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The Civil-Military Challenge to National Security Spending

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Our Greatest "Threat" is Managing the Domestic Economic and Social Forces that Drive the Rise in the Cost of Entitlements, and Federal Spending, Deficit, and Debt

Perhaps the worst part of the debate that has led to the shut down of the federal government is its almost total irrelevance. It threaten both the US economy and US national security, but it does even begin to touch upon the forces that shape the rise in entitlements spending or their underlying causes.

The Congressional debate does not address the forces that have led to a form of sequestration that focuses on defense as if it were the key cause of the deficit and pressures on the debt ceiling. It does not address the irony that much of defense spending has direct benefits to the US economy and that the spending on foreign wars – the so-called OCO account –dropped from $158.8 billion in FY2011 to some $88.5 billion in FY2013, and is projected to drop to around $37 billion in FY2015.

Much of the debate focuses on the Affordable Care Act or “Obama Care” – a program whose balance between federal expenditures and revenues is sufficiently uncertain so the Congressional Budget office can only make limited forecasts, but whose net impact cannot come close to the cost pressures that an aging America and rising national medical costs have put on Federal entitlements in the worst case NDS May actually have a positive impact in the best case. .

The following briefing provides a range of estimates that addresses the real issues that are shaping the overall pressures that poverty, an aging America, and rising medical costs are putting on the US economy and federal spending. It draws on a range of sources to show how different estimates affect key trends, but focuses on data provide by a neutral arm of the same Congress that has paralyzed the US government and whose action threaten the funding on a viable national security strategy.

The Key charts and tables in the briefing reflect serious uncertainties, and problems in updating, but still broadly agree in showing that:

The US does not face any foreign threat as serious as its failure to come to grips with managing the domestic economic and social forces that affect virtually all Americans and drive the rise in the cost of federal entitlement spending. (p. 4)

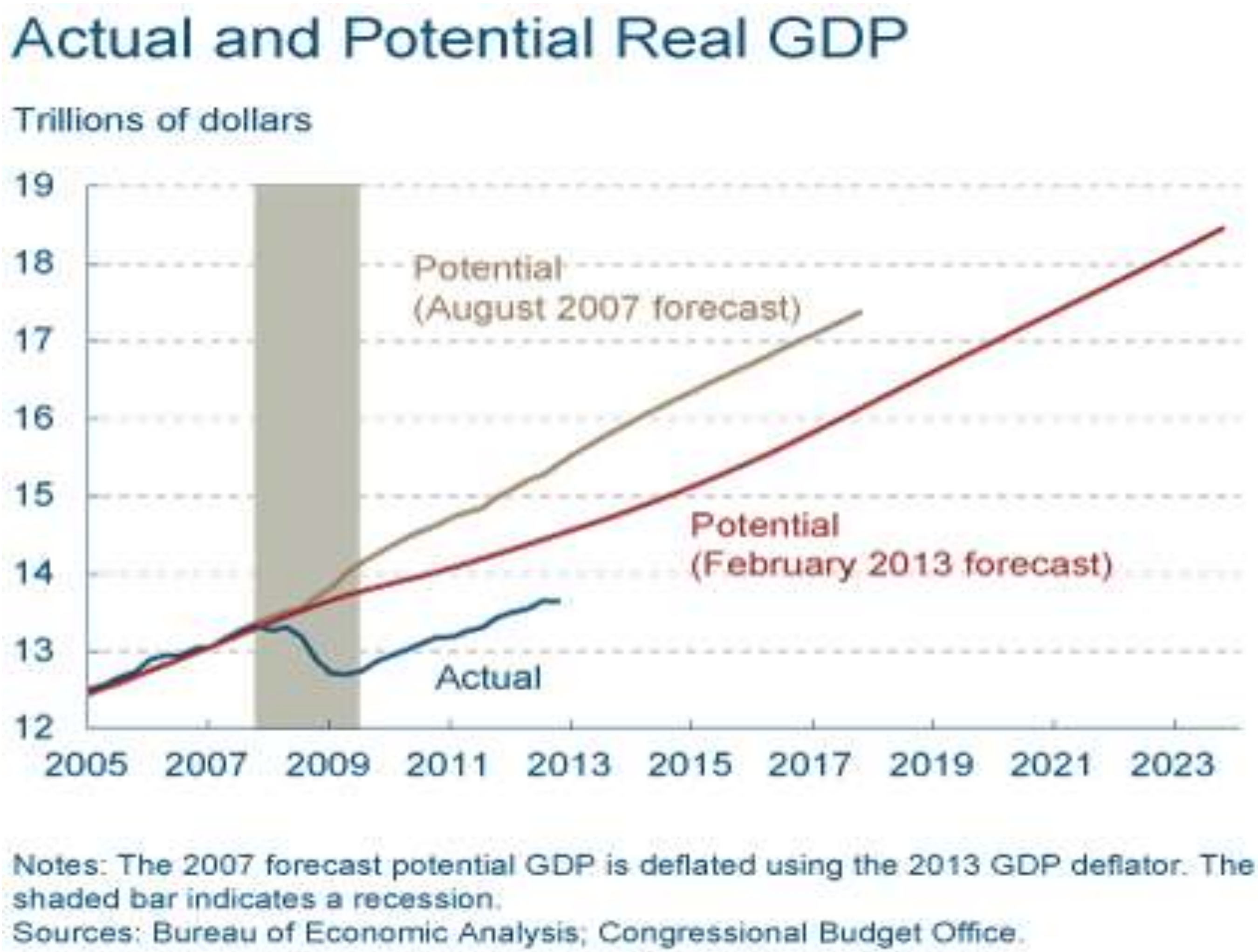
> The US economy is performing well under capacity although the overall burden of federal spending on the US economy has been dropping since FY2009. (pp. 5-6)
>
> Sequestration and present laws still leave the US facing a serious future deficit that spending for the Affordable Care Act cannot affect. (p. 7).

Our Greatest "Threat" is not Foreign, it is Managing The Domestic Economic and Social Forces that Drive the Rise in The Cost of Entitlements

- Mandatory or "entitlement" outlays will increase by 5.1% in 2011 and by an average of 4.4% annually between 2012 and 2020, compared with an average growth rate of 6.4% between 1999 and 2008.
- They will average 17% to 20% of the GDP during FY2012 to FY2020.
- Defense spending will average only 3.3% to 4.3%, dropping from a peak war year level of 4.7% in FY2010.
- All other discretionary federal spending will equal 4.1% to 3.1% of the GDP.*
- The defense share of federal spending is so low as a percentage of total federal spending, GDP, and rising entitlements costs that no feasible amount of cuts in US national security spending can have a major impact on the US deficit and debt problems.
- The most serious single threat the US faces to its national security does not come from foreign threats, but from the pressures on defense spending created by these domestic social and economic trends, and the rising cost of US federal entitlements spending.
- These rises in total spending are driven by two critical factors that cannot be addressed simply by altering the federal budget.
    - Cost of mandatory retirement and spending on the aging
    - Medical costs that extend far beyond government spending

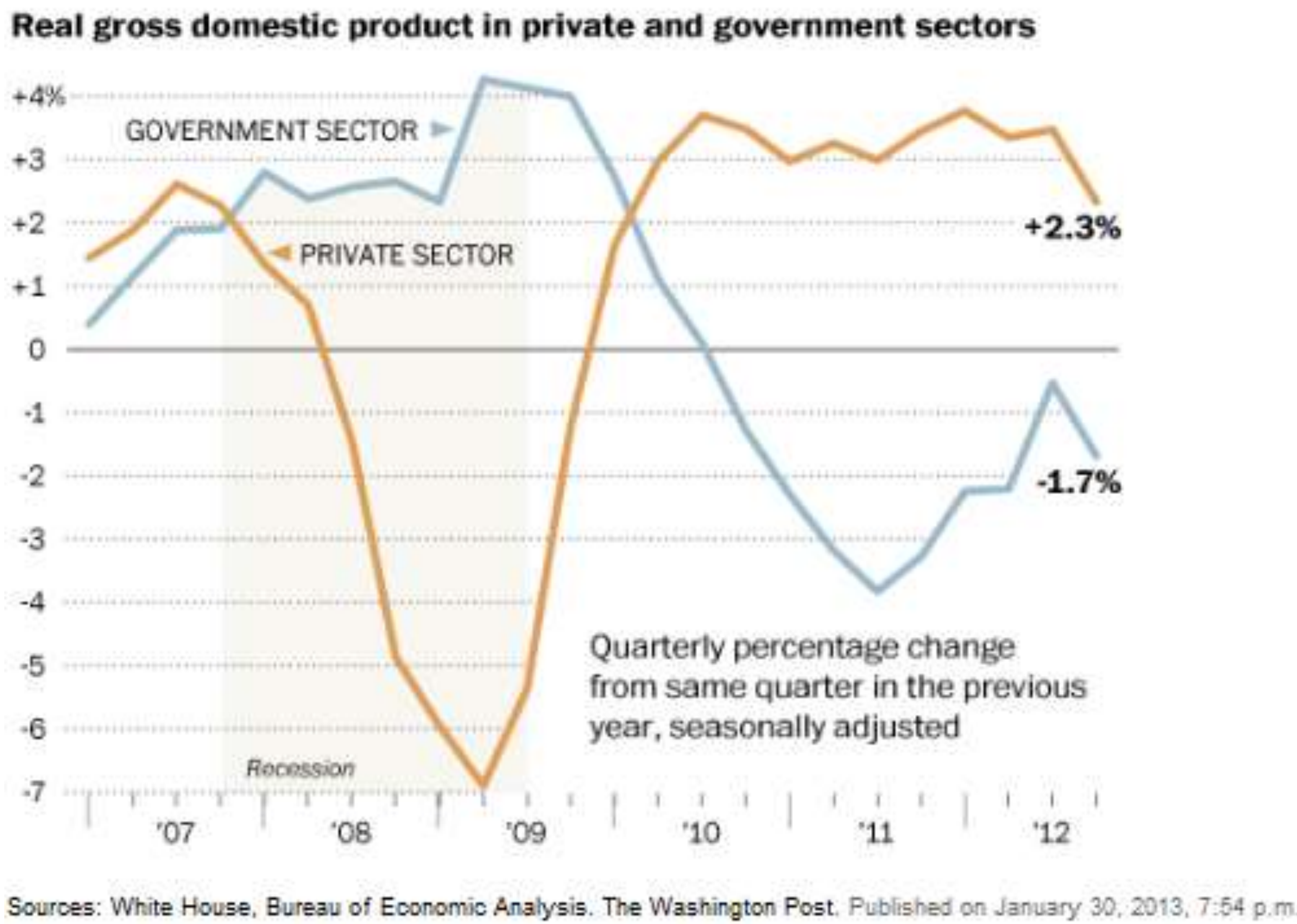
* CBO, **http://www.cbo.gov/ftpdocs/108xx/doc10871/Chapter3.shtml**.)

The Unstable Economy and its Toll on Actual vs. Potential Output



Adapted from: Margaret Jacobson and Filippo Occhino, "Behind the Slowdown of Potential GDP," Federal Reserve Bank of Cleveland, February 12, 2013. http://www.clevelandfed.org/research/trends/2013/0213/01gropro.cfm?WT.oss=actual%20and%20potential%20real%20gdp&WT.oss_r=375

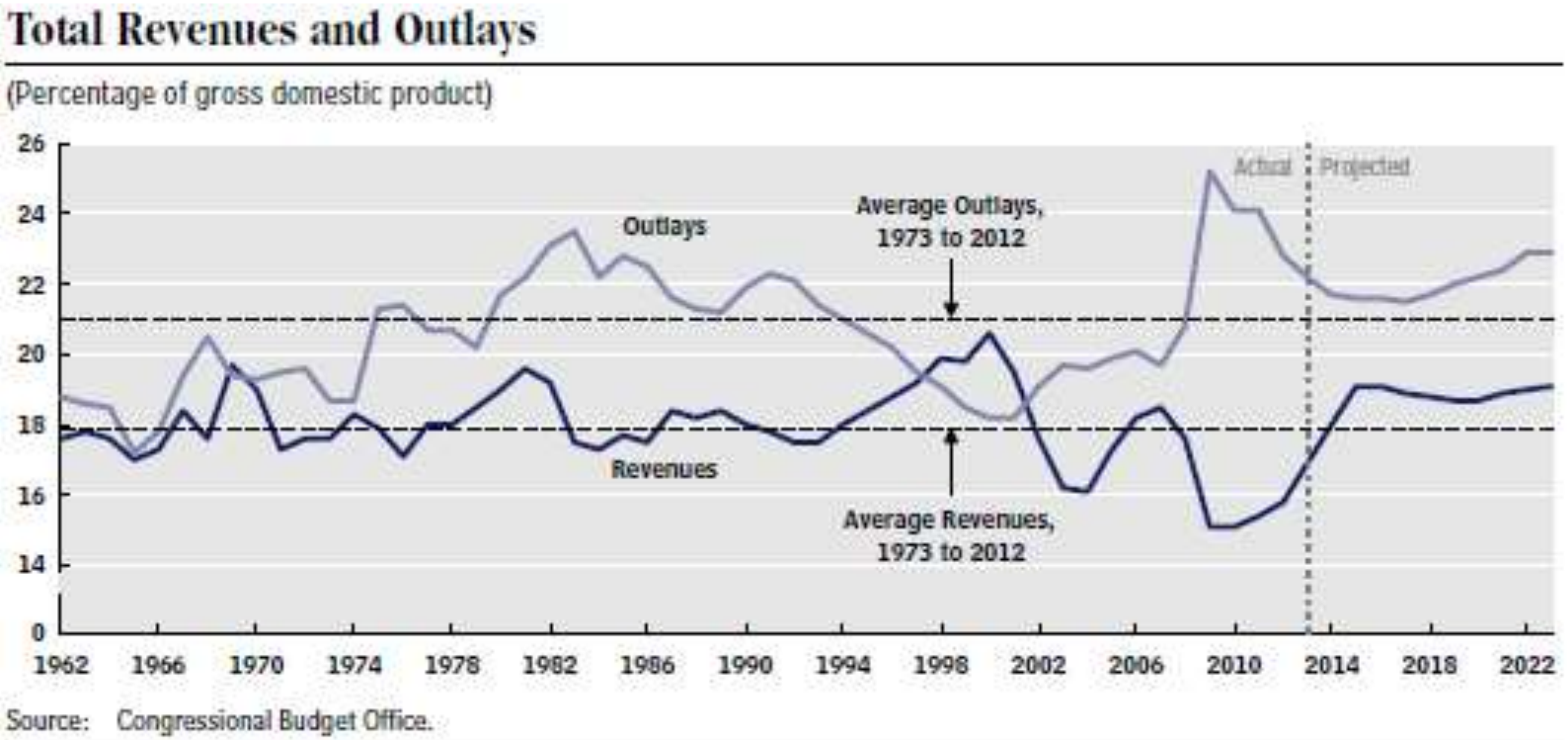
Shift in GDP Away from Federal Spending



Source: Ylan Q. Mui, "Economy shrinks as federal spending cuts trump private sector's growth", The Washington Post, published January 30, 2013.

America's Long-Term Deficit Trajectory Even Assuming Sequestration and Present Laws

As the debate continues over tax increases vs. spending cuts to balance the budget, it is important to keep in mind past levels of outlays and revenues and their future trajectory. Just prior to 2010, the US experienced a sharp increase in outlays as a percentage of GDP coupled with a decrease in revenues relative to average levels. By 2012 however, the gap between revenues and outlays had started to close, with increases in revenue and drops in outlays forecasted under current law.



Graph from: "The 2013 Long-term Budget Outlook," Congressional Budget Office, February 2013. http://www.cbo.gov/sites/default/files/cbofiles/attachments/43907-BudgetOutlook.pdf. p. 20.

Entitlements, Not National Security, Drive the Deficit, Debt, and Rise in Federal Spending

The rises in the deficit and the debt are driven is driven almost exclusively by the rise is federal spending on \ major health care programs, social security, and cost of net interest on the debt. (pp. 9-10).

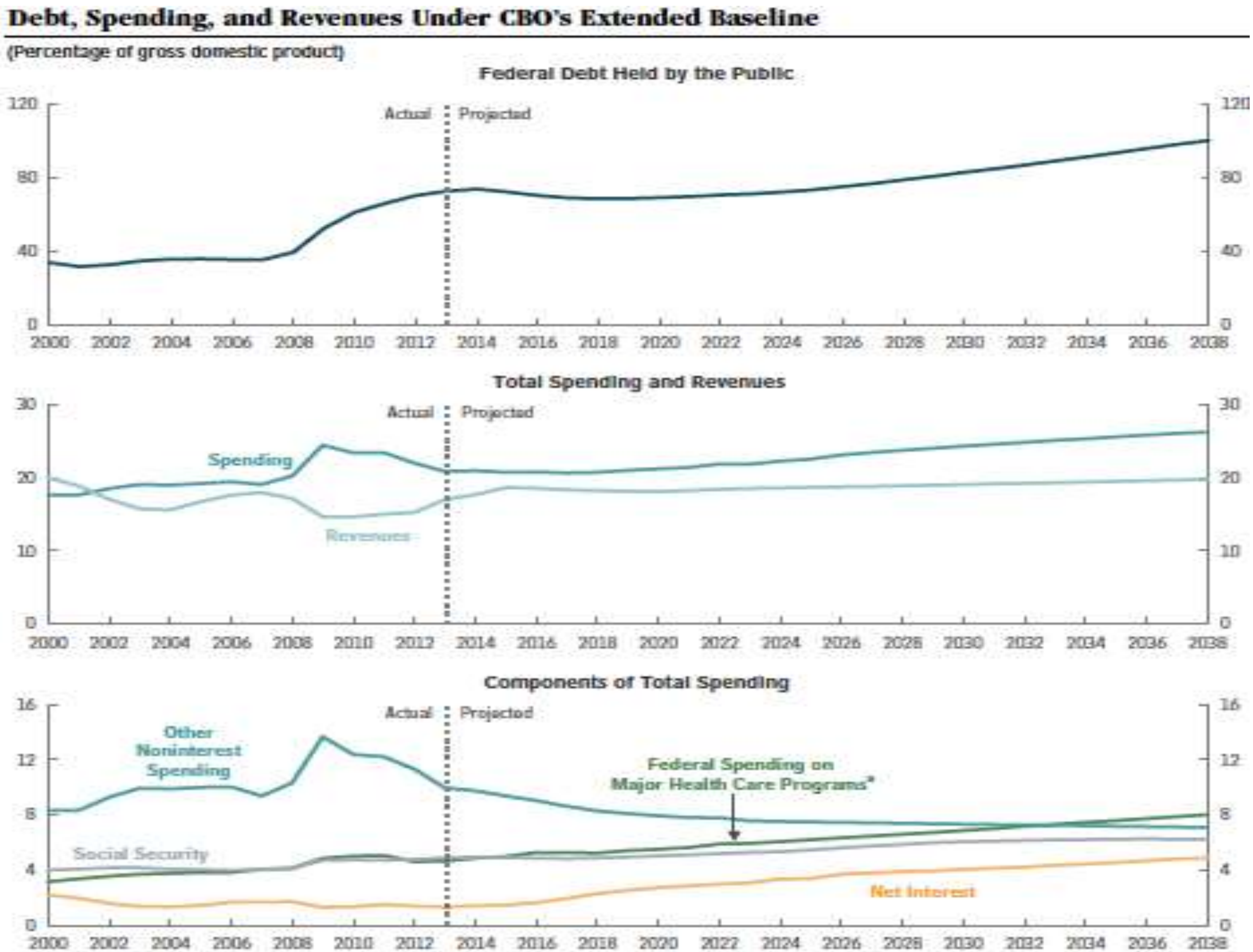
Total defense spending was projected to drop well below 4% of the GDP by FY2015 even without Sequestration, and no remotely feasible cut in defense spending can do anything meaningful to compensate for the rising cost in entitlements spending. (pp. 11-12)

The existing rise in entitlements spending since the end of World War II has already risen nearly11 times while the GDP has less than trebled. (p.13)

> **The CBO projects the future cost of Social Security spending will rise from an average of 4.2% of the GDP in FY1973-FY2012 to 6.2% in FY2038. (p. 14)**
>
> **The cost of major health care programs (dominated by Medicaid and Medicare and not the Affordable Care Act) will rise from an average of 2.7% of the GDP in FY1973-FY2012 to 8.0% in FY2038 – more than twice the cost of all defense spending. (p. 14)**
>
> **All non-interest federal spending other than Social Security and Major Medical Programs will drop from an average of 11.2% of the GDP in FY1973-FY2012 to 8.0% in FY2038 to 8.0%, while interest on the federal debt – driven by entitlements – will rise from 2.2% to 4.9% of the GDP -- more than all national security spending. (p. 14)**

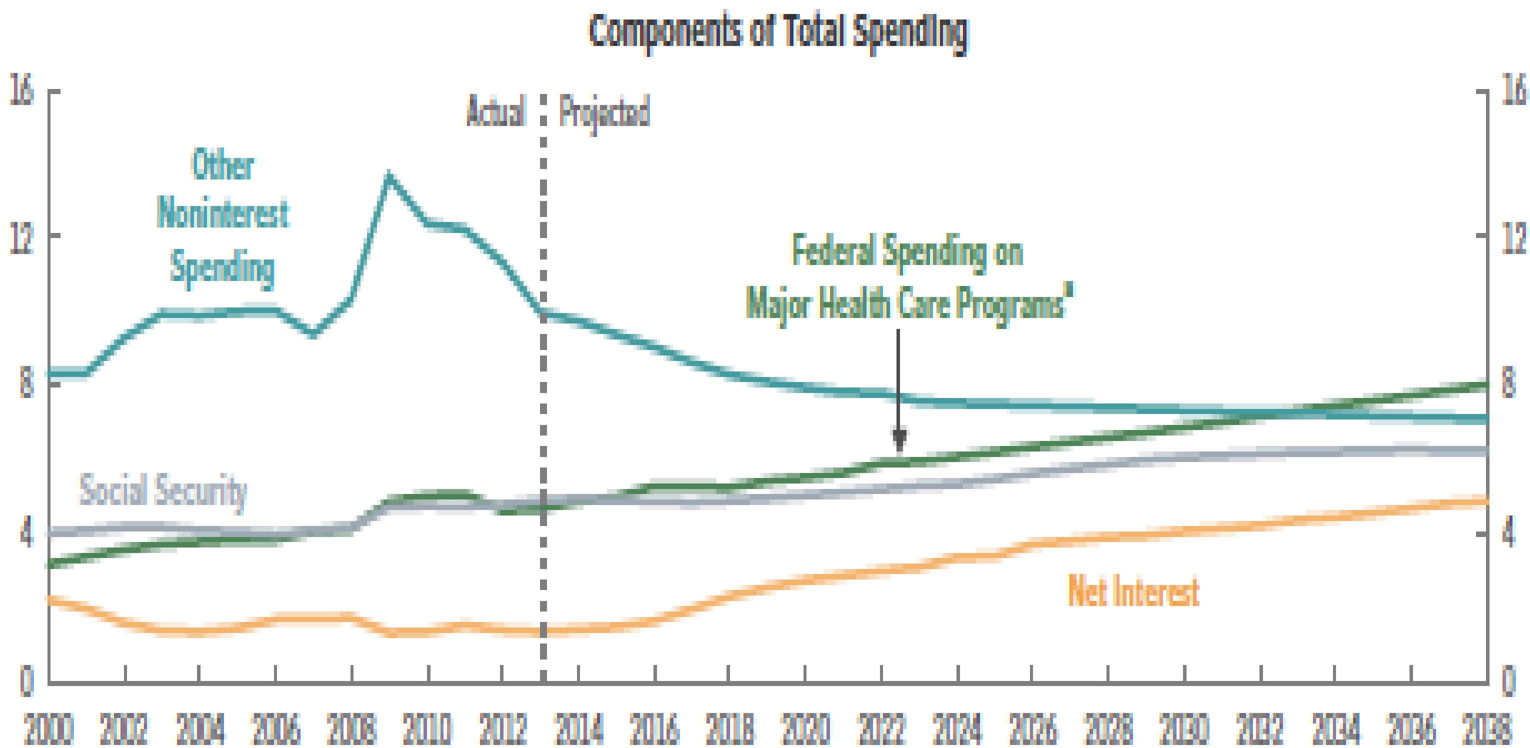
The rise in the debt, deficit, and interest is driven by tax cuts as well as arise in civil entitlement spending that is projected to reached levels approaching those during the worst years of World War II. (p. 15). though the overall burden of federal spending on the US economy has been dropping since FY2009. (pp. 5—6)

Key Trends Driving the Federal Deficit - I



Graph from: "The 2013 Long Term Budget Outlook," Congressional Budget Office, September 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/44521-LTBO_0.pdf, p. 3.

Key Trends Driving the Federal Deficit – II



Notes: The extended baseline generally adheres closely to current law, following CBO's 10-year baseline budget projections through 2023 and then extending the baseline concept for the rest of the long-term projection period. These projections do not reflect the economic effects of the policies underlying the extended baseline. These data reflect recent revisions by the Bureau of Economic Analysis to estimates of GDP in past years and CBO's extrapolation of those revisions to projected future GDP.

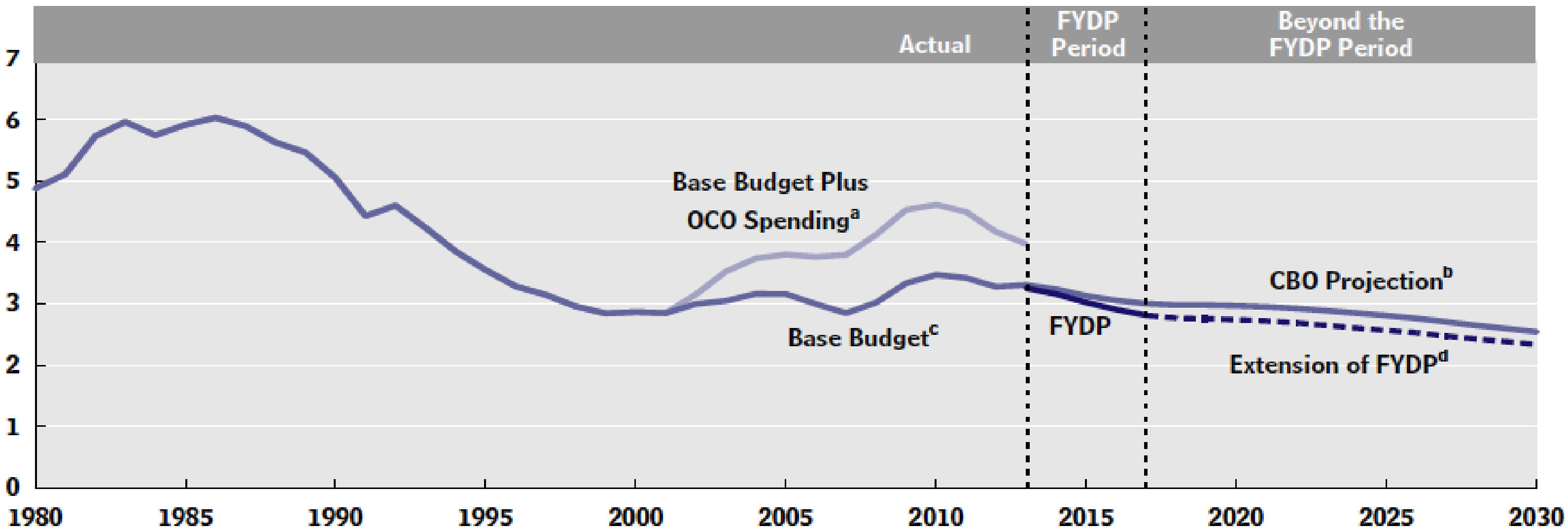
a. Spending on Medicare (net of offsetting receipts), Medicaid, the Children's Health Insurance Program, and subsidies offered through new health insurance exchanges.

Graph from: "The 2013 Long Term Budget Outlook," Congressional Budget Office, September 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/44521-LTBO_0.pdf, p. 3.

CBO Projected Defense Burden on GDP (and Federal Spending) Would Have Shrunk without Sequestration

Costs of DoD's Plans as a Share of Economic Output

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Notes: For this figure, estimates describe outlays (as opposed to total obligational authority).

FYDP = Future Years Defense Program; FYDP period = 2013 to 2017, the years for which the Department of Defense's (DoD's) plans are fully specified.

a. For 2002 to 2013, supplemental and emergency spending for overseas contingency operations (OCO), such as those in Afghanistan and Iraq, and for other purposes is shown separately from the base-budget data.

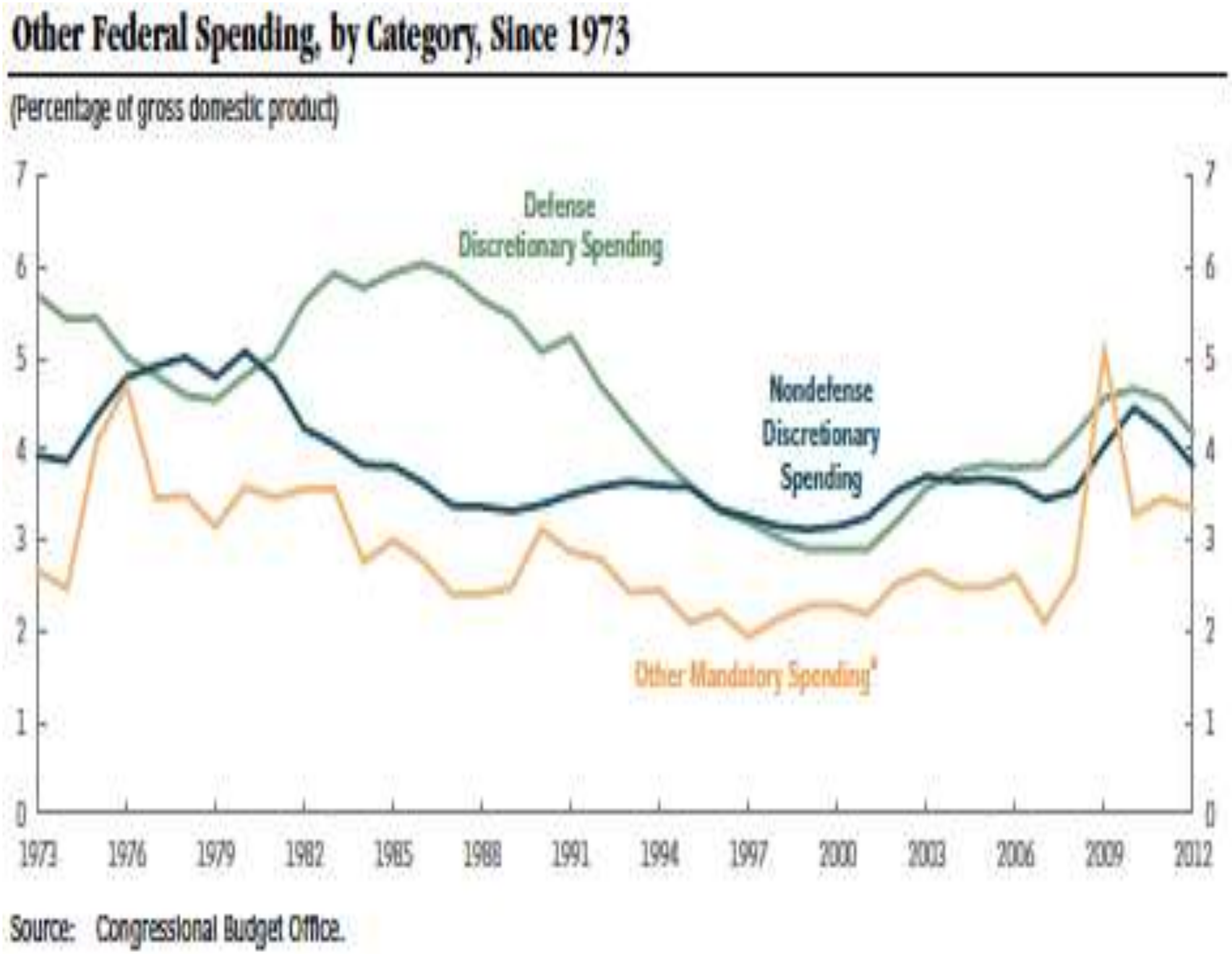
b. The CBO projection of the base budget incorporates costs that are consistent with DoD's recent experience.

c. Base-budget data include supplemental and emergency spending before 2002.

d. For the extension of the FYDP (2018 to 2030), CBO projects the costs of DoD's plans using the department's estimates of costs to the extent they are available and costs that are consistent with CBO's projections of price and compensation trends in the overall economy where the department's estimates are not available.

CBO,. *Long-Term Implications of the 2013 Future Years Defense Program*, July 2012. http://www.cbo.gov/sites/default/files/cbofiles/attachments/07-11-12-FYDP_forPosting.pdf, p. 12

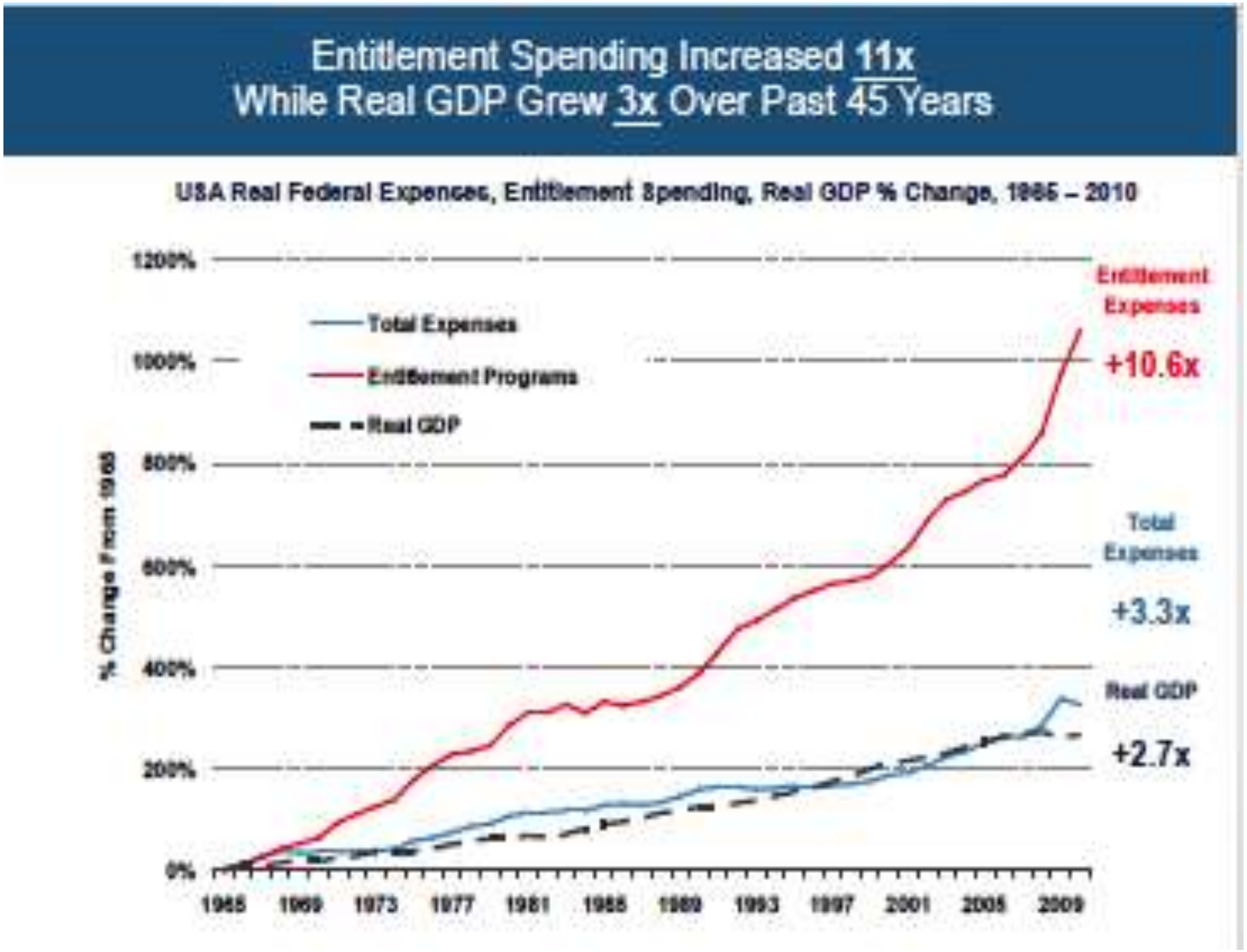
Drop in defense and Discretionary Spending Burden



Notes: Other mandatory spending is all mandatory spending other than that for major health care programs, Social Security, and net interest.
It includes the refundable portions of the earned income and child tax credits and of the American Opportunity Tax Credit.

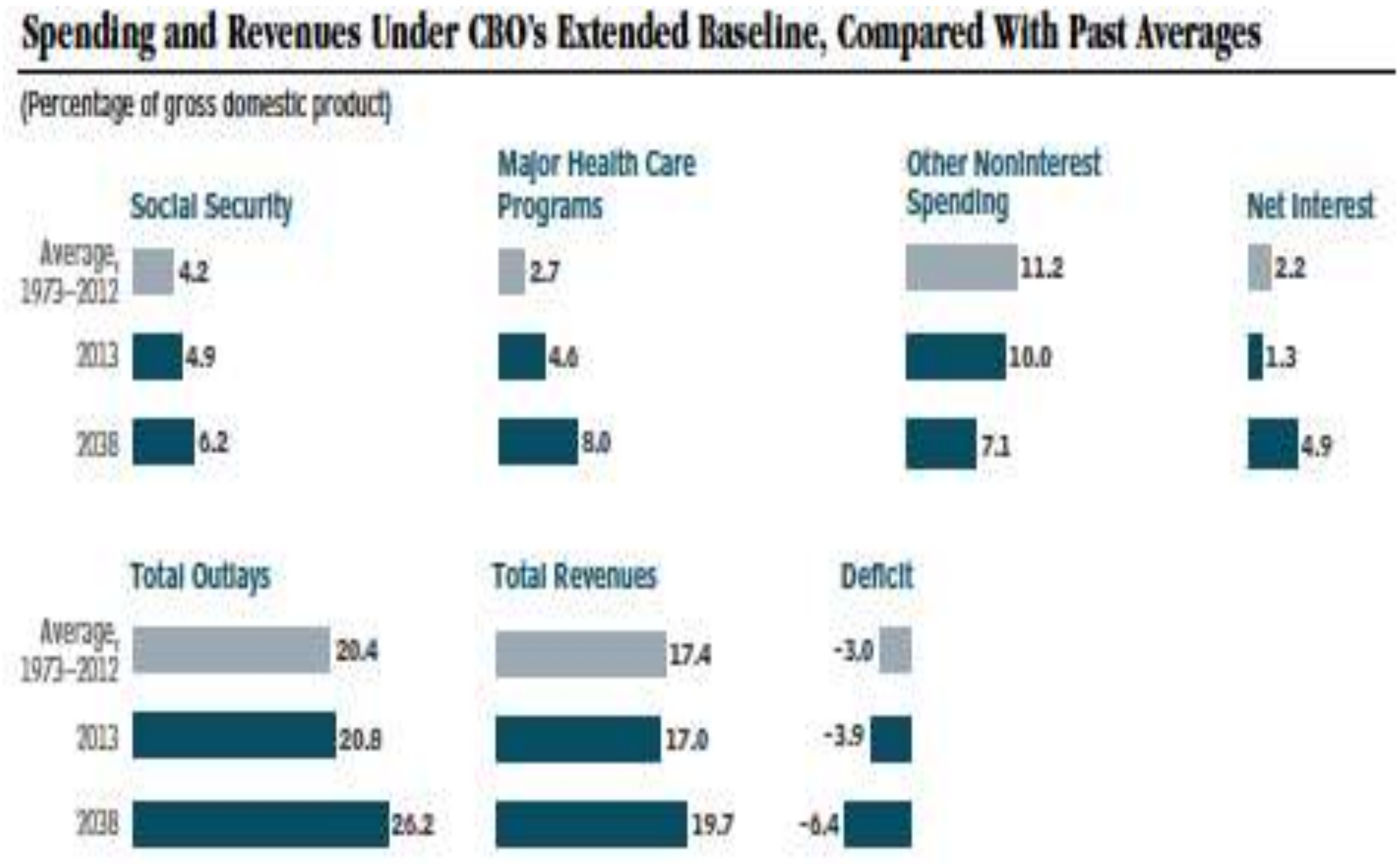
Graph from: "The 2013 Long Term Budget Outlook," Congressional Budget Office, September 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/44521-LTBO_0.pdf, p. 59.

The Entitlements Crisis



Source: OECD as presented in Mary Meeker, USA Inc. A Basic Summary of America's Financial Statements, February 2011 : , http://s3.amazonaws.com/kpcbweb/files/USA_Inc.pdf. P. XIIand www.kpcb.com/usainc.

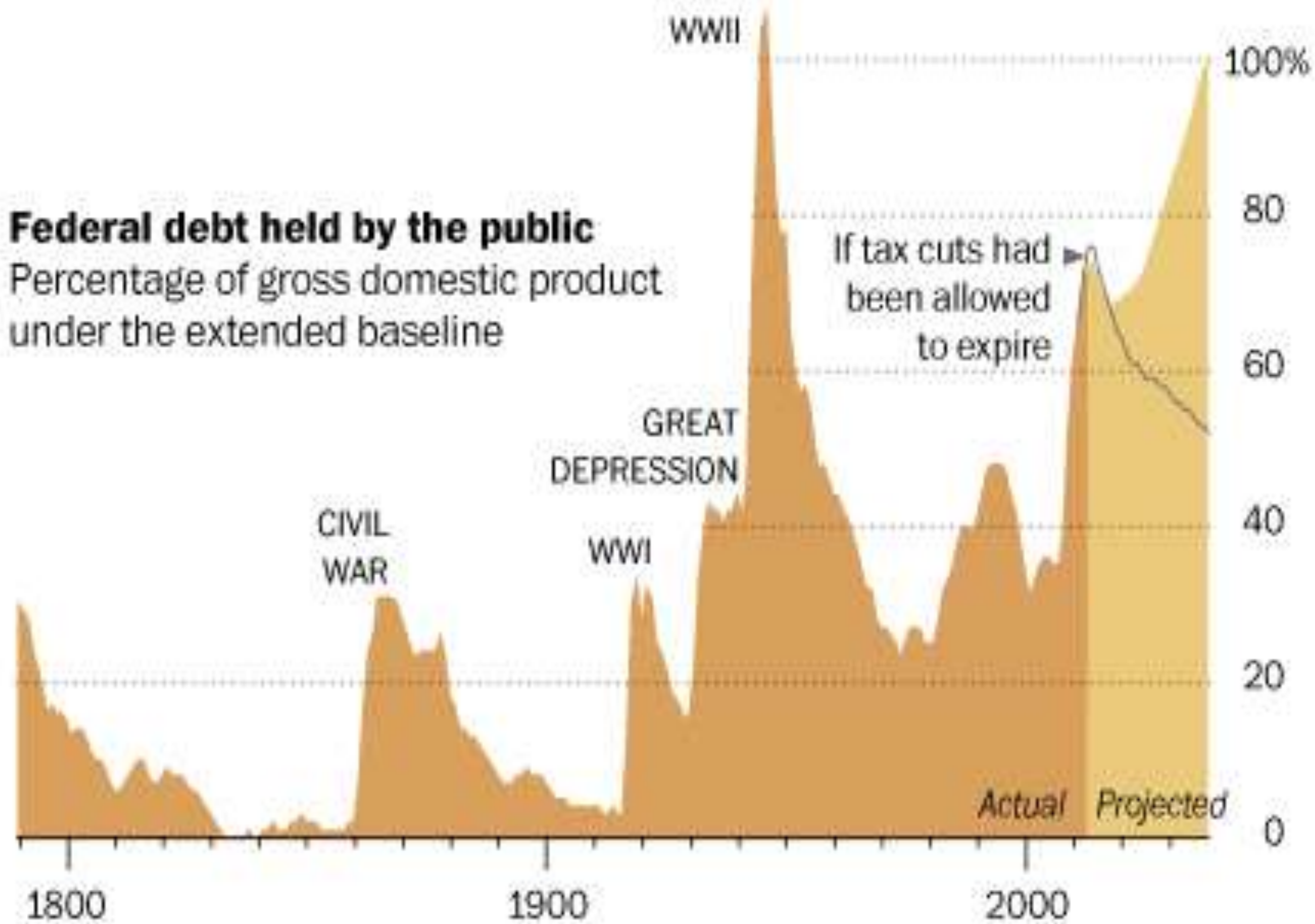
Medical Costs and Social Security Drive the Spending in the Federal Deficit



Major health care programs consist of Medicare, Medicaid, the Children's Health Insurance Program, and subsidies offered through new health insurance exchanges. (Medicare spending is net of offsetting receipts.) Other noninterest spending is all federal spending other than that for major health care programs, Social Security, and net interest.

Graph from: "The 2013 Long Term Budget Outlook," Congressional Budget Office, September 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/44521-LTBO_0.pdf, p. 22.

But. Failed Efforts to Balance Taxes and Spending Are Another Key Cause



Note: The extended baseline adheres to current law with 10-year budget projections through 2023 and extends the baseline concept through 2038. Long-term projections do no reflect the economic effects of policies underlying the baseline.

Graph from: "The 2013 Long Term Budget Outlook," Congressional Budget Office, September 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/44521-LTBO_0.pdf, p. 10.

Underlying Cause of Federal Spending Crisis is a National Crisis from a Failure to Save for Retirement and Impact of Rising Medical Costs

CBO Estimates By 2023, Federal Spending Will Shift Further Toward Social Security and Medicare

The rise in entitlement spending, however, is not driven by excessive spending on federal programs, but rather by far broader forces that affect all of American society and the entire economy.

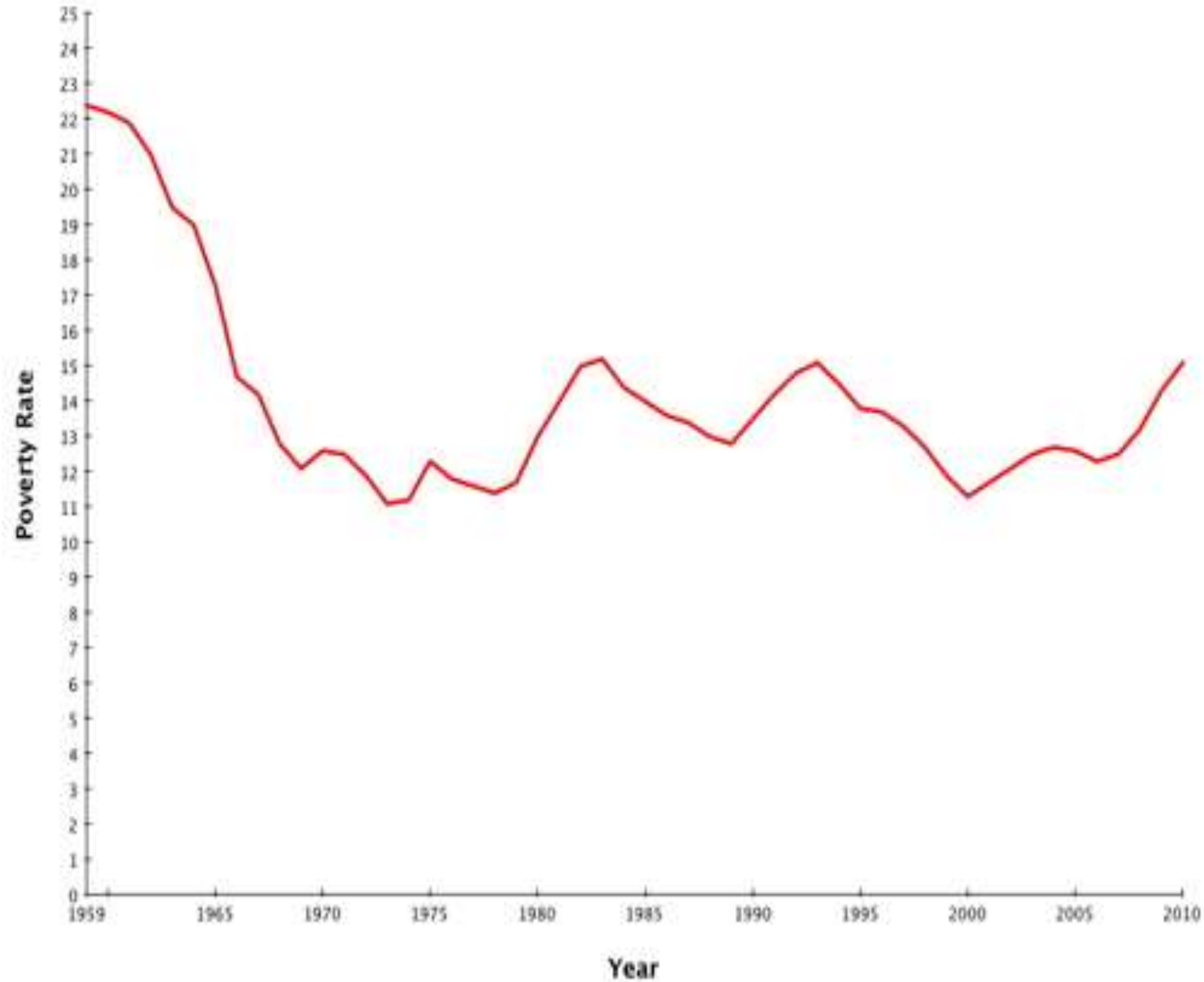
Poverty programs have accomplished a great deal, but at a high and rising cost. **(pp. 18-19)**

Key shifts in income distribution have benefit the very rich but oput increasing pressure on the Middle Class *(pp. 21-22)*

The real cost of poverty programs cannot be separated from Social Security and Federal medical programs which keep many Americans out of the poverty level, but drive the rise in Federal spending, entitlements costs, the deficit and Federal debt. *(pp. 20, 23,)*

The two most critical factors are the fact an aging America lacks the resources for retirement and the rising national burden of medical care.

Poverty Rate Has Cycled Around 13% Since Drop in 1959-1970



In 1964, the poverty rate was 19 percent. Ten years later, it was 11.2 percent, and it has not gone above 15.2 percent any year since then…the best evidence indicates that the War on Poverty made a real and lasting difference.

Second, since the permanent decline achieved during the 1960s, most of the variation in the poverty rate has been cyclical: it goes up in recessions and down during booms. During the early 1980s recession, the rate spiked, only to fall again when the labor market recovered later in the decade.

Same thing with the early 1990s recessions and late '90s boom. And the current recession has spurred an increase again. The most recent numbers we have are for 2010, and that year's rate - 15.1 percent - is about as high as it's gotten since the 1960s.

Source: Dylan Matthews, "**Poverty in the 50 years since 'The Other America,' in five charts," Washington Post,** July 11, 2012 at 9:48 am,
http://www.washingtonpost.com/blogs/wonkblog/wp/2012/07/11/poverty-in-the-50-years-since-the-other-america-in-five-charts/
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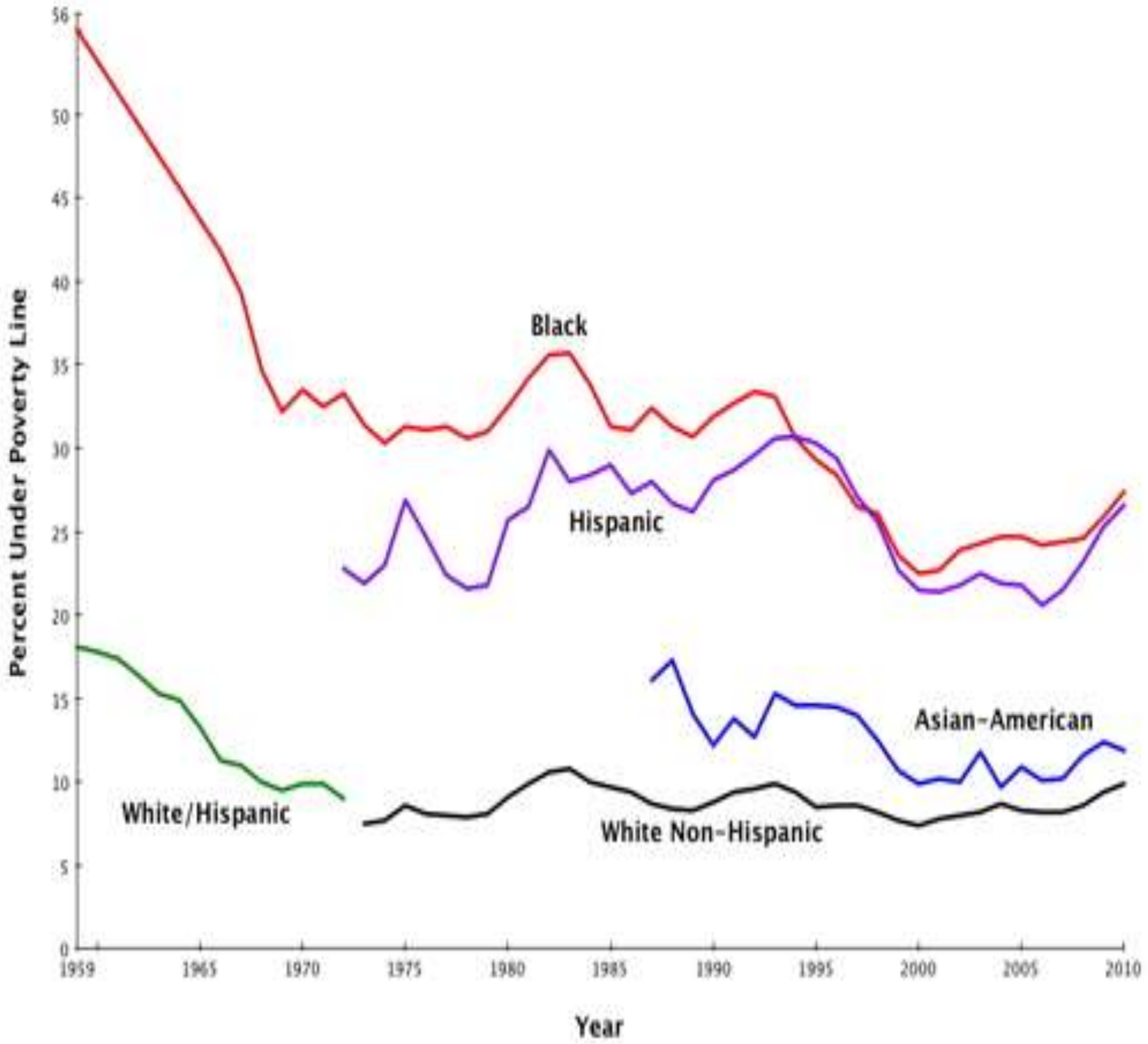
But Poverty Still has A Strong Racial Character



In Both white and black poverty fell dramatically during the 1960s, though the drop in black poverty from 55.1 percent in 1959 to 32.2 percent in 1969 is particularly remarkable.

More recently, it appears that white and Asian-American poverty have become decoupled from the state of the economy, whereas black and Hispanic poverty remains heavily cyclical, with a big fall during the 1990s boom and a corresponding rise as the recession hit in 2009 and 2010.

Hispanic poverty overtook black poverty from 1994 to 1997, and it looks as though the two are converging again since the 1960s.

Source: Dylan Matthews, "**Poverty in the 50 years since 'The Other America,' in five charts," Washington Post,** July 11, 2012 at 9:48 am, http://www.washingtonpost.com/blogs/wonkblog/wp/2012/07/11/poverty-in-the-50-years-since-the-other-america-in-five-charts/
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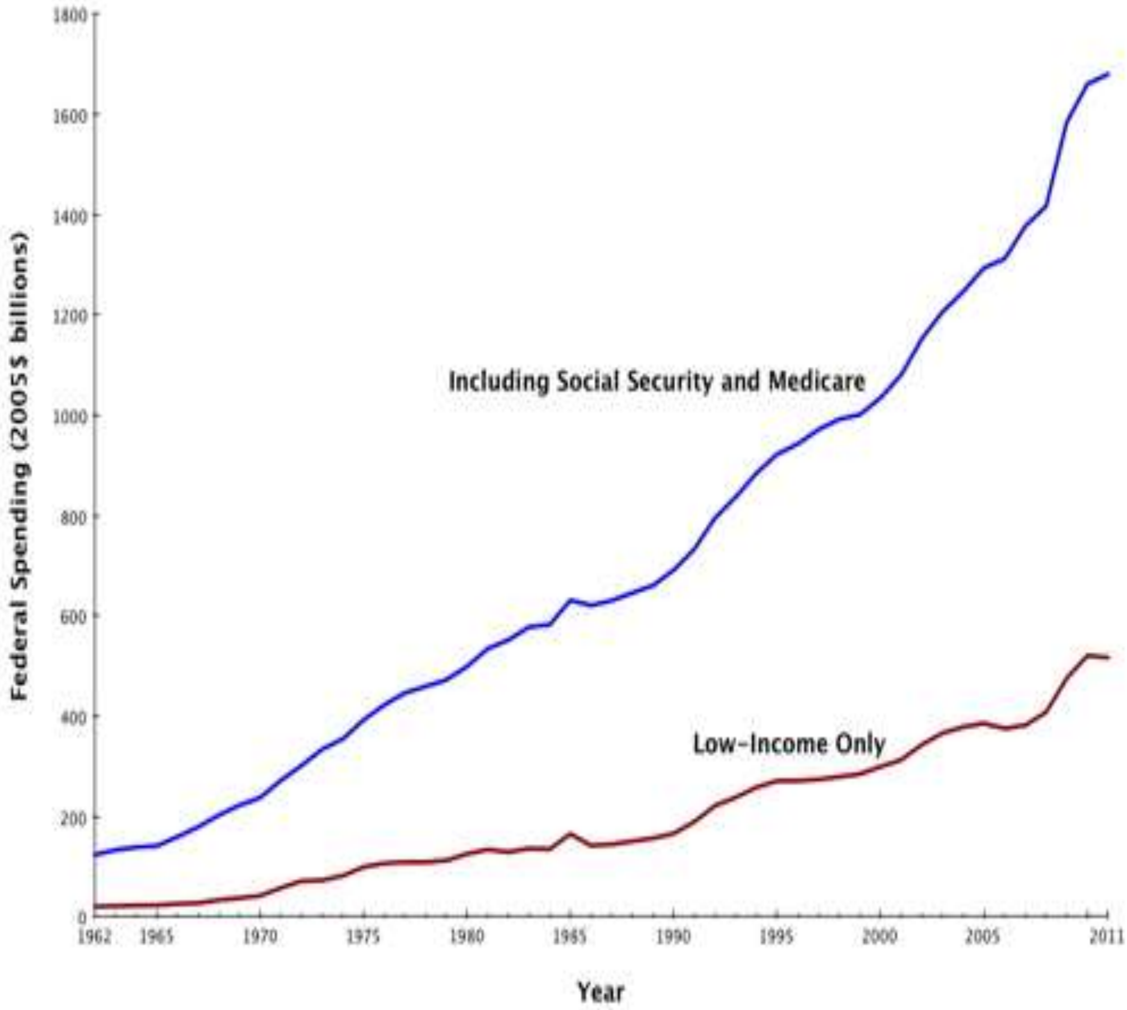
Rise in Cost of Federal Entitlement Programs Driven Largely By Social Security and Medicare, Rather than Direct Aid To Poor



…poverty programs are keeping roughly the same amount of people (1-3 percent of the population) out of poverty each year. In 2009, that number jumped to 2.9 percent. Indeed, …40 million Americans were kept out of poverty due to food stamps, the Earned Income Tax Credit, Medicaid, and other programs in 2010.

This chart just includes anti-programs like food stamps, the Earned Income Tax Credit, and Medicaid that solely target low-income people, and even when you adjust for inflation, we're spending far more:

If you include programs like Medicare and Social Security that help many elderly people escape poverty, but also serve middle and upper income people, the rise is even more dramatic:…The bulk of growth is in health care spending, however, which is growing not because programs are helping more people but because the cost of care is rising, which helps explain why increased spending since the 1970s has not resulted in a sustained decline in poverty.

Source: Dylan Matthews, "**Poverty in the 50 years since 'The Other America,' in five charts," Washington Post,** July 11, 2012 at 9:48 am, http://www.washingtonpost.com/blogs/wonkblog/wp/2012/07/11/poverty-in-the-50-years-since-the-other-america-in-five-charts/
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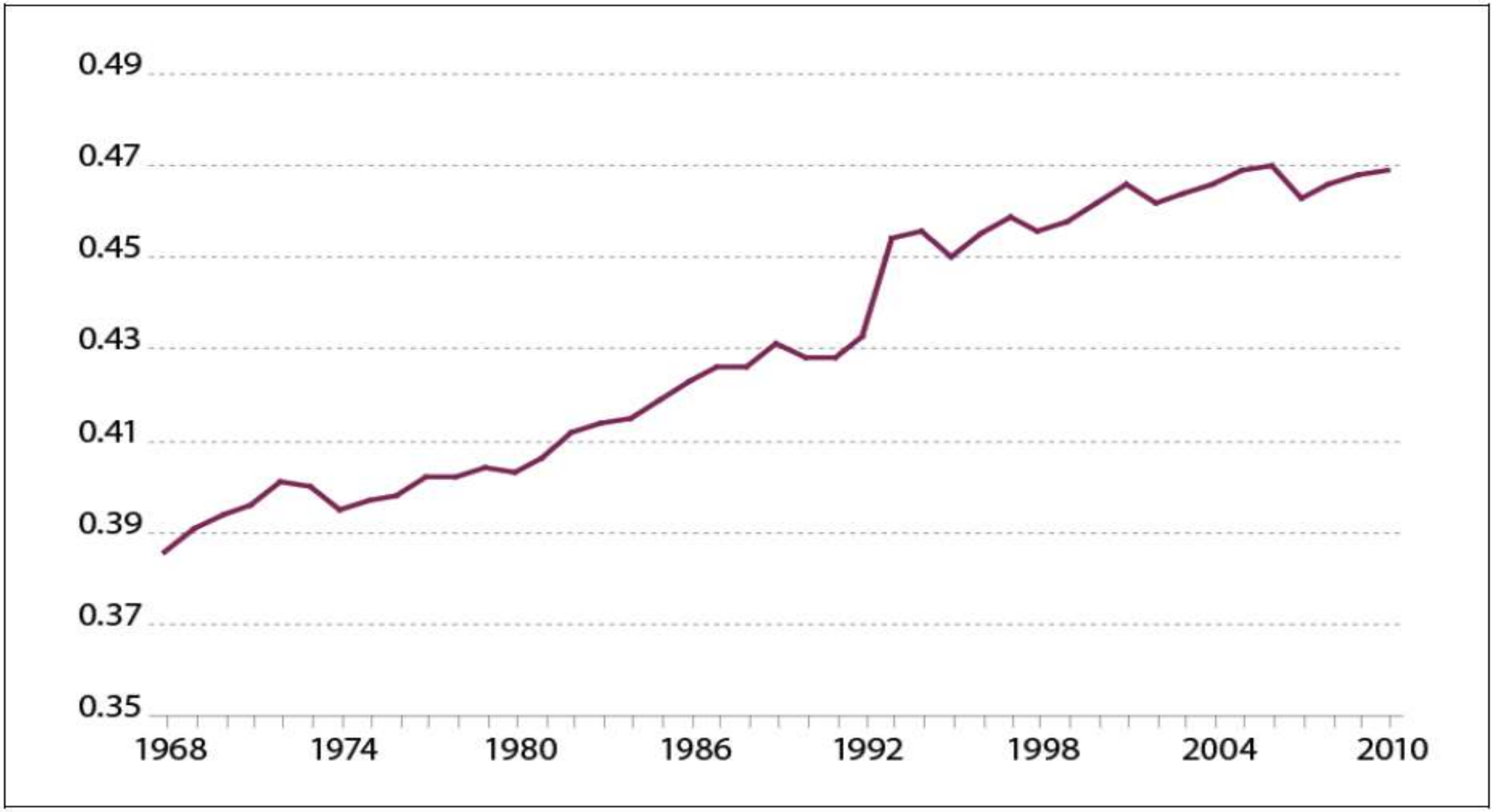
Growing US Income Inequality Adds to the Pressure: Gini Index: 1968-2010

“[The Gini coefficient] is a single number that can range between zero (a perfectly equal distribution) and one (a perfectly unequal distribution). The historical trend in the United States is one of almost steadily increasing income inequality (from 0.386 in 1968 to 0.477 in 2011)... During the 2007-2009 recession, the Gini coefficient fell slightly from its previous peak in 2006 of 0.470. Its level since then indicates an income distribution that is much more unequal than in most years since 1968.”



Source: U.S. Census Bureau, Annual Social and Economic Supplements to the Current Population Survey; Linda Levine, “The U.S. Income Distribution and Mobility: Trends and International Comparisons,” Congressional Research Service, R42400, pp. 4-5.

Growing US Income Inequality Adds to the Pressure: Distribution Trends: 1968-2010

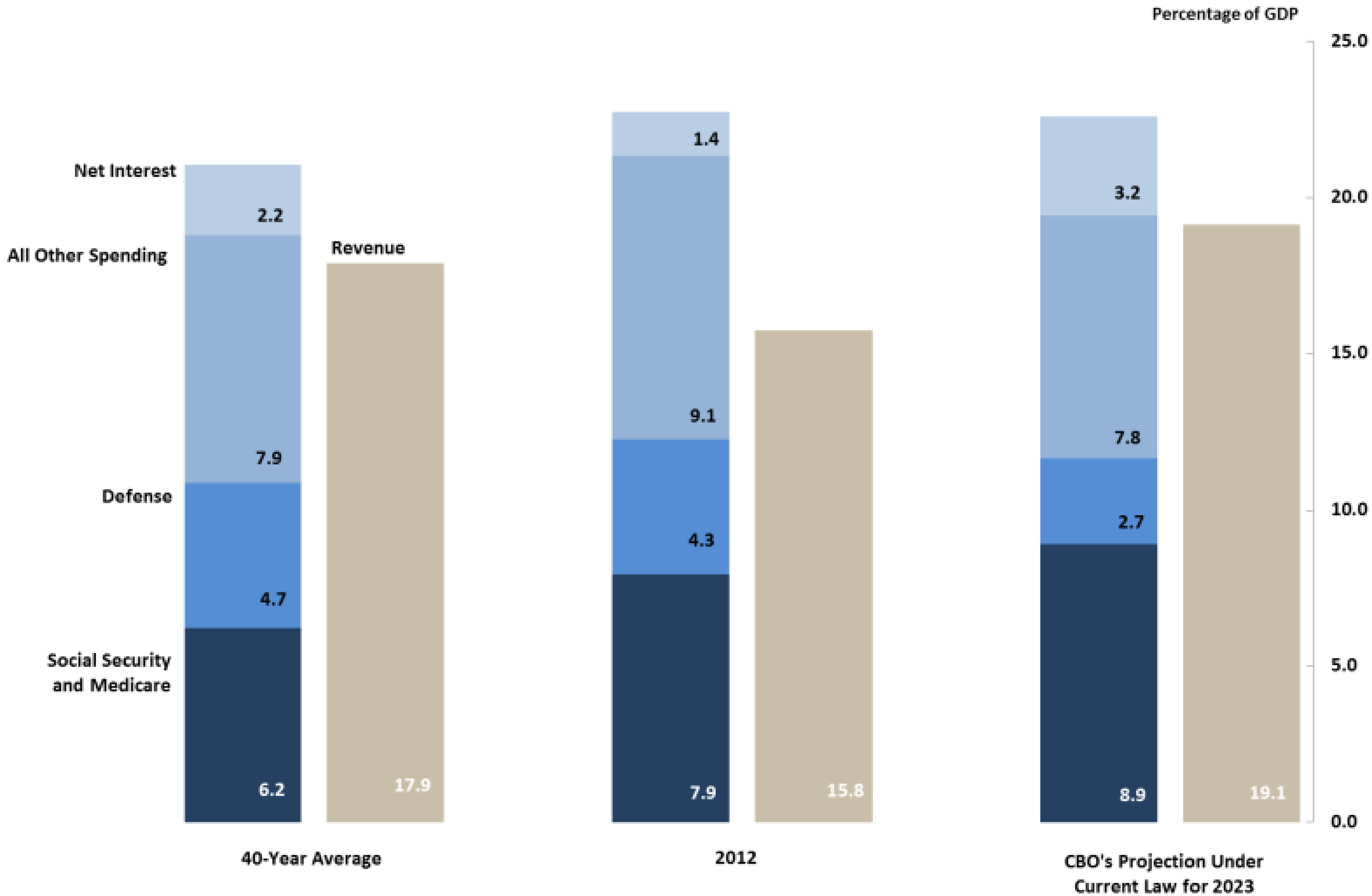
Distribution of U.S. Household Income by Quintile, Selected Years (1968-2010)

Year	Percentage of Total Household Income					
	Bottom	Second	Third	Fourth	Fifth	Top 5%
1968	4.2	11.1	17.6	24.5	42.6	16.3
1980	4.2	10.2	16.8	24.7	44.1	16.5
1990	3.8	9.6	15.9	24.0	46.6	18.5
2000	3.6	8.9	14.8	23.0	49.8	22.1
2001	3.5	8.7	14.6	23.0	50.1	22.4
2002	3.5	8.8	14.8	23.3	49.7	21.7
2003	3.4	8.7	14.8	23.4	49.8	21.4
2004	3.4	8.7	14.7	23.2	50.1	21.8
2005	3.4	8.6	14.6	23.0	50.4	22.2
2006	3.4	8.6	14.5	22.9	50.5	22.3
2007	3.4	8.7	14.8	23.4	49.7	21.2
2008	3.4	8.6	14.7	23.3	50.0	21.5
2009	3.4	8.6	14.6	23.2	50.3	21.7
2010	3.3	8.5	14.6	23.4	50.2	21.3

Source: U.S. Census Bureau, Annual Social and Economic Supplements to the Current Population Survey.

"The bottom fifth of households in 2010 accounted for much less than the one-fifth of total income it would have gotten if the distribution were perfectly equal. The top 20%, in contrast, accounted for more than twice what it would have gotten in an equal distribution. The top 5%, which is within the top fifth, accounted for more than four times the share it would have had in a perfectly equal distribution." (Table and text from Linda Levine, "The U.S. Income Distribution and Mobility: Trends and International Comparisons," Congressional Research Service, R42400, pp. 3-4.)

CBO Estimates By 2023, Federal Spending Will Shift Further Toward Social Security and Medicare



Theresa Gullo, Deputy Assistant Director for Budget Analysis, “The Federal Budget: Outlook and Challenges, CBO, June 6, 2013.

The Total and Federal Costs of an Aging America

The Cost Impact of An Aging America - I

There are significant debates over the overall impact of an aging America on Federal Spending, but the broad trends in such impacts seem clear. (p. 26) The Total and Federal Costs of An Aging America drive a key aspect of the rise in entitlements even through they do not approach a functional national solution to the problems involved.

The Lack of Saving and Pensions for An Aging Population Threatens National Security. (pp. 19-21.)

- **In 1940, the life expectancy of a 65-year-old was almost 14 years; today it's almost 20 years. By 2036, there will be almost twice as many older Americans as today – from 41.9 million today to 78.1 million. (pp. 29-30)**
- **The level of poverty in elderly America already is a key problem. (p. 31)**
- **The proportion of Americans with a any pension plan with defined benefits is steadily shrinking, and the funding of such plans, adjustments for inflation, and medical coverage are highly uncertain. (p. 32)**
- **401K and other programs are steadily losing employer contributions, and most Americans either do not fund them or fund them far below retirement level. (p. 33)**
- **There are currently 2.9 workers for each Social Security beneficiary. By 2036, there will be 2.1 workers for each beneficiary.**

The Cost Impact of An Aging America - II

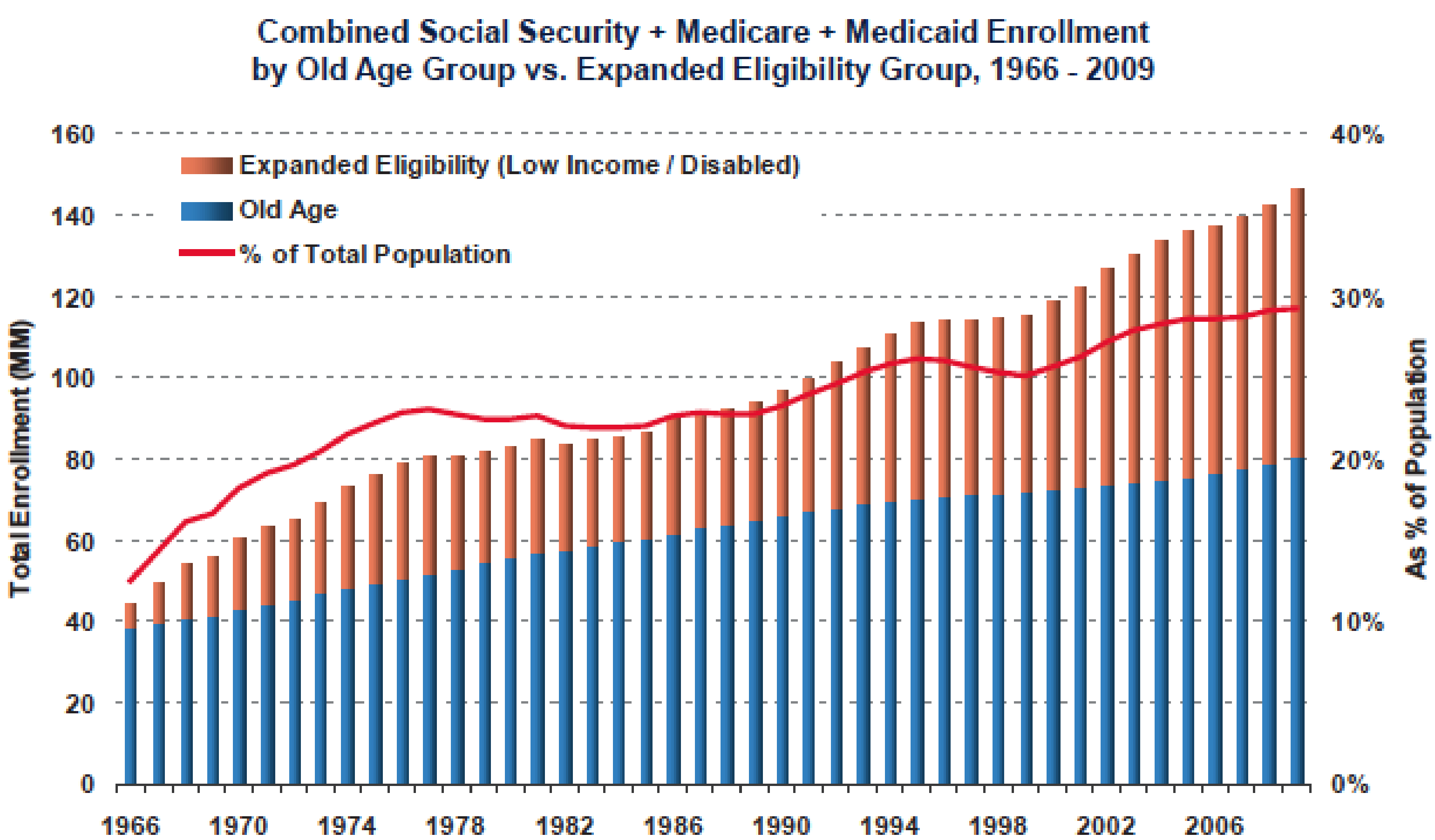
- **The percentage of Americans in the private sector retiring with private pensions dropped from 84% in 1980 to 32% even before the current recession. (p. 31)**
- **By one estimate, the retirement risk index rose from around 31% in 1983 to 53% in 2010. (p. 32)**
- **Even today, roughly 17% of Americans over 65 -- who report any income -- are at the poverty level in spite of Social Security. Only 27% report something approaching a Middle Class income. (p. 33)**
- **In 2011, 9% of Americans over 65 had no retirement savings and did not receive Social Security benefits. Three out five families headed by someone over 65 had no retirement savings. (p. 34)**
- **In addition, 8.4 million disabled Americans and 2 million of their dependents (19% of total benefits) depended on Social Security, plus 6.3 million survivors of deceased workers (12% of total benefits). (p. 34)**
- **It is projected that there will be growth in the number of Social Security beneficiaries from 56 to 91 million between now and 2035. By 2033, only ¾ of benefits will be financed unless taxes are increased or the system is reformed.(p. 34)**
- **CBO estimates that 41% of the near term growth in federal medical expenditures will be driven by the cost of aging Americans. (p. 35)**

The Cost Impact of An Aging America - III

- **The aging of the population is the main factor driving the projected growth of Social Security spending as a percentage of GDP. Social Security as a share of GDP depends primarily on the ratio of the number of people of working age to the number of Social Security beneficiaries.**
- **The number of people of working age per beneficiary will decline significantly over the next quarter century—from about three in 2013 to about two in 2038—and then continue to drift downward. (p. 36)**
- **Americans are living 26% longer, But Social Security 'retirement" age has iIncreased only 3% since Social Security was created in 1935. (p. 37)**
- **Unless a fundamental restructuring takes place in age of eligibility and cost, Social Security will move towards a permanent and growing annual deficit in FY2015. (p. 38)**
- **Even so, more and more Americans will not have pensions or meaningful 401Ks, and Social Security will leave than near or below the poverty level upon retirement. (p. 39)**

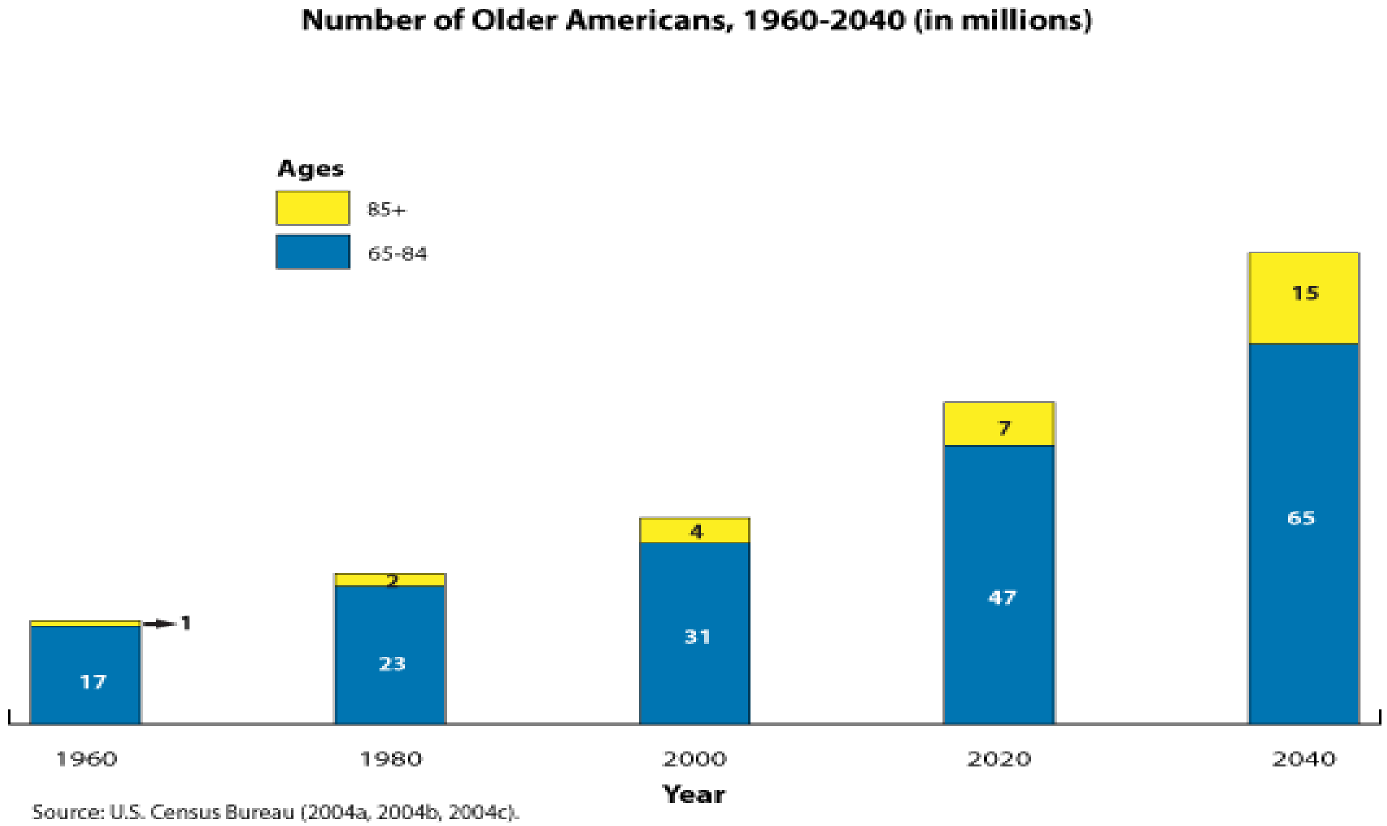
Age, Eligibility, and Entitlements

Entitlement Spending: While Beneficiaries From Aging Population Rose 2x From 1966 to 2009, Beneficiaries From Expanded Eligibility (Low-Income / Disabled) Rose 10x



Source: OECD as presented in Mary Meeker, USA Inc. A Basic Summary of America's Financial Statements, February 2011, p. 87 : http://s3.amazonaws.com/kpcbweb/files/USA_Inc.pdf. P. XIIand www.kpcb.com/usainc.

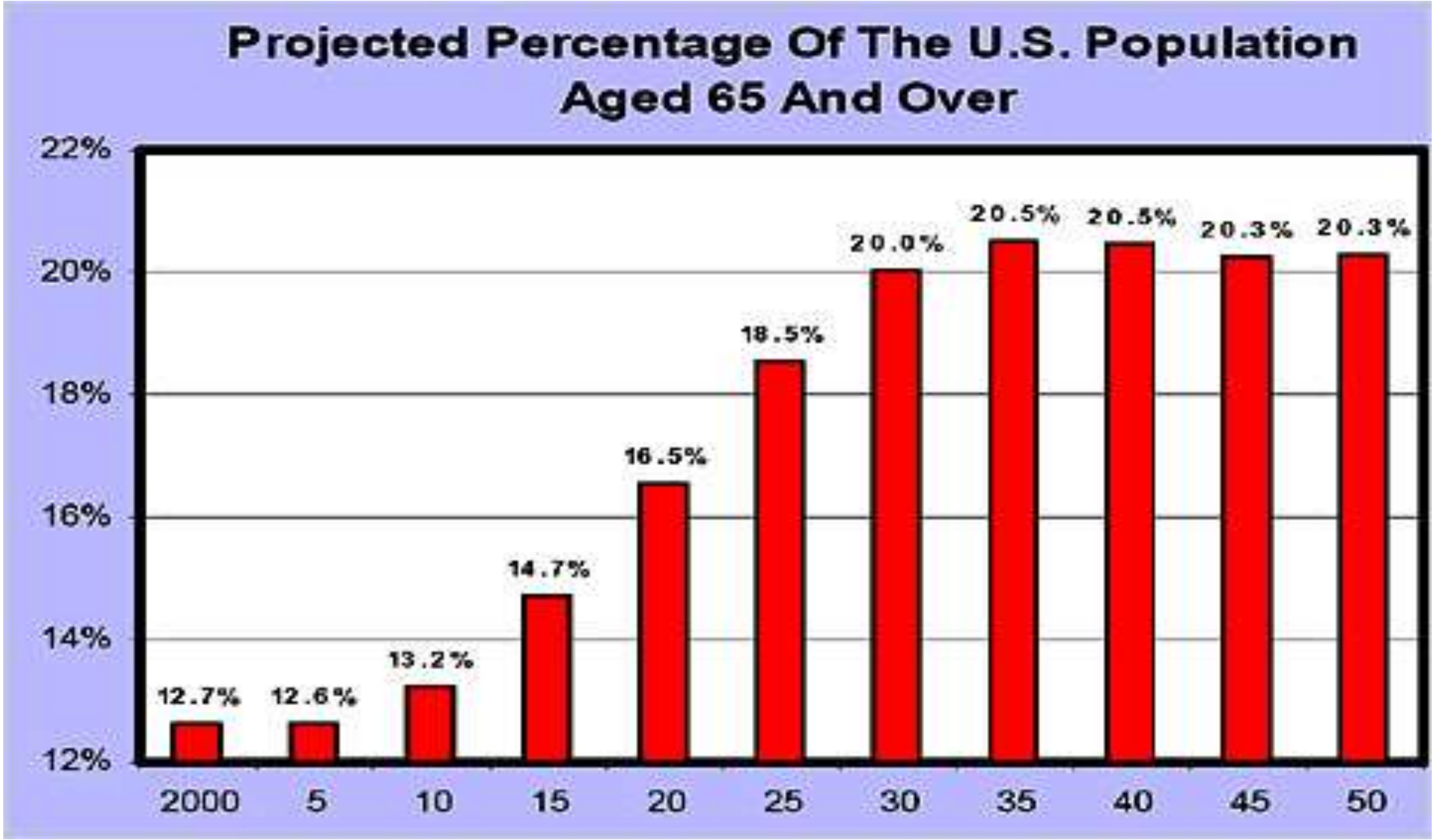
Aging (65+) Americans Rise from 18M in 1960 to 35M in 2000 to 80M in 2050



The older population--persons 65 years or older--numbered 39.6 million in 2009 (the latest year for which data is available). They represented 12.9% of the U.S. population, about one in every eight Americans. By 2030, there will be about 72.1 million older persons, more than twice their number in 2000. People 65+ represented 12.4% of the population in the year 2000 but are expected to grow to be 19% of the population by 2030.

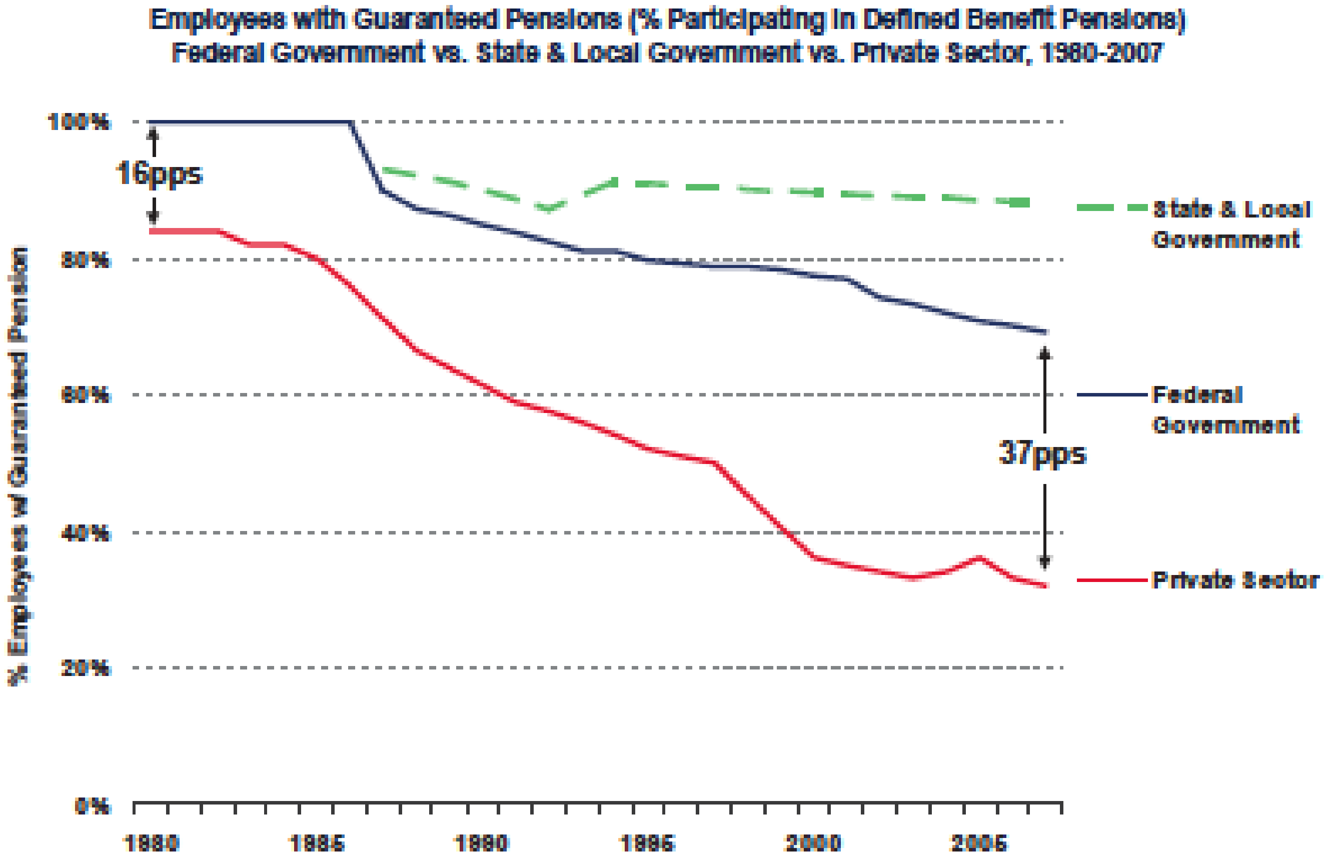
The Growing Poll of Older Americanhttp://www.google.com/imgres?imgurl=http://www.urban.org/retirement_policy/images/Chart-1.gif&imgrefurl=http://www.urban.org/retirement_policy/agingpopulation.cfm&h=500&w=530&sz=9&tbnid=ynsofAi901g44M:&tbnh=90&tbnw=95&zoom=1&usg=__5HFawYSSZJPuM_7Hp2ApmxqiQT8=&docid=wM7XcvCYiCxuCM&sa=X&ei=ClI3UrfNGbXE4AOGgYEo&ved=0CGQQ9QEwBw&dur=699s; http://www.aoa.gov/Aging_Statistics/

Americans Over 65 Rise from 12.7% to 20.5%



http://www.google.com/imgres?imgurl=http://www.urban.org/retirement_policy/images/Chart-1.gif&imgrefurl=http://www.urban.org/retirement_policy/agingpopulation.cfm&h=500&w=530&sz=9&tbnid=ynsofAi901g44M:&tbnh=90&tbnw=95&zoom=1&usg=__5HFawYSSZJPuM_7Hp2ApmxqiQT8=&docid=wM7XcvCYiCxuCM&sa=X&ei=ClI3UrfNGbXE4AOGgYEo&ved=0CGQQ9QEwBw&dur=699

Decline in Private Pensions



70% of Federal Government Employees Still Enjoy "Guaranteed" Pensions, While Such Defined-Benefit Pension Plans Are Increasingly Rare in Private Sector (now at 32% vs. 84% in 1980)

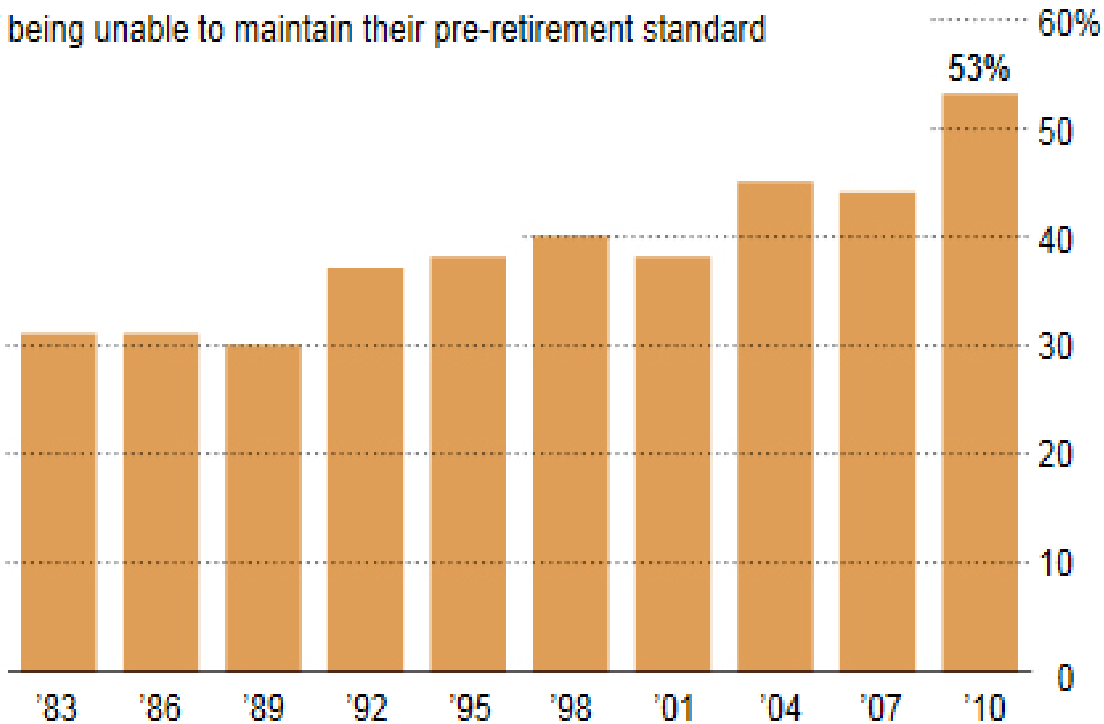
Source: OECD as presented in Mary Meeker, USA Inc. A Basic Summary of America's Financial Statements, February 2011 : , http://s3.amazonaws.com/kpcbweb/files/USA_Inc.pdf. P.140 and www.kpcb.com/usainc.

More and More Americans Are at Risk

National retirement risk index

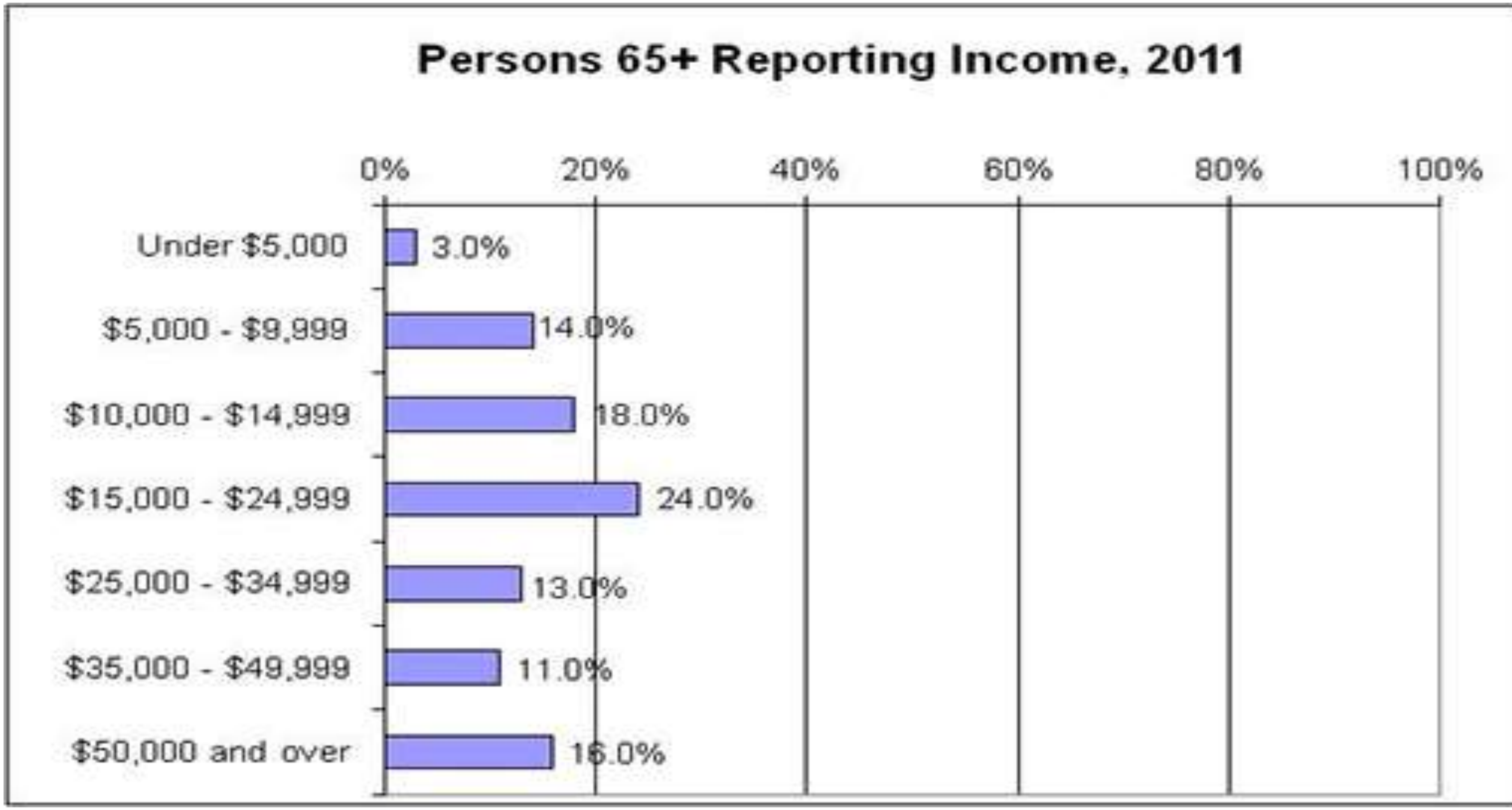
Percentage of households at risk of being unable to maintain their pre-retirement standard of living during retirement.

Note: The national retirement risk index compares projected retirement income as a percentage of pre-retirement income of working households with target rates that would allow them to maintain their standard of living. It is the percentage at risk of falling more than 10 percent short of this target, based on data from the triennial Federal Reserve Survey of Consumer Finances.



Sources: Employee Benefits Research Institute; Alice H. Munnell, Anthony Webb and Francesca Golub-Sass, Center for Retirement Research at Boston College. Graphic: The Washington Post. Published Feb. 16, 2013.

Many Older Americans are Poor: 1.8% Get less than $10,000 a Year



For all older persons reporting income in 2011 (40.2 million), 17.8% reported less than $10,000 and 40% reported $25,000 or more. The median income reported was $19,939.

The major sources of income as reported by older persons in 2010 were Social Security (reported by 86% of older persons), income from assets (reported by 52%), private pensions (reported by 27%), government employee pensions (reported by 15%), and earnings (reported by 26%). In 2010, Social Security benefits accounted for 37% of the aggregate income of the older population. The bulk of the remainder consisted of earnings (30%), asset income (11%), and pensions (18%). Social Security constituted 90% or more of the income received by 36% of beneficiaries (23% of married couples and 46% of non-married beneficiaries).

(Based on online data from the U.S. Census Bureau's 1) Current Population Survey, Annual Social and Economic Supplement; and 2) "Income, Poverty, and Health Insurance Coverage in the United States: 2011," P60 243, issued September, 2012. The Social Security Administration's "Fast Facts and Figures About Social Security, 2012.")

The Lack of Saving and Pensions for An Aging Population Threatens National Security

- In 1940, the life expectancy of a 65-year-old was almost 14 years; today it's almost 20 years. By 2036, there will be almost twice as many older Americans as today – from 41.9 million today to 78.1 million.
- The proportion of Americans with a any pension plan with defined benefits is steadily shrinking, and the funding of such plans, adjustments for inflation, and medical coverage are highly uncertain.
- 401K and other programs are steadily losing employer contributions, and most Americans either do not fund them or fund them far below retirement level.
- There are currently 2.9 workers for each Social Security beneficiary. By 2036, there will be 2.1 workers for each beneficiary.
- In 2011, 9% of Americans over 65 had no retirement savings and did not receive Social Security benefits. Three out five families headed by someone over 65 had no retirement savings.
- In addition, 8.4 million disabled Americans and 2 million of their dependents (19% of total benefits) depended on Social Security, plus 6.3 million survivors of deceased workers (12% of total benefits). (Social Security Administration)
- It is projected that there will be growth in the number of Social Security beneficiaries from 56 to 91 million between now and 2035. By 2033, only ¾ of benefits will be financed unless taxes are increased or the system is reformed.

Source: "News Summary: Social Security's Financial Woes Could Be Solved With Politically Tough Changes," *Yahoo Finance* via *Associated Press,* August 20, 2012. http://finance.yahoo.com/news/news-summary-social-security-changes-163551468.html

An Aging Population Drives the Increase in Federal Spending - I

Excess Cost Growth in Spending for Health Care

(Percent)

	Medicare	Medicaid	Other	Overall
1975 to 2011	2.0	1.6	1.9	1.9
1980 to 2011	1.7	1.2	1.8	1.7
1985 to 2011	1.5	0.8	1.6	1.5
1990 to 2011	1.3	0.2	1.3	1.2

Excess cost growth refers to the extent to which the annual growth rate of nominal Medicare or Medicaid spending per beneficiary, or of all other health care spending per capita or overall health care spending per capita—adjusted for demographic characteristics of the relevant populations— outpaced the annual growth rate of potential gross domestic product (GDP) per capita, on average. The historical rates of excess cost growth are a weighted average of annual rates, placing twice as much weight on the latest year as on the earliest year.

Explaining Projected Growth in Federal Spending for Major Health Care Programs and Social Security as a Share of GDP

	Percentage of Projected Growth Through	
	2023	2038
	Major Health Care Programs and Social Security	
Aging	41	54
Excess Cost Growth	19	28
Medicaid Expansion and Exchange Subsidies	39	19
	Major Health Care Programs	
Aging	21	35
Excess Cost Growth	26	40
Medicaid Expansion and Exchange Subsidies	53	26

Graph from: "The 2013 Long Term Budget Outlook," Congressional Budget Office, September 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/44521-LTBO_0.pdf, pp. 25, 38.

An Aging Population Drives the Increase in Federal Spending - II

Three factors underlie the projected increase in federal spending for the major health care programs and Social Security as a percentage of GDP:

- **The aging of the U.S. population—in particular, the aging of the baby-boom generation (people born between 1946 and 1964)—which will increase the share of the population receiving benefits from those programs and also affect the average age of beneficiaries;**
- **“Excess cost growth”—that is, the rate at which health care costs per beneficiary (adjusted for changes in the age profile of beneficiaries over time) grow faster than potential GDP per capita;**
- **The upcoming expansion of Medicaid eligibility and provision of health insurance subsidies authorized by the ACA.**

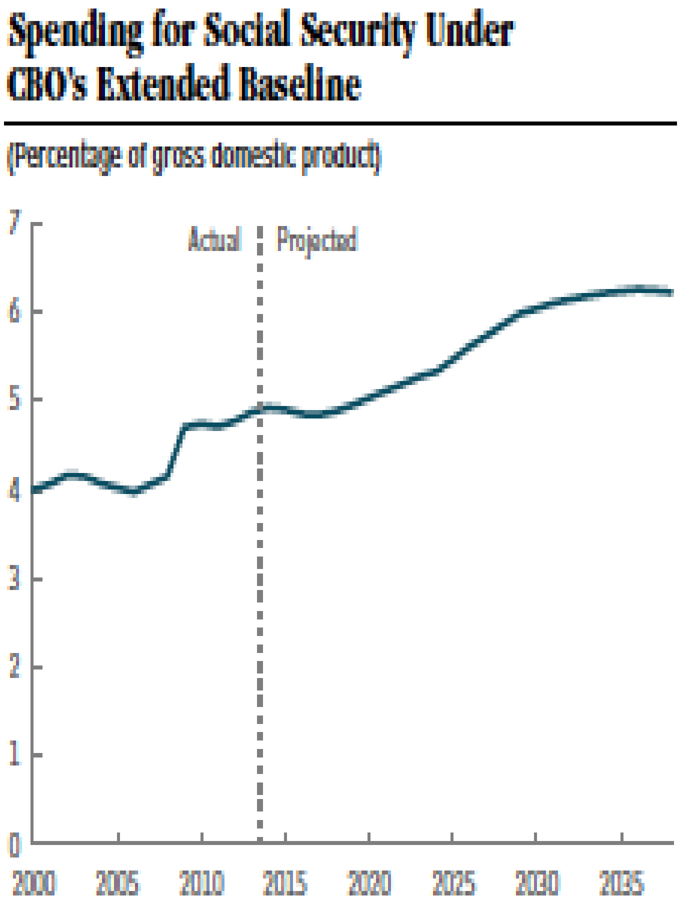
During the next decade alone, the number of people over the age of 65 is expected to rise by more than a third. Over the longerterm, the share of the population age 65 or older is projected to grow from about 14 percent now to 21 percent in 2038, whereas the share of the population ages 20 to 64 is expected to fall from 60 percent to 55 percent.

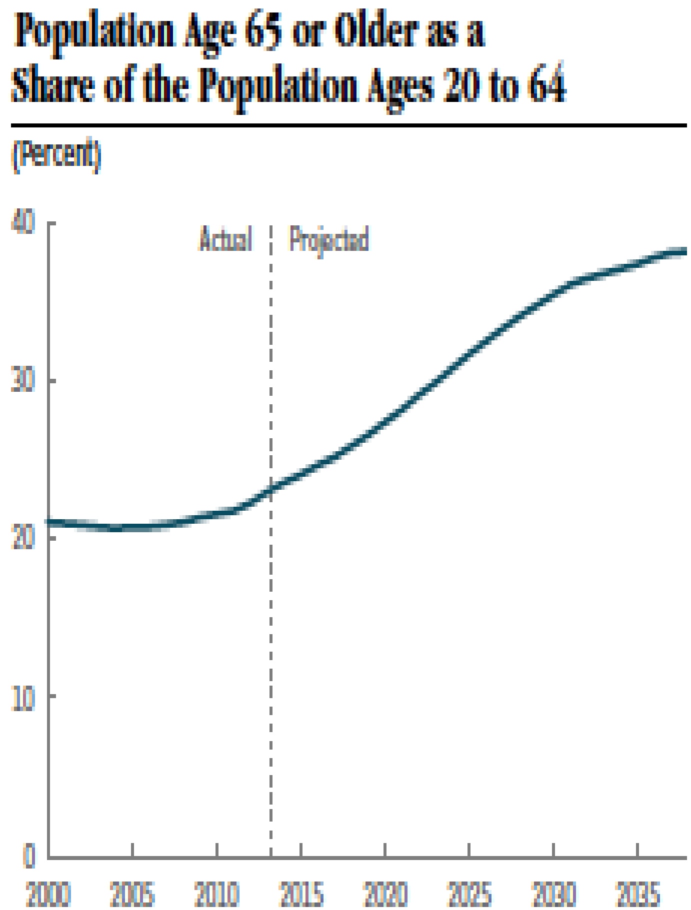
Those trends are expected to continue in later decades, though at a slower pace, as life expectancy increases further. The change in the age profile of the population will be even greater among the oldest segment: CBO projects that the share of the population age 80 or older will rise from 4 percent today to 7 percent in 2038. That increase is especially important for government spending because per capita outlays on federal health care programs rise with age.

**The aging of the population is the main factor driving the projected growth of Social Security spending as a percentage
of GDP. Initial Social Security benefits are based on a person’s earnings, which are indexed to the overall growth. of wages in the economy. Social Security as a share of GDP depends primarily on the ratio of the number of people of working age to the number of Social Security beneficiaries.**

The number of people of working age per beneficiary will decline significantly over the next quarter century—from about three in 2013 to about two in 2038—and then continue to drift downward.

Projected Rise in Social Security Spending

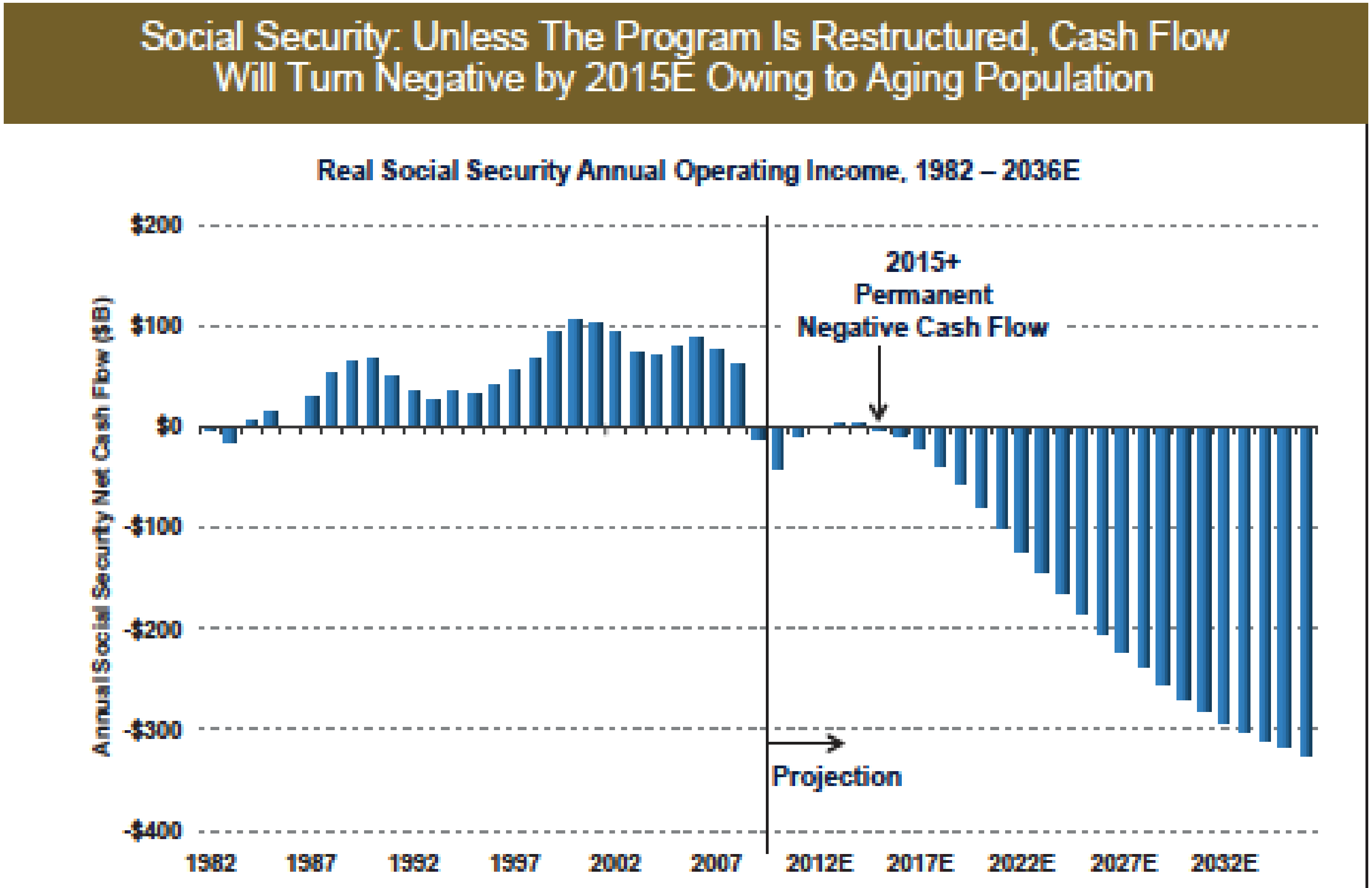




Americans Are Living26% Longer, But Social Security 'Retirement Age' Has Increased Only 3% Since Social Security Was Created in 1935.

Graph from: "The 2013 Long Term Budget Outlook," Congressional Budget Office, September 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/44521-LTBO_0.pdf, pp 50-51. 42.

The Uncertain Social Security Funding Crisis



Source: OECD as presented in Mary Meeker, USA Inc. A Basic Summary of America's Financial Statements, February 2011 : ,
http://s3.amazonaws.com/kpcbweb/files/USA_Inc.pdf. P.140 and www.kpcb.com/usainc.

The Limits of Social Security and 401Ks Increase the Pressure for Future Increases in Entitlements Spending

Social Security:

- According to a 2012 fact sheet, 53% of elderly married couples and 74% of elderly unmarried individuals rely on Social Security for at least 50% of their income (Social Security Administration).
- About 23% of married couples and 46% of unmarried persons receiving benefits relied on Social Security for at least 90% of their income.
- Average payment per year is $14,400 vs. poverty level of $10,890 (NYT, Sullivan).

401K:

- $3.3 trillion is assets, seven times large than two decades ago, but:
  - "The typical worker" had $54,000 invested in a 401(k) in 2010, an anemic amount for one to retire off of. Moreover, Under half of the U.S. private-sector workforce participates in these programs, and those that do grossly underinvest.
  - Even twice the savings – $120,000 – would be under ¼ of the recommend minimal savings for retirement and pay some $7,000 a year.
  - Many participants empty accounts when laid off, use to buy houses or education for children.
  - Relatively high fees, and those who do save often take excessive risks: 38% of participants between the ages of 55 and 64 keep over 80% of 401K invested in stocks (NYT, Greenhouse).

Fact Sheet: Social Security, Social Security Administration, July 30, 2012. http://www.ssa.gov/pressoffice/basicfact.htm; Paul Sullivan, "The Tightwire Act of Living Only on Social Security," *New York Times*, September 11, 2012. http://www.nytimes.com/2012/09/12/business/retirementspecial/living-only-on-social-security-is-a-tightwire-act.html?pagewanted=all; Steven Greenhouse, "Should the 401(k) Be Reformed or Replaced?," *New York Times*, September 11, 2012, corrected September 13, 2012. http://www.nytimes.com/2012/09/12/business/retirementspecial/should-the-401-k-be-reformed-or-replaced.html?pagewanted=all

The Total and Federal Impact of Rising Medical Costs

The Complex Trends in Medical Costs and Federal Programs - I

***The Total and Federal Costs of American medical care drive another key aspect of the rise in entitlements even through they do not approach a functional national solution to the problems involved*.**

***Estimates differ, but the total cost of private and public health care – driven in part by age and poverty rose from under 5.5% of the US economy in 1950 to around 18% in 2013.* (pp. 43-44)**

- **Experts differ, costs that rise far faster than the rest of the economy and an aging America are driving much of the burden on both the entire US economy and federal spending. (pp. 45-46.)**
- **The US spends a vastly larger part of its entire economy on medical care that other states, and more than four times as much as on all national security spending. (p. 48)**
- **In 2011, before the Affordable Care Act had any impact, public spending accounted for 47% of spending on national medical care, and private spending accounted for 53%. Rising costs, however, had sharply reduced the share paid by both employers and payments by private health insurers. (p. 48)**

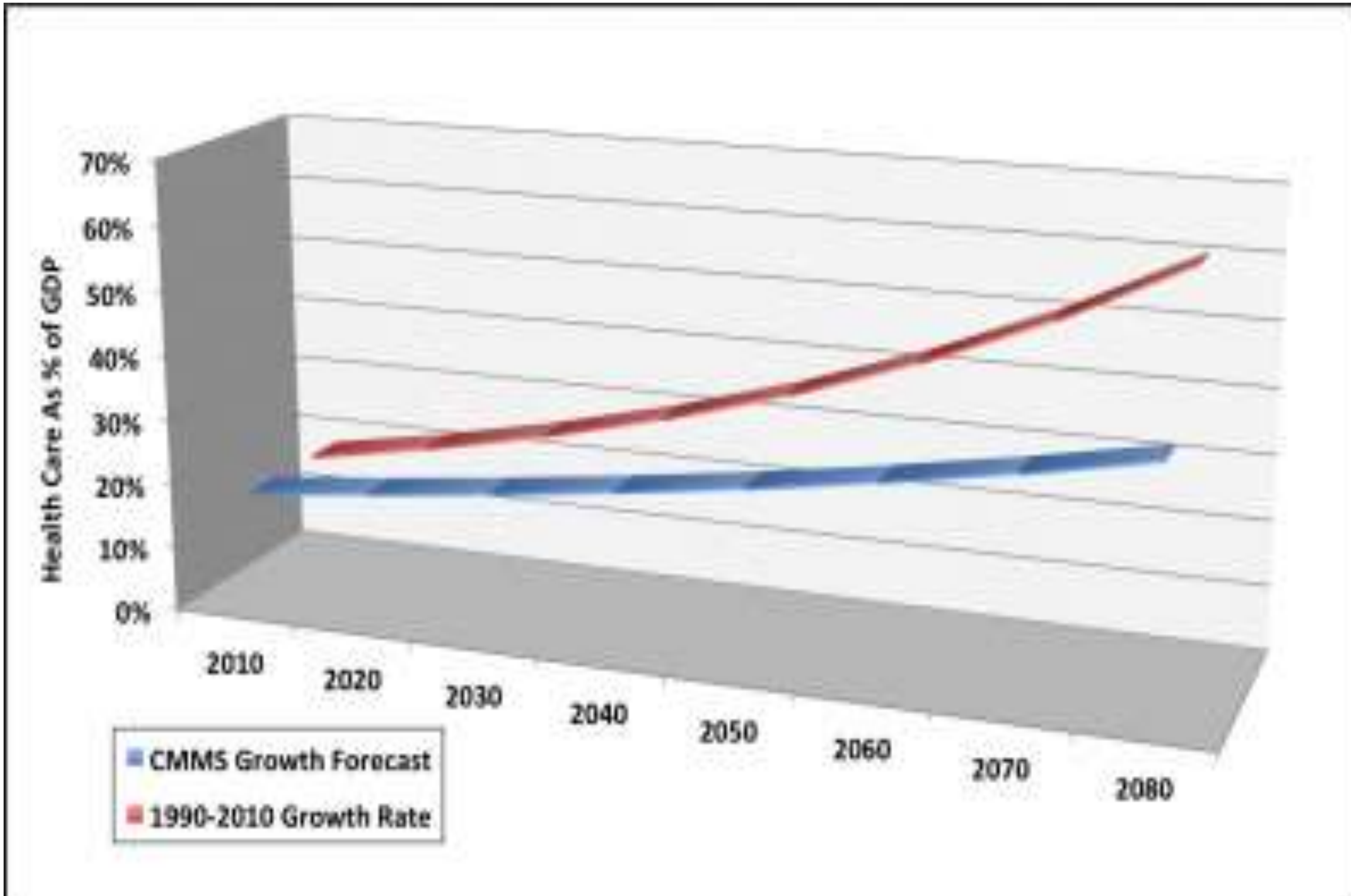
The Complex Trends in Medical Costs and Federal Programs - II

The latest CBO projection of the share of federal health care spending as a percent of the GDP will go from some 3% in 2000 to close to 8.0% in 2035. (p. 49)

There is a debate over just how much an aging America has driven total national and federal medical expenditures. (pp. 50-52). However, the CBO states that Medicare for the aging it's the key program cost shaping the rise in this aspect of entitlements spending:

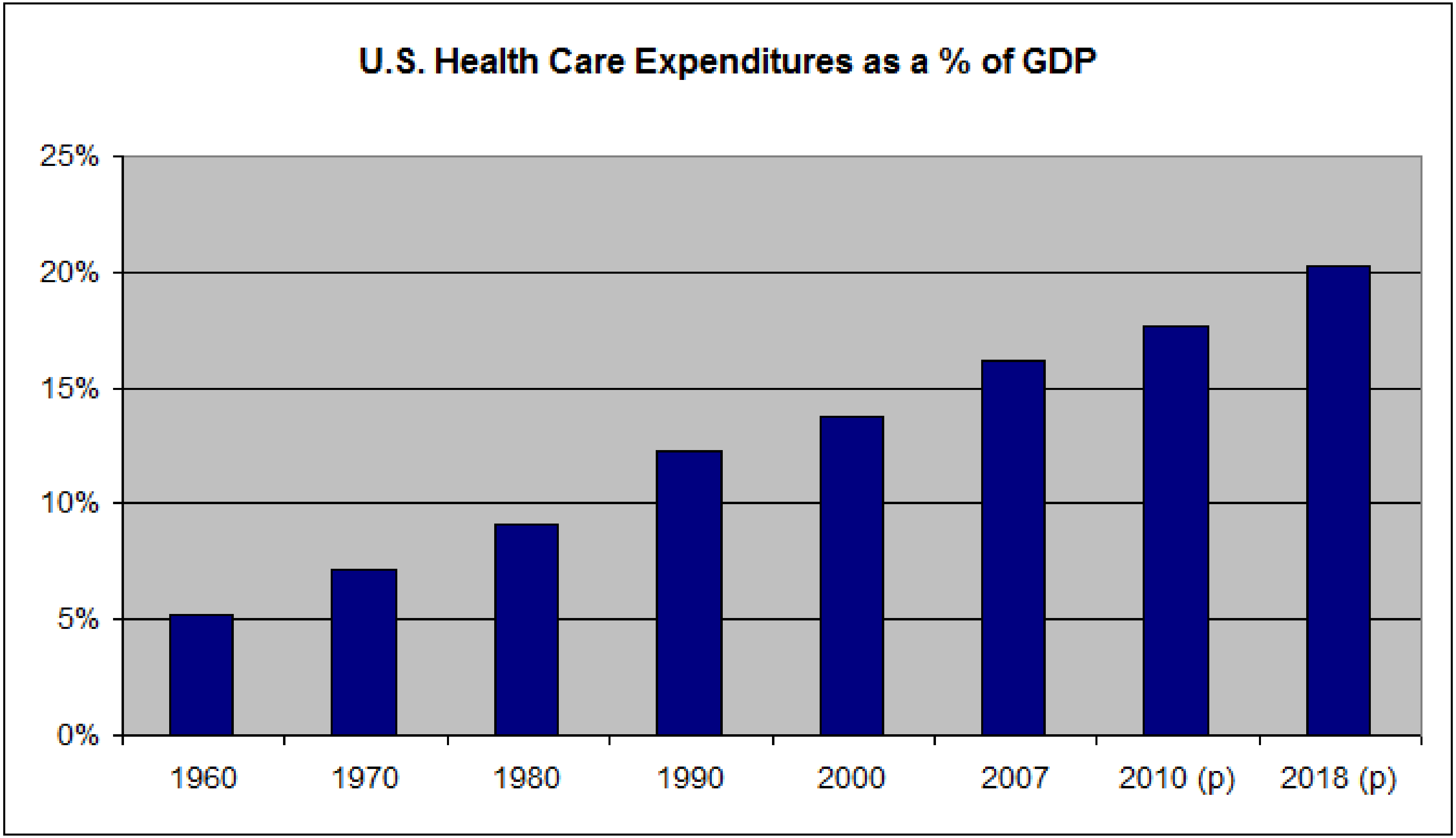
- **In 2013, federal spending for Medicare (net of offsetting receipts), Medicaid, and CHIP will amount to 4.6 percent of GDP, CBO expects—with net Medicare spending equal to 3.0 percent of GDP and federal spending on Medicaid and CHIP equal to 1.7 percent of GDP. (p. 48)**
- **Under CBO's extended baseline, federal spending for those programs and for exchange subsidies would rise to 8.0 percent of GDP in 2038—with Medicare, net of offsetting receipts, accounting for 4.9 percent and Medicaid, CHIP, and the exchange subsidies, 3.2 percent.**
- **Gross Medicare spending is projected to increase from 3.5 percent of GDP in 2013 to 5.8 percent in 2038. (pp. 53-54)**

Forbes: "The U.S. Does Not Have A Debt Problem ... It Has A Health Care Cost Problem



Source: Tod Hixon, The U.S. Does Not Have A Debt Problem ... It Has A Health Care Cost Problem, *Forbes, Entrepreneur* 2.9.12, ww.forbes.com/sites/toddhixon/2012/02/09/the-u-s-does-not-have-a-debt-problem-it-has-a-health-care-cost-problem/

Rise in Cost of National Medical Care as Percent of GDP 1960 to 2018



Source: healthcare309_28214_image002.gif, chartingtheeconomy.comShare, 673 × 387 - **Healthcare** « ChartingTheEconomy, https://www.google.com/search?q=graph+of+USD+m%2Cedical+spending+as+percent+of+GDP&ie=utf-8&oe=utf-8&aq=t&rls=org.mozilla:en-US:official&client=firefox-a.
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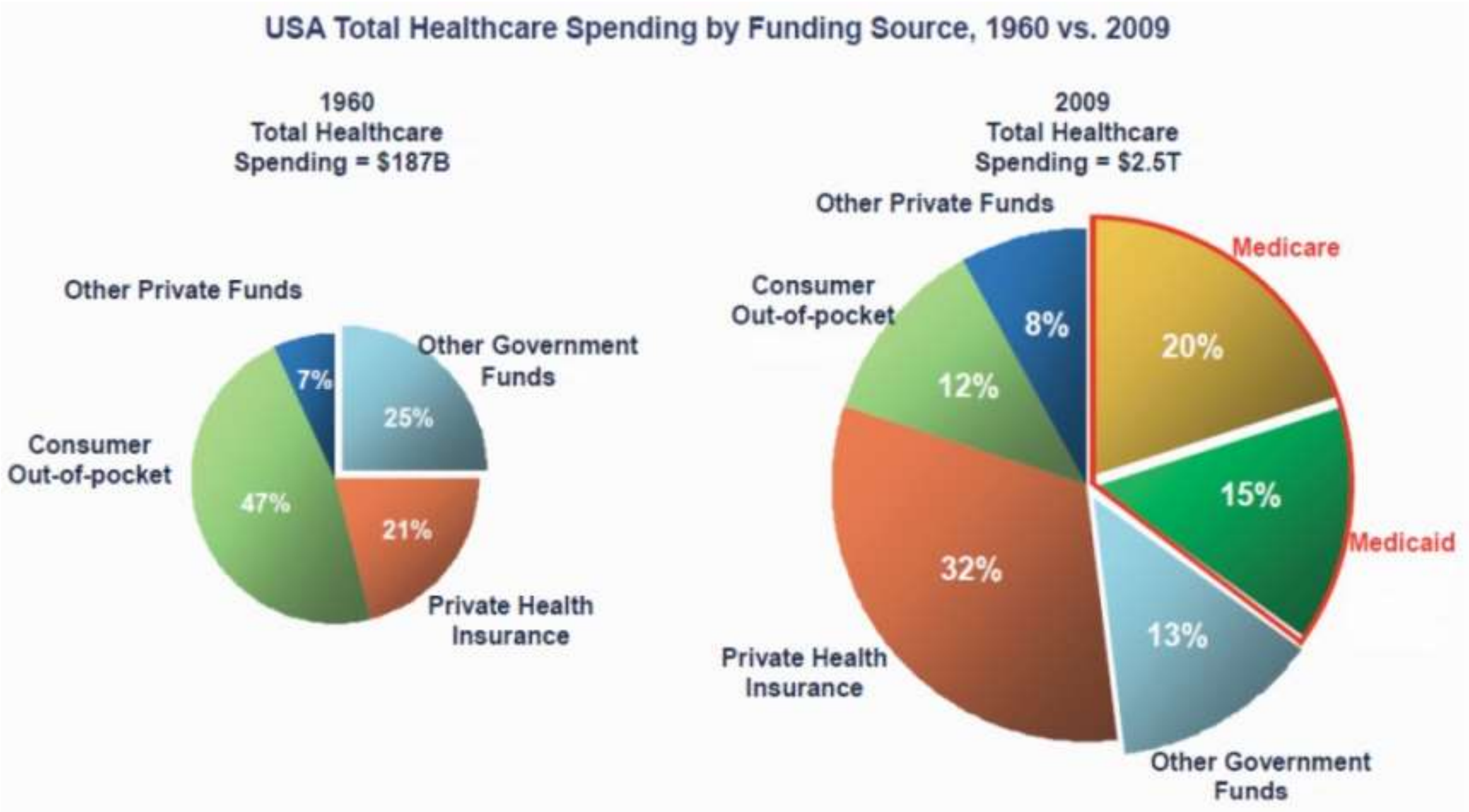
Rise in Cost of National Medical Care 1960 to 2009



Source: Tod Hixon, **Healthcare's Medical Gluttony**
, *Forbes, Entrepreneur* 2.9.12, ww.forbes.com/sites/toddhixon/2012/02/09/the-u-s-does-not-have-a-debt-problem-it-has-a-health-care-cost-problem/

Why Medical Care is Headed Toward 20% of GDP

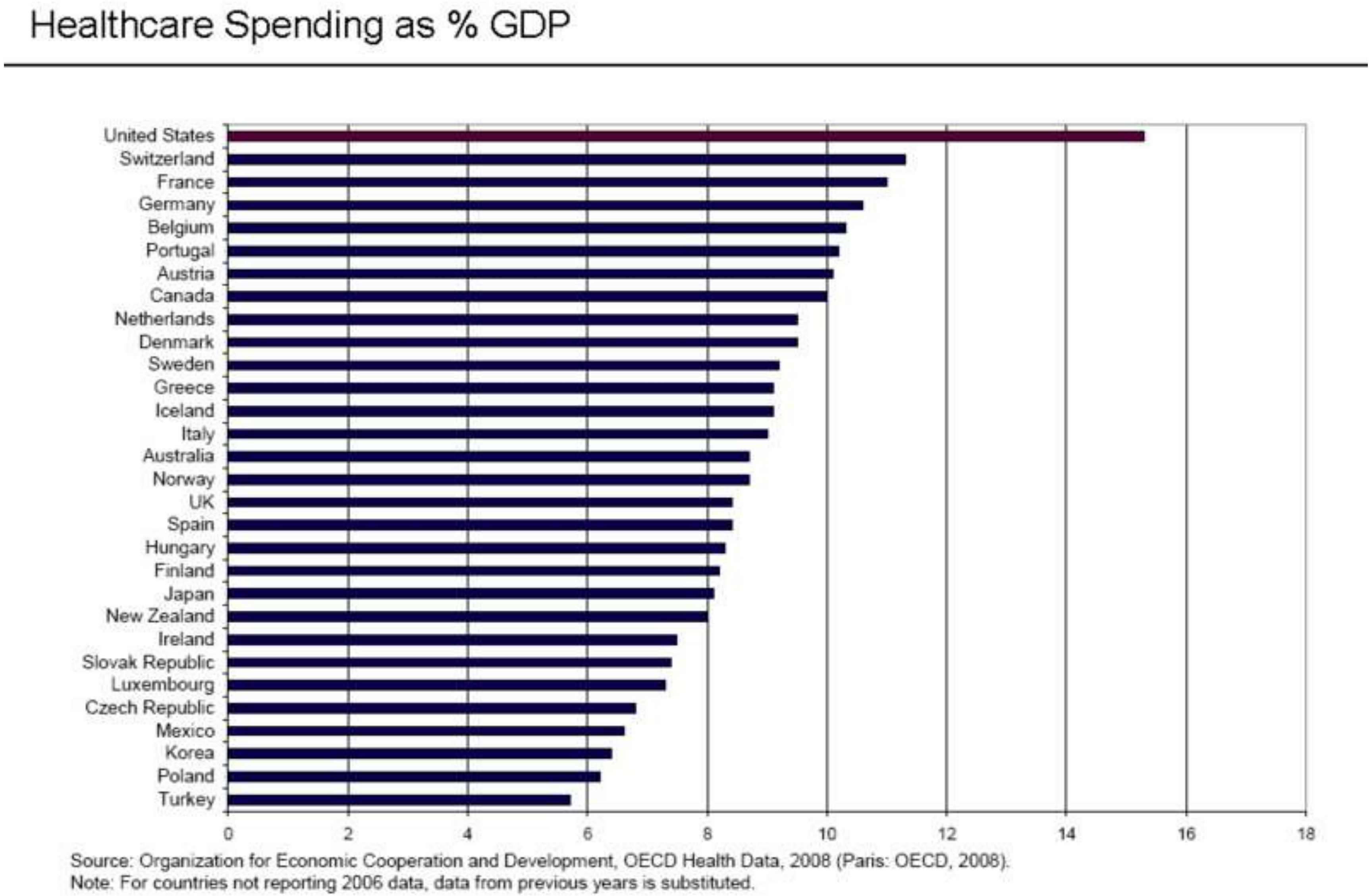
- **By 2021, health care will account for nearly 20 percent of the U.S. economy, the report found, up from 5.2% in 1950, 7.2% in 1980, 12.5% in 1990, 13.8 percent in 2000 and 17.9% in 2010.**
- By the beginning of the next decade, health care spending will be growing roughly 2 percentage points faster than the overall economy, "which is about the same differential experienced over the past 30 years," said the report from Medicare's nonpartisan Office of the Actuary.

National Health Expenditures and Selected Economic Indicators, Levels and Annual Percent Change: Calendar Years 2006-2021

Item	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
						Projected										
National Health Expenditures (billions)	$2,162.4	$2,297.1	$2,403.9	$2,495.8	$2,593.6	$2,695.0	$2,809.0	$2,915.5	$3,130.2	$3,307.6	$3,514.4	$3,723.3	$3,952.3	$4,207.3	$4,487.2	$4,781.0
National Health Expenditures as a Percent of Gross Domestic Product	16.2%	16.4%	16.8%	17.9%	17.9%	17.9%	17.9%	17.8%	18.2%	18.2%	18.3%	18.4%	18.6%	18.9%	19.2%	19.6%
National Health Expenditures Per Capita	$7,250.6	$7,627.7	$7,910.9	$8,148.6	$8,402.3	$8,660.5	$8,952.8	$9,214.2	$9,807.5	$10,272.0	$10,817.6	$11,360.2	$11,955.0	$12,618.3	$13,345.6	$14,102.6
Gross Domestic Product (billions)	$13,377.2	$14,028.7	$14,291.5	$13,939.0	$14,526.5	$15,093.0	$15,696.8	$16,387.4	$17,223.2	$18,204.9	$19,224.4	$20,243.3	$21,295.9	$22,318.1	$23,344.7	$24,395.3
Gross Domestic Product (billions of 2005 $)	$12,958.5	$13,206.4	$13,161.9	$12,703.1	$13,088.0	$13,323.6	$13,616.7	$13,998.0	$14,487.9	$15,067.4	$15,640.0	$16,156.1	$16,640.8	$17,040.2	$17,415.0	$17,780.8
Gross Domestic Product Implicit Price Deflator (chain weighted 2005 base year)	1.032	1.062	1.086	1.097	1.110	1.133	1.154	1.171	1.190	1.210	1.232	1.256	1.284	1.315	1.346	1.379
Consumer Price Index (CPI-W) - 1982-1984 base	2.016	2.073	2.153	2.145	2.181	2.207	2.244	2.287	2.333	2.379	2.427	2.480	2.545	2.616	2.689	2.765
U.S. Population[1]	298.2	301.2	303.9	306.3	308.7	311.2	313.8	316.4	319.2	322.0	324.9	327.7	330.6	333.4	336.2	339.0
Population age less than 65 years	261.2	263.4	265.2	266.8	268.9	270.4	271.7	272.9	274.3	275.8	277.2	278.6	279.8	281.0	282.1	283.1
Population age 65 years and older	37.1	37.8	38.7	39.5	39.8	40.8	42.1	43.5	44.9	46.2	47.7	49.2	50.8	52.4	54.1	55.9

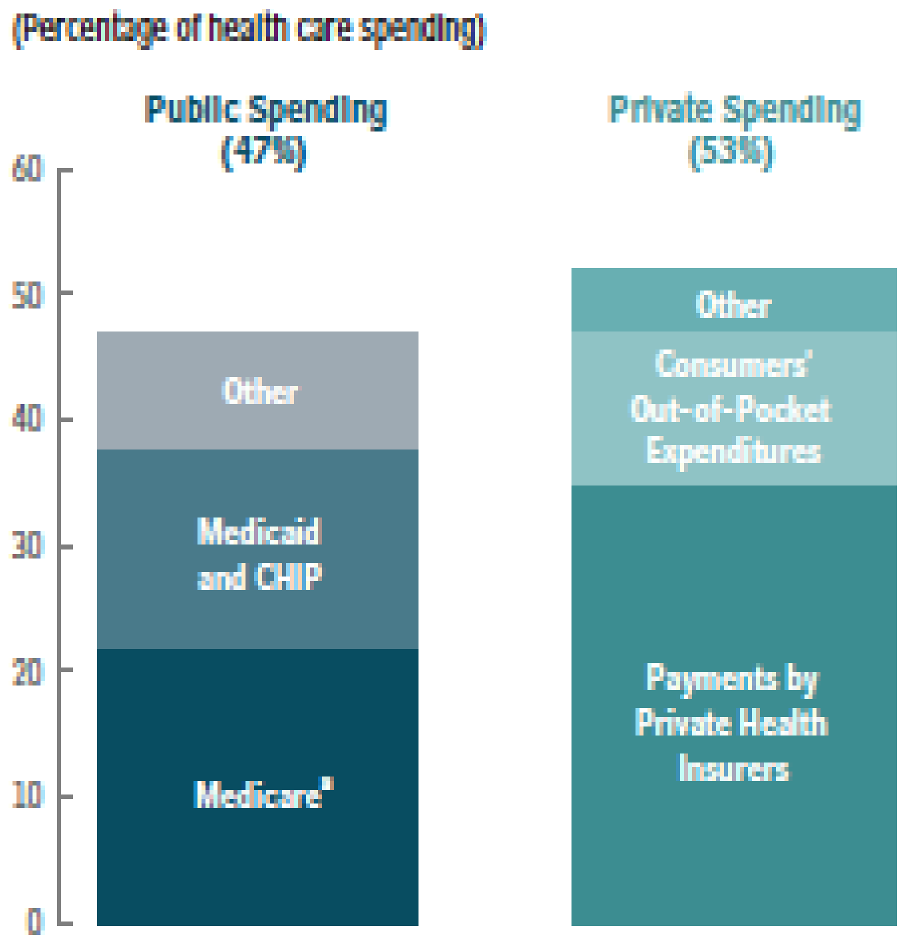
Source: U.S. Centers for Medicare and Medicaid Services, 7500 Security Boulevard. Baltimore, MD 21244. USA. Department of Health and Human Services; http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/tables.pdf; http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/Proj2011PDF.pdf; Gov't report: Health cost relief only temporary, *By RICARDO ALONSO-ZALDIVAR, Associated Press – Tue, Jun 12, 2012*

US Medical Costs Relative to the World



http://www.statisticalconsultants.co.nz/weeklyfeatures/WF2/Healthcare-spending-percentage-GDP.png

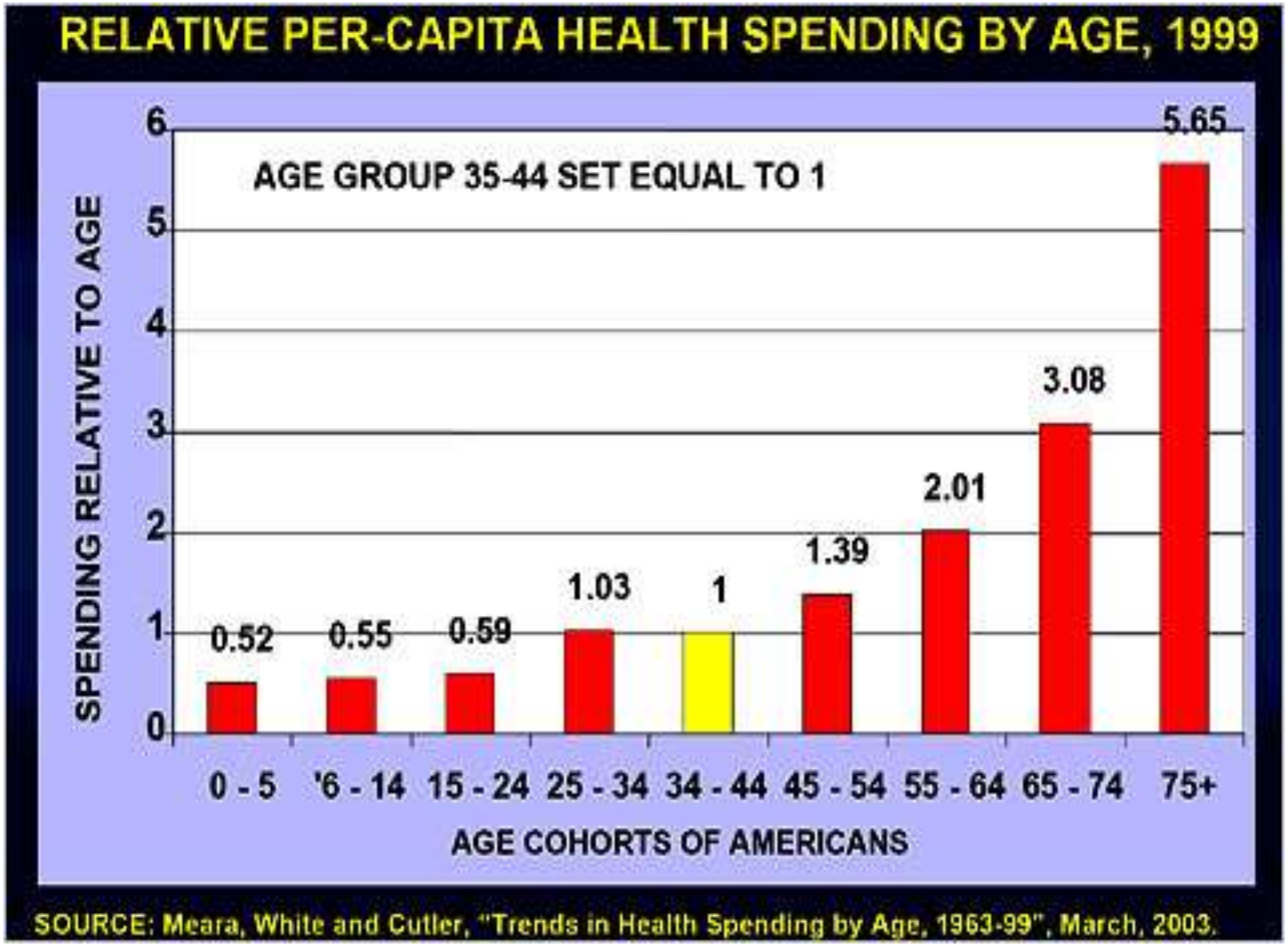
Public Versus Private Medical Spending in 2011



Graph from: "The 2013 Long Term Budget Outlook," Congressional Budget Office, September 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/44521-LTBO_0.pdf, p. 31.

- **In 2011, the most recent calendar year for which data are available, total spending for health care in the United States amounted to about $2.5 trillion, or 16.4 percent of the nation's GDP. In that year, 53 percent of spending was financed privately; the rest of the spending came from public sources 2-1):**
- **Payments by private health insurers made up 35 percent of total expenditures on health care. Consumers' out-of-pocket expenses, which include payments made to satisfy copayments and deductibles for services covered by insurance, as well as payments for services not covered by insurance, accounted for another 12 percent of those expenditures.**
- **Other sources of private funds, such as philanthropy, accounted for 5 percent of total health care spending.**
- **Gross federal spending for Medicare made up 22 percent of total expenditures on health care in 2011.**
- **Federal and state spending for Medicaid and CHIP accounted for 16 percent.**
- **Another 9 percent was accounted for by various other public programs, including those run by state and local governments' health departments, by the Department of Veterans Affairs, and by the Department of Defense, as well as by workers' compensation programs.**

Aging Americans Dominate Medical Spending?



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Aging Americans Dominate Medical Spending?

Table 3

Age-Specific Annual and Lifetime Per Capita Expenditure, Life Table Cohort, and Su... Dollars)

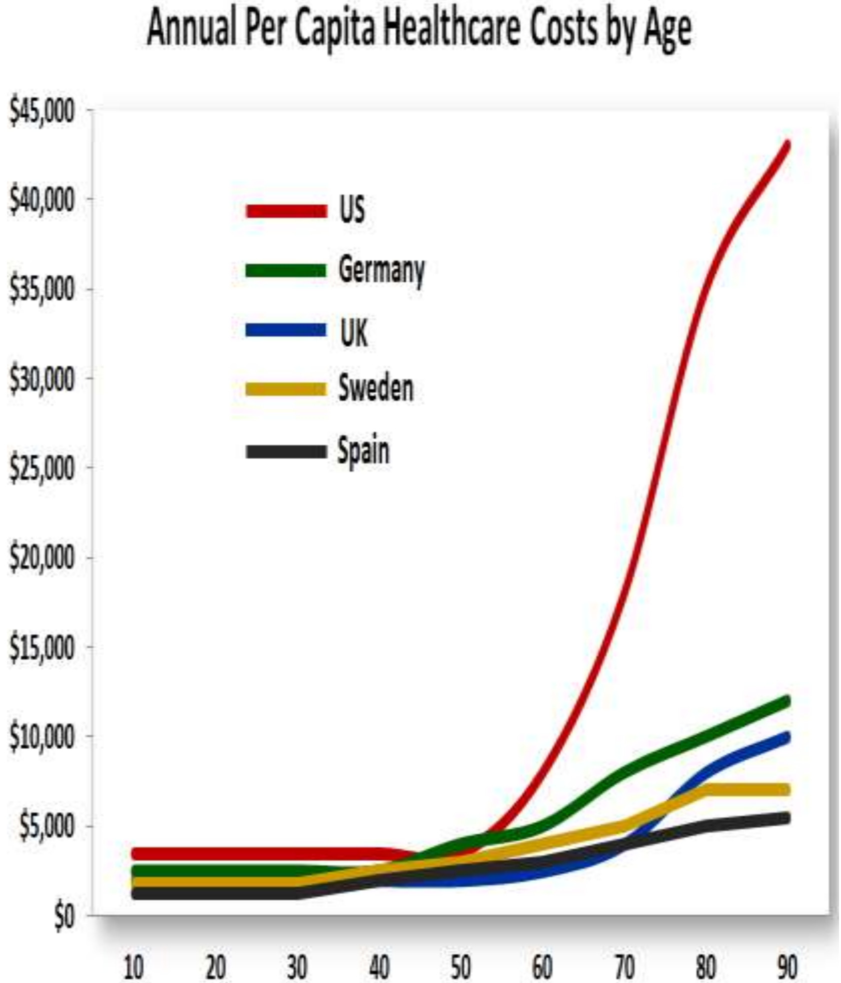
	Life Table Cohort			Survivors	
(1) Age	(2) Annual Per Capita Expenditure	(3) Lifetime Per Capita Expenditure (LE_{ba})	(4) Relative Lifetime Expenditure (RLE_{ba})	(5) Annual Per Capita Expenditure	(6) Lifetime Per Capita Expenditure (LE_{sa})
0	$3,432	$316,579	100.0%	$2,920	$316,579
20	$1,448	$291,745	92.2%	$1,255	$296,363
40	$2,601	$252,082	79.6%	$1,929	$262,124
65	$10,245	$153,944	48.6%	$7,702	$188,658
85	$17,071	$38,400	12.1%	$7,688	$113,685

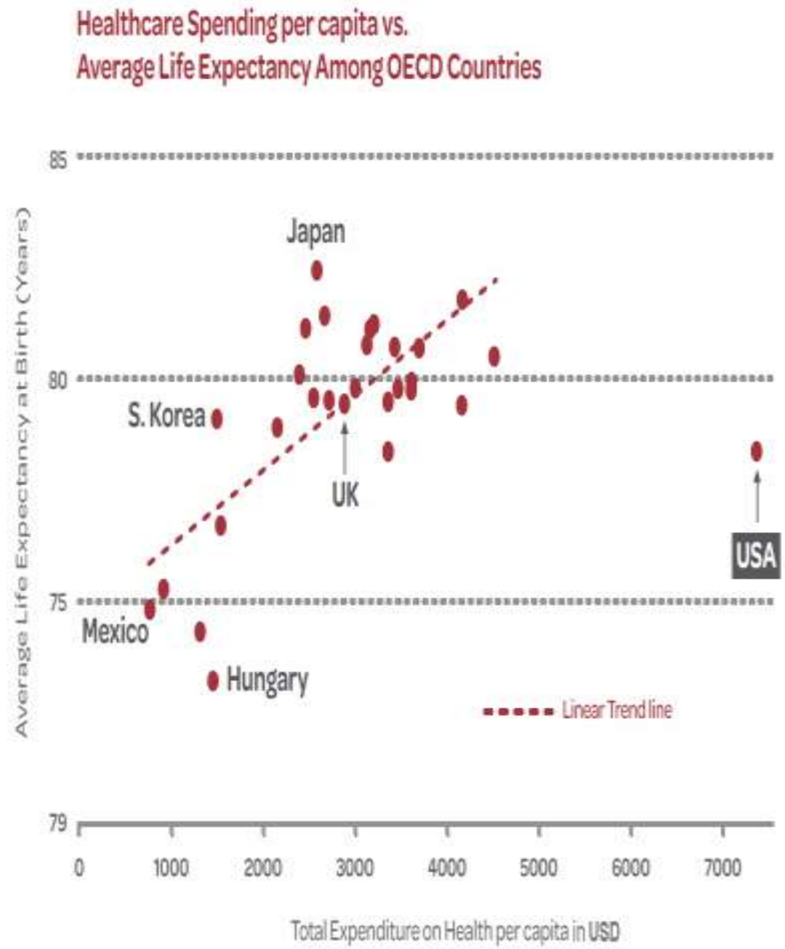
We find that almost 60 percent—$188,658—of the total lifetime cost of survivors is spent after age 65, a figure identical to Spillman and Lubitz's (2000) post-65 estimate of $188,903 (again inflating their figure to year 2000 dollars). Especially striking is our finding that well over one-third of the average 85-year-old's expenditures lies in that person's future.

From ages 65 to 85, survivors utilize 23.7 percent of their lifetime medical expenditures,. For those who survive to age 85, more than a third (35.9 percent) of their lifetime expenditures lies in the future. For the cohort as a whole, having lost the majority of its members before age 85, only an eighth of lifetime expenditures (12.1 percent) remains during later years. That the differences rise with age, becoming quite dramatic for the oldest ages, reflects the diminishing probabilities of reaching each of these older ages.

Source: Berhanu Alemayehu and Kenneth E Warner, **"The Lifetime Distribution of Health Care Costs," Health Service Research,** Health Serv Res. 2004 June; 39(3): 627–642.
doi: 10.1111/j.1475-6773.2004.00248.x

Aging Americans Dominate Medical Spending?





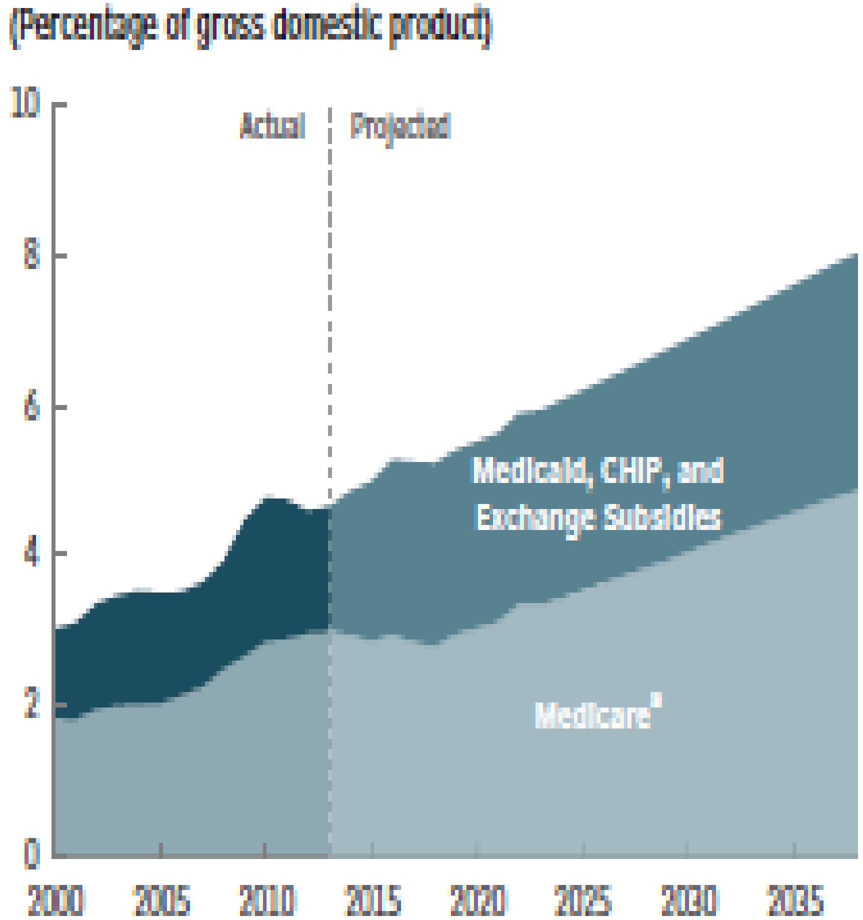
Source: OECD as presented in Mary Meeker, USA Inc. A Basic Summary of America's Financial Statements, February 2011 : , http://s3.amazonaws.com/kpcbweb/files/USA_Inc.pdf. P.111 and 216. www.kpcb.com/usainc.

Healthcare Costs Will Continue to Surge as Americans Fight Growing Health Threats

- Dementia
  - RAND Corporation forecasts that number of Americans over the age of 71 with dementia will increase by over 2.3 times by 2040 (3.8 million to 9.1 million).
  - Direct health expenses on dementia in 2010 ($109 billion) surpassed heart disease ($102 billion) and cancer ($77 billion).
  - Expenditures on dementia care are expected to grow more than two-fold from $159-215 billion in 2010 to $379-511 billion in 2040.
- Heart Disease
  - The American Heart Association believes that 40.5% of the US population will suffer from cardiovascular disease in 2030 – compared to 36.9% in 2010.
  - Direct health costs related to cardiovascular disease are expected to increase three-fold from 2010 to 2030 ($273 billion-$818 billion).
- Cancer
  - A study published in the *Journal of Clinical Oncology* in 2009 states that cancer rates in the US are expected to grow by 45% (1.6-2.3 million) between 2010 and 2030.

Source: Pam Belluck, "Dementia Care Cost is Projected to Double by 2040," *New York Times*, April 3, 2013. http://www.nytimes.com/2013/04/04/health/dementia-care-costs-are-soaring-study-finds.html?pagewanted=all&_r=0; Paul A. Heidenreich, et al, "Forecasting the Future of Cardiovascular Disease in the United States: A Policy Statement from the American Heart Association," *Circulation*, 2011, 123. http://circ.ahajournals.org/content/123/8/933.full.pdf. p. 934-935; Benjamin D. Smith, Grace L. Smith, Arti Hurria, Gabriel N. Hortobagyi, and Thomas A. Buchholz, "Future of Cancer Incidence in the United States: Burdens Upon an Aging, Changing Nations," *Journal of Clinical Oncology*, 2009, vol. 27 no. 17. http://jco.ascopubs.org/content/27/17/2758.abstract. Abstract.

Projected Rise in Federal Health Care Spending



In 2013, federal spending for Medicare (net of offsetting receipts), Medicaid, and CHIP will amount to 4.6 percent of GDP, CBO expects—with net Medicare spending equal to 3.0 percent of GDP and federal spending on Medicaid and CHIP equal to 1.7 percent of GDP.

Under CBO's extended baseline, federal spending for those programs and for exchange subsidies would rise to 8.0 percent of GDP in 2038—with Medicare, net of offsetting receipts, accounting for 4.9 percent and Medicaid, CHIP, and the exchange subsidies, 3.2 percent.

Gross Medicare spending is projected to increase from 3.5 percent of GDP in 2013 to 5.8 percent in 2038.

The projected rise in federal spending for the major health care programs relative to GDP results from the continued aging of the population, an expectation of continued faster growth in health care costs per beneficiary than in potential GDP per capita, and the expansion of federal subsidies for health care through Medicaid and the insurance exchanges.

Notes: The extended baseline generally adheres closely to current law, following CBO's 10-year baseline budget projections through 2023 and then extending the baseline concept for the rest of the long-term projection period. CHIP = Children's Health Insurance Program.
a. Net Medicare spending (includes offsetting receipts from premium payments by beneficiaries and amounts paid by states from savings on Medicaid's prescription drug costs).

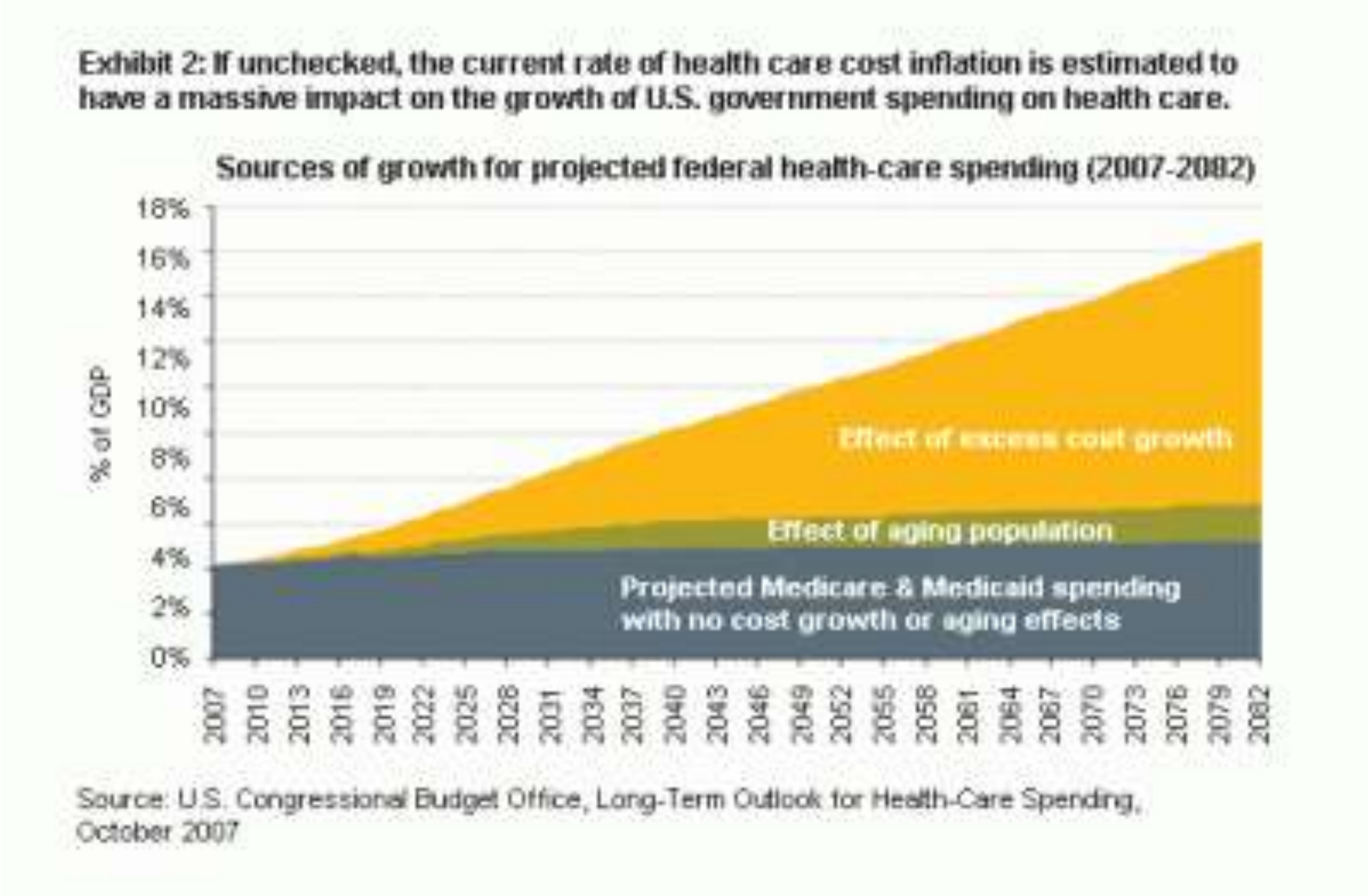
Graph from: "The 2013 Long Term Budget Outlook," Congressional Budget Office, September 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/44521-LTBO_0.pdf, p. 42, 51.

Medicare Does clearly Poses Serious Challenges to Reducing the Budget Deficit

- As with Social Security, it is forecast that there will be growth in the number of Medicare recipients in the long term – a jump of 15 million recipients from 2010-2021.
- Government healthcare is also complicated by the rising cost of healthcare. Health related costs per capita have been rising at a greater rate than per capita GDP.
- Participation in Medicare is also forecast to increase by over 30% during the same period.
- As a result of these phenomenon, the CBO estimated that there will be a nearly twofold increase in Medicare outlays from 2010-2021 ($520 billion-1.021 trillion) without sequestration.
- A more recent CBO assessment concludes that even with sequestration, Medicare outlays will surge from $560 billion in 2011 to $956 billion in 2021 and $1.064 trillion in 2022.

-Figures referenced in first three bullets and first sentence of last bullet from "Reducing the Deficit: Spending and Revenue Options," Congressional Budget Office, March 2011. http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/120xx/doc12085/03-10-reducingthedeficit.pdf. p. 14-15. Note that this report does not take into account sequestration. Figures referenced in last sentence of last bullet from "An Update to the Budget and Economic Outlook: Fiscal Years 2012 to 2022," Congressional Budget Office, August 2012. http://www.cbo.gov/sites/default/files/cbofiles/attachments/08-22-2012-Update_to_Outlook.pdf. p. 6.

Federal Spending on Medical Care as a Percent of GDP



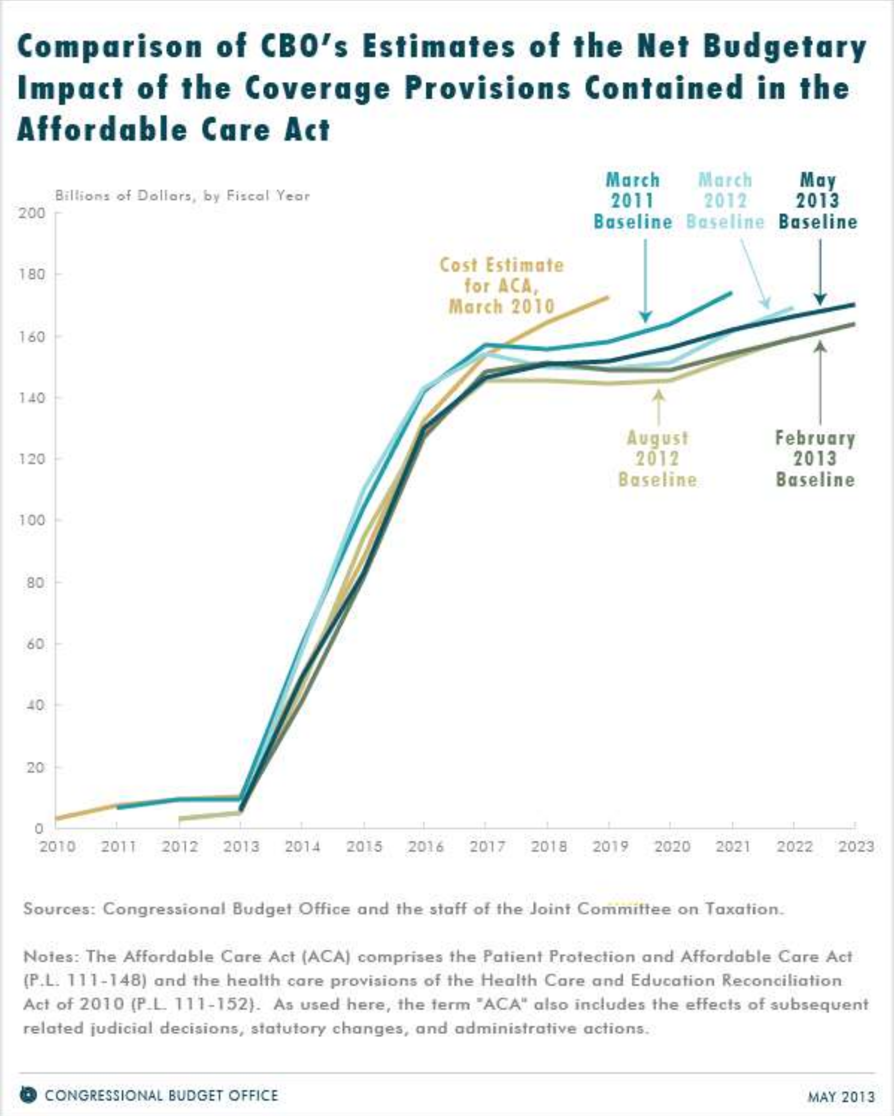
Source: Dan Munro, The U.S. Does Not Have A Debt Problem ... It Has A Health Care Cost Problem, *Forbes, Entrepreneur* 2.9.12, ww.forbes.com/sites/toddhixon/2012/02/09/the-u-s-does-not-have-a-debt-problem-it-has-a-health-care-cost-problem/

A Pointless Focus on the Affordable Care Act When Other Forces Drive the Debt and Deficit

The Affordable Care Act May Need Fixing or An Alternative, But is Not A Core Issue Shaping the Deficit or Debt

- ***For all the furor over the Affordable Care Act, the CBO has consistently projected that the impact on the budget deficit would be a maximum of around $160 to $170 billion per year after full implementation.*** **(pp. 58-59)**
- ***Even these estimates ignore the fact that the, "legislation includes many other provisions that, on net, will reduce budget deficits.*** **(pp. 57-58)**
- ***Taking the coverage provisions and other provisions together, CBO and JCT have estimated that the ACA will reduce deficits over the next 10 years and in the subsequent decade."*** **(pp. 57-59)**
- **The key problem is not its cost, but that it excludes so many Americans. (pp. 60-61)**

The Uncertain – but Relatively Unimportant -- Net Budget Impact of the Affordable Care Act - I



When estimates are compared on a year-by-year basis, CBO and JCT's estimate of the net budgetary impact of the ACA's insurance coverage provisions has changed little since February 2013 and, indeed, has changed little since the legislation was being considered in March 2010. In March 2010, CBO and JCT projected that the provisions of the ACA related to health insurance coverage would cost the federal government $759 billion during fiscal years 2014 through 2019 (which was the last year in the 10-year budget window being used at that time). The newest projections indicate that those provisions will cost $710 billion over that same period. As shown in the figure below, the intervening projections of the cost of the ACA's coverage provisions for those years have all been close to those figures on a year-by-year basis; of course, the 10-year totals have changed as the time frame for the estimates has shifted. **Those amounts do not reflect the total budgetary impact of the ACA. That legislation includes many other provisions that, on net, will reduce budget deficits. Taking the coverage provisions and other provisions together, CBO and JCT have estimated that the ACA will reduce deficits over the next 10 years and in the subsequent decade.**

Graph from: "CBO's Estimate of the Net Budgetary Impact of the Affordable Care Act's Health Insurance Coverage Provisions Has Not Changed Much Over Time ," Congressional Budget Office, May 14. 2013, http://www.cbo.gov/publication/44176 .

The Uncertain – But Relatively Unimportant -- Net Budget Impact of the Affordable Care Act - II

TABLE 1. ESTIMATE OF THE IMPACT ON THE DEFICIT THAT WOULD RESULT FROM THE DIRECT SPENDING AND REVENUE EFFECTS OF H.R. 6079, THE REPEAL OF OBAMACARE ACT

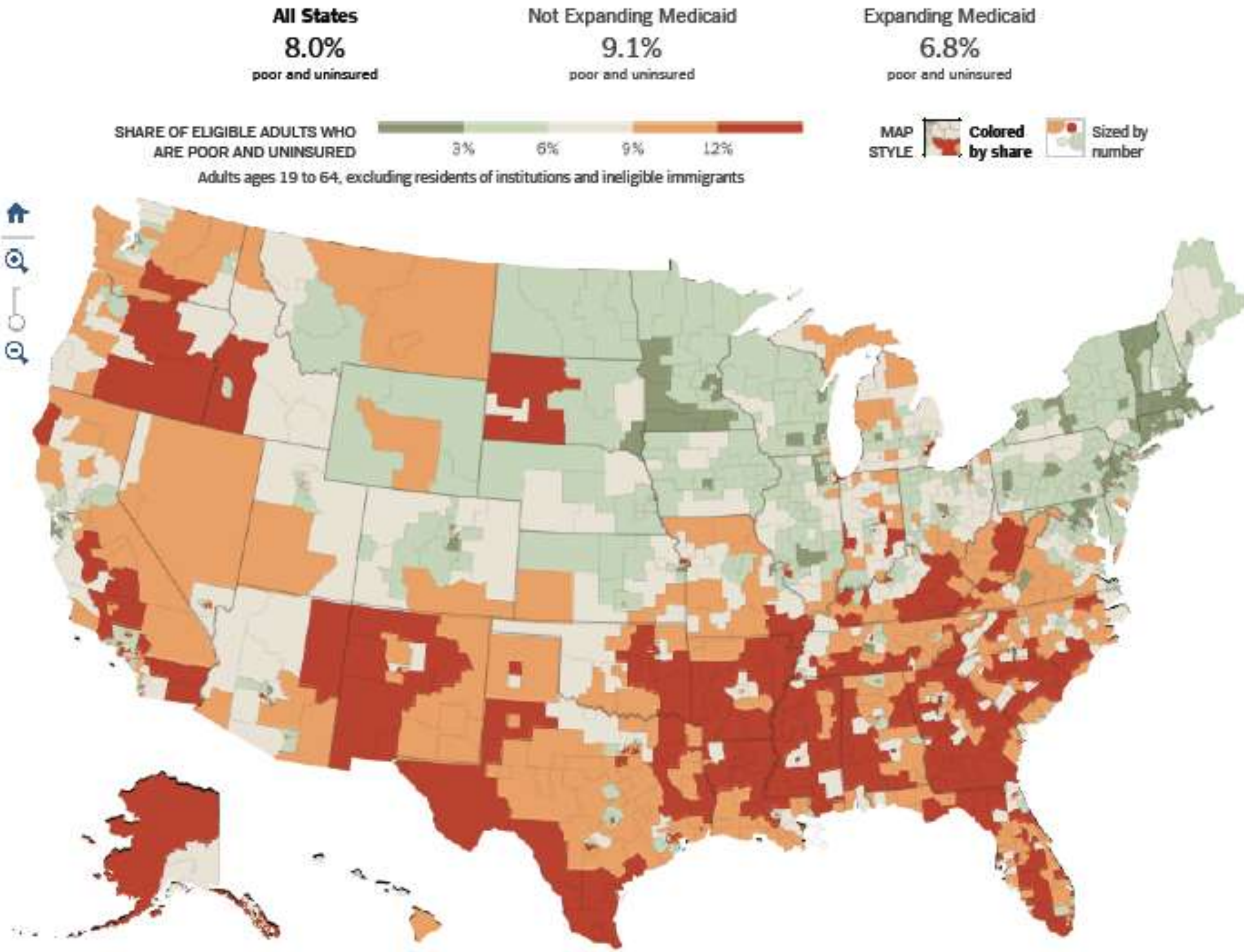
	By Fiscal Year, in Billions of Dollars											
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-2017	2013-2022
NET CHANGES IN THE DEFICIT FROM INSURANCE COVERAGE PROVISIONS [a,b]												
Effects on the Deficit	-4	-45	-95	-130	-146	-146	-145	-146	-153	-160	-420	-1,171
NET CHANGES IN THE DEFICIT FROM OTHER PROVISIONS AFFECTING DIRECT SPENDING [c]												
Effects on the Deficit of Changes in Outlays	1	37	50	51	59	74	90	103	117	129	199	711
NET CHANGES IN THE DEFICIT FROM OTHER PROVISIONS AFFECTING REVENUES [d]												
Effects on the Deficit of Changes in Revenues	37	32	50	52	57	61	64	68	72	76	228	569
NET INCREASE OR DECREASE (-) IN THE DEFICIT [a]												
Effect on Deficits	**34**	**24**	**6**	**-26**	**-31**	**-12**	**9**	**25**	**36**	**44**	**7**	**109**
On-Budget	32	22	3	-32	-39	-23	-6	10	21	27	-14	14
Off-Budget [e]	2	2	3	6	8	12	14	15	16	17	21	95

Sources: Congressional Budget Office and the staff of the Joint Committee on Taxation (JCT).

Projections of the budgetary impact of H.R. 6079 are quite uncertain because they are based, in large part, on projections of the effects of the ACA, which are themselves highly uncertain. Assessing the effects of making broad changes in the nation's health care and health insurance systems requires estimates of a broad array of technical, behavioral, and economic factors. Separating the incremental effects of the provisions in the ACA that affect spending for ongoing programs and revenue streams becomes more uncertain as the time since enactment grows. The recent Supreme Court decision that essentially made the expansion of the Medicaid program a state option has also increased the uncertainty of the estimates.

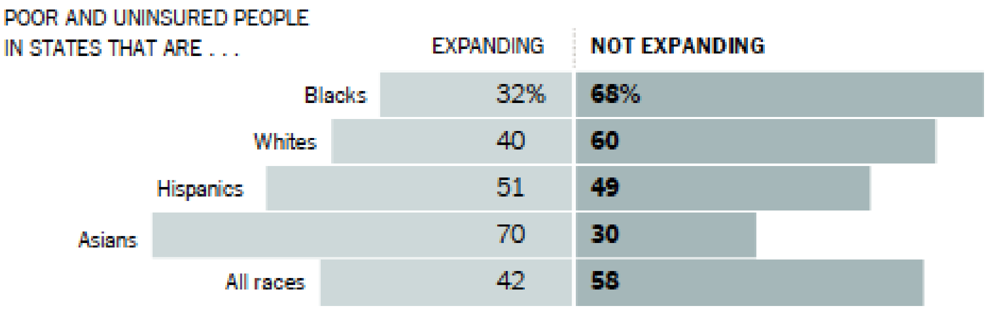
Table from: "*Letter to the Honorable John Boehner providing an estimate for H.R. 6079, the Repeal of Obamacare Act*," Congressional Budget Office, July 24, 2012, http://www.cbo.gov/publication/43471.

The State-Driven Limits to ACA Coverage: Where Poor and Uninsured Americans Live



New York Times, http://www.nytimes.com/interactive/2013/10/02/us/uninsured-americans-map.html?hp&_r=0, 3.10.13

The Limits to ACA: Who Poor and Uninsured Americans Are



The Most Common Occupations Nationally

Many workers who are poor and uninsured have jobs in the service industry.

	Total jobs in U.S.	Number poor and uninsured	Percent of total
Cashiers	3,823,000	715,000	19%
Cooks	3,051,000	520,000	17%
Nursing aides, orderlies, attendants	3,811,000	420,000	11%
Retail sales clerks	3,858,000	404,000	10%
Waiters and waitresses	2,307,000	378,000	16%
Laborers (outside construction)	2,336,000	355,000	15%
Janitors	2,570,000	327,000	13%
Construction laborers	1,733,000	315,000	18%
Truck, delivery, and tractor drivers	3,862,000	308,000	8%
Housekeepers, maids, butlers, stewards	1,447,000	273,000	18%

The analysis includes adults ages 19 to 64 and excludes people living in institutions and people who would not qualify for expanded Medicaid because of their immigration status.

The estimates of the poor and uninsured population are from the Census Bureau's 2011 American Community Survey as provided by the University of Minnesota Population Center. Poverty rates are based on the federal poverty guidelines and family definitions used in determining Medicaid eligibility and provided by the State Health Access Data Assistance Center. Immigration status was estimated based on a methodology devised by the Pew Hispanic Center.

The status of state Medicaid expansion plans is based on a report by the federal government's Center for Medicaid and CHIP Services as of Sept. 30. These lists are not finalized yet — states are still debating the issue.

The figures used are subject to some variability depending on how families are defined and the extent to which residents of group quarters are included; whether or not income is adjusted for inflation due to the rolling nature of the A.C.S. survey; the varying methods used to estimate immigration status, since the the Census Bureau only asks about citizenship, not the legal status of immigrants; and whether the A.C.S. determination of healthinsurance status is taken at face value.

In a 2012 report, for example, researchers at the Urban Institute estimated that in addition to the poor and uninsured documented in census records, there are nearly one million Americans counted as having insurance who most likely are uninsured.

However, the main findings from this analysis — that states that have chosen not to go forward with the Medicaid expansion have a higher share of the poor, uninsured population — hold up under these alternative methodological approaches and are corroborated by results obtained in other studies by the Kaiser Family Foundation and the Urban Institute.

New York Times, http://www.nytimes.com/interactive/2013/10/02/us/uninsured-americans-map.html?hp&_r=0, 3.10.13

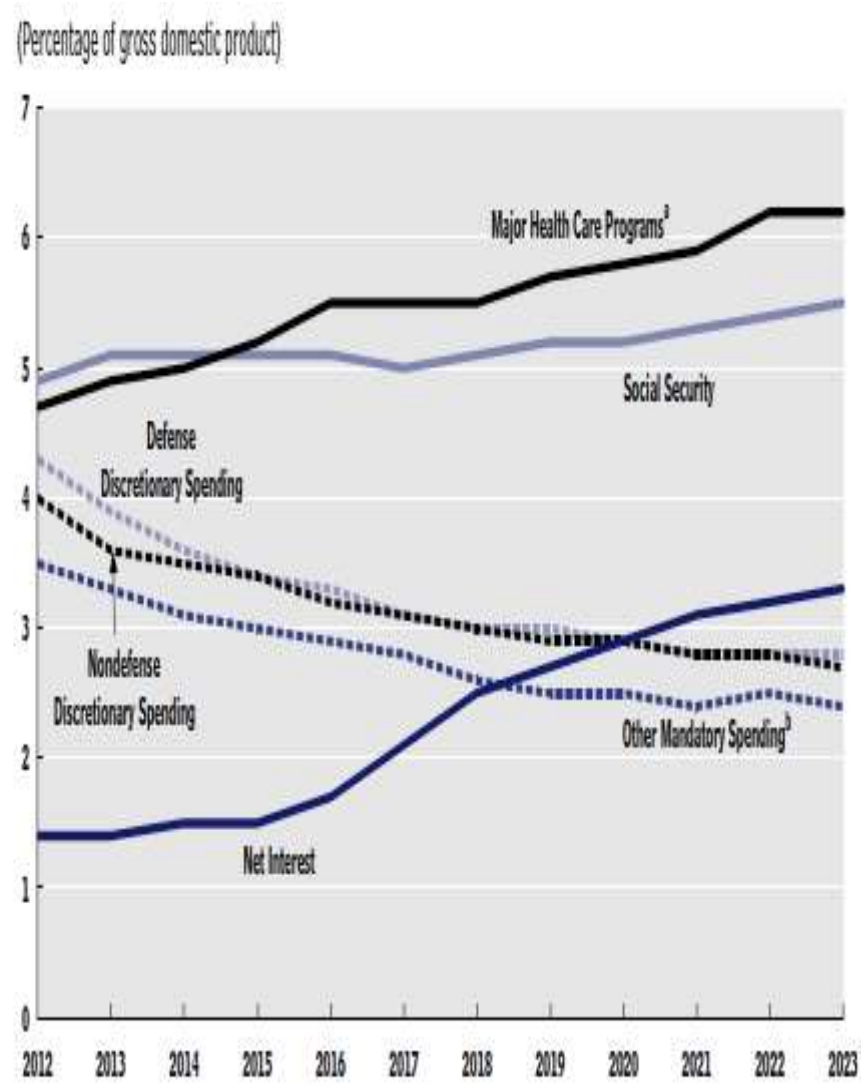
The Congress as the Greatest Single Foreign and Domestic Threat to the US

The Congress as the Greatest Single Foreign and Domestic Threat to the US

- ***The key reason for the projected rise in federal spending for the major health care programs relative to GDP results expectation of continued faster growth in health care costs per beneficiary than in potential GDP per capita, although the impact of continued aging of the population, and an the expansion of federal subsidies for health care through Medicaid and the insurance exchanges, are also factors*. (p. 63)**
- ***This helps explain why cuts in national security spending and Sequestration has had no real impact on the trends in the deficit and Federal debt*. *No feasible way of cutting discretionary federal spending can begin to solve either the problem of the rise in entitlements or mandatory spending, or the much broader societal problems of an aging America and rising medical costs.* (pp. 63-64)**
- **Given these trends, one of the greatest ironies of the current Congressional budget debate is that it not only is essentially meaningless, and does great damage to national security, but that its failure to focus on the broader issues with any realism may well constitute a level of bipartisan failure that poses the most serious single that the US actually faces both in domestic terms and relative to any**

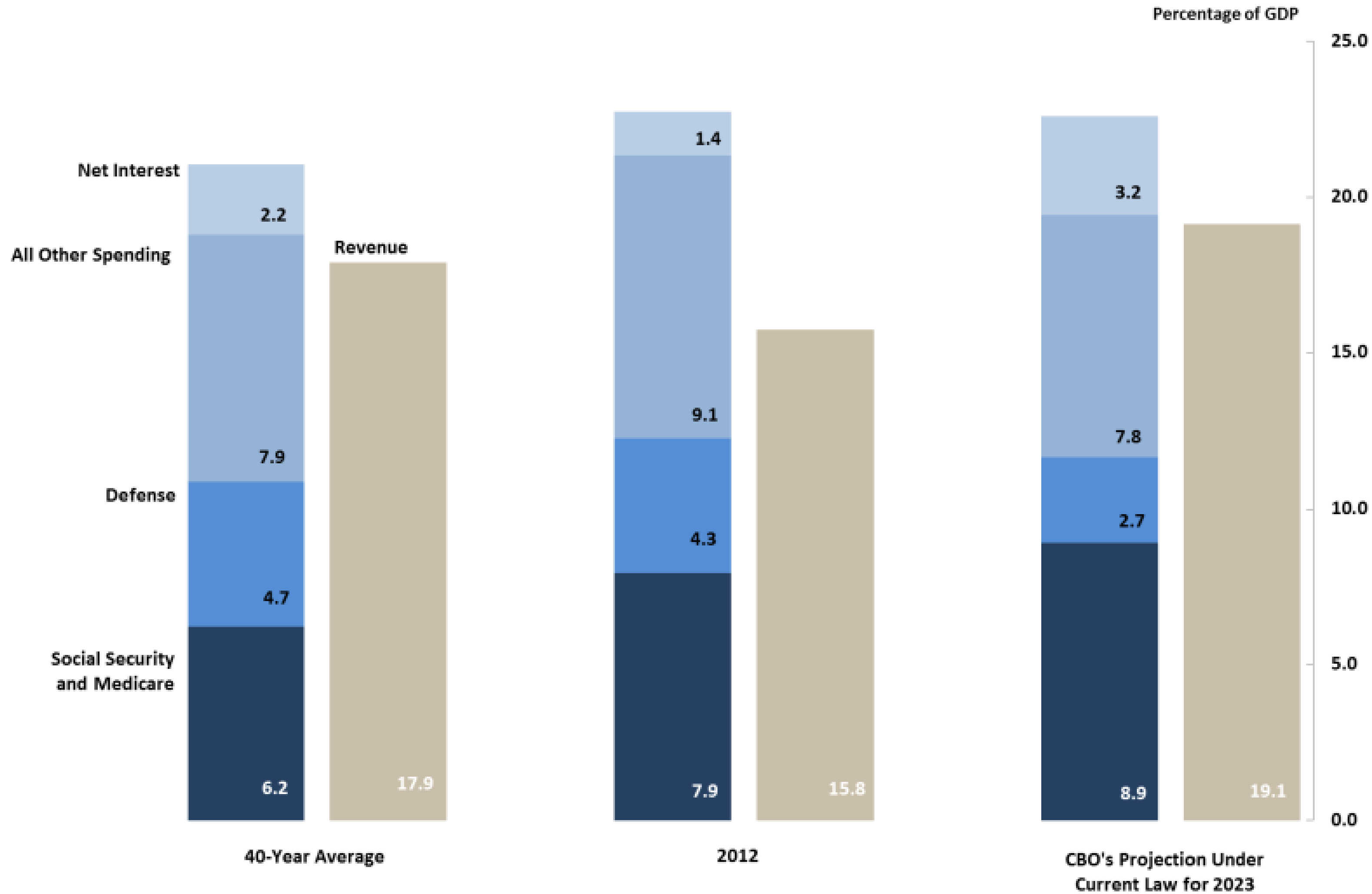
Sequestration Cuts in Defense Spending as % of GDP Relative to Mandatory and Other Discretionary Outlays: 2012-2023

- "[T]otal [Federal] outlays are projected to decline slightly relative to GDP between 2014 and 2017 and then to rise in most years through 2023—averaging 22.1 percent over the decade, slightly above the 21.0 percent of GDP that has been the average for the past 40 years.
- "…outlays for Social Security will total 5.1 percent of GDP this year and stay near that percentage for the next few years but reach 5.5 percent of GDP by 2023.
- "Outlays for the major health care programs—Medicare (net of receipts from premiums), Medicaid, the Children's Health Insurance Program (CHIP), and subsidies offered through new health insurance exchanges and related spending—will soon be even greater than outlays for Social Security.
- "Spending for major health care programs will be nearly 5 percent of GDP in 2013, and such spending is projected to grow rapidly when provisions of the Affordable Care Act are fully implemented by middecade, reaching 6.2 percent of GDP in 2023
- "Net interest is currently equal to 1.4 percent of GDP, but, in CBO's baseline, rising interest rates push that total to 3.3 percent of GDP in 2023.
- "…discretionary outlays would fall to 5.5 percent of GDP by 2023, more than 3 percentage points below their average from 1973 to 2012.
- "Specifically, defense outlays in 2023 would equal 2.8 percent of GDP, compared with a 40-year average of 4.7 percent, and nondefense outlays in 2023 would equal 2.7 percent of GDP, compared with a 40-year average of 4.0 percent."



Graph from: "The Budget and Economic Outlook: Fiscal Years 2013 to 2023," Congressional Budget Office, February 2013. http://www.cbo.gov/sites/default/files/cbofiles/attachments/43907-BudgetOutlook.pdf. p. 22-23, 25.

CBO Estimates By 2023, Federal Spending Will Shift Further Toward Social Security and Medicare



Theresa Gullo, Deputy Assistant Director for Budget Analysis, "The Federal Budget: Outlook and Challenges, CBO, June 6, 2013.