What Needs to Come Out of the Debt Ceiling Negotiations
June 21, 2011

Policymakers from both parties are engaged in intense negotiations over how to raise the nation's debt ceiling as well as how to begin addressing our burgeoning debt.

If the debt ceiling is not raised by the beginning of August, we risk a default. In recent weeks, rating agencies have warned that failure to meet interest payments could result in a downgrade of U.S. debt – a signal to markets that could lead to rising interest rates and possibly a fiscal crisis.

At the same time, our debt is on an unsustainable path, and we need to enact a credible plan to stabilize and ultimately reduce the debt relative to the economy. If any debt deal from the ongoing negotiations is perceived as being too weak or fails to include improvements to the drivers of the debt, it could indicate that the political system is unable to produce meaningful reforms. This too could cause market instability and weaken the economy in both the short and long-term.

What we need to see:

1. A debt ceiling increase as soon as possible.
2. A companion debt deal that:
    a. Calls for **at least $4 to $5 trillion** in total deficit reduction.
    b. Has a **down payment** that includes the first steps toward reforming unsustainable entitlement programs.
    c. Contains a **credible process** to put in place the additional necessary entitlement and tax reforms within six months to a year.

What we need to avoid:

1. Breaching the debt limit.
2. Failing to use this as an opportunity to address the national debt.
3. Relying on budget gimmicks to make the package seem stronger.
4. Deferring the hardest decisions until after the 2012 election.

Debt Deal Dos

Do agree to and enact a debt ceiling increase as soon as possible

We *must* raise the debt ceiling. The tax and spending decisions that have caused our debt to reach the current limit have already been made. Failing to make good on our legal obligations, particularly to our creditors, would be disastrous. Plans to prioritize interest payments above other obligations are also worrisome because they would require the U.S. to not make good on other legal commitments, calling into question the full faith and credit of the country.

As Chairman of the Federal Reserve Ben Bernanke recently explained:[1]

> *"Failing to raise the debt limit would require the federal government to delay or renege on payments for obligations already entered into. In particular, even a short suspension of payments on principal or interest on the Treasury's debt obligations could cause severe disruptions in financial markets and the payments system, induce ratings downgrades of U.S. government debt, create fundamental doubts about the creditworthiness of the United States, and damage the special role of the dollar and Treasury securities in global markets in the longer term. Interest rates would likely rise, slowing the recovery and, perversely, worsening the deficit problem by increasing required interest payments on the debt for what might well be a protracted period.*
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> *Some have suggested that payments by the Treasury could be prioritized to meet principal and interest payments on debt outstanding, thus avoiding a technical default on federal debt… Moreover, while debt-related payments might be met in this scenario, the fact that many other government payments would be delayed could still create serious concerns about the safety of Treasury securities among financial market participants. The Hippocratic oath holds that, first, we should do no harm. In debating critical fiscal issues, we should avoid unnecessary actions or threats that risk shaking the confidence of investors in the ability and willingness of the U.S. government to pay its bills."*

Even waiting until late July to raise the debt ceiling could raise concerns among credit markets that we might default, which could cause interest rates to go up. The economic effects of either a default or an interest rate spike could be devastating. As the economy continues to struggle, even a moderate rate increase resulting from creditors losing faith in the U.S. could increase borrowing costs, harming businesses, families, and the economic recovery. Furthermore, the costs would make an already incredibly difficult fiscal challenge even more difficult to contend with. A one percentage point increase in

[1] Remarks given at the Annual Conference of the Committee for a Responsible Federal Budget on June 14, 2011.

interest rates, for example, would increase deficits by $1.3 trillion through 2021.[2] It is clearly desirable to make fiscal adjustments in a favorable interest environment, and it would be foolish and shortsighted to squander the opportunity we have now to do so.

Do recognize the need for at least $4–$5 trillion in deficit reduction

Failing to raise the debt ceiling would likely lead to a fiscal and financial crisis, but failing to address the debt would eventually do the same. It would take about $6 trillion in savings to reduce the debt to 60 percent of GDP by 2021[3] – a level many economists believe to be the threshold we should be aiming for in the medium-term (while decreasing our debt further as a share of the economy over the longer term). Both the Fiscal Commission and the House Republican Budget would reduce the deficit by about $4 trillion over the next decade, which is the minimum necessary to put the debt, as a share of the economy, on a downward path. Even at that level, we would still have to borrow $6 trillion over the coming decade and the debt would remain near 70 percent of GDP by the end of the decade.

The weak state of the economy actually reinforces rather than contradicts the need for a large fiscal consolidation plan. Showing credit markets that we are serious about addressing our medium and long-term debt in a credible way can not only keep interest rates from rising, it can also allow for necessary changes to be phased in more slowly as long as the plan is credible.[4]

Do put into law a down payment that takes the first steps toward reforming entitlements

Policymakers must both raise the debt ceiling as soon as possible and agree to at least $4 to $5 trillion in deficit reduction – but the timing of the situation does not lend itself to doing both before the U.S. breaches its debt limit on August 2nd. It is unrealistic that policymakers could agree to the full details of a comprehensive package, including meaningful entitlement and tax reform, in the next few weeks.

The first step must then be to agree to a *down payment* – which may be substantially smaller than the ultimate $4–$5 trillion target, but must still be as large as possible *and* include the beginnings of real entitlement reform.

In Appendix I of this paper, we have included a chart of policies totaling between $1 and $2.5 trillion in savings that overlap between two or more of the major deficit reduction plans – the Fiscal Commission (Simpson-Bowles), the Bipartisan Policy Center Debt

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[2] CBO Budget and Economic Outlook, January, Table B-1. January 2011.
[3] As has been recommended by the Peterson-Pew Commission on Budget Reform.
[4] We believe that to be credible, a plan must 1) include specific policies; 2) be written into law; 3) be bipartisan so that there are not immediate efforts to undue it, and; 4) include triggers or other budget mechanisms to ensure it is enacted as intended.

Reduction Task Force (Domenici-Rivlin), the House Republican Budget, and President Obama's Budget Framework. These overlapping policies can serve as a starting point for the down payment.

More importantly, however, the down payment must make inroads toward putting entitlement programs on a sustainable path. While some of the savings in the down payment will undoubtedly be from discretionary spending and a variety of smaller mandatory programs, it is the growth of Social Security, Medicare, and Medicaid that is driving the long-term growth in our debt. Focusing narrowly on the discretionary portion of the budget may offer significant short-term savings, but it will not change our ultimate debt trajectory.

Thus, although a down payment might not be able to enact structural reform, it must end the dangerous pattern of kicking the can down the road by beginning the process of fixing these programs for the long-term. Ignoring Social Security and Medicare in a deficit reduction deal would make it less than credible, suggesting that those in Washington will not be able to tackle the long-term sustainability issues of the country's entitlement programs – a negative signal to markets.

Appendices II and III outline a number of Social Security and health care measures, of varying sizes, which have been included in some of the existing plans and which should be considered in a down payment and/or a follow-up package.

Do include a credible process to make the additional necessary structural tax and entitlement reforms within six months to one year

Along with the down payment must be a credible process to find the remainder of the $4+ trillion in deficit reduction, including the critical structural reforms in entitlement programs and tax reform, within the next six months to a year. Delaying fixes to entitlements and the tax code until after the election risks politicizing the issues in a way that will make them even more difficult to tackle, and also risks us running out of time before credit markets become concerned that the structural reforms are not forthcoming. While the argument has been made that the election will create a mandate for what types of reforms to pass, the more likely and risky scenario is that the election will lead to more untenable promises about *what not to do*, making the necessary reforms even harder to implement.

Therefore, any deal which increases the debt ceiling must also include a credible process and/or mechanism to ensure a deal on how to achieve the long-term savings over the next six months to a year. The process to ensure that additional savings are passed should include 1) specific annual debt and savings targets; 2) trigger mechanisms in case they are missed; 3) fast-track procedures to make policy changes easier, and; 4) a high threshold for undoing any of the targets and triggers. Already, a large number of mechanisms have been proposed to help bring our fiscal house in order.[5] When it comes to these measures, the fiscal objectives need to be both aggressive and realistic with the mechanisms crafted as tightly as possible to ensure that it is not used as a political punt.

Fig. 1: Illustrative Annual Debt Targets

	Peterson-Pew Commission Illustrative Targets	Fiscal Commission Debt Levels	CRFB Realistic Debt Projections
2010	62%	62%	62%
2011	69%	69%	69%
2012	73%	73%	73%
2013	74%	75%	76%
2014	73%	75%	78%
2015	72%	74%	79%
2016	70%	73%	81%
2017	68%	72%	82%
2018	66%	71%	84%
2019	63%	71%	86%
2020	60%	70%	88%
2021	N/A	69%	90%

A credible process for making structural reforms is critical. Equally as important is a commitment to follow through on such a process. A deal announcing any fiscal targets and triggers must be accompanied by a plan to begin or continue discussions this year on policies to achieve those targets.

Debt Deal Don'ts

Don't allow the country to hit the debt limit

Failing to raise the debt ceiling could be disastrous and could do lasting damage to the nation's economy and fiscal situation. This should not be considered an option for policymakers.

Don't fail to use this as an opportunity to address the national debt

Just because we must raise the debt ceiling does not mean that it cannot serve as a useful nudge to give policymakers an opportunity to reflect on our medium-and long-term debt situation. Rarely does Washington have an opportunity to focus so narrowly on this issue – which is vital to both our economy and our national security.

Although a debt reduction plan does not need to be literally attached to a debt ceiling bill, failing to agree to debt reduction as part of this increase would be a dangerously

[5] http://crfb.org/document/policymakers-search-right-fiscal-tool-peterson-pew-commission%E2%80%99s-new-fiscal-toolbox-can-help

wasted opportunity. We would have averted a financial crisis today, but done nothing to avoid one when our debtors ultimately decide we might not make good on our debt.

Don't rely on budget gimmicks

Lawmakers must not resort to gimmicks to avoid the hard choices. Possible gimmicks to avoid include:

1. **Manipulating the baseline.** There are many different baselines policymakers could choose to show the savings in their final deal.

   The \$4–\$5 trillion in savings over the coming ten years that we have called for is judged off of a baseline that assumes continued AMT patches and doc fixes, a permanent extension of the 2001/2003/2010 tax cuts for those making below \$250,000 a year, and a plausible drawdown of troops from Iraq and Afghanistan.[6]

   This is by no means the only reasonable baseline, and policymakers should feel free to use the baseline they feel is best. However, any changes to the baseline should require changes to the deficit target. For example, if the baseline used by negotiators assumes the upper-income tax cuts are also extended, then roughly \$1 trillion more in deficit reduction would be needed to meet the same debt targets.

   Since baselines offer the opportunity to make savings number larger or smaller, it is often more useful to look at debt levels, and whether and when the debt would be stabilized. It should be stabilized by mid-decade and on a declining path thereafter.

2. **Counting war savings.** Technically, under current law, spending in Iraq and Afghanistan is projected to continue to grow with inflation, despite withdrawal plans being in place. Using caps and processes to ensure that war spending does in fact decline – and that the money is not fed into the general defense budget – is not only sensible but smart. However, counting that \$1+ trillion towards claimed deficit reduction would be taking credit for policies already in effect, and would therefore be a gimmick.

3. **Expanding the timing window.** Putting the debt on a downward trajectory requires at least \$4 trillion over *10 years*. Policymakers may choose to look over a longer time period to ensure they are addressing the long-term, but as the budget window expands, so too must the amount of savings. Savings of \$4 trillion over

[6] This is not our preferred policy scenario, but an assessment of "realistic policy" made at the time the Fiscal Commission released its plan.

10 years is closer to $6 trillion over 12 years. Achieving the same $4 trillion over a longer time period would be insufficient.

4. **Excessively back-loading the savings**. Given both the fragile state of the economy and the nature of reasonable policy changes, any deficit reduction plan *should* be implemented gradually and should save more in the later years. Indeed, a credible plan to reduce the deficit more over the medium- and long-term will give us the room to limit the size of revenue changes and spending cuts in the near-term – when it could hurt the recovery. That said, if policymakers are back-loading deficit reduction with the idea that policies will be revised (or not adhered to) later, *this is a gimmick.* Though it is sometimes difficult to identify these policies, inexplicable cuts occurring very late in the budget window often fall into this category, particularly on discretionary caps where a process – but not actual cuts – is what would be in law.

5. **Assuming expiring provisions are paid for (or expired).** In addition to discussing how much a plan saves, policymakers should identify what it does to the debt and deficit. In doing so, they must make realistic assumptions about the future – in particular with regards to the expiring 2001/2003/2010 tax cuts, the Alternative Minimum Tax, and the Sustainable Growth Rate. By assuming current law – in which all these provisions either expire or revert to levels Congress has never allowed – policymakers could substantially overstate the progress which their package would make. Instead of assuming these provisions will expire, or be offset by future Congresses, it would be best if lawmakers use this opportunity to address some of these policies once and for all.

Don't defer the hard decisions until after the 2012 election

The instinct among many politicians will be to enact a down payment on deficit reduction this year with the claim that the remainder of the package will be enacted in 2013 or beyond. This is a mistake for a number of reasons.

First, we may not have two years before the markets lose faith in us. A number of rating agencies have warned that if we do not take action soon to address our debt situation, we risk a downgrade within the next couple of years. A large down payment that deals with at least some of the hardest parts of the budget could reduce this risk, but the lack of credible medium- and long-term deficit reduction would require more of the down payment to be focused on the short-term, which could also weaken the economy some.

Second, waiting until after an election holds the risk of making things harder politically, rather than easier. Elections tend to be about making new promises about tax cuts and spending increases, and about taking off the table the hard issues such as entitlements and taxes. Regardless of the results, a post-election environment could be more rather than less hostile for serious fiscal consolidation. By waiting until 2013, we risk losing the opportunity, and instead continue to stumble along with continued structural imbalances and permanently slow economic growth.

Conclusion

What this country needs is a \$4–\$5 trillion deficit reduction package which will stabilize and reduce the debt, make Social Security sustainably solvent, substantially slow the long-term spending growth of Medicare and Medicaid, and reform the tax code to raise more revenue while increasing economic growth. And we need it soon.

All of this is a tall order, considering that this country also needs to increase its statutory debt limit basically immediately – and certainly no later than the August 2nd deadline. However, the debt limit does provide an opportunity for policymakers to address our unsustainable fiscal situation. They should use the debt limit as an opportunity to enact a large and gimmick-free down payment which begins to address entitlements, and to put in place a credible process with real teeth that will culminate in a comprehensive deficit reduction plan within six months to a year.

Appendix I: Overlapping Policies Among Fiscal Plans

Deficit-Reducing Policies	10-Year Savings (Billions)		President's Framework	House Republican Budget	Fiscal Commission	Domenici-Rivlin (BPC)
	Low	High				
Discretionary Caps	$580	$1,600	X	X	X	X
Reduce Farm Subsidies	$5	$35	X	X	X	X
Enact Tort Reform	$0	$55	X	X	X	X
Reform PBGC	$5	$10	X	X	X	X
Eliminate In-School Interest Subsidies on Student Loans	$20	$65	X	X	X	
Auction Spectrum Licenses	$5	$25	X	X	X	
Sell Excess Federal Property	$10	$15	X	X	X	
Reduce Health Fraud and Overpayments	$10	$35	X	X	X	
Eliminate Fossil Fuel Tax Preferences	$20	$40	X	#	#	X
Reduce Medicare Payments to Drug Companies	$55	$110	X		X	X
Reduce State Medicaid Gaming	$20	$50	X		X	
Increase Federal Civilian Pension Contributions	$65	$120		X	X	
Use Chained CPI For All Inflation-Indexed Programs	$255*				X	X
Increase Medicare Cost-Sharing	$25	$130			X	X
Total Savings	**$1,095**	**$2,545**				

Note: All numbers rounded to nearest $5 billion. This list is not exhaustive of overlapping policies.
*Switching to the chained CPI would increase revenues by $87 billion, reduce Social Security outlays by $112 billion, and reduce other spending by $56 billion over ten years. To read more about the merits of switching to the chained CPI, see the Moment of Truth project's policy paper.
#Policy could be included as part of comprehensive tax reform plan.

Appendix II: Options to Reduce Health Care Costs in the Major Fiscal Plans

Looking at the four major fiscal plans – the Fiscal Commission, the Bipartisan Policy Center, the House Republican Budget, and the President's Budget Framework – there are a large number of options to reduce both short- and long-term health spending. Below is an overview of some of the options identified in these plans for controlling health care costs. (Note: Savings refer to 2012-2021 and are rounded to nearest $5 billion.)

Short-Term Recommendations

Increase and Reform Medicare Cost-Sharing ($25 billion to $60 billion)
Medicare's current system of deductibles and copayments is complicated, confusing, and generally leads to overutilization of care. Both the Fiscal Commission and the Bipartisan Policy Center called for replacing the current system with a fixed deductible for all parts of Medicare, a uniform co-insurance above that deductible, and a catastrophic cap to protect against excessive costs. These changes would reduce costs largely by making seniors more cost-sensitive and by reducing overutilization of health care services.

Restrict First Dollar Coverage in Medigap ($55 billion)
About one-third of Medicare beneficiaries rely on additional private insurance policies, known as Medigap coverage, to supplement Medicare. These Medigap plans often cover deductibles and copayments, thus restricting Medicare's ability to limit overutilization through cost-sharing. The Fiscal Commission recommended limiting Medigap policies from covering too much cost-sharing. When combined with changes to Medicare's cost-sharing rules, the interaction effect could yield an extra $10 billion or so of savings. It could save another $40 billion on top of that if the same rules were applied to TRICARE for Life (bringing the total of Medicare cost sharing changes, Medigap reforms, and TRICARE for Life reforms to as much as $170 billion).

Increase Medicare Premiums ($240 billion)
Currently, most Part B beneficiaries pay a premium equal to about 25 percent of the program's costs. The Bipartisan Policy Center recommended increasing this base premium to cover 35 percent of costs, phased in over a five-year period.

Enact Tort Reform ($0 billion to $60 billion)
Medical malpractice claims drive up health care costs, both because they require physicians to purchase expensive malpractice insurance and, more significantly, because they lead physicians to practice "defensive medicine." All four major plans call for some type of medical malpractice liability reform (tort reform), though they range

substantially in size and scope with the House Republicans and Bipartisan Policy Center calling for more ambitious reform.

Require Drug Rebates from Pharmaceutical Companies ($55 billion to $110 billion)
Currently, drug companies are required to pay the government substantial rebates for certain prescription drugs purchased by Medicaid beneficiaries. The Bipartisan Policy Center, the President's Framework, and the Fiscal Commission all called for extending these rebates, in part or in whole, to the Medicare Part D program.

Reduce Spending on Graduate Medical Education ($70 billion)
Currently, Medicare subsidizes teaching hospitals both by helping them to pay for the costs of employing medical residents (Direct Graduate Medical Education) and by paying hospitals additional funds in order to take residents (Indirect Medical Education). The Medicare Payment Advisory Commission (MEDPAC) found that the federal government was overpaying providers, based on their costs. The Fiscal Commission proposed consolidating and slowing the growth of these payments.

End State Medicaid Tax Gaming ($20 billion to $50 billion)
Currently, many states inflate the size of their federal Medicaid match by simultaneously increasing provider payments and taxing providers that very same money. Both the Fiscal Commission and the President's Framework would restrict this practice. In addition, the Fiscal Commission ends a duplicative administrative fund which saves another $2 billion.

Reduce and/or Equalize Medicaid State Matching Rates ($60 billion)
Under the Medicaid program, the federal government typically covers an average of 57 percent of state costs – going up to between 60 and 62 percent after the PPACA expansion is in place. However, the actual match rate differs from state to state depending largely on the socioeconomic characteristics of each state's population. The President's Framework proposes equalizing these rates, and in the process reducing them in order to save money. A one percent average reduction, for example, would save about $60 billion. Although the Bipartisan Policy Center is vaguer, they also propose reducing matching rates after 2018.

Reduce Medicare Provider Payments ($45 billion in combined savings)
In order to finance its costs and help reduce the deficit, on net, PPACA included substantial cuts to nearly all Medicare providers. However, both the Fiscal Commission and the President's Framework go further in a few areas. For example, the Fiscal Commission accelerates the reductions in Medicare home health payments from PPACA and ends the practice of covering hospitals' "bad debts" – the unpaid deductibles and copayments owed by beneficiaries. The President, meanwhile, reduces payment rates for

Durable Medical equipment under Medicaid, and rebases Medicaid's "Disproportionate Share Hospital" (DSH) payments beginning in 2021.

Block Grant Medicaid ($770 billion)
In order to limit the federal government's Medicaid liability and encourage the states to be more cost conscious, a number of proposals have called for "block granting" Medicaid. That is, replacing the current cost-matching formula with a fixed allotment to each state. Under the Republican budget, this would begin in 2013, apply to all of Medicaid, and grants would grow at the rate of inflation plus population growth. An alternative could block grant only certain parts of Medicaid, and could grow this grant at a different rate.

Enact and Accelerate Payment Reforms
PPACA included a number of pilot and demonstration projects meant to reduce health care cost growth through innovative payment models – for example, accountable care organizations and payment bundling. Both the Fiscal Commission and the Bipartisan Policy Center call for more aggressively implementing these reforms.

Improve Patient Safety
The President's Framework calls for a private-public partnership to help improve the quality and safety of health care services while reducing complications and preventable errors. Minimizing errors could improve the quality of health care while also reducing costs. The President has estimated this new initiative could yield up to $50 billion in savings from Medicare alone.

Long-Term Recommendations

Create a Premium Support Plan for Medicare
Currently, most Medicare beneficiaries are enrolled in a fee-for-service plan where the government pays providers. One alternative is to replace (or supplement) this with a "premium support" model, whereby beneficiaries are subsidized to purchase private insurance. Both the House Republicans and Bipartisan Policy Center recommended moving to this system. Under the House Republican version, this would apply to new seniors beginning in 2022, and the subsidies would be indexed to inflation. Under the Bipartisan Policy Center plan, the subsidies would apply to all seniors beginning in 2018 be indexed to GDP+1 percent per beneficiary, and seniors could choose to purchase traditional Medicare with their subsidy.

Strengthen the Independent Payment Advisory Board
PPACA created an Independent Payment Advisory Board (IPAB) to make recommendations to reduce Medicare costs if they exceeded GDP+1 percent per beneficiary. However, IPAB is limited to only reducing certain provider payments. The

Fiscal Commission would strengthen IPAB some by getting rid of the provider exemptions (mainly hospitals) under current law. The President's Framework would go further, allowing IPAB to promote value-based benefit design and prevention, while tightening its target to GDP+0.5 percent per beneficiary, backed up with a sequester.

Raise the Medicare Eligibility Age

Currently, beneficiaries generally become Medicare-eligible at age 65, even as the Social Security age is rising to 67. To accommodate (and in fact help offset) the budgetary effects an aging population, one option would be to increase the eligibility age to 67 or higher. The House Republicans raise it to 67, gradually, between 2022 and 2033.

Establish a Long-Term Global Federal Health Care Budget

Currently, most federal health spending takes the form of an unrestricted entitlement. Instead, health care spending could be put in a budget so that policymakers would be forced to make choices on a regular basis. The Fiscal Commission called for limiting the growth in the total federal commitment to health care (including tax expenditures) to GDP+1 percent.

Appendix III: Options to Reform Social Security in the Major Fiscal Plans

Though neither President Obama nor the House Republicans have proposed a specific plan to reform Social Security, both the Bipartisan Policy Center's Deficit Reduction Task Force (Domenici-Rivlin) and the Fiscal Commission (Simpson-Bowles) proposed comprehensive plans sufficient to eliminate the 75-year actuarial shortfall. Below are the solvency-improving options contained in one or both reports and the percent of the 75-year actuarial gap they close:

Use the Chained CPI to Calculate COLAS (26 percent)
Currently, Social Security cost of living adjustments (COLAs) are measured using the Consumer Price Index, which overstates inflation by about 0.25 to 0.3 percentage points per year. Both the Fiscal Commission and Bipartisan Policy Center plan proposed using a more accurate measure of inflation know as the chained CPI.

Reduce the Benefit Formula for Higher Earners (4 percent to 45 percent)
Currently, initial Social Security benefits are calculated based on a progressive formula whereby a person's lifetime wages are indexed to the present and averaged, and then the beneficiary receives 90 percent of their first $9,000, 32 percent of the next $46,000, and 15 percent of the remaining average income (the bendpoints are indexed to wage growth). To reduce benefits at the top, the Bipartisan Policy Center reduces the top factor from 15 percent to 10 percent. The Fiscal Commission goes further by creating a new "bendpoint" at the 50th percentile, and gradually reducing the formula from 90%|32%|32%|10% to 90%|30%|10%|5%.

Raise the Retirement Age or Adjust Benefits for Growing Life Expectancies (21 percent to 25 percent)
Currently, Social Security's normal retirement age is 66 – and headed to 67. One option, adopted by the Fiscal Commission, would be to index the retirement age to longevity thereafter in order to keep fixed the proportion of one's adult life spent in retirement (which would increase the age to 69 by about 2075). The Fiscal Commission also increases the Early Eligibility Age, currently at 62, in lock-step. An alternative, supported by the Bipartisan Policy Center, is to adjust benefits downward in order to hold lifetime benefits constant as a share of lifetime income. Mathematically, this is essentially the same as raising the normal retirement age.

Increase Payroll Tax Cap to Cover 90 Percent of Wages (31 percent to 35 percent)
Currently, the 12.4 percent payroll tax applies to the first $106,800 of wages each year (indexed with wage growth), which typically covers about 83 percent of wages in the economy. Both the Fiscal Commission and the Bipartisan Policy Center recommended gradually increasing this cap, faster than wages, until it covers 90 percent of total wages sometime in the 2040s or 2050s.

Cover Newly Hired State and Local Workers (8 percent)
Currently, some state and local workers are not covered by Social Security – and do not, therefore, pay the Social Security payroll tax. Both the Fiscal Commission and Bipartisan Policy Center cover all newly-hired state and local workers after 2020.

Eliminate Payroll Tax Expenditures (60 percent)
Currently, neither employer-provided health benefits nor "cafeteria plans" which come out of employee salaries are considered wages. As part of comprehensive tax reform, the Bipartisan Policy Center eliminates these exclusions and deductions from the payroll tax base.