BUILDING A BETTER FUTURE

CHART BOOK

The Committee For A Responsible Federal Budget

January 2000
About the Committee for a Responsible Federal Budget

The Committee is a bipartisan, non-profit educational organization committed to educating the public regarding the budget process and issues that have significant fiscal policy impact. The Committee sponsors analysis and research, conducts educational symposia, and prepares and distributes educational materials.

Goals

The broad long-range goal is to educate the public on the federal budget process and on the need for discipline and order in making spending and revenue decisions. The immediate, specific goal is to point out the prospect and consequences of continuing to delay action to address the longer-term fiscal and social policy challenges facing the nation.

The public must understand that such delay could lead to deficits much larger than the country faced in the last quarter century—deficits and debt so large as to threaten the very fabric of the country’s economic and political life.

What We Do

The Committee sponsors symposia on budget and economic issues. We provide speakers for civic, academic, and business groups, and hold Congressional breakfasts for Members of the House and Senate interested in dialogue on the budget and related issues. Committee staff and Board Members write about the budget and related issues for major media outlets, provide background information and educational materials, and help explain the budget and the budget process to many audiences.

In the fall of 1982, the Committee launched an ambitious education and outreach program on the problem of the deficit. The Exercise in Hard Choices is to inform the American people of the nature and magnitude of the deficit and debt problems facing the country and the limited choices available to solve those problems. The Exercise is updated regularly to reflect the actual choices Congress and the Administration are considering to reduce the Federal deficit and reorder national priorities. The Committee provides the Exercise workbook to educational organizations and other interested parties at cost.

The Committee is a 501(c)(3) educational organization. All of its activities are funded through tax deductible contributions from individuals, foundations, corporations, and other interested groups. It accepts no government funding.

The most recent version of The Exercise is called Building a Better Future: An Exercise in Hard Choices. In a joint effort with American Express Financial Advisors, we adapted The Exercise to address issues raised in the Fraying of America project. Over a-year-and-a-half, from materials development to completion, we held eight Exercises around the country. Thirty organizations participated and the project contributed greatly to this report. We thank everyone who played a part in this tremendous information-gathering, public education effort.
Table of Contents

Economics 1-5
Demographics 6-15
Budget 16-28
Age and Incomes 29-34
Social Security 35-52
Health Care 53-58
Tax Reform 59-60
Unified budget surpluses reduce outstanding public debt and add to national savings. Unified budget deficits decrease national savings.

Net personal savings takes the form of indirect investment (bank deposits, mutual funds, employer-sponsored retirement plans). Personal savings add to national savings.

Taxes (income, payroll, etc.)

Outlays (Benefits)

Treasurer collects payroll taxes and deposits them into the general fund and credits amounts not immediately required to pay benefits to the trust funds.

Deficits/Borrowing

Surpluses/Debt reduction

Public investment includes government spending for physical infrastructure (roads, buildings, etc.).

* 1998 is first six months.

Source: Committee for Economic Development
Savings Continue to Decline
(In percentage of NNP)


Committee for a Responsible Federal Budget
## Savings Required to Achieve Desired Retirement Goals
*(as a percent of salary)*

<table>
<thead>
<tr>
<th>Desired Retiree Income as a Percent of Annual Salary</th>
<th>10</th>
<th>15</th>
<th>20</th>
<th>25</th>
<th>30</th>
<th>35</th>
</tr>
</thead>
<tbody>
<tr>
<td>30%</td>
<td>36%</td>
<td>21%</td>
<td>13%</td>
<td>9%</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>40%</td>
<td>48%</td>
<td>27%</td>
<td>18%</td>
<td>12%</td>
<td>8%</td>
<td>6%</td>
</tr>
<tr>
<td>50%</td>
<td>60%</td>
<td>34%</td>
<td>22%</td>
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<td>60%</td>
<td>72%</td>
<td>41%</td>
<td>26%</td>
<td>18%</td>
<td>12%</td>
<td>9%</td>
</tr>
<tr>
<td>70%</td>
<td>84%</td>
<td>48%</td>
<td>31%</td>
<td>21%</td>
<td>14%</td>
<td>10%</td>
</tr>
</tbody>
</table>
Standards of Living More Than Doubled Between 1966-1996

$1,000
$1,500
$2,000
$2,500
$3,000
$3,500
$4,000
$4,500
$5,000


$1,902 in 1966
$4,688 in 1996


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Decline in Working Age Population
1940 to 2050

Source: Bureau of the Census.
Labor Force Participation: 1950-2050*

* Using midrange SSA actuarial projection from *Annual Statistical Supplement*, 1996.
Longer Life Expectancies, Shorter Working Lives

Number of Workers per Beneficiary is Falling

Source: Board of Trustees of the Federal OASDI Trust Funds (1998).

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Median Age of the U.S. Population
(in years)

Projected Population Trends

U. S. Population: Race, Ethnicity and Age

<table>
<thead>
<tr>
<th>Year</th>
<th>Under 65</th>
<th>65 and Older</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>28%</td>
<td>15%</td>
</tr>
<tr>
<td>2030</td>
<td>43%</td>
<td>25%</td>
</tr>
<tr>
<td>2050</td>
<td>51%</td>
<td>34%</td>
</tr>
</tbody>
</table>

Percentage of Americans Over the Age of 65

Source: Bureau of the Census.
Life Expectancy at Age 65

Source: Historical Data: Board of Trustees of the Federal OASDI Trust Funds (1997).
Bureau of the Census intermediate assumptions, (September 1996).
Life Expectancy at Birth

Federal Budget as a Percentage of GDP

Source: GAO, January 1999

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Federal Revenues
(Percentage of GDP)

Post-World War II Average:
18% of GDP

Projections
1998-2008

Source: CBO January 1999
CBO Unified Deficit/Surplus Projections Continue to Improve

Changes in CBO Deficit Projections by Source:
January 1997-January 1999

Federal Budget Deficits: 1930 to 2050
Improved, but Still Unsustainable, Outlook

Recent Improvements Delay, but Do Not Fix, Projected Deterioration in Long-Term National Debt Situation

Budget Scenarios Under Alternate Assumptions in 2030 (as a Percentage of GDP)

Revenue (19%)

Percent of GDP

19% of GDP  23% of GDP Balance  23% of GDP Deficit  26% of GDP  27% of GDP

Social Security  Medicare  Net Interest  Other Entitlements  Defense  Non-Defense Disc.  Total Discretionary

Continued Fiscal Discipline Would Produce Significant Long-Term Economic Benefits

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Federal Outlays: Major Program Categories
1965-2007

Entitlement Programs are Taking Over the Budget

Discretionary Spending: Five Year Averages

Sources: President’s Budget for FY 2000 (February 1999).
Committee for a Responsible Federal Budget, February 1999.
Major Non-Defense Discretionary Activities: 1998

Federal Aid to State and Local Governments
(in 1994 dollars)

Source: Health Care Financing Administration, 1996.
In 1974, for the first time, the poverty rate of children exceeded that of the elderly.


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Poverty Rates by Selected Characteristics
1980 & 1997


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Sources of Income of the Older Population: 1997

Source: EBRI, April 1999.

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Composition of Average Elderly Income: 1994

Soc. Sec. 42%
Earnings 18%
Pensions 19%
Asset Income 18%
Other 3%

Composition of Elderly Income
Highest Quintile: 1994

Composition of Elderly Income
Lowest Quintile: 1994

Average Social Security Retirement Age: 1940-1995

Social Security Income & Cost Rates: 1950-2050

Social Security Retirement Benefits Payable at Normal Retirement Age

Source: SSA unpublished tables and Board of Trustees of the OASDI Trust Funds, 1996.
Example 1a. Archer-Shaw Social Security Guarantee (SSG) Plan: Private SSGAs

- **Individuals**
  - OASDI payroll taxes: 12.4%
  - Outlays: OASDI benefits, 2% refundable payroll tax credit, and additional interest expense
  - SSGA balances go to the estate of a deceased worker only if there are no qualified survivors.
  - Personal Savings: 2% refundable payroll tax credit

- **SSGAs**
  - When an individual is eligible for benefits, SSGA payments are transferred to the Social Security Trust Fund and “topped up” to equal current OASI benefit.
  - National Savings
  - Investment (Physical Assets)
  - Note: Solid lines indicate ongoing flows. Dotted lines indicate future flows once benefit payments begin.

- **Federal Government**
  - General Fund
  - Benefits 12.4%
  - OASDI Trust Fund
  - Future Receipts
  - Borrowing
  - Surpluses, then deficits and new public borrowing (through 2053) would finance tax credits
  - SSA estimates SSGA balances would exceed increased public borrowing by 2005. In 2030, SSGA balances estimated to reach $13.7 trillion and estimated additional public debt would be $9.4 trillion.
Example 1b. Archer-Shaw Social Security Guarantee (SSG) Plan: Public SSGAs

Individuals

Federal Government

OASDI payroll taxes: 12.4%
Outlays: OASDI benefits and additional interest expense
New Future Outlays: SSGA funded OASDI benefits

Surpluses, then deficits and new public borrowing (through 2053) would finance tax credits used to purchase stock/bonds.

Note: Solid lines indicate ongoing flows. Dotted lines indicate future flows once benefit payments begin.

Future Receipts: Stock/bond sales when needed to pay benefits
Outlays: Stock/bond fund purchases

Benefits

OASDI Trust Fund

2%

Benefits

SSGAs

General Fund

12.4%

Outlays: OASDI benefits and additional interest expense
New Future Outlays: SSGA funded OASDI benefits

Public borrowing

National Savings

Investment (Physical Assets)
Example 1c. Archer-Shaw Social Security Guarantee (SSG) Plan: Public SSGAs, Credit Reform Scoring

Federal Government

OASDI Trust Fund

General Fund

SSGAs

National Savings (Financial Assets)

Investment (Physical Assets)

Individuals

OASDI payroll taxes: 12.4%

Outlays: OASDI benefits and additional interest expense

New Future Outlays: SSGA funded OASDI benefits

Benefits

Public borrowing

Surpluses, then deficits and new public borrowing (through 2053) would finance tax credits used to purchase stock/bonds.

Stock/bond fund purchases treated as non-budgetary. Cash exchanged for financial assets. No outlays.

Note: Solid lines indicate ongoing flows. Dotted lines indicate future flows once benefit payments begin.
Example 2a. Aaron-Reischauer Social Security Reserve Investment Plan

Stock and bond fund purchases would be financed with unified budget surpluses. Publicly held debt would be higher than if surpluses were used to reduce public debt.

Note: Solid lines indicate ongoing flows. Dotted lines indicate future flows once benefit payments begin.
Example 2b. Aaron-Reischauer Social Security Reserve Investment Plan, Credit Reform Scoring

Individuals

OASDI payroll taxes: 12.4%

Outlays: OASDI benefits, adjusted for changes, and additional interest expense.

Stock and bond fund purchases would be financed with unified budget surpluses. Publicly held debt would be higher than if surpluses were used to reduce public debt. Investment earnings expected to exceed incremental interest cost.

Note: Solid lines indicate ongoing flows. Dotted lines indicate future flows once benefit payments begin.

Federal Government

General Fund

Benefits

OASDI Trust Fund

12.4%

Social Security Reserve Board

National Savings (Financial Assets)

Investment (Physical Assets)

Surpluses/debt reduction foregone

Stock/bond fund purchases treated as non-budgetary. Cash exchanged for financial assets. No outlays.
Example 3a. Porter Individual Social Security Retirement Account Plan:
Private ISSRAs

Employees/employer contributions: 10% of payroll

Future ISSRA retirement benefits

New outlays: annuitized transition bond payments

National savings (financial assets)

Investment (physical assets)

Notes: Solid lines indicate ongoing flows. Dotted lines indicate future flows once benefit payments begin.

Surpluses, then deficits and new public borrowing would finance transition costs (loss of payroll tax revenue and issuance of transition bonds).
Example 3b. Porter Individual Social Security Retirement Account Plan: Public ISSRAs

**Federal Government**
- **General Fund**
- **OASDI Trust Fund**
- **ISSRAs**

**Individuals (OASDI)**
- **Individuals (ISSRAs)**

**Outlays:**
- OASDI benefits
- OASDI payroll taxes: 12.4%
- Interest expense
- Payroll taxes: 12.4% (10% after 10 yrs.)

**New Future Outlays:**
- Annuitized Transition Bond Payments & Retirement benefit payments

**Public borrowing**
- Transition bonds
- Future receipts: sale of investments to pay benefits

**Outlays:** purchases of stocks/bonds

**Note:** Solid lines indicate ongoing flows. Dotted lines indicate future flows once benefit payments begin.

Surpluses, then deficits and new public borrowing would finance transition costs (loss of payroll tax revenue and issuance of transition bonds).
Example 3c. Porter Individual Social Security Retirement Account Plan: Public ISSRAs, Credit Reform Scoring

Note: Solid lines indicate ongoing flows. Dotted lines indicate future flows once benefit payments begin.

Surpluses, then deficits and new public borrowing would finance transition costs (loss of payroll tax revenue and issuance of transition bonds).
Example 4a. President’s Plan, Private USAs

OASDI payroll taxes: 12.4%

Outlays: OASDI benefits, USA tax credits, USA matching payments, and additional interest.

Future retirement benefits

Personal savings: Contributions to USAs: Tax credit, matching payments, and individual contributions.

Stock and bond fund purchases would be financed with unified budget surpluses. Publicly held debt would be higher than if surpluses were used to reduce public debt.

Note: Solid lines indicate ongoing flows. Dotted lines indicate future flows once benefit payments begin.
Example 4b. President’s Plan, Public USAs

Stock and bond fund purchases would be financed with unified budget surpluses. Publicly held debt would be higher than if surpluses were used to reduce public debt.

Note: Solid lines indicate ongoing flows. Dotted lines indicate future flows once benefit payments begin.
Example 4c. President’s Plan, Public USAs, Credit Reform Scoring

New Future Outlays: USA retirement benefits

Stock and bond fund purchases would be financed with unified budget surpluses. Publicly held debt would be higher than if surpluses were used to reduce public debt.

Note: Solid lines indicate ongoing flows. Dotted lines indicate future flows once benefit payments begin.
Example 5a. Kolbe-Stenholm Plan, Private ISAs

Individuals

Federal Government

OASDI Trust Fund

Benefits

OASDI payroll taxes: 12.4%

Outlays: OASDI benefits, adjusted for benefit changes, and additional interest.

10.4%

New Outlays: 2% of payroll transferred to ISAs for stock/bond/Treasury mutual fund purchases

Note: Solid lines indicate ongoing flows. Dotted lines indicate future flows once benefit payments begin.

Future retirement benefits

ISAs

Personal savings: voluntary ISA contributions

Future retirement benefits

National Savings (Financial Assets)

Investment (Physical Assets)

OASDI benefit costs would be partially financed with unified budget surpluses and new borrowing through 2014. After 2014, proposal would generate net surpluses.
Example 5b. Kolbe-Stenholm Plan, Public ISAs

OASDI payroll taxes: 12.4%

Outlays: OASDI benefits, adjusted for benefit changes, and additional interest.

Benefits

10.4%

Voluntary ISA Contributions

2%

ISAs

Federal Government

OASDI Trust Fund

General Fund

National Savings (Financial Assets)

Investment (Physical Assets)

New Future Outlays: ISA retirement benefits

Note: Solid lines indicate ongoing flows. Dotted lines indicate future flows once benefit payments begin.

OASDI benefit costs would be partially financed with unified budget surpluses and new borrowing through 2014. After 2014, proposal would generate net surpluses.

New Outlays for stock/bond purchase
Example 5c. Kolbe-Stenholm Plan, Public ISAs, Credit Reform Scoring

Individuals

Federal Government

OASDI Trust Fund

General Fund

ISAs

National Savings (Financial Assets)

Investment (Physical Assets)

OASDI payroll taxes: 12.4%

Benefits

10.4%

2%

New Future Outlays: ISA retirement benefits

Stock and bond fund purchases would be financed with unified budget surpluses. Publicly held debt would be higher than if surpluses were used to reduce public debt.

Note: Solid lines indicate ongoing flows. Dotted lines indicate future flows once benefit payments begin.

OASDI benefit costs would be partially financed with unified budget surpluses and new borrowing through 2014. After 2014, proposal would generate net surpluses.

Stock/bond fund purchases treated as non-budgetary. Cash exchanged for financial assets. No outlays.
Social Security & Medicare Costs
(as a Percentage of Taxable Payroll)

National Health Care Expenditures

Per Capita Health Care Expenditures by Age, 1977 & 1987

Source: CRFB based upon Health Care Financing Administration data reported in 65+ in the United States, U.S. Government Printing Office, Washington DC 20402. (This is the most recently published data available.)
Medicare Benefits
By Sources of Financing

Medicare Hospital Insurance Expenditures
1965 Estimates versus Actual Expenditures

Population without Health Insurance by Age: 1995

The Heads of Most Uninsured Families Are Full-time Workers
Uninsured Population By Work Status of Family Head

- Full-time Worker: 24.6 million (60%)
- Other Worker: 10.6 million (25%)
- Non-worker: 6.2 million (15%)

Percent of Total Federal Taxes Paid Compared to Distribution of Tax Returns by Income Classes

Federal Revenues
(Percentage of GDP)

Post-World War II Average:
18% of GDP

Projections
(1999 & 2009)

Source: CBO January 1999
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