spending growth on these services. This proposal will save approximately \$900 million over 10 years.
- Increase income-related premiums under Medicare Parts B and D.** Under Medicare Parts B and D, certain beneficiaries pay higher premiums as a result of their

higher levels of income. Beginning in 2017, the Administration proposes to increase income-related premiums under Medicare Parts B and D by 15 percent and maintain the income thresholds associated with income-related premiums until 25 percent of beneficiaries under Parts B and D are subject to these premiums. This will help improve the financial stability of the Medicare program by reducing the Federal subsidy of Medicare costs for those beneficiaries who can most afford them. This proposal will save approximately \$20 billion over 10 years.

Modify Part B deductible for new beneficiaries. Beneficiaries who are enrolled in Medicare Part B are required to pay an annual deductible. This deductible helps to share responsibility for payment of Medicare services between Medicare and beneficiaries. To strengthen program financing and encourage beneficiaries to seek high-value health care services, the Administration proposes to apply a \$25 increase in the Part B deductible in 2017, 2019, and 2021 for new beneficiaries. Current beneficiaries or near retirees would not be subject to the revised deductible. This proposal will save approximately \$1 billion over 10 years.

Introduce home health co-payments for new beneficiaries. Medicare beneficiaries currently do not make co-payments for Medicare home health services. This proposal would create a home health copayment of \$100 per home health episode, applicable for episodes with five or more visits not preceded by a hospital or other inpatient post-acute care stay. This would apply to new beneficiaries beginning in 2017. This proposal is consistent with a MedPAC recommendation to establish a per episode copayment. MedPAC noted that “beneficiaries without a prior hospitalization account for a rising share of episodes” and that “adding beneficiary cost sharing for home health care could be an additional measure to encourage appropriate use of home health services.” This proposal will save approximately \$400 million over 10 years.

Introduce a Part B premium surcharge for new beneficiaries that purchase near first-dollar Medigap coverage. Medigap policies sold by private insurance companies provide beneficiaries additional support for covering healthcare costs by covering most or all of the cost sharing Medicare requires. This protection, however, gives individuals less incentive to consider the costs of health care services and thus raises Medicare costs and Part B premiums. Of particular concern are Medigap plans that cover substantially all Medicare copayments, including even the modest co-payments for routine care that most beneficiaries can afford to pay out of pocket. To encourage more efficient health care choices, the Administration proposes a Part B premium surcharge equivalent to about 15 percent of the average Medigap premium (or about 30 percent of the Part B premium) for new beneficiaries that purchase Medigap policies with particularly low cost-sharing requirements, starting in 2017. Current beneficiaries and near-retirees would not be subject to the surcharge. Other Medigap plans would be exempt from this requirement while still providing beneficiaries options for protection against high out-of-pocket costs. This proposal will save approximately \$2.5 billion over 10 years.

Strengthen the Independent Payment Advisory Board (IPAB) to reduce long-term drivers of Medicare cost growth. Created by the ACA, IPAB has been highlighted by economists and health policy experts as a key contributor to Medicare’s long term solvency. Under current law, if the projected Medicare per capita growth rate exceeds a predetermined target growth rate, IPAB recommends to the Congress policies to reduce the rate of Medicare growth to meet the target. IPAB recommendations are prohibited from increasing beneficiary premiums or cost-sharing, or restricting benefits. To further moderate the rate of Medicare growth, this proposal would lower the target rate from the GDP per capita growth rate plus 1 percent to plus 0.5 percent. Additionally, the proposal would give IPAB additional tools like the ability to consider value-based benefit design

and enforcement mechanisms such as an automatic sequester as a backstop for IPAB, the Congress, and the Secretary of HHS. This proposal would act as a backstop to the other proposed reforms.

MEDICAID

Medicaid is a critical source of health insurance coverage for approximately 56 million low-income beneficiaries including millions of children with disabilities and seniors in nursing homes. The ACA included provisions to increase anti-fraud efforts in Medicaid and placed a renewed focus on quality of care provided to Medicaid beneficiaries. To make Medicaid more flexible, efficient, and accountable, the following proposals would limit State financing practices that increase Federal spending, replace complicated matching formulas with a single matching rate specific to each State, and strengthen Medicaid program integrity. These proposals are projected to save approximately \$66 billion over 10 years.

Reduce the Medicaid provider tax threshold beginning in 2015. Many States impose taxes on health care providers to help finance the State share of Medicaid program costs. However, some States use those tax revenues to increase payments to those same providers, and use that additional spending to increase their Federal Medicaid matching payments. The Administration proposes to limit these types of State financing practices that increase Federal Medicaid spending, by phasing down the Medicaid provider tax threshold, from the current law level of 6 percent in 2014, to 4.5 percent in 2015, 4 percent in 2016, and 3.5 percent in 2017 and beyond. By delaying the effective date until 2015, the proposal protects States from reductions in the short term. This proposal is projected to save \$26.3 billion over 10 years.

Apply a single blended matching rate to Medicaid and CHIP starting in 2017. Under current law, States face a patchwork of different Federal payment contributions for individuals eligible for Medicaid and CHIP. Specifically,

State Medicaid expenditures are generally matched by the Federal Government using the Federal medical assistance percentage (FMAP); CHIP expenditures are matched with enhanced FMAP (eFMAP); and the Affordable Care Act provides increased match for newly-eligible individuals and certain childless adults beginning in 2014. Beginning in 2017 this proposal would replace these complicated formulas with a single matching rate specific to each State that automatically increases if a recession forces enrollment and State costs to rise. This proposal is projected to save \$14.9 billion over 10 years.

Limit Medicaid reimbursement of durable medical equipment (DME) based on Medicare rates. Under current law, States have experienced the same challenges in preventing overpayments for DME that previously confronted Medicare. The Medicare program is in the process of implementing innovative ways to increase efficiency for payment of DME through the DME Competitive Bidding Program, which is expected to save the Medicare program more than \$17 billion and Medicare beneficiaries approximately \$11 billion over 10 years. This proposal extends some of these efficiencies to Medicaid, starting in 2013, by limiting Federal reimbursement for a State's Medicaid spending on certain DME services to what Medicare would have paid in the same State for the same services. This proposal is projected to save \$4.2 billion over 10 years.

Strengthen third-party liability for Medicaid beneficiary claims. This proposal would affirm Medicaid's position as a payer of last resort by removing exceptions to the requirement that State Medicaid agencies reject medical claims when another entity is legally liable to pay the claim, starting in 2013. Specifically, the Administration wants to allow States to avoid costs for prenatal and preventive pediatric claims when third parties are responsible, allow providers to collect medical child support for children with health insurance through a non-custodial parent, and allow Medicaid to recover costs from beneficiary liability settlements. This proposal is projected to save \$1.3 billion over 10 years.

Re-base Medicaid disproportionate share hospital (DSH) allotments in 2021.

This proposal continues the Affordable Care Act policy to better align Medicaid DSH payments with reductions in the number of uninsured in 2021 and beyond. Supplemental DSH payments are intended to help support hospitals that provide care to disproportionate numbers of low-income and uninsured individuals. The Affordable Care Act reduced State DSH allotments by \$18.1 billion through 2020 to reflect the reduced need as a result of the increased coverage provided in the Act. The Administration proposes to compute 2021 State DSH allotments based on States' actual 2020 DSH allotments, better aligning future Medicaid supplemental payments to hospitals with reduced levels of uncompensated care. This proposal is projected to save \$4.1 billion over 10 years.

Amend modified adjusted gross income (MAGI) for health insurance assistance programs to include Social Security benefits.

Starting in 2014, eligibility for Exchange tax credits and cost sharing reductions, Medicaid, and CHIP will be determined based on an individual's or families' MAGI, as defined under the Affordable Care Act. Similar to legislation currently under consideration by the Congress, the Administration proposes to amend that definition to include the total amount of Social Security benefits in the calculation of MAGI, rather than just the taxable portion, when determining eligibility for these programs to better target those in need. This proposal is projected to save \$14.6 billion over 10 years.

Reduce waste, fraud, and abuse in Medicaid.

Medicaid funds should not be wasted on fraudulent claims, abuses of the rules, or general waste in implementing the program. The following policies will save \$110 million over the next 10 years while reducing waste, fraud, and abuse:

- **Require manufacturers that improperly report items for Medicaid drug coverage to fully repay States.** Federal law requires manufacturers to

report a list of their "covered outpatient drugs" to CMS for Medicaid drug coverage, but some manufacturers improperly report items that do not belong (e.g., syringes). This proposal would recoup costs of covering improperly-reported items discovered after Medicaid reimbursement has occurred; the proposal leverages the Medicaid drug rebate program by directing manufacturers to pay a "rebate" equal to the amount the State paid for these items.

- **Track high prescribers and utilizers of prescription drugs in Medicaid.** States already have the capability to implement monitoring systems for prescription drugs, but are not currently taking full advantage of these systems' potential benefits. This proposal requires States to track drug claims for indications of waste, fraud, or abuse by providers or beneficiaries and to take steps to reduce wasteful or abusive prescribing practices.
- **Enforce Medicaid drug rebate agreements.** Under this proposal, HHS would, when cost-effective, conduct regular audits and surveys of Medicaid drug rebate agreements to ensure the Medicaid program is receiving proper prices and rebate amounts.
- **Increase penalties on drug manufacturers for fraudulent non-compliance with Medicaid drug rebate agreements.** This proposal would increase the statutory civil monetary penalties on manufacturers that knowingly report false information under their drug rebate agreements for calculation of Medicaid rebates.
- **Require drugs to be properly listed with the FDA to receive Medicaid coverage.** Though FDA law requires manufacturers to list their drugs with FDA, compliance is inconsistent. Recently, Medicare required that drugs must be properly listed with the FDA to receive Part D coverage; this proposal would add the same requirement in Medicaid.

- **Prohibit States from using Federal funds as the State share of Medicaid or CHIP, unless specifically authorized by law.** This proposal would prohibit States from using Federal funds as the State share of Medicaid or CHIP unless funds are specifically provided for that purpose under law.

Streamline and coordinate Federal Government oversight of State Medicaid programs and expand State flexibility. This proposal would alleviate State program integrity reporting requirements by consolidating redundant error rate measurement programs to create a streamlined audit program with meaningful outcomes, while maintaining the Federal and State's government ability to identify and address improper payments. Additionally, this proposal would give States flexibility to require "benchmark" benefit plan coverage for non-elderly, non-disabled adults with incomes over 133 percent of the Federal poverty level. Currently, States have the option to provide certain populations "benchmark" or "benchmark equivalent" plans, or alternative benefit packages that may be offered in lieu of the benefits covered under a traditional Medicaid State plan.

OTHER HEALTH SAVINGS

Beyond Medicare and Medicaid, there are a series of proposals in other health programs that will help reduce the deficit and provide consumers with more affordable pharmaceuticals; prioritize investments in public health outcomes proven to reduce drivers of health care cost growth; and provide States the flexibility to develop their own innovative strategies to ensure their residents have access to high quality, affordable health insurance. The Administration proposes to:

Prohibit "pay for delay" agreements to increase the availability of generic drugs and biologics. The high cost of prescription drugs places a significant burden on Americans today, causing many to skip doses, split pills or forgo needed medications altogether. The

Administration proposes to increase the availability of generic drugs and biologics by authorizing the Federal Trade Commission (FTC) to stop companies from entering into anti-competitive deals, known also as "pay for delay" agreements, intended to block consumer access to safe and effective generics. A 2010 Federal Trade Commission study that evaluated the universe of brand-generic settlements and 2008 drug expenditure data found that on average, these agreements delayed entry of a generic by 17 months and cost American consumers as much as \$3.5 billion per year. More recently, the FTC reported that the number of pay-for-delay agreements skyrocketed from 19 in 2009 to 31 in 2010.

Such deals block access to generics and can cost consumers billions of dollars because generic drugs are typically priced significantly less than their branded counterparts. These agreements reduce competition and raise the cost of care for patients both directly, through higher drug and biologic prices, and indirectly through higher health care premiums. The Administration's proposal facilitates greater access to lower-cost generics and will generate \$2.7 billion over 10 years in savings to Federal health programs including Medicare and Medicaid.

Reduce the exclusivity period for generic biologics. Access to affordable lifesaving medicines is essential to improving the quality and efficiency of health care. The Administration's proposal accelerates access to affordable generic biologics by modifying the length of exclusivity on brand name biologics to encourage faster development of generic biologics while retaining appropriate incentives for research and development for the innovation of breakthrough products. Beginning in 2012, this proposal would award brand biologic manufacturers seven years of exclusivity rather than 12 years under current law and prohibit additional periods of exclusivity for brand biologics due minor changes in product formulations, a practice often referred to as "evergreening." Reducing the exclusivity period increases the availability of generic biologics to encourage faster development of generic biologics while retaining appropriate incentives

for research and development for the innovation of breakthrough products. The Administration's proposal strikes a balance between promoting affordable access to medications and encouraging innovation to develop needed therapies. The proposal will result in \$3.5 billion in savings over 10 years to Federal health programs including Medicare and Medicaid.

Streamline Federal Employee Health Benefit (FEHB) pharmacy benefit contracting. The Administration is committed to the efficient administration of the FEHB program in order to get the best deal for Federal employees and their families, as well as for taxpayers. The FEHB program pays \$40 billion per year for health coverage, and drugs represent about 30 percent of claims expenditures. Under current law, health plans participating in the FEHB program contract with pharmacy benefits managers who negotiate prices with drug manufacturers and pharmacies on behalf of their enrollees. This fragmented purchasing strategy does not take full advantage of the combined purchasing power of the nearly eight million enrollees in the FEHB program. Under the Administration proposal, the Office of Personnel Management would contract directly for pharmacy benefit management services on behalf of all FEHB enrollees and their dependents. This will allow the FEHB program to more efficiently leverage its purchasing power to obtain a better deal for enrollees and taxpayers. This proposal is projected to save \$1.6 billion over 10 years.

Prioritize prevention and public health fund investments. The Prevention and Public Health Fund has supported effective, evidence-based public health activities that restrain health care costs and improve health outcomes, such as immunizations and

reductions of health care associated infections. The Administration proposes to scale-back the Fund by reducing resources by \$3.5 billion over 10 years starting in 2014, while maintaining high priority activities that improve health outcomes and restrain the rate of growth in private and public sector health care costs. Prioritizing Prevention Fund activities would allow for significant investments in prevention and public health activities of more than \$6 billion over five years and \$13.8 billion over 10 years, while providing \$3.5 billion in savings.

Accelerate the issuance of State Innovation Waivers. This proposal empowers States to develop their own innovative strategies to ensure their residents have access to high quality, affordable health insurance achieving the same outcomes as the ACA. Similar to legislation previously introduced by Senators Ron Wyden, Scott Brown, and Mary Landrieu and endorsed by the President, it would make "State Innovation Waivers" available starting in 2014, three years earlier than under current law. These State strategies would need to provide affordable insurance coverage to at least as many residents as without the waiver and must not increase the Federal deficit. The Administration is committed to the budget neutrality of these waivers; an allowance for these waivers is included to account for the possibility that CBO will estimate costs for this proposal.

Provide resources to implement these reforms. To achieve the reforms proposed, HHS will need to implement significant changes to its systems and processes to ensure the savings proposed are achieved in a timely manner. To accomplish this, the proposal includes \$400 million in funding for the Secretary of HHS.

TAX REFORM

The President is committed to reducing the deficit through a balanced approach—one that restrains spending across the budget, including in the tax code; asks the wealthiest among us to contribute to deficit reduction; and lays the foundation for future growth. That is why the President is calling on the Congress to undertake comprehensive tax reform to cut rates, cut inefficient tax breaks, cut the deficit, and increase jobs and growth in the United States—while observing the “Buffett Rule” that people making over \$1 million should not pay lower taxes than the middle class.

Tax reform is critical to rebuilding our economy to be stronger and more stable than in the past. Two of our biggest economic challenges—creating jobs and reducing long-term deficits—both depend on a simpler, fairer, more progressive tax system than we have today.

The Administration believes, like many others, that tax cuts play an important role in job creation. But the Administration believes that broad tax cuts for the middle class—rather than for only the wealthiest one or two percent of Americans—are far more effective at creating jobs and growing the economy. When millions of middle class families across the country have more money in their bank accounts to spend in their communities, businesses large and small can grow, innovate, invest, and hire. The success of the American economy has long been built on the vibrancy of our middle class, and our efforts to create a tax system that is fairer, simpler, and more progressive reflect that reality.

Tax reform is also an important part of reducing our long-term deficits and placing our country on a fiscally sustainable path. We cannot address a deficit a decade in the making through spending cuts alone—that is, unless we, as a country, agree to cut every program in the entire budget by more than a quarter, including all defense spending, Social Security and Medicare benefits, and veterans’

benefits, along with everything else. The Administration believes in a balanced approach that cuts spending responsibly, but also asks the most well-off in society—many of whom, through loopholes and other exemptions, pay less in taxes than most middle class families—to contribute their fair share towards reducing the deficit and healing our economy.

COMPREHENSIVE TAX REFORM

The tax code has become increasingly complicated and unfair. Changes enacted during the previous Administration were skewed in favor of the wealthiest taxpayers and reduced the tax code’s overall progressivity. Under today’s tax laws, those who can afford expert advice can avoid paying their fair share and interests with the most connected lobbyists can get exemptions and special treatment written into our tax code. While many of the tax incentives serve important purposes, taken together the tax expenditures in the law are inefficient, unfair, duplicative, or even unnecessary. The corporate tax system provides special incentives for some industries, like oil and gas producers, yet fails to provide sufficient incentives for companies to invest in America. Because our corporate tax system is so riddled with special interest loopholes, our system has one of the highest statutory tax rates among developed countries to generate about the same amount of corporate tax revenue as our developed country partners as a share of our economy; this, in turn, hurts our competitiveness in the world economy. In addition, a large fraction of the tax code is now temporary and expires periodically, adding uncertainty for households and businesses, and complicating the fiscal outlook.

The result is a tax code that neither serves the American people nor our economy. Recent data show that the tax code places a relatively light tax burden on the wealthiest Americans. As Warren Buffett has pointed out, his effective tax rate is lower than his secretary’s, although this is not true for

PRINCIPLES FOR TAX REFORM

1. **Lower tax rates.** The tax system should be simplified and work for all Americans with lower individual and corporate tax rates and fewer brackets.
2. **Cut Inefficient and Unfair Tax Breaks.** Cut tax breaks that are inefficient, unfair, or both so that the American people and businesses spend less time and less money each year filing taxes and cannot avoid their responsibility by gaming the system.
3. **Cut the deficit.** Cut the deficit by \$1.5 trillion over the next decade through tax reform, including the expiration of tax cuts for single taxpayers making over \$200,000 and married couples making over \$250,000.
4. **Increase job creation and growth in the United States.** Make America stronger at home and more competitive globally by increasing the incentive to work and invest in the United States.
5. **Observe the Buffett Rule.** No household making over \$1 million annually should pay a smaller share of its income in taxes than middle-class families pay. As Warren Buffett has pointed out, his effective tax rate is lower than his secretary's. No household making over \$1 million annually should pay a smaller share of its income in taxes than middle-class families pay. This rule will be achieved as part of an overall reform that increases the progressivity of the tax code.

many small business owners and others who primarily receive labor income. The tax code also places a substantial compliance burden on taxpayers. For instance, taxpayers filing Form 1040 spent an average of 21 hours preparing their returns and most taxpayers—about 60 percent—find themselves paying tax preparers to fill out their returns. We have not had a comprehensive reform of our tax code in a generation. The last time we had one, the Internet was a small tool used by researchers, the Euro did not exist, and global supply chains and commerce were far less developed. The time has come for tax reform to modernize our tax code, make it fairer, and to reduce its complexity.

That is why the President is calling on the Congress to enact comprehensive tax reform that meets five principles (see box above). This will make our tax code simpler, fairer, and more efficient—and end a system that allows households making millions of dollars annually to pay lower tax rates than middle-class families.

This tax reform would make an important contribution as part of a balanced plan to

reduce the deficit. For individuals, the high-income tax cuts enacted in 2001 and 2003 would be allowed to expire and additional inefficient tax breaks would be cut to raise an additional \$700 billion while observing the Buffett Rule and making the tax code fair for all Americans. For corporations, deficit neutral tax reform would make businesses pay for the cost of any of the roughly \$300 billion in temporary tax breaks over the next decade that would be continued as part of the reform but have generally been deficit financed in the past, like the Research and Experimentation credit. Together, individuals and corporations would be contributing roughly proportionately to deficit reduction.

SPECIFIC MEASURES TO CUT INEFFICIENT TAX BREAKS AND IMPROVE COMPLIANCE

The President recognizes that comprehensive tax reform will take time and will not be easy. However, the President also believes that the Joint Committee must take action now that locks in improvements in our tax code that increase fairness and efficiency while helping put the Nation on a sustainable fiscal course.

To begin the national conversation about tax reform, the President is offering a detailed set of specific tax loophole closers and measures to broaden the tax base that, together with the expiration of the high-income tax cuts, would be more than sufficient to hit the \$1.5 trillion target for tax reform and cut inefficient expenditures as well as move the tax system closer to observing the Buffett Rule. These measures include: cutting tax preferences for high-income households; eliminating special tax breaks for oil and gas companies; closing the carried interest loophole for investment fund managers; and eliminating benefits for those who buy corporate jets. It is incumbent on everyone who supports comprehensive tax reform to not only call for lower rates but to identify specific tax loopholes and tax expenditures that they would be willing to reform or eliminate as part of a reform effort. The President is making good on this commitment by putting forward a specific, scorable set of tax expenditure reforms.

Tax reform should draw on items listed here, together with the elimination of additional inefficient tax breaks, to finance the reduction of marginal rates and comport with the Buffett Rule. If the Joint Committee is unable to undertake comprehensive tax reform, the President believes these measures should be enacted on a standalone basis. Although this would fall short of the President's five principles for reform, it would move the tax system closer to several of them.

This fallback of allowing the high-income tax cuts to expire, and enacting specific loophole closers and base broadeners, would lock in deficit reduction from tax changes that is as specific and certain as the deficit reduction coming from the President's proposed spending reductions, and would be a critical part of a balanced plan to put America on a course towards fiscal sustainability. This would significantly improve the country's fiscal standing, represent an important step toward more fundamentally transforming our tax code, and serve as a strong foundation for economic growth and job creation.

The measures that could contribute to comprehensive tax reform or, absent such reform, act as a backstop, include bringing fairness to the individual tax code, incorporating measures in the American Jobs Act, closing business loopholes and broadening the business tax base, eliminating fossil fuel preferences, reforming the treatment of insurance companies and products, reforming the U.S. international tax system, and other changes. These proposals would generally become effective on January 1, 2013.

Bring Fairness to the Individual Tax Code

Allow the 2001 and 2003 high-income tax cuts to expire and return the estate tax to 2009 parameters. The tax cuts for those with household income above \$250,000 per year passed in the Bush Administration were unfair and unaffordable at the time they were enacted and remain so today. In December 2010, congressional Republicans insisted on extending them through 2012 and threatened to allow taxes to increase on middle-class families if the Administration did not agree. Not extending the middle-class tax cuts would have hurt our nascent economic recovery, and would have imposed an enormous burden on working families. The Administration remains opposed to the extension of these high-income tax cuts past 2012 and supports the return of the estate tax exemption and rates to 2009 levels. This would reduce the deficit by \$866 billion over 10 years.

Measures Incorporated in the American Jobs Act

Reduce the value of itemized deductions and other tax preferences to 28 percent for families with incomes over \$250,000. Currently, a millionaire who contributes to charity or deducts a dollar of mortgage interest, enjoys a deduction that is more than twice as generous as that for a middle-class family. The proposal would limit the tax rate at which high-income taxpayers can reduce their tax liability to a maximum of 28 percent, affecting only married taxpayers filing a joint

return with income over \$250,000 (at 2009 levels) and single taxpayers with income over \$200,000. This limit would apply to: all itemized deductions; foreign excluded income; tax-exempt interest; employer sponsored health insurance; and selected above-the-line deductions. The proposed limitation would return the deduction rate to the level it was at the end of the Reagan Administration. It would reduce the deficit by \$410 billion over 10 years.

Tax carried (profits) interests as ordinary income. A partnership does not pay income tax; instead, the income or loss and associated character flows through to the partners who must include such items on their individual income tax returns. Certain partners receive a partnership interest, typically an interest in future profits, in exchange for services (commonly referred to as a “carried interest”). Current law taxes the recipient of a carried interest on the value at the time granted, which may be based on the value the partner would receive if the partnership were liquidated immediately (for example, the value of an interest only in future profits would be zero). Because the partners, including partners who provide services, reflect their share of partnership items on their tax return in accordance with the character of the income at the partnership level, long-term capital gains and qualifying dividends attributable to carried interests may be taxed at a maximum 15-percent rate (the maximum tax rate on capital gains) rather than at ordinary income tax rates.

The President is proposing to designate a carried interest in an investment partnership as an “investment services partnership interest” (ISPI) and to tax a partner’s share of income from an ISPI that is not attributable to invested capital as ordinary income, regardless of the character of the income at the partnership level. In addition, the partner would be required to pay self-employment taxes on such income, and the gain recognized on the sale of an ISPI that is not attributable to invested capital would generally be taxed as ordinary income, not as capital gain. However,

any allocation of income or gain attributable to invested capital on the part of the partner would be taxed as ordinary income or capital gain based on its character to the partnership and any gain realized on a sale of the interest attributable to such partner’s invested capital would be treated as capital gain or ordinary income as provided under current law. This would reduce the deficit by \$13 billion over 10 years.

Eliminate special depreciation rules for corporate purchases of aircraft. Under current law airplanes used in commercial and contract carrying of passengers and freight can be depreciated over seven years. Airplanes not used in commercial or contract carrying of passengers or freight, for example corporate jets, are depreciated over five years. The proposal would change depreciation schedules for corporate planes that carry passengers to seven years, effective for tax years after December 31, 2012. This would reduce the deficit by \$5 billion over 10 years.

Eliminate oil and gas tax preferences. Current law provides a number of credits and deductions that are targeted towards certain oil and gas activities. In accordance with the President’s agreement at the G-20 Summit in Pittsburgh in December 2009 to phase out subsidies for fossil fuels so that we can transition to a 21st Century energy economy, the President is proposing to repeal a number of tax preferences available for fossil fuels. The Administration proposes repealing the following tax preferences available for oil and gas activities beginning in 2013: 1) the use of percentage depletion with respect to oil and gas wells; 2) the ability to claim the domestic manufacturing deduction against income derived from the production of oil and gas; 3) the expensing of intangible drilling costs; 4) the deduction for costs paid or incurred for any tertiary injectant used as part of a tertiary recovery method; 5) the exception to passive loss limitations provided to working interests in oil and natural gas properties; and 6) two-year amortization of independent producers’ geological and geophysical expenditures, instead of allowing amortization over the same

seven-year period as for integrated oil and gas producers. This would reduce the deficit by \$41 billion over 10 years.

Modify tax rules for dual capacity taxpayers. The Administration proposes tightening the foreign tax credit rules that apply to taxpayers that are subject to a foreign levy and that also receive (directly or indirectly) a specific economic benefit from the levying country (so-called “dual capacity” taxpayers). This would reduce the deficit by \$10 billion over 10 years.

Close Business Loopholes and Broaden the Business Tax Base

Repeal last-in, first-out (LIFO) method of accounting for inventories. Under the LIFO method of accounting for inventories, the cost of the items of inventory that are sold is equal to the cost of the items of inventory that were most recently purchased or produced. For many businesses where the price of goods in inventory rise over time, like oil and gas companies, the LIFO approach allows firms to artificially lower their tax liability. The President’s proposal would repeal the use of the LIFO accounting method for Federal tax purposes, effective for taxable years beginning after December 31, 2012. Assuming inventory costs rise over time, taxpayers required to change from the LIFO method under the proposal generally would experience a permanent reduction in their deductions for cost of goods sold and a corresponding increase in their annual taxable income as older, cheaper inventory is taken into account in computing taxable income. Taxpayers required to change from the LIFO method also would be required to report their beginning-of-year inventory at its first-in, first-out (FIFO) value in the year of change, causing a one-time increase in taxable income that would be recognized ratably over 10 years. This would reduce the deficit by \$52 billion over 10 years.

Repeal lower-of-cost-or-market inventory accounting method. The President’s plan would prohibit the use of the lower-of-cost-or-market and subnormal goods methods of inventory accounting, which currently allow

certain taxpayers to take cost-of-goods-sold deductions on certain merchandise before the merchandise is sold. The proposed prohibition would be effective for the first taxable year beginning after December 31, 2012, and any resulting income inclusion would be recognized over a four-year period. This would reduce the deficit by \$8 billion over 10 years.

Eliminate preferences for the coal industry. The Administration proposes repealing the following tax preferences available for coal activities beginning in 2013: 1) expensing of exploration and development costs; 2) percentage depletion for hard mineral fossil fuels; 3) capital gains treatment for royalties; and 4) the ability to claim the domestic manufacturing deduction against income derived from the production of coal and other hard mineral fossil fuels. This would reduce the deficit by \$2 billion over 10 years.

Reform Treatment of Insurance Companies and Products

Modify rules that apply to sales of life insurance contracts. The seller of a life insurance contract generally must report the difference between the amounts received from the buyer and the adjusted basis for the contract as taxable income. When death benefits are received under the contract, the buyer is taxed on the excess of those benefits over the amounts paid for the contract, unless an exception to a “transfer-for-value rule” applies. Information reporting may not always be required in circumstances involving the purchase of a life insurance contract. In response to the growth in the number and size of life settlement transactions, the proposal would expand information reporting on the sale of life insurance contracts and the payment of death benefits on contracts that were sold, and would modify the “transfer-for-value” exceptions to prevent purchasers of policies from avoiding tax on death benefits that are received. The proposal would apply to sales or assignment of interests in life insurance policies and payments of death benefits for taxable years beginning after

December 31, 2012. This would reduce the deficit by \$1 billion over 10 years.

Modify dividends-received deduction (DRD) for life insurance companies' separate accounts. Under current law, a life insurance company is required to "prorate" its net investment income between a company's share and a policyholder's share. The result of this proration is used to limit the funding of tax-deductible reserve increases with tax-preferred income, such as certain corporate dividends and tax-exempt interest. The complexity of this regime has generated significant controversy between life insurance companies and the Internal Revenue Service (IRS), particularly with regard to the dividends-received deduction for such companies' separate accounts. In some cases, the existing regime produces a company's share that exceeds the company's actual economic interest in the underlying income. The proposal would replace this regime with one that is much simpler. Under the proposal, the DRD with regard to general account dividends would be subject to the same flat proration percentage that applies to non-life insurance companies under current law (15 percent); the DRD with regard to separate account dividends would be based on the proportion of reserves to total assets of the account. This would reduce the deficit by \$5 billion over 10 years.

Expand pro rata interest expense disallowance for corporate-owned life insurance (COLI). The interest deductions of a business other than an insurance company are reduced to the extent the interest is allocable to un-borrowed policy cash values on life insurance and annuity contracts. The purpose of this pro rata disallowance is to prevent the deduction of interest expense that is allocable to inside buildup that is either tax-deferred or not taxed at all. A similar disallowance applies with regard to reserve deductions of an insurance company. A current-law exception to this rule applies to contracts covering the lives of officers, directors and employees. Under the proposal, the exception for officers, directors and employees would be repealed unless those

individuals are also 20-percent owners of the business that is the owner or beneficiary of the contracts. Thus, purchases of life insurance by small businesses and other taxpayers that depend heavily on the services of a 20-percent owner would be unaffected, but the funding of deductible interest expenses with tax-exempt or tax-deferred inside buildup would be curtailed. The proposal would apply to contracts issued after December 31, 2012, in taxable years ending after that date. This would reduce the deficit by \$6 billion over 10 years.

Reform the U.S International Tax System

Defer deduction of interest expense related to deferred income. Under current law, a taxpayer that incurs interest expense properly allocable and apportioned to foreign-source income may be able to deduct that expense even if some or all of the foreign source income is not subject to current U.S. taxation. To provide greater matching of the timing of interest expense deductions and recognition of associated income, the proposal would defer the deduction of interest expense properly allocable and apportioned to foreign-source income to the extent the U.S. taxation of such income is deferred. This would reduce the deficit by \$36 billion over 10 years.

Determine the foreign tax credit on a pooling basis. Under the proposal, a taxpayer would be required to determine foreign tax credits from the receipt of a dividend from a foreign subsidiary on a consolidated basis for all its foreign subsidiaries. Foreign tax credits from the receipt of a dividend from a foreign subsidiary would be based on the consolidated earnings and profits and foreign taxes of all the taxpayer's foreign subsidiaries. This would reduce the deficit by \$53 billion over 10 years.

Tax excess returns associated with transfers of intangibles offshore currently. The IRS has broad authority to allocate income among commonly controlled businesses under section 482 of the Internal Revenue Code. Notwithstanding the transfer pricing rules, there is evidence of income

shifting offshore, including through transfers of intangible rights to subsidiaries that bear little or no foreign income tax. Under the proposal, if a U.S. parent transfers an intangible to a controlled foreign corporation (CFC) in circumstances that demonstrate excessive income shifting from the United States, then an amount equal to the excessive return would be treated as subpart F income. This would reduce the deficit by \$19 billion over 10 years.

Limit shifting of income through intangible property transfers. The definition of intangible property for purposes of the special rules relating to transfers of intangibles by a U.S. person to a foreign corporation (section 367(d) of the Internal Revenue Code) and the allocation of income and deductions among taxpayers (section 482) would be clarified to prevent inappropriate shifting of income outside the United States. This would reduce the deficit by \$1 billion over 10 years.

Limit earnings stripping by expatriated entities. Under the proposal, the rules that limit the deductibility of interest paid to related persons subject to low or no U.S. tax on that interest would be amended to prevent inverted companies from using foreign-related party and certain guaranteed debt to reduce inappropriately the U.S. tax on income earned from their U.S. operations. This would reduce the deficit by \$4 billion over 10 years.

Other Changes

Reinstate Superfund taxes. The President is proposing to reinstate the taxes that were deposited in the Hazardous Substance Superfund prior to their expiration on December 31, 1995. These taxes, which contributed to financing the cleanup of the Nation's highest risk hazardous waste sites, are proposed to be reinstated for periods (excise taxes) or tax years (income tax) beginning after 2012, with expiration for periods and tax years after 2021. The proposed taxes include the following: 1) an excise tax of 9.7-cents-per-barrel on crude oil and imported petroleum products; 2) an excise tax on hazardous

chemicals listed in section 4661 of the Internal Revenue Code (26 U.S.C. § 4661) at rates that vary from 22 cents to \$4.87 per ton; 3) an excise tax on imported substances that use listed hazardous chemicals as a feedstock (in an amount equivalent to the tax that would have been imposed on domestic production of the chemicals); and 4) a corporate environmental income tax imposed at a rate of 0.12 percent on the amount by which the modified AMT income of a corporation exceeds \$2 million. This would reduce the deficit by \$19 billion over 10 years.

Make unemployment insurance (UI) surtax permanent. The net Federal UI tax on employers dropped from 0.8 percent to 0.6 percent with respect to wages paid after June 30, 2011. The President's plan would extend the 0.8 percent rate permanently, effective as of June 30, 2011. This would reduce the deficit by \$15 billion over 10 years.

Increase certainty with respect to worker classification. Under current law, worker classification as an employee or as a self-employed person (independent contractor) is generally based on a common-law test for determining whether an employment relationship exists. Under a special provision (section 530 of the Revenue Act of 1978), a service recipient may treat a worker who may actually be a common law employee as an independent contractor for Federal employment tax purposes if, among other things, the service recipient has a reasonable basis for treating the worker as an independent contractor. If a service recipient meets the requirements of this special provision with respect to a class of workers, the IRS is prohibited from reclassifying the workers as employees, even prospectively. The special provision also prohibits the IRS from issuing generally applicable guidance about the proper classification of workers.

The President's plan would permit the IRS to issue generally applicable guidance about the proper classification of workers and to permit the IRS to require prospective reclassification of workers who are currently misclassified

and whose reclassification is prohibited under the special provision. Penalties would be waived for service recipients with only a small number of employees and a small number of misclassified workers, if the service recipient had consistently filed all required information returns reporting all payments to all misclassified workers and the service recipient agreed to prospective reclassification of misclassified workers. It is anticipated that

after enactment, new enforcement activity would focus mainly on obtaining the proper worker classification prospectively, since in many cases the proper classification of workers may not be clear. The proposal would be effective upon enactment, but the prospective reclassification for those covered by the special provision would not be effective at least one year after the date of enactment. This would reduce the deficit by \$8 billion over 10 years.

Summary Tables

Table S-1. BRIDGE BETWEEN OMB MID-SESSION REVIEW BASELINE AND DEFICIT ASSUMING ENACTMENT OF RECOMMENDATIONS TO THE JOINT SELECT COMMITTEE
(In billions of dollars)

	Totals												
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
Mid-Session Review adjusted baseline deficit before Budget Control Act (BCA) caps	1,316	1,060	912	854	968	1,088	1,058	1,075	1,158	1,255	1,345	4,883	10,774
Percent of GDP	8.8%	6.8%	5.5%	4.9%	5.3%	5.6%	5.2%	5.0%	5.2%	5.4%	5.5%		
BCA discretionary caps:													
Cap reductions, program integrity, and cap adjustment for proposed disaster relief		-25	-55	-77	-91	-102	-110	-119	-128	-137	-147	-351	-992
Debt service		*	-1	-4	-8	-13	-19	-25	-32	-39	-47	-26	-188
Total		-25	-56	-81	-99	-115	-130	-144	-159	-176	-194	-377	-1,180
Mid-Session Review adjusted baseline deficit with BCA caps	1,316	1,035	856	773	869	972	929	931	998	1,079	1,151	4,506	9,593
Recommendations to the Joint Select Committee:													
American Jobs Act		324	155	-6	-3	-8	-7	-4	-2	-1	-2	462	447
Mandatory savings ¹		12	-3	-40	-43	-34	-29	-27	-31	-30	-32	-107	-257
Health savings ¹		*	-11	-17	-22	-28	-38	-41	-46	-53	-65	-78	-320
Cap Overseas Contingency Operations (OCO) funding ²		-24	-78	-103	-115	-120	-123	-126	-129	-132	-135	-439	-1,084
Tax reform	*	-14	-89	-134	-154	-171	-185	-191	-200	-211	-224	-562	-1,573
Debt service		1	4	3	-8	-23	-41	-60	-81	-103	-127	-23	-436
Total	*	300	-23	-297	-343	-383	-423	-449	-487	-530	-586	-747	-3,222
Total deficit reduction	*	274	-79	-378	-443	-499	-552	-593	-647	-706	-780	-1,124	-4,403
Resulting deficit	1,316	1,334	883	476	525	589	506	482	511	549	565	3,758	6,371
Percent of GDP	8.8%	8.5%	5.1%	2.7%	2.9%	3.0%	2.5%	2.2%	2.3%	2.4%	2.3%		
Memorandum:													
Debt held by the public	10,264	11,685	12,689	13,316	13,982	14,698	15,309	15,885	16,479	17,107	17,753		
Percent of GDP	68.6%	74.6%	76.9%	76.4%	75.9%	75.6%	74.8%	74.2%	73.8%	73.4%	73.0%		
Debt net of financial assets	9,194	10,508	11,333	11,808	12,333	12,922	13,427	13,909	14,420	14,969	15,534		
Percent of GDP	61.4%	67.0%	68.7%	67.8%	66.9%	66.5%	65.6%	65.0%	64.6%	64.2%	63.9%		
Primary deficit (+) / surplus (-)	1,100	1,099	532	82	42	40	-106	-181	-197	-202	-225	1,795	885
Percent of GDP	7.4%	7.0%	3.2%	0.5%	0.2%	0.2%	-0.5%	-0.8%	-0.9%	-0.9%	-0.9%		

* \$500 million or less.

¹ Based on OMB estimates of CBO scoring.

² Illustrative allocation of savings from the proposal to cap OCO appropriations through 2021.

Table S-2. BRIDGE BETWEEN OMB MID-SESSION REVIEW BEA BASELINE DEFICIT AND ADJUSTED MID-SESSION REVIEW BASELINE DEFICIT

(In billions of dollars)

	Totals												
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2021	
Mid-Session Review BEA baseline deficit	1,314	1,011	654	475	526	585	493	449	468	495	510	3,251	5,666
Extend the 2001 and 2003 tax cuts and index the AMT for inflation ...	1	33	228	330	364	401	436	467	500	535	572	1,356	3,867
Prevent reduction in Medicare physician payments		13	22	23	25	28	30	33	36	40	43	111	293
Reflect incremental cost of funding existing Pell maximum grant award		-*	-*	3	8	8	7	6	6	6	6	18	50
Baseline assumption of possible emergencies ¹	1	3	7	8	9	9	10	10	10	10	10	36	86
Debt service		*	3	15	36	57	83	109	137	169	204	111	813
Mid-Session Review adjusted baseline deficit before Budget Control Act (BCA) caps	1,316	1,060	912	854	968	1,088	1,058	1,075	1,158	1,255	1,345	4,883	10,774
BCA discretionary caps:													
Cap reductions, program integrity, and cap adjustment for proposed disaster relief		-25	-55	-77	-91	-102	-110	-119	-128	-137	-147	-351	-992
Debt service		-*	-1	-4	-8	-13	-19	-25	-32	-39	-47	-26	-188
Total		-25	-56	-81	-99	-115	-130	-144	-159	-176	-194	-377	-1,180
Mid-Session Review adjusted baseline deficit with BCA caps ..	1,316	1,035	856	773	869	972	929	931	998	1,079	1,151	4,506	9,593

* \$500 million or less.

¹ These amounts represent a placeholder for major disasters requiring Federal assistance for relief and reconstruction. Such assistance might be provided in the form of discretionary or mandatory outlays or tax relief. This placeholder is separate from the Budget Control Act cap adjustment for disaster relief.

Table S-3. BRIDGE BETWEEN CBO AUGUST BASELINE DEFICIT AND DEFICIT ASSUMING ENACTMENT OF RECOMMENDATIONS TO THE JOINT SELECT COMMITTEE

(In billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Totals	
												2012-	2021
Adjusted CBO August baseline deficit	1,284	1,024	933	815	826	972	1,004	1,069	1,207	1,323	1,430	4,571	10,603
Percent of GDP	8.5%	6.5%	5.8%	4.8%	4.6%	5.1%	5.0%	5.1%	5.5%	5.8%	6.0%		
Budget Control Act discretionary caps:													
Cap reductions, program integrity, and cap adjustment for proposed disaster relief		-24	-47	-61	-69	-77	-84	-91	-98	-107	-116	-278	-774
Debt service		*	-1	-2	-4	-8	-13	-18	-24	-31	-38	-13	-138
Total		-25	-48	-62	-72	-85	-97	-109	-123	-138	-153	-292	-912
Recommendations to the Joint Select Committee:													
American Jobs Act		324	155	-6	-3	-8	-7	-4	-2	-1	-2	462	447
Mandatory savings ¹		12	-3	-40	-43	-34	-29	-27	-31	-30	-32	-107	-257
Health savings ¹		*	-11	-17	-22	-28	-38	-41	-46	-53	-65	-78	-320
Cap Overseas Contingency Operations (OCO) funding ²		-12	-58	-95	-111	-118	-122	-126	-130	-134	-138	-395	-1,044
Tax reform ¹		*	-50	-136	-163	-175	-185	-195	-204	-210	-215	-525	-1,534
Debt service		4	5	3	-3	-17	-36	-57	-79	-103	-129	-9	-413
Total		328	36	-291	-344	-381	-417	-449	-491	-531	-581	-652	-3,121
Total deficit reduction		*	303	-12	-354	-417	-465	-514	-558	-613	-669	-735	-4,033
Resulting deficit	1,284	1,328	921	462	410	507	490	510	593	654	695	3,627	6,570
Percent of GDP	8.5%	8.5%	5.7%	2.7%	2.3%	2.7%	2.4%	2.4%	2.7%	2.9%	2.9%		
Memorandum:													
Debt held by the public	10,164	11,507	12,538	13,109	13,629	14,235	14,824	15,428	16,109	16,847	17,624		
Percent of GDP	67.3%	73.5%	77.5%	77.2%	75.2%	74.5%	74.0%	73.6%	73.6%	73.7%	74.0%		
Debt net of financial assets	9,306	10,620	11,530	11,988	12,385	12,887	13,369	13,867	14,447	15,087	15,769		
Percent of GDP	61.7%	67.8%	71.3%	70.6%	68.3%	67.4%	66.8%	66.2%	66.0%	66.0%	66.2%		
Primary deficit (+) / surplus (-)	1,062	1,086	650	159	57	76	-28	-79	-52	-43	-45	2,028	1,781
Percent of GDP	7.0%	6.9%	4.0%	0.9%	0.3%	0.4%	-0.1%	-0.4%	-0.2%	-0.2%	-0.2%		

* \$500 million or less.

¹ Based on OMB estimates of CBO scoring.

² Illustrative allocation of savings from the proposal to cap OCO appropriations through 2021.

**Table S-4. BRIDGE BETWEEN CBO AUGUST BASELINE DEFICIT
AND ADJUSTED CBO AUGUST BASELINE DEFICIT**
(In billions of dollars)

												Totals	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012- 2016	2012- 2021
CBO August baseline deficit	1,284	973	623	380	322	402	362	349	405	430	440	2,701	4,687
Remove Budget Control Act discretionary caps		27	49	62	70	77	84	91	98	106	115	285	778
Extend the 2001 and 2003 tax cuts and index the AMT for inflation		11	238	340	385	414	444	476	509	546	586	1,389	3,949
Prevent reduction in Medicare physician payments		12	19	23	26	29	31	34	37	41	45	109	298
Debt service		1	4	11	23	50	84	119	157	199	244	88	891
Adjusted CBO August baseline deficit	1,284	1,024	933	815	826	972	1,004	1,069	1,207	1,323	1,430	4,571	10,603

Table S-5. JOINT COMMITTEE RECOMMENDATIONS

(Deficit increases (+) or decreases (-) in millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Totals	
												2012-2016	2012-2021
American Jobs Act:													
Tax Cuts to Help America's Small Businesses Hire and Grow:													
Cut employer payroll taxes in half and provide bonus payroll cut for new jobs/wages	60,686	14,992	-4,383	-1,736	-602	-177	-32	.....	.....	.....	.....	68,957	68,748
Extend 100% expensing in 2012	50,660	17,898	-21,275	-13,712	-9,731	-7,171	-4,666	-2,990	-1,839	-1,377	.....	23,840	5,797
Help entrepreneurs and small businesses access capital and grow	3	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	3	3
Delay application of withholding on government contractors .....	.....	5,900	-5,403	.....	.....	.....	.....	.....	.....	.....	.....	497	497
Putting Workers Back on the Job While Rebuilding and Modernizing America:													
Support teacher rehiring and first responders	21,000	14,000	.....	.....	.....	.....	.....	.....	.....	.....	.....	35,000	35,000
Modernize schools	15,000	6,000	6,000	3,000	.....	.....	.....	.....	.....	.....	.....	30,000	30,000
Invest in immediate surface transportation priorities	11,030	16,320	8,130	4,860	3,070	2,100	1,630	1,550	910	400	.....	43,410	50,000
Create infrastructure bank	300	600	1,930	1,915	745	948	1,190	1,740	632	.....	.....	5,490	10,000
Extend exemption from AMT treatment for certain tax-exempt bonds	19	48	25	24	23	23	22	22	21	20	19	139	244
Rehabilitate and repurpose vacant property (neighborhood stabilization)	50	4,650	7,100	3,200	.....	.....	.....	.....	.....	.....	.....	15,000	15,000
Implement Veterans hiring initiative	29	29	15	9	5	2	1	.....	.....	.....	.....	87	90
Enact national wireless initiative ¹	1,244	1,329	-250	-1,449	-2,516	-3,143	-2,462	-2,238	-784	-1,031	.....	-1,642	-11,300
Pathways Back to Work for Americans Looking for Jobs:													
Reform and extend unemployment insurance	29,997	17,608	112	137	138	143	124	124	132	129	68	47,992	48,588
Provide jobs tax credit for long term unemployed	3,243	3,278	1,231	862	642	465	345	267	191	71	.....	9,256	10,595
Create pathways back to work fund	2,010	2,205	785	.....	.....	.....	.....	.....	.....	.....	.....	5,000	5,000
More Money in the Pockets of Every American Worker and Family:													
Cut employee payroll taxes in half in 2012	129,156	49,691	.....	.....	.....	.....	.....	.....	.....	.....	.....	178,847	178,847
Total, American Jobs Act	324,427	154,548	-5,983	-2,890	-8,226	-6,810	-3,848	-1,518	-741	-1,850	.....	461,876	447,109
Mandatory Savings:¹													
Agriculture:													
Reduce agriculture subsidies	-50	-5,118	-2,788	-1,650	-1,974	-2,631	-3,278	-4,662	-4,551	-4,395	.....	-11,580	-31,097
Better target conservation assistance	-100	-296	-266	-222	-215	-211	-207	-213	-209	-209	.....	-1,099	-2,148
Federal employees:													
Increase employee defined benefit contributions .....	.....	-779	-1,593	-2,444	-2,500	-2,558	-2,617	-2,677	-2,739	-2,802	.....	-7,316	-20,709
Increase TRICARE pharmacy benefit co-payments	-256	-511	-948	-1,256	-1,410	-1,719	-1,969	-2,161	-2,354	-2,554	.....	-4,381	-15,138
Initiate annual premiums for TRICARE-For-Life enrollment .....	.....	-400	-600	-600	-700	-700	-800	-900	-900	-1,100	.....	-2,300	-6,700

Table S-5. JOINT COMMITTEE RECOMMENDATIONS—Continued

(Deficit increases (+) or decreases (-) in millions of dollars)

												Totals		
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012- 2016	2012- 2021	
Government liabilities and operations:														
Increase guarantee fees charged by Fannie Mae and Freddie Mac					-2,800	-3,000	-3,100	-3,300	-3,400	-3,600	-3,700	-10,450	-27,550	
Reform the aviation passenger security fee to more accurately reflect the costs of aviation security		-10	-735	-1,041	-1,361	-1,663	-2,012	-2,023	-2,037	-2,051	-2,067	-4,810	-15,000	
Introduce fee to better cover costs of air traffic services		-521	-1,063	-1,085	-1,108	-1,129	-1,151	-1,173	-1,196	-1,219	-1,242	-4,906	-10,887	
Enact Postal Service financial relief and reform		6,120	2,345	-2,505	-3,505	-3,505	-3,505	-3,505	-3,505	-3,505	-3,505	-1,050	-18,575	
Ensure a strong safety net for workers' retirement benefits				-685	-1,352	-1,638	-1,907	-2,190	-2,443	-2,768	-3,020	-3,675	-16,003	
Reform the National Flood Insurance Program (NFIP) by phasing out the premium subsidy for certain properties			-45	-119	-215	-335	-483	-649	-704	-778	-834	-714	-4,162	
Government assets:														
Enact national wireless initiative ²					-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-2,000	-7,000	
Dispose of unneeded real property ³		-200	-400	-600	-1,500	-400	-200	-200	-200	-200	-200	-3,100	-4,100	
Program Integrity, Asset Management, and Miscellaneous Fees:														
Additional Program Integrity:														
Improve collection of pension information from States and localities (WEP/GPO)		13	20	17	-212	-405	-537	-547	-517	-496	-476	-567	-3,140	
Strengthen IRS tax enforcement and compliance		1,932	2,188	1,513	747	25	-973	-1,673	-2,057	-2,314	-2,591	6,405	-3,203	
Improve the integrity of the Unemployment Insurance program		-11	-26	-33	-37	-38	-33	-27	-20	-16	-15	-145	-256	
Strengthen Treasury debt collection		-64	-86	-89	-90	-92	-95	-96	-98	-99	-102	-421	-911	
Reform coal and hardrock Abandoned Mine Lands (AML) programs		-100	-315	-281	-174	-89	-31	-66	-89	-64	-43	-959	-1,252	
Restore the solvency of the Unemployment Insurance system by helping employers now and restoring State fiscal responsibility		5,723	5,551	-22,421	-20,425	-10,217	-1,743	2,882	1,882	3,373	2,435	-41,789	-32,960	
Recoup financial sector assistance			-1,000	-3,000	-3,000	-3,000	-4,000	-4,000	-4,000	-4,000	-4,000	-10,000	-30,000	
Miscellaneous:														
Enact pesticide registration and premanufacture notice fees		-50	-51	-80	-83	-89	-89	-92	-92	-95	-95	-353	-816	
Charge for the use of the hazardous waste electronic manifest system				-6	-5	-5	-3	-3	-3	-3	-3	-16	-31	
Reauthorize special assessment from domestic nuclear utilities		-150	-253	-205	-209	-213	-218	-223	-228	-233	-239	-1,030	-2,171	
Repeal ultra-deepwater oil and gas research and development program		-3	-20	-40	-45	-30	-10	-2				-138	-150	
Enact Department of Interior savings proposals		-17	-116	-136	-162	-159	-178	-193	-209	-227	-236	-590	-1,633	
Reform inland waterways funding		-40	-80	-80	-80	-120	-120	-120	-150	-150	-150	-400	-1,090	
Total, mandatory savings		12,216	-3,140	-39,771	-42,788	-33,901	-29,207	-27,071	-30,679	-30,198	-32,143	-107,384	-256,682	

Table S-5. JOINT COMMITTEE RECOMMENDATIONS—Continued

(Deficit increases (+) or decreases (-) in millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Totals	
												2012-2016	2012-2021
Health Savings:¹													
Medicare Providers:													
Bad Debts:													
Reduce Medicare coverage of patients' bad debts			-600	-1,300	-2,100	-2,200	-2,400	-2,600	-2,800	-3,000	-3,200	-6,200	-20,200
Graduate Medical Education:													
Align Graduate Medical Education payments with patient care costs			-700	-800	-1,000	-1,000	-1,000	-1,100	-1,100	-1,200	-1,200	-3,500	-9,100
Better Align Payments to Rural Providers with the Cost of Care:													
End add-on payments for hospitals and physicians in frontier states			-200	-200	-200	-200	-200	-200	-300	-300	-300	-800	-2,100
Reduce Critical Access Hospital (CAH) payments from 101% of reasonable costs to 100% of reasonable costs			-100	-100	-100	-100	-100	-100	-100	-100	-200	-400	-1,000
Prohibit CAH designation for facilities that are less than 10 miles from the nearest hospital			-100	-200	-200	-300	-300	-400	-400	-500	-600	-800	-3,000
Encourage Efficient Post-Acute Care:													
Adjust payment updates for certain post-acute care providers				-700	-1,600	-2,500	-3,300	-4,300	-5,500	-6,600	-8,000	-4,800	-32,500
Equalize payments for certain conditions commonly treated in IRFs and SNFs			-400	-400	-400	-500	-500	-500	-600	-600	-600	-1,700	-4,500
Encourage appropriate use of inpatient rehabilitation hospitals			-100	-200	-200	-200	-300	-300	-400	-400	-500	-700	-2,600
Adjust skilled nursing facility payments to reduce hospital readmissions					-200	-200	-300	-300	-300	-300	-400	-400	-2,000
Drug Rebates:													
Align Medicare drug payment policies with Medicaid policies for low-income beneficiaries			-8,300	-11,600	-13,200	-14,500	-14,800	-15,400	-17,000	-18,700	-21,500	-47,600	-135,000
Cut Waste, Fraud, and Improper Payments in Medicare:													
Recover erroneous payments made to insurers participating in Medicare Advantage			-300	-300	-300	-300	-300	-200	-200	-200	-200	-1,200	-2,300
Reduce fraud, waste, and abuse in Medicare						-100	-100	-100	-100	-100	-100	-100	-600
Dedicate penalties for failure to use electronic health records toward deficit reduction											-500		-500
Update Medicare payments to more appropriately account for utilization of advanced imaging			-30	-30	-40	-40	-40	-50	-50	-60	-60	-140	-400
Require prior authorization for advanced imaging			-100	-100	-100	-100	-100	-100	-100	-100	-100	-400	-900
Interactions			-400	-600	-700	-700	-700	-700	-900	-1,100	-1,200	-2,400	-7,000
Medicare Structural Reforms:													
Increase income-related premiums under Medicare Parts B and D							-2,000	-2,200	-2,500	-6,000	-7,300		-20,000

Table S-5. JOINT COMMITTEE RECOMMENDATIONS—Continued

(Deficit increases (+) or decreases (-) in millions of dollars)

	Totals												
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
Measures Incorporated in the American Jobs Act:													
Reduce the value of itemized deductions and other tax preferences to 28 percent for those with high incomes			-21,731	-36,038	-39,590	-43,048	-46,772	-50,405	-53,968	-57,511	-61,076	-140,407	-410,139
Tax carried (profits) interests in investment partnerships as ordinary income			-1,940	-2,111	-2,019	-1,733	-1,402	-1,092	-947	-732	-525	-7,803	-12,501
Eliminate special depreciation rules for corporate purchases of aircraft			-126	-402	-620	-691	-793	-826	-603	-342	-250	-1,839	-4,653
Eliminate Oil and Gas Tax Preferences:													
Repeal percentage depletion for oil and natural gas wells			-664	-1,124	-1,151	-1,177	-1,207	-1,237	-1,267	-1,295	-1,360	-4,116	-10,482
Repeal domestic manufacturing deduction for oil and natural gas companies			-623	-1,653	-1,749	-1,842	-1,932	-2,020	-2,108	-2,200	-2,296	-5,867	-16,423
Repeal expensing of intangible drilling costs ("IDCs")			-1,849	-2,449	-1,716	-1,423	-1,433	-1,284	-1,031	-871	-741	-7,437	-12,797
Repeal deduction for tertiary injectants			-7	-10	-10	-10	-10	-9	-9	-9	-9	-37	-83
Repeal exception to passive loss limitation for working interests in oil and natural gas properties			-23	-27	-24	-22	-21	-19	-18	-17	-16	-96	-187
Increase geological and small integrated geophysical amortization period for independent producers to seven years			-66	-244	-369	-338	-247	-160	-74	-15	-1	-1,017	-1,514
Modify the tax rules for dual capacity taxpayers			-564	-974	-1,031	-1,085	-1,138	-1,190	-1,242	-1,296	-1,352	-3,654	-9,872
Close Business Loopholes and Broaden the Business Tax Base:													
Repeal last-in, first-out ("LIFO") method of accounting for inventories			-2,598	-5,630	-6,432	-6,372	-6,315	-6,233	-6,149	-6,072	-5,984	-21,032	-51,785
Repeal lower-of-cost-or-market ("LCM") inventory accounting method			-188	-1,435	-2,334	-1,532	-1,358	-309	-323	-337	-352	-5,489	-8,168
Eliminate Preferences for the Coal Industry:													
Repeal expensing of exploration and development costs			-27	-46	-48	-50	-51	-51	-49	-47	-42	-171	-411
Repeal percentage depletion for coal and hard mineral fossil fuels			-70	-119	-120	-124	-128	-133	-136	-143	-151	-433	-1,124
Repeal capital gains treatment for royalties			-8	-22	-31	-38	-43	-47	-51	-55	-58	-99	-353
Repeal domestic manufacturing deduction for coal and other hard mineral fossil fuels			-27	-42	-40	-41	-45	-46	-48	-50	-50	-150	-389
Reform Treatment of Insurance Companies and Products:													
Modify Rules that apply to sales of life insurance contracts			-9	-42	-76	-89	-104	-132	-138	-158	-181	-216	-929
Modify dividends-received deduction ("DRD") for life insurance company separate accounts			-342	-550	-565	-641	-674	-689	-686	-674	-657	-2,098	-5,478
Expand pro rata interest expense disallowance for corporate-owed life insurance			-22	-72	-158	-260	-414	-649	-923	-1,312	-1,757	-512	-5,567

Table S-5. JOINT COMMITTEE RECOMMENDATIONS—Continued

(Deficit increases (+) or decreases (-) in millions of dollars)

												Totals	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
Reform the U.S. International Tax System:													
Defer deduction of interest expense related to deferred income			-3,521	-5,950	-6,128	-6,348	-6,580	-3,369	-1,190	-1,236	-1,289	-21,947	-35,611
Determine the foreign tax credit on a pooling basis			-3,242	-5,478	-5,643	-5,845	-6,059	-6,271	-6,492	-6,743	-7,036	-20,208	-52,809
Tax currently excess returns associated with transfers of intangibles offshore			-1,322	-2,228	-2,288	-2,305	-2,297	-2,251	-2,177	-2,132	-2,137	-8,143	-19,137
Limit shifting of income through intangible property transfers			-27	-60	-85	-111	-138	-165	-194	-224	-258	-283	-1,262
Limit earnings stripping by expatriated entities			-223	-382	-401	-421	-442	-464	-488	-512	-538	-1,427	-3,871
Other Changes:													
Reinstate Superfund Taxes			-1,491	-2,023	-2,073	-2,105	-2,133	-2,179	-2,210	-2,230	-2,266	-7,692	-18,710
Make the 0.2 percent unemployment insurance surtax permanent		-1,345	-1,372	-1,404	-1,434	-1,458	-1,481	-1,500	-1,516	-1,532	-1,548	-7,013	-14,590
Increase certainty with respect to worker classification			-238	-572	-722	-804	-892	-982	-1,075	-1,173	-1,273	-2,336	-7,731
Total, tax reform	-49	-14,192	-88,913	-134,498	-153,786	-170,551	-184,839	-191,330	-199,753	-211,112	-223,613	-561,940	-1,572,587

¹ Based on OMB estimates of CBO scoring.² Portion of budgetary effects not included under American Jobs Act.³ OMB estimate of sales proceeds. CBO has not scored savings for similar proposals.

**Table S-6. DEFICIT REDUCTION
SINCE JANUARY 2011**

(Deficit reduction (-) or increase (+) in billions of dollars)

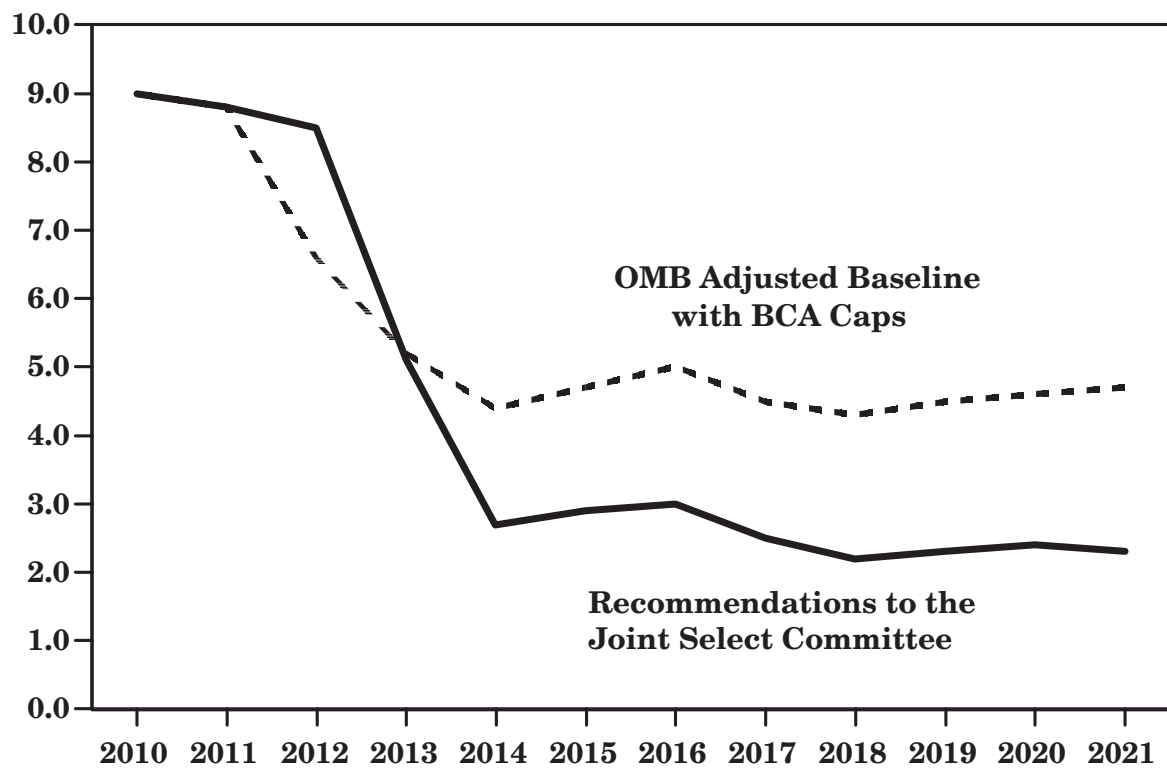
	2012-2021
Enactment of 2011 full-year appropriations	-357
Budget Control Act discretionary caps ¹	-992
Recommendations to the Joint Select Committee:	
American Jobs Act	447
Mandatory savings ²	-257
Health savings ²	-320
Cap Overseas Contingency Operations (OCO) funding	-1,084
Tax reform	-1,573
Debt service	-715
Total deficit reduction	-4,850

¹ Includes program integrity and the cap adjustment for proposed disaster relief.

² Based on OMB estimates of CBO scoring.

Chart 1. Annual Deficits as a Percent of GDP

Percent of GDP



**Chart 2. Debt Held by the Public
as a Percent of GDP**

