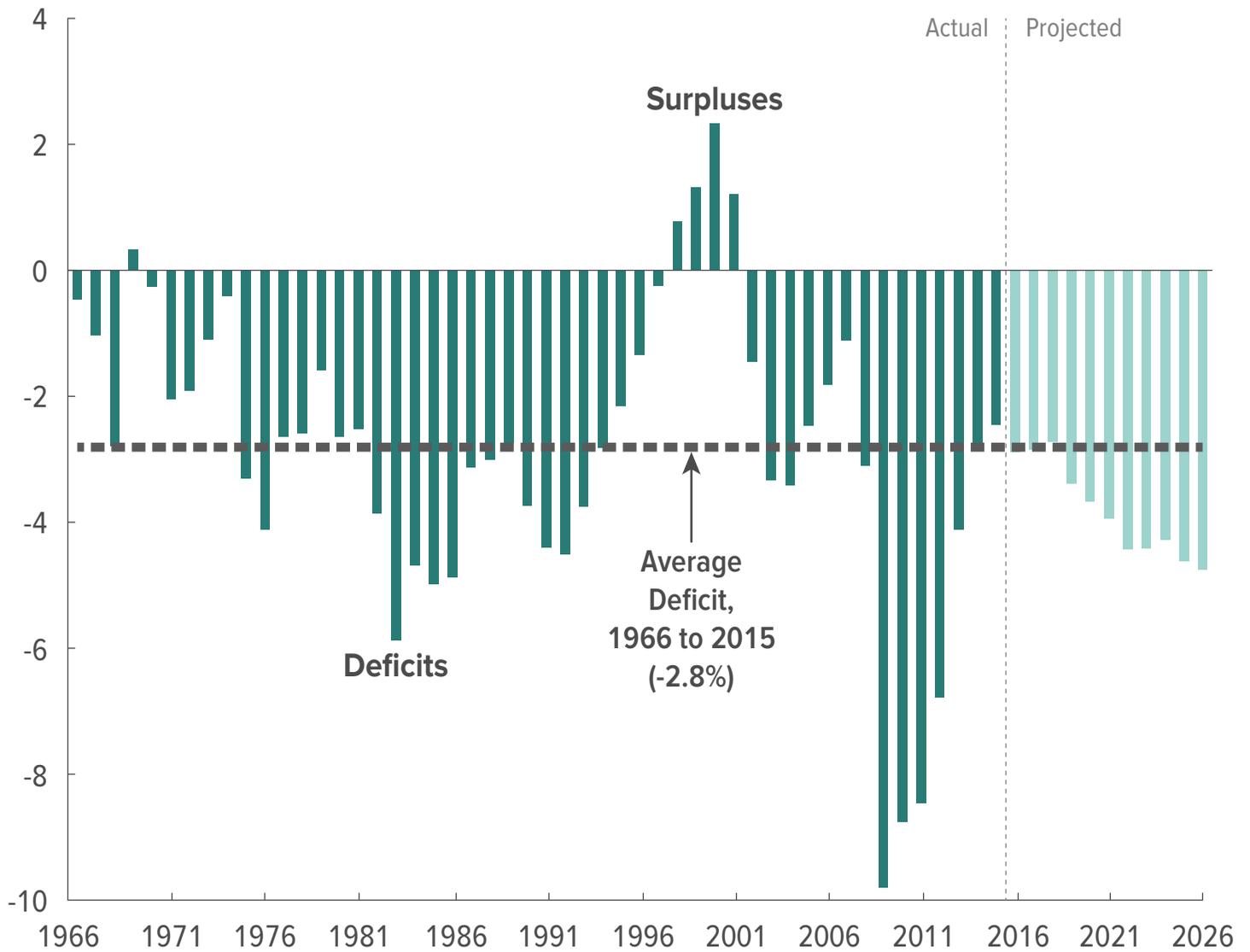


CBO

Updated Budget Projections: 2016 to 2026

Percentage of GDP



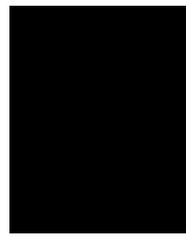
MARCH 2016

Notes

Unless otherwise noted, years referred to in this report are federal fiscal years, which run from October 1 through September 30 and are designated by the calendar year in which they end.

Numbers in the text and tables may not add up to totals because of rounding.

Supplemental data for this analysis are available on CBO's website (www.cbo.gov/publication/51384), as is a glossary of common budgetary and economic terms (www.cbo.gov/publication/42904).



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Updated Budget Projections: 2016 to 2026

Summary

As it typically does after the President's budget is released, the Congressional Budget Office has updated the 10-year baseline budget projections it published early in the year.¹ CBO now estimates that if no further legislation is enacted this year that affects the federal budget, the total federal deficit for fiscal year 2016 will be \$534 billion, about \$100 billion greater than the shortfall posted in fiscal year 2015 (see Table 1). If current laws generally remained unchanged, the deficit would increase (in dollar terms) in nearly every year over the next decade and, CBO projects, by 2026 it would be considerably larger as a share of the nation's output (gross domestic product, or GDP) than its average over the past 50 years (see Figure 1). Debt held by the public also would rise significantly from its already high level, reaching 86 percent of GDP by 2026.

Growing Deficits Are Projected to Drive Up Debt

This year is likely to be the first since 2009 in which the federal deficit will increase as a share of the nation's output—from 2.5 percent of GDP in 2015 to 2.9 percent in 2016, by CBO's estimate. That growth in the deficit will result in part from a shift in the timing of some federal payments from the beginning of fiscal year 2017 to the end of 2016 because October 1, 2016—the first day of fiscal year 2017—falls on a weekend. Without that shift of an estimated \$41 billion in payments, the deficit projected for 2016 would be \$493 billion, or 2.7 percent of GDP.

In CBO's baseline, deficits rise because growth in revenues over the next 10 years is outpaced by increases in spending—particularly for Social Security, Medicare, and interest payments on the federal debt. The deficit remains at roughly 2.8 percent of GDP through 2018 but climbs to 4.9 percent of GDP by 2026. The cumulative deficit projected for the 2017–2026 period is \$9.3 trillion.

One important effect of such deficits would be a burgeoning amount of debt held by the public. In 10 years, debt held by the public would equal 86 percent of GDP—more than twice its average over the past five decades. Debt that high—and heading higher—would have significant negative budgetary and economic consequences (see Figure 2 on page 4):

- Once interest rates returned to more typical, higher levels, federal spending on interest payments would increase substantially.
- Because federal borrowing reduces national saving over time, the nation's capital stock ultimately would be smaller, and productivity and total wages would be lower, than would be the case with lower debt.
- Lawmakers would have less flexibility to use tax and spending policies to respond to unexpected challenges.
- The probability of a fiscal crisis in the United States would increase. Specifically, the risk would rise of investors' becoming unwilling to finance government borrowing unless they were compensated with significantly higher interest rates. If that occurred, interest rates on federal debt would rise suddenly and sharply relative to rates of return on other assets.

Beyond the 10-year period, if current laws remained in place, the pressures that contributed to rising deficits during the baseline period would build, and the consequences would be even more severe. Under those circumstances, debt held by the public three decades from now would constitute 155 percent of GDP, a far larger percentage than any recorded in the nation's history.²

Changes Since January Are Relatively Small

CBO currently projects a deficit for 2016 that is \$10 billion (or 2 percent) lower than the amount it projected in January—estimated outlays have been reduced by

1. See Congressional Budget Office, *The Budget and Economic Outlook: 2016 to 2026* (January 2016), www.cbo.gov/publication/51129.

2. *Ibid.*, Table 1-6, www.cbo.gov/publication/51129.

Table 1.

CBO's Baseline Budget Projections

	Actual,												Total	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2021	2017-2026
In Billions of Dollars														
Revenues														
Individual income taxes	1,541	1,626	1,744	1,835	1,913	1,998	2,092	2,191	2,297	2,412	2,536	2,664	9,582	21,682
Payroll taxes	1,065	1,099	1,140	1,180	1,223	1,266	1,316	1,366	1,419	1,473	1,532	1,592	6,126	13,508
Corporate income taxes	344	329	357	366	372	400	395	401	407	417	429	444	1,890	3,988
Other	300	309	267	264	263	267	278	289	301	313	328	342	1,339	2,912
Total	3,250	3,364	3,508	3,645	3,772	3,931	4,082	4,247	4,423	4,615	4,825	5,042	18,937	42,089
On-budget	2,480	2,569	2,682	2,788	2,885	3,013	3,131	3,263	3,403	3,556	3,728	3,903	14,498	32,351
Off-budget ^a	770	794	826	858	887	918	950	985	1,021	1,059	1,098	1,138	4,439	9,739
Outlays														
Mandatory	2,297	2,449	2,546	2,624	2,822	2,979	3,140	3,370	3,498	3,622	3,873	4,117	14,111	32,591
Discretionary	1,168	1,196	1,206	1,205	1,222	1,249	1,275	1,307	1,332	1,359	1,397	1,429	6,157	12,980
Net interest	223	253	306	365	437	501	557	613	673	728	782	839	2,167	5,801
Total	3,688	3,897	4,058	4,194	4,482	4,729	4,972	5,290	5,504	5,709	6,051	6,385	22,434	51,373
On-budget	2,945	3,124	3,243	3,330	3,559	3,741	3,916	4,159	4,296	4,419	4,674	4,914	17,788	40,250
Off-budget ^a	743	774	815	864	923	987	1,056	1,130	1,208	1,289	1,377	1,471	4,646	11,122
Deficit (-) or Surplus	-438	-534	-550	-549	-710	-798	-890	-1,043	-1,080	-1,094	-1,226	-1,343	-3,497	-9,283
On-budget	-466	-555	-561	-542	-674	-729	-785	-897	-893	-863	-946	-1,010	-3,290	-7,900
Off-budget ^a	27	21	11	-7	-36	-69	-106	-146	-187	-231	-280	-333	-207	-1,384
Debt Held by the Public	13,117	13,951	14,572	15,177	15,934	16,771	17,692	18,766	19,880	21,012	22,280	23,672	n.a.	n.a.
Memorandum:														
Gross Domestic Product	17,810	18,494	19,297	20,127	20,906	21,710	22,593	23,528	24,497	25,506	26,559	27,660	104,632	232,382
As a Percentage of Gross Domestic Product														
Revenues														
Individual income taxes	8.7	8.8	9.0	9.1	9.2	9.2	9.3	9.3	9.4	9.5	9.5	9.6	9.2	9.3
Payroll taxes	6.0	5.9	5.9	5.9	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.9	5.8
Corporate income taxes	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.7	1.7	1.6	1.6	1.6	1.8	1.7
Other	1.7	1.7	1.4	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.3	1.3
Total	18.2	18.2	18.2	18.1	18.0	18.1	18.1	18.1	18.1	18.1	18.2	18.2	18.1	18.1
On-budget	13.9	13.9	13.9	13.9	13.8	13.9	13.9	13.9	13.9	13.9	14.0	14.1	13.9	13.9
Off-budget ^a	4.3	4.3	4.3	4.3	4.2	4.2	4.2	4.2	4.2	4.2	4.1	4.1	4.2	4.2
Outlays														
Mandatory	12.9	13.2	13.2	13.0	13.5	13.7	13.9	14.3	14.3	14.2	14.6	14.9	13.5	14.0
Discretionary	6.6	6.5	6.2	6.0	5.8	5.8	5.6	5.6	5.4	5.3	5.3	5.2	5.9	5.6
Net interest	1.3	1.4	1.6	1.8	2.1	2.3	2.5	2.6	2.7	2.9	2.9	3.0	2.1	2.5
Total	20.7	21.1	21.0	20.8	21.4	21.8	22.0	22.5	22.5	22.4	22.8	23.1	21.4	22.1
On-budget	16.5	16.9	16.8	16.5	17.0	17.2	17.3	17.7	17.5	17.3	17.6	17.8	17.0	17.3
Off-budget ^a	4.2	4.2	4.2	4.3	4.4	4.5	4.7	4.8	4.9	5.1	5.2	5.3	4.4	4.8
Deficit (-) or Surplus	-2.5	-2.9	-2.8	-2.7	-3.4	-3.7	-3.9	-4.4	-4.4	-4.3	-4.6	-4.9	-3.3	-4.0
On-budget	-2.6	-3.0	-2.9	-2.7	-3.2	-3.4	-3.5	-3.8	-3.6	-3.4	-3.6	-3.7	-3.1	-3.4
Off-budget ^a	0.2	0.1	0.1	*	-0.2	-0.3	-0.5	-0.6	-0.8	-0.9	-1.1	-1.2	-0.2	-0.6
Debt Held by the Public	73.6	75.4	75.5	75.4	76.2	77.2	78.3	79.8	81.2	82.4	83.9	85.6	n.a.	n.a.

Source: Congressional Budget Office.

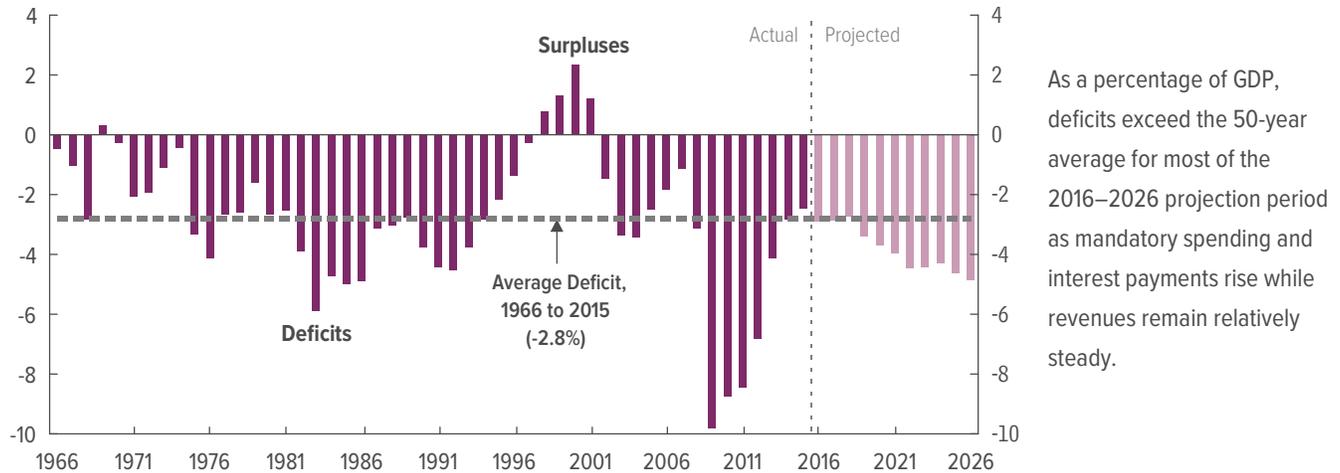
n.a. = not applicable; * = between -0.05 percent and zero.

a. The revenues and outlays of the Social Security trust funds and the net cash flow of the Postal Service are classified as off-budget.

Figure 1.

Total Deficits and Surpluses

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

\$22 billion and revenues by \$12 billion. The cumulative 10-year deficit projection has dropped by \$95 billion (or 1 percent), mostly as the result of a \$79 billion increase in projected revenues.

Those changes stem largely from the agency's full incorporation of the economic forecast it published in the January 2016 volume, *The Budget and Economic Outlook: 2016 to 2026*. (Last-minute changes to that forecast to reflect major legislation enacted in December and economic developments through the end of that month could not be incorporated into the January budget projections published in that volume.) Those economic revisions involved changes in corporate profits relative to GDP, among other factors, and they reduced the cumulative projected deficit for the 2017–2026 period by \$168 billion. Other, technical, updates partially offset the revisions resulting from changes in the economic forecast. Legislation enacted since January has had a negligible effect on CBO's projections of revenues and outlays.

CBO's Baseline Budget Projections

CBO's 10-year baseline is constructed in accordance with provisions set forth in the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) and the Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344). Those laws require CBO to construct its baseline under the assumption that current laws will generally remain unchanged. Thus, CBO's baseline is not intended to provide a forecast of future outcomes; rather, those projections serve as a neutral benchmark

against which potential changes in law can be measured. Future legislative action could lead to markedly different outcomes—but even if federal laws remained unaltered for the next decade, actual budgetary outcomes would differ from CBO's baseline not only because of changing economic conditions but also as a result of a host of other factors that affect federal revenues and outlays.

Deficits and Debt

In CBO's baseline, deficits rise because spending is projected to increase faster than revenues: Overall, revenues rise by an average of about 4 percent a year—but outlay growth averages 5 percent a year. As a result, budget deficits generally climb throughout the projection period, rising from slightly less than 3 percent of GDP from 2016 through 2018 to close to 5 percent in 2026.

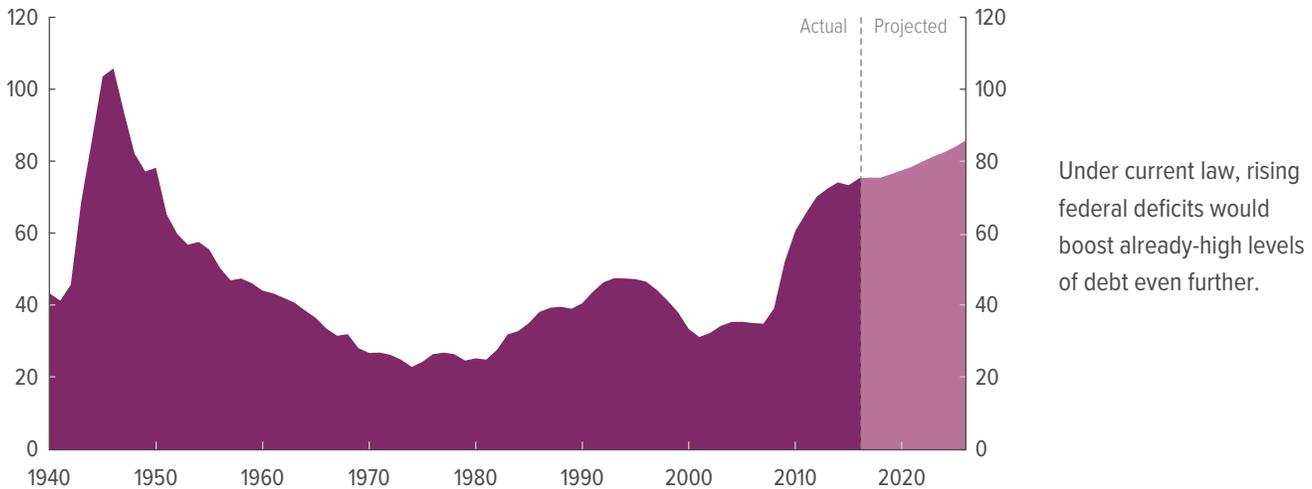
Such deficits would boost federal debt held by the public, which consists mostly of the securities that the Treasury issues to raise cash to fund federal activities and pay off the government's maturing liabilities. The net amount that the Treasury borrows by selling those securities (the amounts that are sold minus the amounts that have matured) is influenced primarily by the annual budget deficit.³

3. The Treasury also borrows to finance student loans and other credit programs. In the baseline, that additional borrowing, often referred to as other means of financing, is projected to average \$44 billion per year during the 2017–2026 period.

Figure 2.

Federal Debt Held by the Public

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

Consequently, under current law, debt held by the public would increase significantly in upcoming years. CBO's baseline, after accounting for all of the government's borrowing needs, shows debt held by the public rising from \$13.1 trillion at the end of 2015 to \$23.7 trillion at the end of 2026 (see Table 2). Relative to the size of the economy, that debt stays close to 75 percent of GDP through 2018 but then increases sharply, reaching 86 percent of GDP by the end of the projection period. That amount of debt, relative to the size of the economy, would be the largest since 1947 and more than twice the 50-year average of 39 percent. By historical standards, debt that high would have significant negative consequences for the budget and the economy.

Revenues

In CBO's baseline projections, total revenues relative to the size of the economy fluctuate in a narrow band, ranging from 18.0 percent to 18.2 percent of GDP from 2016 through 2026. At that level, revenues would be above the 50-year average of 17.4 percent of GDP (see Figure 3). Over the past half-century, revenues as a share of GDP have been as high as 20.0 percent in 2000 and as low as 14.6 percent in 2009 and 2010.

CBO projects that federal revenues in 2016 will total about \$3.4 trillion, \$114 billion (or 3.5 percent) more than the 2015 amount. That percentage increase is about the same as the increase in nominal GDP that CBO expects; hence, revenues as a share of GDP in 2016

remain unchanged from last year's 18.2 percent (see Table 3 on page 7). Receipts of individual income taxes are expected to edge up by 0.1 percentage point of GDP, but corporate income tax revenues are projected to decline by a similar amount relative to GDP. The increase in individual income tax receipts occurs mainly because people's taxable income is expected to rise faster than inflation, thereby pushing more of it into higher tax brackets (which are indexed only to inflation). Such "real bracket creep" generally occurs in years when the economy expands. The small downward shift in corporate income tax receipts relative to GDP stems largely from recently enacted legislation that extended certain tax-reducing provisions retroactively to 2015 and prospectively to 2016 (and in some cases to later years).

After 2016, revenues are projected to decline slightly, to 18.0 percent of GDP by 2019, and then to rise to 18.2 percent of GDP near the end of the projection period. The relative stability exhibited over the 2017–2026 period mainly reflects increases, relative to GDP, in individual income tax receipts, offset by corresponding declines in revenues from four other sources:

- Individual income tax receipts are projected to increase relative to GDP each year—rising by 0.8 percentage points between 2016 and 2026—mainly because of real bracket creep, an increase in the share of wages and salaries earned by higher-income taxpayers, and rising distributions from tax-deferred retirement accounts.

Table 2.

Federal Debt Projected in CBO's Baseline

Billions of Dollars

	Actual, 2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Debt Held by the Public at the Beginning of the Year	12,780	13,117	13,951	14,572	15,177	15,934	16,771	17,692	18,766	19,880	21,012	22,280
Changes in Debt Held by the Public												
Deficit	438	534	550	549	710	798	890	1,043	1,080	1,094	1,226	1,343
Other means of financing	-102	300	71	57	46	39	31	31	34	38	43	49
Total	337	834	621	606	757	837	921	1,073	1,114	1,132	1,269	1,392
Debt Held by the Public at the End of the Year	13,117	13,951	14,572	15,177	15,934	16,771	17,692	18,766	19,880	21,012	22,280	23,672
Debt Held by the Public at the End of the Year (As a percentage of GDP)	73.6	75.4	75.5	75.4	76.2	77.2	78.3	79.8	81.2	82.4	83.9	85.6
Memorandum:												
Debt Held by the Public Minus Financial Assets ^a												
In billions of dollars	11,755	12,491	13,021	13,549	14,237	15,012	15,879	16,897	17,951	19,020	20,219	21,536
As a percentage of GDP	66	68	67	67	68	69	70	72	73	75	76	78
Gross Federal Debt ^b	18,120	19,279	20,021	20,771	21,613	22,492	23,427	24,497	25,593	26,690	27,858	29,118
Debt Subject to Limit ^c	18,113	19,272	20,013	20,763	21,605	22,484	23,419	24,488	25,584	26,680	27,848	29,107
Average Interest Rate on Debt Held by the Public (Percent) ^d	1.7	1.8	2.1	2.4	2.7	3.0	3.1	3.3	3.4	3.5	3.5	3.5

Source: Congressional Budget Office.

GDP = gross domestic product.

- Federal debt held by the public minus the value of outstanding student loans and other credit transactions, cash balances, and other financial instruments.
- Federal debt held by the public plus Treasury securities held by federal trust funds and other government accounts.
- The amount of federal debt that is subject to the overall limit set in law. "Debt Subject to Limit" differs from gross federal debt in that most debt issued by agencies other than the Treasury and the Federal Financing Bank is excluded from the debt limit. That limit was most recently set at \$18.4 trillion but has been suspended through March 15, 2017. On March 16, 2017, the debt limit will be raised to its previous level plus the amount of federal borrowing that occurred while the limit was suspended.
- The average interest rate is calculated as net interest divided by debt held by the public at the end of the year.

- Remittances by the Federal Reserve System to the Treasury are projected to decline by 0.4 percentage points of GDP, reaching more typical amounts relative to the size of the economy. Those remittances have been substantial since 2010 because of the changing size and composition of the central bank's portfolio. A further boost in such remittances occurred in December 2015 as a consequence of new legislation requiring the Federal Reserve to immediately remit most of its capital surplus account to the Treasury.
- Corporate income tax receipts are projected to decline relative to GDP by 0.2 percentage points largely because of an expected drop in domestic economic profits relative to the size of the economy—the result

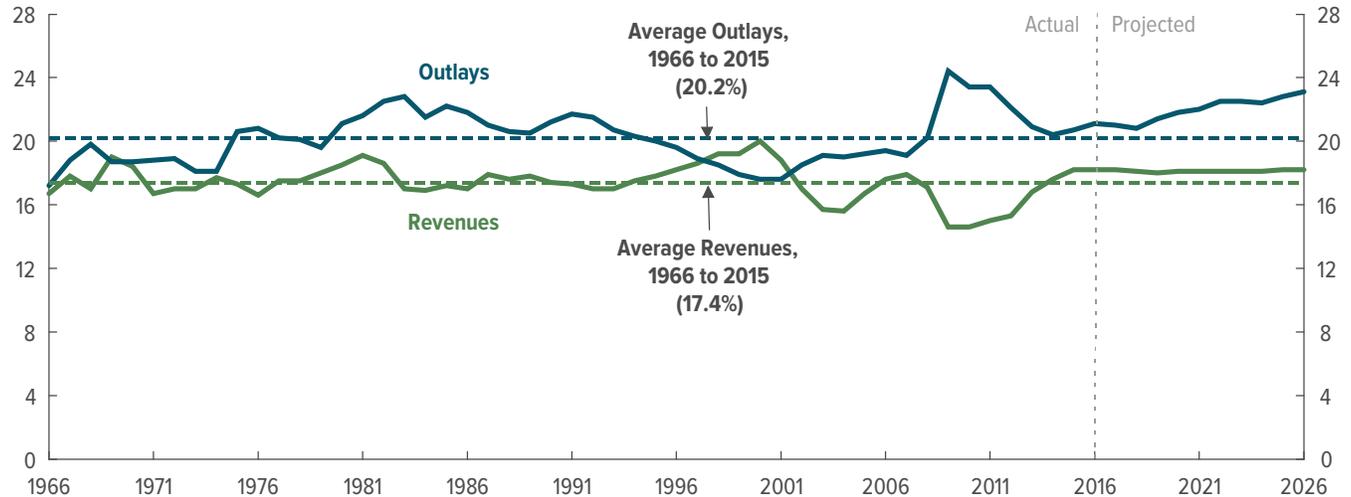
of rising costs of labor and higher interest payments on businesses' debt, among other factors.

- Payroll tax receipts are also projected to decline by 0.2 percentage points relative to GDP over the next decade, primarily because of the expected continued increase in the share of wages earned by higher-income taxpayers. Although that increase boosts income tax receipts in the projections, it also causes a greater portion of wages in the economy to be above the maximum that is subject to Social Security payroll taxes. The resulting reduction in payroll taxes is projected to offset about three-fifths of the increase in individual income tax receipts that is expected to occur for the same reason.

Figure 3.

Total Revenues and Outlays

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

Outlays

Under current law, CBO projects, total federal outlays would average about 22 percent of GDP over the coming decade—more than their average of 20.2 percent over the past 50 years—rising from 21.1 percent of GDP (\$3.9 trillion) in 2016 to 23.1 percent of GDP (\$6.4 trillion) in 2026 (see Figure 3). Over that period, net interest costs are projected to rise by 1.7 percentage points of GDP, and mandatory spending is projected to rise by 1.6 percentage points; in contrast, discretionary spending is projected to decline by 1.3 percentage points of GDP.

Mandatory Spending. Mandatory, or direct, spending includes outlays for some federal benefit programs and for certain other payments to people, businesses, non-profit institutions, and state and local governments. Such outlays are generally governed by statutory criteria and are not normally constrained by the annual appropriation process. The Deficit Control Act requires CBO to construct baseline projections for most mandatory spending under the assumption that current laws continue unchanged.⁴ CBO's projections of mandatory spending reflect anticipated changes in the economy, demographics, and other factors. The projections also incorporate the effects of sequestration—the across-the-board reductions in budget authority imposed by the Budget Control Act of 2011 (P.L. 112-25, as amended).

In CBO's baseline, mandatory spending (net of offsetting receipts, which are recorded as reductions in outlays) increases from \$2.4 trillion in 2016 to \$4.1 trillion in 2026, an average annual growth rate of 5.3 percent. As a percentage of GDP, mandatory spending stays at about 13 percent through 2018 but then rises over time to reach 14.9 percent of GDP in 2026.⁵ Over the past 50 years, net mandatory spending has averaged 9.4 percent of GDP.

- In keeping with rules established by the Deficit Control Act, CBO's baseline projections incorporate the assumption that certain mandatory programs whose authorization expires within the current projection period will continue. In CBO's projections, that assumption accounts for about \$1 trillion in outlays between 2017 and 2026, about half of which is related to the Supplemental Nutrition Assistance Program. For a complete list of those mandatory programs, see Congressional Budget Office, *The Budget and Economic Outlook: 2016 to 2026* (January 2016), Table 3-3, www.cbo.gov/publication/51129.
- In CBO's baseline, mandatory outlays decline as a percentage of GDP from 2016 through 2018, and then again from 2022 through 2024, largely because of shifts in the timing of certain payments. Because October 1 falls on a weekend in 2016, 2017, 2022, and 2023, certain federal payments due on that day will instead be made at the end of September and thus will be shifted into the previous fiscal year. Without those timing shifts, mandatory outlays in CBO's baseline would rise, as percentage of GDP, in each year of the baseline period.

Table 3.

Key Projections in CBO's Baseline

Percentage of Gross Domestic Product

	2016	2017	Projected Annual Average	
			2018–2021	2022–2026
Revenues				
Individual income taxes	8.8	9.0	9.2	9.5
Payroll taxes	5.9	5.9	5.8	5.8
Corporate income taxes	1.8	1.8	1.8	1.6
Other	1.7	1.4	1.3	1.2
Total Revenues	18.2	18.2	18.1	18.1
Outlays				
Mandatory				
Social Security	4.9	4.9	5.2	5.7
Major health care programs ^a	5.5	5.5	5.7	6.3
Other	2.8	2.8	2.7	2.5
Subtotal	13.2	13.2	13.6	14.5
Discretionary	6.5	6.2	5.8	5.3
Net interest	1.4	1.6	2.2	2.8
Total Outlays	21.1	21.0	21.5	22.7
Deficit	-2.9	-2.8	-3.5	-4.5
Debt Held by the Public at the End of the Period	75.4	75.5	78.3	85.6
Memorandum:				
Social Security				
Revenues ^b	4.5	4.5	4.4	4.4
Outlays ^c	4.9	4.9	5.2	5.7
Contribution to the Federal Deficit ^d	-0.4	-0.4	-0.7	-1.3
Medicare				
Revenues ^b	1.5	1.5	1.5	1.5
Outlays ^c	3.8	3.7	3.8	4.4
Offsetting receipts	-0.6	-0.6	-0.6	-0.7
Contribution to the Federal Deficit ^d	-1.7	-1.6	-1.7	-2.1

Source: Congressional Budget Office.

This table satisfies a requirement specified in section 3111 of S. Con. Res. 11, the Concurrent Resolution on the Budget for Fiscal Year 2016.

- Consists of spending for Medicare (net of premiums and other offsetting receipts), Medicaid, and the Children's Health Insurance Program as well as spending to subsidize health insurance and to stabilize premiums for health insurance purchased by individuals and small employers.
- Includes payroll taxes other than those paid by the federal government (which are intragovernmental transactions). Also includes income taxes paid on Social Security benefits, which are credited to the trust funds.
- Does not include outlays related to administration of the program, which are discretionary. Outlays do not include intragovernmental offsetting receipts stemming from payroll taxes credited on behalf of federal employees to the Social Security and Medicare trust funds.
- The net increase in the deficit shown in this table differs from the changes in the trust fund balances for the associated programs. It does not include intragovernmental transactions, interest earned on balances, or outlays related to administration of the programs.

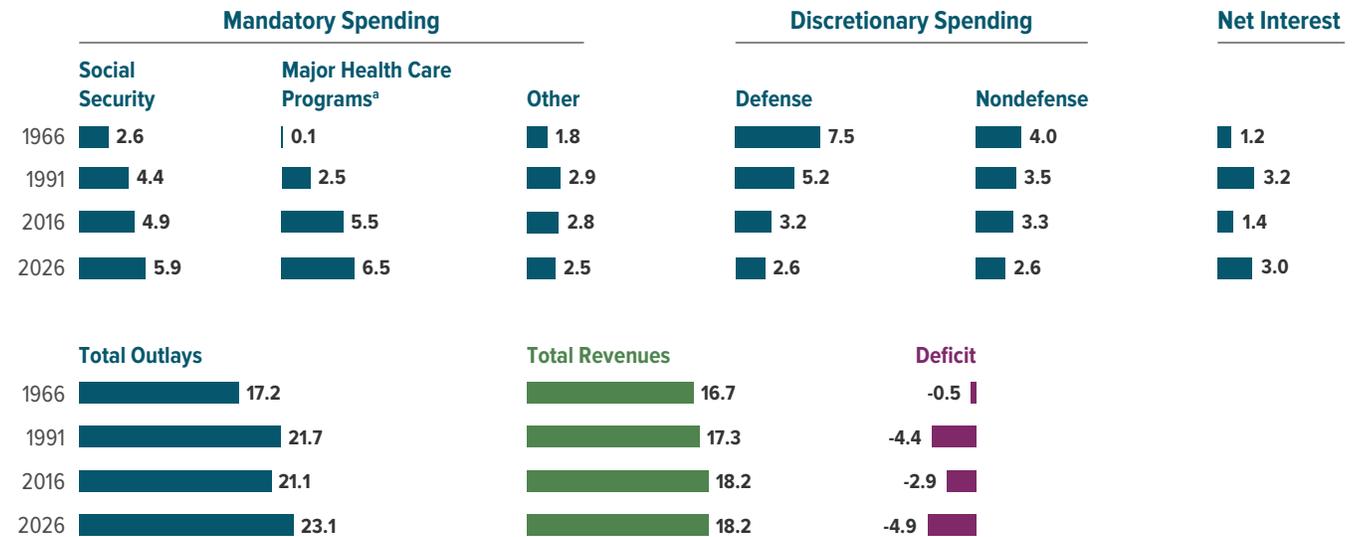
The bulk of mandatory spending is for Social Security and the federal government's major health care programs. Outlays for the major health care programs consist of spending for Medicare (net of premiums and other

offsetting receipts), Medicaid, and the Children's Health Insurance Program as well as spending to subsidize health insurance. Those outlays also include spending for the risk adjustment and reinsurance programs established by

Figure 4.

Spending and Revenues Projected in CBO's Baseline, Compared With Actual Values in 1966 and 1991

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

a. Consists of spending for Medicare (net of premiums and other offsetting receipts), Medicaid, and the Children's Health Insurance Program as well as spending to subsidize health insurance and to stabilize premiums for health insurance purchased by individuals and small employers.

the Affordable Care Act (ACA) that are used to stabilize premiums for health insurance purchased by individuals and small employers.⁶

In CBO's projections, outlays for those components of mandatory spending increase from 10.5 percent of GDP in 2016 to 12.4 percent in 2026 (see Figure 4). By 2026, such outlays total \$3.4 trillion, accounting for more than half of the \$6.4 trillion in federal spending in that year (see Table 4). With such growth, those programs would account for about 60 percent of the total increase in outlays over the coming decade. The projected rise in spending results largely from rapid growth (averaging about 6 percent per year) in outlays for Social Security and Medicare, which is primarily attributable to the aging of the population and rising health care spending per beneficiary: By 2026, in CBO's baseline, Social Security and net Medicare

outlays reach 5.9 percent and 3.9 percent of GDP, respectively, compared with 4.9 percent and 3.2 percent in 2016. Spending for other major health care programs rises less over the same period: Federal outlays for Medicaid grow from 2.0 percent of GDP in 2016 to 2.3 percent in 2026, and spending on subsidies for health insurance purchased through the marketplaces (along with spending to stabilize premiums) increases from 0.3 percent of GDP in 2016 to 0.4 percent in 2026.⁷

After Social Security and the major health care programs, the next-largest component of mandatory outlays consists of spending designed to provide income security—including outlays for certain refundable tax credits, the Supplemental Nutrition Assistance Program, Supplemental Security Income, and unemployment compensation. Such spending will amount to \$307 billion in 2016, or 1.7 percent of GDP, by CBO's estimate. Together, that

6. As referred to in this report, the ACA comprises the Patient Protection and Affordable Care Act (P.L. 111-148); the health care provisions of the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152); and the effects of subsequent judicial decisions, statutory changes, and administrative actions. That legislation established the risk adjustment and reinsurance programs to reduce the likelihood that particular health insurers would bear especially high costs for having a disproportionate share of less healthy enrollees.

7. The subsidies for health insurance premiums are structured as refundable tax credits. Following the standard budgetary treatment for such credits, the portions that exceed taxpayers' income tax liabilities are classified as outlays in baseline projections and the portions that reduce tax payments are classified as reductions in revenues. All subsidies for out-of-pocket spending are classified as outlays. Subsidies provided through the Basic Health Program are also included here and are classified as outlays.

spending is projected to grow by an average of 2 percent per year, which is slower than GDP is projected to grow. As a result, by 2026 those outlays are projected to shrink to 1.4 percent of GDP.

In CBO's baseline, all other mandatory spending, net of offsetting receipts, remains steady at 1.2 percent of GDP, on average, from 2016 through 2026.

Discretionary Spending. Funding for most discretionary programs is provided by means of budget authority specified in annual appropriation acts. Each year, the Congress appropriates funding for defense, law enforcement, transportation, national parks, disaster relief, and foreign aid, for example. Depending on the activity or program, federal spending that arises from that budget authority can occur quickly (to pay salaries, for example) or slowly (to pay for long-term research and development projects). In any year, some discretionary outlays come from new budget authority and some come from past appropriations.

CBO's baseline incorporates the caps specified in the Budget Control Act (as later amended) for defense and nondefense discretionary budget authority, and it accounts for additional reductions over the 2018–2021 period that are required under the law's automatic enforcement procedures. Those caps remain at about the 2016 level in both 2017 and 2018 and then rise by about 2½ percent per year from 2019 through 2021. For years after 2021, appropriations for programs that are constrained by the caps are assumed to grow with inflation from the amounts projected for 2021. Appropriations for programs that are not constrained—overseas contingency operations (certain overseas military and diplomatic operations, such as those in Afghanistan), emergency requirements, and disaster relief and certain program integrity initiatives (up to certain limits)—are assumed to grow with inflation from the amounts provided in 2016.⁸

Discretionary outlays in 2016 are projected to be \$28 billion above last year's amount (see Table 5 on page 12). That increase results largely from the Bipartisan Budget Act of 2015 (P.L. 114-74), which raised the statutory limits

on discretionary funding by \$50 billion for 2016 (and by \$30 billion for 2017), and from the resulting appropriations for 2016, which were equal to those limits.⁹ According to CBO's estimates, discretionary outlays for national defense will increase in 2016 for the first time since 2011, edging up by 0.7 percent; nondefense discretionary outlays will climb by 4.1 percent.

Discretionary outlays (adjusted for shifts in the timing of certain payments) are projected to increase by 1.1 percent in 2017, remain roughly unchanged in 2018, and then grow at an average rate of 2.1 percent from 2018 through 2026. Both defense and nondefense discretionary spending follow that general pattern; defense outlays would grow slightly faster than nondefense outlays.

The growth rate of total discretionary spending is less than half of the rate projected for the growth of nominal GDP. As a result, discretionary outlays would drop from 6.5 percent of GDP in 2016 to 5.2 percent in 2026—a smaller ratio than in any year since 1962 (the first year for which comparable data are available).

Net Interest. CBO projects sharply rising interest payments over the projection period for two main reasons. The first is an anticipated increase in interest rates as the economy improves. CBO expects the average interest rate on 3-month Treasury bills to rise from 0.5 percent in 2016 to 3.2 percent a decade later, and it expects the average rate on 10-year Treasury notes to increase from 2.6 percent to 4.1 percent over the same period.

The second reason involves the sharp projected increase in debt held by the public, which rises by about 70 percent from 2016 to 2026 in CBO's baseline. All told, rising interest rates and federal debt are projected to more than triple the government's net interest costs in nominal terms—from \$253 billion in 2016 to \$839 billion in 2026. As a percentage of GDP, those costs more than double, from 1.4 percent to 3.0 percent, over the 10-year projection period.

Alternative Assumptions About Fiscal Policy

Fiscal policies that differed from those that CBO assumes in its baseline projections could lead to budget outcomes that are considerably different from those in the baseline.

8. The program integrity initiatives that are not constrained by the caps are aimed at reducing improper benefit payments in at least one of the following programs: Disability Insurance, Supplemental Security Income, Medicare, Medicaid, and the Children's Health Insurance Program. For more information on the discretionary caps, see Congressional Budget Office, *Final Sequestration Report for Fiscal Year 2016* (December 2015), www.cbo.gov/publication/51038.

9. That act raised the limits for defense and nondefense funding by \$25 billion each for 2016 and by \$15 billion each for 2017 relative to what they would have been after automatic spending reductions.

Table 4.

Mandatory Outlays Projected in CBO's Baseline

Billions of Dollars

	Actual,												Total	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-	2017-
Social Security														
Old-Age and Survivors Insurance	738	767	801	852	910	972	1,035	1,102	1,172	1,246	1,324	1,405	4,569	10,817
Disability Insurance	144	144	146	151	157	163	171	179	188	197	205	215	789	1,773
Subtotal	882	911	947	1,003	1,067	1,135	1,206	1,282	1,360	1,442	1,529	1,620	5,358	12,590
Major Health Care Programs														
Medicare ^a	634	695	709	717	791	849	911	1,018	1,052	1,078	1,197	1,292	3,977	9,615
Medicaid	350	371	393	415	437	459	484	509	536	564	593	624	2,189	5,013
Health insurance subsidies and related spending ^b	38	49	59	69	76	81	86	89	93	97	100	103	371	853
Children's Health Insurance Program	9	13	13	12	6	6	6	6	6	6	6	6	42	71
Subtotal ^a	1,031	1,128	1,173	1,212	1,311	1,396	1,486	1,622	1,686	1,744	1,896	2,024	6,579	15,551
Income Security														
Earned income, child, and other tax credits ^c	85	87	89	89	91	91	93	95	97	99	101	103	453	947
Supplemental Nutrition Assistance Program	76	75	73	73	72	72	71	71	71	72	72	74	361	721
Supplemental Security Income	55	59	56	53	59	61	63	69	66	63	71	73	291	633
Unemployment compensation	32	32	31	34	38	43	45	47	49	52	54	56	191	449
Family support and foster care ^d	31	31	32	32	33	33	33	34	34	34	35	35	163	336
Child nutrition	22	23	24	25	26	27	28	29	30	31	33	34	128	286
Subtotal	300	307	304	305	318	326	333	345	348	351	366	375	1,587	3,372
Federal Civilian and Military Retirement														
Civilian ^e	97	98	100	103	107	110	114	118	122	126	130	134	534	1,163
Military	57	62	58	55	61	63	65	71	68	65	72	74	302	652
Other	7	5	6	5	5	5	6	7	8	9	5	11	27	66
Subtotal	161	165	164	164	173	179	185	196	197	199	206	219	863	1,881
Veterans' Programs														
Income security ^f	76	89	87	84	95	99	102	115	110	104	117	121	468	1,035
Other ^g	16	21	21	17	17	18	18	20	21	21	23	24	91	201
Subtotal	92	110	108	102	112	116	121	135	130	125	141	146	559	1,236
Other Programs														
Agriculture	13	15	19	19	16	15	15	15	15	15	15	15	84	160
Deposit Insurance	-13	-10	-11	-13	-10	-11	-11	-12	-13	-14	-14	-15	-57	-126
MERHCF	10	10	10	11	11	12	13	13	14	14	15	16	57	130
Fannie Mae and Freddie Mac ^h	0	0	3	2	1	1	*	1	1	1	1	2	7	12
Higher education	22	3	-2	2	3	3	4	3	3	3	3	3	9	24
Other	56	49	73	72	74	72	69	67	66	65	65	68	360	691
Subtotal	88	67	91	91	94	92	90	87	86	86	85	89	459	892

Continued

For example, if lawmakers decided to extend tax provisions that are scheduled to expire over the next decade—such as the provision that allows businesses with large amounts of investment to immediately deduct, through 2019, a portion of the cost of new investments in equipment—without making offsetting changes in other tax policies, revenues would be lower than those in the baseline. In the other

direction, policymakers could set discretionary funding at amounts lower than those projected in the baseline, thereby reducing outlays relative to the baseline.¹⁰

10. For the budgetary effects of some alternative tax and spending policies, see the supplemental material that accompanies this report on CBO's website (www.cbo.gov/publication/51384).

Table 4.

Continued

Mandatory Outlays Projected in CBO’s Baseline

Billions of Dollars

	Actual,												Total	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2021	2017-2026
Offsetting Receipts														
Medicare ⁱ	-94	-104	-114	-123	-131	-141	-152	-165	-175	-184	-200	-217	-662	-1,603
Federal share of federal employees' retirement														
Social Security	-16	-16	-17	-17	-18	-19	-19	-20	-21	-21	-22	-23	-90	-196
Military retirement	-20	-19	-18	-18	-18	-19	-19	-19	-20	-20	-20	-21	-91	-192
Civil service retirement and other	-32	-33	-34	-35	-36	-37	-38	-40	-41	-42	-43	-44	-181	-390
Subtotal	-68	-68	-69	-70	-72	-74	-77	-79	-81	-83	-85	-87	-363	-778
Fannie Mae and Freddie Mac ^h	-23	-19	0	0	0	0	0	0	0	0	0	0	0	0
Receipts related to natural resources	-11	-9	-9	-12	-12	-12	-13	-13	-13	-14	-14	-15	-58	-127
MERHCF	-7	-7	-7	-8	-8	-9	-9	-10	-10	-11	-11	-12	-41	-94
Other	-54	-32	-41	-39	-29	-30	-30	-31	-32	-33	-40	-25	-169	-330
Subtotal	-258	-238	-241	-252	-253	-265	-281	-297	-310	-325	-350	-356	-1,293	-2,931
Total Mandatory Outlays	2,297	2,449	2,546	2,624	2,822	2,979	3,140	3,370	3,498	3,622	3,873	4,117	14,111	32,591

Memorandum:

Mandatory Spending Excluding the Effects of Offsetting Receipts	2,555	2,687	2,787	2,877	3,075	3,244	3,420	3,667	3,808	3,947	4,223	4,473	15,404	35,522
Spending for Medicare Net of Offsetting Receipts	540	591	594	594	660	709	759	853	877	894	997	1,075	3,316	8,012
Spending for Major Health Care Programs Net of Offsetting Receipts ^j	937	1,024	1,059	1,089	1,180	1,255	1,334	1,457	1,511	1,560	1,696	1,807	5,917	13,949

Source: Congressional Budget Office.

Data 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); * = between zero and \$500 million.

- 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. Spending to subsidize health insurance purchased in the marketplaces established by the Affordable Care Act and provided through the Basic Health Program and spending to stabilize premiums for health insurance purchased by individuals and small employers.
- 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 benefits for Civil Service, Foreign Service, Coast Guard, and smaller retirement programs as well as annuitants’ health care benefits.
- f. Includes veterans’ compensation, pensions, and life insurance programs.
- g. Primarily education subsidies; the costs of veterans’ health care are classified as discretionary spending and thus are not shown in this table.
- h. The cash payments from Fannie Mae and Freddie Mac to the Treasury are recorded as offsetting receipts in 2015 and 2016. Beginning in 2017, CBO’s estimates reflect the net lifetime costs—that is, the subsidy costs adjusted for market risk—of the mortgage guarantees that those entities will issue and of the loans that they will hold. CBO counts those costs as federal outlays in the year of issuance.
- i. Includes premium payments, recoveries of overpayments made to providers, and amounts paid by states from savings on Medicaid’s prescription drug costs.
- j. Consists of spending for Medicare (net of premiums and other offsetting receipts), Medicaid, and the Children’s Health Insurance Program as well as spending to subsidize health insurance and to stabilize premiums for health insurance purchased by individuals and small employers.

Table 5.

Discretionary Spending Projected in CBO's Baseline

Billions of Dollars

	Actual,												Total	
	2015 ^a	2016 ^a	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-	2017-
Budget Authority														
Defense	586	607	611	610	624	640	655	671	687	704	722	739	3,140	6,663
Nondefense	530	561	543	540	554	568	581	596	610	626	641	657	2,787	5,917
Total	1,116	1,168	1,154	1,151	1,179	1,208	1,236	1,266	1,298	1,330	1,363	1,397	5,927	12,580
Outlays														
Defense	583	588	592	593	609	623	638	657	669	680	702	719	3,055	6,481
Nondefense	585	608	614	611	613	625	638	650	664	679	695	710	3,102	6,499
Total	1,168	1,196	1,206	1,205	1,222	1,249	1,275	1,307	1,332	1,359	1,397	1,429	6,157	12,980
Memorandum:														
Caps in the Budget Control Act (As amended), Including Automatic Reductions to the Caps														
Defense	521	548	551	549	562	576	590	n.a.	n.a.	n.a.	n.a.	n.a.	2,828	n.a.
Nondefense	492	518	519	515	529	542	555	n.a.	n.a.	n.a.	n.a.	n.a.	2,660	n.a.
Total	1,014	1,067	1,070	1,064	1,091	1,118	1,145	n.a.	n.a.	n.a.	n.a.	n.a.	5,489	n.a.
Adjustments to the Caps ^b														
Defense	65	59	60	61	62	63	65	n.a.	n.a.	n.a.	n.a.	n.a.	311	n.a.
Nondefense	23	24	25	25	25	26	26	n.a.	n.a.	n.a.	n.a.	n.a.	127	n.a.
Total	87	83	85	86	87	89	91	n.a.	n.a.	n.a.	n.a.	n.a.	438	n.a.

Source: Congressional Budget Office.

CBO's baseline projections incorporate the assumption that the caps on discretionary budget authority and the automatic enforcement procedures specified in the Budget Control Act of 2011 (as amended) remain in effect through 2021.

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.

n.a. = not applicable.

a. The amount of budget authority for 2015 and 2016 does not match the sum of the spending caps plus adjustments to the caps mostly because changes to mandatory programs included in the appropriation acts for those years were credited against the caps. In CBO's baseline, those changes (which reduced mandatory budget authority) appear in their normal mandatory accounts.

b. Funding for overseas contingency operations, emergencies, disaster relief, and certain program integrity initiatives (which identify and reduce overpayments in some benefit programs) is generally not constrained by the statutory caps established by the Budget Control Act.

Changes in CBO's Baseline Projections Since January 2016

The deficit that CBO now estimates for 2016, in the absence of further changes to tax and spending laws, is \$10 billion (or 2 percent) less than the \$544 billion projected in January (see Table 6). That decrease stems largely from technical adjustments (revisions made for reasons other than an updated economic forecast or the enactment of new laws) to estimates of mandatory spending.

CBO's new baseline projections for the 2017–2026 period show a cumulative deficit that is \$95 billion (or 1 percent) smaller than the \$9.4 trillion deficit that the agency projected in January. The full incorporation of the economic forecast that CBO completed at the end of December contributed the largest changes to the baseline—reducing projected deficits by \$168 billion between 2017 and 2026—largely because of an upward revision to

Table 6.

Changes Since January 2016 in CBO's Baseline Projections of the Deficit

Billions of Dollars

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total	
												2017-	2017-
												2021	2026
Deficit in CBO's January 2016 Baseline	-544	-561	-572	-738	-810	-893	-1,044	-1,077	-1,089	-1,226	-1,366	-3,575	-9,378
Legislative Changes													
Increase or Decrease in the Deficit From Legislative Changes	*	*	*	*	*	*	*	*	*	*	*	*	*
Economic Changes													
Changes in Revenues													
Individual income taxes	2	5	9	11	8	6	5	4	4	5	4	40	62
Payroll taxes	-1	-1	*	1	1	1	1	1	1	*	*	2	4
Corporate income taxes	*	5	9	10	7	4	4	5	6	8	10	37	69
Other	-2	-2	-1	*	*	*	*	*	*	*	*	-2	-1
All Changes in Revenues	1	8	17	22	16	12	10	10	11	13	14	76	134
Changes in Outlays													
Mandatory outlays													
Social Security	0	-1	-2	-2	-2	-3	-4	-5	-5	-5	-4	-10	-32
Other	1	-1	-1	-1	*	-1	-1	-1	-1	-1	-1	-4	-9
Subtotal, mandatory	1	-2	-3	-3	-2	-3	-5	-6	-5	-6	-6	-14	-42
Net interest outlays													
Debt service	*	*	*	-1	-2	-3	-3	-4	-4	-5	-6	-7	-29
Effect of rates and inflation	-1	1	1	1	2	3	4	5	6	6	7	9	37
Subtotal, net interest	-1	1	1	*	*	1	1	1	1	1	1	2	8
All Changes in Outlays	*	-2	-3	-3	-2	-3	-4	-5	-4	-4	-4	-12	-33
Decrease in the Deficit From Economic Changes	1	10	20	25	18	15	14	14	15	18	19	87	168
Technical Changes													
Changes in Revenues													
Individual income taxes	2	*	*	*	2	2	1	1	1	2	2	3	12
Payroll taxes	-1	-2	-2	*	1	1	1	1	1	*	-1	-2	1
Corporate income taxes	2	3	3	3	1	*	*	*	*	*	*	11	11
Other	-16	-11	-6	-1	-7	-9	-9	-9	-9	-9	-9	-35	-79
All Changes in Revenues	-12	-11	-5	2	-2	-6	-7	-7	-6	-6	-7	-22	-55
Changes in Outlays													
Mandatory outlays													
Health insurance subsidies and related spending	-7	-14	-11	-8	-6	-5	-6	-6	-5	-5	-5	-45	-72
Social Security	1	2	3	3	3	4	5	5	5	6	6	16	42
Medicaid	-10	-8	-5	-2	-1	-1	-1	-1	-1	-1	-19	-18	-40
Student loans	10	1	1	2	2	2	2	2	2	2	2	8	18
Other	-13	10	7	5	2	*	1	4	5	2	-3	24	31
Subtotal, mandatory	-18	-10	-6	*	*	*	*	4	6	3	-19	-16	-21
Discretionary outlays	-2	*	1	1	1	2	1	*	*	*	*	4	5
Net interest outlays													
Debt service	*	-1	-1	-1	-1	-1	-1	-1	*	1	1	-6	-6
Other	-2	-3	-4	1	4	6	6	6	7	8	6	5	39
Subtotal, net interest	-2	-3	-5	-1	3	5	5	6	7	8	7	-1	33
All Changes in Outlays	-22	-13	-9	*	4	7	6	10	13	12	-11	-12	18
Increase (-) or Decrease in the Deficit From Technical Changes	9	2	4	3	-6	-12	-13	-17	-20	-18	4	-10	-73
All Changes													
Increase (-) or Decrease in the Deficit	10	12	24	28	12	2	2	-3	-5	*	23	78	95
Deficit in CBO's March 2016 Baseline	-534	-550	-549	-710	-798	-890	-1,043	-1,080	-1,094	-1,226	-1,343	-3,497	-9,283
Memorandum:													
Changes in Revenues	-12	-3	12	25	14	6	3	3	5	8	7	54	79
Changes in Outlays	-22	-15	-12	-3	2	4	2	6	9	7	-16	-24	-15

Source: Congressional Budget Office.

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

CBO's projections of corporate and individual income taxes. Those changes were partially offset by technical updates that increased projected deficits by \$73 billion over the same period. Legislation enacted since January has had a negligible effect on CBO's projections.

Economic Changes

The portion of the change in CBO's current projections of revenues and outlays that is attributable to economic factors reflects modifications to CBO's forecast that were made too late in the process to be incorporated into the budget projections released in January 2016. In most years, the agency's economic forecast is completed in early December and underlies the 10-year budget projections it publishes in the next two baseline updates, typically in January and March of each year. However, new legislation that was enacted in mid-December 2015 (after CBO had completed its initial economic forecast) affected certain aspects of the economic outlook. The economic forecast was updated both as a consequence of the new laws and as a result of economic developments through the end of the year, and the agency presented its updated outlook in the January 2016 report; CBO has not revised its forecast since then.

Although the budget projections in that report accounted for the direct budgetary effects of legislation enacted through the end of December 2015, they were based on the economic forecast that CBO had completed in early December. The budget projections in this volume, however, incorporate the forecast that the agency completed at the end of December and published in January. That change lowered CBO's projection of the cumulative deficit by \$168 billion (or 1.8 percent) for the 2017–2026 period, largely the result of its projection of higher revenues for the period.

Revenues. Incorporating the final economic forecast from January led CBO to increase its revenue projections by \$134 billion for the 2017–2026 period. That rise is nearly evenly split between receipts from corporate and individual income taxes—both are higher in the current baseline than they were in January's report. Much of that change reflects an anticipation of higher business profits than CBO had forecast in early December.

The increase in CBO's projections for profits stemmed from, among other factors, lower interest payments by

businesses. Those lower interest payments in part reflect lower borrowing needs that resulted from the business tax reductions enacted in the Consolidated Appropriations Act, 2016 (P.L. 114-113). Such lower borrowing costs flow through to higher taxable income and income tax payments of corporations and individuals.

Outlays. Economic updates to CBO's projections of outlays had almost no effect on the current year's baseline projections, but they led to a \$33 billion reduction in spending estimates for the 2017–2026 period. That 10-year change stems mostly from lower projected spending for Social Security, partially offset by the effects on net interest.

Social Security. CBO now projects that Social Security beneficiaries will receive a cost-of-living adjustment (COLA) of 0.7 percent in January 2017, an increase that is 0.2 percentage points less than the estimated COLA used in the January baseline. In addition, the COLAs projected for 2021 and 2022 are 0.1 percentage point lower than previously incorporated. When combined with other, smaller changes that slightly reduce CBO's estimate of initial benefit amounts for new retirees, the baseline projections of Social Security spending over the 2017–2026 period have declined by a total of \$32 billion (or 0.3 percent).

Net Interest. CBO now anticipates interest rates on most securities that are slightly higher (by an average of less than 0.1 percentage point) than it forecast in December. Those revisions led CBO to increase—by \$37 billion—its baseline projection for net interest spending over the 2017–2026 period. CBO also reduced its projection of borrowing for the same period because of economic updates in other areas of the baseline (mostly related to the increase in projected revenues and lower estimates of spending for Social Security), thereby reducing projected net interest by \$29 billion. Overall, CBO raised its projections of net interest payments by \$8 billion for the 2017–2026 period.

Technical Changes

Technical changes to budget projections led CBO to decrease its estimate of the 2016 deficit by \$9 billion, the net result of lower projected outlays partially offset by lower projected revenues. In the other direction, technical changes increased CBO's projection of the deficit for 2017

through 2026 by \$73 billion because of a combination of lower revenues and higher outlays.

Revenues. Since the January report was released, certain technical factors have led CBO to reduce its revenue projections by \$12 billion for 2016 and by \$55 billion for the 2017–2026 period. Most significantly, CBO has lowered its projections of revenues from the risk adjustment program implemented under the ACA to stabilize health insurance premiums. That change amounted to a total of \$67 billion for the 2017–2026 period. The risk adjustment program transfers funds from health insurance plans that attract a relatively small proportion of high-risk enrollees (people with serious chronic conditions, for example) to plans that attract a relatively large proportion of such people in both the nongroup and small-group insurance markets. The new projections for the risk adjustment program did not affect CBO’s estimates of deficits because the lower revenue projections were matched by lower outlay projections for that program (those outlay projections are discussed below).

Outlays. Technical updates to CBO’s baseline projections of outlays resulted in a \$22 billion drop in estimated spending for 2016 but an \$18 billion increase for the 2017–2026 period. Adjustments to spending for student loan programs and Medicaid were responsible for the largest changes to current-year estimates. Higher projected costs for Social Security and net interest, partially offset by lower projected spending for other mandatory programs, drove the increase in CBO’s projections of outlays for the 10-year period.

Health Insurance Subsidies and Related Spending. CBO and the staff of the Joint Committee on Taxation (JCT) reduced their projection of outlays associated with the health insurance marketplaces established under the ACA by \$72 billion for the 2017–2026 period. The largest component of that change was a reduction of \$67 billion in projected outlays for the risk adjustment program. Most significantly, CBO reduced those estimates because actual spending in 2015 was less than the amount that the agency had previously anticipated. Additionally, CBO lowered its estimate because fewer plans are included in the risk adjustment program than it had anticipated earlier. (A corresponding reduction in revenue projections offsets the change in outlays.)

CBO and JCT also reduced their estimate of outlays associated with tax credits for health insurance premiums and cost-sharing subsidies. That amount dropped by a total of \$5 billion over the 2017–2026 period as a result of a lower projection for subsidized enrollment through the marketplaces, particularly over the next two years.¹¹

Social Security. CBO has increased its projections of outlays for Social Security for the 2017–2026 period by \$42 billion (or 0.3 percent). Almost all of that increase is in Old-Age and Survivors Insurance, primarily reflecting new data from the Social Security Administration showing that beneficiaries in 2015 were, on average, slightly older than CBO had projected. Because the older population is projected to grow a bit faster than the younger, CBO increased its projection of growth in the number of beneficiaries, particularly among older groups.

Medicaid. Since January, CBO has lowered its estimate of Medicaid spending by \$10 billion for 2016 and by \$40 billion (or 0.8 percent) for the 2017–2026 period. The amount for 2026 was reduced by \$18 billion to correct a database error in the January baseline. Without that correction, CBO would have reduced its projection of spending for the 2017–2026 period by \$22 billion (or 0.4 percent); the bulk of the decrease in outlays occurs between 2017 and 2019. The decreases are attributable to lower-than-anticipated spending during the first four months of the current fiscal year.

Student Loans. CBO increased its estimate of 2016 outlays for student loans by \$10 billion, largely because the Department of Education is recording an upward revision to the subsidy costs of loans made in prior years. In addition, several technical updates led CBO to project an \$18 billion (or 25 percent) net increase in outlays for student loans for the 2017–2026 period. Those updates, reflecting recent data, include an increase in the projected volume of income-based repayment plans, a reduction in the projected use of repayment plans that offer extended repayment terms, and an increase in estimates of the cost of administering the loan programs.

11. See Congressional Budget Office, *Federal Subsidies for Health Insurance Coverage for People Under Age 65: 2016 to 2026* (March 2016), www.cbo.gov/publication/51385.

Discretionary Spending. CBO's current projections of total discretionary outlays are similar to its previous projections because the caps on discretionary funding and other provisions of the Budget Control Act have not changed since the January baseline projections. As a result, projections of such outlays are just \$5 billion higher for the 2017–2026 period than those in the previous baseline.

Net Interest. As a result of technical updates, CBO's estimate of net interest outlays has increased by \$33 billion (or 0.6 percent) for the 2017–2026 period, mainly attributable to new information about the mix of securities the Treasury plans to issue to finance future deficits. Specifically, the Treasury announced that for the foreseeable future it would issue more short-term bills relative to longer-term notes and bonds. That decrease in the average

maturity of Treasury debt will lower projected interest payments for the next few years but raise total payments over the 10-year period because more debt will mature—and therefore require reissuance—later in the decade when interest rates are expected to be higher. In addition to those changes, CBO is now projecting smaller receipts from the financing accounts associated with the government's credit programs than it estimated in January—mostly because of a reduction in the projected volume of federal student loans. Together, those changes increase projected outlays for net interest over the 2017–2026 period by \$39 billion. In the opposite direction, CBO calculates that lower debt-service costs related to technical changes in other areas of the budget will subtract \$6 billion from net interest outlays over the same period.

About This Document

This document is one of a series of reports on the state of the budget that the Congressional Budget Office issues each year. This report satisfies the requirement of section 202(e) of the Congressional Budget and Impoundment Control Act of 1974 that CBO submit to the Committees on the Budget periodic reports about fiscal policy and its baseline projections of the federal budget.

Amber Marcellino of CBO's Budget Analysis Division wrote the report with assistance from Mark Booth. Peter Huether, Dan Ready, and Sarah Puro prepared the supplemental material. Guidance was provided by Theresa Gullo, Holly Harvey, Sam Papenfuss, Jeffrey Holland, and David Weiner. The estimates described here were the work of more than 100 staff members at CBO and the staff of the Joint Committee on Taxation. In keeping with CBO's mandate to provide objective, impartial analysis, this report makes no recommendations.

Jeffrey Kling and Robert Sunshine reviewed the report; Kate Kelly edited it; and Maureen Costantino, Jeanine Rees, and Gabe Waggoner prepared it for publication. An electronic version is available on CBO's website (www.cbo.gov/publication/51384).



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Director

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