CBO Publication

S U M M A R Y

September 1994

REDUCING ENTITLEMENT SPENDING

The rapid growth of federal spending for entitlements is a major contributor to the nation's perennial budget deficits. Any attempt to reduce or eliminate the deficit that does not increase taxes will almost certainly require curbing such spending. The Congressional Budget Office (CBO), in its study *Reducing Entitlement Spending*, examines the current distribution of benefits from 11 entitlement programs and analyzes three approaches to cutting net entitlement spending. As formulated for the study, all three of the options would generate significant budgetary savings--between $44 billion and $258 billion over the 1995-1999 period. The approaches would differ, though, in the effects they had on beneficiaries.

In 1990, nearly half of all U.S. families received benefits from an entitlement program. Altogether, those families got about $360 billion in cash payments from Social Security, unemployment compensation, veterans' compensation and pensions, Aid to Families with Dependent Children, Supplemental Security Income, and federal or military pensions, and more than $150 billion of in-kind benefits from the Food Stamp program, Medicare, and Medicaid. Almost 60 percent of all entitlements went to families with elderly members (age 65 or older). Families with incomes under $30,000 received nearly two-thirds of all entitlements; those with incomes greater than $100,000 got only 4 percent.

Often over the past 15 years, the Congress has grappled with reducing entitlement spending. But cutting spending in individual programs can be a difficult, time-consuming process. As a result, some Members of Congress and others have proposed more global approaches, including making entitlements subject to federal taxes and reducing or denying benefits to recipients with high incomes. CBO examined the effects of three options based on those approaches.

- Taxing all entitlements would diminish the after-tax benefits of nearly two-thirds of entitlement recipients by an average of 10 percent and raise federal revenues by more than $50 billion annually. About half of the added revenues would come from families with incomes below $30,000.

- Reducing entitlements on a sliding scale for middle- and high-income families would cut the benefits of one-fifth of recipients by an average of nearly one-quarter--and save more than $40 billion each year. Families with incomes below $30,000 would be unaffected by the cuts; families with incomes above $100,000 would bear almost half the burden of this approach.

- Denying all entitlements to families with the highest incomes would affect only 1 percent of recipients and would reduce expenditures by about $10 billion annually. Almost all of the savings would come from families with incomes greater than $100,000.

All three options would impose more than 70 percent of the cuts in benefits on elderly families.

Implementing any of the options could present some thorny administrative problems. The option to tax benefits would encounter the fewest--it would simply become part of the existing federal income tax system. The other approaches raise a number of difficult questions, which the study addresses. What agencies should administer the options? How should resources be measured? What effects would the options have on the behavior of beneficiaries?

Questions about the study should be directed to Roberton Williams of CBO's Tax Analysis Division at (202) 226-2688. The Office of Intergovernmental Relations is CBO's Congressional liaison office and can be reached at 226-2600. For additional copies of the study, please call the Publications Office at 226-2809.

CONGRESSIONAL BUDGET OFFICE
Second and D Streets, S.W.
Washington, D.C. 20515