2012 FISCAL SUMMIT

AMERICA'S CASE FOR ACTION

SPONSORED BY THE PETER G. PETERSON FOUNDATION

BRIEFING BOOK: FISCAL EVENTS, FACTS, AND CHARTS

MAY 15, 2012

The **Peter G. Peterson Foundation** is a non-partisan organization dedicated to America's fiscal and economic future.

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KEY YEAR-END FISCAL EVENTS

Date	Item	Description	Budgetary Impact (in Billions)[1]	
			One Year (2013)	Ten Years (2013-22)
12/31/2012	"Bush" Tax Cuts[2]	Tax cuts passed in 2001/2003/2009 and extended in 2010 will expire.	$108	$3,345
12/31/2012	AMT	30 million taxpayers will be subject to AMT in 2012 if AMT is not indexed for inflation.	$90	$937
		Interaction between "Bush" Tax Cuts and AMT.	$35	$1,072
12/31/2012	Other Expiring Taxes[3]	Several other tax provisions will expire if not extended.	$79	$1,011
12/31/2012	"Doc Fix"	Medicare's physician reimbursement rates will fall 27% if "Doc Fix" is not extended.	$19	$372
1/2/2013	BCA's Automatic Spending Reductions	Reductions on defense and nondefense spending.	$66	$1,172
			$396	**$7,909**

OTHER FISCAL EVENTS

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

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.

KEY FISCAL FACTS

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%.

CHARTS

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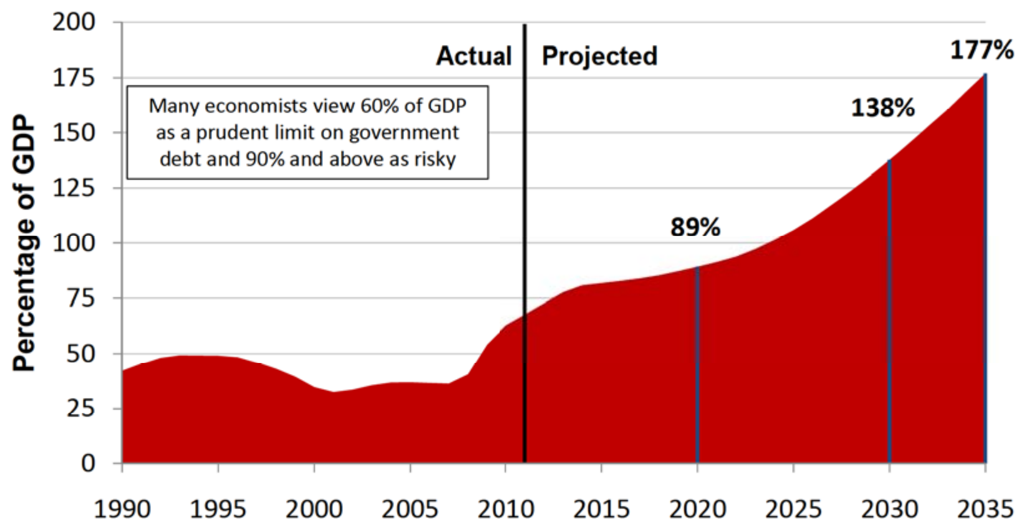
Future U.S. debt held by the public is projected to soar to unsustainable levels if current policies remain unchanged



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, *The Budget of the United States Government, Fiscal Year 2013 Historical Tables: February 2012*. Compiled by PGPF.
NOTE: Debt held by the public refers to all federal debt held by individuals, corporations, state or local governments, and foreign entities.

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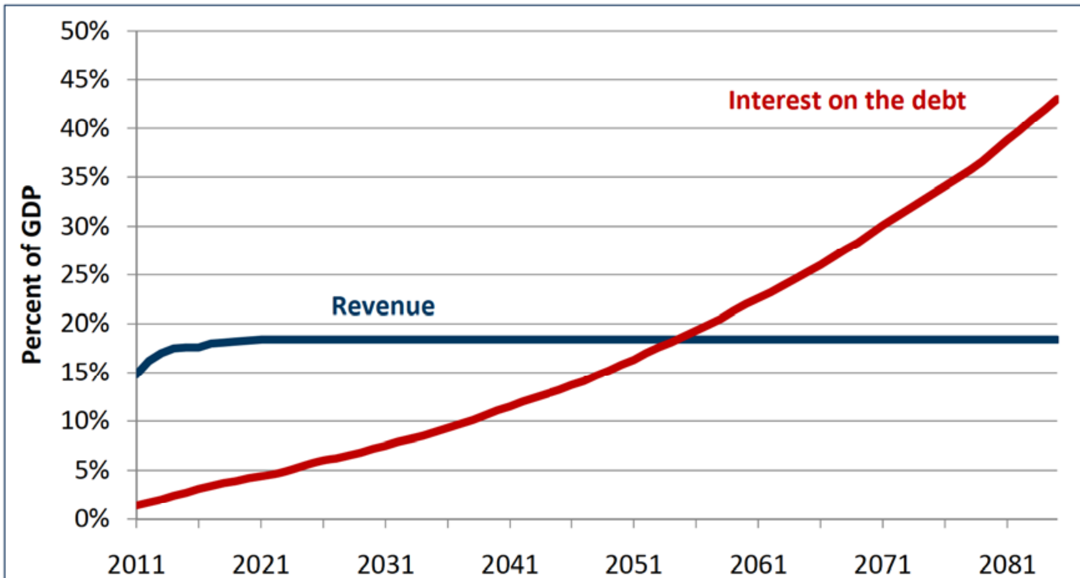
By 2055, federal revenues will not even be sufficient to cover interest payments on the federal debt



SOURCES: Data from Congressional Budget Office, *Long-term budget Outlook, June 2011*. Compiled by PGPF.
NOTES: Chart uses CBO's alternative fiscal scenario, which incorporates several changes to current law that are widely expected to occur.

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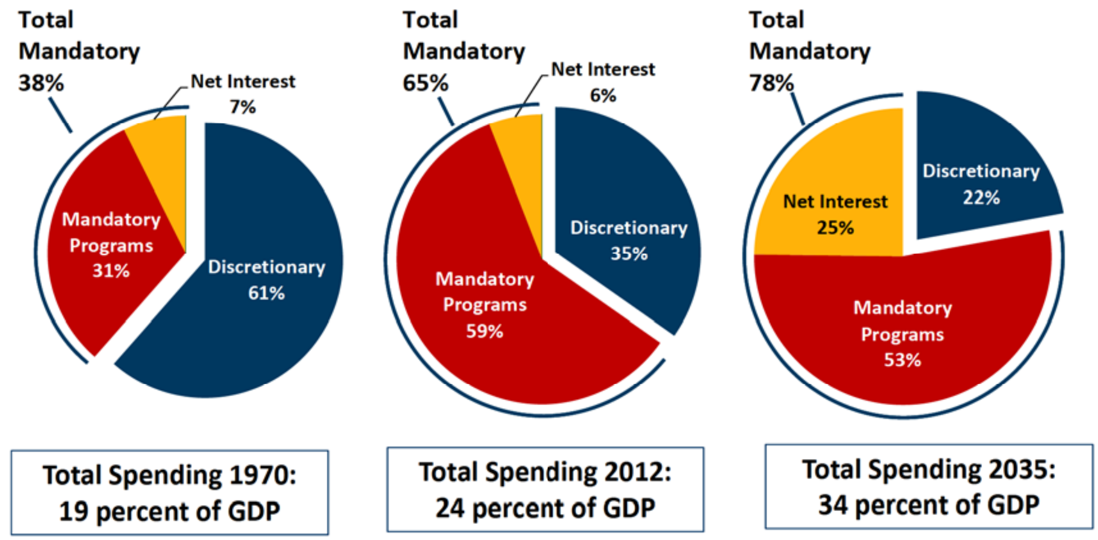
Mandatory programs and interest costs are taking over more and more of the federal budget, crowding out important discretionary programs



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.

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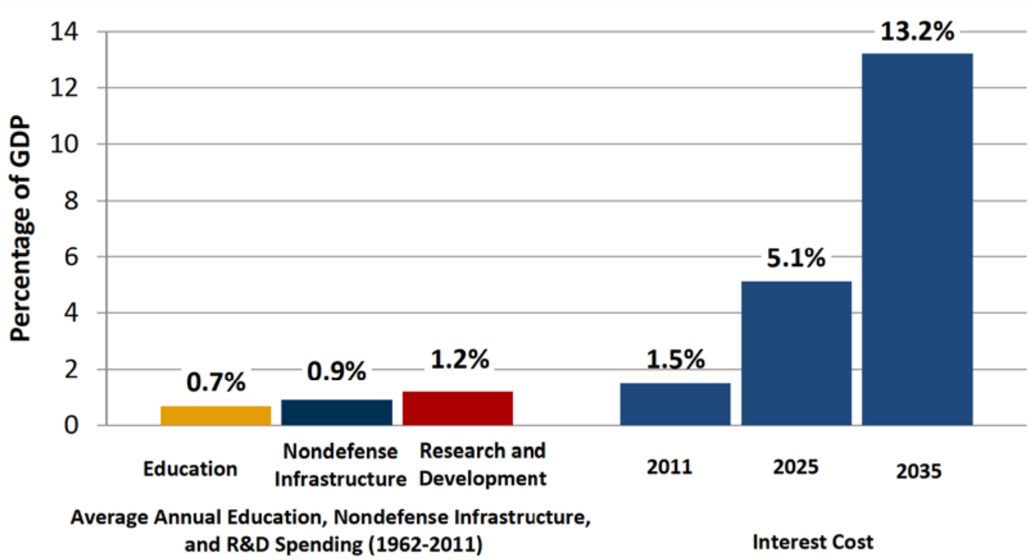
By 2035, projected interest costs on the debt will be almost four times what the federal government has historically spent on education, research and development and infrastructure



SOURCES: Data from Office of Management and Budget, *The President's Budget for Fiscal Year 2013*, February 2012, and Gagnon and Hinterschweiger, *The Global Outlook for Government Debt over the Next 25 Years: Implications for the Economy and Public Policy*, PIIE, June 2011. Compiled by PGPF.

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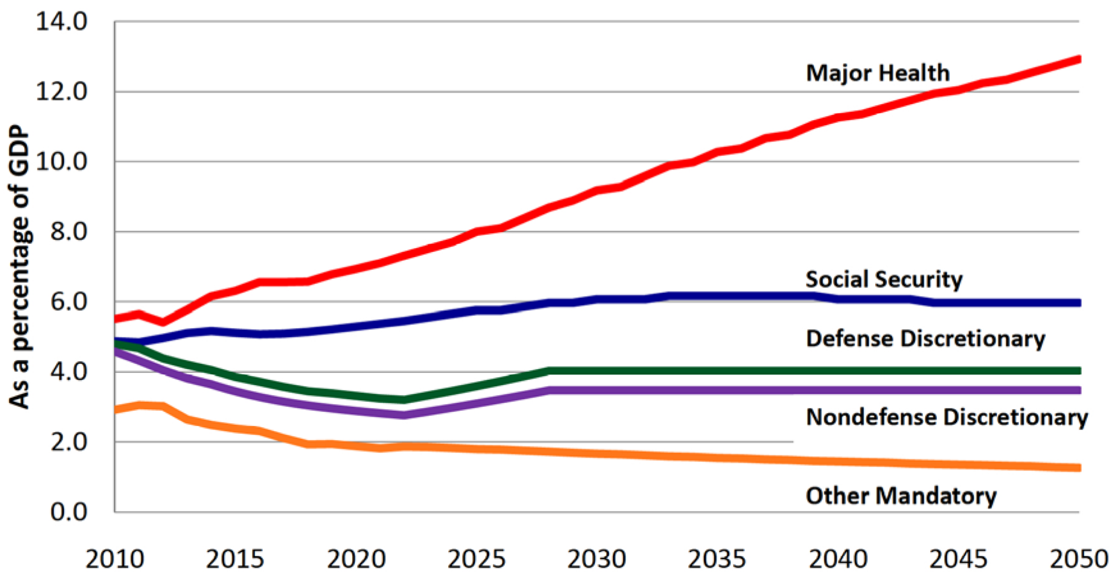
Health care is the principal driver of federal spending growth over the long term



SOURCE: Peter G. Peterson Foundation projections based upon Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2012 to 2022*, January 2012. Assumes that the automatic reductions specified in the BCA do not take effect and that discretionary spending returns to its 20-year average after 2022.

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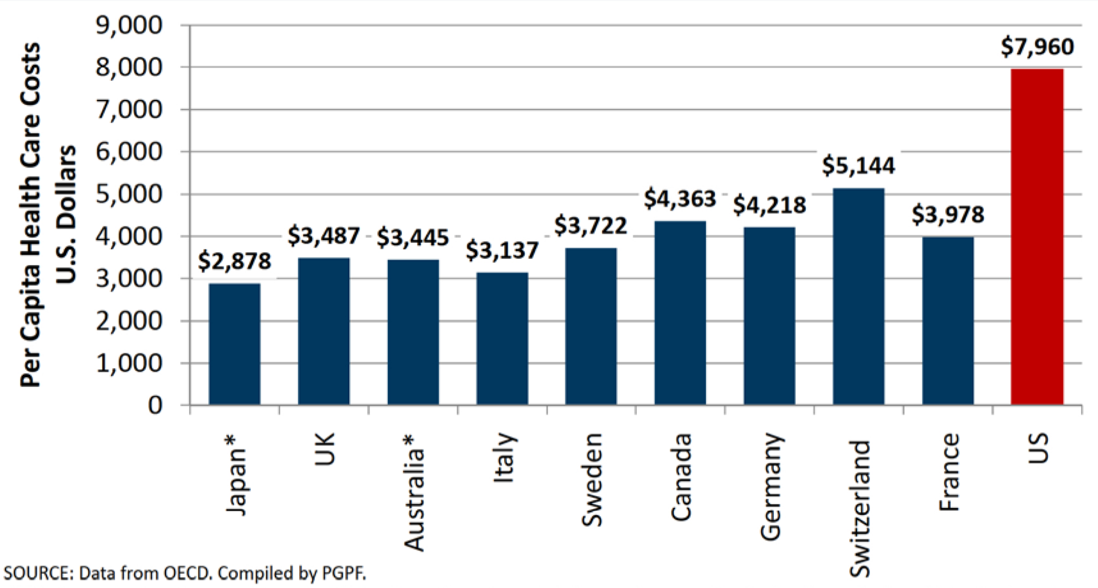
Currently, Americans spend about twice as much per capita on health care than other OECD countries with no appreciable difference in health outcomes



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.

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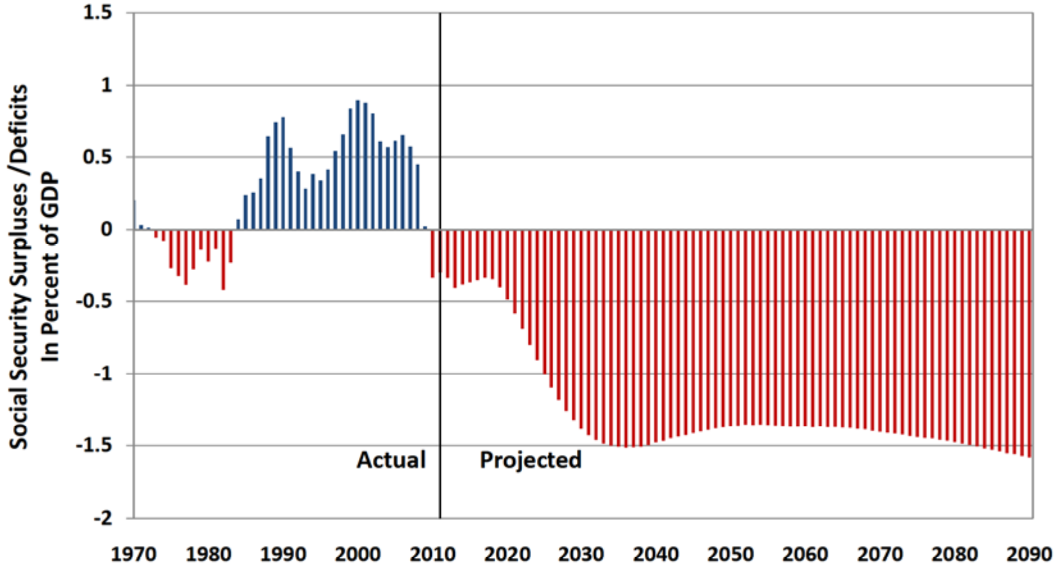
Social Security has transitioned from surpluses to growing deficits



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.

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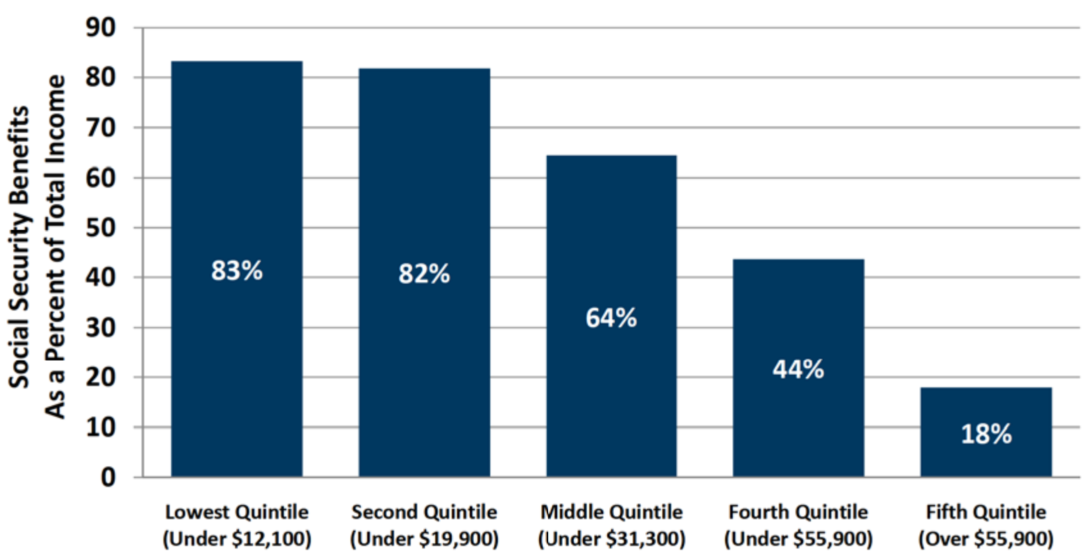
Lower-income seniors rely on Social Security benefits for a significant share of their income



SOURCE: Data derived from the Social Security Administration *Income of the Population 55 or Older:* 2008. Compiled by PGPF.
NOTE: A quintile is one fifth of the distribution. E.g. the lowest quintile is the 20% of the population with the lowest income.

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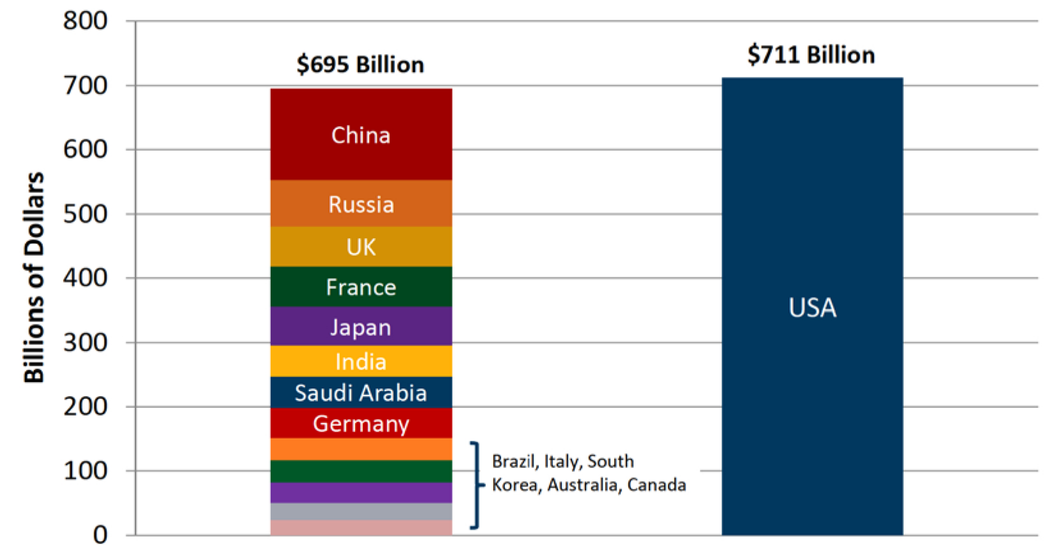
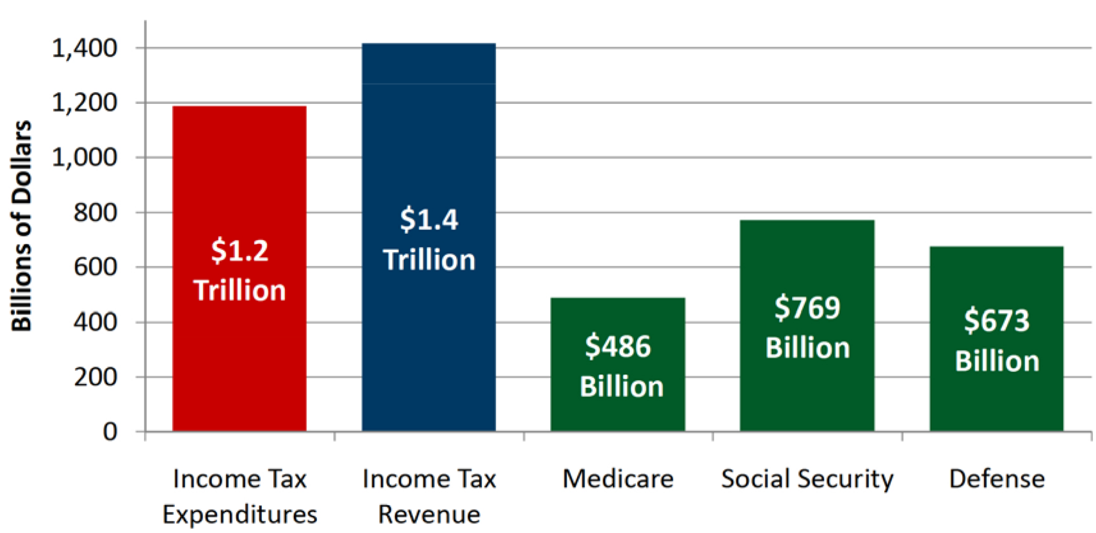
The U.S. spent more on defense in 2011 than did the countries with the next 13 highest defense budgets combined



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.

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



SOURCE: Data from the Congressional Budget Office, *Updated Budget Projections: Fiscal Years 2012 to 2022,* March 2012; Donald B. Marron, "How Large Are Tax Expenditures? A 2012 Update", Tax Policy Center Tax Facts, April 2012.
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.

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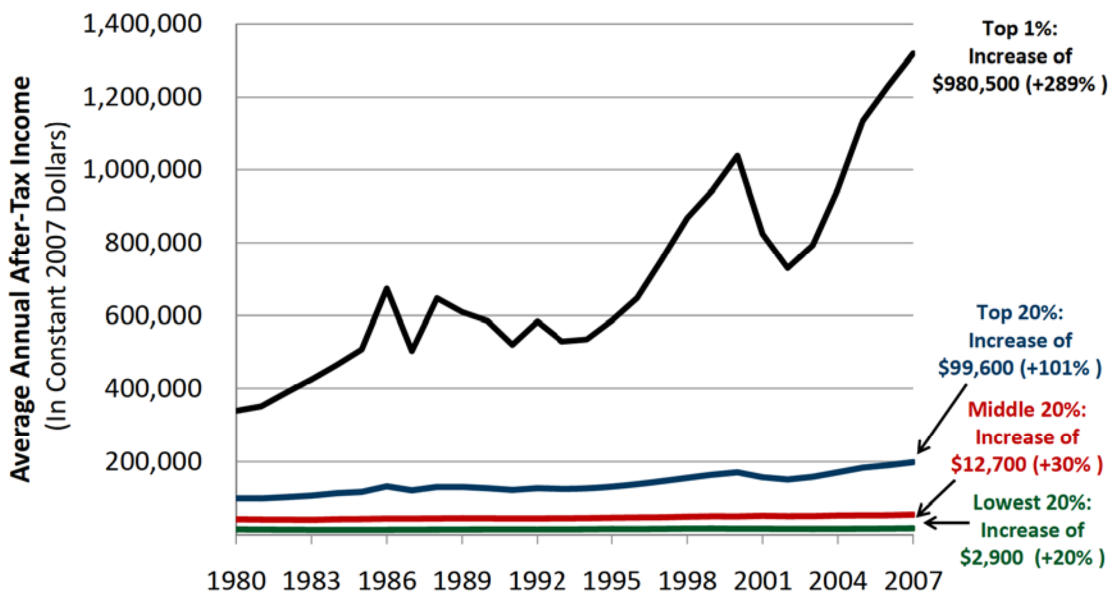
While lower and middle class incomes have not grown very much after adjusting for inflation, incomes of the wealthy have grown significantly



SOURCE: Data from the Congressional Budget Office, *Average Federal Taxes by Income Group*: June 2010. Compiled by PGPF.

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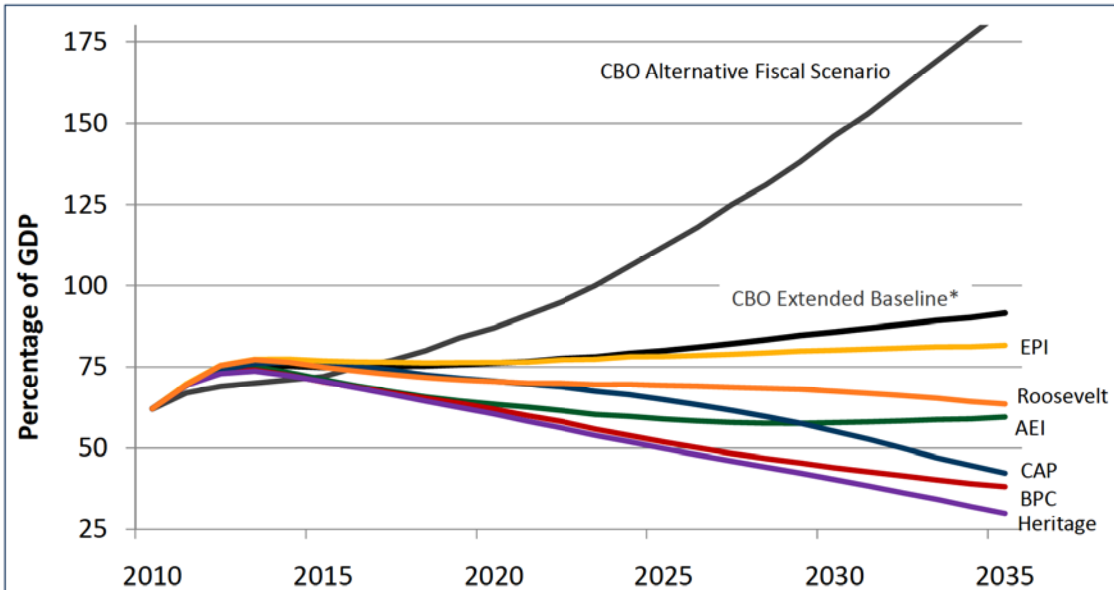
Solutions do exist:
PGPF Solutions Initiative plans from six think tanks
Projected federal debt levels through 2035



*For this project, the June 2010 Extended Baseline was updated by the independent scorekeepers to reflect enacted legislative changes through January 2011. Among other assumptions, the Extended Baseline assumes that tax cuts will expire as scheduled and health care cost growth will be controlled.