

## The Spending Outlook

**U**nder the provisions of current law, federal outlays in 2015 will total \$3.7 trillion, the Congressional Budget Office estimates, roughly \$150 billion (or 4.3 percent) more than the amount spent in 2014. They are projected to grow faster over the coming decade—at an average annual rate of more than 5 percent—and reach \$6.1 trillion in 2025.

All of the projected growth for 2015 is attributable to mandatory spending, which makes up about 60 percent of the federal budget and is projected to rise by nearly \$160 billion, from \$2.1 trillion last year to \$2.3 trillion this year (see Table 3-1). In contrast, discretionary spending and the government's net interest payments are expected to change very little. Discretionary spending, which totaled \$1.2 trillion in 2014, is projected to edge down by \$4 billion in 2015. Net outlays for interest are expected to dip by \$3 billion this year to \$227 billion. (See Box 3-1 for descriptions of the three major types of federal spending.)

All told, federal outlays in 2015 will equal 20.3 percent of gross domestic product (GDP), CBO estimates, which is the same as last year's percentage and only slightly higher than the 20.1 percent that such spending has averaged over the past 50 years. But the mix of that spending has changed noticeably over time. Mandatory spending (net of the offsetting receipts credited against such spending) is expected to equal 12.5 percent of GDP in 2015, whereas over the 1965–2014 period, it averaged 9.3 percent. Meanwhile, the other major components of federal spending have declined relative to GDP: Discretionary spending is anticipated to equal 6.5 percent of GDP this year, down from its 8.8 percent average over the past 50 years, and net outlays for interest are expected to be 1.3 percent of GDP, down from the 50-year average of 2.0 percent (see Figure 3-1 on page 62).

In CBO's baseline projections, outlays rise over the coming decade, reaching 22.3 percent of GDP in 2025, an increase of 2.0 percentage points. Mandatory spending is

projected to contribute 1.7 percentage points to that increase—a combination of rapid growth in spending for Social Security and the major health care programs and a drop, relative to GDP, in outlays for other mandatory programs. As interest rates return to more typical levels and debt continues to mount, net outlays for interest are also projected to increase significantly, contributing another 1.7 percentage points to the growth in outlays. However, discretionary spending, measured as a percentage of GDP, falls by 1.4 percentage points in CBO's baseline projections.

Specifically, CBO's baseline for federal spending includes the following projections:

- Outlays for the largest federal program, Social Security, are expected to rise from 4.9 percent of GDP in 2015 to 5.7 percent in 2025.
- Federal outlays for major health care programs—including Medicare, Medicaid, subsidies for health insurance purchased through exchanges and related spending, and the Children's Health Insurance Program (CHIP)—are projected to increase more rapidly than outlays for Social Security, growing from 5.1 percent of GDP (net of premium payments and other offsetting receipts for Medicare) in 2015 to 6.2 percent in 2025.
- Outlays for all other mandatory programs (net of other offsetting receipts) are expected to decline from 2.5 percent of GDP in 2015 to 2.3 percent in 2025.
- Discretionary spending relative to the size of the economy is projected to fall by more than 20 percent over the next 10 years, from 6.5 percent of GDP in 2015 to 5.1 percent in 2025.
- Net interest payments are projected to more than double, rising from 1.3 percent of GDP in 2015 to 3.0 percent in 2025.

**Table 3-1.****Outlays Projected in CBO's Baseline**

	Actual,												Total	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
In Billions of Dollars														
Mandatory														
Social Security	845	883	921	971	1,032	1,096	1,165	1,237	1,313	1,392	1,476	1,564	5,185	12,167
Medicare	600	622	668	681	699	772	826	886	986	1,021	1,052	1,175	3,645	8,765
Medicaid	301	335	360	384	405	428	452	477	503	530	558	588	2,029	4,686
Other spending	626	690	741	764	770	783	797	824	863	864	866	910	3,855	8,184
Offsetting receipts	-276	-275	-216	-237	-253	-263	-273	-288	-303	-321	-336	-346	-1,241	-2,835
Subtotal	2,096	2,255	2,475	2,563	2,653	2,816	2,968	3,137	3,363	3,486	3,616	3,891	13,474	30,967
Discretionary														
Defense	596	583	587	592	599	616	631	646	666	677	689	711	3,025	6,413
Nondefense	583	592	589	590	594	605	617	630	644	658	672	689	2,995	6,288
Subtotal	1,179	1,175	1,176	1,182	1,193	1,221	1,248	1,276	1,310	1,336	1,361	1,400	6,019	12,701
Net interest	229	227	276	332	410	480	548	606	664	722	777	827	2,046	5,643
<b>Total Outlays</b>	<b>3,504</b>	<b>3,656</b>	<b>3,926</b>	<b>4,076</b>	<b>4,255</b>	<b>4,517</b>	<b>4,765</b>	<b>5,018</b>	<b>5,337</b>	<b>5,544</b>	<b>5,754</b>	<b>6,117</b>	<b>21,540</b>	<b>49,310</b>
On-budget	2,798	2,914	3,143	3,244	3,366	3,570	3,752	3,938	4,185	4,314	4,441	4,715	17,075	38,667
Off-budget <sup>a</sup>	706	742	784	832	889	948	1,012	1,080	1,152	1,230	1,313	1,402	4,465	10,643

**Memorandum:**

Gross Domestic Product 17,251 18,016 18,832 19,701 20,558 21,404 22,315 23,271 24,261 25,287 26,352 27,456 102,810 229,438

**As a Percentage of Gross Domestic Product**

Mandatory														
Social Security	4.9	4.9	4.9	4.9	5.0	5.1	5.2	5.3	5.4	5.5	5.6	5.7	5.0	5.3
Medicare	3.5	3.5	3.5	3.5	3.4	3.6	3.7	3.8	4.1	4.0	4.0	4.3	3.5	3.8
Medicaid	1.7	1.9	1.9	1.9	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.0	2.0
Other spending	3.6	3.8	3.9	3.9	3.7	3.7	3.6	3.5	3.6	3.4	3.3	3.3	3.8	3.6
Offsetting receipts	-1.6	-1.5	-1.1	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.3	-1.3	-1.3	-1.2	-1.2
Subtotal	12.2	12.5	13.1	13.0	12.9	13.2	13.3	13.5	13.9	13.8	13.7	14.2	13.1	13.5
Discretionary														
Defense	3.5	3.2	3.1	3.0	2.9	2.9	2.8	2.8	2.7	2.7	2.6	2.6	2.9	2.8
Nondefense	3.4	3.3	3.1	3.0	2.9	2.8	2.8	2.7	2.7	2.6	2.6	2.5	2.9	2.7
Subtotal	6.8	6.5	6.2	6.0	5.8	5.7	5.6	5.5	5.4	5.3	5.2	5.1	5.9	5.5
Net interest	1.3	1.3	1.5	1.7	2.0	2.2	2.5	2.6	2.7	2.9	3.0	3.0	2.0	2.5
<b>Total Outlays</b>	<b>20.3</b>	<b>20.3</b>	<b>20.8</b>	<b>20.7</b>	<b>20.7</b>	<b>21.1</b>	<b>21.4</b>	<b>21.6</b>	<b>22.0</b>	<b>21.9</b>	<b>21.8</b>	<b>22.3</b>	<b>21.0</b>	<b>21.5</b>
On-budget	16.2	16.2	16.7	16.5	16.4	16.7	16.8	16.9	17.2	17.1	16.9	17.2	16.6	16.9
Off-budget <sup>a</sup>	4.1	4.1	4.2	4.2	4.3	4.4	4.5	4.6	4.8	4.9	5.0	5.1	4.3	4.6

Source: Congressional Budget Office.

a. Off-budget outlays stem from transactions related to the Social Security trust funds and the net cash flow of the Postal Service.

**Box 3-1.****Categories of Federal Spending**

On the basis of its treatment in the budget process, federal spending can be divided into three broad categories: mandatory spending, discretionary spending, and net interest.

**Mandatory spending** consists primarily of spending for benefit programs, such as Social Security, Medicare, and Medicaid. The Congress generally determines funding for those programs by setting rules for eligibility, benefit formulas, and other parameters rather than by appropriating specific amounts each year. In making baseline projections, the Congressional Budget Office generally assumes that the existing laws and policies governing those programs will remain unchanged. Mandatory spending also includes offsetting receipts—fees and other charges that are recorded as negative budget authority and outlays. Offsetting receipts differ from revenues in that revenues are collected in the exercise of the government’s sovereign powers (income taxes, for example), whereas offsetting receipts are generally collected from other government accounts or from members of the public for businesslike transactions (premiums for Medicare or rental payments and royalties for the drilling of oil or gas on public lands, for example).

**Discretionary spending** is controlled by annual appropriation acts in which policymakers stipulate how much money will be provided for certain government programs in specific years. Appropriations fund a broad array of items and activities, including defense, law enforcement, transportation, the national park system, disaster relief, and foreign aid. Some of the fees and charges triggered by appropriation acts are classified as offsetting collections and are credited against discretionary spending for the particular accounts affected.

CBO’s baseline depicts the path of spending for individual discretionary accounts as directed by the provisions of the Balanced Budget and Emergency Deficit Control Act of 1985. That act stated that current appropriations should be assumed to grow with inflation in the future.<sup>1</sup> However, the Budget Control

Act of 2011 (Public Law 112-25) imposed caps on discretionary appropriations through 2021 (and subsequent legislation modified those limits), so the baseline also incorporates the assumption that discretionary funding will not exceed the current caps.

The caps can, however, be adjusted upward for appropriations for certain activities, including war-related activities known as overseas contingency operations, certain disaster assistance efforts, specified program integrity initiatives, or designated emergencies. In CBO’s baseline, the most recent appropriations for those categories, with increases for inflation, are used to project future adjustments to the caps.

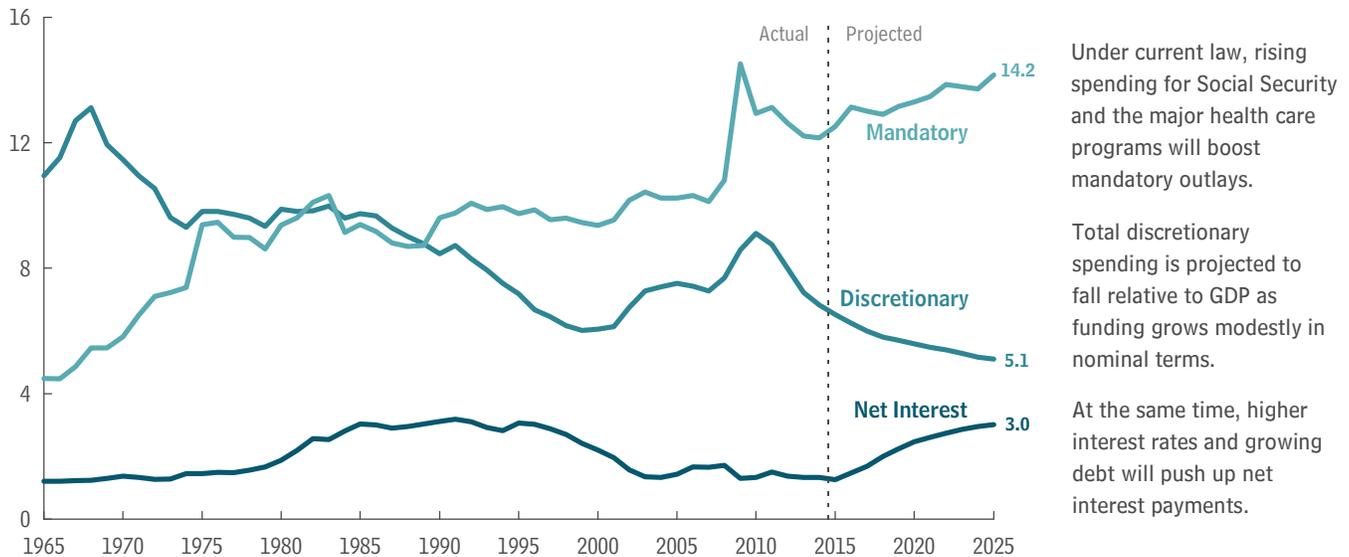
In addition to outlays from appropriations subject to caps, the baseline also includes discretionary spending for highway and airport infrastructure programs and public transit programs, all of which receive mandatory budget authority from authorizing legislation. Each year, however, appropriation acts control spending for those programs by limiting how much of the budget authority the Department of Transportation can obligate. For that reason, those obligation limitations are often treated as a measure of discretionary resources, and the resulting outlays are considered discretionary spending.

**Net interest** includes interest paid on Treasury securities and other interest that the government pays (for example, that paid on late refunds issued by the Internal Revenue Service) minus the interest that it collects from various sources (for example, from states that pay the federal unemployment trust fund interest on advances they received when the balances of their state unemployment accounts were insufficient to pay benefits in a timely fashion). Net interest is determined by the size and composition of the government’s debt and by market interest rates.

1. In CBO’s baseline, discretionary funding related to federal personnel is inflated using the employment cost index for wages and salaries; other discretionary funding is adjusted using the gross domestic product price index.

**Figure 3-1.****Outlays, by Type of Spending**

Percentage of Gross Domestic Product



Under current law, rising spending for Social Security and the major health care programs will boost mandatory outlays.

Total discretionary spending is projected to fall relative to GDP as funding grows modestly in nominal terms.

At the same time, higher interest rates and growing debt will push up net interest payments.

Source: Congressional Budget Office.

In developing its baseline projections, CBO generally assumes, in accordance with the rules established by the Balanced Budget and Emergency Deficit Control Act of 1985, that the provisions of current law governing federal taxes and spending will remain unchanged. Therefore, when projecting spending for mandatory programs, CBO assumes that existing laws will not be altered and that future outlays will depend on changes in caseloads, benefit costs, economic variables, and other factors. When projecting spending for discretionary programs, CBO assumes that most discretionary appropriations provided between 2016 and 2021 will be constrained by the statutory caps and other provisions of the Budget Control Act of 2011 (Public Law 112-25) and that thereafter appropriations in a given year will equal those in the prior year with an adjustment for inflation.<sup>1</sup>

## Mandatory Spending

Mandatory—or direct—spending includes spending for benefit programs and certain other payments to people, businesses, nonprofit institutions, and state and local governments. It is generally governed by statutory criteria and is not normally constrained by the annual appropriation process.<sup>2</sup> Certain types of payments that federal agencies receive from the public and from other government agencies are classified as offsetting receipts and reduce gross mandatory spending.

Total mandatory spending amounted to 12.2 percent of GDP in 2014. That figure is lower than the 13.1 percent such spending averaged over the previous five years but higher than the 10.3 percent of GDP it averaged in the five years before the most recent recession. Over the next 10 years, however, the aging of the population, the expansion of health insurance subsidies, and the rising per-beneficiary cost of health care will boost spending for

1. Appropriations for certain activities—overseas contingency operations, activities designated as emergency requirements, disaster relief, and initiatives designed to enhance program integrity by reducing overpayments in certain benefit programs—are not constrained by the caps and are assumed to grow with inflation from the amounts provided in 2015. (Overseas contingency operations refer to military operations and related activities in Afghanistan and elsewhere.)

2. Each year, some mandatory programs are modified by provisions contained in annual appropriation acts. Such changes may decrease or increase spending for the affected programs for either a single year or multiple years. Provisions of the Deficit Control Act and the Balanced Budget Act of 1997 govern how CBO projects spending for mandatory programs whose authorizations are scheduled to expire under current law, some of which are assumed to continue.

federal programs that serve the elderly and subsidize health care. As a result, mandatory spending will be higher as a share of GDP throughout the coming decade than it was in 2014, CBO projects.

Mandatory spending will jump by nearly 8 percent in 2015, to \$2.3 trillion (or 12.5 percent of GDP), CBO estimates, if no additional laws are enacted that affect such spending this year. The major contributors to that growth include outlays for Medicaid, subsidies for health insurance purchased through exchanges, and the government's transactions with Fannie Mae and Freddie Mac. Some of that growth in spending will be offset by receipts from auctions of portions of the electromagnetic spectrum, which are expected to bring in more than \$40 billion to the federal government this year. Over the next 10 years, mandatory spending is projected to rise at an average rate of close to 6 percent per year, reaching \$3.9 trillion, or 14.2 percent of GDP, in 2025 (see Table 3-2). By comparison, mandatory spending has averaged 11.9 percent of GDP over the past 10 years and 9.3 percent over the past 50 years.

At \$1.8 trillion in 2015, federal outlays for Social Security combined with those for Medicare, Medicaid, and other major health care programs will make up roughly half of all federal outlays and 80 percent of mandatory spending (net of offsetting receipts). Under current law, CBO projects, spending for those programs will increase at an average annual rate of 6 percent over the 2015–2025 period and will total \$3.3 trillion in 2025. By that year, spending for Social Security and the major health care programs will have risen from 10.0 percent of GDP in 2015 to 11.9 percent of GDP. In contrast, other mandatory spending relative to GDP is projected to decline slightly.

After Social Security and the major health care programs, the next largest set of mandatory programs consists of several that are designed to provide income security. Those programs—including certain refundable tax credits, the Supplemental Nutrition Assistance Program (SNAP), Supplemental Security Income (SSI), and unemployment compensation—will account for \$307 billion, or 1.7 percent of GDP, in 2015, by CBO's estimate.<sup>3</sup> Those programs, in total, are projected to grow by an average of only 1.5 percent per year; declining outlays for refundable tax credits and for SNAP contribute to that slow rate of growth. As a result, by 2025 outlays for

mandatory income security programs are projected to shrink to 1.3 percent of GDP.

Other mandatory spending programs include retirement benefits for federal civilian and military employees, certain benefits for veterans, student loans, and support for agriculture. Under current law, CBO projects, outlays for all of those other programs will grow at an average annual rate of 2.5 percent from 2015 through 2025, causing such spending to slide from 1.8 percent of GDP in 2015 to 1.5 percent of GDP in 2025. (Civilian and military retirement benefits account for roughly half of those amounts.)

CBO estimates that offsetting receipts (other than those for Medicare) will reduce mandatory outlays by 1.0 percent of GDP in 2015 and by an average of about 0.5 percent of GDP in ensuing years. Receipts from auctioning a portion of the electromagnetic spectrum have substantially boosted that total this year but are expected to have much smaller effects, on average, in later years. In addition, because of the way CBO treats the activities of Fannie Mae and Freddie Mac in its baseline projections, offsetting receipts from those entities are not reflected beyond the current year.

### Social Security

Social Security, which is the largest federal spending program, provides cash benefits to the elderly, to people with disabilities, and to their dependents and survivors. Social Security comprises two main parts: Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI). Social Security outlays grew by about 5 percent in 2014 because of increases in caseloads and average benefits.

CBO estimates that, under current law, outlays for Social Security will total \$883 billion, or 4.9 percent of GDP, in 2015 and will climb steadily (by an average of about 6 percent per year) over the next decade as the nation's elderly population grows and as average benefits rise. By 2025, CBO estimates, Social Security outlays will total \$1.6 trillion, or 5.7 percent of GDP, if current laws remain unchanged (see Figure 3-2 on page 66).

3. Tax credits reduce a taxpayer's overall income tax liability; if a refundable credit exceeds a taxpayer's other income tax liabilities, all or a portion of the excess (depending on the particular credit) is refunded to the taxpayer, and that payment is recorded as an outlay in the budget.

**Table 3-2.**  
**Mandatory Outlays Projected in CBO's Baseline**

Billions of Dollars

	Actual,												Total	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
<b>Social Security</b>														
Old-Age and Survivors Insurance	703	738	772	817	873	931	994	1,058	1,124	1,195	1,269	1,347	4,387	10,379
Disability Insurance	142	145	149	154	159	165	171	180	189	198	208	216	798	1,788
Subtotal	845	883	921	971	1,032	1,096	1,165	1,237	1,313	1,392	1,476	1,564	5,185	12,167
<b>Major Health Care Programs</b>														
Medicare <sup>a</sup>	600	622	668	681	699	772	826	886	986	1,021	1,052	1,175	3,645	8,765
Medicaid	301	335	360	384	405	428	452	477	503	530	558	588	2,029	4,686
Exchange subsidies and related spending <sup>b</sup>	15	45	71	93	101	106	110	116	122	125	128	131	482	1,104
Children's Health Insurance Program	9	10	11	6	6	6	6	6	6	6	6	6	34	62
Subtotal <sup>a</sup>	926	1,012	1,111	1,163	1,210	1,312	1,394	1,485	1,617	1,682	1,744	1,900	6,190	14,617
<b>Income Security Programs</b>														
Earned income, child, and other tax credits <sup>c</sup>	86	87	89	90	91	75	76	77	78	79	80	82	420	816
Supplemental Nutrition Assistance Program	76	78	78	76	75	74	74	74	73	74	74	75	378	747
Supplemental Security Income	54	55	60	57	54	61	63	64	71	68	65	72	295	636
Unemployment compensation	44	35	36	37	39	42	46	49	51	54	57	60	200	472
Family support and foster care <sup>d</sup>	31	31	32	32	32	33	33	33	34	34	34	35	162	331
Child nutrition	20	21	22	23	24	25	26	27	28	29	31	32	120	268
Subtotal	311	307	317	316	316	310	316	324	336	338	341	355	1,575	3,269
<b>Federal Civilian and Military Retirement</b>														
Civilian <sup>e</sup>	100	97	99	102	105	108	112	116	120	124	128	132	526	1,145
Military	55	57	62	59	56	62	64	66	73	70	67	74	303	653
Other	8	7	6	6	7	7	8	9	9	9	9	9	34	79
Subtotal	164	160	167	167	168	178	184	191	202	203	204	215	863	1,878
<b>Veterans' Programs<sup>f</sup></b>														
Income security	71	74	82	79	74	83	84	85	93	87	81	91	402	840
Other	16	25	20	16	16	18	18	19	21	21	21	23	88	195
Subtotal	87	99	102	95	91	100	103	105	114	109	103	114	490	1,035
<b>Other Programs</b>														
Agriculture	19	11	16	19	17	16	15	15	15	15	15	15	83	159
MERHCF	9	10	10	10	11	11	12	13	14	15	16	17	55	128
Deposit insurance	-14	-10	-10	-10	-9	-14	-16	-10	-12	-13	-14	-15	-59	-124
Fannie Mae and Freddie Mac <sup>g</sup>	0	0	3	3	3	2	1	1	2	2	2	2	13	21
Higher education	-12	-3	-7	-4	-1	0	2	2	1	1	1	1	-10	-4
Other	38	61	62	69	68	68	64	64	64	64	65	69	329	655
Subtotal	40	69	73	87	89	83	78	84	84	84	84	89	411	835

Continued

**Old-Age and Survivors Insurance.** OASI, the larger of Social Security's two components, pays full benefits to workers who start collecting them at a specified full retirement age that depends on a worker's year of birth. (Full retirement age is defined as age 66 for those born before 1955 and increases incrementally for those born in 1955 and later years, reaching age 67 for those born in

1960 or later.) Workers can, however, choose to start collecting reduced benefits as early as age 62. The program also makes payments to eligible spouses and children of deceased workers. OASI spending totaled \$703 billion in 2014, accounting for more than 80 percent of Social Security's outlays.

Table 3-2.

Continued

## Mandatory Outlays Projected in CBO's Baseline

Billions of Dollars

	Actual, 2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016- 2020	2016- 2025
Offsetting Receipts														
Medicare <sup>h</sup>	-95	-99	-106	-113	-121	-130	-139	-149	-163	-178	-189	-199	-609	-1,487
Federal share of federal employees' retirement														
Social Security	-16	-16	-17	-17	-18	-18	-19	-20	-20	-21	-22	-23	-89	-195
Military retirement	-21	-20	-19	-20	-20	-21	-22	-23	-23	-24	-25	-26	-102	-223
Civil service retirement and other	-29	-32	-32	-34	-35	-36	-37	-38	-39	-40	-41	-42	-174	-373
Subtotal	-65	-68	-68	-71	-73	-75	-78	-80	-83	-85	-88	-90	-365	-791
Receipts related to natural resources	-14	-13	-13	-13	-17	-16	-17	-18	-17	-18	-19	-19	-75	-165
MERHCF	-8	-7	-7	-8	-8	-9	-9	-10	-10	-11	-11	-12	-41	-94
Fannie Mae and Freddie Mac <sup>g</sup>	-74	-26	0	0	0	0	0	0	0	0	0	0	0	0
Other	-20	-62	-22	-32	-34	-32	-31	-32	-30	-30	-29	-26	-151	-298
Subtotal	-276	-275	-216	-237	-253	-263	-273	-288	-303	-321	-336	-346	-1,241	-2,835
<b>Total Mandatory Outlays</b>	2,096	2,255	2,475	2,563	2,653	2,816	2,968	3,137	3,363	3,486	3,616	3,891	13,474	30,967
<b>Memorandum:</b>														
Mandatory Spending Excluding the Effects of Offsetting Receipts	2,373	2,530	2,691	2,799	2,905	3,079	3,241	3,425	3,666	3,808	3,952	4,237	14,715	33,802
Spending for Medicare Net of Offsetting Receipts	505	523	562	568	577	641	687	737	823	843	863	976	3,036	7,278
Spending for Major Health Care Programs Net of Offsetting Receipts <sup>i</sup>	831	913	1,005	1,051	1,089	1,182	1,255	1,336	1,454	1,504	1,555	1,701	5,581	13,130

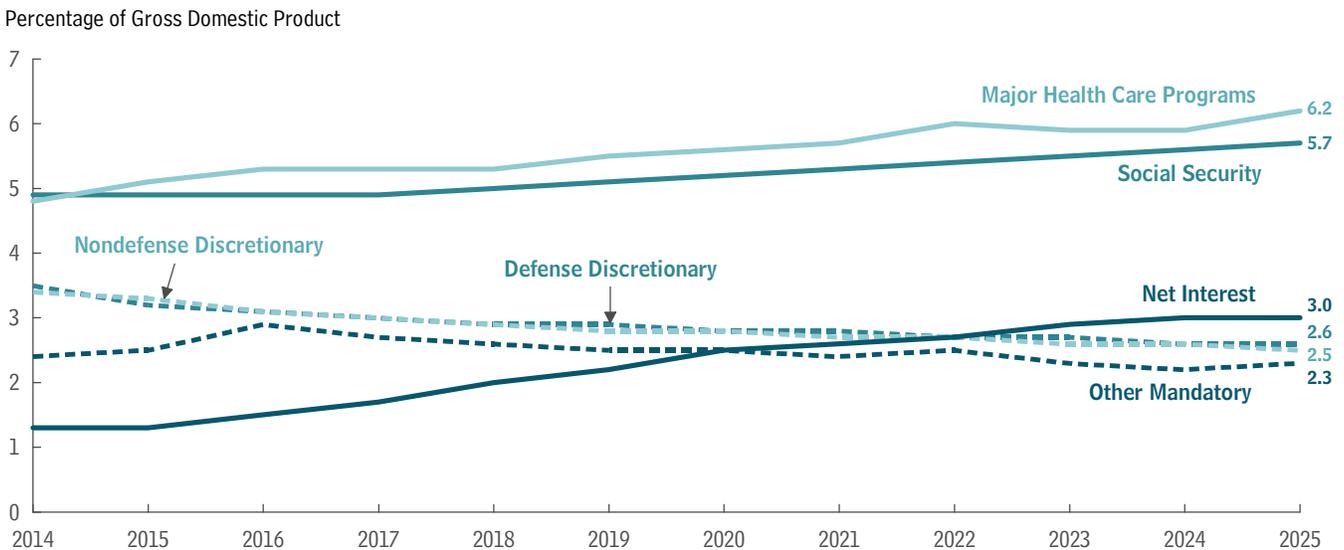
Source: Congressional Budget Office.

Notes: Data on spending for benefit programs in this table generally exclude administrative costs, which are discretionary.

MERHCF = Department of Defense Medicare-Eligible Retiree Health Care Fund (including TRICARE for Life).

- a. Gross spending, excluding the effects of Medicare premiums and other offsetting receipts. (Net Medicare spending is included in the memorandum section of the table.)
- b. Subsidies for health insurance purchased through exchanges established under the Affordable Care Act.
- c. Includes outlays for the American Opportunity Tax Credit and other credits.
- d. Includes the Temporary Assistance for Needy Families program, the Child Support Enforcement program, the Child Care Entitlement program, and other programs that benefit children.
- e. Includes Civil Service, Foreign Service, Coast Guard, and other, smaller retirement programs as well as annuitants' health care benefits.
- f. Income security programs include veterans' compensation, pensions, and life insurance programs. Other benefits are primarily education subsidies. Most of the costs of veterans' health care are classified as discretionary spending and thus are not shown in this table.
- g. The cash payments from Fannie Mae and Freddie Mac to the Treasury are recorded as offsetting receipts in 2014 and 2015. Beginning in 2016, CBO's estimates reflect the net lifetime costs—that is, the subsidy costs adjusted for market risk—of the guarantees that those entities will issue and of the loans that they will hold, counted as federal outlays in the year of issuance.
- h. Includes premium payments, recoveries of overpayments made to providers, and amounts paid by states from savings on Medicaid's prescription drug costs.
- i. Consists of outlays for Medicare (net of offsetting receipts), Medicaid, the Children's Health Insurance Program, and subsidies for health insurance purchased through exchanges and related spending.

**Figure 3-2.**  
**Projected Outlays in Major Budget Categories**



Source: Congressional Budget Office.

Note: Major health care programs consist of Medicare, Medicaid, the Children’s Health Insurance Program, and subsidies for health insurance purchased through exchanges and related spending. (Medicare spending is net of offsetting receipts.) Other mandatory spending is all mandatory spending other than that for major health care programs and Social Security.

About 47 million people received OASI benefits in 2014. Over the 2015–2025 period, as more baby boomers (people born between 1946 and 1964) become eligible to receive benefits under the program, the number of people collecting those benefits will increase by an average of about 3 percent per year, CBO estimates. By 2025, nearly 65 million people will be receiving OASI benefits—37 percent more than the number of recipients in 2014 and 59 percent more than the number in 2007, the last year before the first baby boomers became eligible for benefits under the program.

Average benefits will also rise in the future because beneficiaries generally receive annual cost-of-living adjustments (COLAs) and because initial benefits are based on people’s lifetime earnings, which tend to increase over time. OASI beneficiaries received a COLA of 1.7 percent in January 2015; CBO anticipates that beneficiaries will receive a COLA of 0.9 percent in 2016 and that COLAs will average 2.4 percent annually from 2017 through 2025. (Each year’s COLA is determined by the annual increase in the consumer price index for urban wage earners.) All told, the average benefit will rise by about 3 percent per year over the 2015–2025 period, according to CBO’s estimates. The increasing average benefit, in

combination with the growing number of beneficiaries, is projected to boost outlays for OASI by an average of about 6 percent per year over that period.

**Disability Insurance.** Social Security’s disability benefits are paid to workers who suffer debilitating health conditions before they reach OASI’s full retirement age. Payments are also made to the eligible spouses and children of those recipients. In 2014, federal spending for DI totaled \$142 billion.

The number of people receiving those benefits rose by about 0.5 percent in 2014, to 11 million—a much slower rate of growth than the program had experienced during the previous several years. The growth in the DI caseload is expected to remain modest as the economy continues to improve, leading fewer people to seek disability benefits, and as more Americans reach the age at which they qualify for benefits under OASI. Like OASI beneficiaries, those receiving benefits under DI received a COLA of 1.7 percent for 2015. Including COLAs that will be paid in future years, average DI benefits under current law will grow by about 3 percent per year, on average, from 2015 through 2025, and the program’s outlays will rise by an

average of about 4 percent annually during those years, CBO estimates.

CBO projects that the balance of the DI trust fund will be exhausted during fiscal year 2017. After that time, additional revenues will continue to be credited to the DI trust fund, but, in CBO's estimation, the amounts will be insufficient to pay all of the benefits due. However, in keeping with the rules in section 257 of the Deficit Control Act, CBO's baseline incorporates the assumption that full benefits will continue to be paid after the balance of the trust fund has been exhausted, although there will be no legal authority to make such payments in the absence of legislative action.

### Medicare, Medicaid, and Other Major Health Care Programs

At \$926 billion in 2014, gross federal outlays for Medicare, Medicaid, and other major programs related to health care accounted for 39 percent of gross mandatory spending and equaled 5.4 percent of GDP. (Those amounts do not reflect the income received by the government from premiums paid by Medicare beneficiaries or from other offsetting receipts.) Under current law, CBO estimates, gross federal outlays for those programs will jump to \$1.0 trillion, or 5.6 percent of GDP, in 2015. In CBO's baseline projections, that spending grows robustly—at an average rate of nearly 7 percent per year—and thus nearly doubles between 2015 and 2025, reaching \$1.9 trillion, or 6.8 percent of GDP, by the end of that period.

**Medicare.** Medicare provides subsidized medical insurance to the elderly and to some people with disabilities. The program has three principal components: Part A (Hospital Insurance), Part B (Medical Insurance, which covers doctors' services, outpatient care, home health services, and other medical services), and Part D (which covers outpatient prescription drugs).<sup>4</sup> People generally become eligible for Medicare at age 65 or two years after they qualify for Social Security disability benefits.

Gross spending for Medicare will total \$622 billion in 2015, CBO estimates, or 3.5 percent of GDP, the same

share as in 2014. By 2025, the program's spending will reach nearly \$1.2 trillion, or 4.3 percent of GDP, if current laws remain in place. Medicare also collects substantial offsetting receipts—mostly in the form of premiums paid by beneficiaries—which, in CBO's baseline projections, rise from \$99 billion in 2015 to \$199 billion in 2025. (See "Offsetting Receipts" on page 74.) Under current law, spending for Medicare net of those offsetting receipts will be 2.9 percent of GDP in 2015 and 3.6 percent in 2025, CBO estimates.

Spending for Medicare (not including offsetting receipts) is expected to grow by an average of nearly 7 percent per year over the next 10 years under current law. About 60 percent of that growth results from higher costs per beneficiary; the rest stems from an increasing number of beneficiaries. CBO projects that Medicare caseloads will expand at an average rate of 3 percent per year as growing numbers of baby boomers turn 65 and become eligible for benefits. In 2014, Medicare had about 54 million beneficiaries; that number is expected to climb to 73 million in 2025.

CBO projects that, under current law, nominal spending per beneficiary will grow at an average rate of 4 percent per year over the coming decade—much more slowly than it has grown historically. After adjusting for inflation (as measured by the price index for personal consumption expenditures), Medicare spending per beneficiary is expected to increase at an average annual rate of 1.2 percent between 2015 and 2025, whereas it averaged real annual growth of 4 percent between 1985 and 2007 (excluding the jump in spending that occurred in 2006 with the implementation of Part D).

The comparatively slow growth in per-beneficiary spending that CBO projects for the next decade results from a combination of factors. One of those factors is the anticipated influx of new beneficiaries, which will bring down the average age of Medicare beneficiaries and therefore, holding all else equal, reduce average health care costs per beneficiary because younger beneficiaries tend to use fewer health care services.

A second factor is the slowdown in the growth of Medicare spending across all types of services, beneficiaries, and major geographic regions in recent years. Although the reasons for that slower growth are not yet

4. Medicare Part C (known as Medicare Advantage) specifies the rules under which private health care plans can assume responsibility for, and be compensated for, providing benefits covered under Parts A, B, and D.

entirely clear, CBO projects that the slowdown will persist for some years to come.<sup>5</sup> For example, since March 2010, CBO has reduced its projection of Medicare outlays in 2020 (the last year included in the March 2010 projection) by \$122 billion, or about 14 percent, based on subsequent analysis by its staff and other analysts of data on Medicare spending. (CBO has also made revisions to its projections for Medicare spending in response to legislative action and revisions to the economic outlook.)

A third factor that contributes to the slow projected growth in Medicare spending per beneficiary over the next decade is the constraints on service payment rates that are built into current law:

- Payment rates for physicians' services are set according to the sustainable growth rate mechanism (SGR).<sup>6</sup> Under current law, payment rates for those services will be reduced by 21 percent in April 2015 and raised or lowered by small amounts in subsequent years, so CBO incorporates those changes into its projections. If, however, future legislation overrides the scheduled reductions (as has happened in every year since 2003), spending for Medicare will be greater than the amount that is projected in CBO's baseline. For example, if payment rates for physicians' services remained at the current level from April 2015 through 2025, CBO estimates that net Medicare outlays through 2025 would be \$137 billion (or roughly 2 percent) higher than in its baseline projections. If those payment rates were increased over time, the effect on Medicare outlays would be even greater.

- Payments to other types of providers are limited by provisions of the Affordable Care Act (ACA) that

hold annual increases in payment rates for Medicare services (apart from those provided by physicians) to about 1 percentage point less than inflation. Under CBO's economic projections, those payment rates are expected to increase by about 1 percent per year on average.

- Payments to Medicare providers will also be affected—especially later in the coming decade—by a provision originally enacted in the Budget Control Act of 2011 and extended by subsequent laws that reduces payment rates for most Medicare services by 2.0 percent through March 2023 and then by varying amounts over the next year and a half: by 2.9 percent through September 2023, then by 1.1 percent through March 2024, and then by 4.0 percent through September 2024.

Despite the relatively slow growth in per-beneficiary Medicare spending projected over the next 10 years, net federal spending per beneficiary for Parts A and B is projected to grow by 38 percent. Net federal spending per beneficiary for Part D, which accounts for a small share of total Medicare spending, is projected to grow much more—by 77 percent—largely because of rising drug costs combined with provisions in the ACA that expand the extent of coverage for some prescription drugs.

**Medicaid.** Medicaid is a joint federal and state program that funds medical care for certain low-income, elderly, and disabled people. The federal government shares costs for approved services, as well as administrative costs, with states; the federal share varies from state to state but averaged about 57 percent in most years prior to 2014. (During some economic downturns, the federal government's share has temporarily increased.)

Beginning in January 2014, the ACA gave states the option of expanding eligibility for their Medicaid programs to people with income at or below 138 percent of the federal poverty guidelines. In 2014, 27 states and the District of Columbia expanded their programs. The federal government pays a greater share of the costs incurred by enrollees who were made eligible for Medicaid in those states than it does for traditional enrollees: The federal share for those newly eligible enrollees is 100 percent from 2014 through 2016 and declines thereafter, falling

5. See Michael Levine and Melinda Buntin, *Why Has Growth in Spending for Medicare Fee-for-Service Slowed?* Working Paper 2013-06 (Congressional Budget Office, August 2013), [www.cbo.gov/publication/44513](http://www.cbo.gov/publication/44513). That analysis reviews the observed slowdown in growth in Medicare spending between the 2000–2005 and 2007–2010 periods. It suggests that demand for health care by Medicare beneficiaries was not measurably diminished by the financial turmoil and recession and that, instead, much of the slowdown in spending growth was caused by other factors affecting beneficiaries' demand for care and by changes in providers' behavior.

6. The SGR was enacted as part of the Balanced Budget Act of 1997 as a method for controlling spending by Medicare on physicians' services.

to 90 percent in 2020.<sup>7</sup> (See Appendix B for more information on the insurance coverage provisions of the ACA.)

Federal outlays for Medicaid totaled \$301 billion in 2014, 14 percent more than 2013 spending for the program. CBO estimates that slightly more than half of that increase resulted from enrollment of people who were newly eligible because of the ACA and from the greater share of costs paid by the federal government for those new enrollees. Provisions of the ACA also led to increased enrollment of individuals who were previously eligible for Medicaid. CBO cannot, however, precisely determine the total share of growth between 2013 and 2014 resulting from the ACA because there is no way to know whether new enrollees who would have been eligible in the absence of the ACA would have signed up had it not been enacted.

CBO projects that, under current law, federal spending for Medicaid will jump by an additional 11 percent this year as more people in states that have already expanded Medicaid eligibility enroll in the program and as more states expand eligibility. The number of people enrolled in Medicaid on an average monthly basis is expected to rise from 63 million in 2014 to 66 million in 2015. CBO anticipates that, by 2020, 80 percent of the people who meet the new eligibility criteria will live in states that have extended Medicaid coverage and that enrollment in Medicaid will be 75 million.

From 2016 to 2025, growth in federal spending for Medicaid is projected to increase at about the same rate of growth that such spending averaged over the past 10 years—about 6 percent annually. By 2025, about 78 million people will be enrolled in Medicaid on an average monthly basis, CBO projects. In that year, federal outlays for Medicaid are, under current law, projected to total \$588 billion, or about 2.1 percent of GDP, up from 1.9 percent of GDP in 2015.

**Exchange Subsidies and Related Spending.** Individuals and families can now purchase private health insurance coverage through marketplaces known as exchanges that are operated by the federal government, by state

governments, or through a partnership between federal and state governments. (See Appendix B for more information on the insurance coverage provisions of the ACA.) Subsidies of purchases made through those exchanges fall into two categories: subsidies to cover a portion of participants' health insurance premiums, and subsidies to reduce their cost-sharing amounts (out-of-pocket payments required under insurance policies). Related spending consists of grants to states for establishing health insurance exchanges and outlays for risk adjustment and reinsurance.<sup>8</sup> Outlays for those exchange subsidies and related spending are expected to rise from \$15 billion last year to \$45 billion in 2015, to \$71 billion in 2016, and to \$131 billion by 2025.

Exchange subsidies make up the largest portion of that spending: Outlays are projected to total \$28 billion in 2015 (up from \$13 billion in 2014) and to reach \$112 billion by 2025. (A portion of the subsidies for health insurance premiums will be provided in the form of reductions in recipients' tax payments.)<sup>9</sup> In 2014, CBO estimates, an average of 5 million people per month received subsidies through the exchanges. CBO and the staff of the Joint Committee on Taxation project that about 9 million people will receive such subsidies in 2015 and that the number will grow to roughly 16 million in 2016 and to between 17 million and 19 million in each year from 2017 to 2025. (Other people who will not be eligible for subsidies are also expected to purchase health insurance coverage through the exchanges.)

7. Taking into account the enhanced federal matching rates for populations made eligible under the ACA, the average federal share of spending for Medicaid is expected to be between 60 percent and 62 percent in 2015 and later years.

8. CBO previously anticipated that the transactions of the risk corridor program created by the ACA, which reduces risk for health insurers by partially offsetting high losses and sharing large profits, would be recorded in the budget as mandatory spending and revenues. However, the Administration plans to record the program's outflows as discretionary spending and inflows as offsetting collections to such spending, and CBO will follow that treatment. That difference in classification reduces both mandatory spending and revenues in CBO's baseline by the same amounts. In addition, because CBO expects that the additional discretionary spending and offsetting collections will be of equal amounts in each year, the reclassification will have no net impact on discretionary spending. Consequently, it has no net effect on CBO and the Joint Committee on Taxation's estimates of the effects of the ACA's insurance coverage provisions.

9. The subsidies for health insurance premiums are structured as refundable tax credits; the portions of such credits that exceed taxpayers' other income tax liabilities are refunded to the taxpayer and classified as outlays, whereas the portions that reduce tax payments appear in the budget as reductions in revenues.

CBO estimates that outlays for grants to states for exchange operations will be about \$1 billion in 2015. Because funds for new grants needed to be obligated by the end of 2014, spending of such grants is winding down. In CBO's baseline, outlays associated with grants for operating state exchanges decline to zero by 2018.

In accordance with the ACA, new programs requiring the federal government to make payments to health insurance plans for risk adjustment (amounts paid to plans that attract less healthy enrollees) and for reinsurance (amounts paid to plans that enroll individuals who end up with high costs) became effective in 2014. The two programs are intended to spread more widely—either to other insurance plans or to the federal government—some of the risk that health insurers face when selling health insurance through the new exchanges or in other individual or small group markets. Outlays for the two programs are expected to begin in 2015 and to total \$16 billion in that year; over the 2016–2025 period, CBO projects, outlays for those programs will total \$181 billion. Those payments will be offset by associated revenues. Under current law, the reinsurance program is authorized only for insurance issued through 2016 (although spending associated with the programs is expected to continue for an additional year), but the risk-adjustment program is permanent.

**Children's Health Insurance Program.** The Children's Health Insurance Program provides health insurance coverage to children in families whose income, although modest, is too high for them to qualify for Medicaid. The program is jointly financed by the federal government and the states and is administered by the states within broad federal guidelines. Total federal spending for CHIP was approximately \$9 billion in 2014 and is expected to rise to \$10 billion in 2015—the last year for which funding is provided in law. Funding for CHIP in 2015 consists of two semiannual allotments of \$2.85 billion—much smaller amounts than were allotted in the four preceding years—and \$15.4 billion in onetime funding for the program, which will supplement the first allotment.

Following the rules governing baseline projections, CBO assumes in its baseline that funding for CHIP after 2015 is set at about \$6 billion a year (that is, at the annualized rate of the second of the semiannual allotments for 2015).<sup>10</sup> Nevertheless, annual spending for CHIP is projected to reach \$11 billion in 2016 because some of the funds allocated to states in previous years will be spent in

that year; outlays are projected to fall to about \$6 billion in 2017 and remain there in subsequent years. Nearly 6 million people will be enrolled in CHIP on an average monthly basis in 2015, CBO estimates. Enrollment drops later in the decade in CBO's baseline projections, mostly because funding is assumed to decline after 2015.

### Income-Security Programs

The federal government makes various payments to people and government entities in order to assist the poor, the unemployed, and others in need. Federal spending for the refundable portions of the earned income tax credit (EITC), the child tax credit, certain other tax credits, SNAP, SSI, unemployment compensation, family support, foster care, and other services increased rapidly during the most recent recession, peaking in 2010 at \$437 billion, or 3.0 percent of GDP. By 2014, such spending had dropped to \$311 billion, or 1.8 percent of GDP. Under current law, spending on mandatory income-security programs is projected to decline slightly in 2015 and then to grow modestly. By 2025, outlays for those programs are anticipated to be \$355 billion, or 1.3 percent of GDP.

**Earned Income, Child, and Other Tax Credits.** Refundable tax credits reduce a filer's overall income tax liability; if the credit exceeds the rest of the filer's income tax liability, the government pays all or some portion of that excess to the taxpayer. Those payments—including the ones made for the refundable portions of the EITC, the child tax credit, and the American Opportunity Tax Credit (AOTC)—are categorized as outlays. The EITC is a fully refundable credit available primarily to people with earnings and income that fall below established maximums. The child tax credit is a partially refundable credit (limited to 15 percent of earnings over a predetermined threshold) available to qualifying families with dependent children. The AOTC allows certain individuals (including those who owe no taxes) to claim a credit for college expenses. Outlays for those credits totaled \$86 billion in 2014.

Such outlays are projected to reach \$91 billion in 2018 before dropping to \$75 billion in 2019, following the expiration, under current law, of the AOTC and of the temporary expansions in the child tax credit and EITC

10. Although CBO's projections assume that \$6 billion in funding will be provided for 2016 and subsequent years, if lawmakers provide no such funding, state programs will terminate in 2016.

that were first enacted in 2009 and most recently extended in January 2013. Under current law, by 2025 outlays for refundable tax credits will total \$82 billion, CBO projects. Those tax credits also affect the budget, to a lesser extent, by reducing tax revenues. However, the portion of the refundable tax credit that reduces revenues is not reported separately in the federal budget.

**Supplemental Nutrition Assistance Program.** Outlays for SNAP fell by 8 percent in 2014 to \$76 billion after having risen each year since 2008, when the most recent recession began. CBO estimates that the program's spending will rise modestly this year, to \$78 billion, and that 46 million people will receive those benefits. CBO expects that the number of people collecting SNAP benefits, which increased dramatically in the wake of the most recent recession, will gradually decline over the coming years. Average per-person benefits, however, will increase each year because of adjustments for inflation in prices for food. Based on the assumption that the program will be extended after it expires at the end of fiscal year 2018 (as provided in the rules governing baseline projections), CBO projects that by 2025, 33 million people will be enrolled in SNAP and the program's outlays will total \$75 billion.

**Supplemental Security Income.** SSI provides cash benefits to people with low incomes who are elderly or disabled. Outlays for SSI rose by about 2 percent in 2014 to \$54 billion. According to CBO's estimates, spending for that program will increase at an average annual rate of close to 3 percent over the coming decade. In CBO's projections, the number of beneficiaries for SSI edges up at an average annual rate of less than half a percent; most of the anticipated growth in spending for that program through 2025 stems from COLA increases. Under current law, spending for SSI benefits will be \$72 billion in 2025, CBO estimates.

**Unemployment Compensation.** In 2014, outlays for unemployment compensation were \$44 billion, about two-thirds of the amount spent in 2013. Such spending peaked at \$159 billion in 2010, in part because of the exceptionally high unemployment rate and in part because of legislation that significantly expanded benefits for individuals who had been unemployed for long periods. The improving economy and the expiration of those temporary provisions at the end of December 2013 have reduced outlays considerably. If there are no changes to

current law, outlays will drop again in 2015, CBO estimates, to \$35 billion, close to the amount spent in 2007.

Over the next 10 years, outlays for unemployment compensation are projected to rise gradually, pushed up by growth in the labor force and wages (which serve as the basis for benefits). By 2025, CBO projects, outlays for the program will, under current law, amount to \$60 billion, or 0.2 percent of GDP.

**Family Support and Foster Care.** Spending for family support programs—grants to states that help fund welfare programs, foster care, child support enforcement, and the Child Care Entitlement—is expected to remain close to last year's level, about \$31 billion, in 2015. Spending for those programs is projected to rise only gradually through 2025, at an average annual rate of 1 percent.

Funding for two major components of family support is capped: The regular Temporary Assistance to Needy Families (TANF) program is limited to roughly \$17 billion annually (although some additional funding is available if states' unemployment rates or SNAP caseloads exceed certain thresholds), and funding for the Child Care Entitlement is capped at just under \$3 billion per year. Under current law, the regular TANF program and the Child Care Entitlement are funded only through the end of this fiscal year, but CBO's baseline reflects the assumption (as specified in the Deficit Control Act) that such funding will continue throughout the projection period.

Outlays for federal grants to states for foster care and adoption assistance and for child support enforcement are expected to remain near the 2014 amounts—about \$7 billion and \$4 billion, respectively—in 2015. CBO estimates that, under current law, spending for the two programs will increase modestly over the coming decade and amount to \$9 billion and \$5 billion, respectively, in 2025.

**Child Nutrition.** CBO projects that federal spending for child nutrition—which provides cash and commodities for meals and snacks in schools, day care settings, and summer programs—will rise by 5 percent in 2015, to \$21 billion. Much of that increase stems from higher per-meal reimbursement rates, which are adjusted automatically each school year to account for inflation. CBO anticipates that growth in the number of meals provided and in reimbursement rates will lead to spending

increases averaging 4 percent per year from 2016 through 2025, for a total of \$32 billion in 2025.<sup>11</sup>

### Civilian and Military Retirement

Retirement and survivors' benefits for federal civilian employees (along with benefits provided through several smaller retirement programs for employees of various government agencies and for retired railroad workers) amounted to \$108 billion in 2014. Under current law, such outlays will grow by about 3 percent annually over the next 10 years, CBO projects, reaching \$141 billion in 2025.

Growth in federal civil service retirement benefits is attributable primarily to cost-of-living adjustments for retirees and to increases in federal salaries, which boost benefits for people entering retirement. (CBO's projections reflect the assumption that federal salaries will rise in accordance with the employment cost index for wages and salaries of workers in private industry.) One factor that is restraining growth in spending for retirement benefits is the ongoing, gradual replacement of the Civil Service Retirement System (CSRS) with the Federal Employees Retirement System (FERS). FERS covers employees hired after 1983 and provides a smaller benefit than that provided by CSRS. FERS recipients are, however, eligible for Social Security benefits on the basis of their federal employment, whereas CSRS employees are not. In addition, under FERS, employees' contributions to the federal Thrift Savings Plan are matched in part by their employing agencies (but those matching funds are categorized as discretionary—not mandatory—costs because they come out of annual appropriations to the agencies).

The federal government also provides annuities to personnel who retire from the military and their survivors. Outlays for those annuities totaled \$55 billion in 2014. Most of the annual growth in those outlays results from COLAs and increases in military basic pay. Outlays for military retirement annuities are projected to grow over the next 10 years by an average of about 3 percent per year, rising to \$74 billion in 2025.

11. Spending for child nutrition includes roughly \$1 billion in outlays each year related to the Funds for Strengthening Markets program (also known as Section 32), which, among other things, provides funds to purchase commodities that are distributed to schools as part of child nutrition programs.

### Veterans' Benefits

Mandatory spending for veterans' benefits includes disability compensation, readjustment benefits, pensions, insurance, housing assistance, and burial benefits. Outlays for those benefits totaled \$87 billion in 2014, of which roughly 75 percent represented disability compensation. That amount does not include most federal spending for veterans' health care, which is funded by discretionary appropriations.

Spending for mandatory veterans' benefits is projected to rise by 14 percent, to \$99 billion, in 2015. The growth projected for 2015 largely reflects new mandatory spending for medical services and facilities resulting from the Veterans Access, Choice, and Accountability Act of 2014 (P.L. 113-146). That law provided onetime funding of \$5 billion to expand health care hiring and infrastructure of the Department of Veterans Affairs and \$10 billion to temporarily cover the costs of contracted medical care for veterans. (That funding was an exception to the usual approach of funding veterans' health care through discretionary appropriations.) Other growth, though less substantial, stems from an expected increase in the average benefit for veterans' disability compensation.

CBO expects that, under current law, moderate growth in mandatory spending for veterans' benefits (averaging about 1.4 percent a year between 2015 and 2025) will cause outlays to rise to \$114 billion in 2025.

### Other Mandatory Spending

Other mandatory spending includes outlays for agricultural support, some smaller health care programs, net outlays for deposit insurance, subsidy costs for student loans, and other payments. Outlays in some of those categories fluctuate markedly from year to year and may be either positive or negative.

**Agricultural Support.** Mandatory spending for agricultural programs totaled \$19 billion in 2014. The relatively high spending last year included significant payments for livestock disaster assistance for drought-related losses since 2012 and crop insurance payments for crop losses in 2013. Spending for agricultural support is projected to average \$15 billion per year between 2015 and 2025 based on the assumption (specified in the Deficit Control Act) that the current programs that are scheduled to expire during that period will be extended.

**Deposit Insurance.** Net outlays for deposit insurance were negative last year: The program's collections (premiums paid by financial institutions) exceeded its disbursements (the cost of resolving failed institutions) by \$14 billion. Premium payments will continue to exceed amounts spent on failed institutions, CBO projects, and net outlays for deposit insurance will range from –\$9 billion to –\$16 billion annually over the coming decade.

**Medicare-Eligible Retiree Health Care Fund.** The Department of Defense's Medicare-Eligible Retiree Health Care Fund (MERHCF) provides health care benefits, mainly through the TRICARE for Life program, to retirees of the uniformed services (and to their dependents and surviving spouses) who are eligible for Medicare. Outlays for those benefits totaled \$9 billion in 2014. Over the coming decade, spending from the MERHCF is projected to rise at an average annual rate of roughly 6 percent, reaching \$17 billion in 2025.

**Fannie Mae and Freddie Mac.** In September 2008, the government placed Fannie Mae and Freddie Mac, two institutions that facilitate the flow of funding for home loans nationwide, into conservatorship.<sup>12</sup> Because the Administration considers Fannie Mae and Freddie Mac to be nongovernmental entities for federal budgeting purposes, it recorded the Treasury's payments to those entities as outlays in the budget and reports payments by those entities to the Treasury, such as those made in 2014 and expected in 2015, as offsetting receipts. (For further details, see page 75.)

In contrast to the Administration, CBO projects the budgetary impact of the two entities' operations in future years as if they were being conducted by a federal agency because of the degree of management and financial control that the government exercises over them.<sup>13</sup> Therefore, CBO estimates the net lifetime costs—that is, the subsidy costs adjusted for market risk—of the guarantees that those entities will issue and of the loans that they will hold and shows those costs as federal outlays in the year

of issuance. CBO estimates that those outlays will amount to \$21 billion from 2016 through 2025.

**Higher Education.** Mandatory outlays for higher education fall into three categories: the net costs (on a present-value basis) of student loans originated in a given year, which are frequently estimated to be negative; a portion of the costs of Pell grants provided in that year; and spending for some smaller programs.<sup>14</sup> In 2014, total mandatory outlays for higher education were –\$12 billion. That amount included the following: the budgetary effects of student loans originated last year, which amounted to –\$22 billion (on a present-value basis); a slight increase in the estimated cost of direct and guaranteed loans originated in previous years, which amounted to \$1 billion (also on a present-value basis); and mandatory spending for Pell grants, which totaled \$8 billion.<sup>15</sup>

In 2015, the net costs for new student loans will be –\$15 billion, mandatory spending for the Federal Pell Grant Program will be \$11 billion, and other spending will be \$0.4 billion, resulting in net mandatory outlays for higher education of –\$3 billion, CBO estimates. In later years, projected mandatory outlays for higher

14. CBO calculates subsidy costs for student loans following the procedures specified in the Federal Credit Reform Act of 1990 (FCRA). Under FCRA accounting, the discounted present value of expected income from federal student loans made during the 2015–2025 period is projected to exceed the discounted present value of the government's costs. (Present value is a single number that expresses a flow of current and future income or payments in terms of an equivalent lump sum received or paid today; the present value depends on the rate of interest—known as the discount rate—that is used to translate future cash flows into current dollars.) Credit programs that produce net income rather than net outlays are said to have negative subsidy rates, which result in negative outlays. The original subsidy calculation for a set of loans or loan guarantees may be increased or decreased in subsequent years by a credit subsidy reestimate based on an updated assessment of the present value of the cash flows associated with the outstanding loans or loan guarantees.

FCRA accounting does not, however, consider all costs borne by the government. In particular, it omits market risk—the risk taxpayers face because federal receipts from payments on student loans tend to be low when economic and financial conditions are poor and resources are therefore more valuable. Fair-value accounting methods account for such risk, so the program's savings are less (or its costs are greater) under fair-value accounting than they are under FCRA accounting.

12. Conservatorship is the legal process in which an entity, in this case the federal government, is appointed to establish control and oversight of a company to put it in a sound and solvent condition.

13. See Congressional Budget Office, *CBO's Budgetary Treatment of Fannie Mae and Freddie Mac* (January 2010), [www.cbo.gov/publication/41887](http://www.cbo.gov/publication/41887).

15. Under current law, the Pell grant program also receives funding from discretionary appropriations. For 2014, those appropriations totaled \$23 billion.

education trend from modestly negative to slightly positive. That switch occurs primarily because rising interest rates will, in CBO's estimation, increase the subsidy cost of student loans (making it less negative) to the point that the negative outlays for new student loans will no longer fully offset the cost of mandatory spending for Pell grants and other higher education programs under current law. (Those projected outlays do not include any potential revision to the estimated subsidy costs of loans or guarantees made before 2015.)

**Additional Mandatory Spending.** Other mandatory spending includes outlays for a number of different programs; some of those outlays are associated with significant offsetting receipts or revenues collected by the federal government. For example, \$138 billion in mandatory outlays over the 2016–2025 period is related to the administration of justice, including some activities of the Department of Homeland Security. Most of that spending is offset by revenues and by fees, penalties, fines, and forfeited assets that are credited in the budget as offsetting receipts. An additional \$115 billion in outlays over the 2016–2025 period stems from the Universal Service Fund and is offset in the federal budget by revenues of similar amounts. Other mandatory spending over the 2016–2025 period includes the following outlays:

- \$59 billion for conservation activities on private lands;
- \$57 billion for grants to states for social services, such as vocational rehabilitation;
- \$40 billion in subsidy payments to state and local governments related to the Build America Bonds program for infrastructure improvements; and
- \$32 billion in payments to states and territories, primarily from funds generated from mineral production on federal land.

### Offsetting Receipts

Offsetting receipts are funds collected by federal agencies from other government accounts or from the public in businesslike or market-oriented transactions that are recorded as negative outlays (that is, as credits against direct spending). Such receipts include beneficiaries' premiums for Medicare, intragovernmental payments made by federal agencies for their employees' retirement benefits, royalties and other charges for the production of oil

and natural gas on federal lands, proceeds from sales of timber harvested and minerals extracted from federal lands, payments by Fannie Mae and Freddie Mac, and various fees paid by users of public property and services.

In 2014, offsetting receipts totaled \$276 billion. The total for this year will be nearly unchanged at \$275 billion, CBO estimates. That amount reflects a decrease in receipts from Fannie Mae and Freddie Mac, which is mostly offset by an increase in proceeds from the Federal Communications Commission's auctions of licenses to use a portion of the electromagnetic spectrum. Over the coming decade, offsetting receipts are projected to increase by just over 2 percent per year, on average, rising to \$346 billion by 2025 (see Table 3-2 on page 64).

**Medicare.** Offsetting receipts for Medicare are composed primarily of premiums paid by Medicare beneficiaries, but they also include recoveries of overpayments made to providers and payments made by states to cover a portion of the prescription drug costs for low-income beneficiaries. In 2014, those receipts totaled \$95 billion, constituting one-third of all offsetting receipts and covering about 16 percent of gross Medicare spending. Over the coming years, those receipts are projected to rise at about the same rate as spending for Medicare, totaling \$199 billion in 2025.

**Federal Retirement.** In 2014, \$65 billion in offsetting receipts consisted of intragovernmental transfers from federal agencies to the federal funds from which employees' retirement benefits are paid (mostly trust funds for Social Security and for military and civilian retirement). Those payments from agencies' operating accounts to the funds have no net effect on federal outlays. Such payments will grow by nearly 3 percent per year, on average, CBO estimates, reaching \$90 billion in 2025.

**Natural Resources.** Receipts stemming from the extraction of natural resources—particularly oil, natural gas, and minerals—from federally owned lands totaled \$14 billion in 2014. By 2025, CBO estimates, those receipts will be \$19 billion. The royalty payments included in that category fluctuate depending on the price of the commodity extracted.

**Medicare-Eligible Retiree Health Care Fund.** Intragovernmental transfers are also made to the Department of Defense's MERHCF (discussed above). Contributions

to the fund are made on an accrual basis: Each year, the services contribute an amount sufficient to cover the increase in the estimated future costs of retirement benefits for their currently active service members. Such payments totaled \$8 billion in 2014 and, because of rising health care costs, are projected to grow to \$12 billion by 2025.

**Fannie Mae and Freddie Mac.** In the first few years after they were placed into conservatorship, the Treasury made payments to Fannie Mae and Freddie Mac; however, over the past couple of years, those entities have been making payments to the government. The Administration has recorded the payments by the government as outlays and the payments to the government from those two entities as offsetting receipts. To match the reporting for the current year in the *Monthly Treasury Statements*, CBO adopts the Administration's presentation for 2015, but for later years, because of the extent of government control over the two entities, CBO considers them to be part of the government and their transactions with the Treasury to be intragovernmental.

In 2014, the Treasury made no payments to those entities and received payments from them totaling \$74 billion. CBO estimates that net payments from those entities to the Treasury will amount to \$26 billion in 2015. That drop occurs partly because in fiscal year 2014 Freddie Mac's payments to the Treasury were boosted by a nearly \$24 billion payment following a onetime revaluation of certain tax assets. In addition, financial institutions are expected to make fewer settlement payments to Fannie Mae and Freddie Mac in 2015 for allegations of fraud in connection with residential mortgages and certain other securities.

### Legislation Assumed in the Baseline for Expiring Programs

In keeping with the rules established by the Deficit Control Act, CBO's baseline projections incorporate the assumption that some mandatory programs will be extended when their authorization expires, although the assumptions apply differently to programs created before and after the Balanced Budget Act of 1997. All direct spending programs that predate that act and have current-year outlays greater than \$50 million are assumed to continue in CBO's baseline projections. For programs established after 1997, continuation is assessed program

by program in consultation with the House and Senate Budget Committees.

CBO's baseline projections therefore incorporate the assumption that the following programs, whose authorization expires within the current projection period, will continue: SNAP, TANF, CHIP, rehabilitation services, the Child Care Entitlement, trade adjustment assistance for workers, child nutrition, promoting safe and stable families, most farm subsidies, certain transportation programs, and some recreation fees. In addition, the Deficit Control Act directs CBO to assume that a cost-of-living adjustment for veterans' compensation will be granted each year. In CBO's projections, the assumption that expiring programs will continue accounts for less than \$1 billion in mandatory outlays for 2015 and about \$940 billion between 2016 and 2025, mostly for SNAP and TANF (see Table 3-3).

### Discretionary Spending

Roughly one-third of federal outlays stem from budget authority provided in annual appropriation acts.<sup>16</sup> That funding—referred to as discretionary—translates into outlays when the money is spent. Although some appropriations (for example, those designated for employees' salaries) are spent quickly, others (such as those intended for major construction projects) are disbursed over several years. In any given year, discretionary outlays include spending from new budget authority and from budget authority provided in previous appropriations.

Several transportation programs have an unusual budgetary treatment: Their budget authority is provided in authorizing legislation, rather than in appropriation acts, but their spending is constrained by *obligation limitations* imposed by appropriation bills. Consequently, their budget authority is considered mandatory, but their outlays are discretionary. (The largest of those programs is the Federal-Aid Highway Program, which is funded from the

16. Budget authority is the authority provided by law to incur financial obligations that will result in immediate or future outlays of federal funds. Budget authority may be provided in an appropriation act or an authorization act and may take the form of a direct appropriation of funds from the Treasury, borrowing authority, contract authority, entitlement authority, or authority to obligate and expend offsetting collections or receipts. Offsetting collections and receipts are shown as negative budget authority and outlays.

**Table 3-3.****Costs for Mandatory Programs That Continue Beyond Their Current Expiration Date in CBO's Baseline**

Billions of Dollars

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total		
												2016-	2016-	
												2020	2025	
Supplemental Nutrition Assistance Program														
Budget authority	0	0	0	0	74	74	74	73	74	74	75	148	518	
Outlays	0	0	0	0	72	74	74	73	74	74	75	146	515	
Temporary Assistance for Needy Families														
Budget authority	0	17	17	17	17	17	17	17	17	17	17	86	173	
Outlays	0	13	16	17	17	17	17	17	17	17	17	81	167	
Commodity Credit Corporation <sup>a</sup>														
Budget authority	0	0	0	0	2	3	8	8	9	9	10	5	50	
Outlays	0	0	0	0	1	2	8	8	9	9	10	2	45	
Children's Health Insurance Program														
Budget authority	0	6	6	6	6	6	6	6	6	6	6	29	57	
Outlays	0	5	6	6	6	6	6	6	6	6	6	28	57	
Veterans' Compensation COLAs														
Budget authority	0	2	4	5	7	8	10	13	13	14	15	26	92	
Outlays	0	2	4	5	7	8	10	13	13	14	15	26	91	
Rehabilitation Services														
Budget authority	0	0	0	0	0	0	0	0	4	4	4	0	12	
Outlays	0	0	0	0	0	0	0	0	2	4	4	0	10	
Child Care Entitlements to States														
Budget authority	0	3	3	3	3	3	3	3	3	3	3	15	29	
Outlays	0	2	3	3	3	3	3	3	3	3	3	14	28	
Trade Adjustment Assistance for Workers <sup>b</sup>														
Budget authority	0	1	1	1	1	1	1	1	1	1	1	4	9	
Outlays	0	*	1	1	1	1	1	1	1	1	1	4	9	
Child Nutrition <sup>c</sup>														
Budget authority	0	1	1	1	1	1	1	1	1	1	1	4	9	
Outlays	0	1	1	1	1	1	1	1	1	1	1	4	9	

Continued

Highway Trust Fund.) As a result, total discretionary outlays in the budget are greater than total discretionary budget authority. In some cases, the amounts of those obligation limitations are added to discretionary budget authority to produce a measure of the total *funding* provided for discretionary programs.

In CBO's baseline projections, most appropriations for the 2015–2021 period are assumed to be constrained by the caps set by the Budget Control Act of 2011 and modified in subsequent legislation, including the automatic reductions required by that act. For the period from 2022

Table 3-3.

Continued

### Costs for Mandatory Programs That Continue Beyond Their Current Expiration Date in CBO's Baseline

Billions of Dollars

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total		
												2016-2020	2016-2025	
Promoting Safe and Stable Families														
Budget authority	0	0	*	*	*	*	*	*	*	*	*	*	1	3
Outlays	0	0	*	*	*	*	*	*	*	*	*	*	1	3
Ground Transportation Programs Not Subject to Annual Obligation Limitations														
Budget authority	*	1	1	1	1	1	1	1	1	1	1	1	3	6
Outlays	*	*	*	1	1	1	1	1	1	1	1	1	2	6
Ground Transportation Programs Controlled by Obligation Limitations <sup>d</sup>														
Budget authority	17	50	50	50	50	50	50	50	50	50	50	50	251	501
Outlays	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Air Transportation Programs Controlled by Obligation Limitations <sup>d</sup>														
Budget authority	0	3	3	3	3	3	3	3	3	3	3	3	16	32
Outlays	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Natural Resources														
Budget authority	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Outlays	0	*	*	*	*	*	*	*	*	*	*	*	*	*
<b>Total</b>														
Budget authority	17	83	85	87	165	167	174	177	182	183	186	186	588	1,491
Outlays	*	24	30	33	108	113	120	123	126	129	133	133	307	939

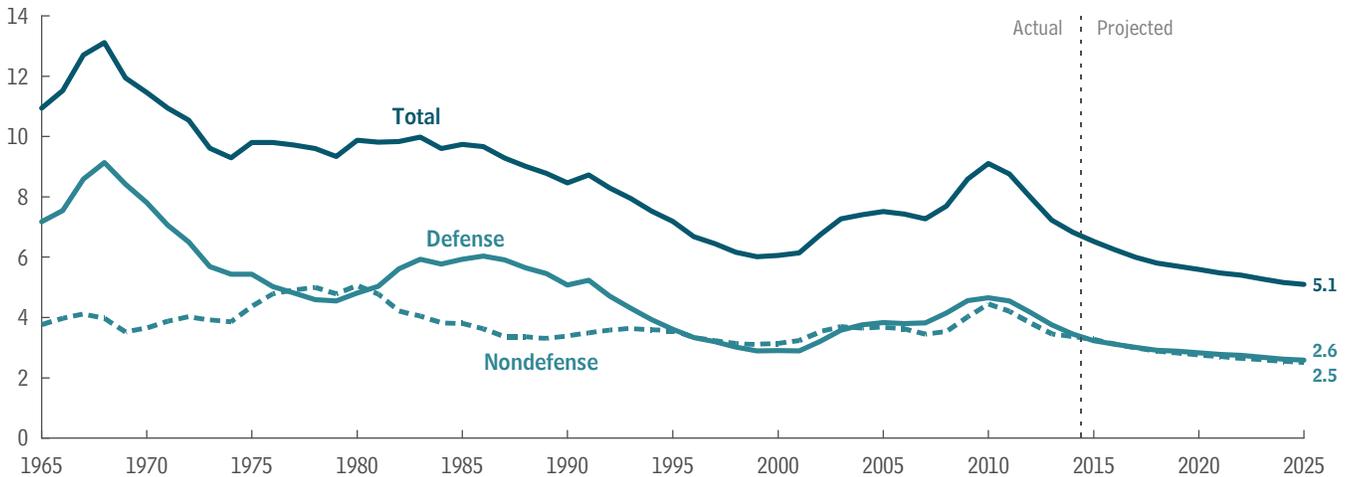
Source: Congressional Budget Office.

Note: COLAs = cost-of-living adjustments; \* = between -\$500 million and \$500 million.

- Agricultural commodity price and income supports and conservation programs under the Agricultural Act of 2014 generally expire after 2018. Although permanent price support authority under the Agricultural Adjustment Act of 1938 and the Agricultural Act of 1949 would then become effective, CBO continues to adhere to the rule in section 257(b)(2)(ii) of the Deficit Control Act that indicates that the baseline should assume that the Agricultural Act's provisions remain in effect.
- Does not include the cost of extending Reemployment Trade Adjustment Assistance, which, if extended through 2025, would increase mandatory outlays by \$0.4 billion, CBO estimates.
- Includes the Summer Food Service program and states' administrative expenses.
- Authorizing legislation for those programs provides contract authority, which is counted as mandatory budget authority. However, because the programs' spending is subject to obligation limitations specified in annual appropriation acts, outlays are considered discretionary.

**Figure 3-3.****Discretionary Outlays, by Category**

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

through 2025, CBO assumes that those appropriations will grow at the rate of inflation from the amounts estimated for 2021.<sup>17</sup>

Funding for certain purposes is not constrained by the caps: Military and diplomatic operations in Afghanistan and elsewhere that have been designated as overseas contingency operations (OCO), responses to events designated as emergencies, disaster relief, and initiatives designed to enhance program integrity by reducing overpayments in some benefit programs are all exempt activities. CBO developed projections for such funding by assuming that it would grow at the rate of inflation from the amounts appropriated for 2015.

Under those assumptions, discretionary outlays in CBO's baseline grow by an average of less than 2 percent a year from 2015 through 2025. Because that pace is less than the projected growth rate of nominal GDP, discretionary outlays in CBO's baseline projections fall from 6.5 percent of GDP in 2015 to 5.1 percent of GDP in 2025, a

smaller share than in any year since before 1962 (the first year for which comparable data are available).

**Trends in Discretionary Outlays**

Since the 1960s, the share of federal spending that is governed by the annual appropriation process has dropped by about half—from 67 percent of total spending in 1962 to 34 percent in 2014. Discretionary outlays averaged 12 percent of GDP over the 1962–1969 period, fell to about 10 percent during much of the 1970s and 1980s, and gradually declined to 6.0 percent in 1999 (see Figure 3-3). They then began to increase relative to the size of the economy, reaching 7.7 percent of GDP in 2008. That rise occurred in part because of actions taken in response to the terrorist attacks of September 11, 2001, and the subsequent military operations in Afghanistan and Iraq. (Funding for those operations from 2001 to 2015 is examined in Box 3-2.)

By 2010, discretionary outlays reached a recent peak of 9.1 percent of GDP, largely because of \$281 billion in discretionary funding provided by the American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5). Since then, discretionary outlays have again declined as a share of GDP, falling to 6.8 percent in 2014, mostly because of the constraints put in place by the Budget Control Act and because of declines in spending for OCO and for activities funded by ARRA.

17. CBO develops projections of discretionary spending by first inflating the appropriations provided for specific activities in 2015 and then reducing total projected defense and nondefense funding by the amounts necessary to bring them in line with the caps. In CBO's baseline, discretionary funding related to federal personnel is inflated using the employment cost index for wages and salaries; other discretionary funding is adjusted using the gross domestic product price index.

During the 1990s, declines in discretionary outlays relative to the size of the economy largely reflected reductions in defense spending, which reached a low of 2.9 percent of GDP from 1999 through 2001. In part boosted by funding for operations in Afghanistan and Iraq, outlays for defense began to rise in 2002, reaching 4.7 percent of GDP in 2010 when funding for defense-related activities peaked. Since then, defense spending has fallen again relative to GDP, to 3.5 percent in 2014, owing mostly to a reduction in funding for OCO. As a whole, between 2010 and 2014, funding for defense declined by 15 percent in nominal terms, or nearly 21 percent in constant 2010 dollars. That change was heavily influenced by reductions in funding for OCO. Excluding those amounts, funding for defense fell by roughly 6 percent in nominal terms, or 12 percent in real terms, over that period.

Nondefense discretionary programs encompass such activities as transportation, education grants, housing assistance, health-related research, veterans' health care, most homeland security activities, the federal justice system, foreign aid, and environmental protection. Historically, nondefense discretionary outlays represented a fairly stable share of GDP, averaging 3.8 percent over the 1962–2008 period and rarely exceeding 5.0 percent or falling below 3.2 percent. Funding from ARRA, enacted in 2009, helped push that share to a recent high of 4.5 percent in 2010, but by 2012 agencies had spent roughly 85 percent of that funding, and nondefense discretionary outlays fell back to the historical average of 3.8 percent of GDP. Between 2010 and 2014, funding for nondefense discretionary programs declined by 4.4 percent in nominal terms, or 10.7 percent in constant 2010 dollars. Outlays for those programs have followed the downward trend in funding and have fallen notably relative to GDP, reaching 3.4 percent in 2014.

### **Discretionary Appropriations and Outlays in 2015**

The Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235) provided discretionary budget authority totaling \$1,120 billion.<sup>18</sup> (That amount includes, on an annualized basis, appropriations for the Department of Homeland Security that are available only through February 27, 2015.) In total, discretionary bud-

get authority for fiscal year 2015 is roughly 1 percent less than the \$1,133 billion for fiscal year 2014 (see Table 3-4 on page 82).

The caps on budget authority for 2015 had been set at \$521.3 billion for defense programs and at \$492.4 billion for nondefense programs, for a total of \$1,013.6 billion. Those limits are adjusted, however, when appropriations are provided for certain purposes. Budget authority designated as an emergency requirement or provided for OCO leads to an increase in the caps, as does budget authority provided for some types of disaster relief or for certain program integrity initiatives.<sup>19</sup> To date, such adjustments to the caps on discretionary budget authority for 2015 have totaled \$86 billion; most of that amount, \$74 billion, resulted from funding for OCO. Those adjustments raise the caps to a total of \$1,100 billion.

The amount of discretionary budget authority in CBO's baseline, however, is about \$20 billion more than the adjusted caps, mostly because changes to mandatory programs included in P.L. 113-235 resulted in reductions to budget authority for such programs in 2015 that were credited against discretionary funding levels when the legislation was enacted. In CBO's baseline, those reductions are reflected in the relevant mandatory accounts, and the full amount of discretionary budget authority is shown in the discretionary accounts.

Assuming that funding for the Department of Homeland Security remains at the annualized levels specified in P.L. 113-235 and that no additional appropriations are made, CBO estimates that discretionary outlays will edge down in 2015 to \$1,175 billion, slightly below the \$1,179 billion of such outlays in 2014 and equal to 6.5 percent of GDP. That sum represents the lowest amount of discretionary outlays since 2008. Since their recent peak in 2010, discretionary outlays have declined by 13 percent in nominal terms and 18 percent in real terms (adjusted for inflation using the price index for personal consumption expenditures).

**Defense Discretionary Funding and Outlays.** Budget authority provided for defense discretionary programs in 2015 totals \$586 billion—3.3 percent less than the 2014 amount of \$606 billion. (Almost all defense spending is

18. Obligation limitations for transportation programs in 2015 total an additional \$53 billion, which is the same amount legislated for 2014.

19. Such initiatives identify and reduce improper payments for benefit programs such as DI, SSI, Medicare, Medicaid, and CHIP.

**Box 3-2.****Funding for Operations in Afghanistan and Iraq and Related Activities**

Since September 2001, lawmakers have provided \$1.6 trillion in budget authority for operations in Afghanistan and Iraq and related activities (see the table). That amount includes funding for military and diplomatic operations in Afghanistan, Iraq, and elsewhere related to the fight against terrorism; for some defense activities that are designated as related to those overseas operations; for some veterans' benefits and services; and for related activities of the Department of Justice. Appropriations specifically designated for those purposes averaged about \$85 billion a year from 2001 through 2007 and peaked at \$187 billion in 2008. Funding declined to an average of \$150 billion over the 2009–2012 period and to an average of \$93 billion in 2013 and 2014. Lawmakers have appropriated \$74 billion for such activities in 2015.

Funding to date for military operations and other defense activities has totaled almost \$1.5 trillion, most of which has gone to the Department of Defense (DoD), including about \$910 billion for operation and maintenance costs, \$310 billion for procurement, and \$200 billion for military personnel costs. Lawmakers have also provided \$91 billion to train and equip indigenous security forces in Afghanistan and Iraq.<sup>1</sup> In addition, \$90 billion has been provided for diplomatic operations and aid to Afghanistan, Iraq, and other countries that are assisting the United States in its fight against terrorism.

1. That \$91 billion includes \$5 billion provided for Iraqi security forces in 2004 in an appropriation for the State Department's Iraq Relief and Reconstruction Fund.

The majority of those funds have gone to the Economic Support Fund (\$24 billion), to diplomatic and consular programs (\$20 billion), and to the Iraq Relief and Reconstruction Fund (\$16 billion).

DoD reports that in fiscal year 2014, obligations for operations in Afghanistan and Iraq and related activities averaged \$5 billion per month. That monthly average is about \$1.8 billion less than the amount reported for 2013. Operation Enduring Freedom (in and around Afghanistan) accounted for almost all of those obligations in 2014.

Because most appropriations for operations in Afghanistan and Iraq and related activities appear in the same budget accounts as appropriations for DoD's other functions, it is impossible to determine precisely how much has been spent on those activities alone. The Congressional Budget Office estimates that the \$1.5 trillion appropriated between 2001 and 2015 for military operations and other defense activities in Afghanistan and Iraq and for indigenous security forces in those two countries has resulted in outlays of about \$1.4 trillion through 2014; about \$95 billion of that was spent in 2014. Of the \$90 billion appropriated for international affairs activities related to the war efforts over the 2001–2015 period, about \$68 billion was spent by the end of 2014, CBO estimates, with \$8 billion of that spending occurring in 2014. In total, outlays for all activities related to the operations in Afghanistan and Iraq amounted to about \$103 billion last year. On the basis of sums appropriated for 2015, CBO estimates that outlays will total about \$80 billion this year.

Continued

categorized as discretionary.) The decline in funding is attributable to a \$21 billion reduction in defense appropriations for OCO, which total \$64 billion in 2015; excluding the amounts for OCO, funding for defense programs in 2015 is \$1 billion (or 0.2 percent) higher than last year. The latest drop in OCO-related appropriations continues a marked decline in such funding, which has fallen by 60 percent (in nominal terms) since 2011. As a whole, reductions in defense appropriations over the past several years have caused outlays to fall to an

estimated \$583 billion in 2015—2.2 percent less than the 2014 amount. CBO projects that, as a share of GDP, defense outlays will decline from 3.5 percent in 2014 to 3.2 percent in 2015, the lowest level since 2002.

Three major categories of Department of Defense funding account for most of the defense appropriation for 2015 (as they have in preceding years): operation and maintenance (\$246 billion), military personnel (\$140 billion), and procurement (\$101 billion). Appropriations

## Box 3-2.

Continued

## Funding for Operations in Afghanistan and Iraq and Related Activities

## Estimated Budget Authority Provided for U.S. Operations in Afghanistan and Iraq and Related Activities for Fiscal Years 2001 to 2015

Billions of Dollars

	2001-	2007	2008	2009	2010	2011	2012	2013 <sup>a</sup>	2014	2015	Total, 2001-
	2007										2015
Military Operations and Other Defense Activities <sup>b</sup>											
Iraq <sup>c</sup>	369	133	90	59	42	10	3	1	4	710	
Afghanistan	80	29	38	87	98	89	65	74	51	611	
Other <sup>d</sup>	81	13	13	5	6	6	10	6	4	143	
Subtotal	530	175	140	151	146	104	78	81	59	1,465	
Indigenous Security Forces <sup>e</sup>											
Iraq	19	3	1	1	2	0	0	0	2	27	
Afghanistan	11	3	6	9	12	11	4	5	3	64	
Subtotal	30	6	7	10	13	11	4	5	5	91	
Diplomatic Operations and Foreign Aid <sup>f</sup>											
Iraq	25	3	2	2	0	4	4	2	1	43	
Afghanistan	5	1	5	2	0	5	5	1	3	27	
Other	7	*	1	*	0	2	2	3	5	20	
Subtotal	37	5	7	4	0	11	11	7	9	90	
Other Services and Activities <sup>g</sup>											
Iraq	1	1	*	0	0	0	0	0	0	2	
Afghanistan	*	*	*	0	0	0	0	0	0	*	
Other	*	*	*	0	0	0	0	0	0	1	
Subtotal	1	2	*	0	0	0	0	0	0	3	
<b>Total</b>	<b>598</b>	<b>187</b>	<b>154</b>	<b>165</b>	<b>159</b>	<b>127</b>	<b>93</b>	<b>92</b>	<b>74</b>	<b>1,649</b>	

Source: Congressional Budget Office.

Note: \* = between zero and \$500 million.

- Amounts for 2013 are net of reductions implemented in response to the Administration's sequestration order of March 1, 2013.
- CBO estimated the funding provided for operations in Afghanistan and Iraq using information in budget justification materials from the Department of Defense and in the department's monthly reports on its obligations. Some allocations for prior years have been adjusted to reflect more recent information.
- Includes funding for military operations against the Islamic State in Iraq and Syria.
- Includes Operation Noble Eagle (homeland security missions, such as combat air patrols, in the United States), additional personnel and restructuring efforts for Army and Marine Corps units, classified activities not funded by appropriations for the Iraq Freedom Fund, the European Reassurance Initiative, and improvements to military readiness. (From 2005 through 2015, funding for Operation Noble Eagle has been intermingled with regular appropriations for the Department of Defense; that funding is not included in this table.)
- Funding for indigenous security forces is used to train and equip military and police units in Afghanistan and Iraq. That funding was appropriated in accounts for diplomatic operations and foreign aid (budget function 150) in 2004 and in accounts for defense (budget function 050) starting in 2005.
- In 2010 and 2011, most funding for diplomatic operations in, and foreign aid to, countries helping the United States fight terrorism was provided in regular appropriations and cannot be isolated.
- Includes funding for some veterans' benefits and services and for certain activities of the Department of Justice. Excludes about \$34 billion in spending by the Department of Veterans Affairs for the incremental costs of medical care, disability compensation, and survivors' benefits for veterans of operations in Afghanistan and Iraq and of the war on terrorism. That amount is based on CBO's estimates of spending from regular appropriations for the Department of Veterans Affairs and was not explicitly appropriated for war-related expenses.

**Table 3-4.****Changes in Discretionary Budget Authority From 2014 to 2015**

Billions of Dollars

	Actual, 2014	Estimated, 2015	Percentage Change
<b>Defense</b>			
Funding constrained by caps	520	521	0.2
Overseas contingency operations	85	64	-24.5
Other cap adjustments	*	*	-50.2
Subtotal	606	586	-3.3
<b>Nondefense</b>			
Funding constrained by caps	514	513	-0.2
Overseas contingency operations	7	9	42.0
Other cap adjustments	7	12	90.7
Subtotal	527	534	1.5
<b>Total Discretionary Budget Authority</b>			
Funding constrained by caps	1,034	1,034	**
Overseas contingency operations	92	74	-19.8
Other cap adjustments	7	13	86.1
<b>Total</b>	<b>1,133</b>	<b>1,120</b>	<b>-1.1</b>

Source: Congressional Budget Office.

Notes: Excludes budgetary resources provided by obligation limitations for certain ground and air transportation programs.

Budget authority designated as an emergency requirement or provided for overseas contingency operations leads to an increase in the caps, as does budget authority provided for some types of disaster relief or for certain program integrity initiatives.

n.a. = not applicable; \* = between zero and \$500 million; \*\* = between -0.05 percent and zero.

for research and development (\$64 billion) account for an additional 11 percent of total funding for defense. The rest of the appropriation, about 6 percent, comprises funding for military construction, family housing, and other Department of Defense programs (\$9 billion); funding for atomic energy activities, primarily within the Department of Energy (\$18 billion); and funding for various defense-related programs in other departments and agencies (\$8 billion).

**Nondefense Discretionary Funding and Outlays.** To date, funding for nondefense programs in 2015 totals \$588 billion. That amount represents \$534 billion in appropriations (including, on an annualized basis, the appropriations for the Department of Homeland Security that are available for only part of the year) and \$53 billion in obligation limitations for several ground and air transportation programs. The 2015 amount is \$8 billion more than the funding provided in 2014, in part because of \$5 billion in emergency funding appropriated in response to the Ebola outbreak in West Africa. CBO anticipates that nondefense discretionary outlays will rise from

\$583 billion in 2014 to \$592 billion in 2015—an increase of 1.5 percent; however, as a share of GDP, discretionary outlays will fall from 3.4 percent in 2014 to 3.3 percent in 2015 because the economy is projected to grow faster than those outlays.

Seven broad budget categories (referred to as budget functions) account for about 80 percent of the \$588 billion in resources provided in 2015 for non-defense discretionary activities (see Table 3-5). Activities related to education, training, employment, and social services received \$92 billion, claiming 16 percent of total nondefense discretionary funding.<sup>20</sup> Transportation programs received \$85 billion (including appropriations and obligation limitations), or 14 percent of the total. Income-security programs and veterans' benefits and services each received \$65 billion, or 11 percent of total

20. Spending for student loans and for several other federal programs in the category of education, training, employment, and social services is not included in that total because funding for those programs is considered mandatory.

**Table 3-5.****Changes in Nondefense Discretionary Funding From 2014 to 2015**

Billions of Dollars

Budget Function	Actual, 2014	Estimated, 2015	Change
Education, Training, Employment, and Social Services	92	92	*
Transportation <sup>a</sup>	85	85	*
Income Security	65	65	*
Veterans' Benefits and Services	64	65	2
Health	56	59	3
Administration of Justice	52	51	-1
International Affairs	50	54	3
Natural Resources and Environment	34	34	*
General Science, Space, and Technology	29	30	*
Community and Regional Development	17	17	*
General Government	19	16	-2
Medicare	6	7	*
Agriculture	6	6	*
Social Security	6	6	*
Energy	5	5	*
Commerce and Housing Credit	-6	-4	3
<b>Total</b>	<b>580</b>	<b>588</b>	<b>8</b>

Source: Congressional Budget Office.

Note: \* = between -\$500 million and \$500 million.

a. Includes budgetary resources provided by obligation limitations for certain ground and air transportation programs.

nondefense funding. Health programs account for \$59 billion, or 10 percent of such funding, while the shares of total funding allocated for international affairs (\$54 billion) and administration of justice (\$51 billion), are each about 9 percent.<sup>21</sup>

**Projections for 2016 Through 2025**

For 2016, the caps on discretionary appropriations are set at \$523 billion for defense and \$493 billion for non-defense activities, for a total of \$1,016 billion—\$2 billion more than the 2015 caps (prior to adjustments for appropriations for OCO and other activities not constrained by the caps). In CBO's baseline, the amounts projected for activities that result in cap adjustments in 2016 total \$88 billion (equal to the 2015 amounts adjusted for inflation)—bringing total 2016 appropriations projected in the baseline to \$1,104 billion, the lowest amount of discretionary appropriations since 2007. That amount is 1.5 percent less than the 2015 appropriations, mostly

because the budget authority enacted for 2015 includes about \$20 billion that was offset by reductions in mandatory programs; similar actions are not assumed in the baseline for subsequent years.

CBO estimates that achieving compliance with the 2016 cap on nondefense appropriations without using any offsets from changes to mandatory programs would require a 3.8 percent reduction in budget authority relative to 2015 appropriations. With such a reduction, non-defense outlays would fall, CBO estimates, but only by 0.5 percent because residual outlays of earlier onetime appropriations—including funds provided under ARRA for high-speed rail projects and appropriations enacted in response to Hurricane Sandy—would help offset the reduction in spending attributable to the drop in 2016 appropriations. Funding equal to the 2016 cap on defense appropriations would generate increases in defense-related appropriations and outlays in 2016 of an estimated 0.5 percent and 0.7 percent, respectively. In total, discretionary outlays are projected to total \$1,176 billion in 2016—0.1 percent more than spending in 2015—and to equal 6.2 percent of GDP.

21. Some significant income-security programs, such as SNAP, unemployment compensation, and TANF, are not reflected in that total because they are included in mandatory spending.

From 2017 through 2021, caps on discretionary appropriations and the corresponding projected amounts of discretionary funding in CBO's baseline grow at an average annual rate of 2.4 percent; after 2021, when there are no caps, appropriations are projected (based on the methods described above) to grow by about 2.5 percent annually. Discretionary outlays are also projected to grow over those years, although at rates of less than 1 percent annually through 2018, largely reflecting the tapering of expenditures of earlier funding provided for OCO and in response to Hurricane Sandy. Starting in 2019, discretionary outlays in CBO's baseline grow at an average rate of 2.3 percent per year, following the projected growth in funding. Because that pace is well below the expected growth of nominal GDP, discretionary outlays are projected to fall steadily relative to the size of the economy, from 6.5 percent of GDP in 2015 to 5.1 percent in 2025.

### Alternative Paths for Discretionary Spending

Total funding for discretionary activities in 2015 will amount to about \$1,173 billion on an annualized basis, CBO estimates—\$1,120 billion in budget authority and \$53 billion in transportation-related obligation limitations. In CBO's baseline projections, discretionary funding is projected for subsequent years on the basis of the amounts and procedures prescribed in the Budget Control Act and related laws. However, if the policies governing discretionary appropriations changed, funding could differ greatly from the baseline projections. To illustrate such potential differences, CBO has estimated the budgetary consequences of several alternative paths for discretionary funding (see Table 3-6).

The first alternative path addresses spending for war-related activities that are designated as overseas contingency operations. The outlays projected in the baseline stem from budget authority provided for those purposes in 2014 and prior years, from the \$74 billion in budget authority provided for 2015, and from the \$822 billion that is assumed to be appropriated over the 2016–2025 period (under the assumption that annual funding is set at \$74 billion plus adjustments for anticipated inflation, in accordance with the rules governing baseline projections).<sup>22</sup>

In coming years, the funding required for overseas contingency operations—in Afghanistan or other countries—might be smaller than the amounts projected in the baseline if the number of deployed troops and the

pace of operations diminished over time. For that reason, CBO has formulated a budget scenario that encompasses a reduction in the deployment of U.S. forces abroad for military actions and a concomitant reduction in diplomatic operations and foreign aid. Many other scenarios—some costing more and some less—are also possible.

In 2014, the number of U.S. active-duty, reserve, and National Guard personnel deployed for war-related activities averaged about 110,000, CBO estimates. In this alternative scenario, the average number of military personnel deployed for war-related purposes would decline over the next two years from roughly 90,000 in 2015 to 50,000 in 2016 and to 30,000 in 2017 and thereafter. (Those levels could represent various allocations of forces among Afghanistan and other regions.) Under that scenario, and assuming that the extraordinary funding for diplomatic operations and foreign aid declines at a similar rate, total discretionary outlays over the 2016–2025 period would be \$454 billion less than the amount in the baseline.<sup>23</sup>

For the second policy alternative, CBO assumed that discretionary funding would grow at the rate of inflation after 2015. If that occurred, discretionary outlays would surpass CBO's baseline projections by \$480 billion over the 2016–2025 period. In that scenario, discretionary outlays would increase by an average of 2.3 percent a year over the next decade.

The third scenario reflects the assumption that most discretionary budget authority and obligation limitations will be frozen at the 2015 level for the entire projection

22. Funding for overseas contingency operations in 2015 includes \$64 billion for military operations and for indigenous security forces in Afghanistan and Iraq and \$9 billion for diplomatic operations and foreign aid.

23. The reduction in budget authority under this alternative is similar to the reductions arising from some proposals to cap discretionary appropriations for overseas contingency operations. Such caps could result in reductions in CBO's baseline projections of discretionary spending. However, those reductions might simply reflect policy decisions that have already been made or would be made in the absence of caps. Moreover, if future policymakers believed that national security required appropriations above the capped levels, they would almost certainly provide emergency appropriations that would not, under current law, be counted against the caps.

period.<sup>24</sup> In that case, total discretionary outlays for the 10-year period would be \$929 billion lower than those projected in the baseline, and total discretionary spending would fall to 4.3 percent of GDP by 2025.

For the final alternative scenario, CBO projected what would occur if lawmakers canceled the automatic reductions in the discretionary caps required by the Budget Control Act. Those automatic procedures will reduce discretionary spending over the 2016–2021 period (and mandatory spending through 2024). If, instead, lawmakers chose to set total discretionary funding equal to the caps originally specified under the Budget Control Act and prevent further automatic cuts to discretionary funding each year, outlays would be \$845 billion (or about 7 percent) higher over the 2016–2025 period than the amount projected in CBO’s baseline.

## Net Interest

In 2014, net outlays for interest were \$229 billion, about \$8 billion more than the amount spent in 2013. As a percentage of GDP, net interest was 1.3 percent in 2014 and is expected to remain at that level in 2015.

Net interest outlays are dominated by the interest paid to holders of the debt that the Department of the Treasury issues to the public. The Treasury also pays interest on debt issued to trust funds and other government accounts, but such payments are intragovernmental transactions that have no effect on the budget deficit. Other federal accounts also pay and receive interest for various reasons.<sup>25</sup>

The federal government’s interest payments depend primarily on market interest rates and the amount of debt held by the public; however, other factors, such as the rate of inflation and the maturity structure of outstanding securities, also affect interest costs. (For example, longer-term securities generally pay higher interest than do shorter-term securities.) Interest rates are determined by a combination of market forces and the policies of the Federal Reserve System. Debt held by the public is

determined mostly by cumulative budget deficits, which depend on policy choices about noninterest spending and revenues as well as on economic conditions and other factors. At the end of 2014, debt held by the public reached \$12.8 trillion, and in CBO’s baseline it is projected to total \$21.6 trillion in 2025. (For detailed projections of debt held by the public, see Table 1-3 on page 19.)

Although debt held by the public surged in the past few years to its highest levels relative to GDP since the early 1950s, the government’s interest costs have remained low relative to GDP because interest rates on Treasury securities have been remarkably low. Average rates on 3-month Treasury bills plummeted from nearly 5 percent in 2007 to 0.1 percent in 2010; those rates fell further to 0.04 percent in 2014. Similarly, average rates on 10-year Treasury notes dropped from nearly 5 percent in 2007 to a low of 1.9 percent in 2012; those rates, however, increased in 2014 to 2.7 percent. As a result of such low rates, even though debt held by the public more than doubled from the end of 2007 to the end of 2014, outlays for net interest fell from 1.7 percent of GDP to 1.3 percent over that period. By comparison, such outlays averaged about 3 percent of GDP in the 1980s and 1990s.

## Baseline Projections of Net Interest

Under CBO’s baseline assumptions, net interest costs are projected to nearly quadruple from \$227 billion in 2015 to \$827 billion in 2025. One reason for that increase is that debt held by the public is projected to rise by nearly 70 percent (in nominal terms) over the next 10 years (see Figure 3-4 on page 88).<sup>26</sup> More significantly, CBO estimates, the interest rate paid on 3-month Treasury bills will rise from 0.1 percent in 2015 to 3.4 percent in 2018 and subsequent years, and the rate on 10-year Treasury notes will increase from 2.6 percent in 2015 to 4.6 percent in 2020 and subsequent years. As a result, under current law, net interest outlays are projected to reach 3.0 percent of GDP in 2025.

Net interest costs consist of gross interest (the amounts paid on all of the Treasury’s debt issuances) minus interest received by trust funds (which are intragovernmental

24. Some items, such as offsetting collections and payments made by the Treasury on behalf of the Department of Defense’s TRICARE for Life program, would not be held constant.

25. See Congressional Budget Office, *Federal Debt and Interest Costs* (December 2010), [www.cbo.gov/publication/21960](http://www.cbo.gov/publication/21960).

26. Debt held by the public does not include securities issued by the Treasury to federal trust funds and other government accounts. Those securities are included as part of the measure of gross debt. (For further details, see Chapter 1.)

**Table 3-6.****CBO's Projections of Discretionary Spending Under Selected Policy Alternatives**

Billions of Dollars

	Actual, 2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total	
													2016- 2020	2016- 2025
<b>CBO's January 2015 Baseline (Spending caps in effect through 2021)</b>														
Budget Authority														
Defense	606	586	589	603	617	632	647	663	679	696	713	730	3,087	6,568
Nondefense	527	534	515	526	539	553	567	580	594	609	624	640	2,701	5,748
Total	1,133	1,120	1,104	1,129	1,156	1,185	1,214	1,243	1,273	1,305	1,337	1,370	5,788	12,316
Outlays														
Defense	596	583	587	592	599	616	631	646	666	677	689	711	3,025	6,413
Nondefense	583	592	589	590	594	605	617	630	644	658	672	689	2,995	6,288
Total	1,179	1,175	1,176	1,182	1,193	1,221	1,248	1,276	1,310	1,336	1,361	1,400	6,019	12,701
<b>Reduce the Number of Troops Deployed for Overseas Contingency Operations to 30,000 by 2017<sup>a</sup></b>														
Budget Authority														
Defense	606	586	565	564	573	585	599	614	629	645	661	677	2,887	6,113
Nondefense	527	534	513	521	532	546	560	572	587	601	616	632	2,672	5,681
Total	1,133	1,120	1,079	1,085	1,105	1,131	1,159	1,186	1,216	1,246	1,277	1,309	5,559	11,794
Outlays														
Defense	596	583	576	566	564	575	586	599	618	629	639	660	2,867	6,011
Nondefense	583	592	589	588	590	600	612	624	637	651	665	681	2,978	6,236
Total	1,179	1,175	1,164	1,154	1,154	1,175	1,198	1,223	1,255	1,280	1,304	1,341	5,845	12,247
<b>Increase Discretionary Appropriations at the Rate of Inflation After 2015<sup>b</sup></b>														
Budget Authority														
Defense	606	586	598	612	628	645	662	679	697	715	733	752	3,144	6,720
Nondefense	527	534	543	553	569	585	603	620	638	656	673	691	2,853	6,132
Total	1,133	1,120	1,141	1,165	1,197	1,230	1,265	1,299	1,335	1,371	1,406	1,443	5,997	12,852
Outlays														
Defense	596	583	593	600	608	628	644	661	683	695	708	732	3,072	6,551
Nondefense	583	592	604	612	620	634	651	667	684	702	719	737	3,121	6,630
Total	1,179	1,175	1,196	1,212	1,229	1,262	1,295	1,328	1,367	1,398	1,427	1,469	6,193	13,181

Continued

payments) and from other sources. In 2015, for example, estimated net outlays for interest (\$227 billion) consist of \$405 billion in gross interest, minus \$139 billion received by the trust funds and \$39 billion in other net interest receipts.

**Gross Interest**

In 2014, interest paid by the Treasury on all of its debt issuances totaled \$431 billion (see Table 3-7 on page 89). More than one-third of that total, \$158 billion, represents payments to other entities (such as trust funds) within the federal government; the remainder is paid to

owners of Treasury debt issued to the public. In CBO's baseline, gross interest payments from 2016 through 2025 total \$8.0 trillion. About 70 percent of that amount reflects interest paid on debt held by the public.

**Interest Received by Trust Funds**

The Treasury has issued more than \$5.0 trillion in securities to federal trust funds and other government accounts. Trust funds are the dominant holders of such securities, owning more than 90 percent of them. The interest paid on those securities has no net effect on federal spending because it is credited to accounts elsewhere in the budget.

Table 3-6.

Continued

## CBO's Projections of Discretionary Spending Under Selected Policy Alternatives

Billions of Dollars

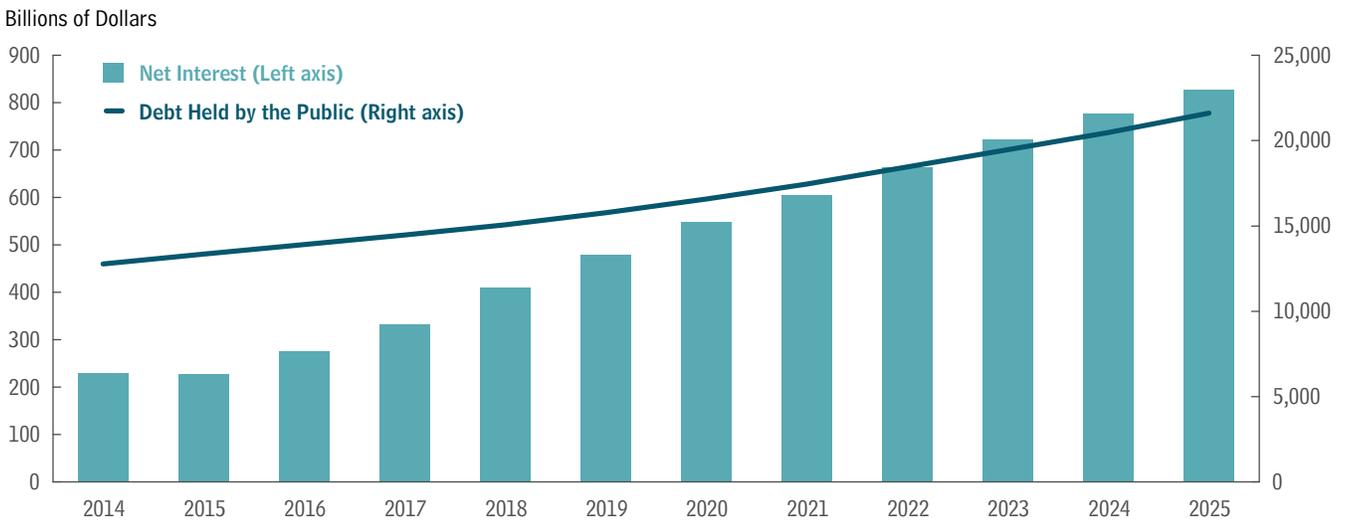
	Actual, 2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total	
													2016- 2020	2016- 2025
<b>Freeze Most Discretionary Appropriations at the 2015 Amount<sup>c</sup></b>														
Budget Authority														
Defense	606	586	587	589	590	592	594	596	598	600	603	605	2,952	5,955
Nondefense	527	534	534	531	532	533	536	537	539	540	540	540	2,666	5,362
Total	1,133	1,120	1,121	1,120	1,122	1,126	1,130	1,133	1,137	1,140	1,142	1,145	5,618	11,316
Outlays														
Defense	596	583	585	582	578	583	585	587	593	591	589	595	2,914	5,869
Nondefense	583	592	598	596	589	588	589	589	589	589	588	588	2,960	5,903
Total	1,179	1,175	1,183	1,177	1,168	1,171	1,174	1,176	1,182	1,180	1,177	1,183	5,874	11,772
<b>Prevent the Automatic Spending Reductions Specified in the Budget Control Act<sup>d</sup></b>														
Budget Authority														
Defense	606	586	643	657	671	686	701	717	734	752	771	790	3,357	7,121
Nondefense	527	534	552	564	576	590	602	615	630	646	662	678	2,884	6,114
Total	1,133	1,120	1,195	1,220	1,247	1,275	1,303	1,331	1,364	1,398	1,433	1,468	6,241	13,235
Outlays														
Defense	596	583	621	637	649	668	684	699	720	733	745	769	3,259	6,925
Nondefense	583	592	608	621	628	640	653	665	679	694	709	726	3,150	6,621
Total	1,179	1,175	1,230	1,258	1,277	1,308	1,337	1,364	1,399	1,426	1,454	1,495	6,409	13,546

Source: Congressional Budget Office.

Note: Nondefense discretionary outlays are usually higher than budget authority because of spending from the Highway Trust Fund and the Airport and Airway Trust Fund that is subject to obligation limitations set in appropriation acts. The budget authority for such programs is provided in authorizing legislation and is not considered discretionary.

- a. For this alternative, CBO does not extrapolate the \$74 billion in budget authority for military operations, diplomatic activities, and aid to Afghanistan and other countries provided for 2015. Rather, the alternative incorporates the assumption that, as the number of troops falls to about 30,000 by 2017, funding for overseas contingency operations declines as well, to \$50 billion in 2016, \$32 billion in 2017, and then an average of about \$27 billion a year from 2018 on, for a total of \$300 billion over the 2016–2025 period.
- b. These estimates reflect the assumption that appropriations will not be constrained by caps and will instead grow at the rate of inflation from their 2015 level. Discretionary funding related to federal personnel is inflated using the employment cost index for wages and salaries; other discretionary funding is adjusted using the gross domestic product price index.
- c. This option reflects the assumption that appropriations other than those for overseas contingency operations would generally be frozen at the 2015 level through 2025. Some items, such as offsetting collections and payments made by the Treasury on behalf of the Department of Defense's TRICARE for Life program, would not be held constant.
- d. The Budget Control Act of 2011 specified that if lawmakers did not enact legislation originating from the Joint Select Committee on Deficit Reduction that would reduce projected deficits by at least \$1.2 trillion, automatic procedures would go into effect to reduce both discretionary and mandatory spending during the 2013–2021 period. Those procedures are now in effect and take the form of equal cuts (in dollar terms) in funding for defense and nondefense programs. For the 2016–2021 period, the automatic procedures lower the caps on discretionary budget authority specified in the Budget Control Act (caps for 2014 and 2015 were revised by the Bipartisan Budget Act of 2013); for the 2022–2025 period, CBO has extrapolated the reductions estimated for 2021.

**Figure 3-4.**  
**Projected Debt Held by the Public and Net Interest**



Source: Congressional Budget Office.

In 2015, trust funds will be credited with \$139 billion of such intragovernmental interest, CBO estimates, mostly for the Social Security, Military Retirement, and Civil Service Retirement and Disability trust funds. Over the 2016–2025 period, the intragovernmental interest received by trust funds is projected to total \$1.7 trillion.

**Other Interest**

CBO anticipates that the government will record net payments of \$39 billion in other interest in 2015, representing the net result of many transactions, including both interest collections and interest payments.

The largest interest collections come from the government’s credit financing accounts, which have been established to record the cash transactions related to federal direct loan and loan guarantee programs. For those programs, net subsidy costs are recorded in the budget, but the cash flows that move through the credit financing accounts are not. Credit financing accounts pay interest to and receive interest from Treasury accounts that appear in the budget, but, on net, they pay more interest to the Treasury than they receive from it. CBO estimates that net receipts from the credit financing accounts will total \$31 billion in 2015 and steadily increase to \$62 billion in 2025. Interest payments associated with the direct student loan program dominate those totals.

**Table 3-7.****Federal Interest Outlays Projected in CBO's Baseline**

Billions of Dollars

	Actual,												Total	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-	2016-
Interest on Treasury Debt Securities (Gross interest) <sup>a</sup>	431	405	472	541	631	713	790	857	919	981	1,040	1,092	3,148	8,036
Interest Received by Trust Funds														
Social Security	-100	-97	-92	-91	-92	-94	-94	-95	-94	-91	-87	-81	-464	-912
Other <sup>b</sup>	-58	-42	-60	-67	-74	-79	-83	-86	-87	-88	-91	-95	-364	-811
Subtotal	-158	-139	-152	-159	-166	-173	-178	-181	-180	-179	-179	-176	-828	-1,723
Other Interest <sup>c</sup>	-39	-39	-44	-50	-54	-58	-63	-69	-74	-78	-83	-88	-270	-662
NRRIT Investment Income (Non-Treasury holdings) <sup>d</sup>	-4	*	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-4	-9
<b>Net Interest Outlays</b>	<b>229</b>	<b>227</b>	<b>276</b>	<b>332</b>	<b>410</b>	<b>480</b>	<b>548</b>	<b>606</b>	<b>664</b>	<b>722</b>	<b>777</b>	<b>827</b>	<b>2,046</b>	<b>5,643</b>

Source: Congressional Budget Office.

Note: NRRIT = National Railroad Retirement Investment Trust; \* = between -\$500 million and zero.

- Excludes interest costs on debt issued by agencies other than the Treasury (primarily the Tennessee Valley Authority).
- Mainly the Civil Service Retirement, Military Retirement, Medicare, and Unemployment Insurance Trust Funds.
- Primarily interest on loans to the public.
- Earnings on investments by the NRRIT, an entity created to manage and invest assets of the Railroad Retirement program.