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

November 2019
Federal debt is on an unsustainable path

Debt Held by the Public (% of GDP)

- Civil War
- WWI
- Great Depression
- WWII

Actual
Projected

144% in 2049


© 2019 Peter G. Peterson Foundation
The growing debt is caused by a structural mismatch between spending and revenues.

**FEDERAL SPENDING AND REVENUES (% OF GDP)**

- **Average Spending (1984–2018)**
- **Average Revenues (1984–2018)**

**Spending**

**Revenues**

**Actual**

**Projected**


© 2019 Peter G. Peterson Foundation
Net interest costs are projected to rise sharply

**Billions of Dollars**


© 2019 Peter G. Peterson Foundation
Interest costs are projected to outpace important investments in our future.

**Federal Spending (% of GDP)**

- **Average Spending (1969–2018)**:
  - R&D: 2.5%
  - Infrastructure: 1.8%
  - Education: 2.5%

- **Interest Costs**:
  - 2019: 1.8%
  - 2039: 4.0%
  - 2049: 5.7%


**NOTE:** Infrastructure excludes defense.

© 2019 Peter G. Peterson Foundation
Healthcare is the major driver of the projected growth in spending over the long term.

**Federal Spending (% of GDP)**

- **Major Health Programs**
- **Social Security**
- **Discretionary**
- **Other Mandatory**


**NOTE:** Major health programs include Medicare (net), Medicaid, the Children’s Health Insurance Program, and spending to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and related spending.

© 2019 Peter G. Peterson Foundation
The elderly population is growing rapidly and living longer

U.S. POPULATION AGE 65+ (MILLIONS)

Baby Boomers Turn 65

1990 2000 2010 2020 2030 2040 2050 2060

65–74

75–84

85+


© 2019 Peter G. Peterson Foundation
Medical spending increases rapidly with age

**Healthcare Spending per Capita by Age Group (Dollars)**

- **0–18**: $3,749
- **19–44**: $4,856
- **45–64**: $10,212
- **65–84**: $16,977
- **85+**: $32,903

NOTE: Data are for 2014.

© 2019 Peter G. Peterson Foundation
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)**

- **1980**: 9%
- **1990**: 12%
- **2000**: 13%
- **2010**: 17%
- **2020**: 18%
- **2025**: 19%


© 2019 Peter G. Peterson Foundation
United States per capita healthcare spending is more than twice the average of other developed countries.

**Healthcare Costs per Capita (Dollars)**

- **Spain**: $3,323
- **United Kingdom**: $4,070
- **Japan**: $4,766
- **France**: $4,965
- **Canada**: $4,974
- **Germany**: $5,986
- **Norway**: $6,187
- **Switzerland**: $10,586
- **United States**: $3,992
- **OECD Average**: $3,992


**NOTES**: Data are for 2018. Chart uses purchasing power parities to convert data into U.S. dollars.

© 2019 Peter G. Peterson Foundation
Although the United States spends more on healthcare than other developed countries, its health outcomes are generally not any better.

**Health Status**

- **Life Expectancy at Birth**
  - Worst: Latvia
  - Best: Japan

- **Infant Mortality**
  - Worst: Mexico
  - Best: Finland

**Quality of Primary Care**

- **Unmanaged Asthma**
  - Worst: Latvia
  - Best: Italy

- **Unmanaged Diabetes**
  - Worst: Mexico
  - Best: Italy

**Quality of Acute Care**

- **Safety During Childbirth**
  - Worst: Canada
  - Best: Poland

- **Heart Attack Mortality**
  - Worst: Mexico
  - Best: Norway


**NOTES:** Data are not available for all countries for all metrics. Data are for 2017 or latest available.

© 2019 Peter G. Peterson Foundation
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>2.4</td>
</tr>
</tbody>
</table>


© 2019 Peter G. Peterson Foundation
Social Security will run a cumulative cash deficit of $2.9 trillion between now and 2035

**SOCIAL SECURITY SURPLUSES/DEFICITS (% OF GDP)**

- **Actual**
- **Projected**

**2019–2035**
Deficit: $2.9 Trillion

Trust Fund Depleted in 2035


**NOTES:** Surplus/deficit numbers exclude interest income. The total deficit of $2.9 trillion is the present value of the cash deficits between 2019 and 2035. The Old-Age & Survivors Insurance trust fund is projected to be depleted in 2034 and lead to a 23 percent cut in benefits that year; the Disability Insurance trust fund is projected to be depleted in 2052 at which time benefits would be reduced by nine percent.

© 2019 Peter G. Peterson Foundation
Low-income seniors rely on Social Security benefits for a major share of their retirement income

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

<table>
<thead>
<tr>
<th>Quintile</th>
<th>Social Security Benefits (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest Quintile (Under $13,499)</td>
<td>81%</td>
</tr>
<tr>
<td>Second Quintile ($13,499–$23,592)</td>
<td>81%</td>
</tr>
<tr>
<td>Middle Quintile ($23,592–$39,298)</td>
<td>61%</td>
</tr>
<tr>
<td>Fourth Quintile ($39,298–$72,129)</td>
<td>39%</td>
</tr>
<tr>
<td>Highest Quintile (Over $72,129)</td>
<td>15%</td>
</tr>
</tbody>
</table>

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

**Note:** A quintile is one-fifth of the population.
Discretionary spending funds a wide range of programs

2018 Discretionary Outlays: $1,262 Billion

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

NOTE: Health (discretionary only) includes National Institutes of Health, the Centers for Disease Control and Prevention, veterans’ healthcare, administrative costs for Medicaid, and Indian Health Service.

© 2019 Peter G. Peterson Foundation
The United States spends more on defense than the next seven countries combined.

**DEFENSE SPENDING (BILLIONS OF DOLLARS)**

- **$609 Billion**
  - China

- **$649 Billion**
  - United States

**Countries**
- Saudi Arabia
- India
- France
- Russia
- United Kingdom
- Germany


**NOTES:** Figures are in U.S. dollars, converted from local currencies using market exchange rates. Data for the United States are for fiscal year 2018, which ran from October 1, 2017 through September 30, 2018. Data for the other countries are for calendar year 2018.
Discretionary spending is projected to remain below its historical average

% of Federal Spending

2009 2019 2029

Mandatory Spending and Net Interest Costs

35% 30% 25%

Discretionary Spending

% of GDP

1999 2005 2011 2017 2023 2029

Actual Projected

20-Year Average (1999–2018)

Discretionary Spending


© 2019 Peter G. Peterson Foundation
The federal government collects revenues from a variety of sources

2018 Total Revenues
$3,330 Billion

Individual Income Taxes 51%
Payroll Taxes 35%
Corporate Income Taxes 6%
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.
The U.S. tax system is progressive, with higher-income taxpayers facing higher tax rates.

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 total federal tax revenues

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

NOTES: Data are for 2018. In 2018, a tax unit was in the top 1 percent if its income was $754,800 or higher.
Income growth since 1979 is larger for high-income earners, even when including transfers and taxes

**Average Annual Income After Transfers and Taxes (2016 Dollars)**

- **Top 1 Percent** (incomes up 226%)
- **Top Quintile** (incomes up 100%)
- **Middle Quintile** (incomes up 42%)
- **Lowest Quintile** (incomes up 84%)


**NOTES:** Increases calculated for 1979–2016. Income after transfers and taxes is comprised of market income plus income from social insurance programs (i.e., Social Security), plus means-tested transfers received (i.e., Medicaid), minus federal taxes. The top quintile includes households that are also in the top 1 percent.

© 2019 Peter G. Peterson Foundation
Total tax expenditures are large in comparison to annual income taxes collected and to the government’s major programs.

**Budgetary Cost in 2018 (Dollars)**

- **All Tax Expenditures**: $1.5 Trillion
- **Individual & Corporate Income Tax Revenues**: $1.9 Trillion
- **Social Security**: $982 Billion
- **Defense**: $623 Billion
- **Medicare**: $582 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 a large majority of annual tax expenditures for individuals

<table>
<thead>
<tr>
<th>Major Individual Tax Expenditures</th>
<th>Budgetary Costs (2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclusion of pension contributions and earnings**</td>
<td>$251 billion</td>
</tr>
<tr>
<td>Exclusion of employer contributions for medical insurance and care*</td>
<td>$146 billion</td>
</tr>
<tr>
<td>Preferential treatment of dividends and capital gains</td>
<td>$129 billion</td>
</tr>
<tr>
<td>Child Tax Credit</td>
<td>$104 billion</td>
</tr>
<tr>
<td>Earned Income Tax Credit (EITC)</td>
<td>$70 billion</td>
</tr>
<tr>
<td>Subsidies for insurance purchased through health benefit exchanges</td>
<td>$49 billion</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$749 billion</strong></td>
</tr>
</tbody>
</table>


**NOTE:** **Includes defined benefit plans, defined contribution plans, plans covering partners and sole proprietors, and IRAs. *Estimate includes employer-provided health insurance purchased through cafeteria plans and TRICARE medical insurance.**
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%

NOTES: Data are for 2015. 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 could reduce family incomes substantially

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

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


**Note**: The income measures are based on CBO’s projections of real gross national product 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 gross domestic product.
Waiting to act raises the cost of stabilizing the debt

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

- 2020: 1.8%
- 2025: 2.2% (22% larger)
- 2030: 2.7% (50% larger)


© 2019 Peter G. Peterson Foundation
Debt Held by the Public (% of GDP)