2016 FISCAL SUMMIT

LEADERSHIP FOR A SECURE FUTURE

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CHARTS

MAY 11, 2016
WASHINGTON, D.C.

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The 2016 election presents an important opportunity for a national conversation between citizens and candidates about the leadership required to secure America's future.

The growing national debt threatens our fiscal, economic, and national security. Within the next 10 years, interest on the debt will become the third largest category of the federal budget, threatening to crowd out investments in our economy such as education, infrastructure, and R&D.

Voters understand that our nation's strength and prosperity depend on our long-term fiscal health. On our current path, the debt is projected to grow to levels that would damage America's economy, threaten our way of life, and diminish our role in the world. Our global standing and ability to confront our greatest threats tomorrow are dependent on our leaders today.

The charts in this book outline the nature of the long-term challenges we face. It is clear that the United States continues on an unsustainable fiscal path, driven by a structural imbalance between spending and revenue. This election year, voters are calling on candidates across the country to put forward their plans for securing America's fiscal and economic future.

The Peter G. Peterson Foundation regularly produces charts and analyses to explain the scope and seriousness of America's fiscal challenges and to help policymakers, experts, and the public make progress toward solutions. To view and share these charts and other materials, please visit www.pgpf.org.

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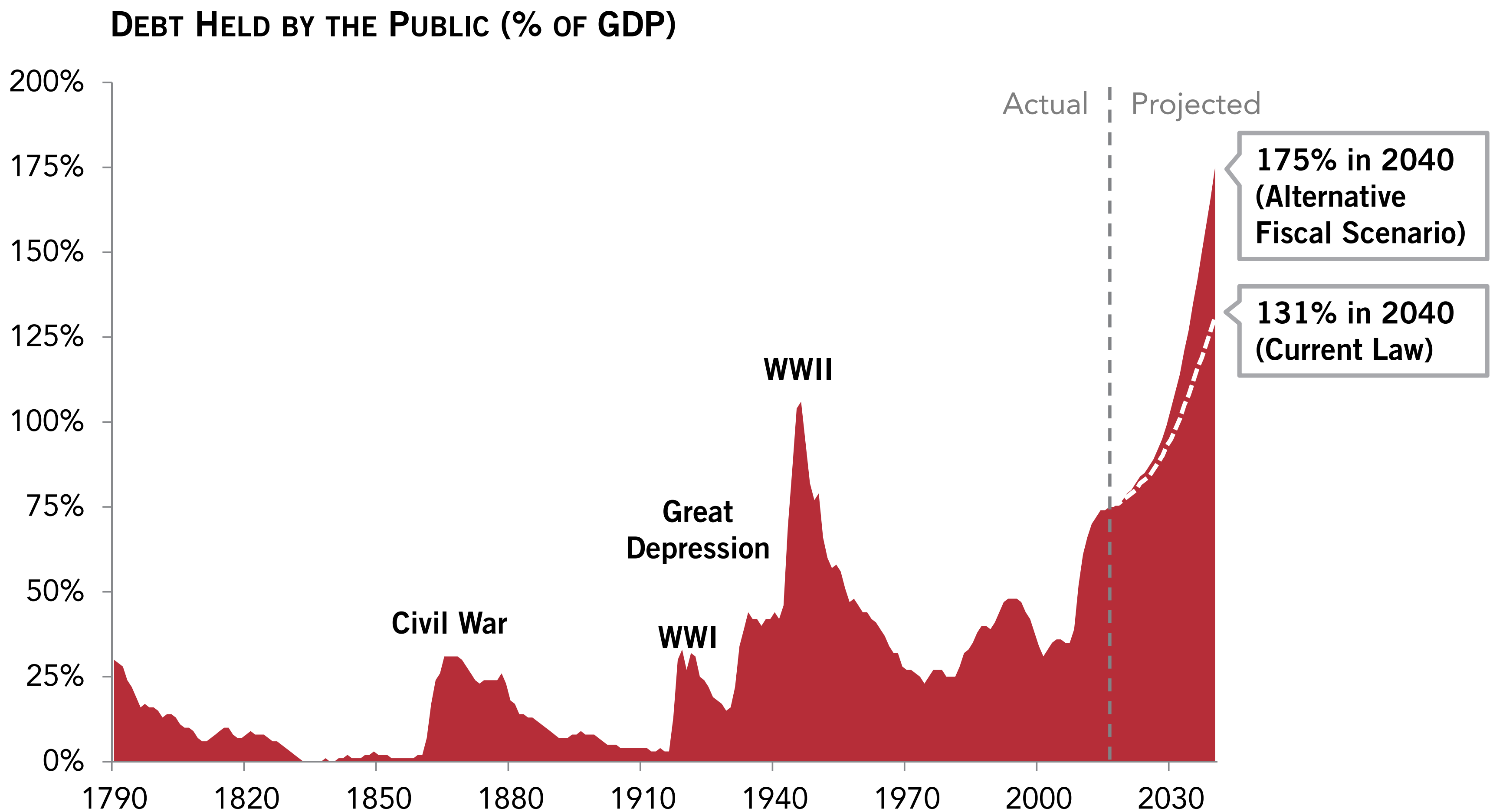
Federal debt is on an unsustainable path



SOURCE: Congressional Budget Office, *The 2015 Long-Term Budget Outlook*, July 2015, and *Budgetary and Economic Outcomes Under Paths for Federal Revenues and Noninterest Spending Specified by Chairman Price*, March 2016. Compiled by PGPF.
NOTE: Current law projections are from CBO's extended baseline scenario. Both scenarios include economic feedback.

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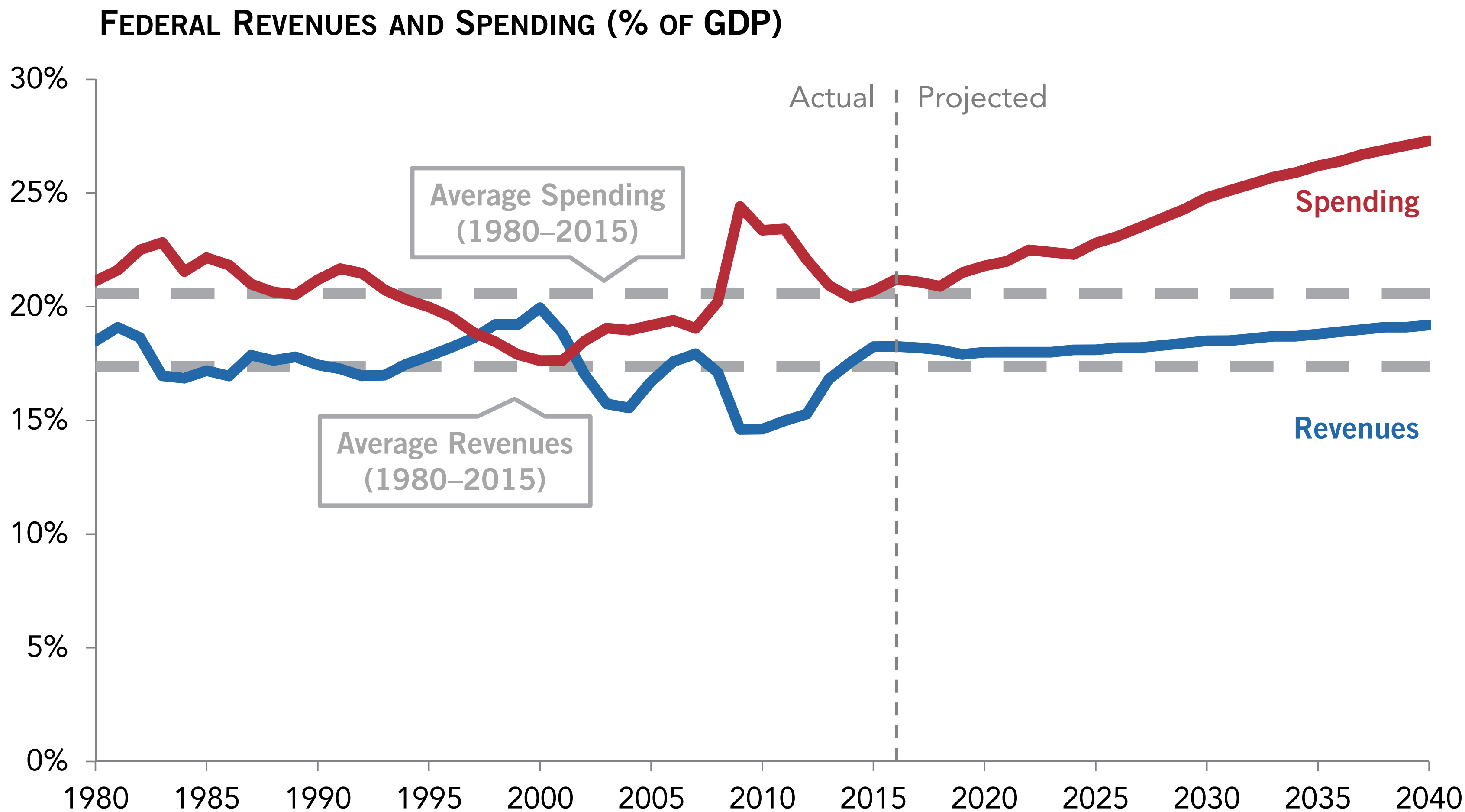
The growing debt is caused by a structural mismatch between spending and revenues



SOURCE: Congressional Budget Office, *The Budget and Economic Outlook: 2016 to 2026*, January 2016, and *Budgetary and Economic Outcomes Under Paths for Federal Revenues and Noninterest Spending Specified by Chairman Price*, March 2016. Compiled by PGPF.
NOTE: Projections are from CBO's extended baseline scenario.

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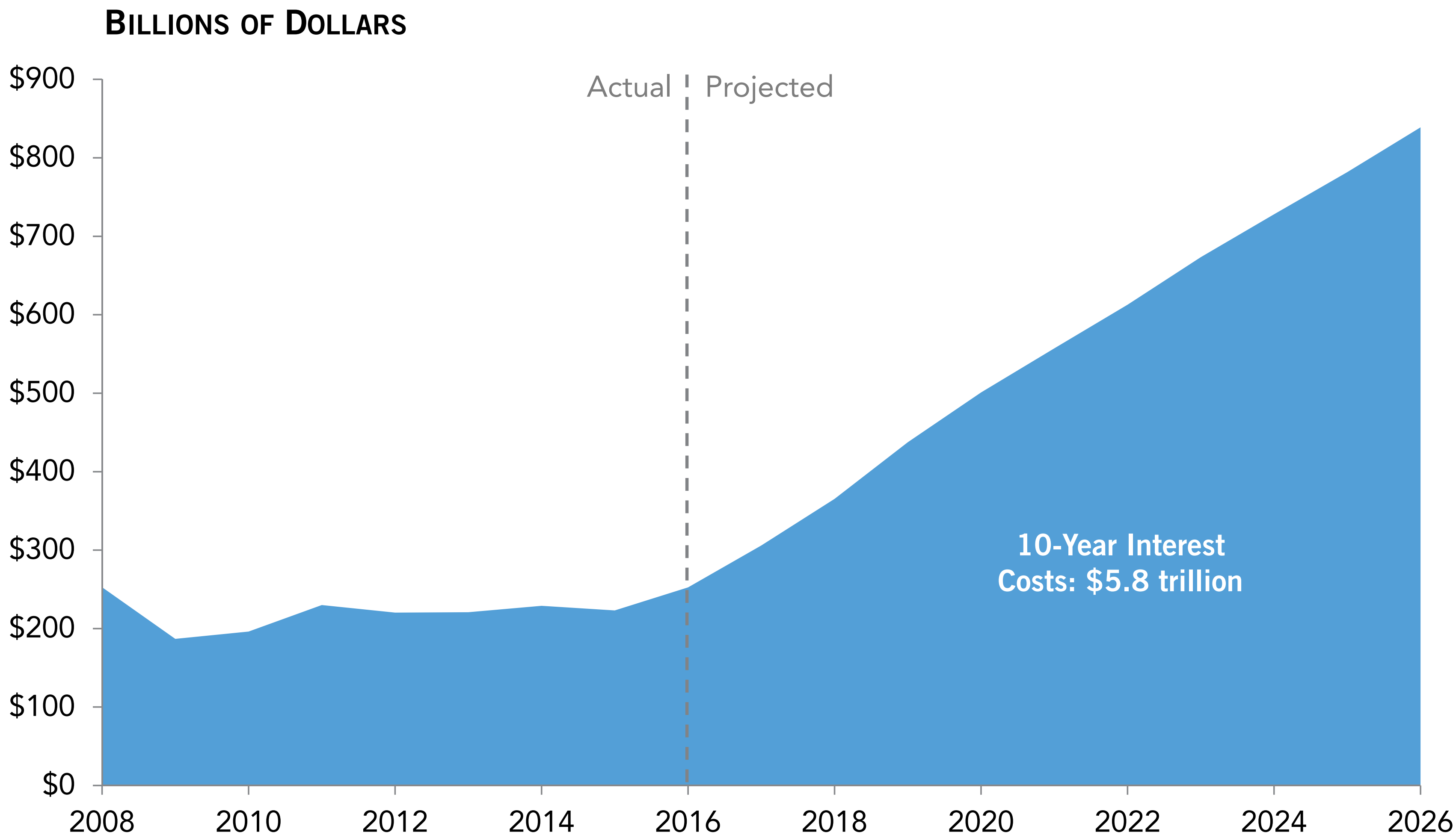
Net interest costs are projected to rise sharply



SOURCE: Congressional Budget Office, *Updated Budget Projections: 2016 to 2026*, March 2016. Compiled by PGPF.

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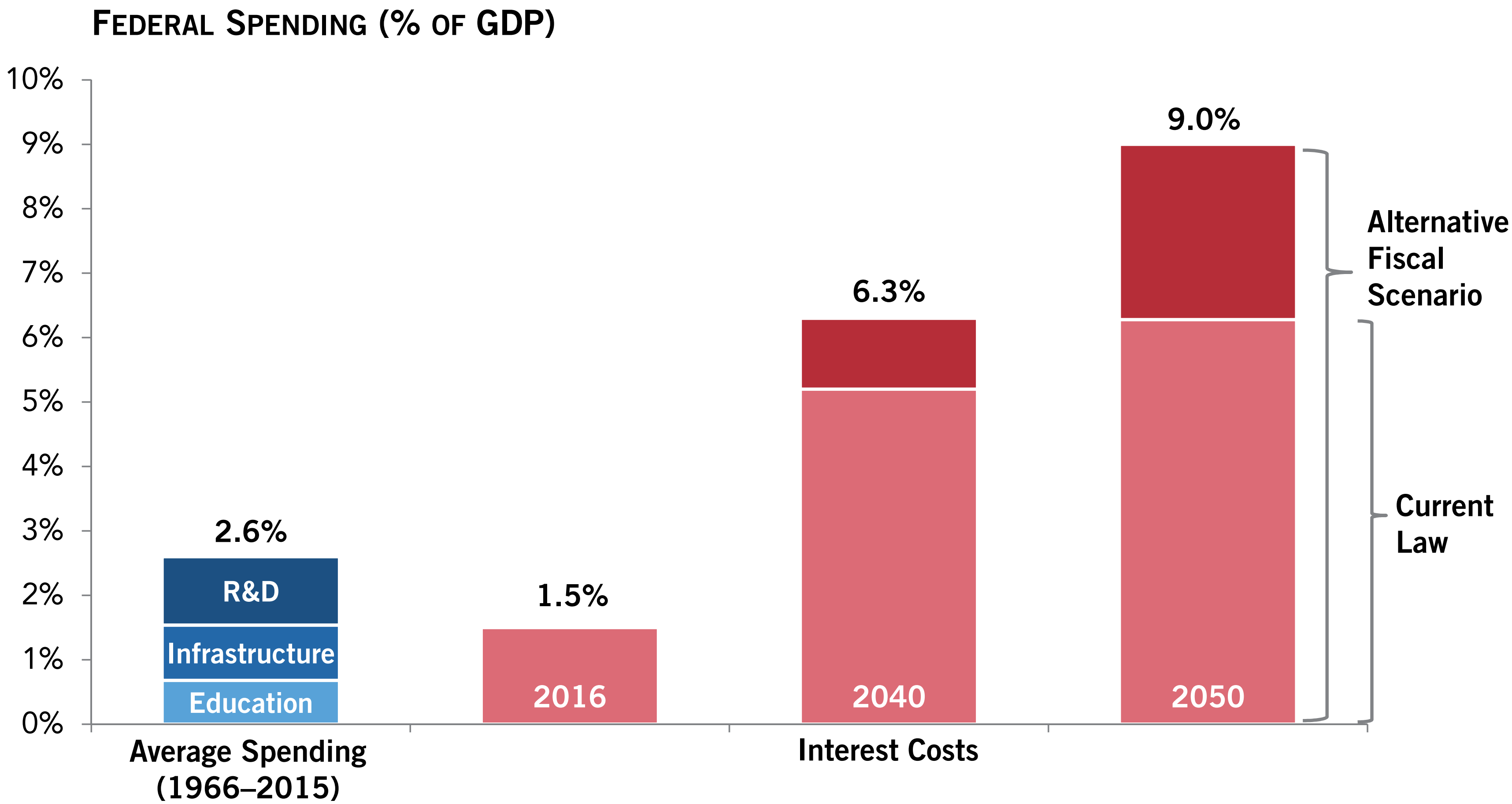
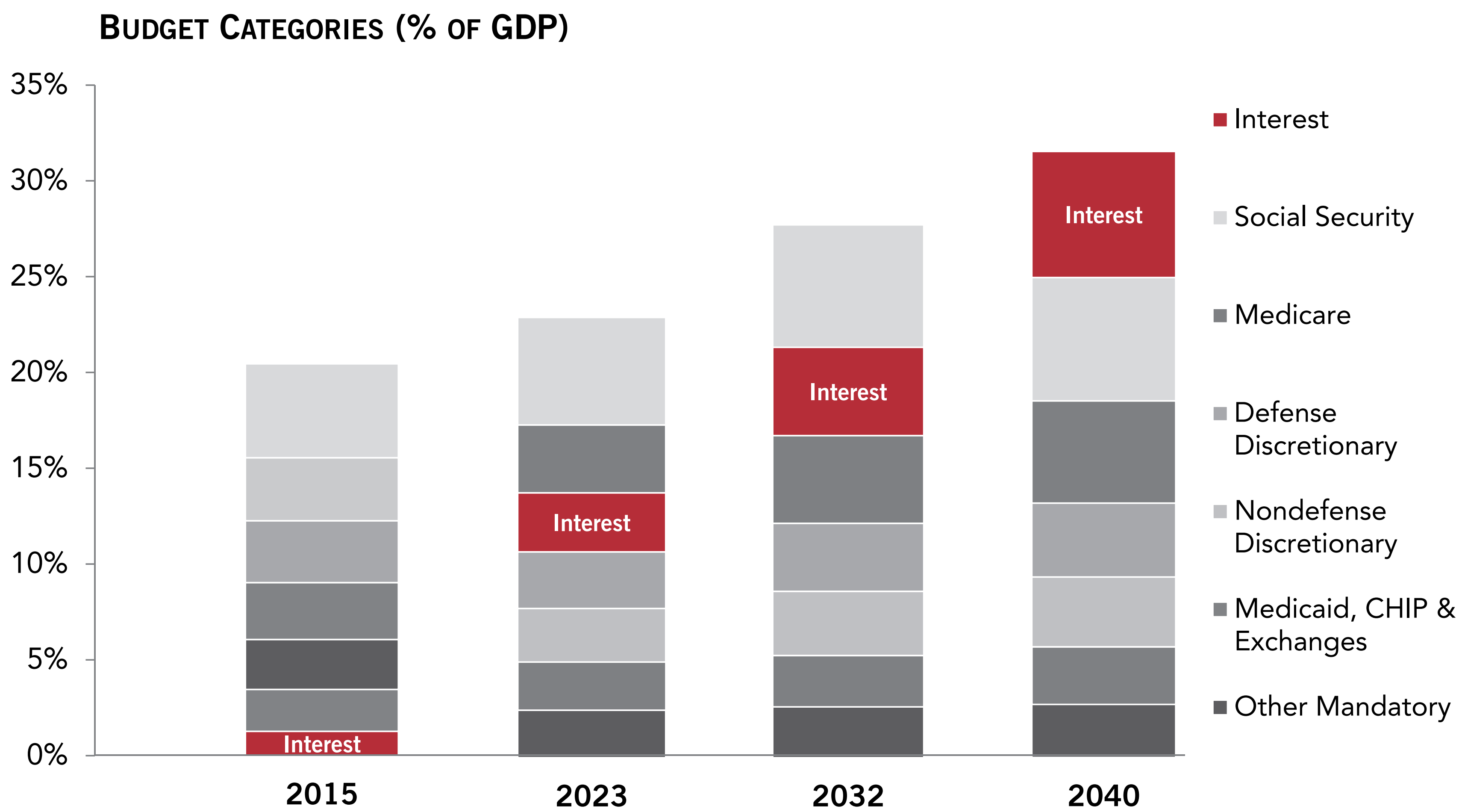
By 2050, interest costs are projected to be more than three times what the federal government has historically spent on R&D, infrastructure, and education combined



SOURCE: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2017,* February 2016; Congressional Budget Office, *The 2015 Long-Term Budget Outlook*, June 2015, and PGPF calculations based on *Budgetary and Economic Outcomes Under Paths for Federal Revenues and Noninterest Spending Specified by Chairman Price,* March 2016.
NOTE: Infrastructure excludes defense. Current law projection for 2040 is from CBO's extended baseline scenario, which PGPF extended to 2050.

Interest costs are projected to become the largest category of the budget



SOURCE: Congressional Budget Office, *The 2015 Long-Term Budget Outlook*, June 2015. Calculated by PGPF.
NOTE: Projections are based on CBO's alternative fiscal scenario.

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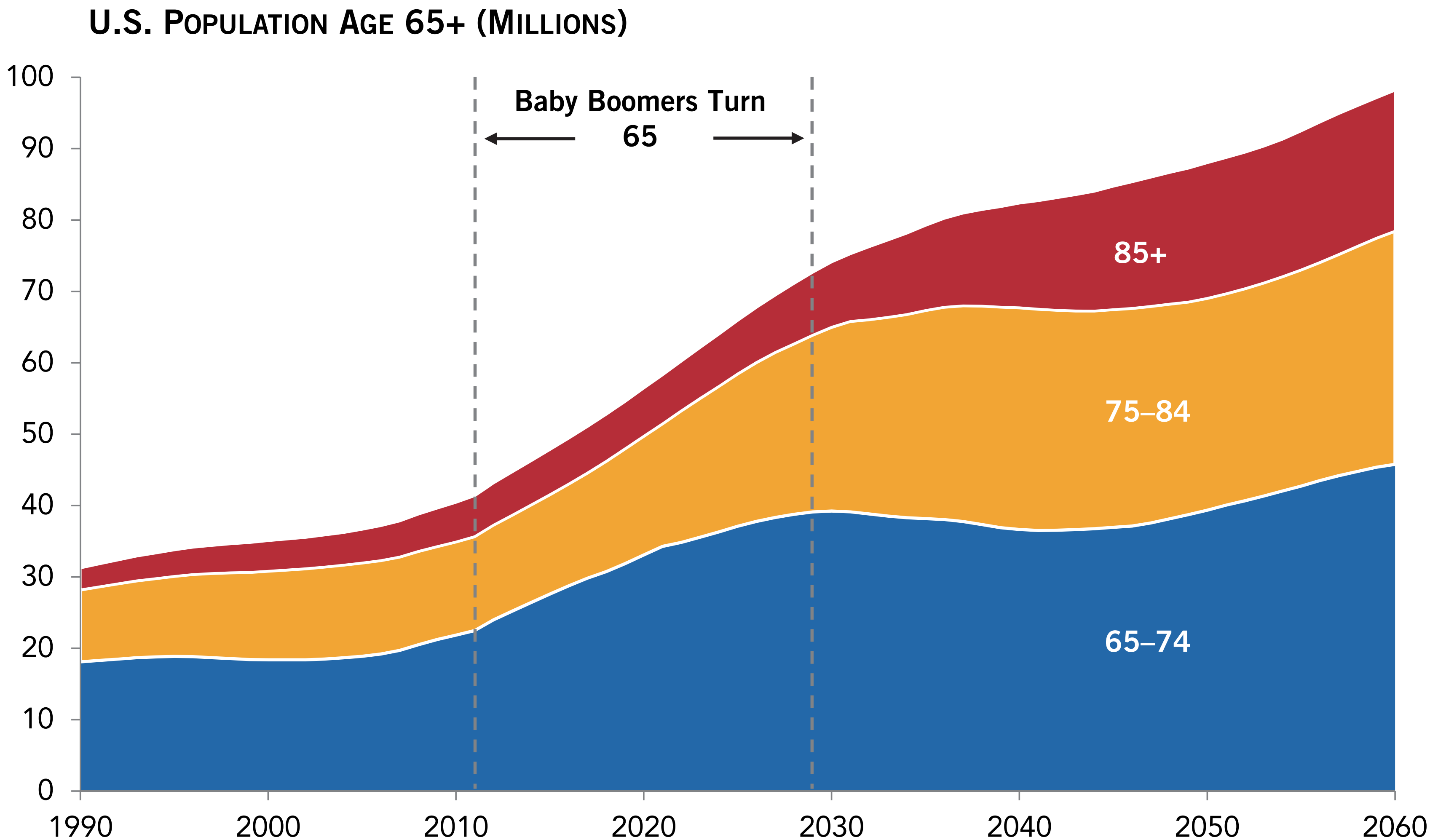
The elderly population is growing rapidly and living longer



SOURCE: U.S. Census Bureau, *National Intercensal Estimates,* and *2014 National Population Projections*, December 2014. Compiled by PGPF.

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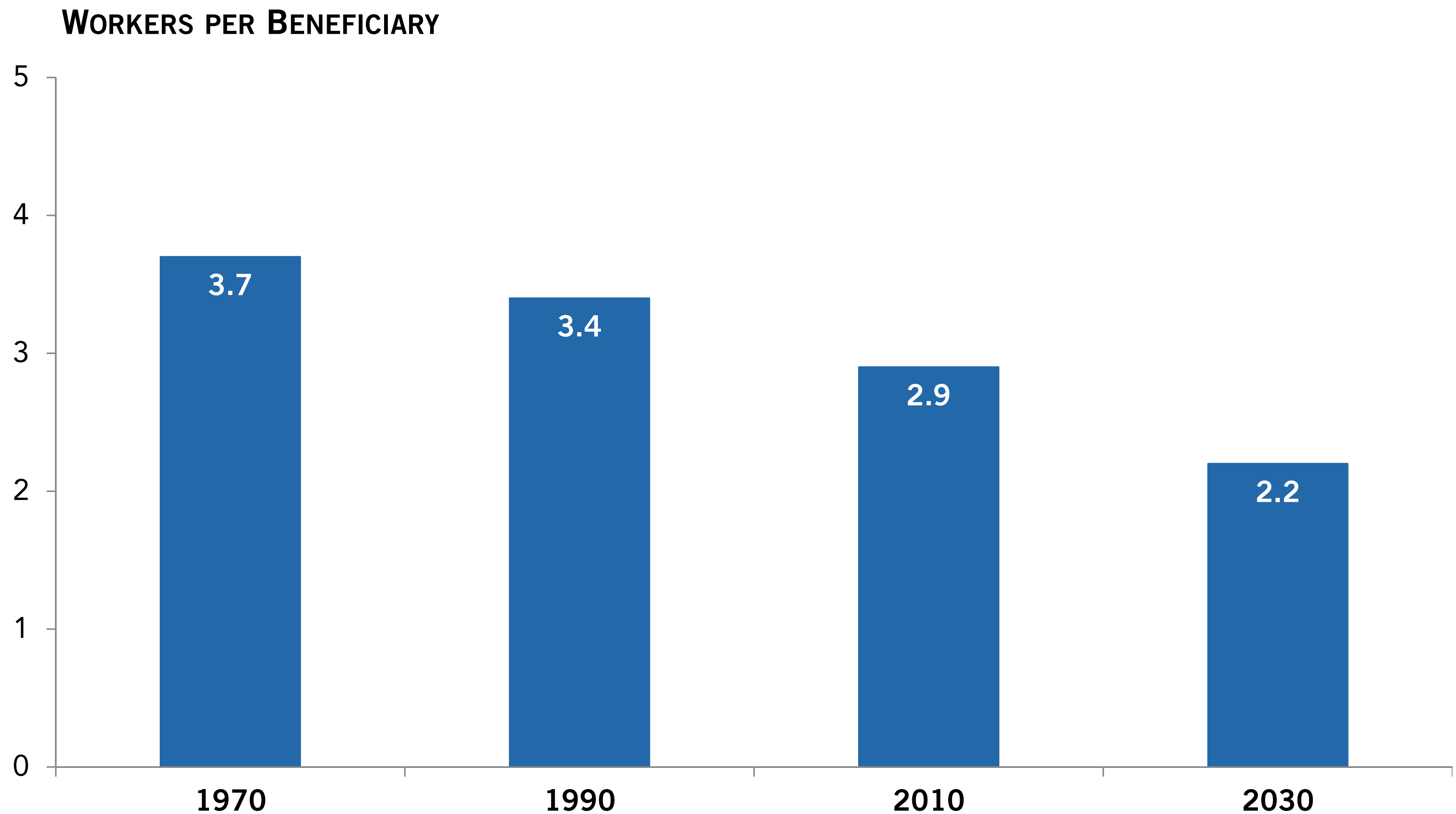
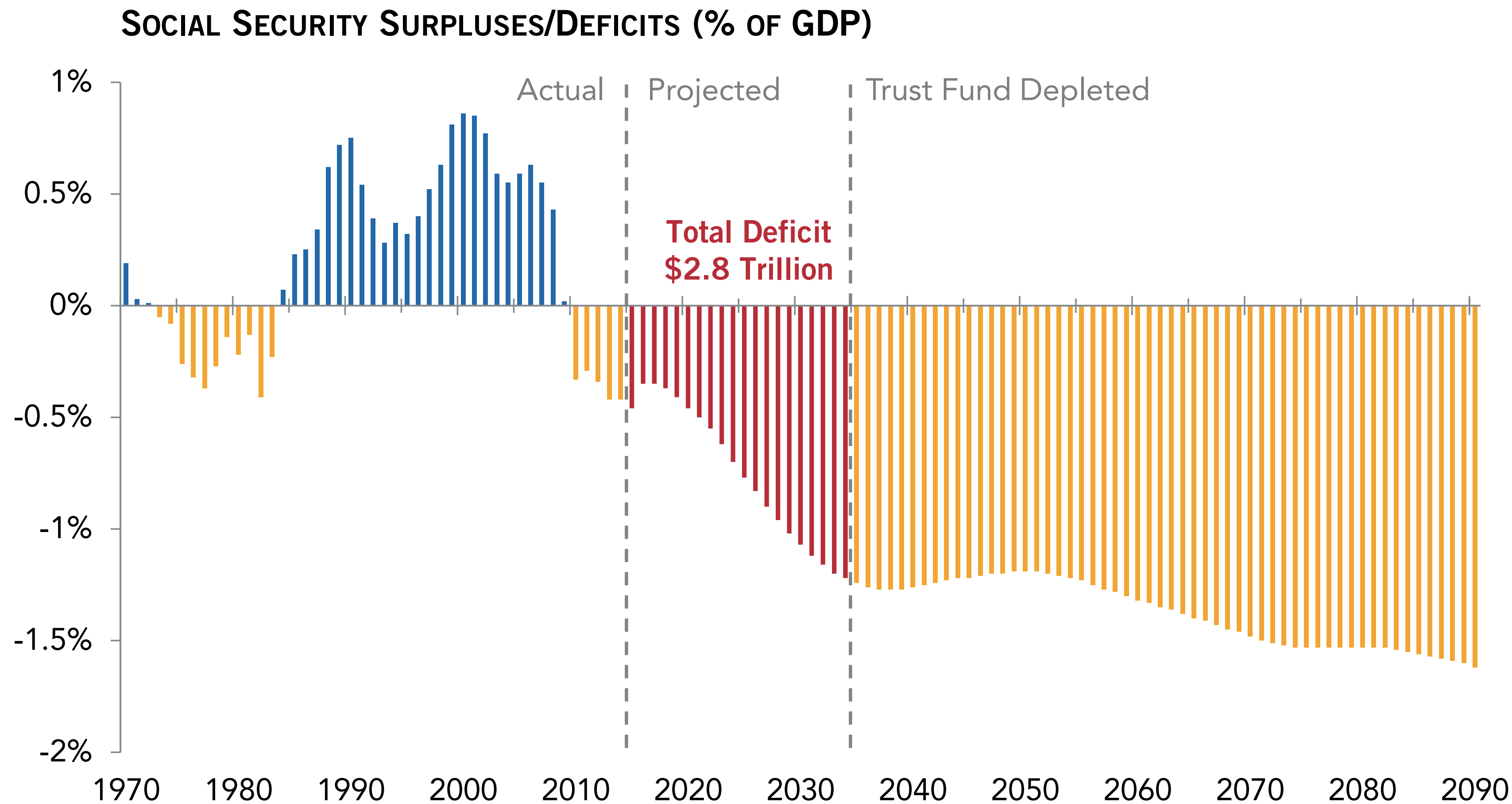
As the population ages, fewer workers will be paying taxes to support each Social Security beneficiary



SOURCE: Social Security Administration, *The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, July 2015. Compiled by PGPF.

Social Security will run a cumulative cash deficit of $2.8 trillion between now and 2034



SOURCE: Social Security Administration, *The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, July 2015. Compiled by PGPF.
NOTE: Surplus/deficit numbers exclude interest income. The total deficit of $2.8 trillion is the present value of the cash deficits between 2015 and 2034.

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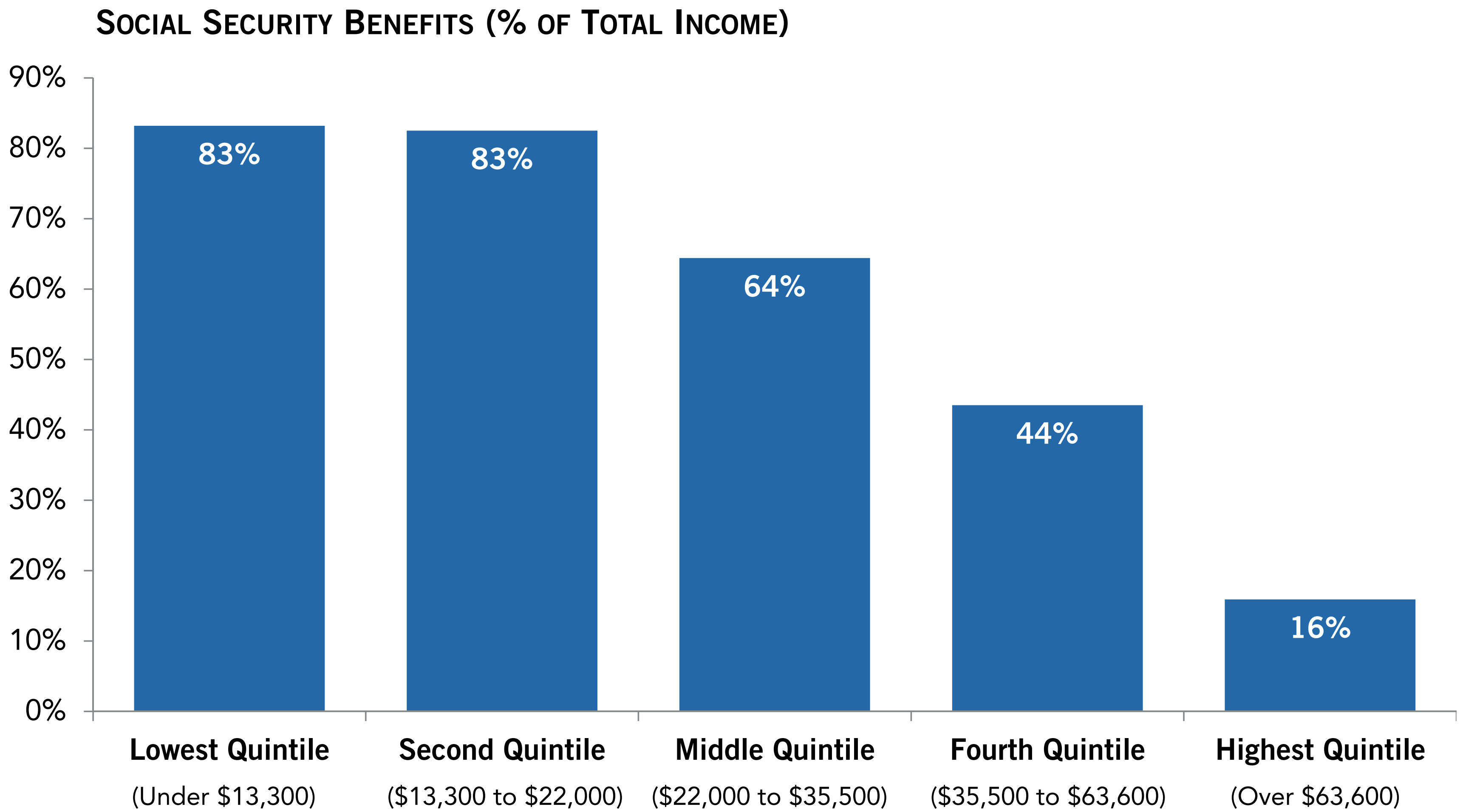
Low-income seniors rely on Social Security benefits for a major share of their retirement income



SOURCE: Social Security Administration, *Income of the Population 55 or Older, 2012,* April 2014. Compiled by PGPF.
NOTE: A quintile is one fifth of the distribution.

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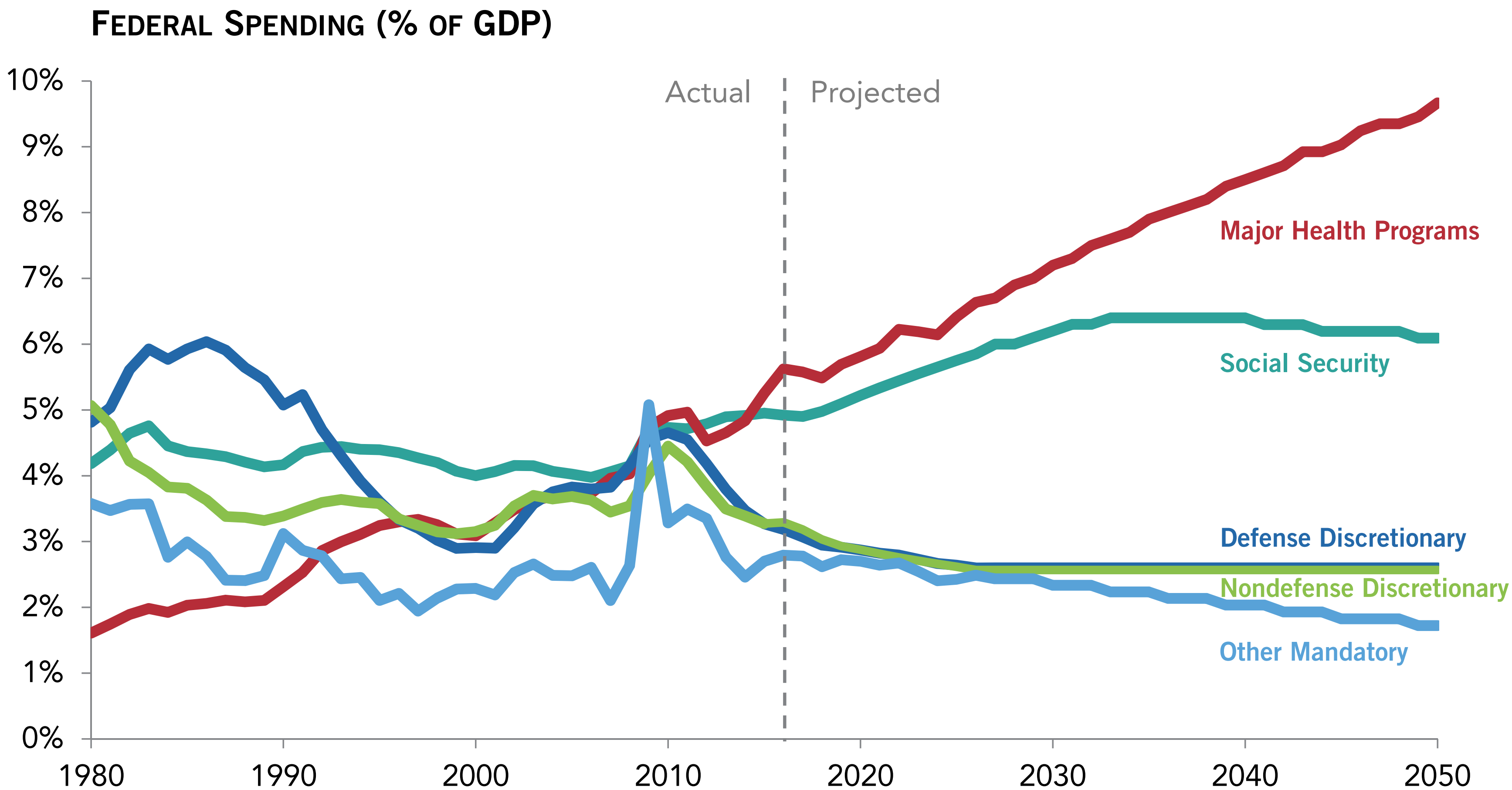
Healthcare is the major driver of the projected growth in federal spending over the long term



SOURCE: Congressional Budget Office, *Historical Budget Data*, January 2016, and PGPF calculations based on *Budgetary and Economic Outcomes Under Paths for Federal Revenues and Noninterest Spending Specified by Chairman Price*, March 2016.
NOTE: Projections are based on CBO's extended baseline scenario. Major health programs include Medicare (net), Medicaid, Children's Health Insurance Program (CHIP), and the health exchanges.

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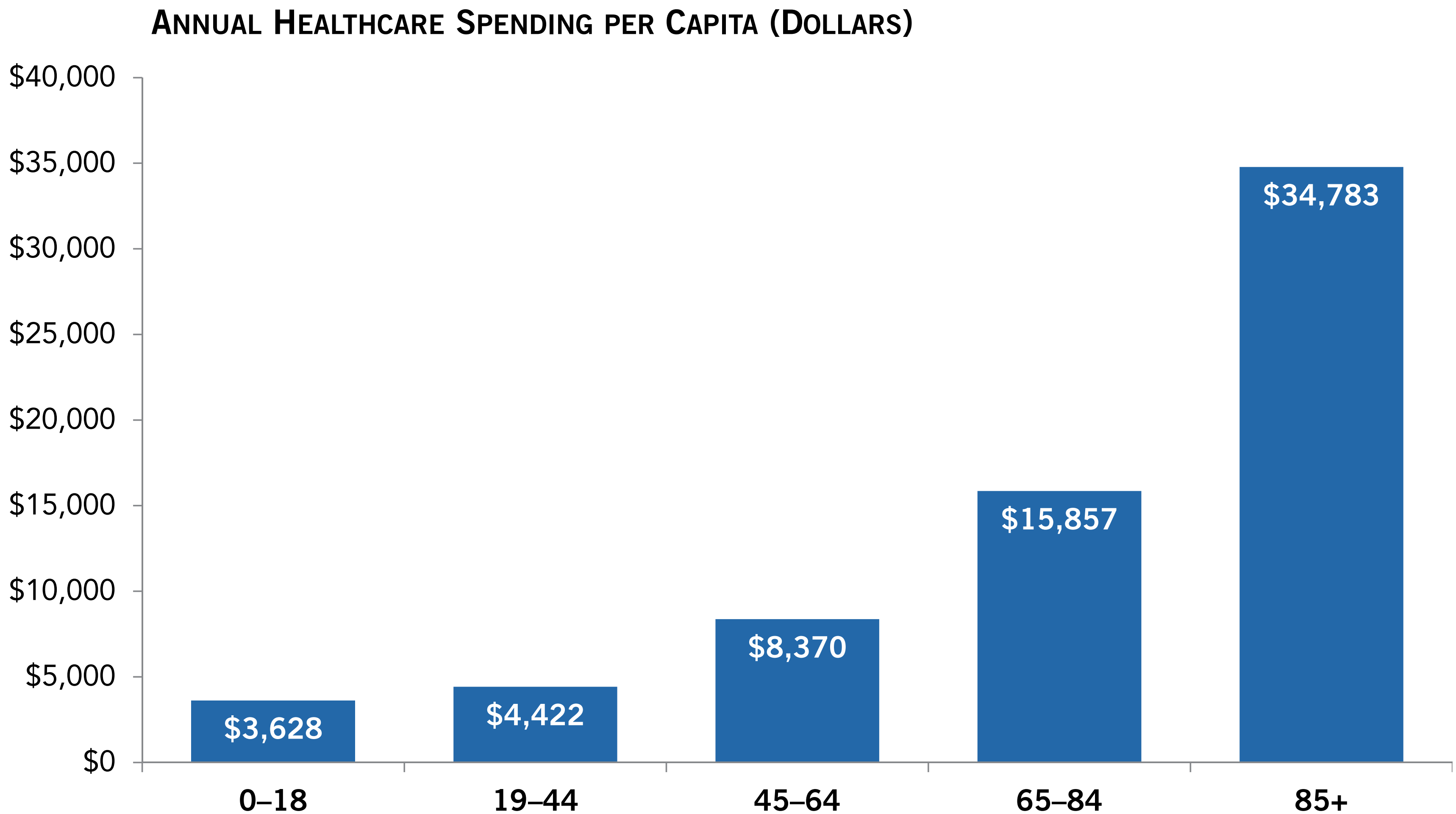
Medical spending increases rapidly with age



SOURCE: Centers for Medicare and Medicaid Services, *National Health Expenditures by Age and Gender*, May 2014. Data are for 2010. Compiled by PGPF.

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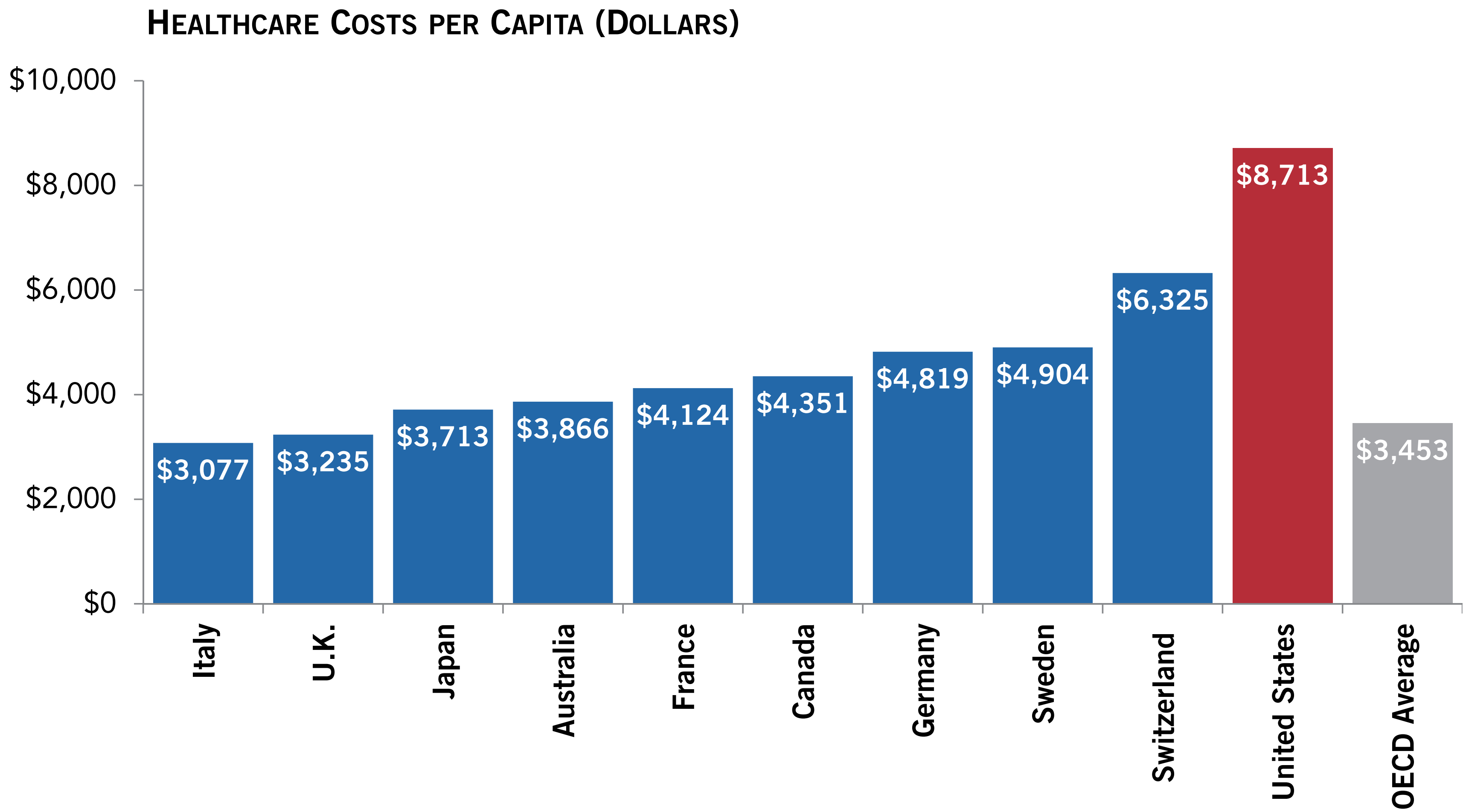
United States per capita healthcare spending is more than twice the average of other developed countries



SOURCE: Organization for Economic Cooperation and Development, *OECD Health Statistics 2015*, November 2015. Compiled by PGPF.
NOTE: Data are for 2013 or latest available. Chart uses purchasing power parities to convert data into U.S. dollars.

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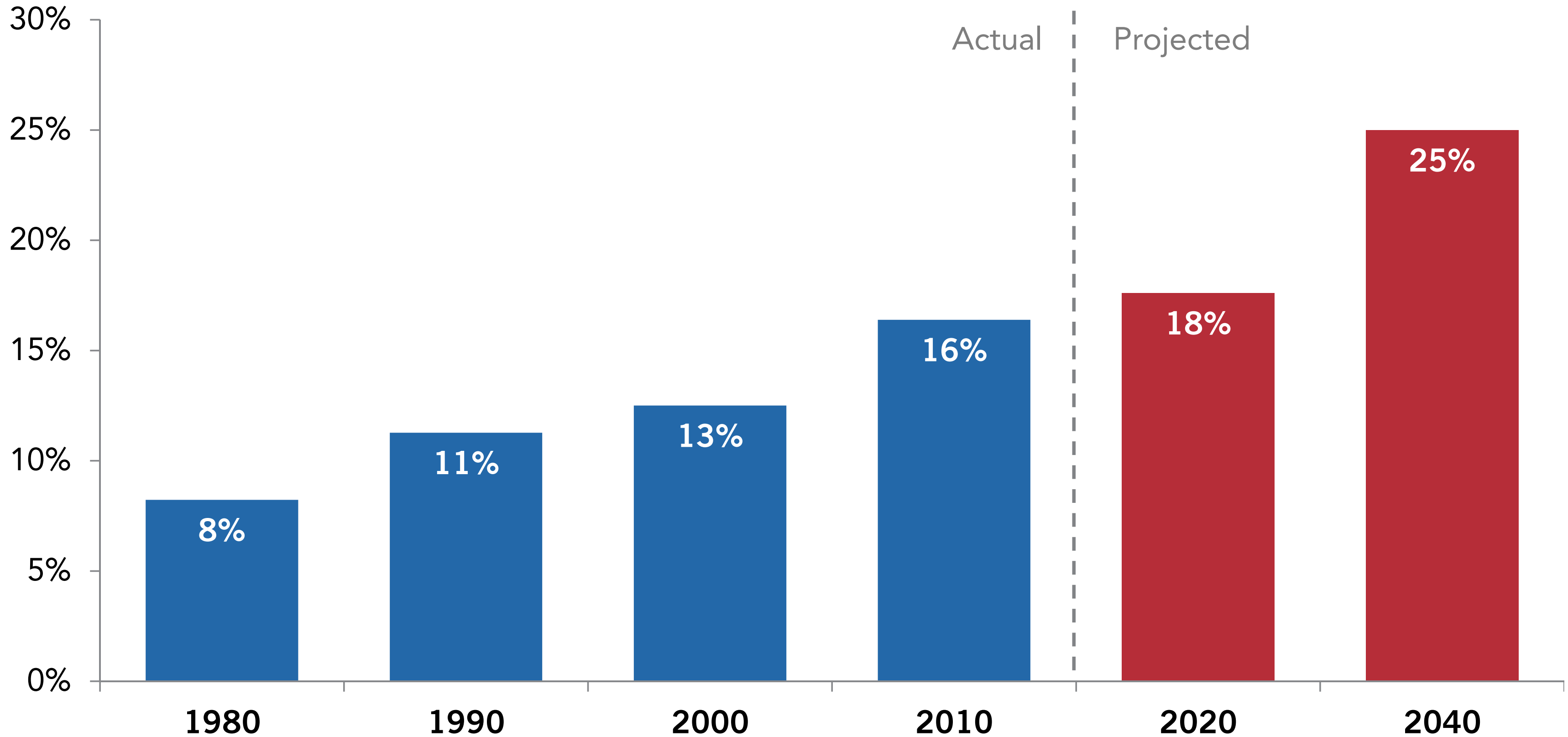
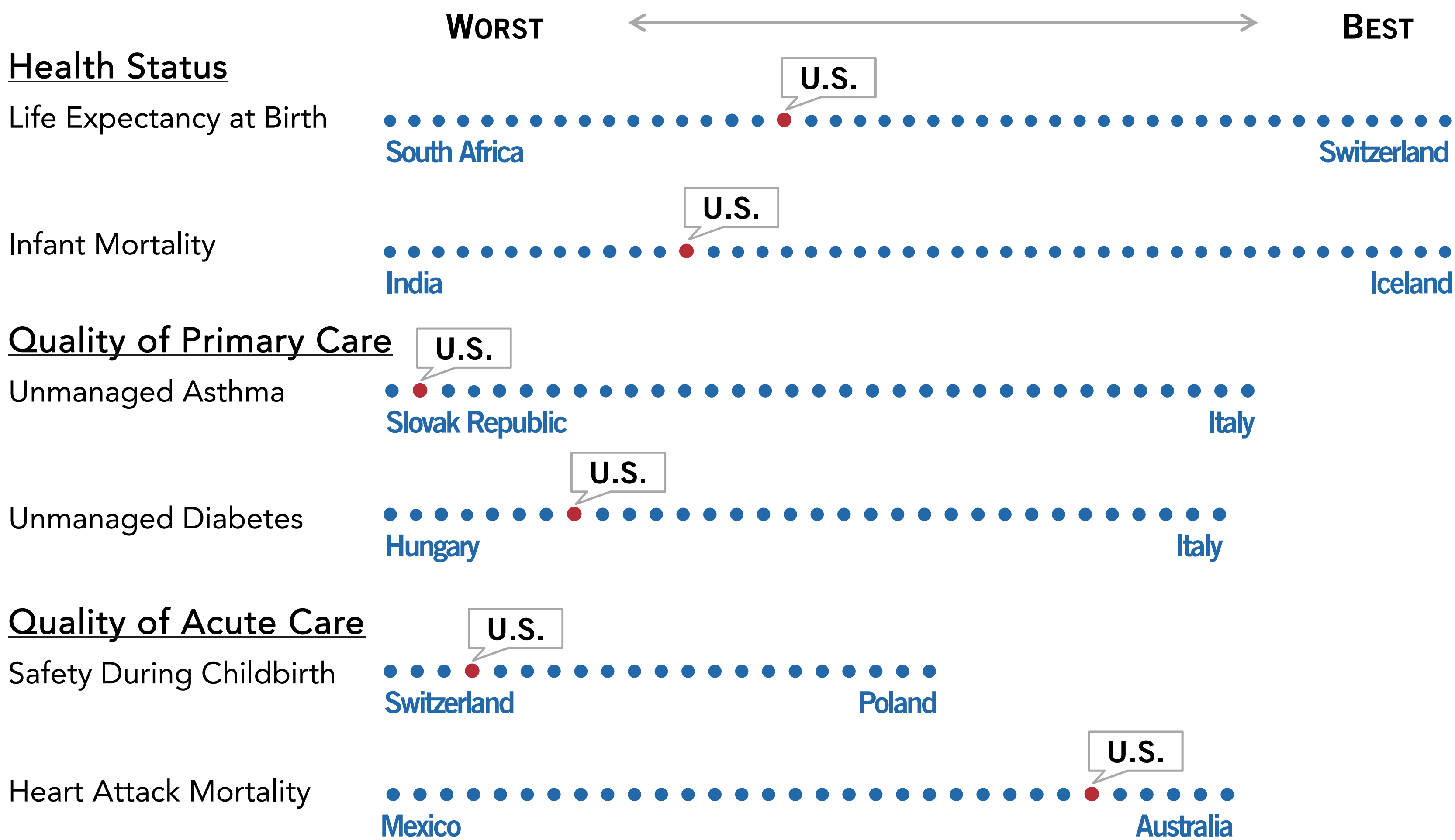
Total U.S. health expenditures (both public and private) are projected to rise to one-quarter of the economy by 2040

National Health Spending (% of GDP)



SOURCE: Centers for Medicare and Medicaid Services, *National Health Expenditures*, December 2015; and the Congressional Budget Office, *The 2015 Long-Term Budget Outlook*, June 2015. Compiled by PGPF.
NOTE: CMS data are for 1980–2020. The 2040 figure is based on the latest projection from CBO. National spending on healthcare is health consumption expenditures as defined in the national health expenditure accounts and excludes spending on medical research, structures, and equipment.

Although the United States spends more on healthcare than other developed countries, its health outcomes are generally no better



SOURCE: Organization for Economic Cooperation and Development, *Health at a Glance 2015 OECD Indicators,* November 2015. Compiled by PGPF.
NOTE: Data are not available for all countries for all metrics; all published data are shown. Data are for 2013 or latest available.

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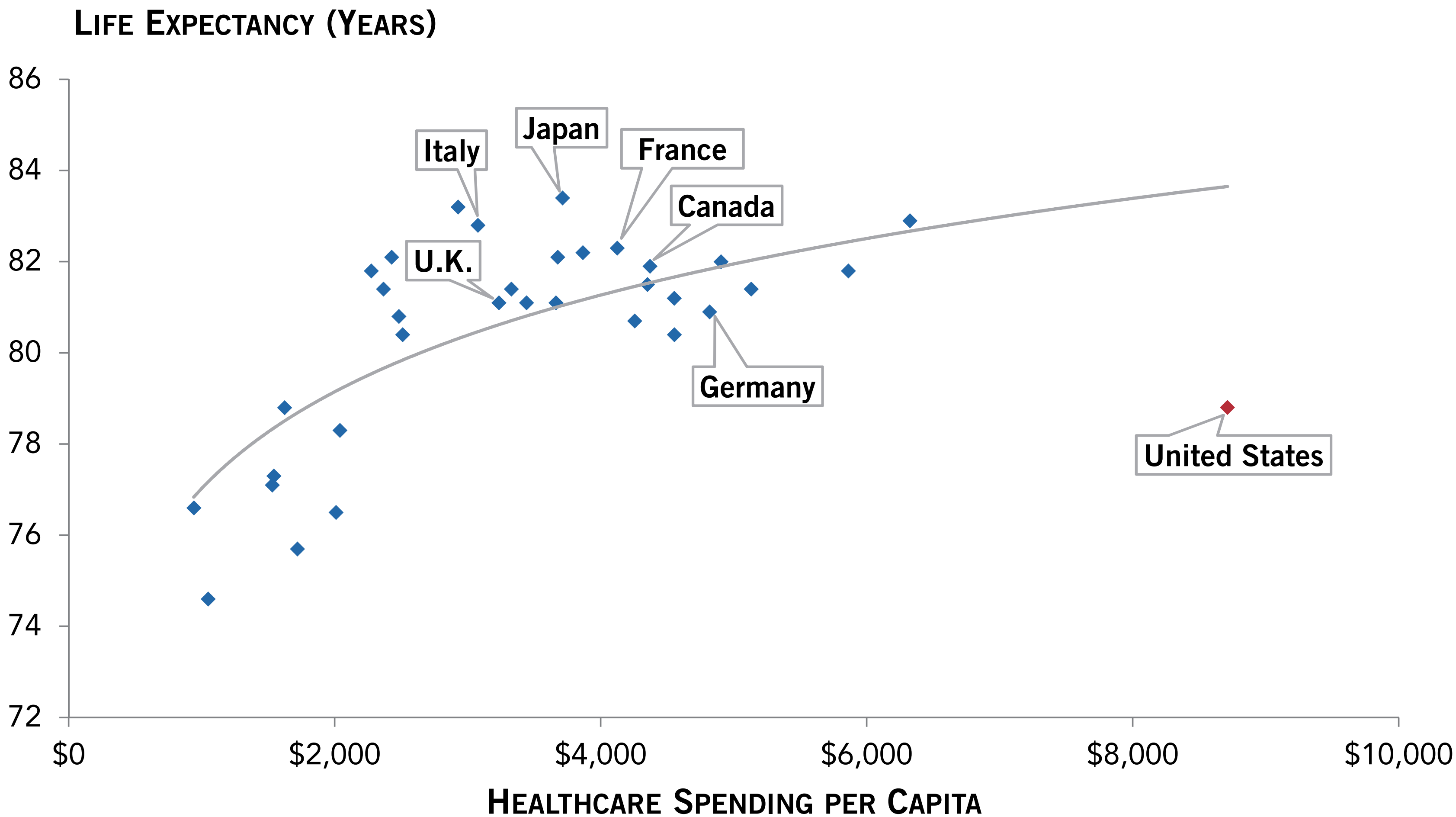
Life expectancy at birth in the United States is lower than in other developed countries, despite higher healthcare costs



SOURCE: Organization for Economic Cooperation and Development, *OECD Health Statistics 2015*, November 2015. Compiled by PGPF.
NOTE: The trend line comes from a logarithmic regression.

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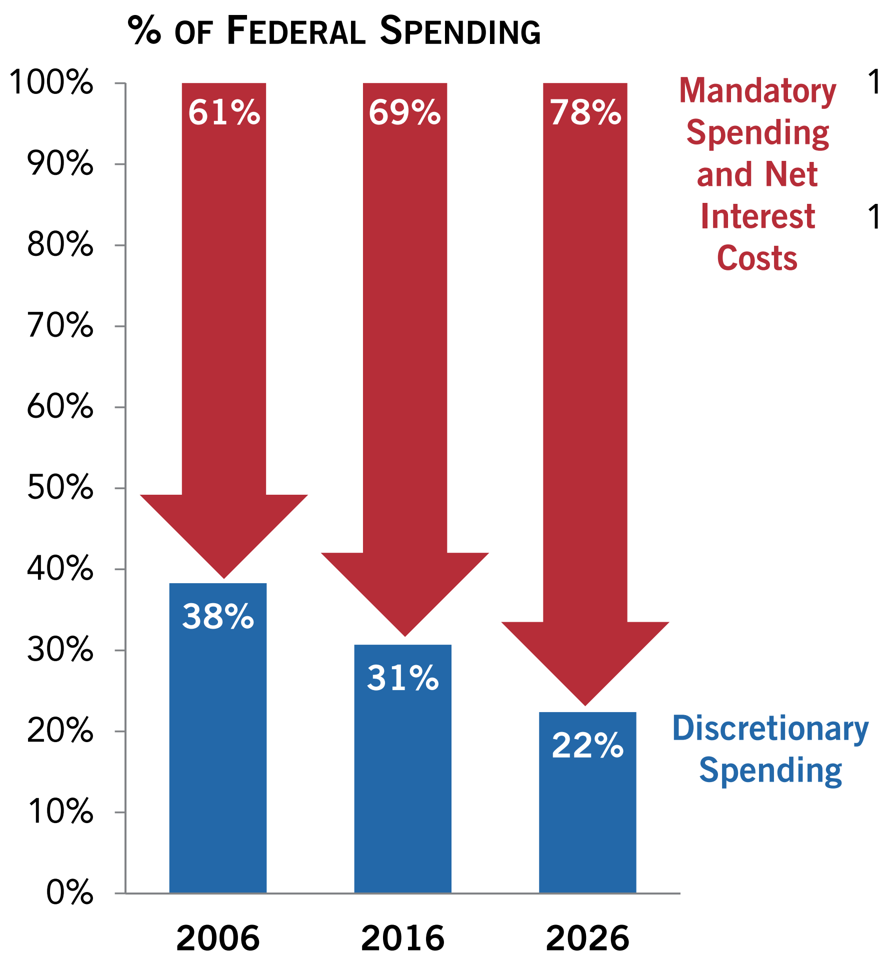
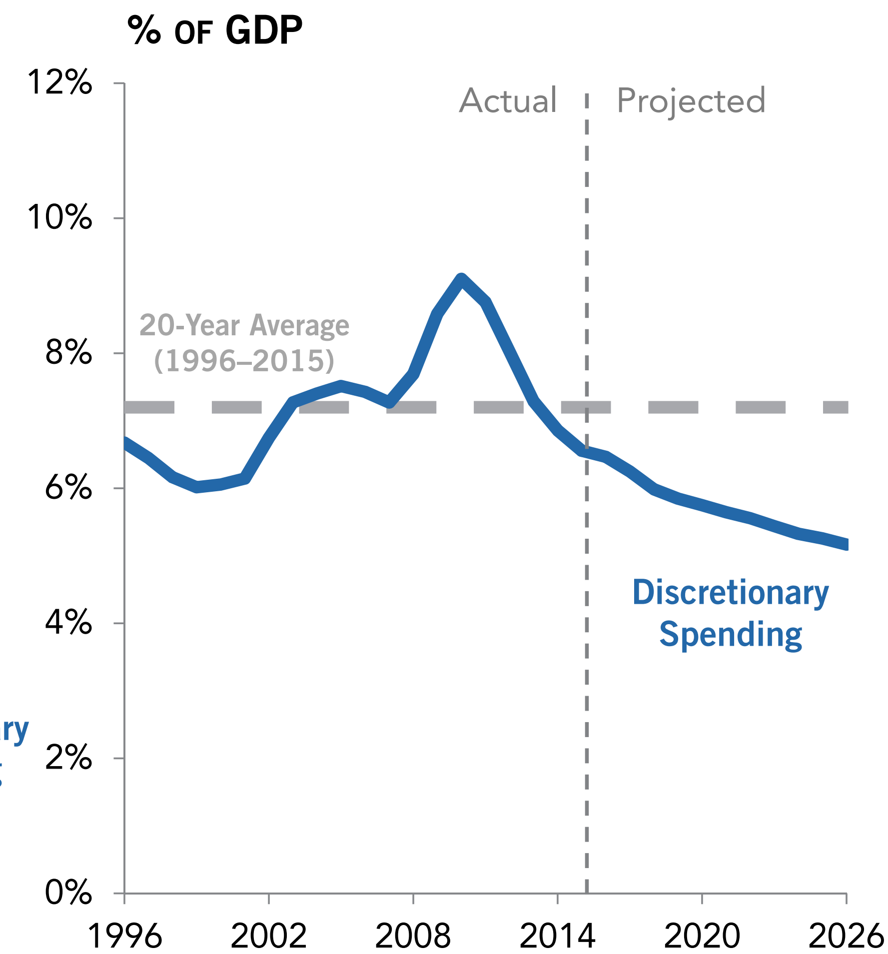
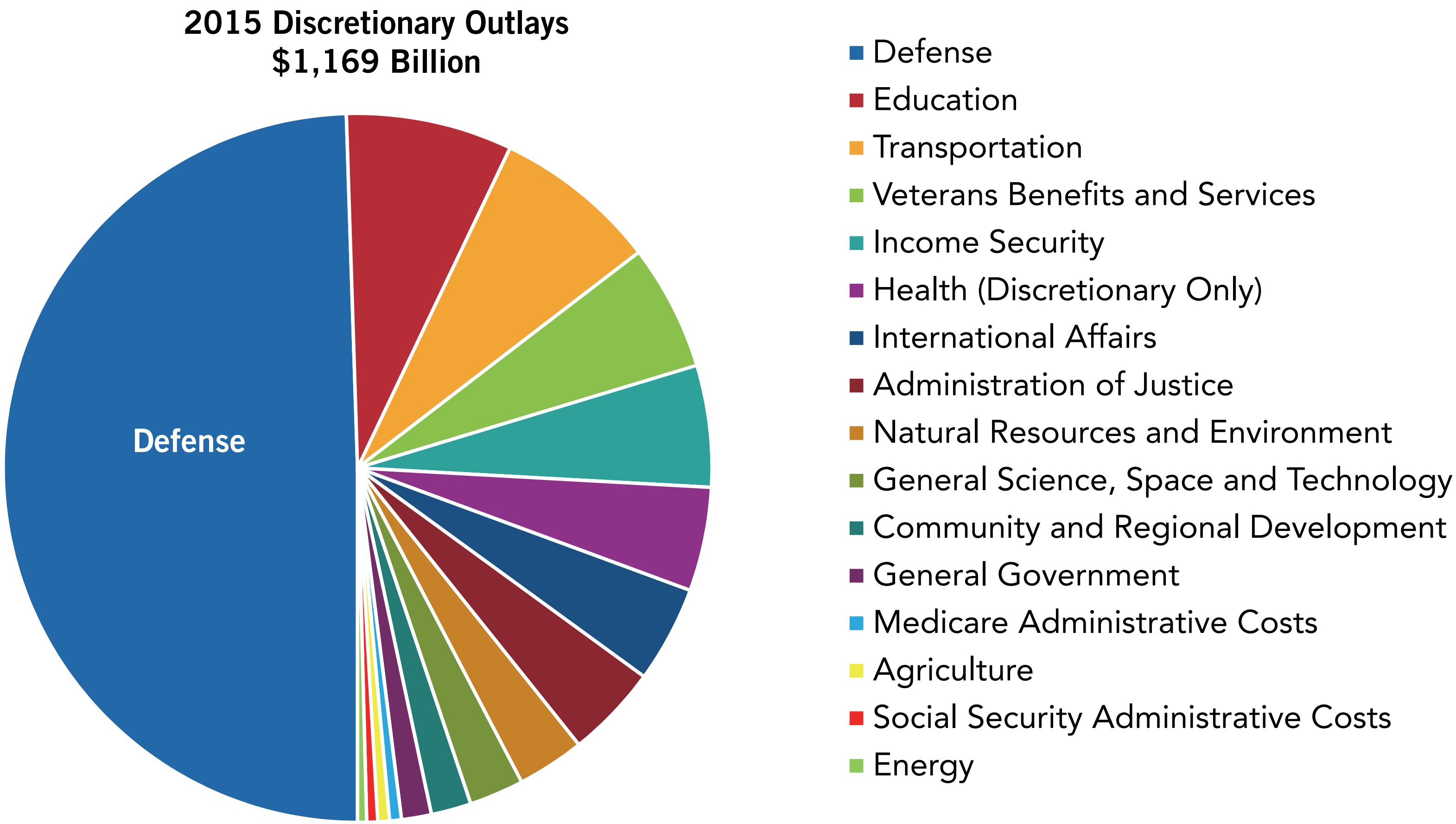
Mandatory spending and interest costs will climb significantly, while discretionary spending will fall to well below historical averages





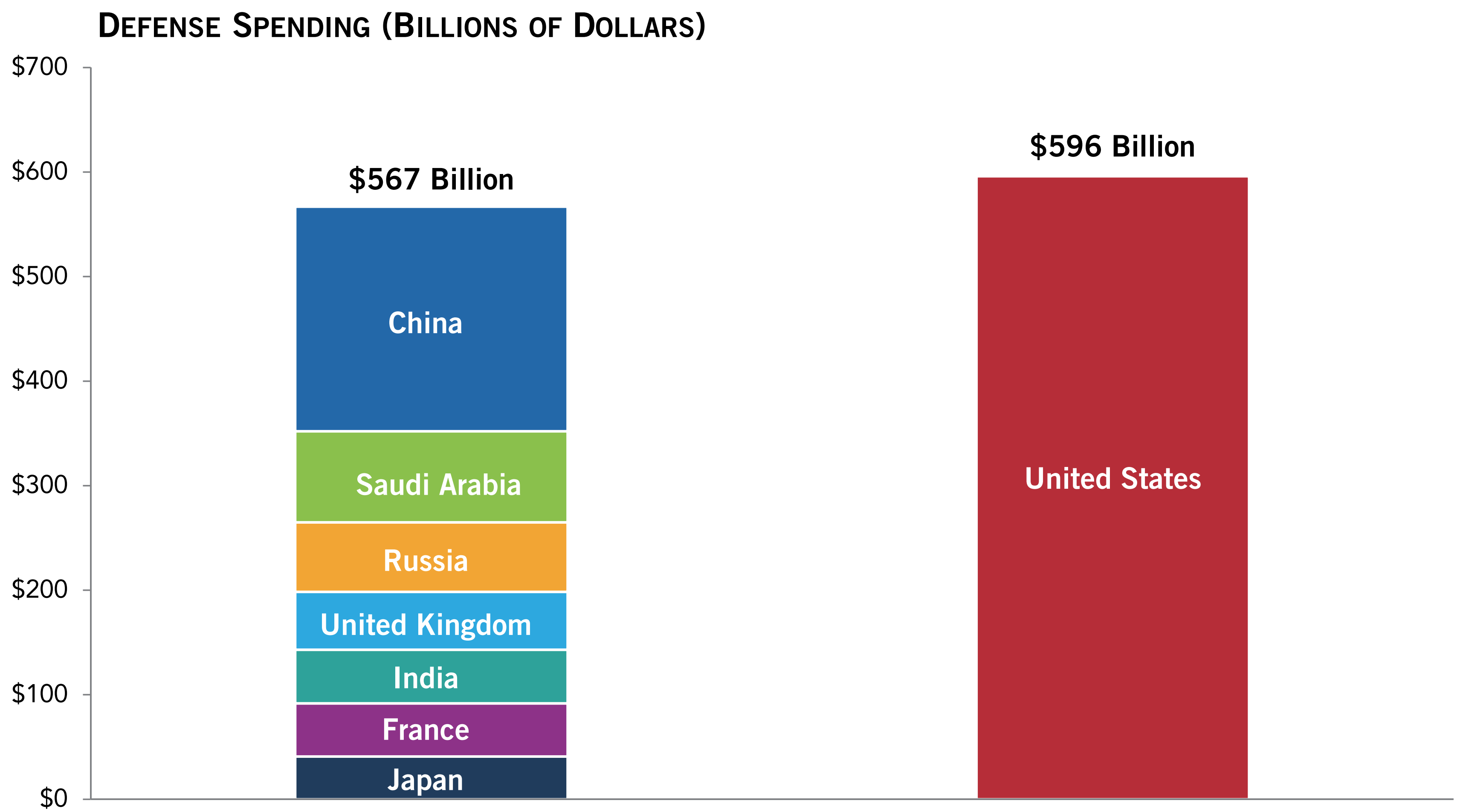
SOURCE: Congressional Budget Office, *Updated Budget Projections: 2016 to 2026*, March 2016. Compiled by PGPF.

Discretionary spending funds a wide range of government programs



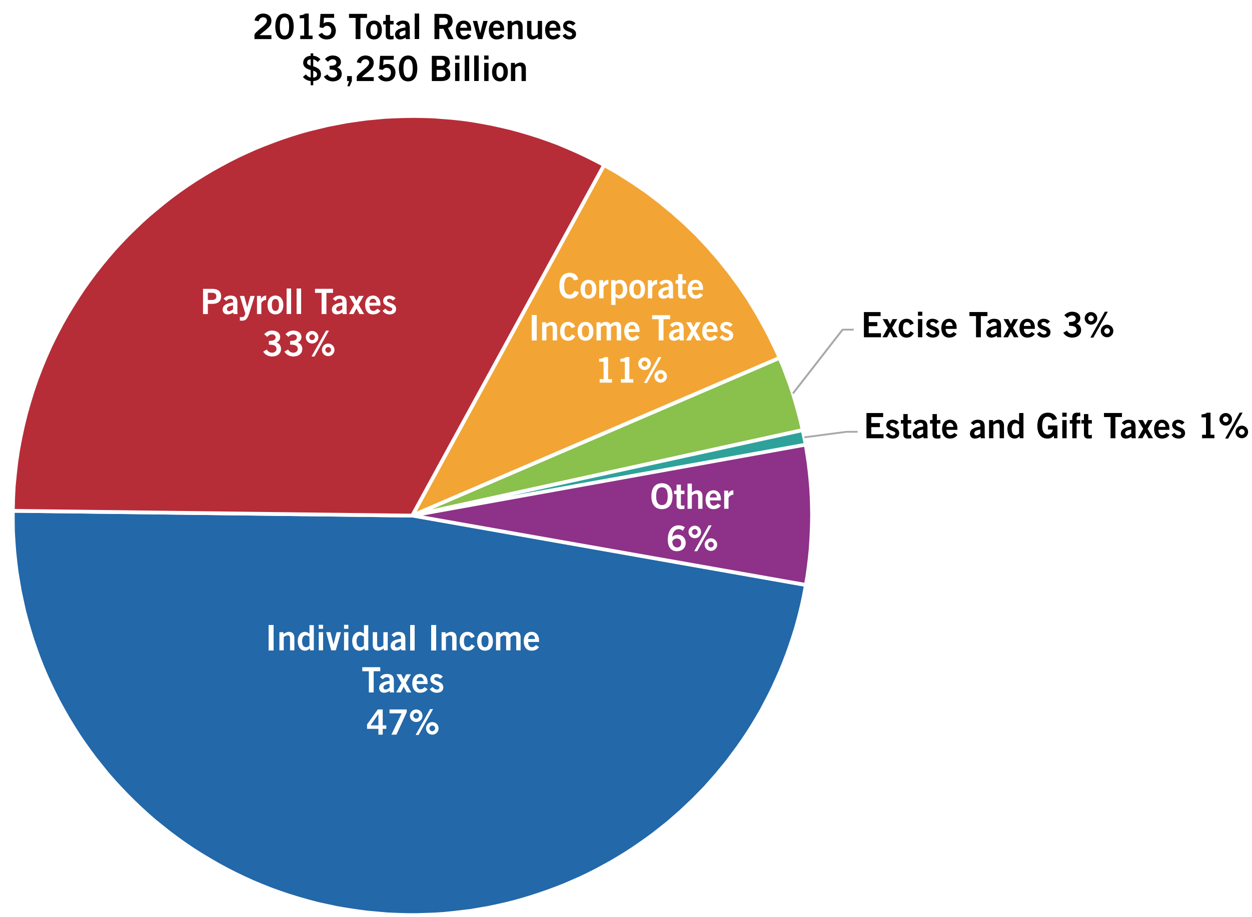
SOURCE: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2017,* February 2016. Compiled by PGPF.
NOTE: Data excludes allowances and functions with negative outlays. Health (discretionary only) includes National Institutes of Health, the Center for Disease Control and Prevention, veteran healthcare, and administrative costs for Medicaid.

The United States spends more on defense than the next seven countries combined



SOURCE: Stockholm International Peace Research Institute, *SIPRI Military Expenditure Database,* April 2016. Data are for 2015. Compiled by PGPF.
NOTE: Figures are in U.S. dollars, converted from local currencies using market exchange rates.

The government collects revenue from a variety of sources



SOURCE: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2017,* February 2016. Compiled by PGPF.
NOTE: Other includes customs duties and miscellaneous sources. Numbers do not sum to 100% due to rounding.

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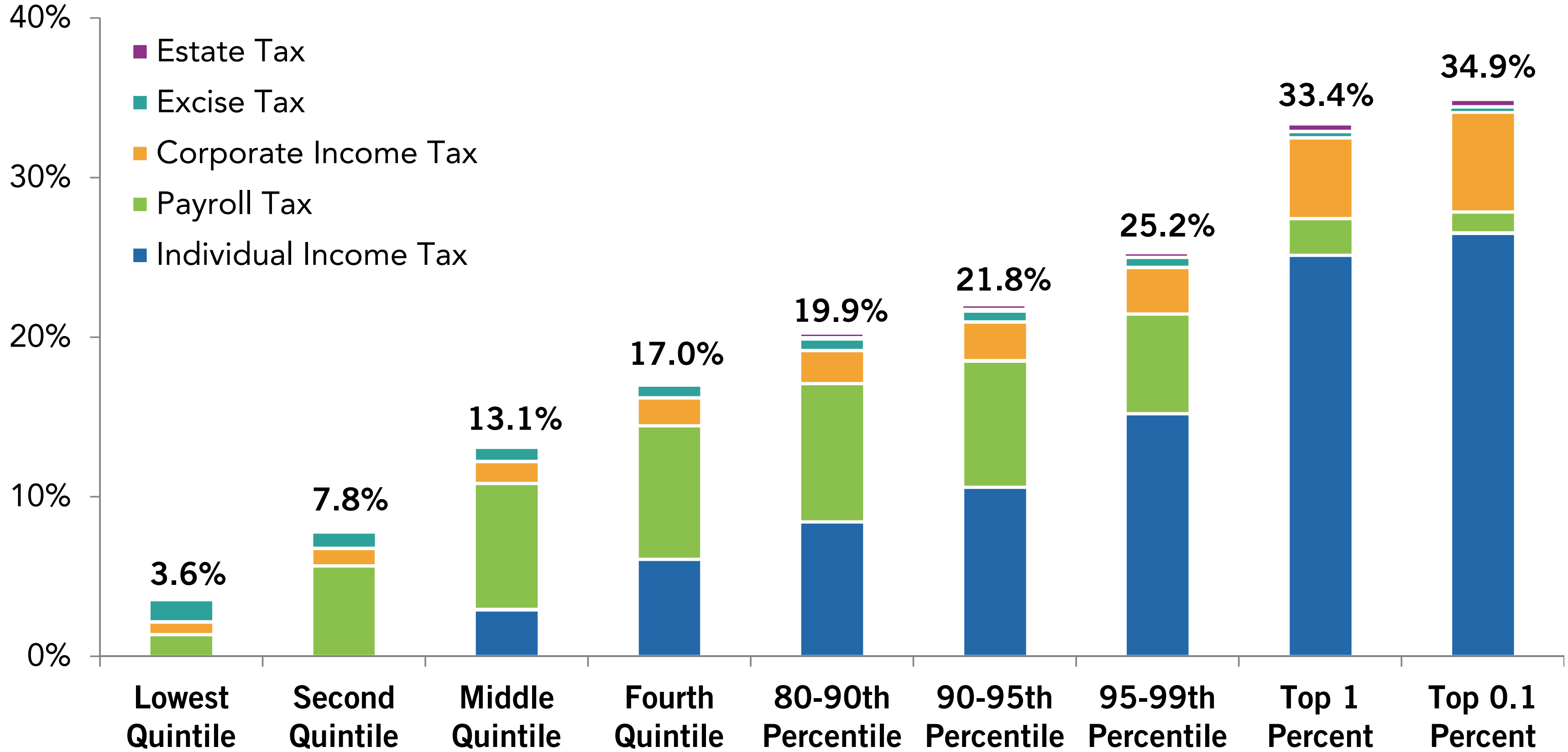
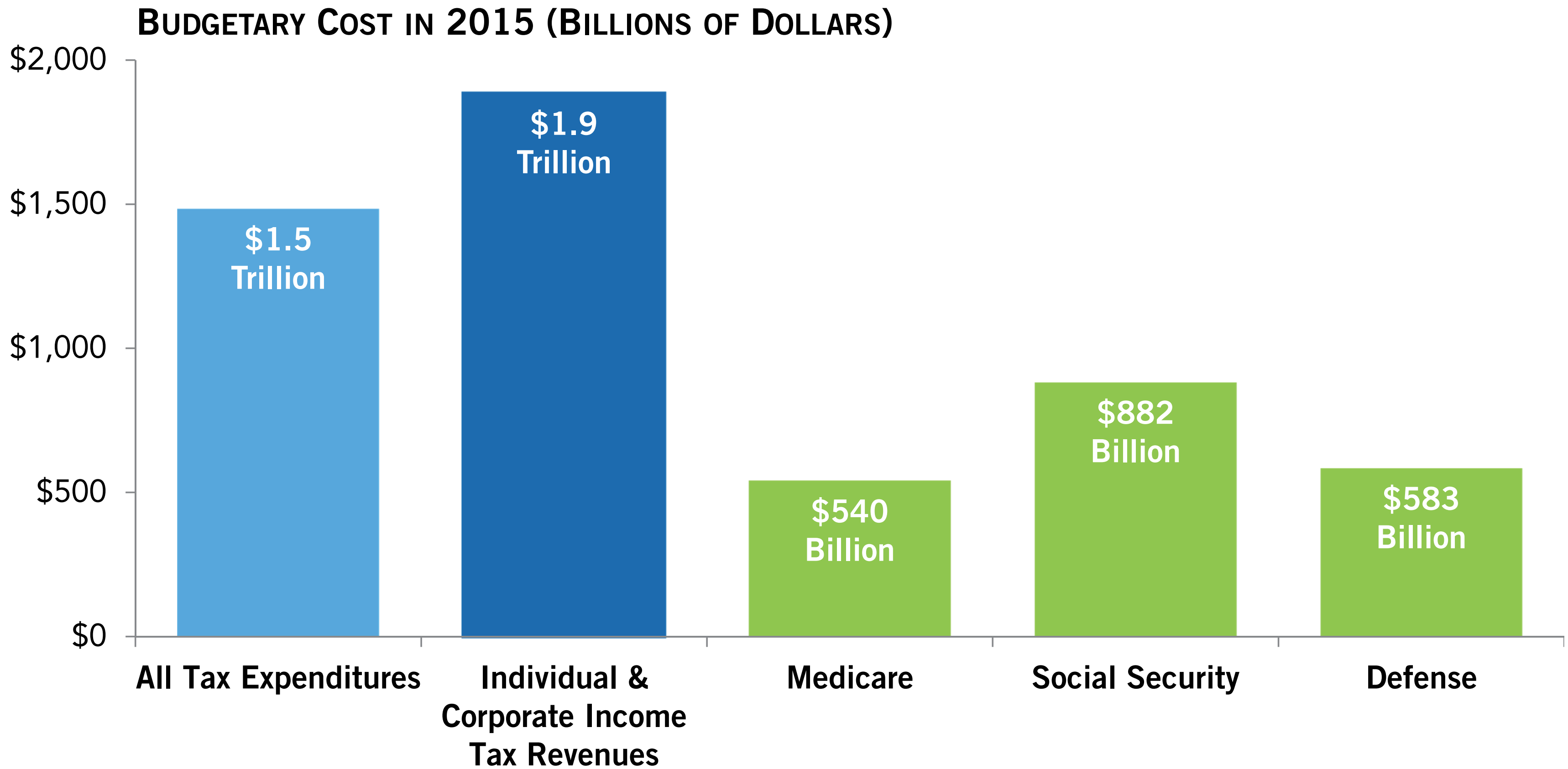
The U.S. tax system is progressive, with higher-income taxpayers facing higher tax rates

EFFECTIVE FEDERAL TAX RATE (% OF CASH INCOME IN 2015)



SOURCE: Tax Policy Center, *Effective Federal Tax Rates by Cash Income Percentile; 2015,* June 2015. Compiled by PGPF.
NOTE: Individual income tax rates for the lowest and second lowest quintiles are negative and are netted against the payroll tax rate. A quintile is one fifth of the population. In 2015 dollars, the income breaks are: 20% is $22,769; 40% is $44,590; 60% is $78,129; 80% is $138,265; 90% is $204,070; 95% is $290,298; 99% is $709,166; 99.9% is $3,474,762.

Corporate and individual tax expenditures are large in comparison to annual taxes collected, as well as to the government's major programs



SOURCE: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2017,* February 2016. Data are for 2015. Compiled by PGPF.
NOTE: Medicare spending is net of premiums and payments from the states. Those receipts were $94 billion in 2015. Defense represents discretionary defense spending. Tax expenditures are deductions, credits, exclusions, and preferential rates. The estimates for tax expenditures include effects on income, payroll, and excise tax revenues, as well as effects on outlays.

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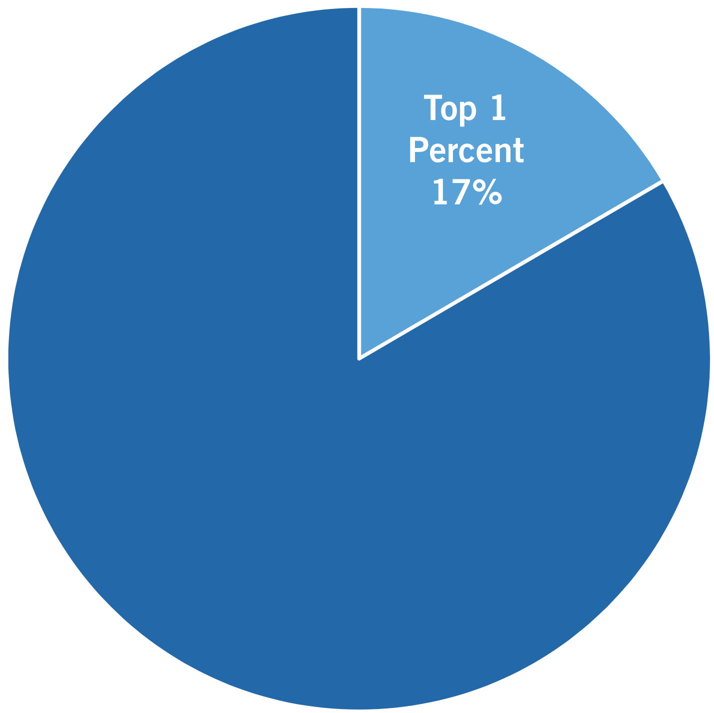
Six popular tax provisions account for nearly 60 percent of annual tax expenditures

Major Individual Tax Expenditures	Budgetary Costs (2015)
Exclusion of employer contributions for medical insurance and care*	$329 billion
Exclusion of pension contributions and earnings **	$172 billion
Preferential treatment of dividends and capital gains	$169 billion
Deduction for state and local taxes	$80 billion
Earned Income Tax Credit (EITC)	$64 billion
Deduction of mortgage interest on owner-occupied homes with loan values up to $1 million	$59 billion
Total	**$872 billion**

SOURCE: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2017,* February 2016. Compiled by PGPF.
NOTE: *Includes the exclusion from payroll taxes and income taxes. **Includes employer pension plans, employee and employer contributions to 401k plans, IRAs, and self-employed plans.

The top 1 percent of taxpayers receive 17 percent of the total value of major tax expenditures

Distribution of Major Individual Income Tax Expenditures



SOURCE: Congressional Budget Office, *The Distribution of Major Tax Expenditures in the Individual Income Tax System*, May 2013. Compiled by PGPF.
NOTE: In 2013, the top one percent includes a four-person household with income of at least $654,000 annually or a single-person household with income of at least $327,000 annually.

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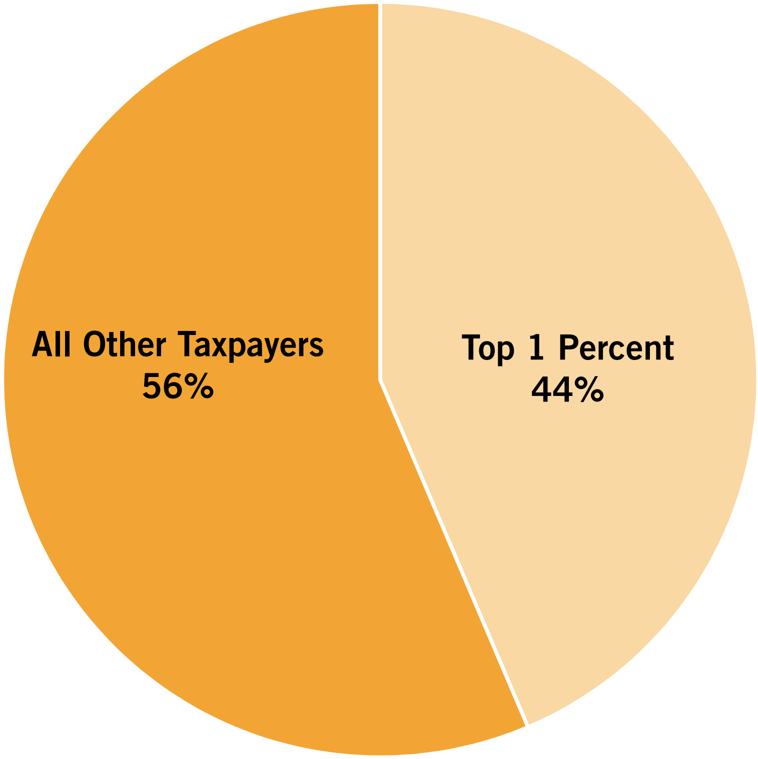
The top 1 percent of taxpayers generate 44 percent of individual income tax revenue

Share of Individual Income Tax



SOURCE: Tax Policy Center, *Share of Federal Taxes – All Tax Units, by Expanded Cash Income Percentile*, June 2015. Data are for 2015. Compiled by PGPF.
NOTE: In 2015 dollars, the income break for the top one percent is $709,166.

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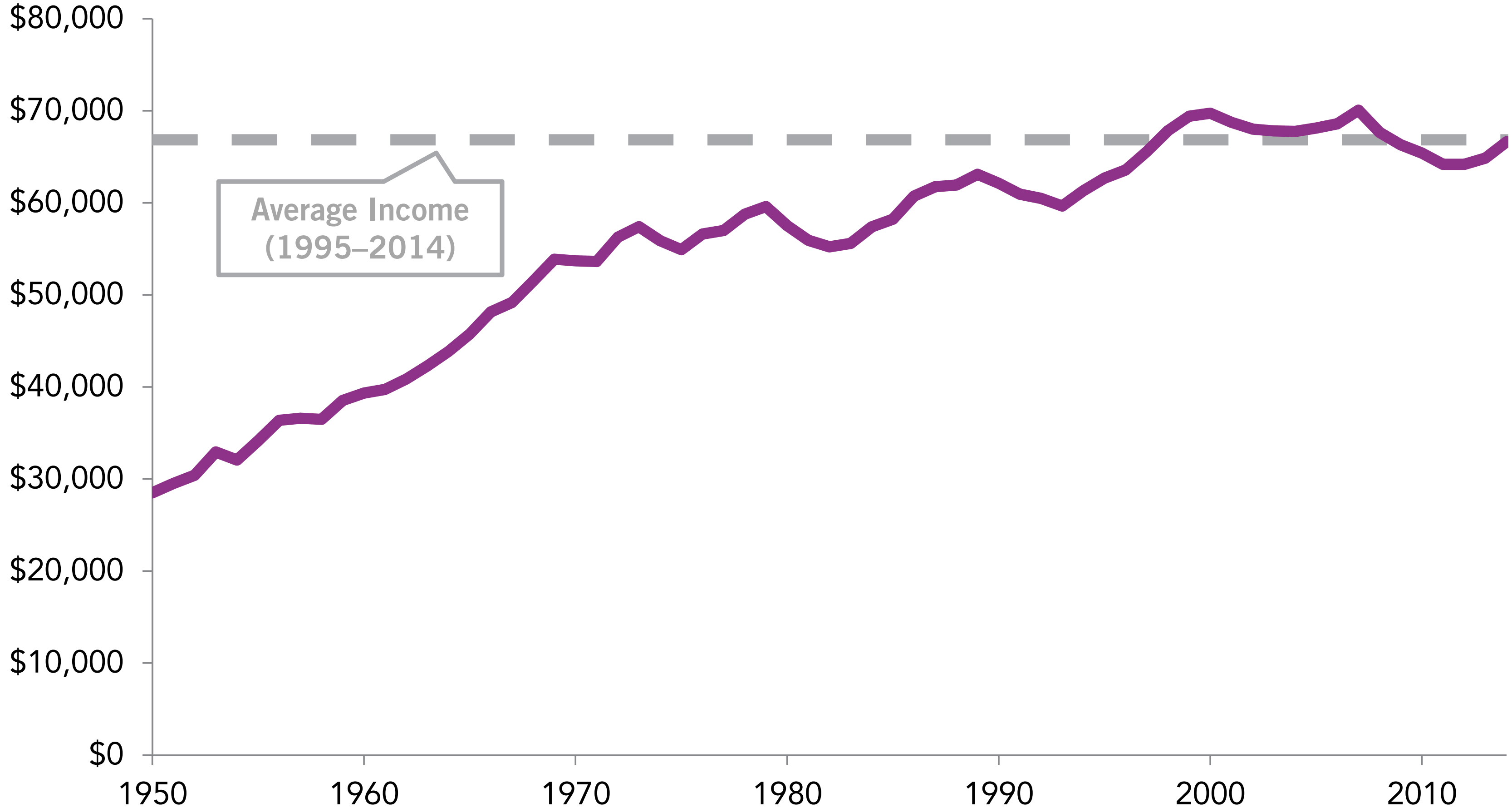
The median real income for families in the United States has been relatively stagnant for two decades

Median Family Income (2014 Dollars)



SOURCE: U.S. Census Bureau, *Historical Income Tables*, September 2015. Compiled by PGPF.

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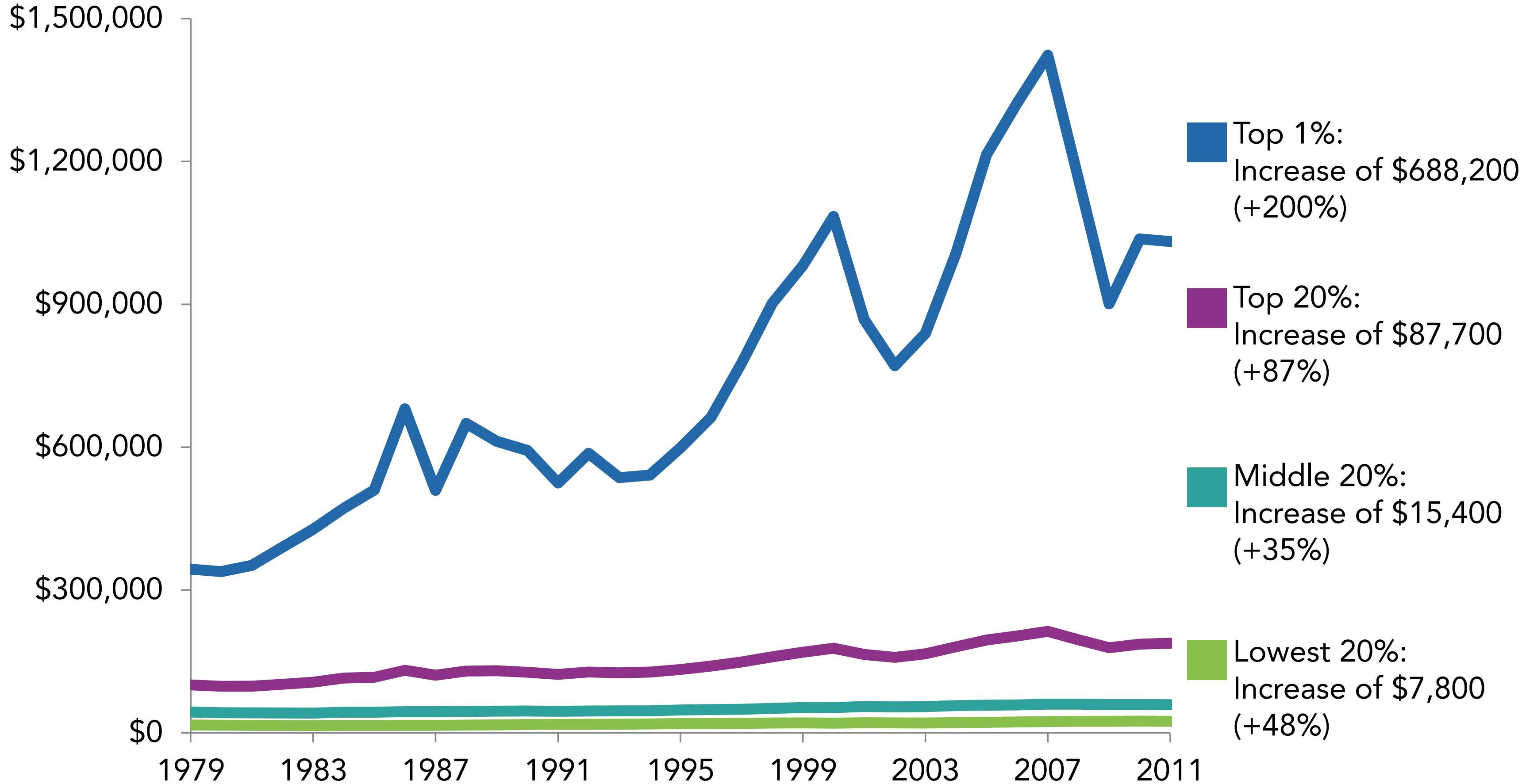
Although the incomes of the wealthy are volatile, they have grown much faster than the incomes of other groups

AVERAGE ANNUAL AFTER-TAX INCOME (2011 DOLLARS)



SOURCE: Congressional Budget Office, *The Distribution of Household Income and Federal Taxes, 2011,* November 2014. Compiled by PGPF.

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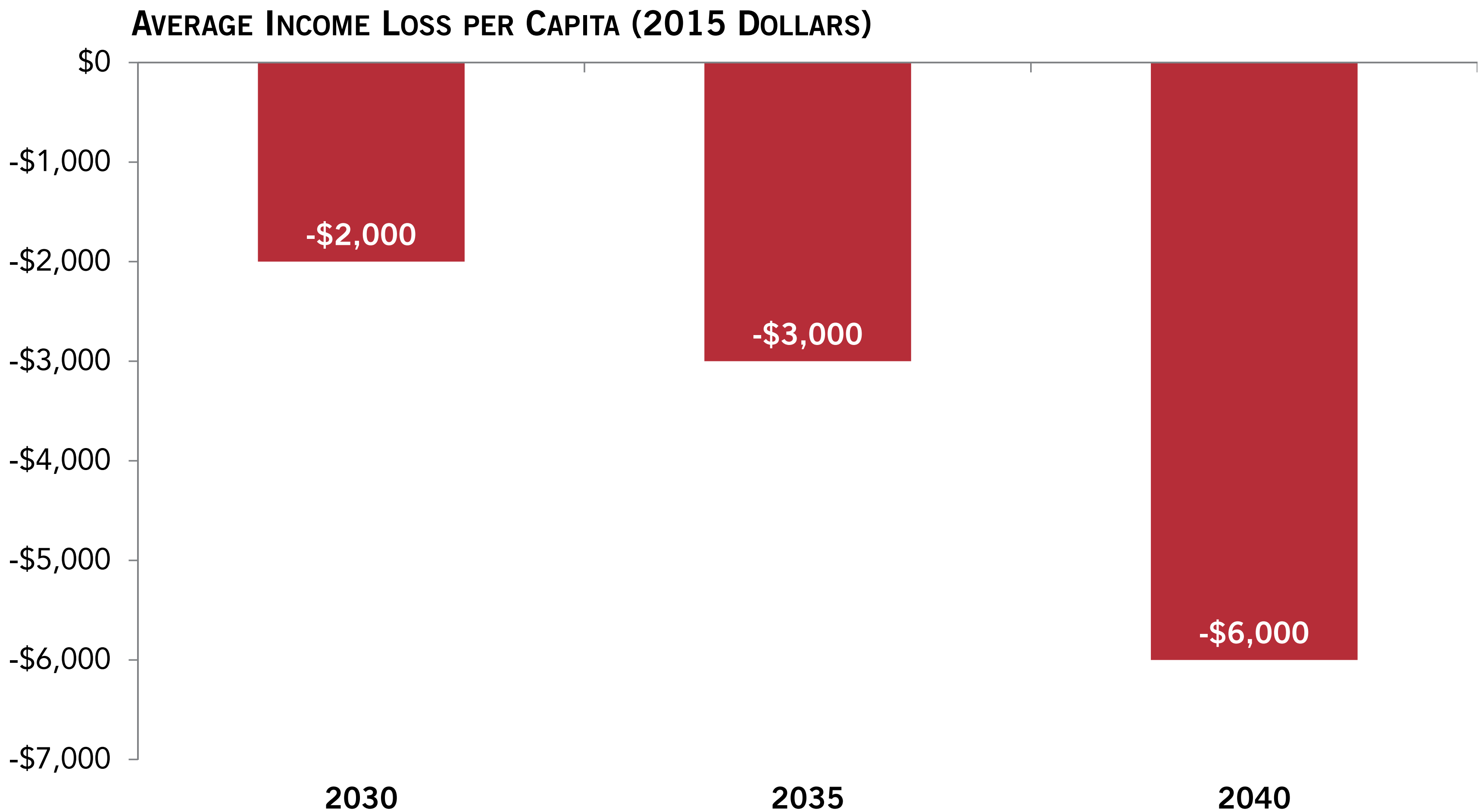
The growing federal debt is projected to reduce average income per person by as much as $6,000



SOURCE: Congressional Budget Office, *The 2015 Long-Term Budget Outlook*, June 2015. Compiled by PGPF.
NOTE: Income is measured as real gross national product (GNP) per person. The income reduction is the difference between the level of income if debt rises as it does under the alternative fiscal scenario and the level of income if debt remains near its current share of GNP.

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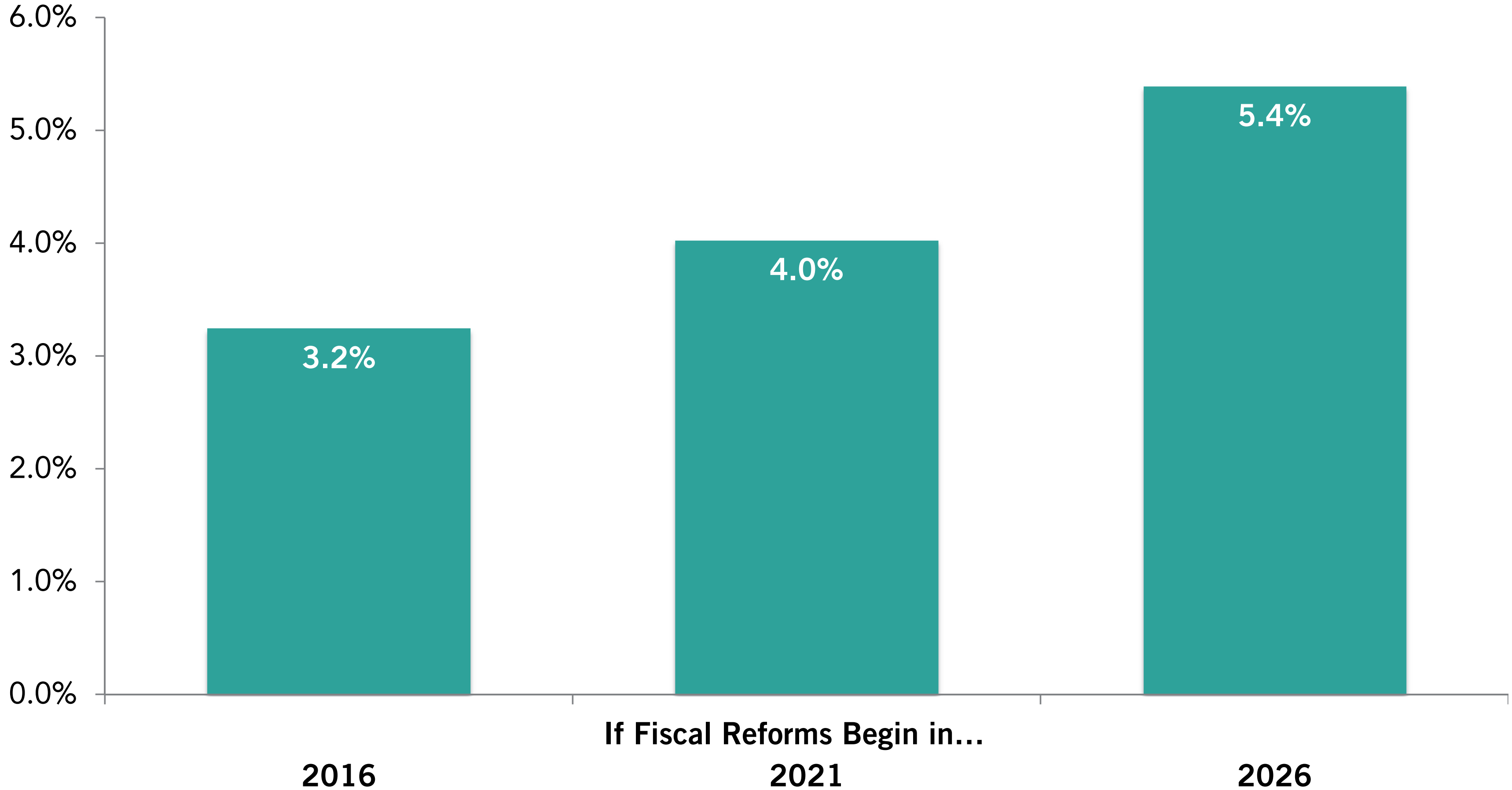
Delaying action raises the cost of stabilizing the debt in the long run

Size of Budget Changes Needed to Stabilize the Debt (% of GDP)



SOURCE: Congressional Budget Office, *The 2015 Long-Term Budget Outlook*, June 2015. Calculated by PGPF.
NOTE: Calculations are based on CBO's alternative fiscal scenario.

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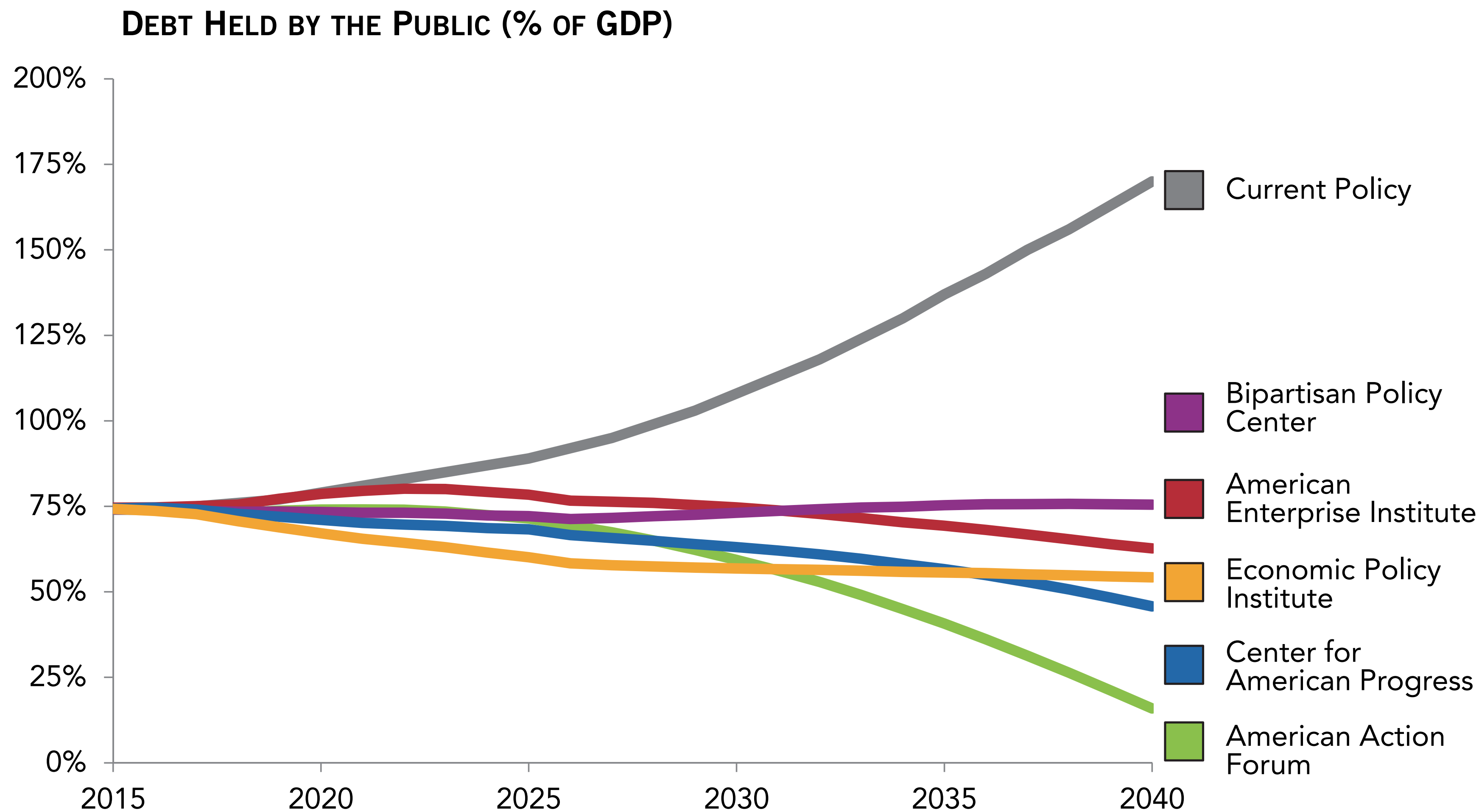
Solutions do exist: PGPF Solutions Initiative plans from five think tanks show stable or declining federal debt through 2040



SOURCE: Peter G. Peterson Foundation, *Solutions Initiative III*, May 2015.
NOTE: Current policy is defined as the alternative fiscal scenario without economic feedback from CBO's *2014 Long-Term Budget Outlook*.

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