CONGRESSIONAL BUDGET OFFICE

The 2015 Long-Term Budget Outlook in 25 Slides

June 2015

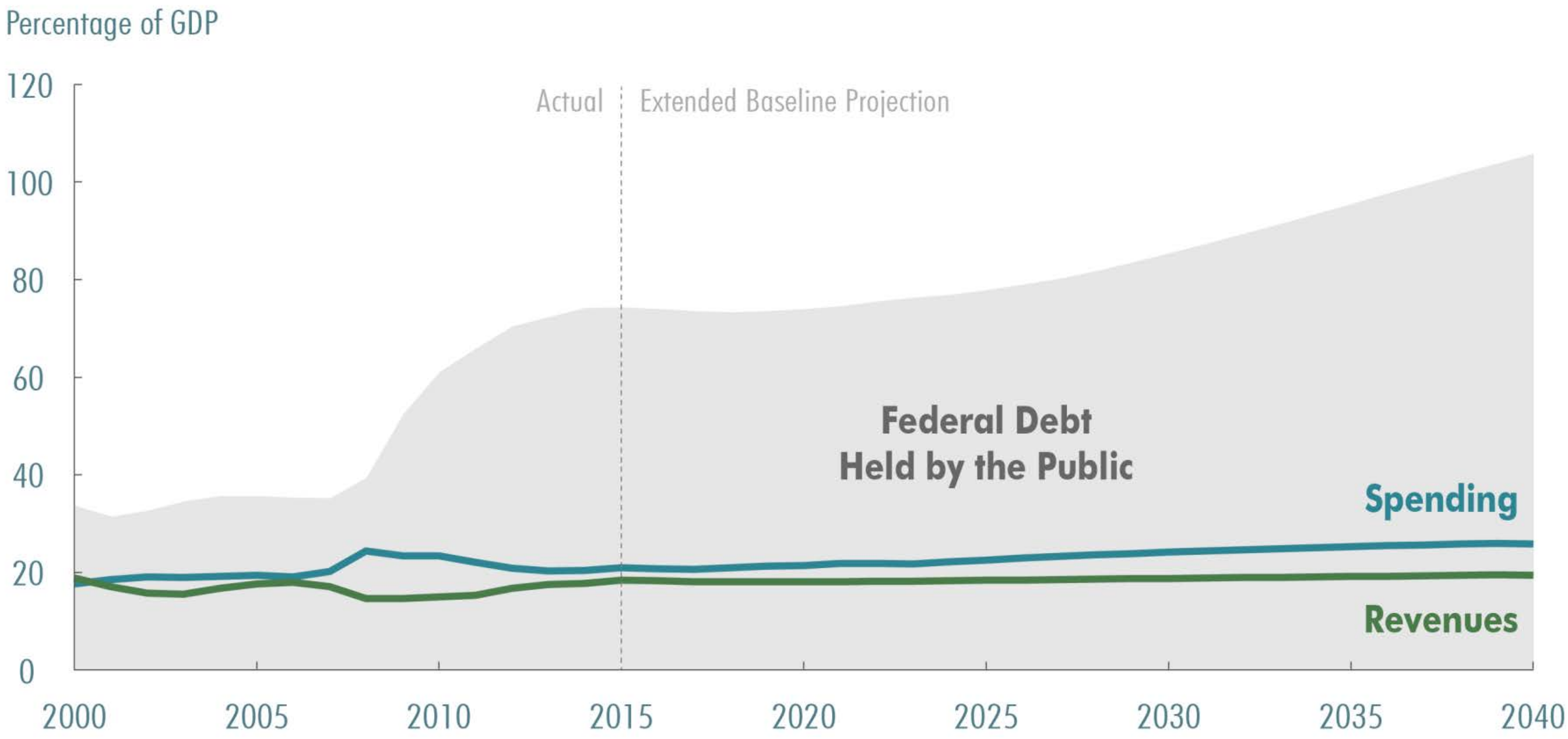
For more details, see www.cbo.gov/publication/50250.

If current laws governing taxes and spending remain in place . . .

Deficits and federal debt held by the public would remain roughly stable in the near term, reflecting the anticipated further strengthening of the economy and constraints on federal spending built into law.

But the outlook for the budget would steadily worsen over the long term.

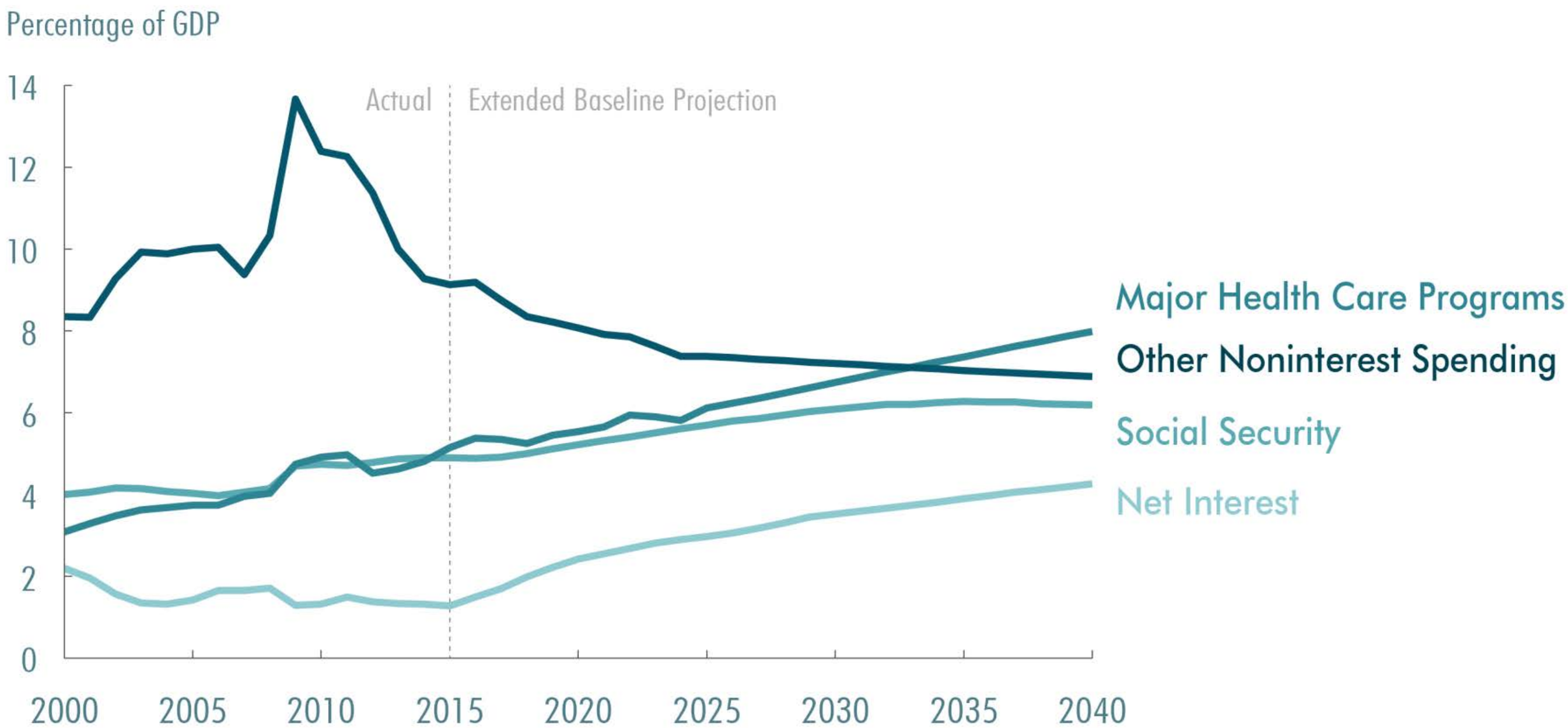
Federal Debt, Spending, and Revenues



Mainly because of the aging of the population and rising health care costs, CBO's projections show a substantial imbalance in the federal budget over the long term, with revenues falling well short of spending. As a result, budget deficits are projected to rise steadily and federal debt held by the public is projected to exceed 100 percent of GDP by 2040, a level seen only one previous time in U.S. history—the final year of World War II and the following year.

Federal spending is projected to rise noticeably relative to the size of the economy because of the growth in a few of the largest programs and escalating interest costs.

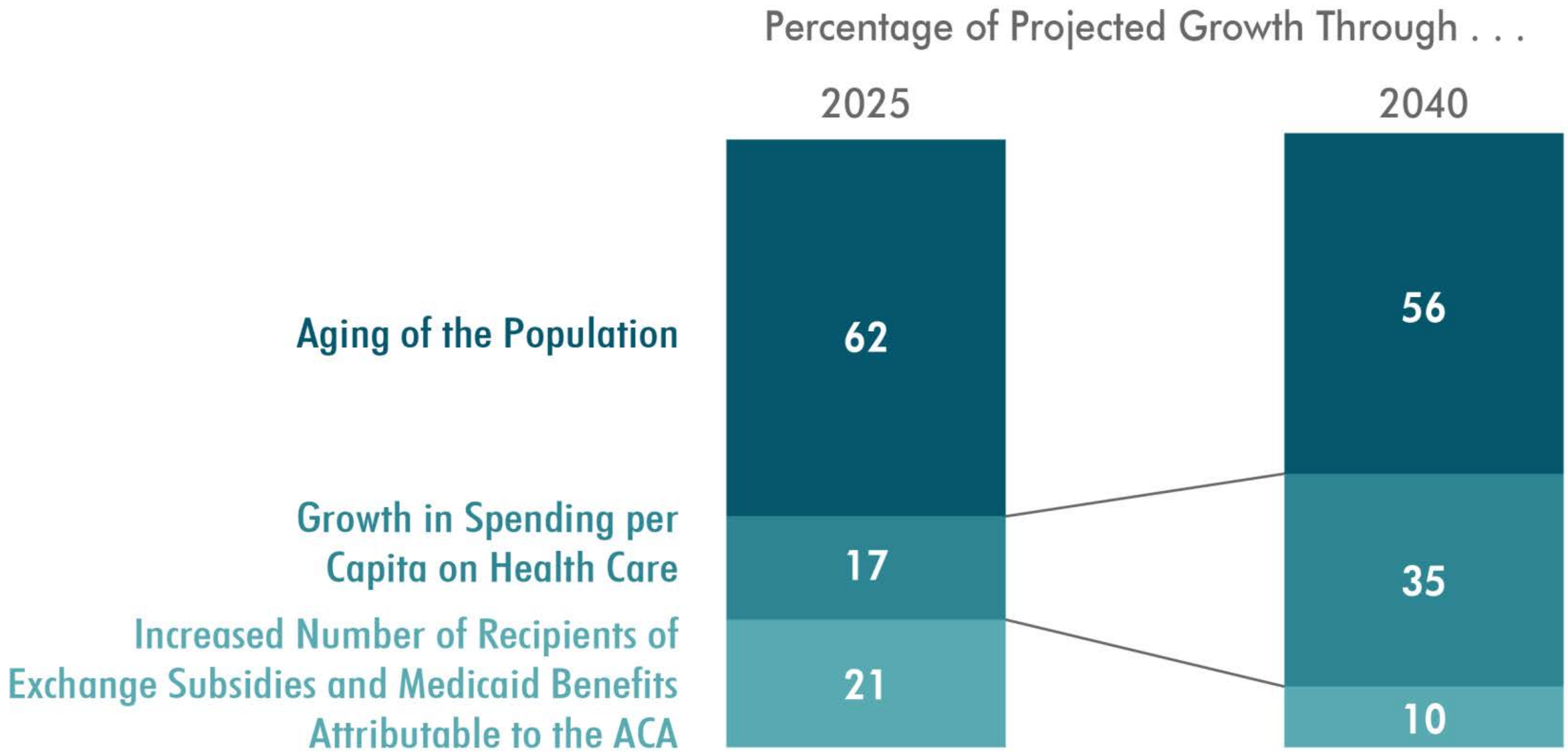
Components of Federal Spending



Growth in the major health care programs—Medicare, Medicaid, the Children's Health Insurance Program, and subsidies for health insurance purchased through exchanges created by the Affordable Care Act—and Social Security is projected to exceed the decline in other noninterest spending relative to GDP. Net interest costs are also projected to grow as interest rates rebound from unusually low levels and federal debt rises.

A combination of three factors explains the rapid growth in the government's major health care programs and Social Security.

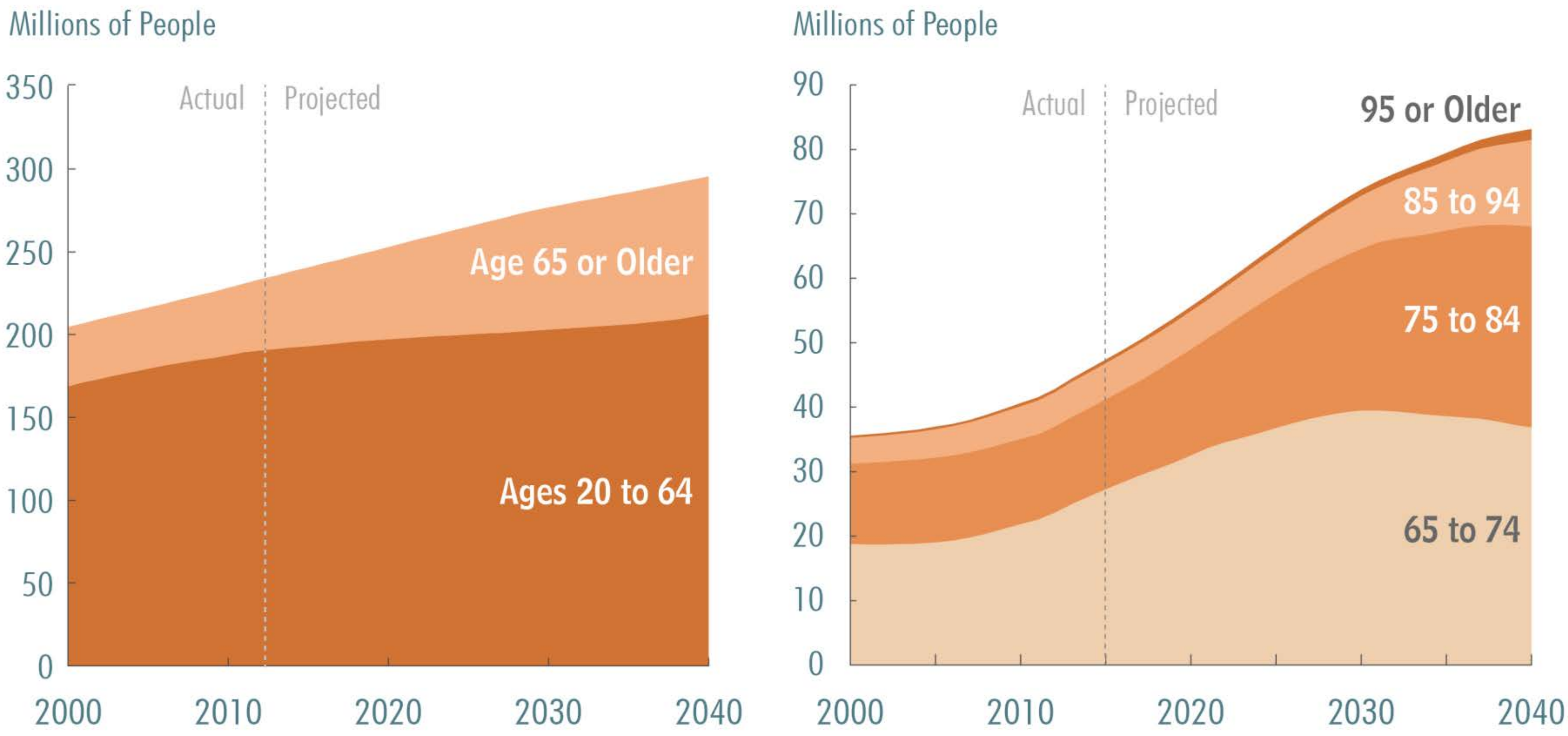
Explaining Projected Growth in Federal Spending for Major Health Care Programs and Social Security



The aging of the population will increase the share of the population receiving benefits and also affect the average age (and thus the average health care costs) of beneficiaries. Health care costs per beneficiary, adjusted for demographic changes, will grow faster than economic output per capita, CBO projects, as they have historically. Finally, enrollment in Medicaid under the Affordable Care Act and the number of people receiving subsidies for health insurance purchased through the exchanges are projected to continue to increase.

Among those three factors, the aging of the population is the key driver of spending over the next 25 years.

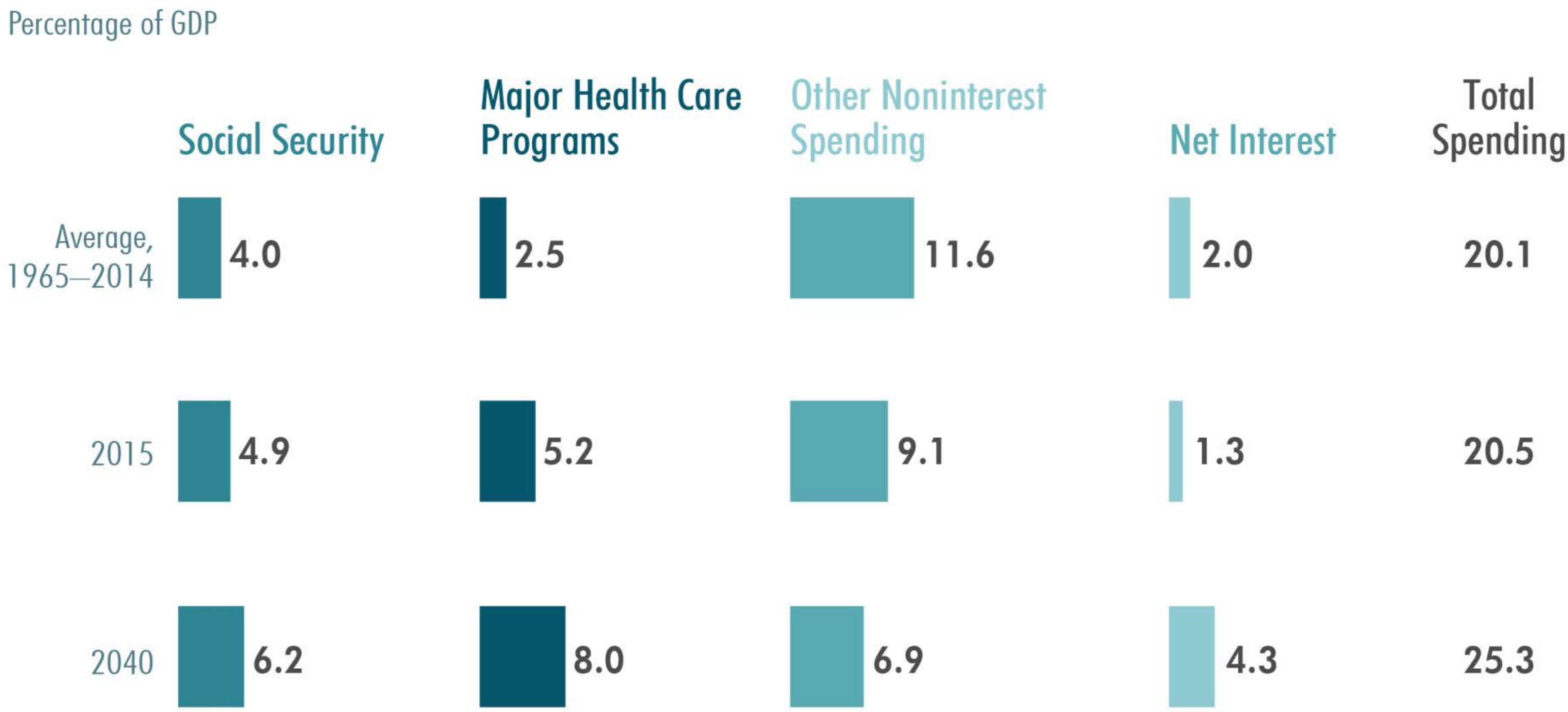
Changes in the Population, by Age Group



The number of people age 65 or older is expected to increase by 76 percent between now and 2040. As more members of the baby-boom generation reach retirement age and as longer life spans lead to longer retirements, a significantly larger share of the population will receive benefits from Medicare and Social Security. Furthermore, the aging of the population will cause the total amount of those benefits scheduled to be paid under current law to grow faster than the economy.

Unless substantial changes are made to major health care programs and Social Security, spending for those programs will equal a much larger percentage of GDP in the future than it has in the past.

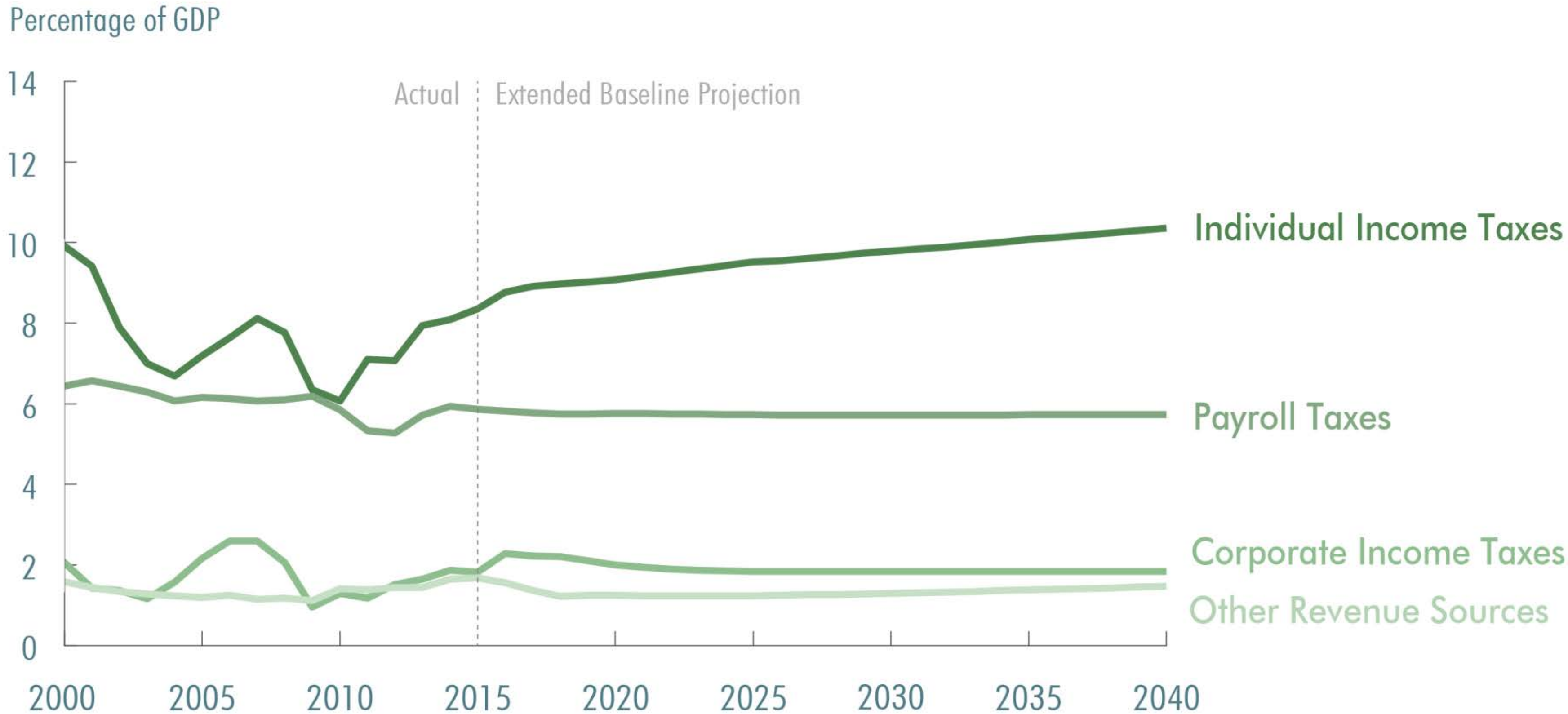
Projected Spending, Compared With Past Averages



Under current law, federal spending for the government's major health care programs and Social Security would rise sharply, to14.2 percent of GDP by 2040, more than twice the 6.5 percent average seen over the past 50 years. Growth for those programs is projected to exceed the decline in other noninterest spending.

Federal revenues would also increase relative to GDP if current law remained generally unchanged, but much more slowly than federal spending.

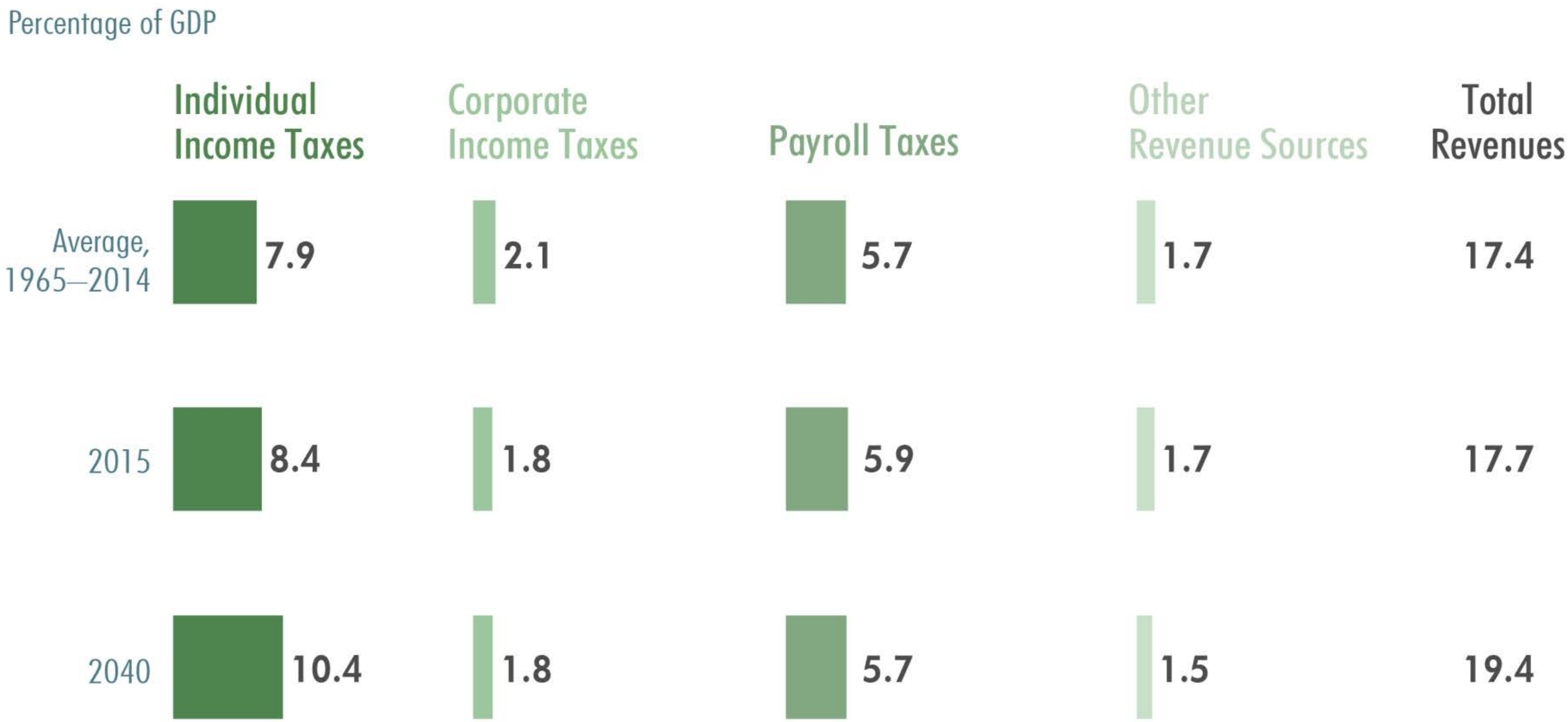
Components of Federal Revenues



Under current law, individual income taxes—the bulk of revenues—would rise as a percentage of GDP over the next 25 years, mainly because people's income is expected to grow faster than inflation, pushing more income into higher tax brackets over time.

In total, revenues would constitute a larger percentage of GDP in the future than they have, on average, over the past few decades if current law remained generally unchanged.

Projected Revenues, Compared With Past Averages



Under current law, revenues would equal 19.4 percent of GDP by 2040, CBO projects, compared with an average of 17.4 percent of GDP over the past 50 years. A boost in receipts from individual income taxes accounts for the rise in total revenues; receipts from all other sources, taken together, are projected to decline slightly as a percentage of GDP.

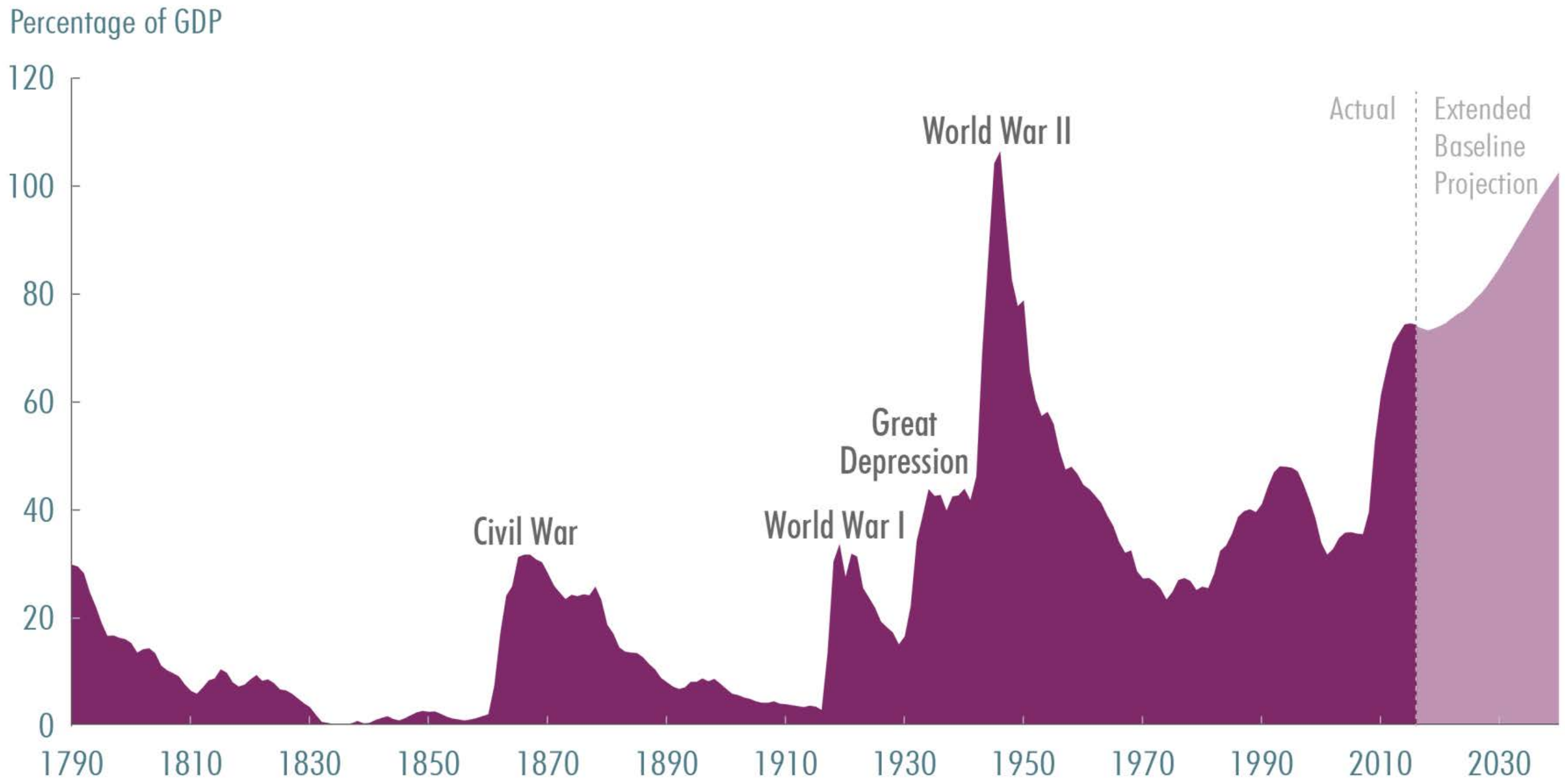
Even so, if federal tax and spending policies remained generally unchanged, growth in revenues would not keep pace with growth in spending over the long term, resulting in larger budget deficits.

Projected Spending, Revenues, and Deficits, Compared With Past Averages

Spending for some of the largest federal programs and for net interest payments would be much larger as a share of the economy than it has been, CBO projects, while revenues would grow only slightly faster than GDP. As a result, by 2040, the deficit would equal about 5.9 percent of GDP, more than twice its average over the past 50 years—even without accounting for the harmful economic effects of rising debt.

With growing deficits, federal debt held by the public would exceed its current level in 2021 and top 100 percent of GDP in 2040. Moreover, debt would be on an upward path relative to the size of the economy, a trend that could not be sustained indefinitely.

Federal Debt Held by the Public



The historically high and rising amounts of federal debt that CBO projects would have significant negative consequences, including reducing the total amounts of national saving and income in the long term; increasing the government's interest payments, thereby putting more pressure on the rest of the budget; limiting lawmakers' flexibility to respond to unforeseen events; and increasing the likelihood of a fiscal crisis.

The projections presented here are CBO's extended baseline—the agency's best assessment of how the economy and other factors would affect federal revenues and spending if current law remained unchanged.

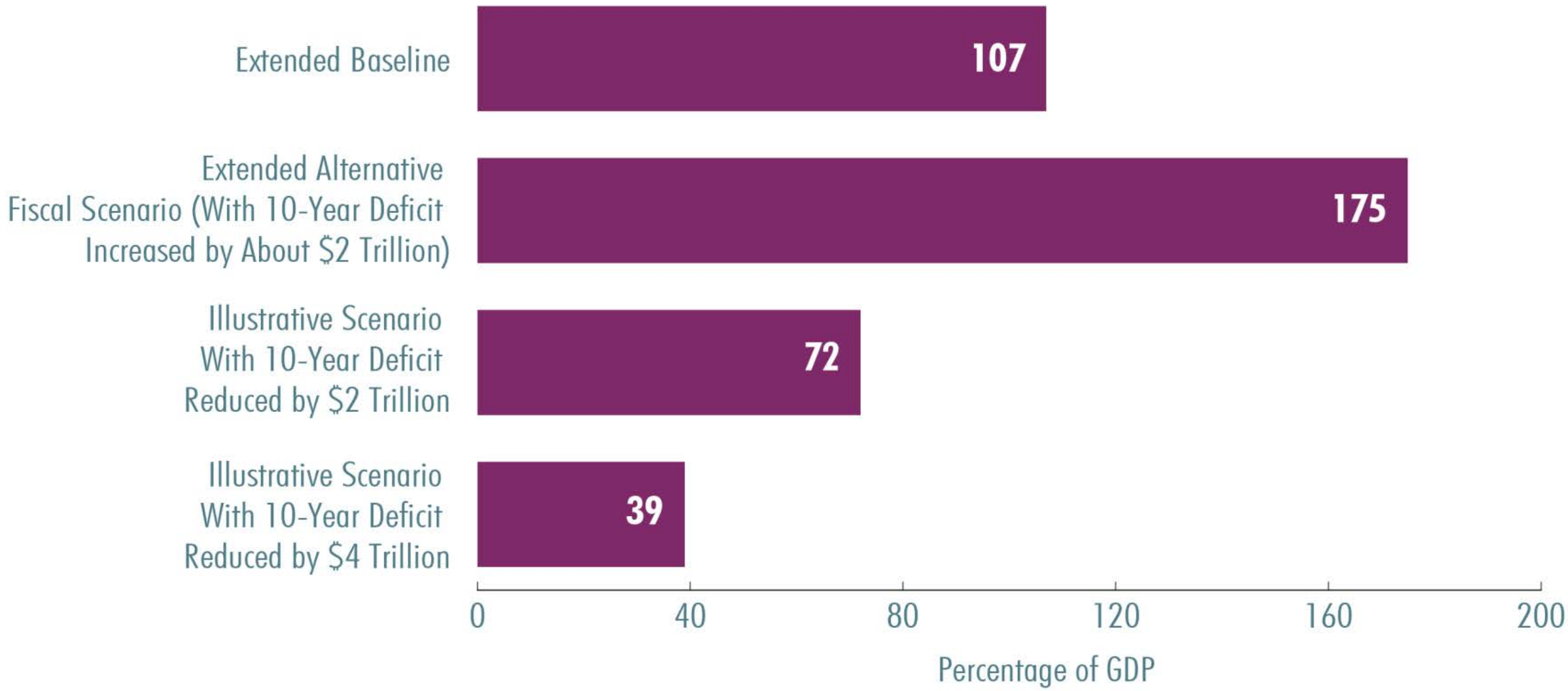
The amounts shown on the previous slides do not incorporate the harmful effect that the large and growing debt would have on the economy, further worsening the budget outlook.

With that effect included, federal debt under CBO's extended baseline is projected to reach 107 percent of GDP in 2040.

CBO also projected budgetary outcomes under alternative sets of fiscal policies.

Federal Debt in 2040 Under Various Budget Scenarios

Incorporating macroeconomic feedback, CBO projects that debt as a percentage of GDP in 2040 would be . . .

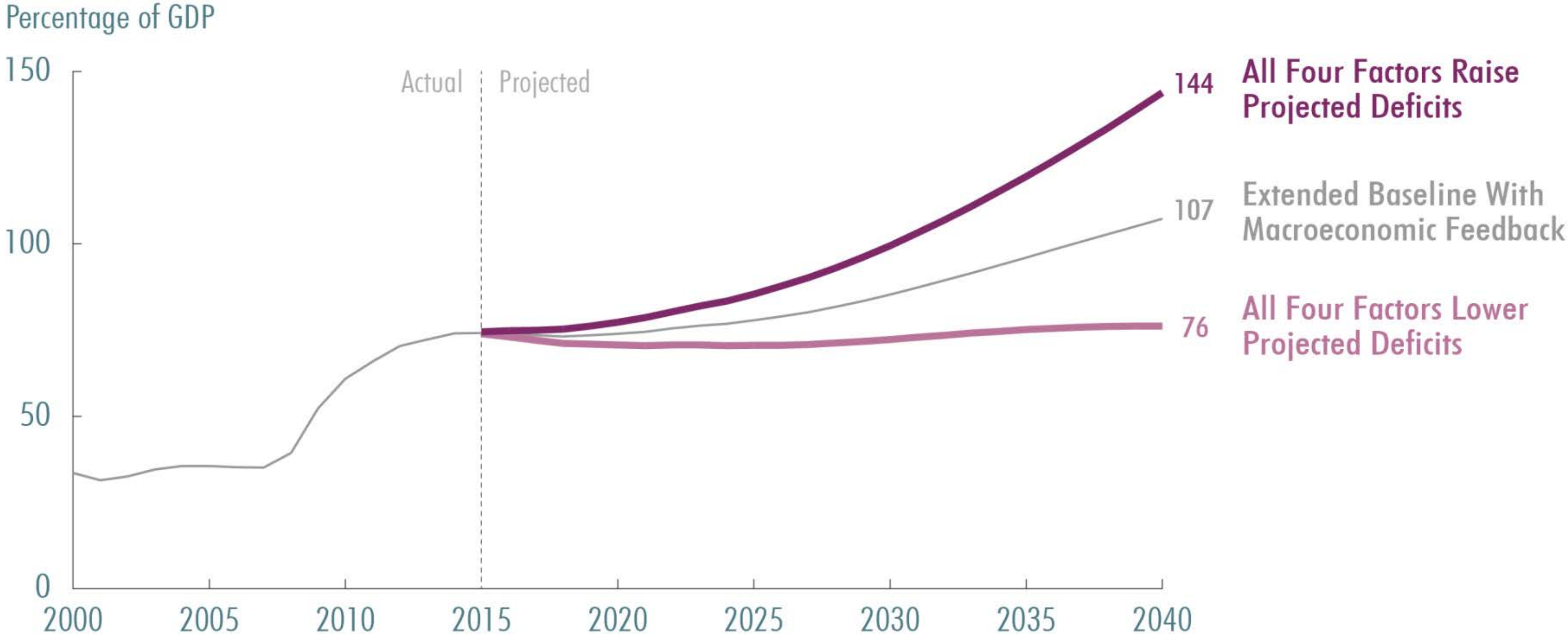


The macroeconomic effects of growing debt would make budgetary outcomes worse, boosting projected debt held by the public to 107 percent of GDP in 2040 under the extended baseline. CBO also analyzed the effects of three additional sets of fiscal policies—one that would result in larger deficits and more debt than the amounts in the extended baseline and two illustrative scenarios that would result in smaller deficits and lower debt.

Even if future tax and spending policies match the policies specified in current law, budgetary outcomes will undoubtedly differ from CBO's projections because of unexpected changes in the economy, demographics, and other key factors.

The main implication of CBO's central estimates applies under a wide range of possible values for those key factors—namely, if current law remained generally unchanged, 25 years from now, federal debt, which is already high by historical standards, would probably be at least as high as it is today and would most likely be much higher.

Federal Debt Given Different Rates of Mortality Decline, Productivity Growth, Interest, and Growth of Federal Spending on Medicare and Medicaid



CBO estimated budgetary outcomes with four key factors varying by amounts based on their past variation as well as on the agency's consideration of possible future developments. If all four factors varied simultaneously so as to increase projected deficits, federal debt in 2040 would reach 144 percent of GDP. Conversely, if all four factors varied in a way that lowered deficits, debt in 2040 would equal 76 percent of GDP, about where it is now.

To put the federal budget on a sustainable path for the long term, lawmakers would have to make major changes to tax policies, spending policies, or both—by reducing spending for large benefit programs below the projected amounts, letting revenues rise more than they would under current law, or adopting some combination of those approaches.

The size of such changes would depend on the amount of federal debt that lawmakers considered appropriate.

The Size of Policy Changes Needed Over 25 Years to Make Federal Debt Meet Two Possible Goals in 2040

If Lawmakers Aimed for . . .

Debt in 2040 to Equal Its 50-Year Average of **38%** of GDP . . .	**Debt** in 2040 to Equal Its Current Level of **74%** of GDP . . .

How Much Would They Need to Increase Revenues or Reduce Noninterest Spending per Year?

2.6% of GDP, which is equal to a		**1.1%** of GDP, which is equal to a	
14% ↑	Increase in **Revenues**	**6%** ↑	Increase in **Revenues**
or		or	
13% ↓	Cut in **Spending**	**5½%** ↓	Cut in **Spending**

What Would That Increase in Revenues or Reduction in Noninterest Spending Amount to in 2016?

$480 billion, which is equal to **$1,450** per person

$210 billion, which is equal to **$650** per person

What If the Changes Were Increases (of Equal Percentage) in All Types of Revenues?

+$1,700

One effect in 2016 is that, on average, **taxes on households** would be higher than under current law.

+$750

Values are for households in the middle fifth of the income distribution.Those taxes are projected to be $12,300 under current law.

What If the Changes Were Cuts (of Equal Percentage) in All Types of Noninterest Spending?

-$2,400

One effect is that **initial Social Security benefits** would be lower than under current law.

-$1,050

Values are averages for people in the middle fifth of the lifetime earnings distribution who were born in the 1950s and who would claim benefits at age 65. Those benefits are projected to be $18,650 (in 2016 dollars) under current law.

In deciding how quickly to implement policies—regardless of the chosen goal for federal debt—lawmakers face trade-offs: Waiting would mean a greater accumulation of debt, larger changes needed to achieve a particular long-term outcome, and more uncertainty about future policies; acting sooner would weaken the economy 's current expansion and give people little time to plan and adjust.

Even if policy changes that shrink deficits in the long term were not implemented for several years, making decisions about them sooner rather than later could hold down longer-term interest rates, reduce uncertainty, and enhance businesses' and consumers' confidence.

About This Document

Leigh Angres, Maureen Costantino, Devrim Demirel, Jonathan Huntley, Geena Kim, Lyle Nelson, Xiaotong Niu, Charles Pineles-Mark, Joshua Shakin, Michael Simpson, and Julie Topoleski contributed to this presentation.

For more details, see CBO's report *The 2015 Long-Term Budget Outlook* (June 2015), www.cbo.gov/publication/50250, which is the result of work by many analysts at CBO.