Why Act on the Debt?

- Interest payments dominate federal expenditures
- Risk of black swan events
- Necessary changes become more costly over time
- Current trends are advancing beyond historical precedent
Presentation Overview

1. Conscientious Cost Cutting
2. Tailored Tax Reform
3. Healthcare Adjustments
Conscientious Cost Cutting

Federal Workforce Overhaul
Defense Spending
International Affairs
Inflation Based Spending
Workforce Overhaul

1. Pay Adjustment Reform
   - Current adjustment: ECI - 0.5%
   - Proposed adjustment: ECI - 1%

2. Workforce Attrition Policy
   - Prevent hiring > 1 worker for every 3 that leave
   - 70,000 fewer employees hired in 4 years

3. Streamlined Hiring Process
   - Expand direct hiring authority
   - Improve efficacy and efficiency

Sources: CBO, CRS, OPM
Reduce Current DoD Expenditure

- Terminate Littoral Combat Ship production
- 50% reduction in ICBM defense spending
- Cancel Trident II and B61 modification program

Source: DOD Fiscal 2019 Budget Proposal
Adjust DOD Budget Projections

Updated estimates for the per unit costs

Adjusted CBO budget at the end of the acquisition

Source: CBO, Office Of The Under Secretary of Defense (comptroller)
Reform International Affairs

- Increase cash transfers
- End sourcing and cargo requirements
- Leverage multilateral institutions
- Eliminate private & international redundancies
- Improve program efficacy
- 3 percentage point reduction in Debt/GDP

Sources: Center for Global Development, World Bank
Cost of Living Adjustment (COLA) Change

Switch from CPI-U to Chained-CPI-U

Decreases 2049 Debt/GDP by 7 percentage points

Source: CBO
Tailored Tax Reform

Payroll Tax Changes
Progressive Tax Reforms
Income Replacement Insurance
Increasing Social Security Payroll Tax

- Increase Payroll Tax 1 percentage point to 13.4%
- Additional funding for Social Security
- Decreases 2049 Debt/GDP by 12 percentage points

Source: CBO
Eliminate Pass Through Deduction

Current

- S-Corp, partnership or sole proprietorship has $100K in pre-tax profits
- Owner takes all $100K of profits as a shareholder distribution
- Owner gets a 20% (or $20K) deduction from personal income taxes

Proposal

- Eliminate deduction
- Tax distributions at standard income tax rate
- Decreases 2049 Debt/GDP by 3 percentage points

Source: CBO
Restructure Capital Gains

1. Raise rates on long term capital gains & dividends by 2 percentage points

2. Lower 22% bracket to equal third highest bracket for ordinary income

Source: CBO
Reform Income Replacement Insurance Taxation

Current

- Taxes benefits of disabled or unemployed people
- Precise taxes depend on which job injury occurred on

Proposal

- Includes employer insurance and tax payments in worker income
- Benefits from programs would not be taxed

1. Tax system becomes more progressive
2. Standardized tax treatments raise revenue

Source: CBO, IRS
Healthcare Adjustments

Tax Expenditure Subsidies
Cost Sharing
Drug Pricing
Limit Employer Provided Health Insurance Subsidies

Employer health insurance contributions over $7,800 for individuals and $18,500 for families will no longer be deductible.

- Current Cadillac Tax won’t curtail distortions
- Baseline changes with the Chained CPI-U
- Progressive tax reform

Source: CBO, New York Times, RAND
Medicare Cost Sharing and Medigap Plans

**Uniform Cost Sharing**
- Decreases 2049 Debt/GDP by 1 percentage point

**Medigap Planning**
- Decreases 2049 Debt/GDP by 2 percentage points

Source: CBO, Cabral and Mahoney (2014)
Medicare Part D Rebates

Medicare Part D

Medicaid

Normal Enrollees

Dual Eligible (LIS)

Mandatory 23.1% rebate

Collect 23.1% rebates on the list price of drugs

Decreases 2049 Debt/GDP by 2 percentage points

Source: CBO
Thank You!