KEY YEAR-END FISCAL EVENTS

<table>
<thead>
<tr>
<th>Date</th>
<th>Item</th>
<th>Description</th>
<th>Budgetary Impact (in Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>One Year (2013)</td>
</tr>
<tr>
<td>12/31/2012</td>
<td>AMT</td>
<td>30 million taxpayers will be subject to AMT in 2012 if AMT is not indexed for inflation.</td>
<td>$90</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Interaction between “Bush” Tax Cuts and AMT.</td>
<td>$35</td>
</tr>
<tr>
<td>12/31/2012</td>
<td>Other Expiring Taxes(^3)</td>
<td>Several other tax provisions will expire if not extended.</td>
<td>$79</td>
</tr>
<tr>
<td>12/31/2012</td>
<td>“Doc Fix”</td>
<td>Medicare’s physician reimbursement rates will fall 27% if “Doc Fix” is not extended.</td>
<td>$19</td>
</tr>
<tr>
<td>1/2/2013</td>
<td>BCA’s Automatic Spending Reductions</td>
<td>Reductions on defense and nondefense spending.</td>
<td>$66</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$396</td>
</tr>
</tbody>
</table>

OTHER FISCAL EVENTS

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Late 2012- Early 2013</td>
<td>Debt Limit</td>
<td>Federal government will hit the $16.4 trillion debt limit.</td>
</tr>
<tr>
<td>12/31/2012</td>
<td>Payroll Tax Holiday</td>
<td>Payroll tax rates will rise 2 percentage points when temporary holiday ends.</td>
</tr>
<tr>
<td>1/2/2013</td>
<td>UI benefits</td>
<td>Long-term unemployment benefits will be scaled back when temporary benefits end.</td>
</tr>
</tbody>
</table>

SOURCE: Peter G. Peterson Foundation using data from the Congressional Budget Office and Department of Treasury.
AMT = Alternative Minimum Tax; BCA = Budget Control Act of 2011; UI = Unemployment Insurance
NOTES:
1. Budgetary impact includes the costs of debt service.
2. The major effects of the expiring Bush tax cuts: tax rates will rise 3 to 5 percentage points; top rate on capital gains rises to 20%; top rate on dividends rises to 39.6%; child credit falls to $500 per child; marriage penalty relief ends; and taxes on estates and gifts increase.
3. Other expiring taxes include about 80 provisions, including the research and experimentation tax credit.
US FEDERAL DEBT

Total federal debt is $15.7 trillion today. The amount of debt held by the public (which excludes the trust funds like Social Security) is $10.9 trillion.

Countries with debts above 90% of gross domestic product (GDP) have slower economic growth and face greater risks of crises, according to research by economists Carmen Reinhart and Kenneth Rogoff. GDP is a standard measure of the size of the economy.

Public debt is currently 70% of GDP. If we don’t change our policies, debt is projected to climb to 200% of GDP within 30 years.

Federal debt today is $33,500 per person; by 2035, it is projected to grow to about $125,000 per person in today's dollars.

50% of U.S. federal debt is held by foreigners, up from 5% in 1970.

INTEREST COSTS

The United States currently spends about $200 billion per year on interest on the public debt. In ten years, we are projected to spend nearly $1 trillion per year on interest.

By 2035, our projected interest costs will be more than 13% of GDP – four times what the federal government has historically spent each year on education, research and development, and infrastructure combined. By contrast, emerging economies are projected to spend 3% of their GDP on interest costs in 2035.

By 2055, interest payments on our growing debt are projected to exceed 100% of all federal revenues.

HEALTH CARE

Americans spend twice as much per person on health care as other advanced nations, yet on balance, our health outcomes are no better. By 2035, total health spending is expected to consume more than one quarter of our economy.

Health care spending increases with age. People 65 and older spend, on average, 4 times more than people under age 65, and people 85 and older spend 7 times more than people under age 65. The number of Americans aged 65 and older will double between now and 2040.

100% of the projected future growth in federal non-interest spending will come from health entitlements and Social Security. These items will more than double as a share of GDP by 2040, while all other spending – including defense, education, transportation, R&D, and homeland security programs – will decline as a share of GDP.
SOCIAL SECURITY

The aging of the U.S. population will affect Social Security’s finances. In 1960, there were 5 workers paying taxes to support 1 Social Security beneficiary. Today, there are only 3 workers per beneficiary. By 2030, there will be only 2.

Social Security benefits represent 80 percent of the income of the poorest 40 percent of seniors.

DEFENSE

The United States spends more on national defense than the next thirteen countries combined.

TAXES

Tax expenditures – deductions, exemptions, credits, and other special provisions in the individual and corporate income tax codes – cost more than one trillion dollars each year, which is nearly as much as the federal government collects in individual and corporate income taxes or spends on Social Security and Medicare combined.

The 20 percent of households with the highest incomes receive more than 65 percent of the value of tax expenditures.

REVENUE INCREASES AND SPENDING CUTS

To restore the U.S. budget to a sustainable path using spending cuts alone, the entire budget (excluding interest costs) would have to be cut by about 30%. If defense and Social Security are exempted, everything else would have to be cut by about 50%.

Solving the problem through revenue increases alone would require tax increases of about 45%.
Future U.S. debt held by the public is projected to soar to unsustainable levels if current policies remain unchanged.

By 2055, federal revenues will not even be sufficient to cover interest payments on the federal debt.
Mandatory programs and interest costs are taking over more and more of the federal budget, crowding out important discretionary programs.

Total Mandatory 38%  Net Interest 7%
Mandatory Programs 31%
Discretionary 61%

Total Mandatory 65%  Net Interest 6%
Mandatory Programs 59%
Discretionary 35%

Total Mandatory 78%  Net Interest 22%
Mandatory Programs 53%
Discretionary 47%

Total Spending 1970: 19 percent of GDP
Total Spending 2012: 24 percent of GDP
Total Spending 2035: 34 percent of GDP

SOURCES: Data from the Peter G. Peterson Foundation’s Long Term Model of the Federal Budget, baseline assumptions; and the Office of Management and Budget, FY 2013 Budget, Historical Tables, February 2012.
NOTE: Mandatory programs include Social Security, Medicare, Medicaid, other entitlement programs, and offsetting receipts.

By 2035, projected interest costs on the debt will be almost four times what the federal government has historically spent on education, research and development and infrastructure.

Percentage of GDP

Average Annual Education, Nondefense Infrastructure, and R&D Spending (1962-2011)

Health care is the principal driver of federal spending growth over the long term

As a percentage of GDP

2010 2015 2020 2025 2030 2035 2040 2045 2050

Major Health
Social Security
Defense Discretionary
Nondefense Discretionary
Other Mandatory


Currently, Americans spend about twice as much per capita on health care than other OECD countries with no appreciable difference in health outcomes

Per Capita Health Care Costs

<table>
<thead>
<tr>
<th>Country</th>
<th>Health Care Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan*</td>
<td>$2,878</td>
</tr>
<tr>
<td>UK</td>
<td>$3,487</td>
</tr>
<tr>
<td>Australia*</td>
<td>$3,445</td>
</tr>
<tr>
<td>Italy</td>
<td>$3,137</td>
</tr>
<tr>
<td>Sweden</td>
<td>$3,722</td>
</tr>
<tr>
<td>Canada</td>
<td>$4,363</td>
</tr>
<tr>
<td>Germany</td>
<td>$4,218</td>
</tr>
<tr>
<td>Switzerland</td>
<td>$5,144</td>
</tr>
<tr>
<td>France</td>
<td>$3,978</td>
</tr>
<tr>
<td>US</td>
<td>$7,960</td>
</tr>
</tbody>
</table>

SOURCE: Data from OECD. Compiled by PGPF.
NOTE: Per capita health expenditures in 2009, unless otherwise noted. Comparison uses Purchasing Power Parity, which adjusts exchange rates to assume identical price of goods in different countries.
*Japan and Australia data from 2008.
Social Security has transitioned from surpluses to growing deficits

![Graph showing Social Security surpluses/deficits in percent of GDP from 1970 to 2090. The graph includes both actual and projected data.](image)

**SOURCE:** Data from the Social Security Administration, *The 2012 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds.* Compiled by PGPF.

**NOTE:** Excludes interest income.

Lower-income seniors rely on Social Security benefits for a significant share of their income

![Bar chart showing Social Security benefits as a percent of total income for different quintiles.](image)

**SOURCE:** Data derived from the Social Security Administration *Income of the Population 55 or Older: 2008.* Compiled by PGPF.

**NOTES:** A quintile is one fifth of the distribution. I.e., the lowest quintile is the 20% of the population with the lowest income.
The U.S. spent more on defense in 2011 than did the countries with the next 13 highest defense budgets combined.

**Source:** Data from Stockholm International Peace Research Institute, *SIPRI Military Expenditure Database*. Compiled by PGPF.

**Note:** Dollar figures are in billions of 2011 constant U.S. dollars.

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Tax expenditures are large in comparison to total income taxes collected, as well as the government’s major programs.


**Note:** All figures reflect fiscal year 2012 projections. Medicare spending is net of premiums and payments from the states. Those receipts were $85 billion in 2012. Income tax expenditures and revenues include both individual and corporate income taxes.
While lower and middle class incomes have not grown very much after adjusting for inflation, incomes of the wealthy have grown significantly.

Solutions do exist:
PGPF Solutions Initiative plans from six think tanks
Projected federal debt levels through 2035