2017 FISCAL SUMMIT

RISING DEBT IN A CHANGING ECONOMY

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CHARTS

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WASHINGTON, D.C.

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2017 Fiscal Summit: Rising Debt in a Changing Economy

America faces the dynamic combination of an evolving economy, a crowded legislative agenda, and an unsustainable fiscal outlook. As Congress and a new administration explore major changes in key areas — healthcare, taxes, infrastructure, trade, and more — our fiscal condition remains as important as ever.

With many reforms on the table, one issue impacts all the others: **our unsustainable national debt**. America's fiscal outlook is connected to all these issues because our growing debt threatens our economy and weakens our ability to address our most important budget priorities.

The national debt is already at its highest level since 1950 and is projected to grow rapidly in the years ahead. Over the last eight years, we added $7 trillion to the national debt. Over the next eight years we are set to borrow the same amount — another $7 trillion. By 2023, we'll be back to $1 trillion annual deficits under current law. And in just over a decade, interest on the national debt will be our third-largest federal "program."

All of the major reform proposals will impact, and are impacted by, the national debt. Given that 70 percent of the spending growth in our major entitlement programs is for healthcare, addressing the U.S. healthcare system is essential to improving our fiscal outlook. Tax reform can have a significant and direct effect on our fiscal path — making it far better, or far worse. If there is agreement that we need to address our infrastructure, how will we find the resources to pay for it — now and in the future — if we allow debt and interest costs to grow? How will America's workforce meet the challenges and opportunities presented by globalization if the national debt harms economic growth and America's leadership role in the world?

The 2017 Fiscal Summit will convene leading voices and policymakers from across the political spectrum to discuss the legislative agenda, its connection to our growing national debt, and solutions to put us on a better path. The Summit will address the significant fiscal implications of current reform proposals, and examine the opportunities that exist to ensure that policy solutions are sustainable, fiscally responsible, and supportive of economic growth.

America's rising debt must be a central part of the 2017 policy discussion, because addressing it is essential for us to meet the most pressing challenges of a changing economy.

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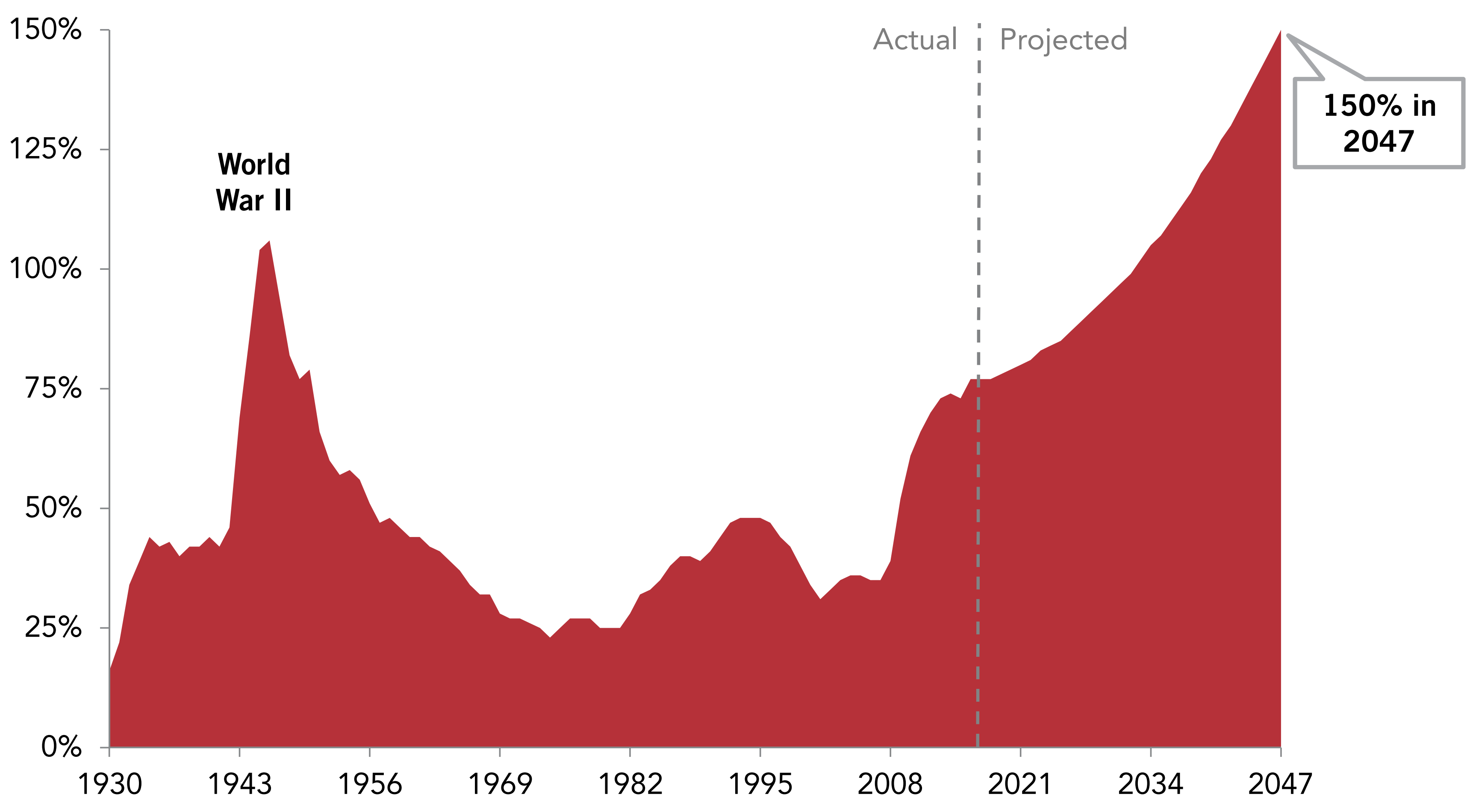
The national debt is on an unsustainable path

DEBT HELD BY THE PUBLIC (% OF GDP)



SOURCE: Congressional Budget Office, *The 2017 Long-Term Budget Outlook*, March 2017. Compiled by PGPF.

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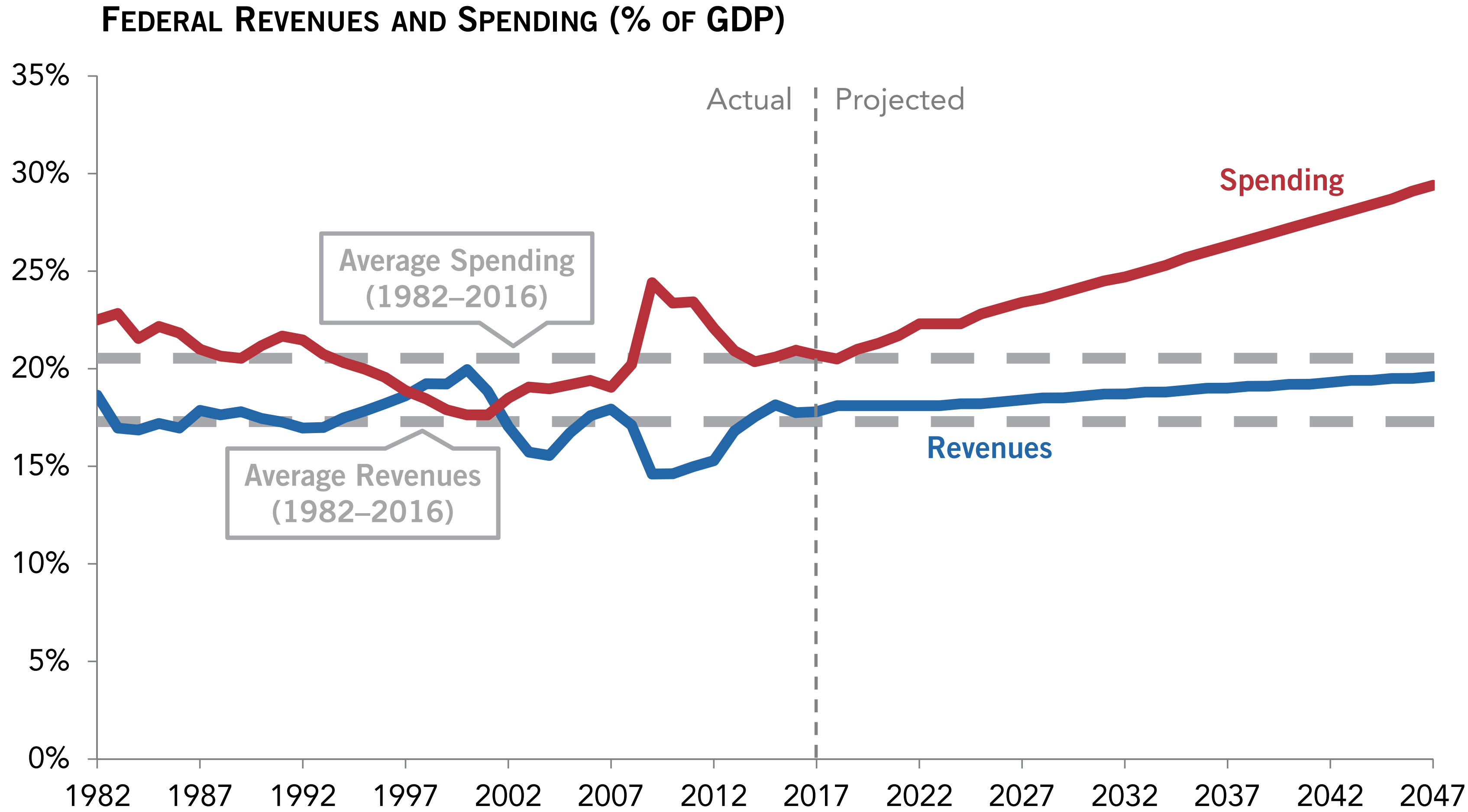
The growing debt is caused by a structural mismatch between spending and revenues



SOURCE: Congressional Budget Office, *The Budget and Economic Outlook: 2017 to 2027,* January 2017, and *The 2017 Long-Term Budget Outlook*, March 2017. Compiled by PGPF.

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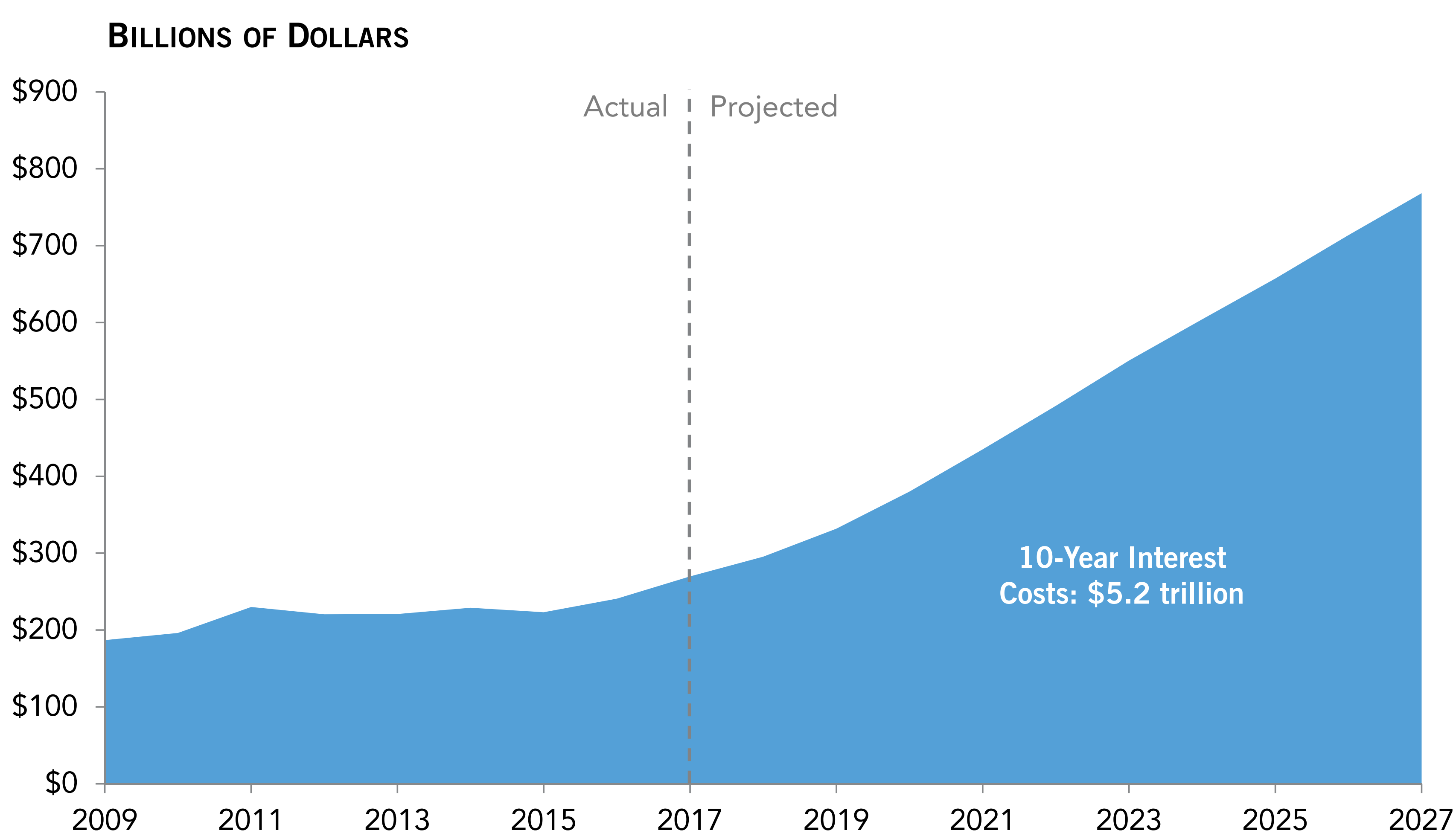
Net interest costs are projected to rise sharply



SOURCE: Congressional Budget Office, *The Budget and Economic Outlook: 2017 to 2027,* January 2017. Compiled by PGPF.

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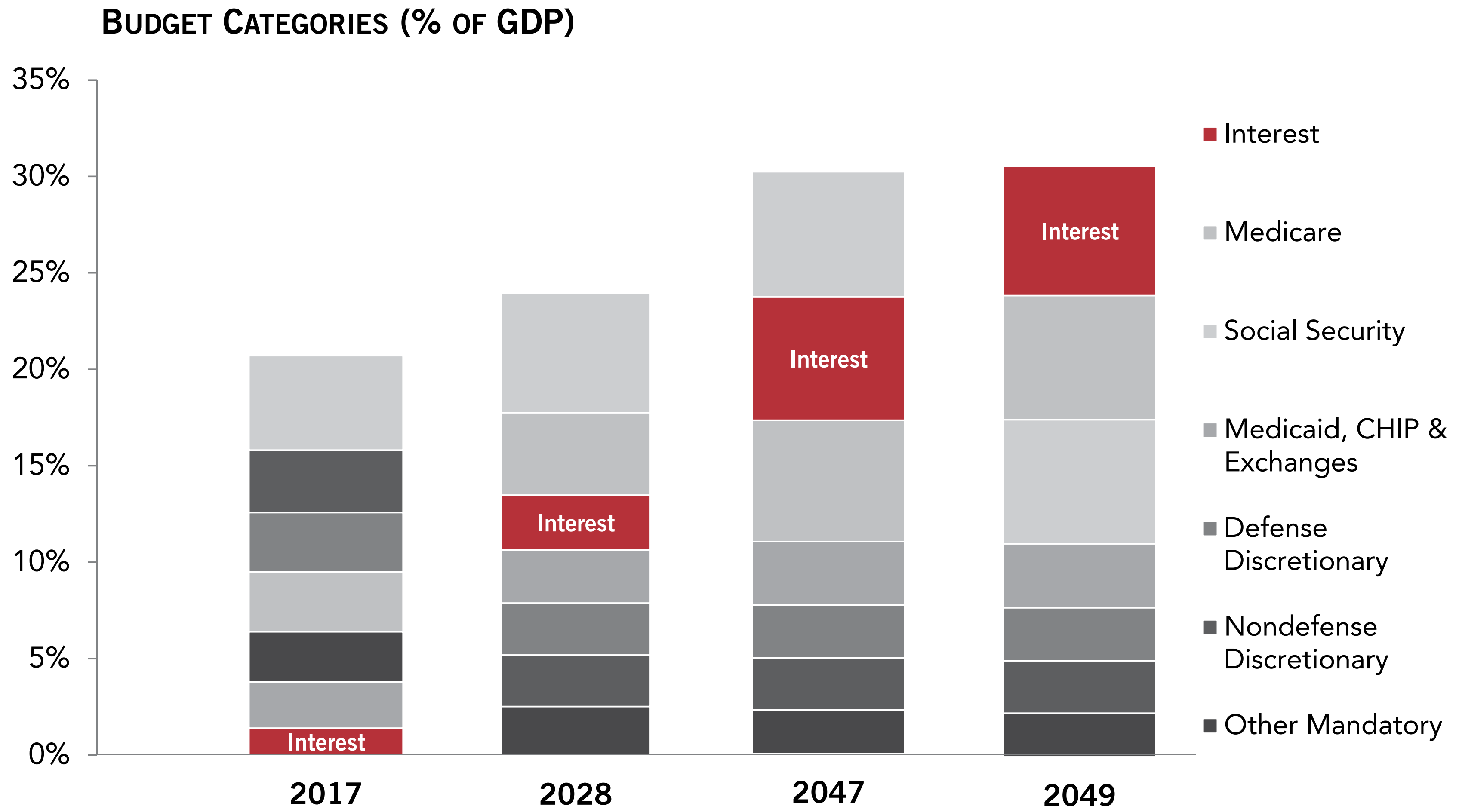
Interest costs are projected to become the largest category of the budget



SOURCE: Congressional Budget Office, *The 2017 Long-Term Budget Outlook*, March 2017; and PGPF projections based on CBO data. Compiled by PGPF.
NOTE: Medicare spending is net of premiums and payments from the states.

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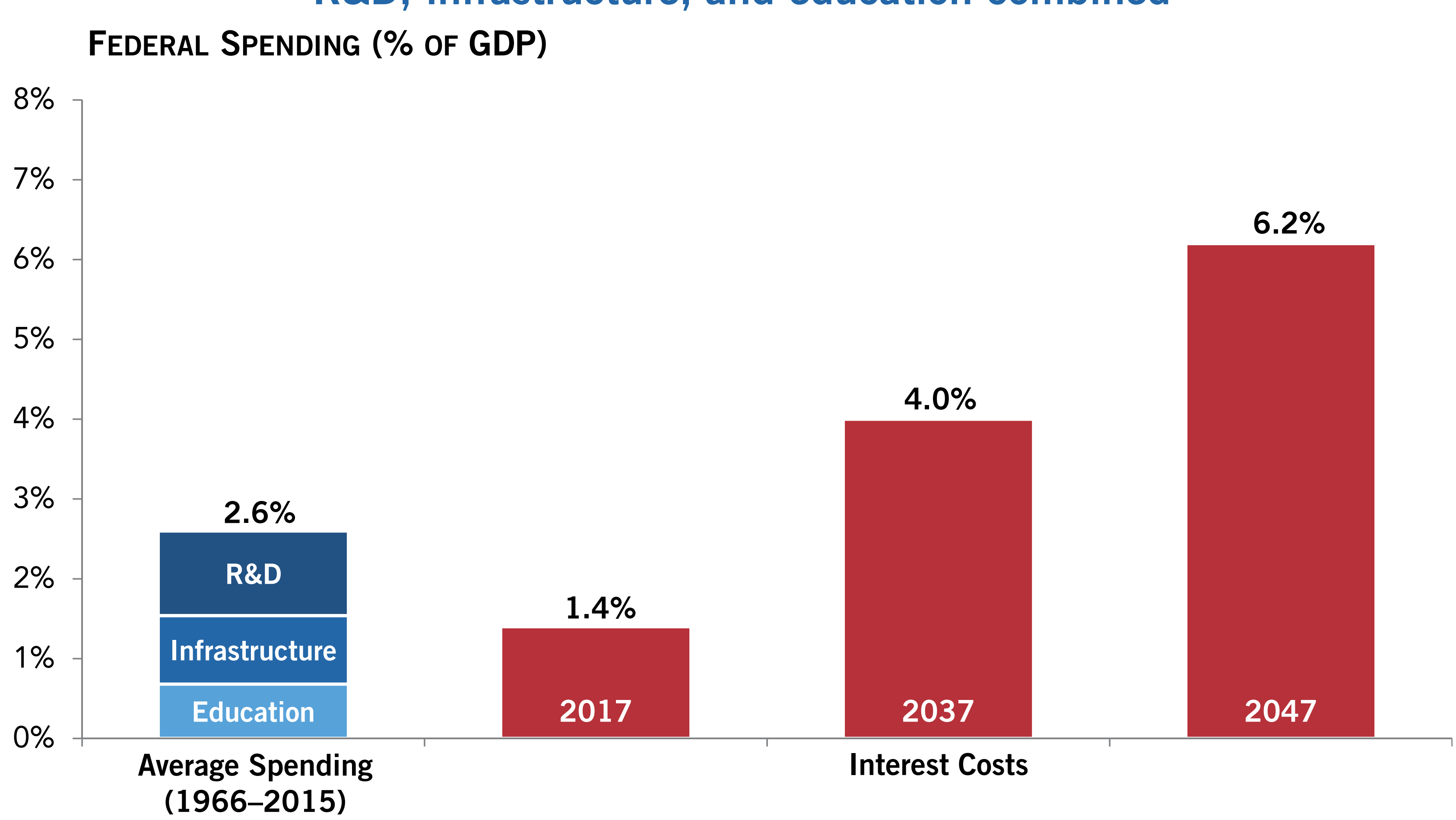
By 2047, interest costs are projected to be more than two times what the federal government has historically spent on R&D, infrastructure, and education combined



SOURCE: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2017*, February 2016; and Congressional Budget Office, *The 2017 Long-Term Budget Outlook*, March 2017. Compiled by PGPF.
NOTE: Infrastructure excludes defense.

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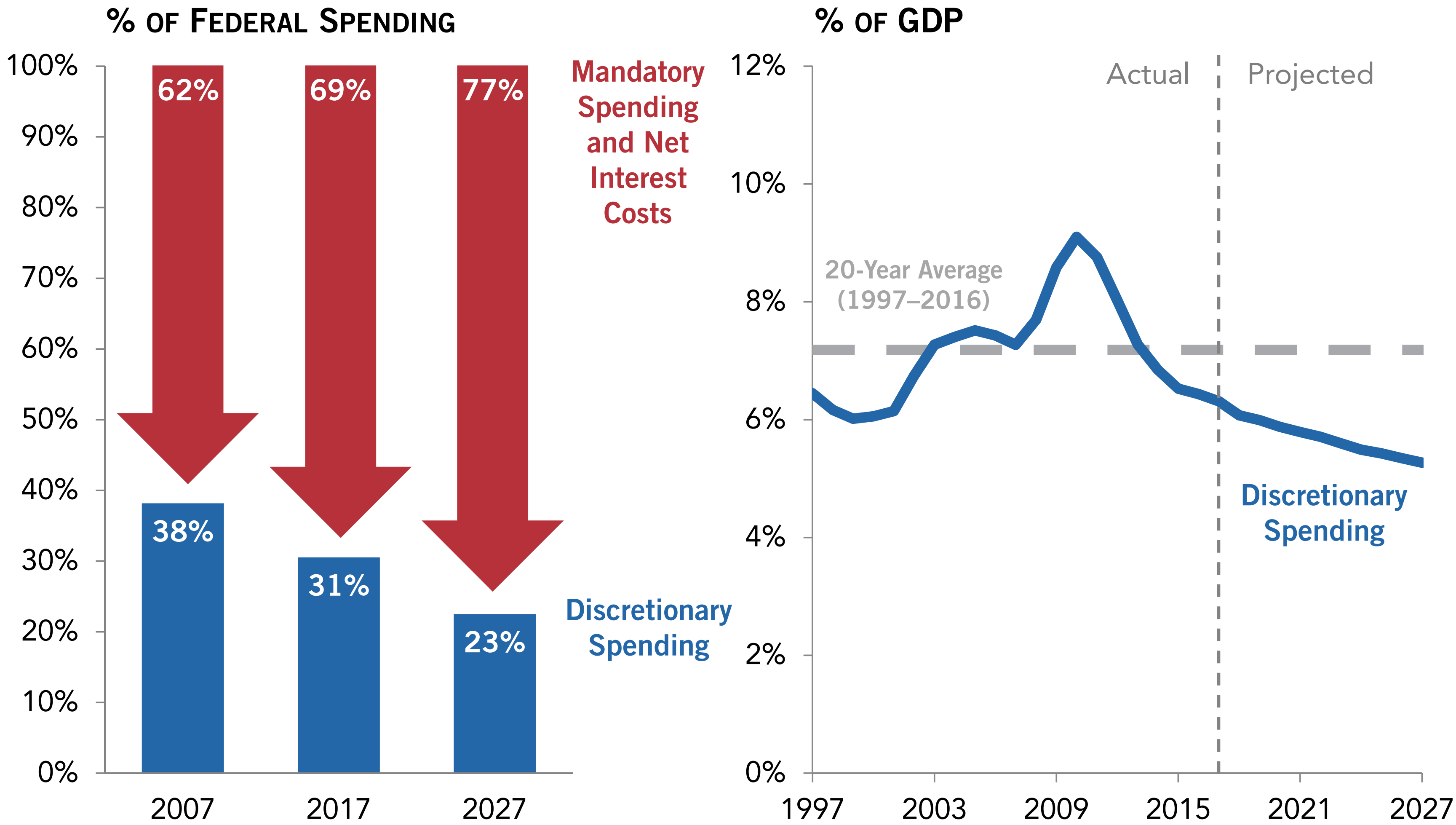
Mandatory spending and interest costs will climb significantly, while discretionary spending will fall to well below historical averages



SOURCE: Congressional Budget Office, *The Budget and Economic Outlook: 2017 to 2027*, January 2017. Compiled by PGPF.

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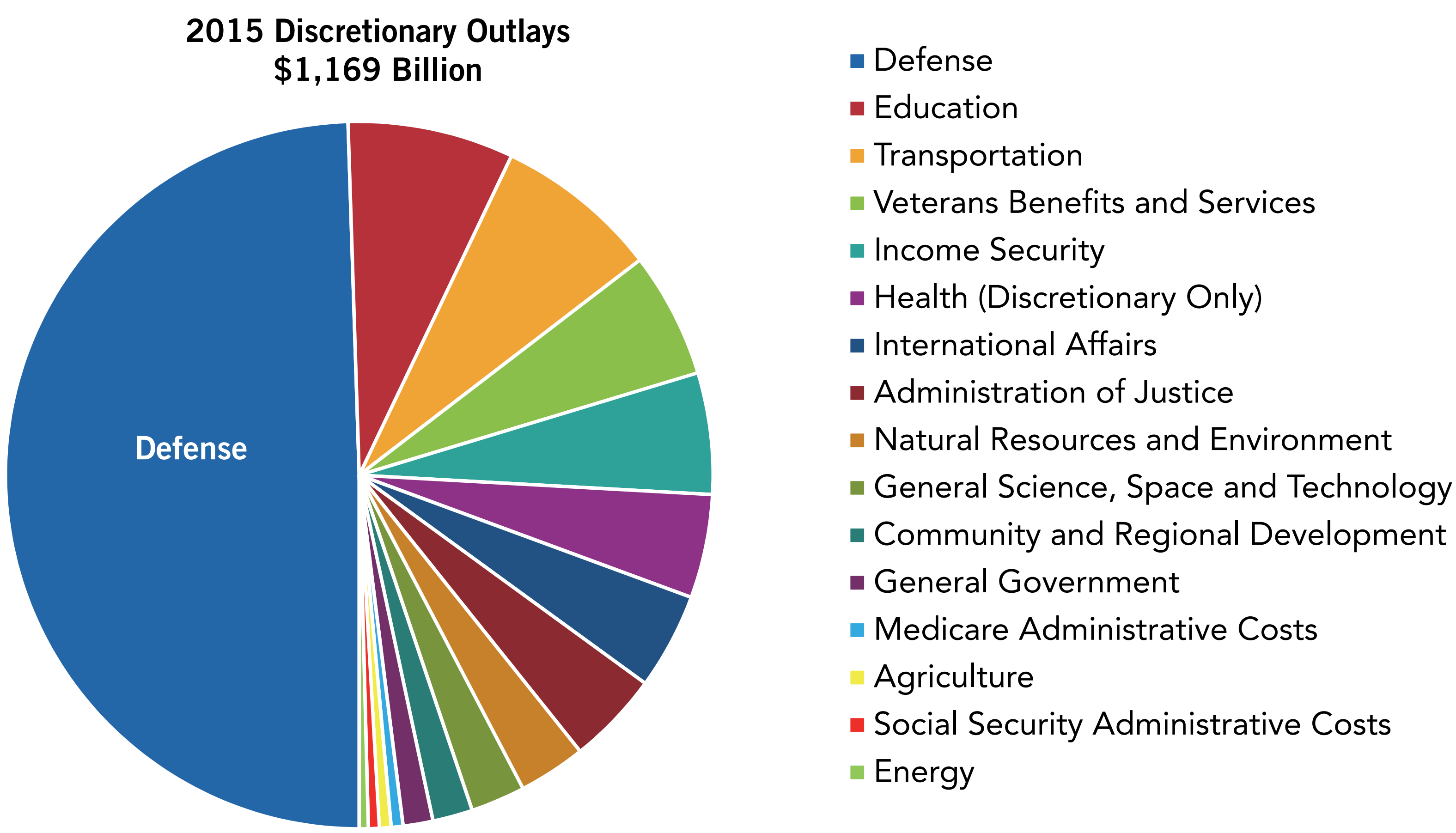
Discretionary spending funds a wide range of government programs



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 Centers for Disease Control and Prevention, veterans healthcare, and administrative costs for Medicaid.

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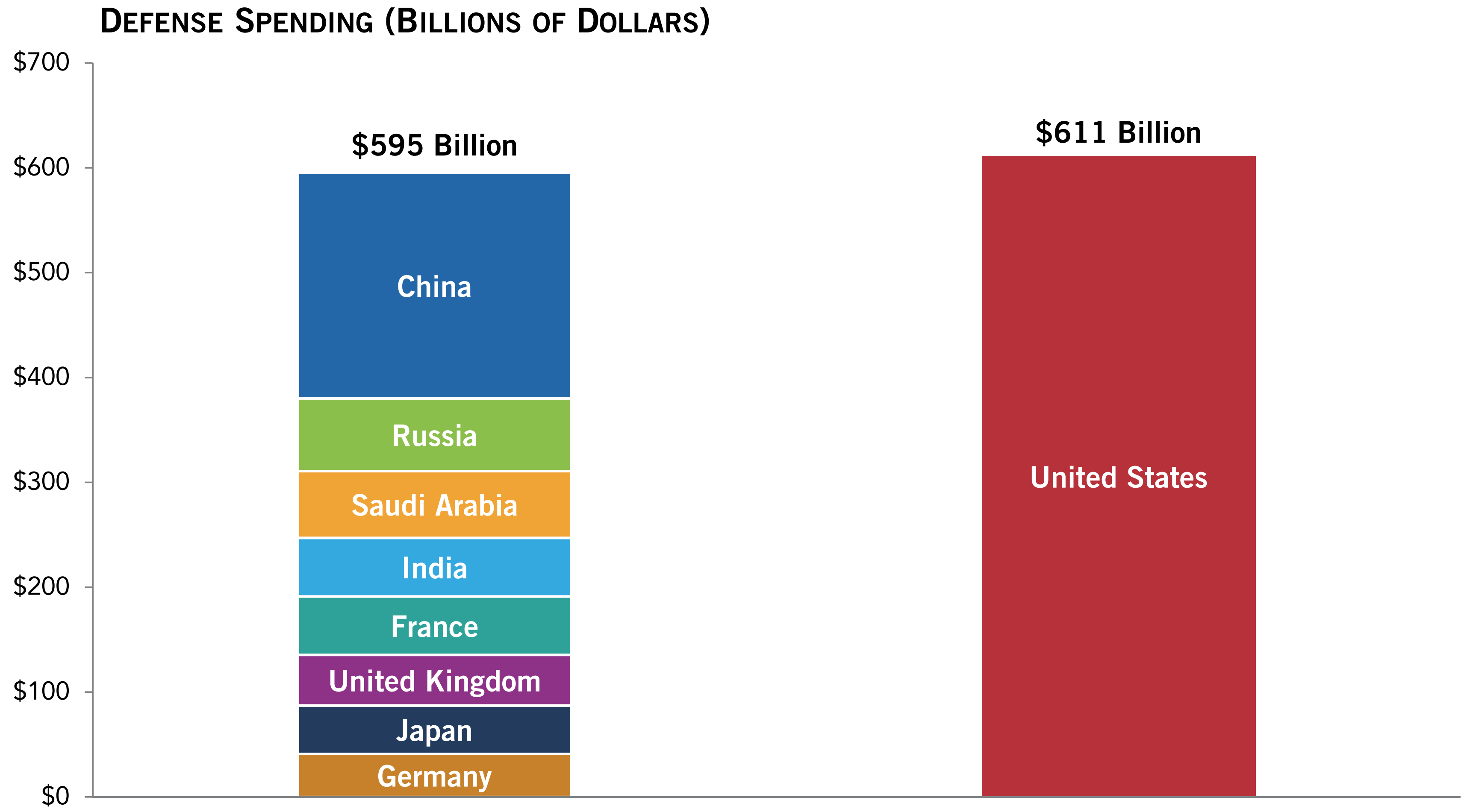
The United States spends more on defense than the next eight countries combined



SOURCE: Stockholm International Peace Research Institute, *SIPRI Military Expenditure Database,* April 2017. Data are for 2016. Compiled by PGPF.
NOTE: Figures are in U.S. dollars, converted from local currencies using market exchange rates.

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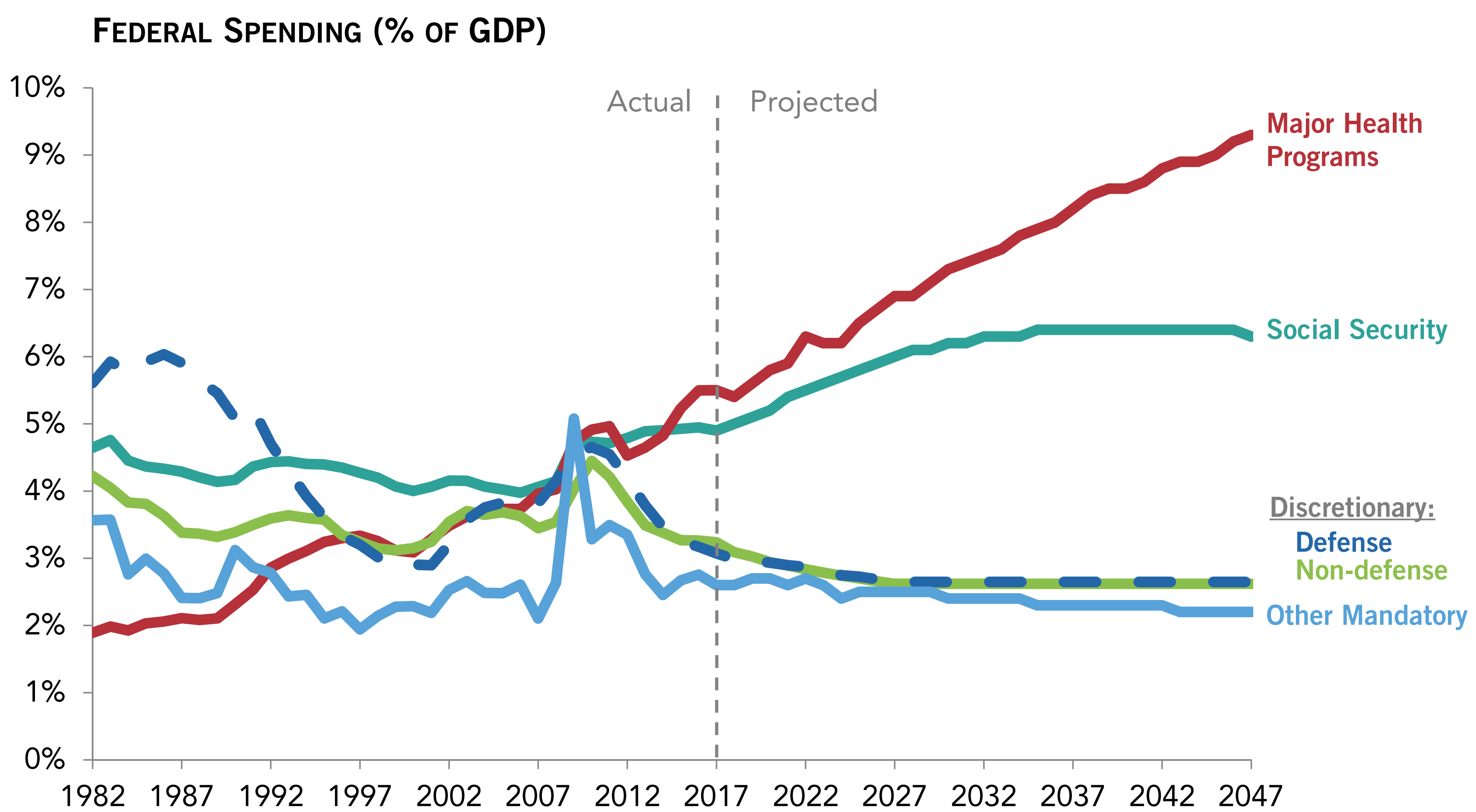
Healthcare is the major driver of the projected growth in federal spending over the long term



SOURCE: Congressional Budget Office, *The 2017 Long-Term Budget Outlook,* March 2017, and *The Budget and Economic Outlook: 2017 to 2027,* January 2017; and PGPF projections based on CBO data. Compiled by PGPF.
NOTE: Major health programs include Medicare (net), Medicaid, Children's Health Insurance Program (CHIP), and the health exchanges.

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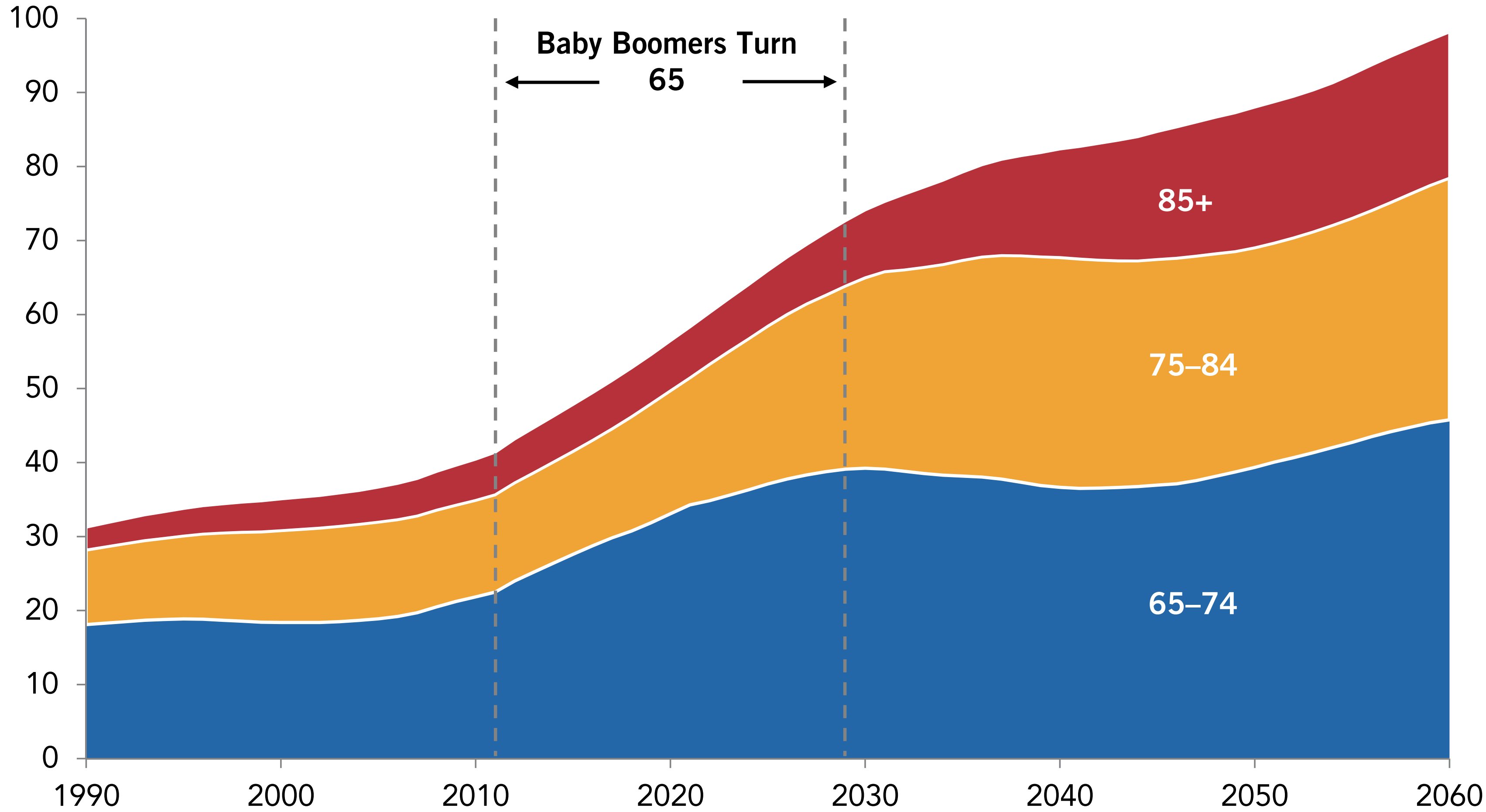
The elderly population is growing rapidly and living longer

U.S. Population Age 65+ (Millions)



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

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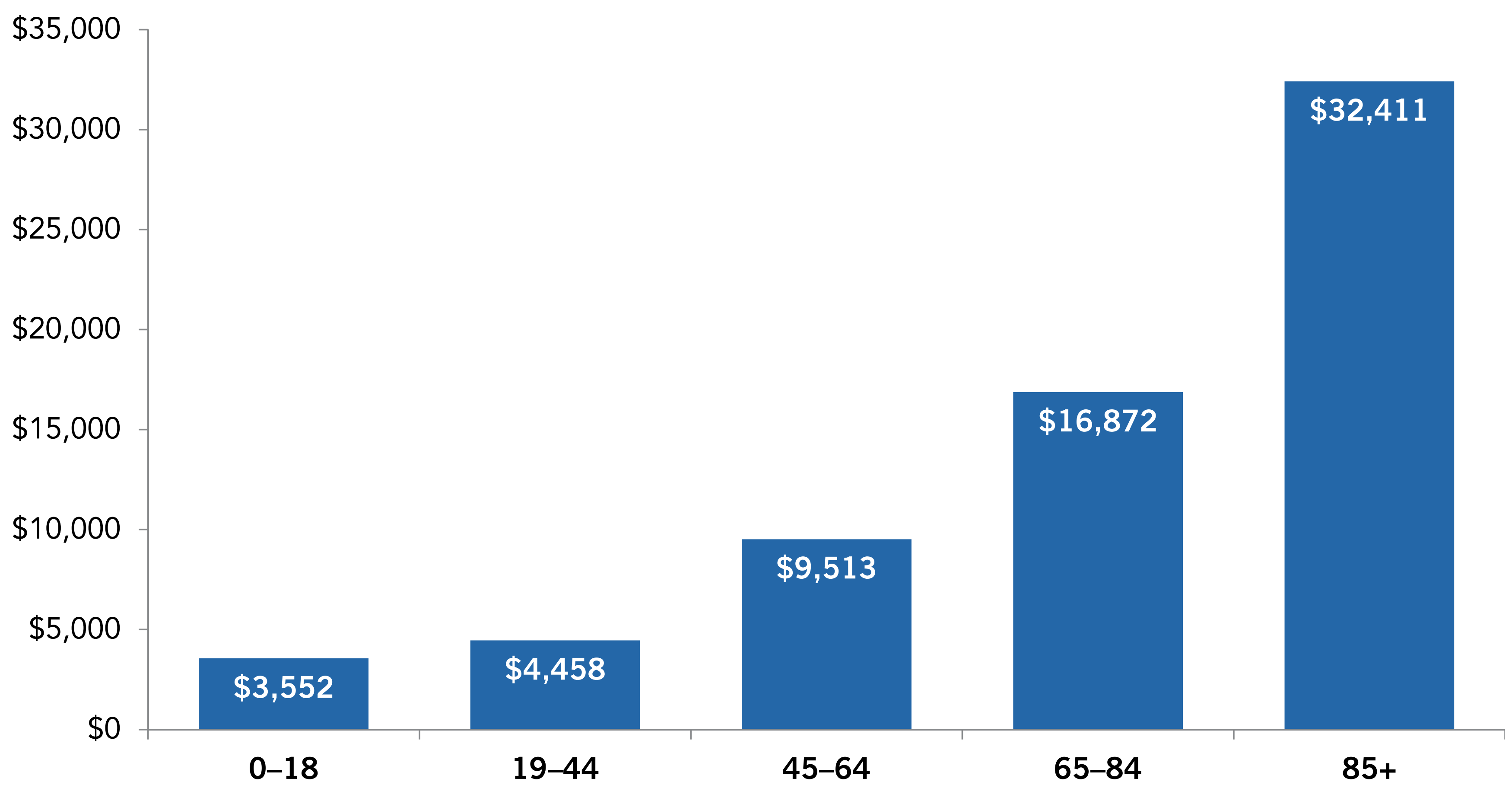
Medical spending increases rapidly with age

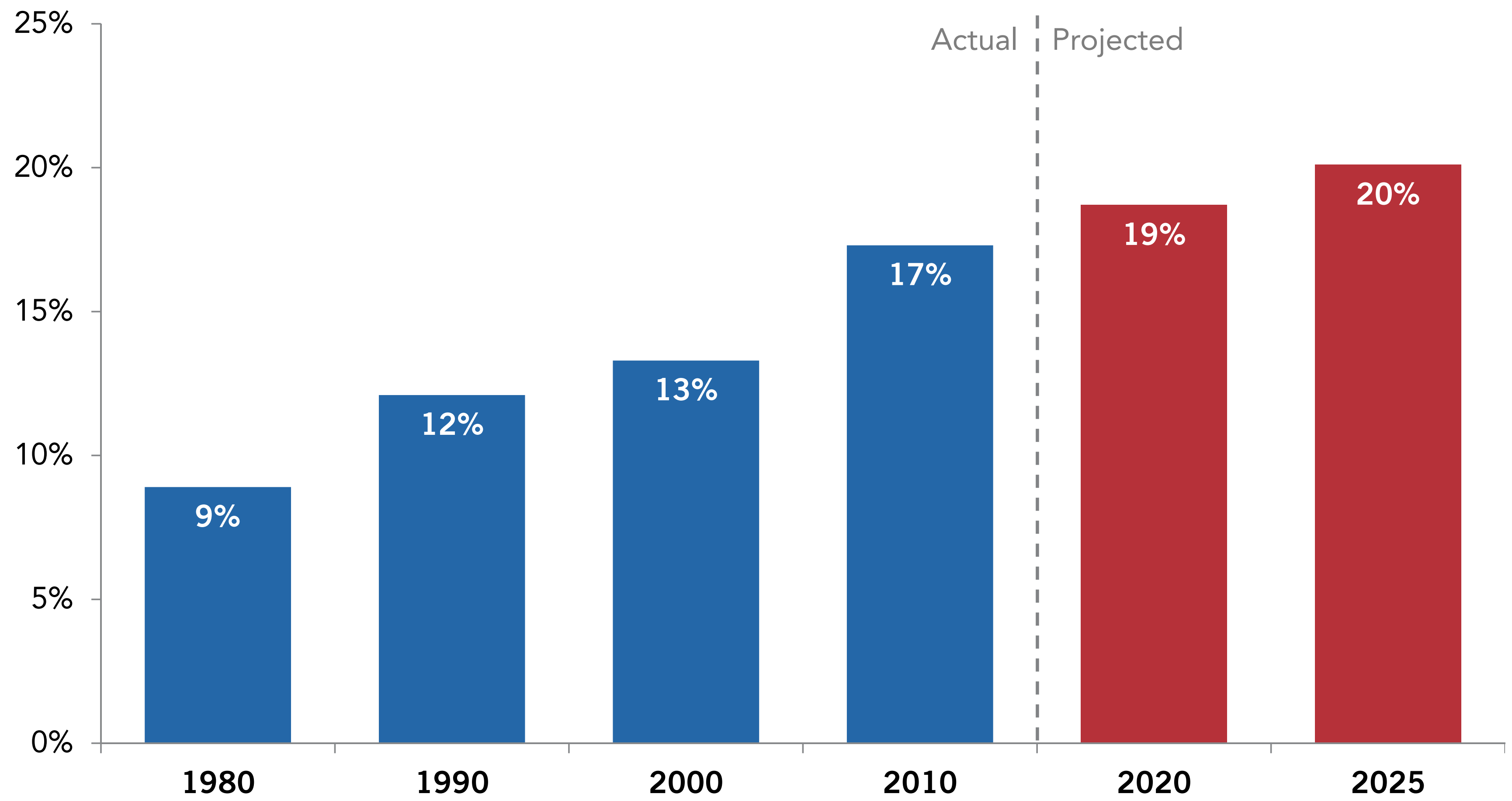
Annual Healthcare Spending per Capita (Dollars)



SOURCE: Centers for Medicare and Medicaid Services, *National Health Expenditures by Age and Gender*, August 2016. Data are for 2012. Compiled by PGPF.

Total U.S. health spending (both public and private) is projected to rise to one-fifth of the economy by 2025

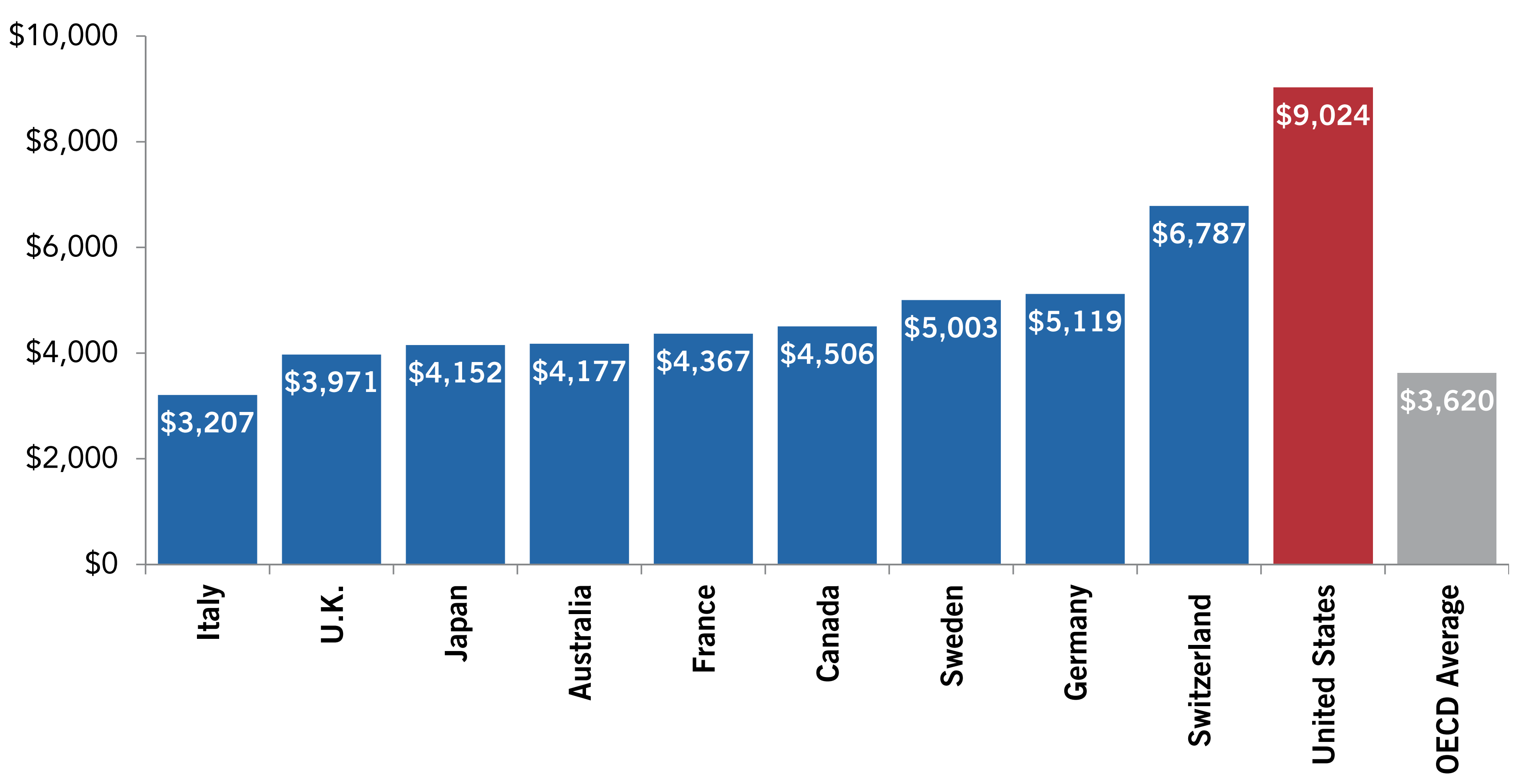
NATIONAL HEALTH EXPENDITURES (% OF GDP)



SOURCE: Centers for Medicare and Medicaid Services, *National Health Expenditures*, July 2016. Compiled by PGPF.

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

HEALTHCARE COSTS PER CAPITA (DOLLARS)



SOURCE: Organization for Economic Cooperation and Development, *OECD Health Statistics 2016*, June 2016. Compiled by PGPF.
NOTE: Data are for 2014 or latest available. Chart uses purchasing power parities to convert data into U.S. dollars.

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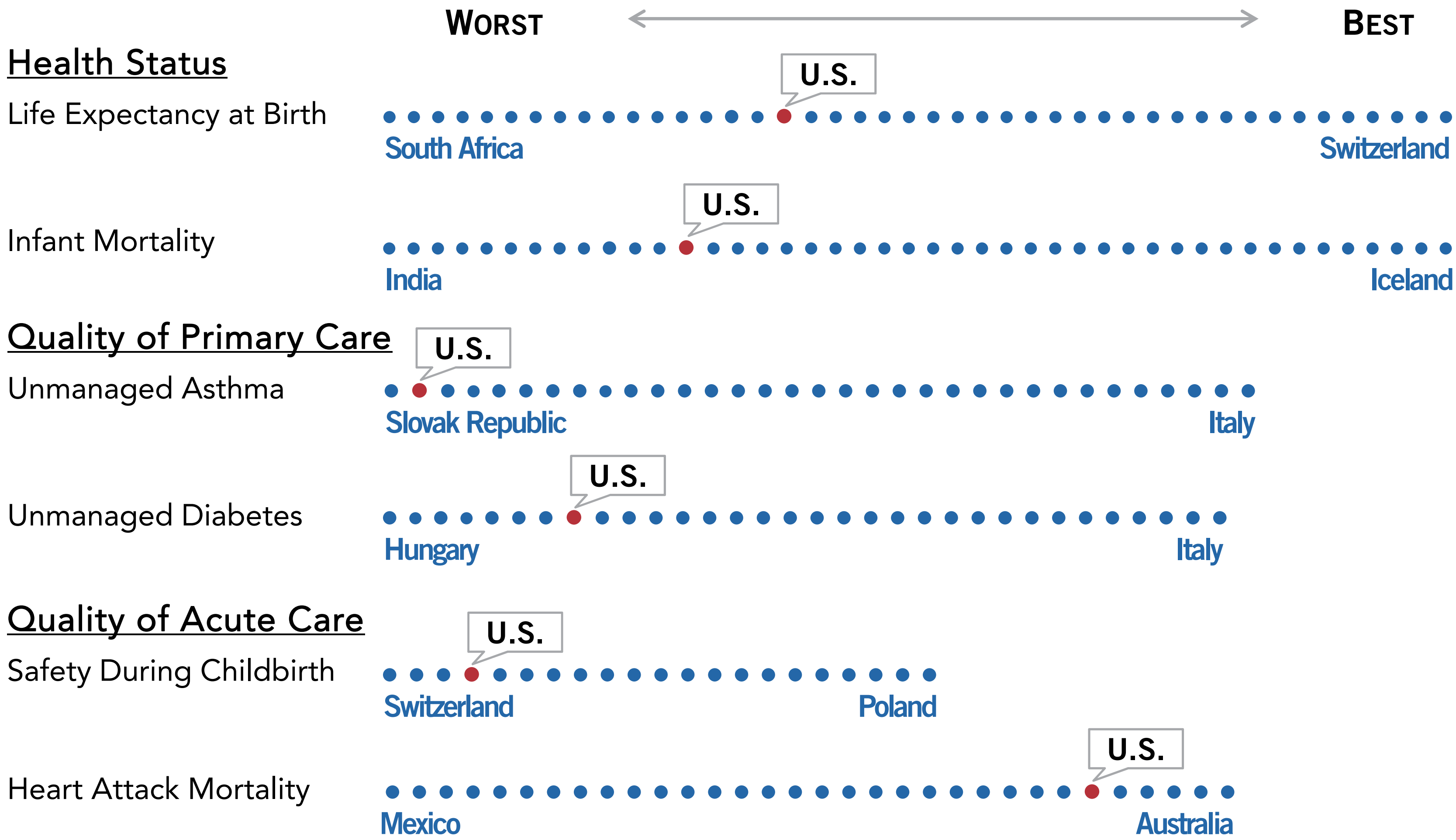
Although the United States spends more on healthcare than other developed countries, its health outcomes are generally no better



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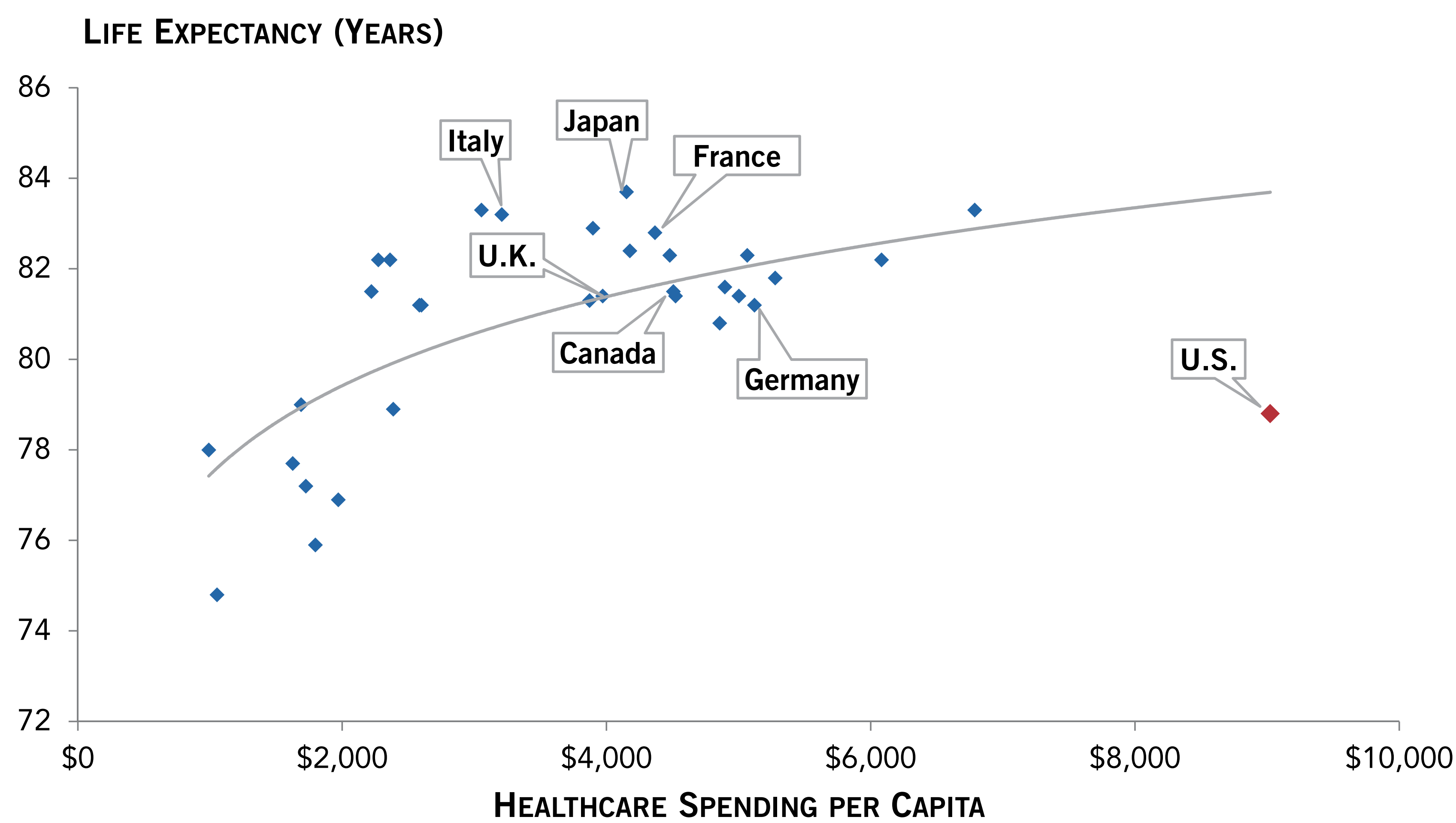
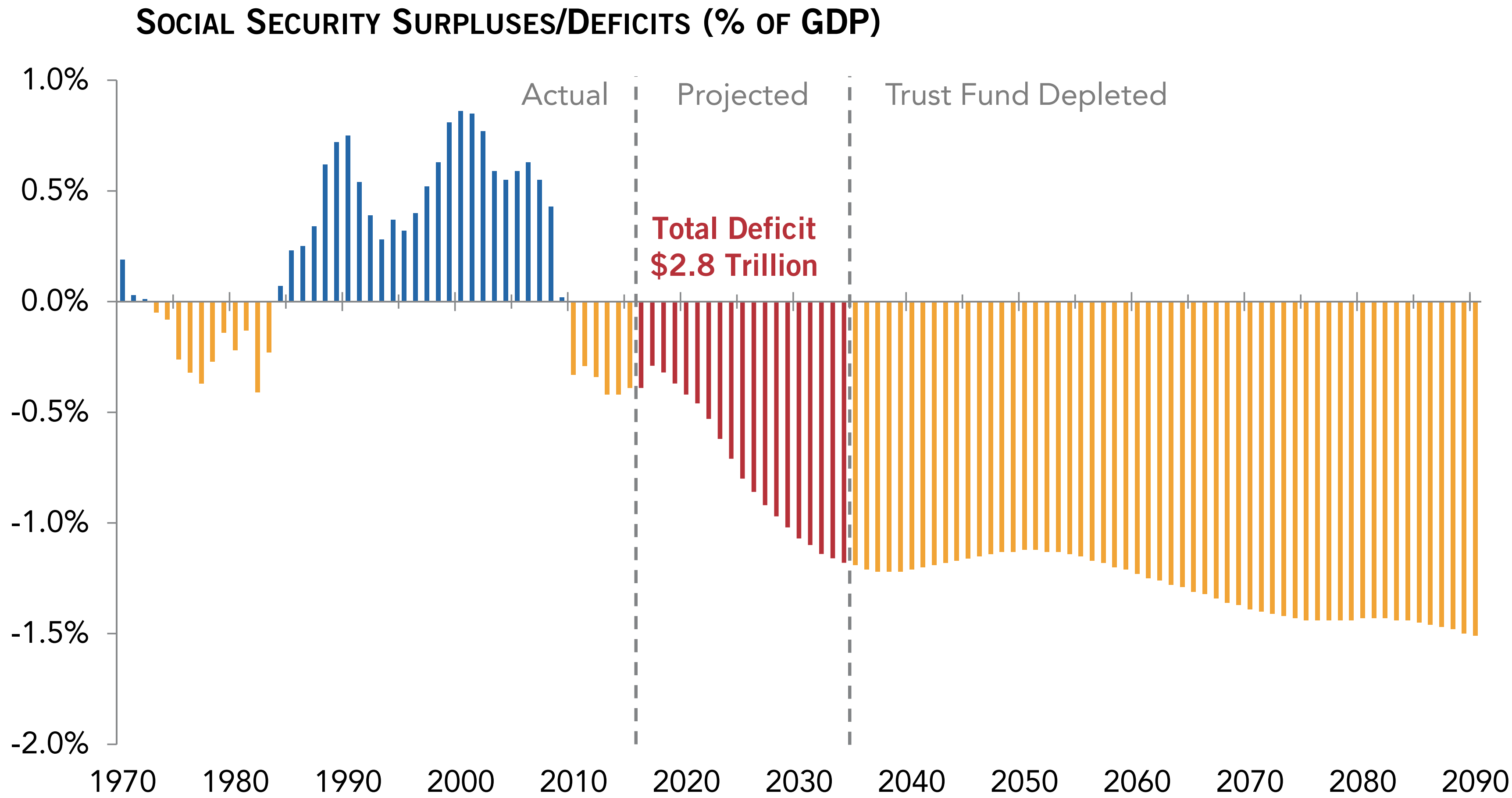
Life expectancy at birth in the United States is lower than in other developed countries, despite higher healthcare costs



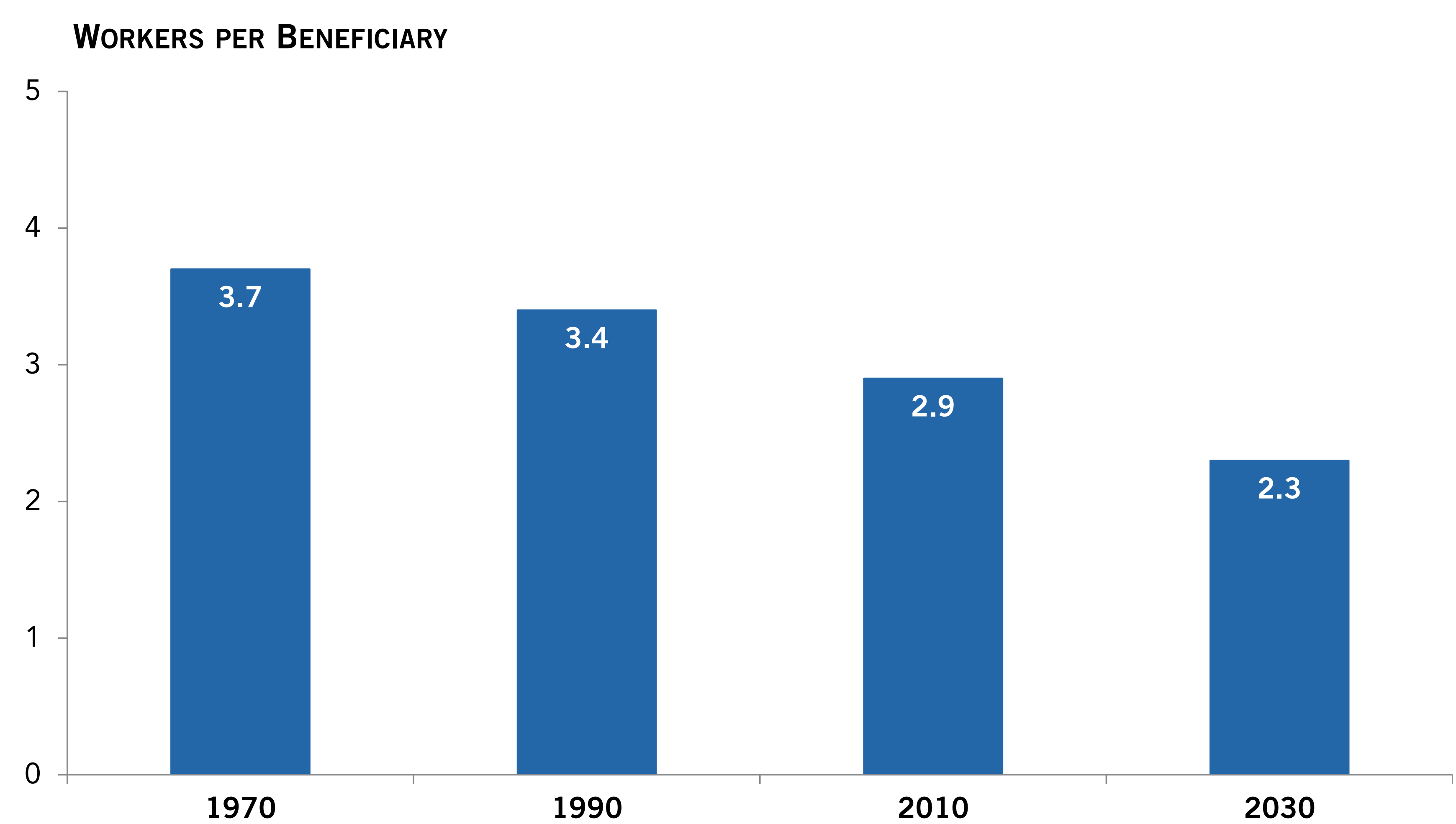
SOURCE: Organization for Economic Cooperation and Development, *OECD Health Statistics 2016*, June 2016. Compiled by PGPF.
NOTE: Data are for 2014 or latest available. The trend line comes from a logarithmic regression.

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



SOURCE: Social Security Administration, *The 2016 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, June 2016. 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 2016 and 2034.

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



SOURCE: Social Security Administration, *The 2016 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, June 2016. Compiled by PGPF.

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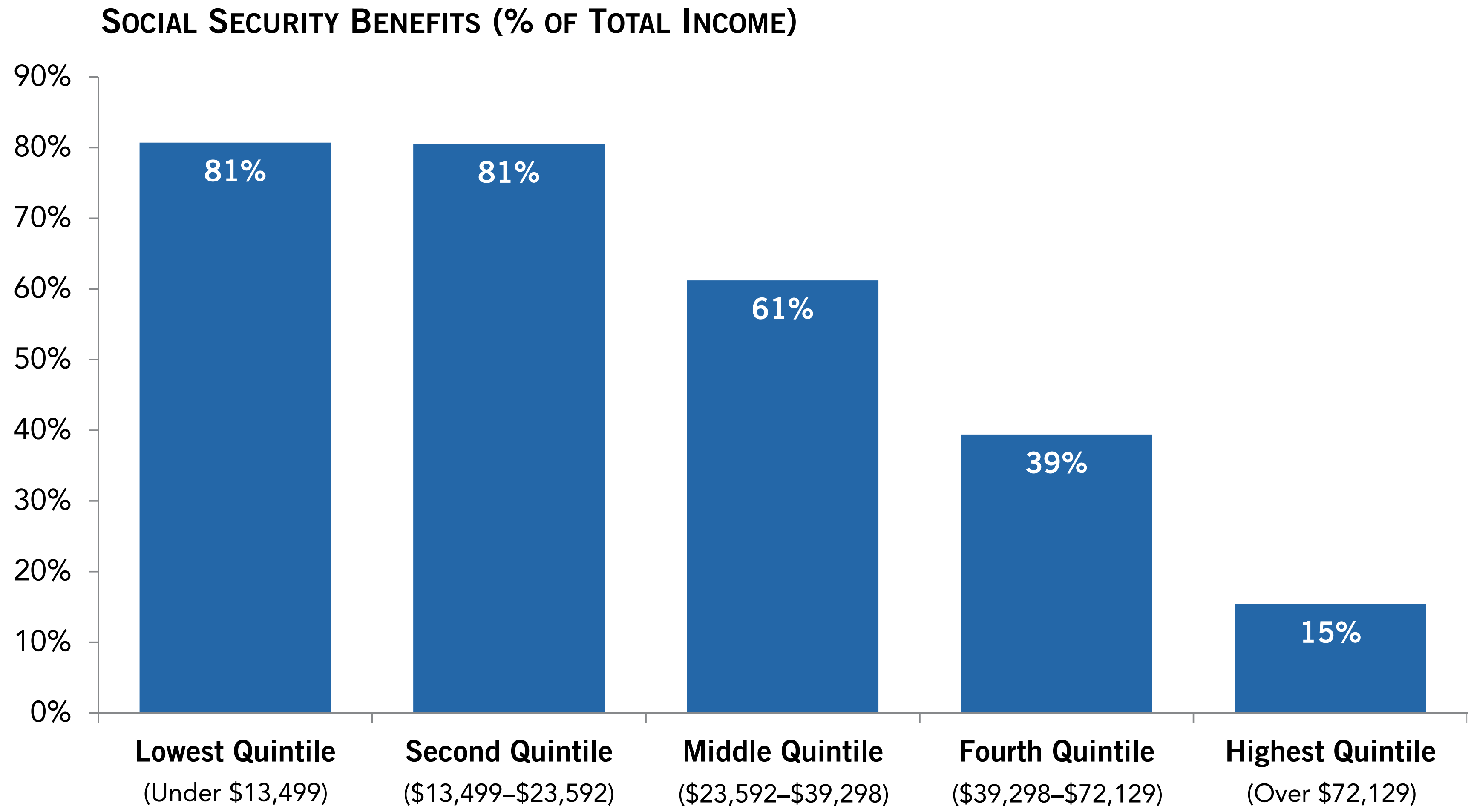
Low-income seniors rely on Social Security benefits for a major share of their retirement income



SOURCE: Social Security Administration, *Income of the Population 55 or Older, 2014,* April 2016. Compiled by PGPF.
NOTE: A quintile is one-fifth of the population.

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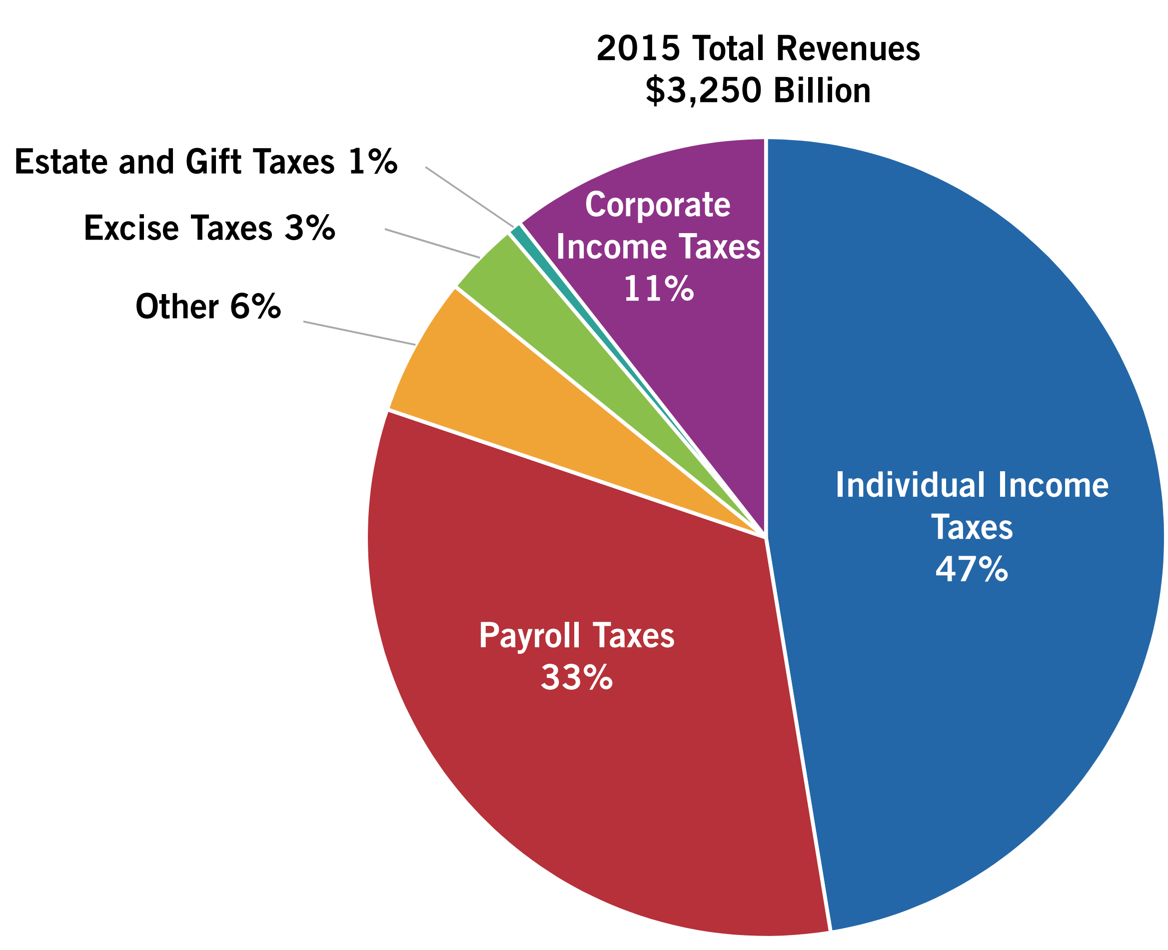
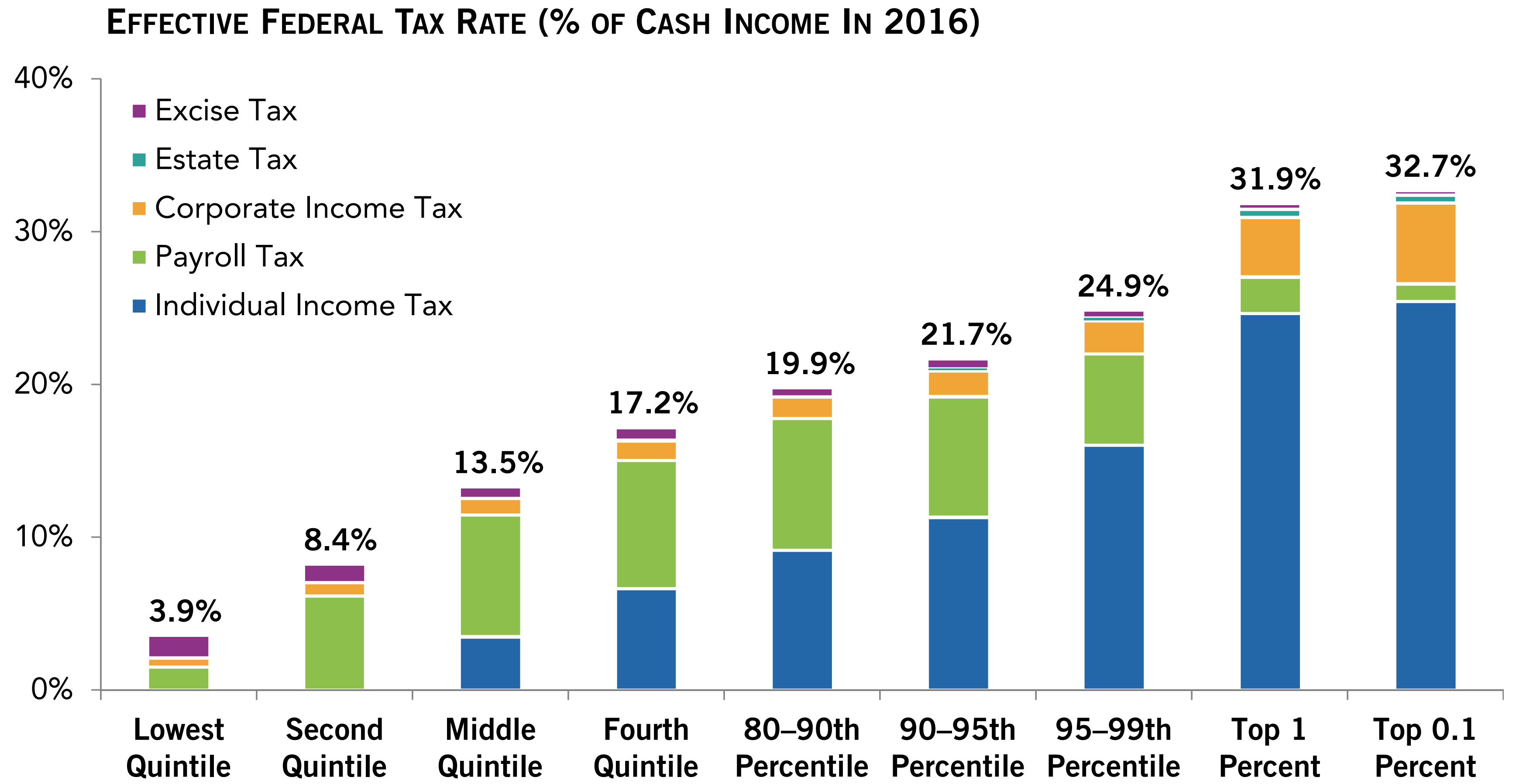
The government collects revenue from a variety of sources



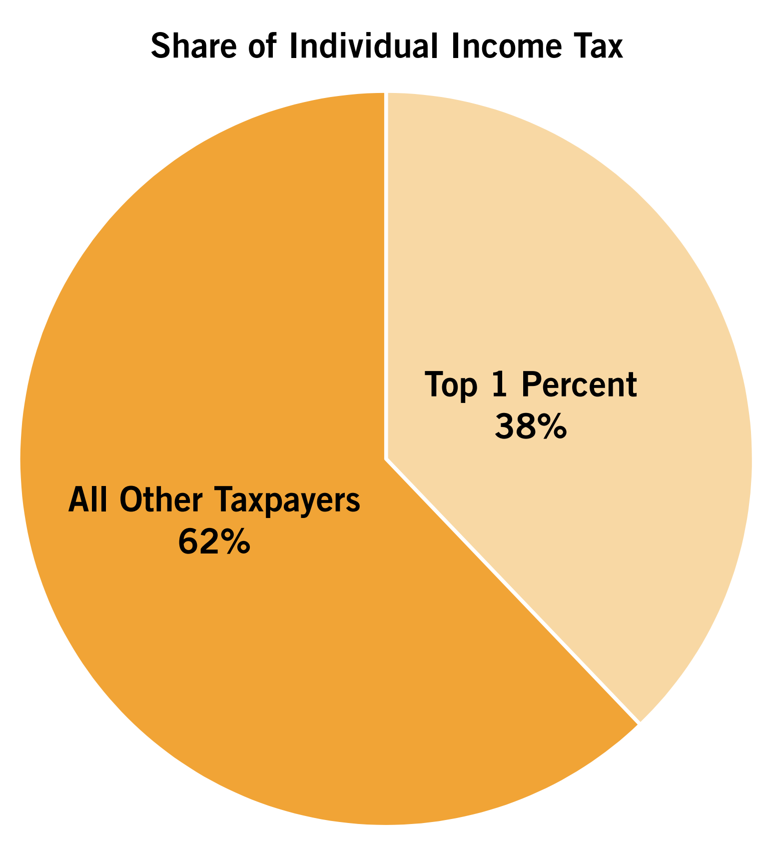
SOURCE: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2017,* February 2016. Compiled by PGPF.
NOTE: Other includes customs duties and miscellaneous sources. Numbers do not sum to 100% due to rounding.

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



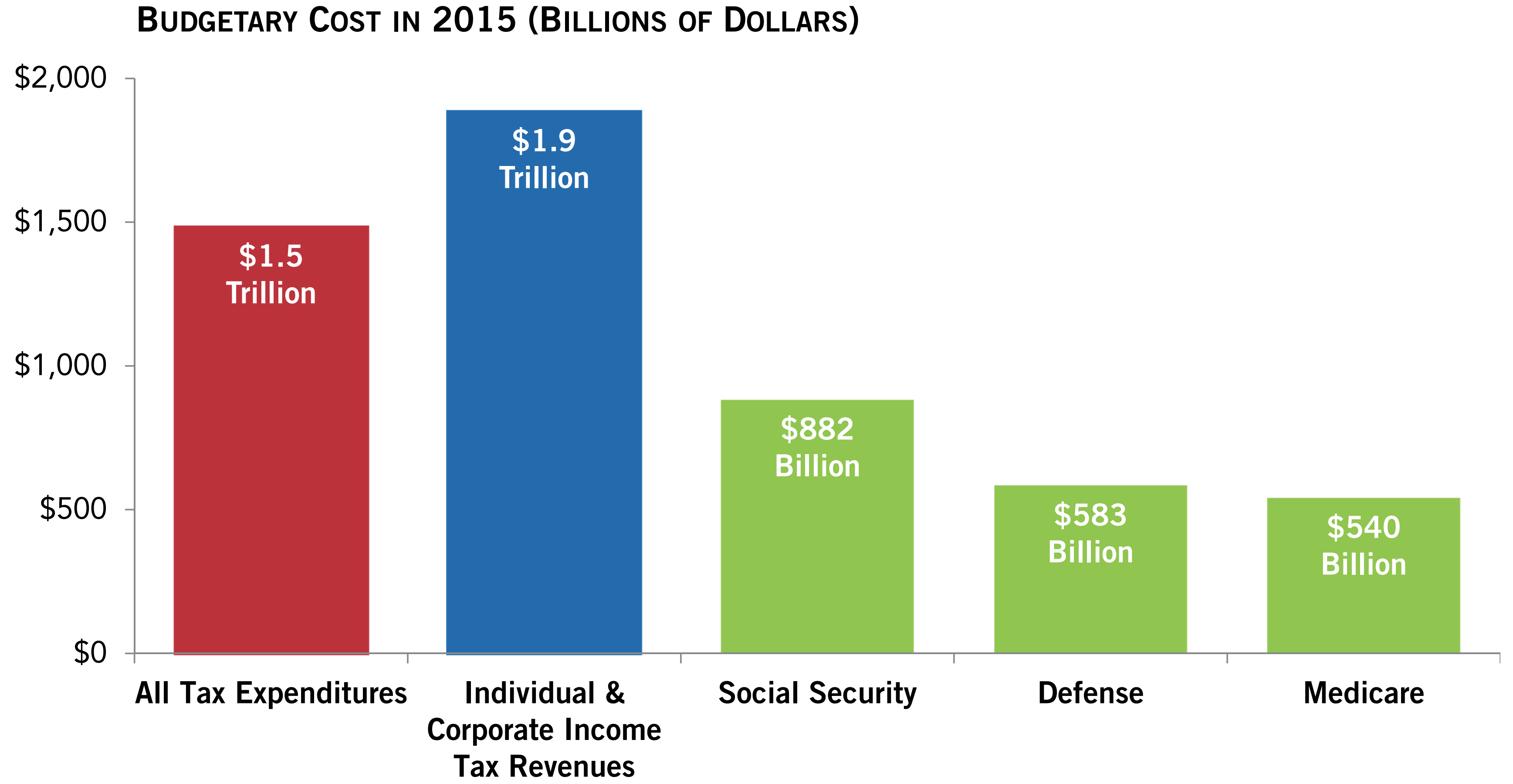
SOURCE: Tax Policy Center, *Effective Federal Tax Rates by Expanded Cash Income Percentile, 2016,* March 2017. Compiled by PGPF.
NOTE: Individual income tax rates for the lowest and second lowest quintiles are negative and are netted against the payroll tax rate. A quintile is one-fifth of the population. The income breaks (in 2017 dollars) are: 20% $24,600; 40% $47,700; 60% $84,300; 80% $147,700; 90% $214,700; 95% $306,100; 99% $717,900; 99.9% $2,917,600. Includes both filing and non-filing units but excludes those that are dependents of other tax units.

The top 1 percent of taxpayers generate 38 percent of individual income tax revenue



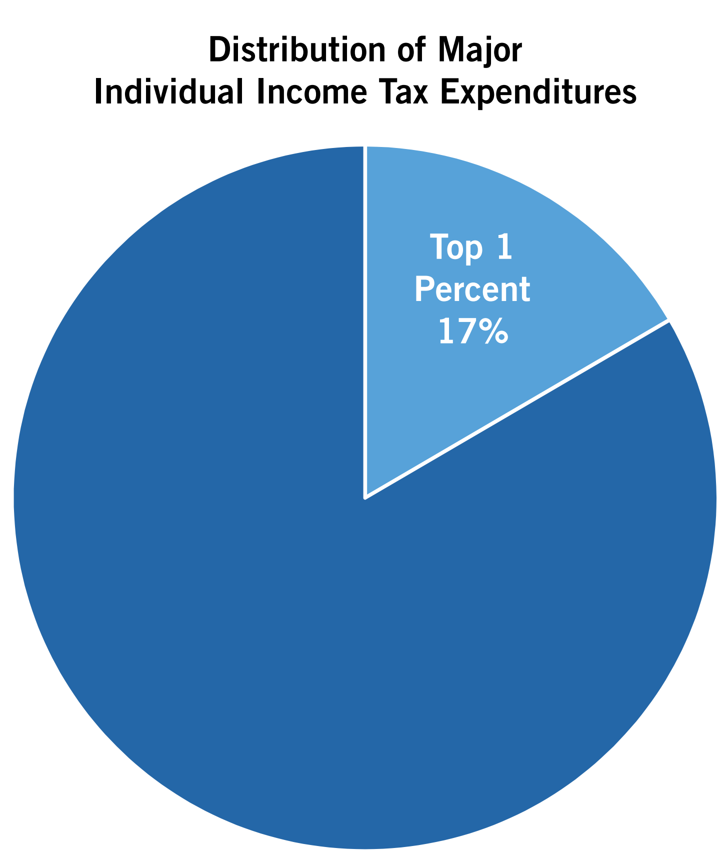
SOURCE: Tax Policy Center, *Share of Federal Taxes – All Tax Units, by Expanded Cash Income Percentile*, March 2017. Data are for 2016. Compiled by PGPF.
NOTE: The income break for the top one percent is $717,900 (in 2017 dollars).

Tax expenditures are large in comparison to annual income 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. 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.

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

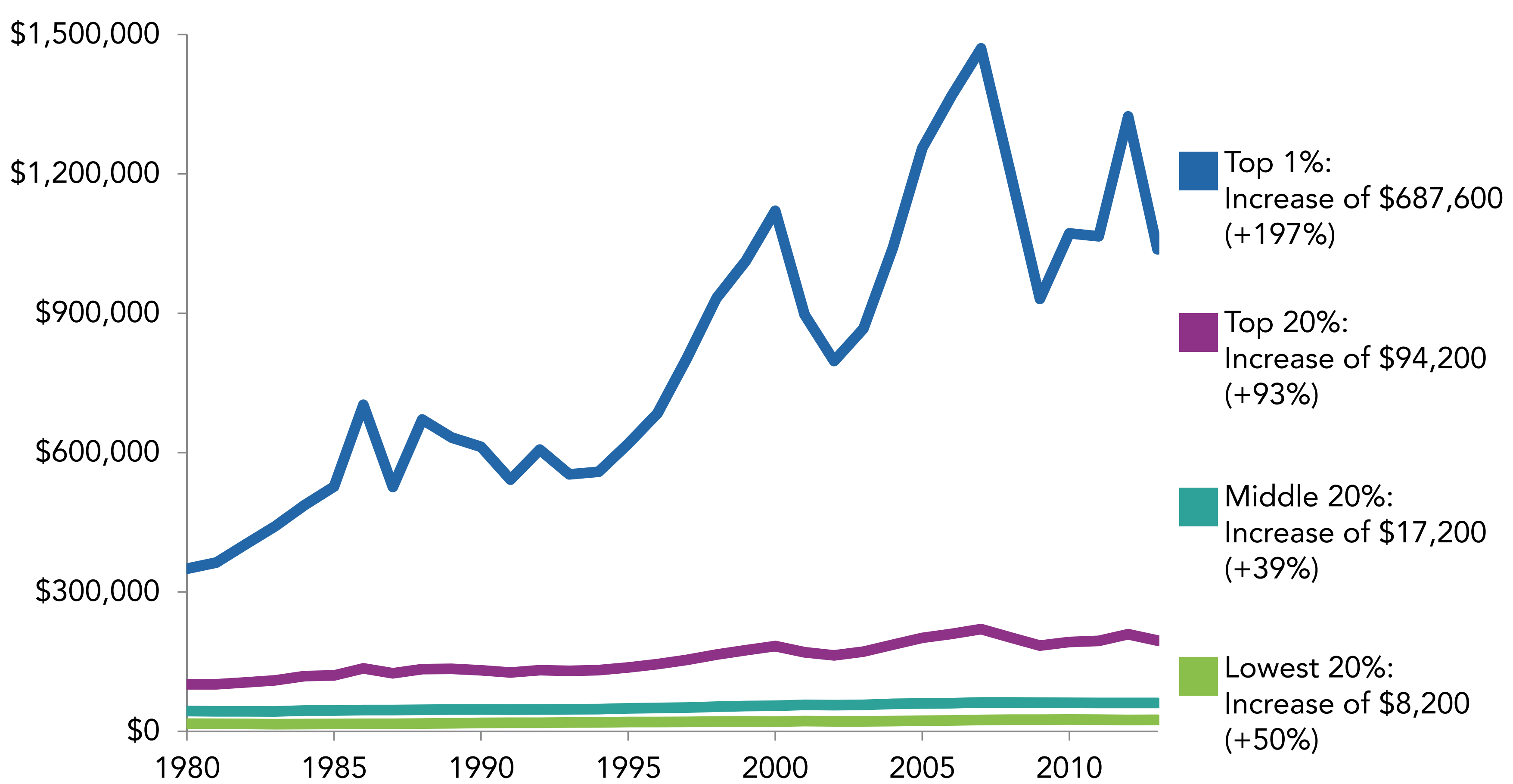
Six popular tax provisions account for nearly 60 percent of annual tax expenditures

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. Numbers may not sum to total because of rounding.

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

AVERAGE ANNUAL AFTER-TAX INCOME (2013 DOLLARS)



SOURCE: Congressional Budget Office, *The Distribution of Household Income and Federal Taxes, 2013*, June 2016. Compiled by PGPF.
NOTE: Increase calculated for 1980–2013.

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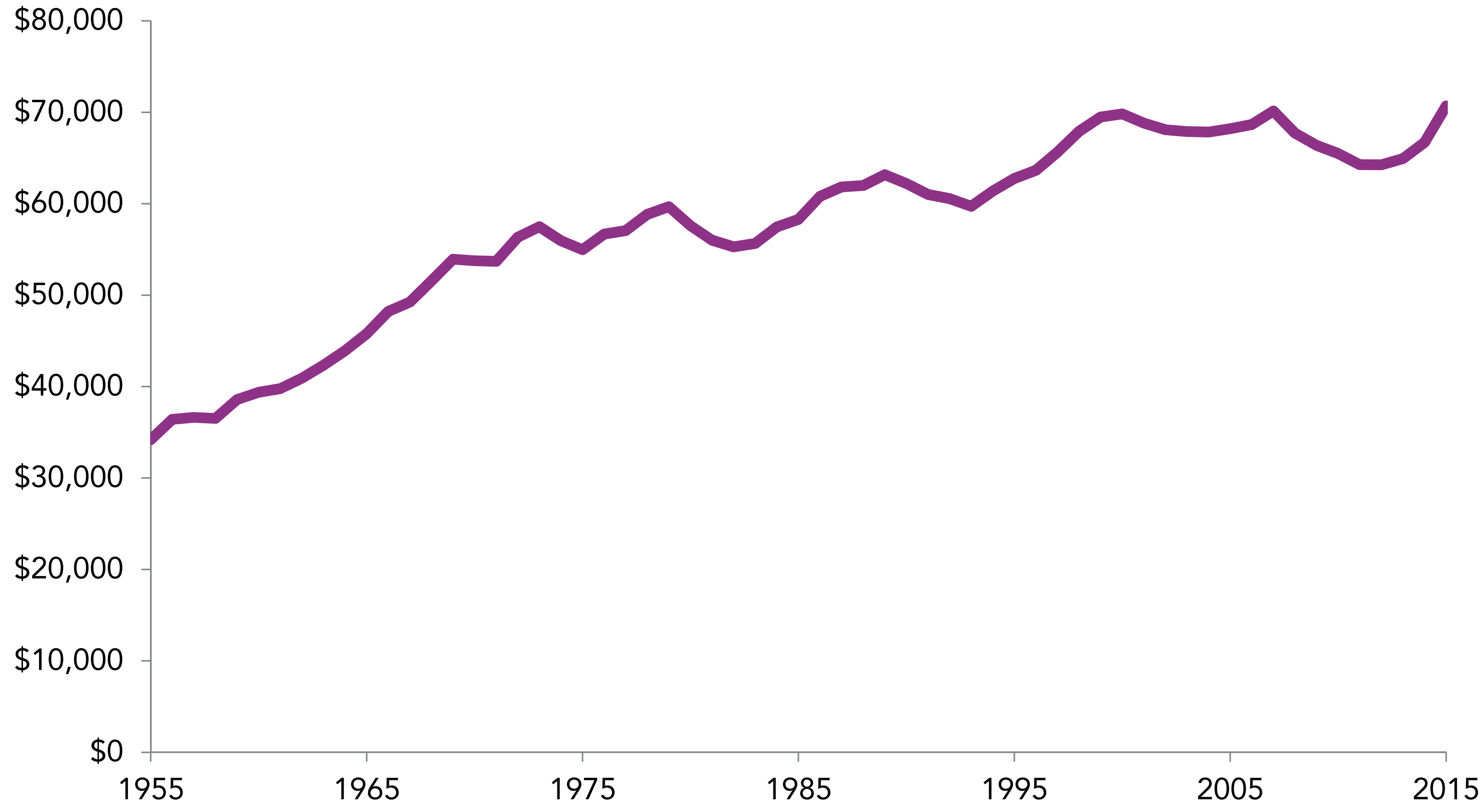
The median real income for families in the United States has seen slow growth for decades

MEDIAN FAMILY INCOME (2015 DOLLARS)



SOURCE: U.S. Census Bureau, *Historical Income Tables*, September 2016. Compiled by PGPF.

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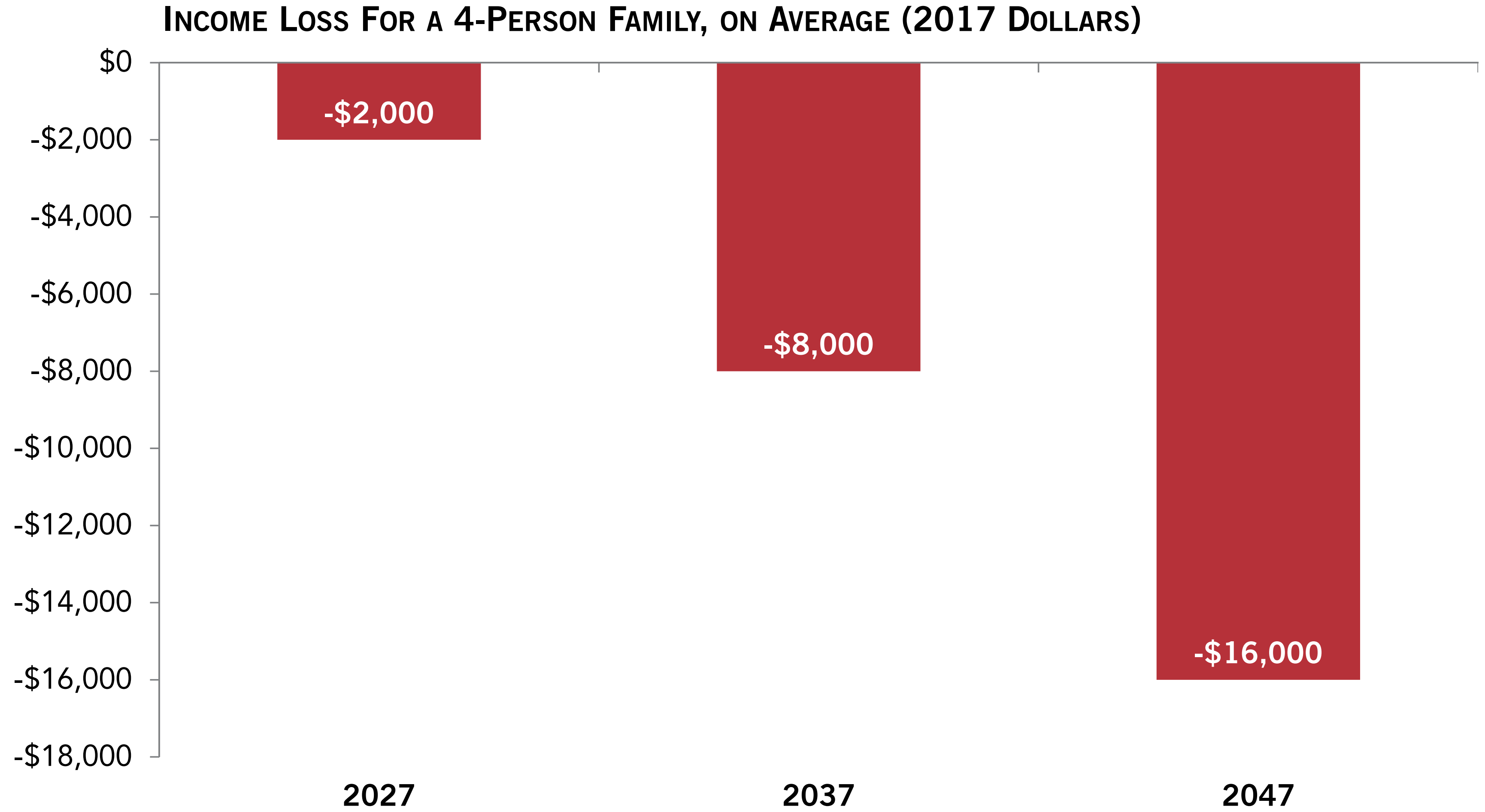
The growing federal debt would reduce family incomes substantially

INCOME LOSS FOR A 4-PERSON FAMILY, ON AVERAGE (2017 DOLLARS)



SOURCE: Congressional Budget Office, *The 2017 Long-Term Budget Outlook*, March 2017. Calculated by PGPF.
NOTE: The income measures are based on CBO's projections of real gross national product (GNP) per person. The income loss is the difference between the income level if debt rises as it does under current law and the income level if debt remains near its current share of GDP.

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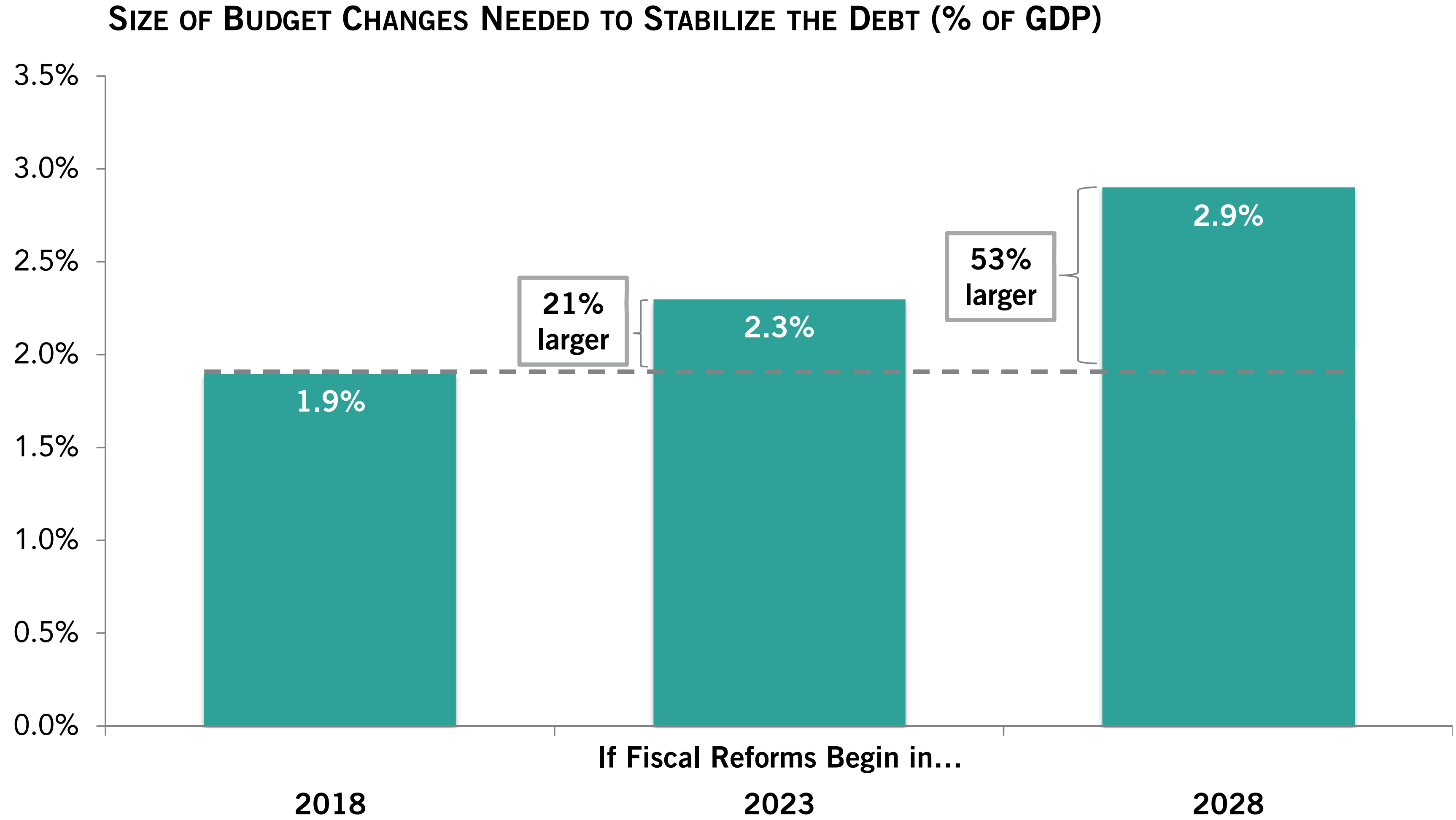
Waiting 5 years raises the cost of stabilizing the debt by 21 percent



SOURCE: Congressional Budget Office, *The 2017 Long-Term Budget Outlook*, March 2017. Compiled by PGPF.

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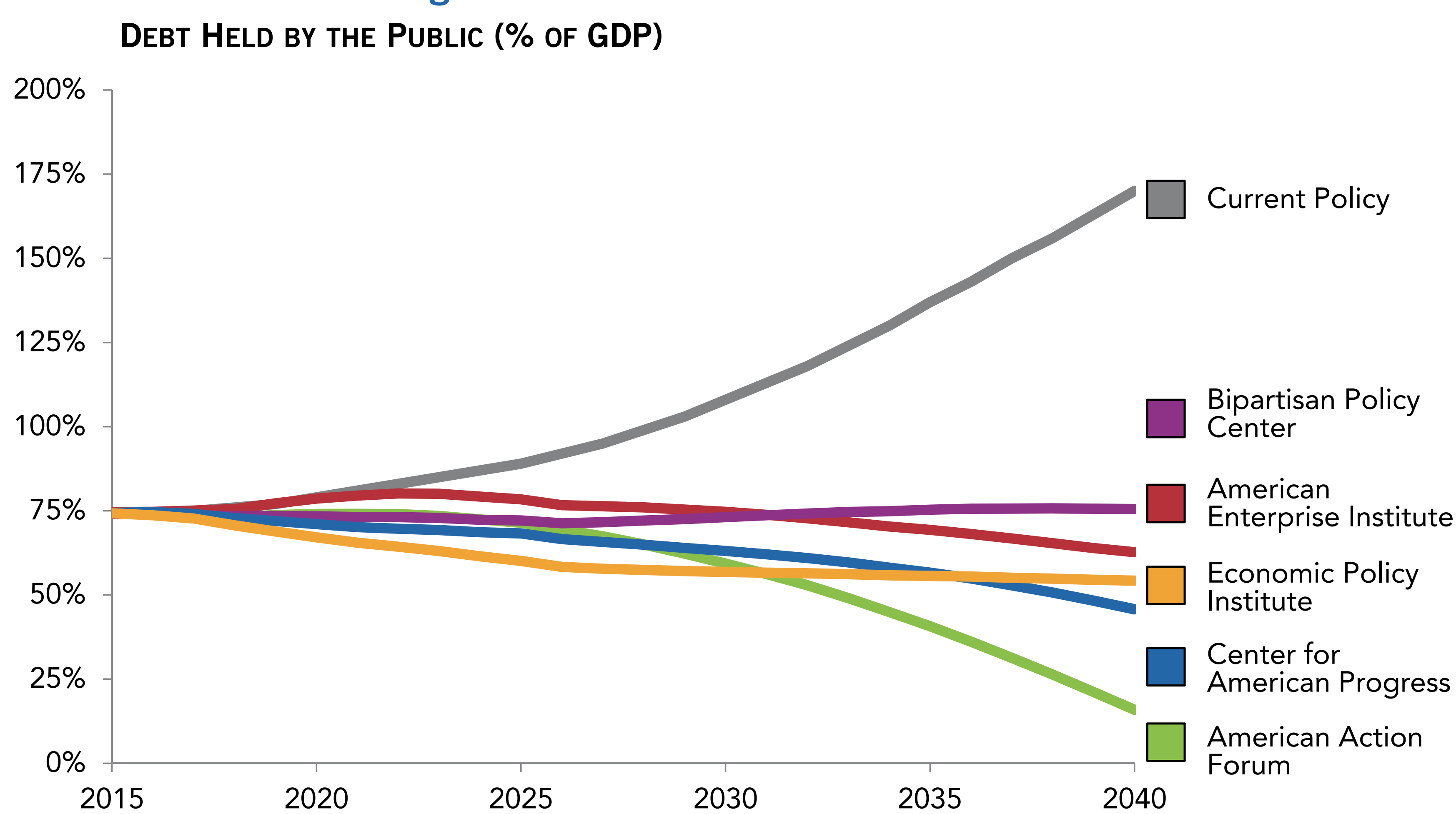
Solutions do exist: PGPF Solutions Initiative plans from five think tanks show stable or declining federal debt through 2040



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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