Selected Charts on the Long-Term Fiscal Challenges of the United States

November 2018
Federal debt is on an unsustainable path

Debt Held by the Public (% of GDP)

SOURCE: Congressional Budget Office, The 2018 Long-Term Budget Outlook, June 2018. Compiled by PGPF.
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The growing debt is caused by a structural mismatch between spending and revenues.

**Federal Revenues and Spending (% of GDP)**

- **Average Spending (1983–2017)**
- **Average Revenues (1983–2017)**
- **Spending**
- **Revenues**

**Source:** Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028*, April 2018, and *The 2018 Long-Term Budget Outlook*, June 2018. Compiled by PGPF.
Net interest costs are projected to rise sharply

Billions of Dollars

10-Year Interest Costs: $6.9 trillion

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Interest costs are the fastest growing category of the budget

**Budget Categories (% of GDP)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Interest</th>
<th>Social Security</th>
<th>Medicare</th>
<th>Medicaid, CHIP &amp; Exchanges</th>
<th>Nondefense Discretionary</th>
<th>Defense Discretionary</th>
<th>Other Mandatory</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>10%</td>
<td>15%</td>
<td>5%</td>
<td>10%</td>
<td>15%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>2026</td>
<td>15%</td>
<td>10%</td>
<td>5%</td>
<td>15%</td>
<td>5%</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>2046</td>
<td>20%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>10%</td>
<td>15%</td>
<td>5%</td>
</tr>
<tr>
<td>2048</td>
<td>25%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>10%</td>
<td>15%</td>
<td>5%</td>
</tr>
</tbody>
</table>

SOURCE: Congressional Budget Office, *The 2018 Long-Term Budget Outlook*, June 2018; and PGPF calculations based on CBO data. Compiled by PGPF.

NOTE: Medicare spending is net of premiums and payments from the states. In 2048, net interest costs would about equal Social Security.
By 2048, interest costs are projected to be more than twice what the federal government has historically spent on R&D, infrastructure, and education combined.

**Federal Spending (% of GDP)**

<table>
<thead>
<tr>
<th></th>
<th>Average Spending (1968–2017)</th>
<th>Interest Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D</td>
<td>2.5%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>1.6%</td>
<td>2038</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td>2048</td>
</tr>
</tbody>
</table>


**NOTE:** Infrastructure excludes defense.
Healthcare is the major driver of the projected growth in federal spending over the long term.

**Federal Spending (% of GDP)**

Actual vs. Projected spending from 1980 to 2045, showing significant increases in Major Health Programs over time.

*Source: Congressional Budget Office, An Update to the Budget and Economic Outlook: 2018 to 2028, June 2018; and PGPF calculations 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)

Medical spending increases rapidly with age

**ANNUAL HEALTHCARE SPENDING PER CAPITA (DOLLARS)**

- **0–18**: $3,552
- **19–44**: $4,458
- **45–64**: $9,513
- **65–84**: $16,872
- **85+**: $32,411

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

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

**National Health Expenditures (% of GDP)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>17%</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>2025</td>
<td>19%</td>
<td></td>
</tr>
</tbody>
</table>

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

**Healthcare Costs per Capita (Dollars)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Costs Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>$3,542</td>
</tr>
<tr>
<td>U.K.</td>
<td>$4,264</td>
</tr>
<tr>
<td>Australia</td>
<td>$4,543</td>
</tr>
<tr>
<td>Japan</td>
<td>$4,717</td>
</tr>
<tr>
<td>Canada</td>
<td>$4,826</td>
</tr>
<tr>
<td>France</td>
<td>$4,902</td>
</tr>
<tr>
<td>Sweden</td>
<td>$5,511</td>
</tr>
<tr>
<td>Germany</td>
<td>$5,728</td>
</tr>
<tr>
<td>Switzerland</td>
<td>$8,009</td>
</tr>
<tr>
<td>United States</td>
<td>$10,209</td>
</tr>
<tr>
<td>OECD Average</td>
<td>$4,069</td>
</tr>
</tbody>
</table>

**Source:** Organization for Economic Cooperation and Development, **OECD Health Statistics 2018**, June 2018. Compiled by PGPF.

**Note:** Data are for 2017 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.

### Health Status

**Life Expectancy at Birth**
- Worst: Latvia
- Best: Japan
- U.S.

**Infant Mortality**
- Worst: Mexico
- Best: Iceland
- U.S.

### Quality of Primary Care

**Unmanaged Asthma**
- Worst: Latvia
- Best: Italy
- U.S.

**Unmanaged Diabetes**
- Worst: Mexico
- Best: Italy
- U.S.

### Quality of Acute Care

**Safety During Childbirth**
- Worst: Canada
- Best: Poland
- U.S.

**Heart Attack Mortality**
- Worst: Mexico
- Best: Norway
- U.S.


**NOTE:** Data are not available for all countries for all metrics. Data are for 2017 or latest available.
As the population ages, fewer workers will be paying taxes to support each Social Security beneficiary.

WORKERS PER BENEFICIARY

<table>
<thead>
<tr>
<th>Year</th>
<th>Workers Per Beneficiary</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>3.7</td>
</tr>
<tr>
<td>1990</td>
<td>3.4</td>
</tr>
<tr>
<td>2010</td>
<td>2.9</td>
</tr>
<tr>
<td>2030</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Social Security will run a cumulative cash deficit of $2.9 trillion between now and 2034.


NOTE: Surplus/deficit numbers exclude interest income. The total deficit of $2.8 trillion is the present value of the cash deficits between 2018 and 2034.
Low-income seniors rely on Social Security benefits for a major share of their retirement income

**Social Security Benefits (% of Total Income)**

- **Lowest Quintile** (Under $13,499): 81%
- **Second Quintile** ($13,499–$23,592): 81%
- **Middle Quintile** ($23,592–$39,298): 61%
- **Fourth Quintile** ($39,298–$72,129): 39%
- **Highest Quintile** (Over $72,129): 15%

**Source:** Social Security Administration, *Income of the Population 55 or Older, 2014*, April 2016. Data are for 2014. Compiled by PGPF.

**Note:** A quintile is one-fifth of the population.

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Discretionary spending funds a wide range of programs

2017 Discretionary Outlays
$1,200 Billion

- Defense
- Education
- Transportation
- Veterans Benefits and Services
- Income Security
- Health (Discretionary Only)
- International Affairs
- Administration of Justice
- Natural Resources and Environment
- General Science, Space and Technology
- Community and Regional Development
- General Government
- Medicare Administrative Costs
- Agriculture
- Social Security Administrative Costs
- Energy

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 seven countries combined.

**Defense Spending (Billions of Dollars)**

- **United States**: $610 Billion
- **China**: $578 Billion
- **Russia**: $300 Billion
- **Saudi Arabia**: $200 Billion
- **India**: $150 Billion
- **France**: $100 Billion
- **United Kingdom**: $100 Billion
- **Japan**: $0 Billion


NOTE: Figures are in U.S. dollars, converted from local currencies using market exchange rates.

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Discretionary spending is projected to fall to well below historical averages

**% of Federal Spending**

- 2008: 38%
- 2018: 31%
- 2028: 23%

**% of GDP**

- Actual
- Projected

**Mandatory Spending and Net Interest Costs**


Discretionary Spending

**Source:** Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028*, April 2018. Compiled by PGPF.

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The federal government collects revenue from a variety of sources

2017 TOTAL REVENUES
$3,316 BILLION

- Individual Income Taxes 48%
- Payroll Taxes 35%
- Corporate Income Taxes 9%
- Other 5%
- Excise Taxes 3%
- Estate and Gift Taxes 1%


NOTE: Other includes customs duties and miscellaneous sources. Numbers may not sum to 100% due to rounding.
Effective Federal Tax Rate by Type (% of Cash Income in 2018)

- Excise Tax
- Estate Tax
- Corporate Income Tax
- Payroll Tax
- Individual Income Tax

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 2018 dollars, the income breaks are: 20% $25,100; 40% $49,300; 60% $85,900; 80% $153,300; 90% $222,900; 95% $319,100; 99% $754,800; 99.9% $3,318,600. Includes both filing and non-filing units but excludes those that are dependents of other tax units.
The top 1 percent of taxpayers generate 26 percent of individual income tax revenue

Share of Individual Income Tax Revenue

- Top 1 Percent: 26%
- All Other Taxpayers: 74%

SOURCE: Tax Policy Center, Baseline Distribution of Income and Federal Taxes, All Tax Units, by Expanded Cash Income Percentile, August 2018. Data are for 2018. Compiled by PGPF. NOTE: In 2018, household was in the top 1 percent if its income was $754,800 or higher.

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The incomes of the wealthy have grown much faster than the incomes of other groups.

**Average Annual After-Tax Income (2015 Dollars)**

- **Top 1%:** Increase of $876,200 (+242%)
- **Top 20%:** Increase of $109,100 (+103%)
- **Middle 20%:** Increase of $18,700 (+41%)
- **Lowest 20%:** Increase of $14,800 (+80%)

Tax expenditures are large in comparison to annual income taxes collected and to the government’s major programs.

**Budgetary Cost in 2017 (Dollars)**

- **All Tax Expenditures**: $1.5 Trillion
- **Individual & Corporate Income Tax Revenues**: $1.9 Trillion
- **Social Security**: $939 Billion
- **Medicare**: $591 Billion
- **Defense**: $590 Billion


**Note:** Tax expenditures are deductions, credits, exclusions, and preferential rates. The estimates for tax expenditures do not account for any interactive effects of combining various provisions. Medicare spending is net of premiums and payments from the states. Defense represents discretionary defense spending.
Six popular tax provisions accounted for more than 60 percent of annual tax expenditures

<table>
<thead>
<tr>
<th>Major Individual Tax Expenditures</th>
<th>Budgetary Costs (2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclusion of employer contributions for medical insurance and care*</td>
<td>$341 billion</td>
</tr>
<tr>
<td>Exclusion of pension contributions and earnings**</td>
<td>$193 billion</td>
</tr>
<tr>
<td>Preferential treatment of dividends and capital gains</td>
<td>$175 billion</td>
</tr>
<tr>
<td>Deduction for state and local taxes</td>
<td>$104 billion</td>
</tr>
<tr>
<td>Deduction of mortgage interest on owner-occupied homes with loan values up to $1 million</td>
<td>$66 billion</td>
</tr>
<tr>
<td>Earned Income Tax Credit (EITC)</td>
<td>$64 billion</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$942 billion</strong></td>
</tr>
</tbody>
</table>

**NOTE:** *Includes the exclusion from payroll taxes and income taxes. **Includes employer pension plans, employee and employer contributions to 401k plans, IRAs, the low and moderate income savers credit, and self-employed plans. Changes to some of these tax expenditures were included in the Tax Cuts and Jobs Act of 2017. Numbers may not sum to total because of rounding.*
The top 1 percent of taxpayers receive 28 percent of the benefit from individual income tax expenditures

Distribution of Individual Income Tax Expenditures

- Top 1 Percent: 28%
- All Other Taxpayers: 72%


NOTE: Data only includes non-business tax expenditures that are claimed on individual tax returns. TPC’s income groups are based on expanded cash income and account for family size. In 2015, a family was in the top 1 percent if its size-adjusted expanded cash income was $391,500 or higher.
The growing federal debt would reduce family incomes substantially

**Income Loss for a 4-Person Family, on Average (2019 Dollars)**

- 2028: -$4,000
- 2038: -$8,000
- 2048: -$16,000

**Source:** Congressional Budget Office, *The Deficit Reductions Necessary to Meet Various Targets for Federal Debt*, August 2018. Compiled 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.

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

- **2019:** 1.9%
- **2024:** 2.3% (21% larger)
- **2029:** 2.9% (53% larger)

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

**Debt Held by the Public (% of GDP)**

- **Current Policy**
- **Bipartisan Policy Center**
- **American Enterprise Institute**
- **Economic Policy Institute**
- **Center for American Progress**
- **American Action Forum**


**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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