The Committee for a Responsible Federal Budget

The Better Budget Process Initiative: Improving Focus on the Long Term

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Introduction

The budget process focuses on the short term, often at the expense of longer-term considerations. This distortion allows policies to be crafted in ways that mask their true costs, and produces results that downplay looming fiscal challenges.

The short-term focus leads to many poor outcomes, such as emphasis on short-term deficit reduction (with little improvement in the long-term fiscal outlook), the use of "timing gimmicks" designed to obscure the budgetary impact of policy choices, and the reliance on one-time savings are to ensure "deficit neutrality" within a budget window but deficit increases beyond it.

The short-term focus also causes policymakers to undervalue policies which produce modest savings in the near term but grow significantly over time, including changes to gradually slow the growth of health and retirement programs, or that exempt current beneficiaries of a given program or tax break.

In addition, the short-term focus has led many in Washington to brag that the fiscal situation is under control based on a short-term improvement in the deficit despite the fact that the debt is projected to grow faster than the economy over the medium and long term. (see Deficit Falls to $483 Billion, but Debt Continues to Rise)

The short-term emphasis is the result of both an overreliance on ten-year budget windows for scoring and analysis, and insufficient enforcement of long-term fiscal goals. Modifying the rules governing the budget process could be a powerful tool to help correct this myopic thinking. We suggest several possible remedies:

1. ***Require long-term estimates for significant legislation***
2. ***Codify rules prohibiting legislation from increasing long-term deficits***
3. ***Allow long-term savings targets for reconciliation***
4. ***Establish a second-five-year test for PAYGO***
5. ***Require annual budget documents to include long-term information***
6. ***Expand the use of accrual accounting where appropriate***

The Short-Term Focus of the Current Budget Process

In a given year, most Congressional energy in budgeting is focused on the single-year discretionary spending levels through the appropriations process, despite the fact that this is slowest growing part of the budget. Even when Congress and the President do look beyond the next year, the long term tends to be notably absent from the discussion. Most changes to mandatory spending and revenue are evaluated within a ten-year budget window. In addition, most budget enforcement takes place in the short and medium term. Budget resolutions generally set spending and revenue levels for internal budget enforcement for one, five and ten years. Statutory spending caps focus on the current-year impact (with the caps themselves only existing through 2021), pay-as-you-go (PAYGO) rules focus mainly on the ten-year impact, and most other budget laws and rules focus on budgetary impact only within the next decade.

To be sure, the government does produce a variety of long-term fiscal and program projections. The Congressional Budget Office (CBO) releases an annual "long-term outlook" that looks over 75-years, while the Social Security and Medicare Trustees look at those programs over the same window and the President's Budget now includes long-term budget estimates buried deep in its "analytical perspectives." And there are even a few cases where the budget process takes into account the long-term consequences of legislation, such as the Byrd rule in the Senate which prohibits the use of reconciliation for legislation that increases deficits beyond the budget window and a Senate point of order against legislation that would increase deficits by more than $5 billion in any decade over the forty years following the ten-year budget window. In recent years, CBO has also published rough analysis of the second-decade effects of a few major pieces of legislation.

Still, these examples are the exception, not the rule – and certainly not the law. In general, the budget process focusses narrowly on the short and medium term and legislation is evaluated based on the budgetary impact over the ten year budget window.

Figure 1: Focus of Major Budget Projections and Legislative Actions

	Primary Focus	Secondary Focus
Regular Appropriations	*1 Year*	*N/A*
Mandatory Funding Reauthorizations	*1 to 5 Years*	*10 Years*
Congressional Budgets	*1 Year*	*10 Years*
President's Budget	*1 Year*	*10 Years*
Budget Reserve Funds	*10 Years*	*1 Year*
Reconciliation	*10 Years*	*1 and 5 Years*
Statutory PAYGO	*10 Years*	*5 Years*
Discretionary Spending Caps	*1 Year*	*Up to 10 Years*
CBO Baseline	*10 Years*	*5 Years*
CBO and JCT Budget Estimates and Scores	*10 Years*	*1 Year*
CBO Long Term Outlook	*25 Years*	*75 Years*
Social Security Trustees Report	*75 Years*	*10 to 25 Years*

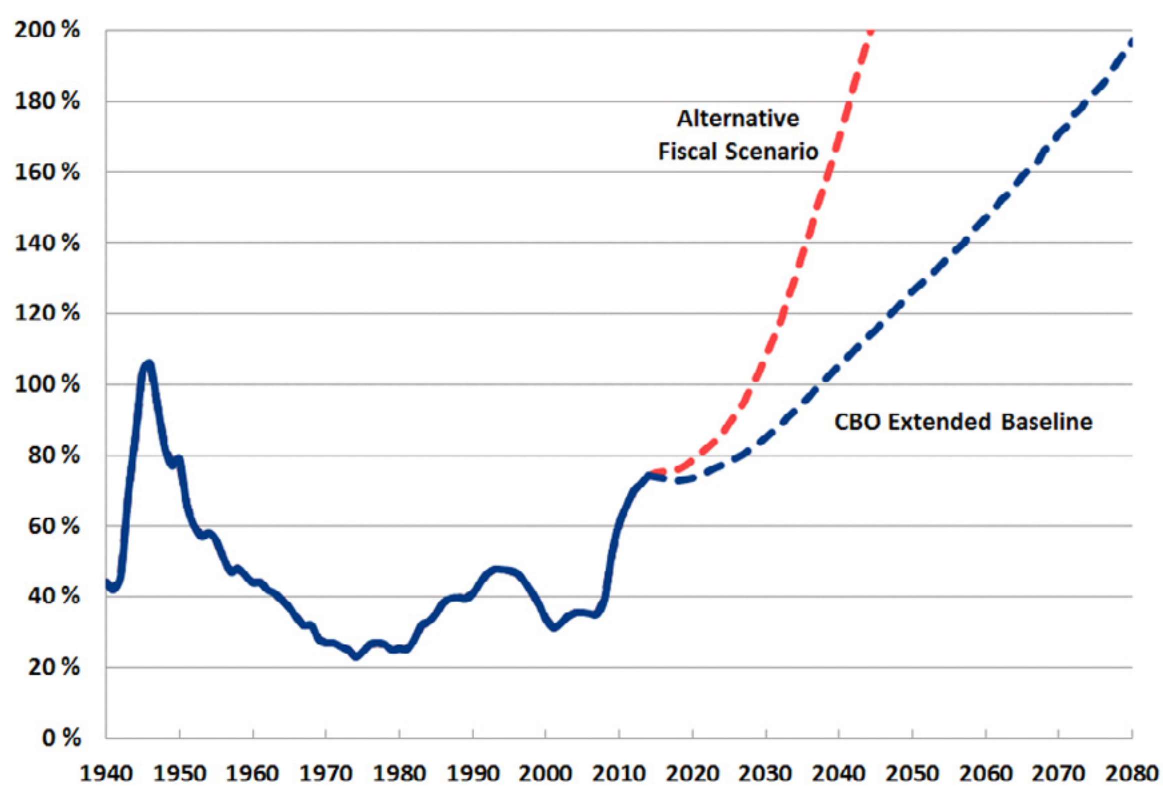
The Importance of a Longer-Term Perspective

According to CBO's projections, the federal debt will fall from a post-war record 74 percent of GDP today to 73 percent by 2018, rise to 77 percent by 2024, exceed the size of the economy in the mid-2030s, and double it by around 2080. Under CBO's Alternative Fiscal Scenario, debt will exceed the size of the economy before 2030 and rise to 200 percent of GDP by the mid-2040s.

Under either scenario, debt as a percentage of GDP increases relatively modestly over the next ten years. But such a short-term focus clearly presents an incomplete and misleading picture. As CBO explained in the July 2014 Long-Term Outlook, "The extended baseline projections [which reflect current law] show a substantial imbalance in the federal budget over the long term, with revenues falling well short of spending. As a result, budget deficits are projected to rise steadily and, by 2039, to push federal debt held by the public up to a percentage of GDP seen only once before in U.S. history (just after World War II)… With deficits as big as the ones that CBO projects, federal debt would be growing faster than GDP, a path that would ultimately be unsustainable".

Greater attention to the long-term budget situation can help focus policymakers to address the challenges of an aging population and growing health costs now, rather than ignoring the long-term problems. Importantly, more long-term analysis can help policymakers to identify those policies that produce savings that will grow over time and "bend the debt curve" to put our country's debt on a long-term downward path rather than focusing on "quick fixes" like sequestration, which reduce near-term spending but do little to slow long-term debt growth.

Figure 2: Historic and Projected National Debt Held by the Public (percent of GDP)



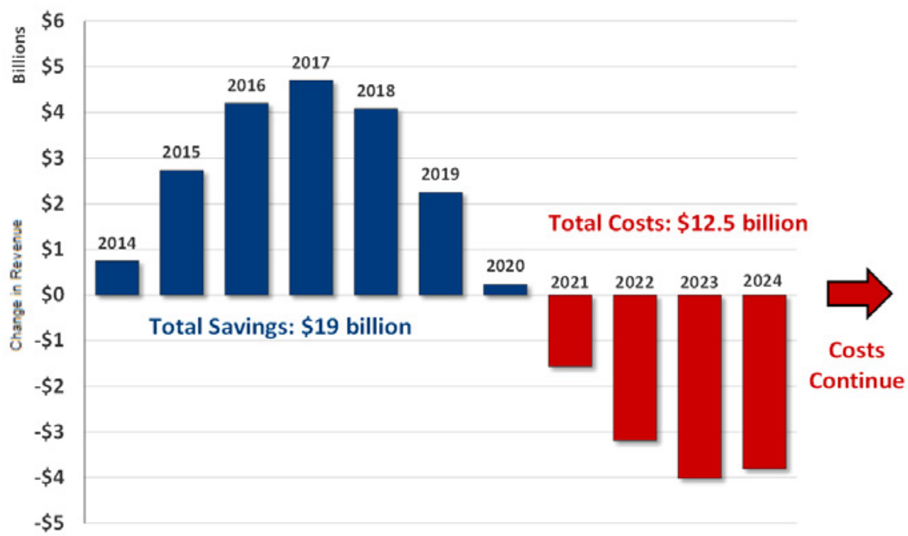
Source: CBO, CRFB Calculations

Long-term analysis is particularly important for evaluating changes to the Social Security and Medicare programs, where already known demographic pressure builds gradually, reforms tend to phase in slowly, and the threat of trust fund exhaustion is often in the somewhat distant but fast-approaching future. Seemingly modest entitlement changes with little or no ten year savings – such as indexing retirement ages to reflect growing life expectancy – can produce major financial and economic dividends over the long term, reducing the unfunded liabilities and improving the solvency, sustainability, and financial viability of those programs. Such reforms are politically difficult to make; under the focus of a 10-year budget window, these challenges seem too distant to matter.

Similarly, long-term analysis can provide useful information about tax legislation. Policy changes that modify the *timing* of tax payments to affect a ten-year score may distort the true fiscal impact of the legislation. For example, a one-time tax on overseas earnings, a move from tax-deferred to Roth-style retirement accounts, a move away from Last in First Out (LIFO) accounting, and lengthening of cost-recovery schedules would all produce significantly more revenue in the near-term than in subsequent decades and in some cases reduce revenues (and increase deficits) beyond the ten-year budget window. Yet failure to understand this might lead policymakers to use temporary revenue from these provisions to pay for permanent spending or tax cuts, resulting in higher deficits beyond the ten-year budget window.

A budget process regime more focused on the long term can also discourage the use of gimmicks that exploit the limited time window for evaluating budgetary effects. In recent years, politicians have relied on a number of these gimmicks, including hiding costs outside the budget window, using one-time savings to offset permanent costs, artificially moving savings to inside the budget window, or relying on offsets which save money upfront but cost money over the long term. For example, legislation bailing out the highway trust fund was offset in large part by "pension smoothing" which allows companies to reduce contributions to pension plans now (resulting in higher taxable income) offset by larger contributions in future years (reducing taxable income).

Figure 3: Yearly Score of Pension Smoothing Gimmick



Source: Joint Committee on Taxation, 7/8/14

While the changes proposed in this paper do not present a silver bullet to kill budget gimmicks, they would greatly reduce the ability to benefit from such gimmicks.

To be sure, long-term projections are subject to a significant degree of uncertainty, but they can still provide policymakers with important information. There are many components of long-term estimates that can be predicted with reasonable certainty, and a "best guess" of where we are headed based on the best information available is far better than no information about the future at all.

Options for Improving Focus on the Long Term

There are a number of ways to improve long-term focus within the budget process. We recommend Congress specifically look at six.

1. ***Require long-term estimates for significant legislation***
2. ***Codify rules prohibiting legislation from increasing long-term deficits***
3. ***Allow long-term savings targets for reconciliation***
4. ***Establish a second five year test for PAYGO***
5. ***Require annual budget documents to include long-term information***
6. ***Expand the use of accrual accounting where appropriate***

1. Require Long-Term Estimates for Significant Legislation

Current Practice – CBO generally provides year by year cost estimates for legislation over the ten year budget window

Problem – Focusing exclusively on the short- and medium-term estimates of budgetary effects of legislation can encourage legislation that results in rising long-term debt, for example by pairing short-term savings with long-term spending or revenue reduction policies, and can discourage legislation which achieves significant long-term savings but appears to have little or no ten-year deficit reduction.

As a result, legislation such as the highway trust fund example explained above can use phony savings from policies like "pension smoothing" to appear deficit-neutral. Meanwhile, policies that start late in the budget window and phase in over time – such as the premium support proposal, Medicare eligibility age increase, and cost sharing reforms that begin in 2024 in the House-passed FY 2014 budget resolution and the Medicare cost-sharing reforms that begin in 2018 in the President's budget – are given only partial credit for their full fiscal impact in a traditional ten-year score.

Lawmakers may not fully appreciate the full fiscal benefit of these policies because of the focus on ten year budget estimates. And while CBO has occasionally provided supplementary information on the rough second decade impacts of major legislation, this supplemental information is not provided as a matter of course.

Proposal – Congress should require CBO to provide estimates of budgetary effects beyond the first decade for legislation with significant fiscal impact. Estimates of budgetary effects of legislation beyond the ten year window would highlight timing gimmicks which allow legislation to be deficit neutral over ten years but result in increased deficits beyond the ten year window. Further, long-term scoring could provide useful information about policies that produce significant savings outside the ten-year window that are not apparent in the ten year estimate of the policies.

Of course, providing long-term estimates for all or even most legislation would not be practical or particularly useful for legislation with modest fiscal impact. Instead, the requirement for long-term scores should be subject to some criteria based on the size and direction of the standard ten-year window.

Importantly, while estimates of budgetary effects of legislation beyond the ten year budget would provide lawmakers with additional information about long-term fiscal impacts of legislation, those impacts should not be allowed to be used to offset impacts inside the window for the purpose of PAYGO or other budget rules. For a further discussion of long-term estimates of legislation see appendix I.

2. Codify Rules Prohibiting Legislation from Increasing Long-Term Deficits

Current Practice – The Senate has a point of order against legislation that would increase the deficit by more than $5 billion in any of the first four decades after the ten year budget window.

Problem – The current point of order against increasing the long-term deficit was established by a budget resolution and does not have the force of law. As a result, it can easily be changed, weakened, or repealed by another budget resolution. In fact, the point of order originally applied to legislation that increased *spending* by more than $5 billion in any of the three following decades before being changed by the FY 2009 budget resolution to apply to increases in the *deficit*. In addition the rule does not apply in the House. As a result, it only needs to be waived in the Senate in order to allow legislation to increase long-term deficits. The point of order in current and prior forms has been waived three times and sustained once in the past eight years.

Proposal – The point of order prohibiting significant increases in the long-term deficit should be codified in its current form in the Budget Act. It should apply in the both the Senate, as under current practice, and in the House of Representatives. This would enhance the prominence of the long-term deficit point of order by making it a permanent part of the Budget Act that can't be easily changed and will ensure that the impact of legislation beyond the ten year window will be evaluated throughout the legislative process.

3. Allow Long-Term Savings Targets for Reconciliation

Current Practice – Reconciliation instructions require committees to achieve savings over the budget window covered by the budget resolution, usually over ten years.

Problem – Reconciliation is a powerful tool to put the U.S. fiscal house in order. However, it currently has limited capacity to encourage policymakers to address the county's largest fiscal challenges, which are over the long run. By focusing reconciliation instructions on short- and medium-term savings, budget resolutions create an incentive for committees to meet instructions through policies which produce significant up front savings that don't grow over time and in some cases produce no savings beyond the ten year window.

Proposal – The Budget Act should be amended to allow budget resolutions to set an aggregate deficit reduction goal for the second decade and include reconciliation instructions with a second decade deficit reduction target.

Reconciliation legislation reported with a second decade savings target would automatically be subject to a second-decade estimate by CBO. Because long-term estimates are subject to more uncertainty the instructions could set savings targets as a percentage of GDP and/or ranges rather than an exact dollar amount. Allowing the budget resolution to set an aggregate savings goals in the second decade or another period of time beyond the ten-year budget window could provide an incentive for committees to enact structural reforms which produce savings that grow over time. This reform could be helpful even if the second decade instructions are only advisory and not binding on committees.

4. Establish a Second Five Year Test for PAYGO

Current Practice – Statutory PAYGO and the current PAYGO rule in the Senate require legislation to be offset over only the first five and first ten year period.

Problem – Many bills frontload savings but contain policies that increase the deficit in later years of the ten year budget window. This allows Congress to enact tax cuts or spending increases with permanent costs that are offset over ten years by one time savings or savings which do not grow as fast as the costs of the tax cut or spending increase. It also makes it easier for Congress to enact legislation that relies on "timing shifts" which save money in the first few years but start to cost money in the second half of the decade.

Many of these bills would increase the deficit at the end of the ten year budget window and beyond, creating long-term pressure on the nation's debt and deficits. Bills like these comply with current PAYGO rules which require only that legislation not increase the deficit in the first five and first ten years.

Proposal – Requiring legislation to be deficit neutral over both the first five years and second five years would apply discipline to legislation that has early savings and later costs. When costs grow faster than offsets and begin to increase the deficit in the second half of the ten year budget window it is likely to continue beyond the ten year budget window. For example, the pension smoothing provision used to offset the highway trust fund bailout is projected to begin reducing revenues in the seventh year of the budget window and would have caused the legislation to violate a requirement that legislation be deficit neutral over the second five years. Excluding provisions that begin increasing deficits beyond the ten year budget window from being counted as an offset for purposes of enforcing PAYGO rules would complement existing rules excluding certain timing shifts from being counted as an offset for purposes of statutory PAYGO.

These relatively simple changes to current PAYGO rules would make the ability to use gimmicks to circumvent budget discipline and damage the long-term fiscal position of the U.S. budget much harder.

5. Require Annual Budget Documents to Include Long-Term Information

Current Practice – The President's budget includes a long-term model in its *Analytical Perspectives* volume, and CBO prepares a separate report on the long-term outlook.

Problem – Long-term estimates are not included in the summary budget tables or presentations in the President's budget, and the CBO long-term projections are not included in its annual economic and budget outlook in January, its midyear assessment of the budget, or its analyses of the President's budget. The Congressional budget resolution is not required to include any information regarding long-term fiscal impact. As a result, long-term fiscal issues do not receive sufficient attention in the routine budget process.

Proposal – Congress should require the President's budget, CBO budget outlook, and CBO's analysis of the President's budget to incorporate long-term projections of current policy and proposed policy where possible. Additionally, it should require the report accompanying the budget resolution to include projections of the long-term fiscal outlook under the policies assumed in the budget resolution. Integration of long-term analyses into the current short-term budget presentations would help ensure that long-term fiscal issues are taken seriously in today's budgets.

6. Expand the Use of Accrual Accounting Where Appropriate

Current Practice – For the most part, the federal budget uses a cash-based approach in measuring program costs. However, federal loans and loan guarantees are accounted for using the accrual method to reflect the estimated longer-term costs of defaults and interest-rate subsidies provided by the government. Additionally most government investments in financial assets, for example the TARP programs, are measured on an accrual basis. In addition, the Department of Treasury releases a *Financial Report of the U.S. Government* ever year which generally measures the government's finances on an accrual basis. However, this report is rarely discussed and has no place in the current budget process.

Problem – A cash-based approach is inadequate for giving federal policymakers information about the long-term financial costs of long-term commitments. Insurance programs, such as federal deposit and pension benefit guarantee protections, often appear to have surpluses in the current-year budget, without showing the underlying risks and longer-term deficits in the programs. In the past, this has led to significant misunderstandings of costs – for example when the enactment of the "CLASS Act" long-term care insurance program appeared to reduce the deficit only because the premiums came in advance of the costs.

A cash-based approach can often understate commitments for future budgets, particularly when contracts between the federal government, beneficiaries, and providers that extend over many years. It can also lead two economically equivalent decisions to appear very different to policymakers, and thus lead to suboptimal choices in policymaking.
Proposal – An accrual approach, which records the net present value of these commitments in the year they are made, regardless of the actual flow of cash payments, could more accurately reflect future federal obligations in some instances. Accrual treatment is particularly relevant for those commitments defined as liabilities in the federal government's financial accounting statements, such as federal employee pension and retiree health contributions.

Policymakers should carefully review the budget to decide what programs and obligations would be best measured using accrual concepts, and integrate those new accrual numbers into the mostly-cash accounting currently used, as we already do for loan programs.

In addition, more focus should be put on accrual accounting for programs which continued to be measured on a cash basis. Where possible, policymakers should be provided supplemental information both on the accrual costs of existing programs and the accrual impact on changes to them.

Conclusion

With the baby boom population retiring, health care costs growing, and debt projected to rise indefinitely, it is as important as ever that policymakers focus on the long term. While long-term fiscal analysis has many limitations, including being inherently uncertain and imprecise, that is no excuse for ignoring the information we do have and myopically focusing on the short term. More attention on the long term – to supplement rather than replace existing analyses and rules – can promote fiscal discipline and encourage policymakers to adequately address the challenges of an aging population and growing health costs in ways that enhance economic growth and are fair to future generations.

Appendix I – Additional Discussion of Long-Term Scoring

Providing long-term estimates for all or even most legislation would not be practical or particularly useful for legislation with modest fiscal impact, so the requirement for long-term scores should be subject to some criteria based on the estimated budgetary effects of legislation within the standard ten year window. For example, the criteria could be legislation which is estimated to have a gross change in revenues or outlays of more 0.25% of GDP in the first decade or tenth year. In a similar manner as to the House of Representatives new rule requiring dynamic scoring of major legislation, the requirement for a long-term estimate could also apply if the Chairman or Ranking Member of the Budget Committee or the Committee reporting the legislation requests a long-term estimate. The House's new budget rule also prescribes a qualitative assessments of the long-term effects of legislation. We propose making the assessment of legislation both qualitative and quantitative, independent of dynamic effects.

Given the uncertainty of long-term projections, CBO should be given flexibility in determining the length and degree of precision it provides for long-term estimates based on what is feasible. For example, CBO could provide estimates of legislation as a range of potential costs or savings as a percentage of GDP. Alternatively, CBO could be required to provide estimates of the net present value of long-term effects of legislation or other measures of long-term impacts of legislation (see appendix II). Estimates of budgetary effects beyond the ten year window should provide an explanation of the uncertainty of the projection with projections under different assumptions where appropriate.

A note of caution, while estimates of budgetary effects of legislation beyond the ten year budget would provide lawmakers with additional information about long-term fiscal impacts of legislation, those impacts should not be allowed to be used to offset impacts inside the window for the purpose of PAYGO or other budget rules. As well, long-term estimates are often referenced as a way to show savings from health care delivery system reforms or prevention programs that are scored with little or no savings in the ten year budget window. However, in most instances those policies are not scored with savings in the ten year window because the savings are uncertain or offset by costs of the program, which would likely apply to a long-term estimate as well.

An increased emphasis on long-term estimates of legislation as well as the increasing requirements for CBO to provide dynamic estimates could result in severe budgetary constraints for scoring agencies. CRFB previously reported on the Long-Term SCORE Act introduced by Congressmen Reid Ribble (R-WI) and Mark Pocan (D-WI). To support the increased long-term scoring, the Ribble-Pocan bill would have created a division of long-term scoring at CBO and authorized $5 million a year to fund it. The measure would have provided the CBO Director some flexibility in determining the information provided and length of the long-term scores based on practical considerations.

As CBO develops greater capacity to produce long-term estimates, estimates of the long-term impact of new legislation could be supplemented by estimates of the long-term impact of previously enacted policies. CBO's Budget Options volume could include a presentation of policy options which would improve long-term fiscal sustainability with estimates of long-term effects.

Appendix II - Methodologies for Long-Term Analysis

The executive branch, Congressional support agencies, and academics have recognized the utility of long-term budget analysis and are continually developing models to help inform policymakers about how action (or inaction) today can affect the fiscal health of the nation in the future. The following are some of the methods used to produce long-term fiscal information.

Second Decade Analysis
A straightforward way to look beyond the first decade is a second-decade cost estimate. CBO occasionally estimates the direction of legislation in the second decade – whether it increases or decreases the deficit – but recently has estimated the magnitude of changes in a few instances, either through broad percent-of-GDP ranges or specific, but rough, dollar estimates. Although second decade analysis does not provide a complete picture of the long term, it offers substantial new insight relative to looking at the first decade alone.

Future Point Estimate
Another way to look at the long term is to look at the budgetary effect of a policy in one future year when it is fully phased in. The magnitude could be expressed in dollar terms, as a percent of GDP, or as a percent of the program's cost. While it does not provide a complete analysis of the long term since it only provides the effect in one year, it does show how a policy's impact is changing over time, and gives an idea as to how a policy's impact in a future year compares to the first decade.

Long-Term Actuarial Impact
For some programs, estimators have the ability to project out 25, 50, or even 75 years. The latter timeframe is particularly relevant for Social Security, since 75 years spans the lives of almost all current workers. When Social Security's actuaries score provisions, they estimate their effect on the 75-year actuarial imbalance – a measure which looks at long-term trust fund effects, including – implicitly – the interest which accrues. The actuaries also show the full year-by-year impact of changes on spending and revenue (as a percent of payroll and GDP), especially focusing on the 75th year. Similar estimates can be made for the Medicare program. This approach has the advantage of using a long time horizon and being useful for evaluating programs with dedicated revenue sources and trust funds; however, it may obscure effects in the relatively near term as well as the very long term.

Present Value/Fiscal Gap Analysis
A fiscal gap analysis uses present value calculations to show the amount of deficit reduction needed in a given year to stabilize the debt-to-GDP ratio over some time period. This type of analysis can be done over any number of years – though it is usually done over 25, 50, or 75 years – and can be presented as a share of GDP or in present-value dollars. One advantage to this approach is that by using "present value" estimates which "discount" future money relative to current money, it rightfully recognizes that a dollar saved today is worth more than the same dollar saved 50 years from now. However, present value calculations are quite sensitive to assumed "discount rates," which can lead to very different outcomes.

Steady-State Analysis
For policy changes whose score is impacted by a shift in the timing of tax or spending actions, it may be useful to do a "steady-state" analysis. A steady-state analysis shows the budgetary effect of a policy in the current year or timeframe after taking out aspects of the policy that result in temporary effects or timing shifts. This type of analysis is particularly useful for policies with both permanent and temporary effects. In those cases, the steady-state analysis would measure the effect of the former while ignoring the latter. The measurement can be expressed in dollar terms or as a percent of GDP. An

advantage to this approach is that it controls for the "noise" associated with timing shifts. On the other hand, it ignores the fact that these shifts can create real deficit reduction which – though temporary – can continue to have effects in later years in the form of lower debt levels and, thus, interest payments.

Tenth-Year Effect

Often, true long-term analysis is not easily available or easily understood. However, even looking at the full details of a ten-year score can offer insights into what the long term might look like. For example, a policy that reduces deficits over a total ten year timeframe, but increases them in the tenth year alone, is likely to increase them in future years. By focusing on the cost or savings of a policy in the tenth year and its trend from prior years, it is possible to gain more understanding of the long-term impact. One can also look at different parts of legislation, discern their growth rates, and extrapolate the deficit impact. Looking at the tenth year has the advantage of using the already widely available method of scoring to get an idea of what the long-term effects may look like, but it has the shortcoming of not being able to fully reflect the long-term impact of legislation that has several provisions with costs and savings growing at different rates. It can also lead policymakers to disregard or undervalue important policy changes that may do little to improve the short-term fiscal picture but have a substantial effect on the long-term fiscal situation, accounting for effects that occur beyond the tenth year, particularly if they are non-existent in the first ten years.

Appendix III – History of Long-Term Analysis

In June 1992, the Government Accountability Office (GAO) presented the first long-term federal budget simulation in a report titled "Budget Policy: Prompt Action Necessary to Avert Long-Term Damage to the Economy." Besides identifying the long-term economic benefits from deficit reduction sooner rather than later, the report identified areas where better information, presented in more informative ways, may help the Congress more effectively grapple with substantive issues.

The report noted that federal budget analysis did not focus enough on the future effects of either aggregate fiscal policy or the composition of spending. GAO argued that long-term analysis would allow the short-term sacrifices of deficit reduction to be more easily compared to the long-term benefits accruing from such changes in budget policy – thereby making it more likely that policymakers could agree on deficit reduction. GAO also pointed out that long-term focus would direct attention to how the components of federal spending affect long-term productivity and growth.

CBO first published a long-term budget outlook in May 1996 as part of its annual *Economic and Budget Outlook*, and has regularly published a long-term outlook since then. Rather than projecting the budget outlook over the next 10 years as CBO does in its annual Budget and Economic Outlook (published every January), CBO's long-term outlook focuses on the next 25 years. CBO's long-term outlook discusses the consequences of a large and growing federal debt, how alternative fiscal policies would affect the long-term outlook, the uncertainty underlying long-term projections, and the choices facing federal policymakers.

CBO projects demographic and economic conditions for the decades ahead and develops assumptions about future policies for the major categories of federal spending and revenues.

CBO's assumptions about federal spending and revenue policies generally reflect current law—they match the assumptions underlying the agency's baseline for the first ten years, and reflect CBO's assessment of long-term trends thereafter. The long-term projections do not incorporate the economic effects of rising debt beyond the first ten years or possible changes to fiscal policies.

In its 1996 report, CBO stated that "balancing the budget by 2002—but not addressing the factors that cause the deficit to increase in later years—would improve the budget outlook but not fully eliminate the imbalances that threaten the economy over the long term. (The converse is also true: measures that make a big difference to the long-run outlook might have little short-run impact on the deficit—and perhaps might even raise deficits temporarily.)" CBO's narrative regarding the long term has changed little over the past two decades: growing health costs, the retirement of the baby boom generation, and a normalization of interest rates are projected to put debt on an upward and unsustainable path later this decade and beyond.

The *Analytical Perspectives* volume of the President's budget also includes long-term budget estimates by the Office of Management and Budget. The Administration's long-term projections are also based on demographic and economic assumptions. For the first ten years, the assumptions are drawn from the Administration's economic projections used for the budget. Beyond the first ten years, the economic projections assume inflation, interest rates, and the unemployment rate remain constant at the levels assumed in the final year of the budget.

While CBO uses assumptions about spending and revenue that reflect current law, the Administration's assumptions for the first ten years reflect the President's policy proposals as if adopted in their entirety. After the first ten years, total tax receipts rise gradually relative to GDP as real incomes also rise. Discretionary spending grows at the rate of growth in inflation plus population afterwards. Social Security is projected using the Social Security Trustees long-run economic and demographic assumptions. Medicare spending is projected based on assumptions from the Medicare Trustees' report, adjusted to take into account President's budget proposals.

Long-Term Analysis of Current Law/Policy

Legislative Branch	Description	Projection Window	Methodologies Used
Congressional Budget Office / Joint Committee on Taxation	Produces long-term budget outlook annually	25, 75 years	Fiscal gap analysis
Government Accountability Office (GAO)	Produces long-term outlook annually	75 years	Fiscal gap/unfunded liability analysis
Executive Branch			
Social Security/Medicare Trustees	Produces outlooks for their respective programs	25, 50, 75 years	Actuarial impact/long-term spending analysis
Treasury	Produces fiscal gap, unfunded liabilities, and debt projections	75 years	Fiscal gap/unfunded liability analysis

The congressional budget resolution for FY 2009 included a point of order prohibiting consideration of legislation in the Senate that would cause a net increase in the deficit in excess of $5 billion in any of the subsequent four 10-year periods beginning after the 10 year budget window. As a result of this rule, formal CBO estimates indicate whether legislation would increase the deficit by more than $5 billion for these 10-year increments, but does not provide point estimates or other estimates indicating the magnitude of the projected deficit increase.

In recent years, CBO has also done analyses of the second decade effects of major pieces of legislation at the request of many members. CBO included a discussion and analysis of the second decade impact in the official cost estimates of the Affordable Care Act and the Senate immigration reform bill. In these instances, CBO developed a rough outlook for the second decade grouping the elements of the legislation into broad categories and assessing the rate at which the budgetary impact of each of those broad categories is likely to increase over time. CBO has reported the estimated effects on the deficit in years 11-20 in terms of percentage of GDP. While the long-term estimates were primarily for informational purposes, the second decade analysis of the Affordable Care Act was relevant for purposes of budget enforcement because the legislation was considered in part through budget reconciliation and therefore was subject to the Byrd Rule prohibition against reconciliation legislation increasing the deficit beyond the budget window.

Long-Term Analysis of Proposed Policy Changes

Legislative Branch	Description	Projection Window	Examples	Methodologies Used
CBO / JCT	Occasionally provides supplementary information on the effects of legislation and point estimates for budget options beyond the 10 year window.	20 years/ 25th year	Affordable Care Act, Senate Immigration, reform bill, Social Security retirement age	Second decade/point estimate analysis
Executive Branch				
OMB	Produces long-term projection of the President's budget	75 years	Policies in the President's Budget	Fiscal gap analysis
Medicare Trustees	Occasionally provides longer-term actuarial analysis of major health care proposals	75 years	Affordable Care Act	Actuarial impact analysis (Part A)
Social Security Trustees	Provides estimates of select Social Security proposals or provisions	75 years	Simpson-Bowles, Immigration reform, chained-CPI, removing the payroll taxable maximum	Actuarial impact analysis