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PART 2 OF ANSWERS TO QUESTIONS FOR THE RECORD

Following a Hearing on

An Update to the Budget and Economic Outlook: 2024 to 2034

Conducted by the
Committee on the Budget
United States Senate

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On July 9, 2024, the Senate Committee on the Budget convened a hearing at which Phillip L. Swagel, the Congressional Budget Office's Director, testified about the agency's report An Update to the Budget and Economic Outlook: 2024 to 2034.[1] *After the hearing, Ranking Member Chuck Grassley and Senators Mike Lee and Rick Scott submitted 29 questions for the record. A document providing CBO's answers to 11 of those questions was published on August 9, 2024.*[2] *This document provides the agency's answers to the remaining 18 questions; it is available at* www.cbo.gov/publication/60593.

Ranking Member Chuck Grassley

Question. CBO's *2012 Long-Term Budget Outlook* noted that if lawmakers failed to extend the Bush-Obama tax cuts, by 2037 "households at all points in the income distribution would pay a greater share of their income in taxes than similar households pay today, and a much larger share of households—nearly half—would be subject to the AMT." To avoid such unprecedented tax burdens, a bipartisan majority that included many of my Budget Committee colleagues on the other side of the dais voted to make most of those tax cuts permanent in the American Taxpayer Relief Act (ATRA).

Judging from the hearing, however, it appears many Democrats have turned against the same bipartisan tax relief they voted for not too long ago. If Democrats were to successfully repeal the ATRA, what would the impact be on the tax burdens of low- and middle-income families?

Answer. CBO has not recently examined how repealing the American Taxpayer Relief Act of 2012 would affect taxes paid by households across the income distribution. In its *2012 Long-Term Budget Outlook*, CBO showed how tax rates would change for certain families under a scenario that included the expiration of the provisions of the 2001 and 2003 tax acts, which at that time were scheduled to expire at the end of 2012.[3] Under that scenario, for example, a married couple with two children earning the median income and filing a joint tax return would have seen their individual income tax rate rise from about 4 percent of their income in 2012 to 13 percent in 2037.

Question. At the hearing, it was suggested that federal spending other than interest payments is not a concern because projected noninterest spending relative to the size of the economy is currently not as high as CBO projected it would be in 2012.

Adjusting for timing shifts, CBO's latest budget baseline projects that noninterest spending this year will amount to $6 trillion or 21 percent of GDP. Is this not higher than the projection of noninterest spending in 2024 under CBO's 2012 extended baseline projections alluded to at the hearing?

How do the levels of noninterest spending in CBO's latest baseline projection compare to historical levels? Does CBO continue to project that noninterest spending will generally grow faster than the economy?

Answer. In CBO's June 2024 baseline budget projections, total noninterest spending in 2024 (excluding the effects of the shifts in the timing of certain payments) equals 21.0 percent of gross domestic product (GDP), 0.6 percent of GDP greater than the 20.4 percent of GDP that noninterest outlays amounted to in that year in the agency's 2012 extended baseline projections.[4] After 2024, noninterest outlays remain close to 20.0 percent of GDP through 2028 and increase thereafter, reaching 20.8 percent of GDP in 2034. Over the past 50 years, noninterest outlays have averaged 19.0 percent.

In CBO's current baseline projections, noninterest outlays are greater in 2024 than they are over the next 10 years, in part, because of three factors: administrative actions that resulted in larger outlays for student loans, administrative actions taken by the Federal Deposit Insurance Corporation to resolve bank failures that increased outlays for deposit insurance, and revisions that the Administration made to the estimated subsidy costs of previously issued student loans. Without those factors, noninterest outlays in 2024 would equal 20.4 percent of GDP in CBO's projections.

1. Testimony of Phillip L. Swagel, Director, Congressional Budget Office, before the Senate Committee on the Budget, *An Update to the Budget and Economic Outlook: 2024 to 2034* (July 9, 2024), www.cbo.gov/publication/60440.

2. Congressional Budget Office, *Part 1 of Answers to Questions for the Record Following a Hearing on* An Update to the Budget and Economic Outlook: 2024 to 2034 (August 9, 2024), www.cbo.gov/publication/60519.

3. Congressional Budget Office, *The 2012 Long-Term Budget Outlook* (June 2012), Table 6-4, www.cbo.gov/publication/43288.

4. Congressional Budget Office, *The 2012 Long-Term Budget Outlook* (June 2012), www.cbo.gov/publication/43288.

Question. CBO estimated last year that over the 2010–2033 period, federal spending on health care programs will be $6.3 trillion lower than CBO projected in 2010. CBO has previously stated $1.1 trillion was attributed to the 2010–2020 period and $5.2 trillion was attributed to the 2021–2033 period. What makes up the difference between CBO's 2010 projection and the agency's current projection of health spending? Are there different reasons for changes in estimates for the 2010–2020 period and the 2021–2033 period?

Answer. In its 2010 projections for the 2010–2020 period, CBO overestimated spending on the major federal health care programs by $1.1 trillion. The difference between projected and actual mandatory outlays was $635 billion for function 550 (Health, mostly the Medicaid program) and $431 billion for function 570 (Medicare, net of premiums and other offsetting receipts). The largest source of the decrease in CBO's estimate was from technical changes to the agency's baseline projections. Those changes more than offset legislative changes that increased CBO's estimate by $15 billion for function 550 and by $106 billion for function 570. Most of CBO's overestimate of spending for Medicare and Medicaid stemmed from an overestimate of spending per beneficiary and not an overestimate of the number of beneficiaries.

For Medicare, the most significant source of that overestimate was less-than-anticipated spending on prescription drugs in Medicare Part D (the program that covers the cost of beneficiaries' outpatient prescription drugs). Of the $431 billion difference between actual outlays for Medicare over the 2010–2020 period and CBO's projections in August 2010, 77 percent was due to lower prescription drug spending in Medicare. The agency has previously pointed to two reasons for the slower-than-expected growth in prescription drug spending, both nationally and in Part D. First, as existing brand-name drugs lost their patent protection, they faced new competition from generic drugs, and a significant share of prescriptions shifted to less expensive generic formulations. Second, fewer new brand-name drugs, which would have been more expensive, were introduced than CBO had anticipated.

For the Medicaid program, a significant source of the difference between CBO's 2010 projections and actual spending was slower-than-anticipated growth in spending on long-term services and supports (LTSS). CBO identified two factors that contributed to that slower growth in spending. First, the number of users of noninstitutional LTSS grew more slowly than it did from 2000 to 2010. Second, states have increasingly relied on alternative-care delivery mechanisms that are generally less costly on a per user basis. For instance, they have shifted a growing number of patients from institutional to noninstitutional settings where care is provided at a lower cost.

CBO's February 2023 estimate of spending on the major federal health care programs for the 2021–2033 period was $5.2 trillion less than what the agency had projected in June 2010 for that same period.[5] Medicare accounted for about one-third of the $5.2 trillion difference, and Medicaid, the Children's Health Insurance Program (CHIP), and the Affordable Care Act marketplace subsidies accounted for about two-thirds of that difference. One reason for the smaller projection for the 2021–2033 period is that CBO previously overestimated spending on major health care programs over the 2010–2020 period. Another reason is that, in 2010, the agency's long-term projection methods had not yet been updated to reflect the significantly slower rate of growth in federal spending on major health care programs in recent decades.

Question. Your recent baseline report discusses the budgetary effects of the immigration surge. CBO comments on page 12 of the report that it expects the current surge in immigration to follow past research findings that immigration tends to increase federal revenues more than federal costs. Yet, the report also notes the immigrant population examined in the research differs from the population in the surge. Please elaborate on how the differences in population were accounted for in your baseline projections. Are legal immigrants a part of your overall analysis, and if so, how much? Your report also notes that much uncertainty surrounds CBO's projections of the economic and budgetary impact of the immigration surge. Please describe some of the sources of that uncertainty.

Answer. CBO recently analyzed the budgetary and economic effects of the surge in the immigration of people the agency categorizes as other foreign nationals that began in 2021.[6] That category generally includes people who enter the United States illegally, people

5. Spending for 2021 and 2022 reflects actual outlays, whereas spending for the 2023–2033 period reflects updated projections from CBO's February 2023 baseline.

6. Congressional Budget Office, *Effects of the Immigration Surge on the Federal Budget and the Economy* (July 2024), www.cbo.gov/publication/60165.

who enter legally in a temporary status and then remain after that legal status expires, and people who are permitted to enter—typically through the use of parole authority—despite their not being admissible as a lawful permanent resident, asylee, refugee, or nonimmigrant.

To estimate the budgetary and economic effects of that immigration surge, the agency considered many characteristics of the people in the surge population, including their age, sex, education, and income, as well as whether they meet program-specific criteria that are used to determine immigrants' eligibility for benefits.

CBO estimated the education levels, labor force behavior, and income of the surge population by using two main data sources published by the Census Bureau: the American Community Survey (ACS) and the Annual Social and Economic Supplements of the Current Population Survey (CPS ASEC). The agency used 2021 and 2022 ACS data to estimate the educational attainment and the labor force participation rate shortly after arrival of all people who immigrate to the United States in each year of the projection period. Because the makeup of the surge population in terms of immigrants' country of origin differs from that of the population of recent arrivals in the survey data, CBO reweighted those data by country of origin to better represent the composition of the surge population. The agency also used those data to estimate how the income of each cohort of immigrants would change over a 10-year period. CBO maintains a model to estimate the immigration status of people in the CPS ASEC.[7] The estimates of labor force participation and the income distribution for other foreign nationals in the 2019 CPS ASEC inform CBO's projections of how those characteristics evolve over a longer period.

On the basis of that analysis, CBO estimates that adults in the surge population are, on average, less educated than those in the general population. In addition, the average income of the surge population in CBO's projections is less than the average income of the population overall throughout the projection period and especially in immigrants' initial years in the country. The average earnings of people in the surge population are expected to increase the longer they live in the United States.

7. See Julia Heinzel, Rebecca Heller, and Natalie Tawil, *Estimating the Legal Status of Foreign-Born People*, Working Paper 2021-02 (Congressional Budget Office, March 2021), www.cbo.gov/publication/57022.

To estimate the number of people in the immigration surge who are eligible for particular federal benefits, CBO also relied on data from federal agencies for fiscal years 2021 to 2023. Those data include information from the Department of Homeland Security about monthly encounters, custody and transfers, grants of parole, asylum applications and grants, and employment authorizations, as well as information from the Executive Office for Immigration Review about asylum cases.[8] CBO also used federal data published by nongovernmental organizations that were obtained through Freedom of Information Act requests.[9]

Many federal benefits—including those provided under Medicaid and the Supplemental Nutrition Assistance Program (SNAP)—are limited to U.S. nationals and immigrants who are "qualified aliens" under the Personal Responsibility and Work Opportunity Reconciliation Act. To be eligible for Social Security benefits and premium tax credits (which help subsidize the cost of purchasing health insurance in the marketplaces established under the Affordable Care Act), federal law requires a person to be lawfully present. CBO estimated that about 35 percent of the people in the surge population would be qualified aliens upon their arrival in the United States. That percentage grows over time in CBO's projections: By 2034, 40 percent are qualified aliens, and an additional 20 percent of the people in the surge population are considered lawfully present for purposes of eligibility for Social Security and premium tax credits.

8. See, for example, Customs and Border Protection, "Nationwide Encounters" (June 20, 2024), https://tinyurl.com/5b2pzzh2, "Southwest Land Border Encounters" (June 20, 2024), https://tinyurl.com/379xb4rn, "Custody and Transfer Statistics" (June 20, 2024), https://tinyurl.com/4r86dpw9, and "CBP Releases May 2024 Monthly Update" (press release, June 20, 2024), https://tinyurl.com/3f8dpwvu; Citizenship and Immigration Services, "Immigration and Citizenship Data: Asylum" (accessed June 25, 2024), https://tinyurl.com/4fkdw44m, "Immigration and Citizenship Data: Employment Authorization Document (Form I-765)" (accessed June 25, 2024), https://tinyurl.com/yck2fy7w; and Department of Justice, Executive Office for Immigration Review, "Workload and Adjudication Statistics" (July 10, 2024), https://tinyurl.com/3jh7ktpw.

9. See, for example, Transactional Records Access Clearinghouse, "Stopping 'Inadmissibles' at U.S. Ports of Entry: CBP Data Through July 2023" (accessed June 20, 2024), https://trac.syr.edu/phptools/immigration/cbpinadmiss; and data from Customs and Border Protection (CBP) about people who were released into the country by the Office of Field Operations after they used the CBP One app to schedule an appointment. Those data were published by the Center for Immigration Studies (September 2023), https://tinyurl.com/evdn6vet.

Whereas CBO's recent study examines only the effects of immigrants in the other foreign national category who are part of the 2021–2026 surge, other analyses have looked at the effects of *all* immigrants living in the United States or at those of a narrower group, such as asylees and refugees. In addition, some of those studies have analyzed the fiscal effects of immigration over immigrants' life cycle, whereas CBO's analysis focused only on the effects of the surge over the 2024–2034 period.[10]

Much of the uncertainty in CBO's estimates of the effects of the immigration surge stems from unknown factors related to the surge itself, such as the number of other foreign nationals in the surge, how long the surge will last, and characteristics of the people in the surge population (including their age, sex, income, and skills, as well as their immigration status and potential benefit eligibility). Other sources of uncertainty include the extent to which those people will comply with tax laws and participate in federal benefit programs.

Question. At the hearing, S.1174 was mentioned and was described as extending the solvency of Social Security and Medicare indefinitely. The legislation purports to accomplish this through a series of tax increases. The 12.4 percent Social Security Payroll tax would be imposed on wages and self-employment income over $400,000. The additional Medicare tax would be increased to 2.1 percent, leading to a 5 percent overall tax, on wage and self-employment earnings over $400,000 for singles and $500,000 for joint filers. Finally, the net investment income tax would be raised from 3.8 percent to 17.4 percent for single filers over $400,000 and joint filers over $500,000 and be expanded to include active business income, such as income derived from pass-throughs. The proposal would effectively increase the top marginal income tax rate to 54.4 percent and the top rate on capital gains and dividends to 37.4 percent. Has CBO evaluated this legislation to verify if it would extend the solvency of Social Security and Medicare indefinitely? As an economist, do you expect that greatly increased marginal tax rates on wages, capital gains, and dividends would have significant economic and behavioral effects, including encouraging pass-through businesses to restructure as C corporations?

Answer. CBO has not evaluated the effects of S. 1174 on the federal budget or the Social Security trust funds. Thus, the agency cannot verify whether the legislation would extend the solvency of Social Security and Medicare indefinitely.

In general, large differences in the tax rates levied on various legal types of businesses encourage those businesses to restructure to the type that incurs the lowest taxes. Higher marginal tax rates reduce people's incentives to work, save, and invest, which reduces economic activity. Higher marginal tax rates can also lead to increases in federal revenue. In that case, like other policy changes that reduce the federal deficit, those higher tax rates lead to more national saving (the total amount of saving by households, businesses, and governments) and investment, ultimately boosting output and income.

Question. By how much would deficits be reduced if two recent vehicle regulations, the Environmental Protection Agency's "Multi-Pollutant Emissions Standards for Model Years 2027 and Later Light-Duty and Medium-Duty Vehicles" and the U.S. Department of Transportation's "Corporate Average Fuel Economy Standards for Passenger Cars and Light Trucks for Model Years 2027 and Beyond and Fuel Efficiency Standards for Heavy-Duty Pickup Trucks and Vans for Model Years 2030 and Beyond" rules, were repealed? How much of the change in deficits is from greater gas tax revenues, and how much is from reduced clean vehicle tax credits?

Answer. CBO estimates that if those two regulations were repealed in 2025, the cumulative deficit for the 2025–2034 period would be reduced by about $111 billion in the agency's baseline budget projections. CBO expects that without those regulations, fewer fuel-efficient hybrid and electric vehicles would be sold in the future. That expectation of lower sales would reduce the projected cost of clean vehicle tax credits over the 2025–2034 period by about $98 billion. In CBO's assessment, if fewer fuel-efficient vehicles were sold, then gasoline consumption would be greater than it would

10. See, for example, Robin Ghertner, Suzanne Macartney, and Meredith Dost, *The Fiscal Impact of Refugees and Asylees at the Federal, State, and Local Levels From 2005 to 2019* (Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, February 2024), https://tinyurl.com/jx2mbrnb; Alex Nowrasteh, Sarah Eckhardt, and Michael Howard, *The Fiscal Impact of Immigration in the United States* (Cato Institute, March 2023), https://tinyurl.com/e36rxyhh; and National Academies of Sciences, Engineering, and Medicine, *The Economic and Fiscal Consequences of Immigration* (National Academies Press, 2017), https://doi.org/10.17226/23550.

have been otherwise. That greater amount of consumption would boost receipts from gasoline excise taxes from 2025 to 2034 by about $13 billion.

The clean vehicle tax credits expire at the end of calendar year 2032; therefore, after 2033, all of the deficit-reducing effects of repealing the two regulations would be attributable to the increased receipts from gasoline excise taxes. The effect that repealing the regulations would have on deficits is highly uncertain because CBO cannot easily predict the pace at which electric vehicles would be adopted.

Question. It's clear that the last reconciliation act's new tax subsidies are going to be much more expensive than the Joint Committee on Taxation estimated at the time of enactment. What is the total cost of the 2022 reconciliation act's clean vehicle and energy-related tax credits over the 2024–2034 period in CBO's latest baseline? What factors have increased the estimated costs of these tax subsidies?

Answer. Subtitle D of the 2022 reconciliation act (Public Law 117-169) modified existing clean vehicle and energy-related tax provisions and created new ones. In August 2022, the Joint Committee on Taxation (JCT) estimated that all of those provisions would increase deficits over the 2022–2031 period by about $270 billion.[11]

In the June 2024 update to CBO's baseline projections, clean vehicle and energy-related tax provisions increase projected deficits over the 2025–2034 period by about $800 billion.[12] That estimate is not directly comparable with the estimate that JCT provided in August 2022.[13] JCT's estimate accounted for the effects of the act's revenue provisions on deficits; it did not account for the total cost of the provisions. (An estimate of that total cost would have included the effects of the clean vehicle and energy-related tax provisions that were available before the changes in the act became law.) Also, JCT's estimates of the effects of revenue provisions account for behavioral responses to changes in tax law, whereas CBO projects revenues in its budget baseline on the basis of current law.

Moreover, shifting the budget window forward, from the 2022–2031 period (covered by JCT's estimate) to the 2025–2034 period (covered by the June update to CBO's budget baseline), increases the collective cost of the 2022 reconciliation act's clean vehicle and energy-related tax provisions because investment in subsidized energy-related activities is expected to increase over time. Nevertheless, CBO expects that those provisions will increase deficits over the 2022–2031 period by considerably more than JCT estimated in August 2022, for several reasons:

- CBO and JCT now expect that more clean vehicle tax credits will be claimed than JCT anticipated in August 2022. In CBO's projections, the largest factor contributing to that expected increase in the amount of credits that will be claimed is the Environmental Protection Agency's (EPA's) finalized rule on vehicle emissions; other factors include guidance from the Treasury and newly available information about vehicle sales.[14]
- CBO and JCT now expect that future investment in the manufacturing of batteries and in wind and solar power generation will be greater than JCT anticipated in August 2022; that expectation of increased investment contributes to higher projected costs for energy-related tax credits.

11. Joint Committee on Taxation, *Estimated Budget Effects of the Revenue Provisions of Title I – Committee on Finance, of an Amendment in the Nature of a Substitute to H.R. 5376, "An Act to Provide for Reconciliation Pursuant to Title II of S. Con. Res. 14," as Passed by the Senate on August 7, 2022, and Scheduled for Consideration by the House of Representatives on August 12, 2022*, JCX-18-22 (August 9, 2022), https://www.jct.gov/publications/2022/jcx-18-22. JCT estimated that over the 2022–2031 period, subtitle D would increase deficits by $205 billion, on net. Energy-related provisions that would increase revenues and thus decrease deficits include the excise taxes that support the Superfund and the Black Lung Trust Fund.

12. Including the effects of clean vehicle and energy-related tax provisions in fiscal year 2024 would increase projected deficits by about $40 billion; therefore, the increase in deficits over the 11-year period (from 2024 to 2034) would be about $840 billion.

13. The estimate that JCT completed in August 2022 relied on amounts of projected revenues in CBO's February 2021 budget baseline and the economic projections underpinning that baseline. For more information, see Joint Committee on Taxation, *Factors Considered When Estimating the Revenue Effects of the Energy Provisions of Public Law 117-169 and Subsequent Developments* (May 2023), https://tinyurl.com/bde77pzh.

14. After EPA's rule was finalized, the Department of Transportation's Corporate Average Fuel Economy (CAFE) rules were finalized. CBO expects that vehicle fleets manufactured to comply with EPA's rule will also comply with the CAFE rules.

- Between the time when CBO developed the economic forecast that underlies JCT's August 2022 estimate and the forecast that underlies CBO's June 2024 update to its baseline projections, macroeconomic conditions changed.[15] Notably, higher projections of inflation through 2025 increased estimates of the nominal cost of tax credits. As a result of changes in macroeconomic conditions, CBO and JCT now expect that clean vehicle and energy-related tax credits will increase deficits by more than JCT anticipated in August 2022.

Question. At the end of 2025 many individual income tax provisions of the Tax Cuts and Jobs Act are scheduled to expire. This includes the law's lower marginal tax rates, expanded standard deduction, and larger child tax credit. On average, will all income groups—including those making under $400,000—see a tax increase if the individual income tax provisions of the TCJA are not extended?

Answer. CBO has not analyzed the distributional effects of extending the expiring individual income tax provisions of the 2017 tax act (P.L. 115-97). In 2018, when CBO analyzed the effects of that law's provisions, it found that the changes to the individual income tax reduced average tax rates and thus increased income after taxes and transfers for households in all five income quintiles. (A quintile is one-fifth of the distribution.) Researchers at other organizations that have analyzed the distributional effects of extending that law's expiring provisions have generally found that taxes would decline for all income groups, which is consistent with CBO's findings.[16]

Question. The Biden administration has finalized over 100 health care regulations since January 2021. Patients, health care providers, and taxpayers all bear the costs of these regulations. In CBO's most recent two baselines, what has been the total increase in Medicare and Medicaid outlays due to these final regulations?

Answer. CBO does not have a comprehensive assessment of the effects of all administrative actions in Medicaid and Medicare since January 2021. The administrative actions that have had the largest effect on CBO's baseline since then include the following:

- **The 2022 Streamlining Eligibility and Enrollment Rule.** This rule facilitates Medicaid enrollment and renewal processes and is projected to increase Medicaid enrollment. To reflect the effect of the proposed rule, CBO increased its projection of outlays in its February 2023 baseline by approximately $112 billion over the 2023–2033 budget period. That amount represented half of the total estimated effect because CBO incorporates half of the total estimated effects of proposed rules into its baseline.[17] (The rule was finalized by the Administration in two parts; CBO incorporated the first part of the final rule into its February 2024 baseline and incorporated the second part of the final rule into its June 2024 baseline. In CBO's estimation, blocking implementation of the final rule would reduce Medicaid outlays by $164 billion over the 2024–2034 period.)
- **A Rule About Directed Payments in Medicaid Managed Care.** A rule proposed by the Centers for Medicare & Medicaid Services is projected to increase outlays related to directed payments in Medicaid managed care. To reflect the proposed rule, CBO increased its projection of outlays in its June 2024 baseline by $58 billion over the 2025–2034 period. That amount represents half of the total estimated effect because it is a proposed rule.
- **A Rule About Minimum Staffing Standards in Nursing Homes.** The Centers for Medicare & Medicaid Services proposed a rule that requires minimum staffing standards in nursing homes. To reflect the proposed rule, CBO increased its projection of outlays in its February 2024 baseline by $8.7 billion over the 2024–2034 period. That amount also represents half of the total estimated effect because it is a proposed rule.

15. CBO finalized the economic forecast underlying JCT's August 2022 estimate on January 12, 2021; the forecast underlying CBO's June 2024 baseline update was finalized on May 2, 2024.

16. Penn Wharton Budget Model, "The Budgetary and Economic Effects of Permanently Extending the 2017 Tax Cuts and Jobs Acts' Expiring Provisions" (brief, University of Pennsylvania, May 22, 2024), https://tinyurl.com/28vxvyhu; Tax Foundation, "Options for Navigating the 2025 Tax Cuts and Jobs Act Expirations" (May 4, 2024), https://tinyurl.com/3h6mhhzw; Urban-Brookings Tax Policy Center, "Those Making $450,000 and Up Would Get Nearly Half the Benefit of Extending the TCJA," TaxVox blog post (updated July 10, 2024), https://tinyurl.com/2c4b2ew6; and Yale Budget Lab, *Tax Cuts and Jobs Act Expiration: Options for the Tax Code* (April 2024), https://tinyurl.com/4hdtpcjm.

17. For additional information, see Congressional Budget Office, *CBO Explains How It Develops the Budget Baseline* (April 2023), www.cbo.gov/publication/58916.

Question. CBO projects in the most recent baseline that Obamacare subsidies and related spending will cost taxpayers $1.3 trillion over the coming decade. That's more than double what CBO was projecting we'd spend on Obamacare just a few years ago. And if Congress extends these subsidies for higher-earners, like the Democrats want to do, it will be another $432 billion—bringing their total price tag for the next decade to $1.7 trillion. What is driving this dramatic rise in Obamacare spending? Will Obamacare subsidies impact employer-sponsored insurance enrollment?

Answer. In recent years, CBO and JCT have significantly increased their projections of the federal cost of the premium tax credit and related spending.[18] That credit was established under the Affordable Care Act to subsidize the costs of premiums for eligible people who obtain health insurance through the marketplaces established by that act. In CBO's September 2020 projections, the agency estimated that premium tax credits and related spending would total $0.6 trillion over the 2021–2030 period, the 10-year projection period in place at that time.[19] For the 2025–2034 period spanning the agency's June 2024 projections, CBO and JCT estimate that premium tax credits and related spending will total $1.3 trillion.[20]

Larger estimates of premium tax credits are due in part to the different projection periods but are primarily driven by larger projections of enrollment through the marketplaces. That greater enrollment is partly driven by legislation enacted since 2020. The American Rescue Plan Act of 2021 (P.L. 117-2) and the 2022 reconciliation act (P.L. 117-169) expanded the premium tax credit by decreasing the maximum required contribution for previously eligible people and extending eligibility through 2025 to people whose income exceeds 400 percent of the federal poverty level (FPL). For the years after the effects of those expanded tax credits dissipate, greater expected enrollment is partly due to other factors such as changes in CBO's economic and demographic forecasts, including the immigration surge that began in 2021. Administrative actions have also increased the agency's enrollment projections; in particular, those actions include the regulatory change to the affordability standards for dependents for purposes of determining premium tax credit eligibility, the addition of a continuous special enrollment period for people with income less than 150 percent of the FPL, and the elimination of multiple income verification steps in the eligibility determination process.

CBO estimates that both the availability of the premium tax credit under the Affordable Care Act and the temporary expansion of that credit under subsequent legislation reduce enrollment in employment-based coverage, particularly among workers in small, newly formed firms. The premium tax credit reduces employers' incentive to offer health insurance to attract and retain workers. In CBO's modeling, employers are less likely to offer health insurance when the credit subsidizes coverage through the marketplaces to a greater extent than under current law. For example, in CBO's recent analysis of the effects of a permanent extension of the expanded premium tax credit structure, the agency estimated that 3.5 million, or 2 percent, fewer people would enroll in employment-based coverage in each year, on average, over the 2025–2034 period than would have enrolled without the extension.[21] The agency's estimates of the effect of the premium tax credit in the nongroup market on employment-based coverage are subject to considerable uncertainty. CBO also estimates that employment-based coverage is and will continue to be the predominant source of coverage even if the expanded premium tax credit structure is made permanent.

Question. I recently wrote to the Department of Health and Human Services about the administration's unwinding of Medicaid's continuous eligibility requirements. When Congress established the unwinding provision in 2023, CBO estimated it would save $22 billion. Congress used this savings to offset spending elsewhere. Given CMS's changes in how it uses the unwinding authority and the most recent baseline projecting an additional $67 billion in Medicaid spending due to unwinding, can we assume the $22 billion hasn't come to fruition?

18. Related spending includes spending to subsidize health insurance provided through the Basic Health Program, spending on federal waivers under section 1332 of the Affordable Care Act, and collections and payments to stabilize premiums for health insurance purchases by individuals and small employers.

19. Congressional Budget Office, "Federal Subsidies for Health Insurance Coverage for People Under Age 65: CBO and JCT's September 2020 Projections" (September 2020), https://tinyurl.com/2244rpch.

20. Congressional Budget Office, "Health Insurance and Its Federal Subsidies: CBO and JCT's June 2024 Baseline Projections" (June 2024), https://tinyurl.com/yc88rev9.

21. Congressional Budget Office, letter to the Honorable Jodey Arrington and the Honorable Jason Smith concerning the effects of permanently extending the expansion of the premium tax credit and the costs of that credit for Deferred Action for Childhood Arrivals recipients (June 24, 2024), www.cbo.gov/publication/60437.

Answer. As part of CBO's cost estimate for H.R. 2617, the Consolidated Appropriations Act, 2023 (P.L. 117-328), the agency projected that ending the Medicaid continuous eligibility requirement on April 1, 2023, would save $22 billion in federal spending because that date was several months earlier than the August 1, 2023, expiration date that CBO projected for the end of the public health emergency caused by the coronavirus pandemic. The earlier ending of the continuous eligibility requirement meant that people who had enrolled as a result of that requirement would be disenrolled sooner than projected under CBO's baseline, leading to lower Medicaid outlays. Several months after CBO published its cost estimate, the Administration announced that the public health emergency would end on May 11, 2023. Had CBO known of that earlier end date for the public health emergency, it would have estimated the savings to be less than $22 billion.

In its June 2024 projection, CBO estimated that Medicaid outlays over the 2025–2034 period would increase because of a change in the agency's forecast of how states are disenrolling people who remain on Medicaid under the continuous eligibility requirement but are no longer eligible for the program (a process known as "unwinding"). The basis for the higher outlays stems from CBO's expectation that Medicaid enrollment will be higher than previously forecast when the unwinding is completed. That expectation of higher enrollment is principally related to data about the rate at which enrollees are losing coverage and the rate at which some people who have been disenrolled are reenrolling in the program.

Question. The Highway Trust Fund has operated at a deficit for a long time, and is currently projected to be exhausted in 2028. What has been the effect of the Biden administration's legislative and regulatory push towards electric vehicles on the solvency of Highway Trust Fund?

Answer. CBO anticipates that several factors together, including policies expected to increase the adoption and use of electric vehicles, will boost the average fuel efficiency of new vehicles, especially after 2028. That boost is projected to decrease taxable fuel consumption over time, which reduces projected revenues from excise taxes on gasoline. Lower revenues credited to the Highway Trust Fund, in turn, cause balances in the fund to be exhausted earlier than they otherwise would be for a given level of spending.

As background, the majority of revenues credited to the Highway Trust Fund come from excise taxes on gasoline, diesel, and other fuels. Taxable fuel consumption depends on the number of vehicle miles traveled and the fuel efficiency of vehicles. Although CBO anticipates that vehicle miles traveled will increase over time as the economy expands, improvements in the fuel efficiency of vehicles are expected to cause excise taxes on fuels to decline over the next decade.

Several developments over the past two years have caused CBO to revise projected taxable fuel consumption downward. The 2022 reconciliation act (P.L. 117-169), which was enacted in August 2022, expanded tax credits for the purchase of electric and other clean vehicles. In addition, EPA finalized rules in April 2024 requiring more stringent vehicle emissions standards that would begin with the 2027 model year. And in June 2024, the Department of Transportation finalized fuel efficiency standards that coordinate with EPA's.

Question. Some point to fluctuations in the percentage of total federal revenues contributed by corporate income taxes as a sign that businesses are not paying enough. However, comparing the tax system of the 1950s or '60s or even '80s to that of today fails to consider changes to how businesses are structured. Particularly over the past 40 years, the number of businesses organized as pass-throughs has vastly increased, with fewer businesses paying the corporate income tax. Particularly given the rise of pass-through businesses over the past few decades, do you agree that solely focusing on corporate income tax revenues fails to fully capture how much businesses contribute to federal revenue?

Answer. Corporate income tax revenues do not account for federal revenues collected from pass-through businesses such as S corporations, partnerships, and sole proprietorships; the income of those pass-through businesses is subject to the individual income tax. CBO examined the shift toward pass-through businesses in a 2012 report.[22] In a report published last year, CBO examined why economic measures of corporate profits have grown faster than the corporate tax base and identified the growth of S corporations as a factor that has contributed to that divergence.[23]

22. Congressional Budget Office, *Taxing Businesses Through the Individual Income Tax* (December 2012), www.cbo.gov/publication/43750.

23. Congressional Budget Office, *Trends in Corporate Economic Profits and Tax Payments, 1998 to 2017* (May 2023), www.cbo.gov/publication/58267.

Senator Mike Lee

Question. Director Swagel, can you expand on the rationale behind CBO's view, as expressed on Pg. 12 of the June 2024 *Update to the Budget and Economic Outlook*, that "Research has generally found that increases in immigration tend to raise federal revenues more than federal costs but tend to increase the costs of state and local governments more than their revenues?"

Specifically, why does CBO estimate that this immigration surge would bring in 4x as much revenue as it would increase spending over 10 years given that federal outlays are projected to exceed revenues by nearly $2 trillion this year? Revenue raised from current taxpayers is already falling short by $2 T in covering the federal government's expenses. CBO notes in an April 2023 report on foreign-born population and the U.S. economy and budget that "relative to the native-born workforce, the foreign-born workforce is disproportionately concentrated in occupations with lower average wages." Presumably, individuals with lower wages and incomes relative to the median household income are more likely to pay relatively less in taxes (and perhaps have no federal income tax liability) as a share of family income and more likely to be eligible for and receive federal welfare program benefits.

- How does it follow that non-native born workers part of this immigration surge will increase federal revenues by four times as much as the corresponding increase in federal spending when, on average, their wages and incomes are lower? Does CBO estimate that immigrants overall will be less likely to apply for/receive federal welfare benefits?
- Is it CBO's view that this immigration surge has been a net fiscal positive for the federal government from FY 2021-2023?
- CBO's category of "other foreign nationals" includes people who entered the U.S. illegally, but CBO notes in the April 2023 report on foreign-born population and the U.S. economy and budget that CBO has not estimated the amount of federal taxes paid or spending on people who are here illegally. To clarify, does the fiscal impact estimate in the updated June 2024 baseline include estimates arising from people in the country illegally in addition to all other immigrant categories?

Answer. The number of people entering the United States has increased sharply in recent years. Some of them have received permission to enter or remain in the country, and some have not. Over the 2024–2034 period, the immigration surge will add $1.2 trillion to federal revenues and $0.3 trillion to spending (for federal mandatory programs and net spending for interest on the debt), in CBO's estimation.[24] Most of that budgetary effect stems from the taxes directly paid and the benefits directly received by immigrants. Estimated amounts of taxes and benefits are for all the people in the surge population; the agency has not separately estimated those amounts by people's legal status.[25] For earlier years (2021 to 2023), CBO has not estimated the fiscal effects of the immigration surge.

CBO expects the people in the immigration surge to earn less than the general population, especially in their initial years in the country, and consequently to pay less in taxes. In 2026, for example, 4.6 million people in the immigration surge will work at some point in the year, CBO estimates. The average worker in the surge will earn just under $50,000 in that year, compared with about $75,000 for the general population.

Even though people in the immigration surge pay relatively less per person in taxes than the general population, the increase in revenues attributable to the surge exceeds the increase in spending over the period, for several reasons.

- Eligibility for most federal benefit programs is limited to immigrants who are determined to be qualified aliens or lawfully present, and programs such as Medicaid and SNAP have a five-year waiting period for many qualified aliens. As a result, in CBO's projections, people in the surge population receive less in benefits over the 2024–2034 period, on an average per capita basis, than people in the general population, despite having lower income.
- By 2034, in CBO's projections, only a small fraction of immigrants who are legally eligible for Social Security and Medicare reach the age and accumulate the quarters of coverage (based on the amount of work performed in a three-month period) that are required to collect benefits.

24. Congressional Budget Office, *Effects of the Immigration Surge on the Federal Budget and the Economy* (July 2024), www.cbo.gov/publication/60165.

25. CBO's estimates of revenues and spending are generally the total amounts. In the April 2023 report, the statement that CBO has not estimated the amount of federal spending for people who are in the country illegally indicated that the agency has not separately estimated amounts by people's legal status. See Congressional Budget Office, *The Foreign-Born Population, the U.S. Economy, and the Federal Budget* (April 2023), p. 4, www.cbo.gov/publication/58939.

- Among immigrants who meet the programs' immigration-specific eligibility criteria and qualify on the basis of other characteristics (such as income), eligible immigrants are projected to participate in some benefit programs (such as Medicaid and SNAP) at a lower rate than other eligible populations. CBO reached that conclusion on the basis of prior research.

Those estimates do not include any effects on discretionary spending, because the amounts of such funding depend on future actions taken by lawmakers. Nonetheless, the immigration surge is projected to put pressure on the budgets of many programs funded through discretionary appropriations. Increasing funding for certain purposes could be accomplished by boosting total appropriations or by shifting resources from other areas of the budget.

Question. With CBO's new FY 2024 budget deficit projection of $1.9T, a $400B increase from prior projections, addressing the federal government's excessive spending is more important than ever. Mandatory spending continues to increase as a share of GDP, and, with the ongoing border crisis, the net burden of illegal immigration on the federal budget has become an increasingly relevant question.

Does CBO estimate the net fiscal effect of immigration on the federal budget by category of immigrant—both legal and illegal?

Does CBO take into account the educational level and average earnings by education level of different categories of immigrants—both here legally and illegally? For example, is there a breakdown of the average fiscal effect of a H-1B beneficiary compared to a low-skilled parolee with no high school equivalent or college education level?

Answer. CBO's baseline budget and economic projections reflect the agency's projections of the U.S. population, which consists of U.S. nationals and immigrants with and without legal status.[26] Although the baseline projections are not routinely broken out by immigration status, when CBO undertakes analyses specific to immigration—including cost estimates for immigration-related legislation and analytic reports related to immigration—the agency considers the characteristics of the immigrants who are the focus of those analyses.

In cost estimates, the characteristics of immigrants—such as their immigration status, employment and income, and age—are key factors in estimating how much people pay in federal taxes and how much they receive in federal benefits. When budgetary effects vary among groups, the agency often presents estimates for each group.[27]

Recently, CBO analyzed the budgetary and economic effects of the surge in the immigration of people the agency categorizes as other foreign nationals that began in 2021.[28] To estimate those effects, the agency considered many characteristics of the people in the surge population. For example, on the basis of survey data, CBO estimated that people in that population have less education and lower income, on average, than the overall U.S. population. On average, such people would, all else being equal, pay less in federal revenues and receive more in federal benefits than people with more education and higher income.

According to CBO's estimates, most people in the surge population will not be eligible for most federal benefit programs when they first enter the United States because they will not meet the program-specific criteria outlined in federal laws and regulations that are used to determine immigrants' eligibility for specific benefit programs. (A larger percentage of that population will become eligible over time.) In addition, in CBO's projections, most of the immigrants in the surge population are younger than 55, and a larger percentage of them than of the overall population are male. Because those characteristics make people in the immigration surge likely to participate in the labor force, the surge increases the size of the labor force in CBO's projections and thus boosts economic growth and revenues.

After accounting for the characteristics of the surge population, CBO estimated that the surge in immigration

26. For CBO's most recent projections of the U.S. population, see Congressional Budget Office, *The Demographic Outlook: 2024 to 2054* (January 2024), www.cbo.gov/publication/59697. CBO has not estimated the budgetary effects of all immigrants residing in the United States or of all immigrants in any one category.

27. See, for example, Congressional Budget Office, cost estimate for S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act (June 18, 2013), Table 4, www.cbo.gov/publication/44225, and cost estimate for S. 2611, the Comprehensive Immigration Reform Act of 2006, Table 3 (August 18, 2006), www.cbo.gov/publication/18065. For more discussion about the factors that CBO considers when it analyzes proposals that would alter immigration policy, see Congressional Budget Office, *How Changes in Immigration Policy Might Affect the Federal Budget* (January 2015), www.cbo.gov/publication/49868.

28. Congressional Budget Office, *Effects of the Immigration Surge on the Federal Budget and the Economy* (July 2024), www.cbo.gov/publication/60165.

that is projected to occur from 2021 to 2026 would add $1.2 trillion to federal revenues and $0.3 trillion to outlays for mandatory programs and interest on the debt over the 2024–2034 period, resulting in deficits over that period that are a total of $0.9 trillion less than they would have been if the surge did not occur.

Question. Does, or can, CBO estimate the average annual dollar amount of federal welfare benefits received by native-born Americans compared to the average annual dollar amount in assistance received by immigrants of all categories? If so, what are those estimates?

Answer. CBO does not have the information to estimate the total amount of means-tested transfers and tax preferences per person received by all foreign-born people in the United States. The agency has analyzed the amount of benefits provided through SNAP in fiscal year 2022 (the most recent year for which those data are available). SNAP is one of the largest federal means-tested transfer programs; in 2022, total SNAP benefits exceeded $110 billion. In that year, about 41 million people received SNAP benefits in an average month. Roughly 12 percent of all SNAP benefits went to households with at least one foreign-born recipient in 2022; that percentage is slightly lower than the overall percentage of foreign-born people in the United States in that year (about 14 percent).

Households can have people who participate in SNAP as well as people who do not. Households with only native-born SNAP participants received monthly benefits averaging $157 per person in 2022. Those with at least one foreign-born SNAP participant received monthly benefits averaging $153 per person in that year.[29]

Question. CBO notes in the "Budgetary Effects of the Surge in Immigration" section of the most recent *Update to the Budget and Economic Outlook* that the largest increase in spending on benefits arising from the immigrant surge will be for ACA premium tax credits to purchase subsidized health insurance.

- Does CBO have an estimate for what percentage of individuals that are part of this immigrant surge group will be eligible for or are receiving ACA premium tax credit subsidies?
- Does CBO have estimates of the Medicaid take-up rate and the ACA premium tax credit take-up rate for immigrants of all categories vs. native-born Americans?

Answer. The budgetary effects that CBO estimated stem from the projected net increase in the number of people in the other foreign national category during the 2021–2026 period; that number is greater than the historical average by a total of 8.7 million people over the period. CBO's estimate also includes the approximately 2 million children who will be born to those people in the United States by 2034.[30]

CBO and JCT estimate that the immigration surge will increase the number of people receiving premium tax credits by about 600,000 in 2024 and 800,000 in 2034. Those increases represent roughly 5 percent to 10 percent of the surge population depending on the year and are projected to add $66 billion to the cumulative deficit for the 2024–2034 period.[31] (The premium tax credit was established under the Affordable Care Act to subsidize the out-of-pocket costs of premiums for eligible people who obtain health insurance through the marketplaces established by that act.)

To estimate the effects of the immigration surge on premium tax credits, CBO first considered how many people in the surge population would meet the eligibility criteria—both immigration-specific criteria and criteria such as those related to income that apply to all people. Immigrants must be considered lawfully present to be eligible for premium tax credits. In CBO's estimate, 35 percent of people in the surge are lawfully present in the year in which they initially enter the United States; by

29. To estimate total SNAP benefits in 2022, CBO used administrative data from the Department of Agriculture. Total benefits include emergency allotments authorized by the Families First Coronavirus Response Act of 2020, but estimated average per-person benefits do not include those emergency allotments. To analyze SNAP separately for native-born and foreign-born recipients, CBO used data composed of monthly case reviews from state agencies. See Mathematica, "About SNAP Quality Control (QC) Data" (2020), https://snapqcdata.net. The estimate of the foreign-born share of the population comes from Shabnam Shenasi Azari and others, *The Foreign-Born Population in the United States: 2022*, American Community Survey Brief ACSBR-019 (Census Bureau, April 2024), https://tinyurl.com/55h7yacu.

30. Congressional Budget Office, *Effects of the Immigration Surge on the Federal Budget and the Economy* (July 2024), www.cbo.gov/publication/60165.

31. For additional details about the estimate and the eligibility rules for premium tax credits, see Congressional Budget Office, *Effects of the Immigration Surge on the Federal Budget and the Economy* (July 2024), www.cbo.gov/publication/60165.

2034, 60 percent of that population will be considered lawfully present. (Children born in the United States to people in the surge are citizens by birth and are eligible for premium tax credits and other federal benefits, as long as they meet the eligibility criteria for those benefits.) Throughout the 2024–2034 period, CBO estimates, immigrants in the surge population have lower income than other people living in the United States, but their income is generally expected to increase over time.

CBO estimates that roughly 40 percent of people in the immigration surge who are eligible for a premium tax credit will receive the credit. That participation rate reflects the age and income distribution of people in the immigration surge. People at higher income levels are less likely to take up the premium tax credit because the credit subsidizes premiums to a lesser extent at higher income levels.

In CBO's estimate, 50 percent to 60 percent of eligible children and adults in the immigration surge will enroll in Medicaid or CHIP with full benefits. That share is higher than the corresponding share for premium tax credits, in part because people who are eligible for Medicaid or CHIP generally have no out-of-pocket costs for that coverage, whereas out-of-pocket costs rise for people with higher incomes who are eligible for premium tax credits.

Estimated take-up rates for both Medicaid and premium tax credits reflect CBO's expectation that people in the surge population will participate in federal benefit programs to a lesser extent than the rest of the population. CBO will continue to evaluate new data and research as they become available.

Senator Rick Scott

Question. Federal spending today is significantly higher than before the pandemic and, according to your latest baseline, deficit spending continues to increase to record levels. In comparison to the percent of GDP, CBO forecasts show that all categories of spending are up or neutral except for defense spending, with the highest increase coming from net interest costs. Further, studies show that tax collections as a percentage of GDP remain relatively flat regardless of the marginal tax rate. Director Swagel, do you believe that the key driver to stop our national debt from continuing to spiral out of control is to reduce government spending? Is it possible to get our financial house in order without cutting government spending?

Answer. In CBO's June 2024 baseline projections, debt held by the public increases from 99 percent of GDP this year to 122 percent in 2034. Although there is no commonly agreed upon level of federal debt that is sustainable, a perpetually rising debt-to-GDP ratio is unsustainable over the long term because financing deficits and servicing the debt would consume an ever-growing proportion of the nation's income.

Under an illustrative scenario in which debt, rather than increasing each year in relation to the size of the economy, roughly stabilizes by the end of the projection period, primary deficits would need to be reduced by more than $5 trillion over the next 10 years, CBO estimates. Such a reduction in primary deficits could be achieved by increasing revenues or reducing spending by roughly $5 trillion or by implementing some combination of changes to spending and revenues that would have an equivalent effect on primary deficits.

To illustrate, consider the 17 policy options that CBO analyzed in December 2022 that would result in the largest deficit reductions.[32] Among those options were some (imposing a tax on consumption or imposing a new payroll tax, for example) that would raise revenues and some (such as setting Social Security benefits to a flat amount or establishing caps on federal spending for Medicaid) that would reduce spending.

If each of those options reduced deficits by an average of a little more than $500 billion over the next 10 years, lawmakers could reduce primary deficits by more than $5 trillion over the next decade by implementing 10 of those options. Doing so would also reduce net interest costs over the period. As a result of those reductions, federal debt would be nearly stable by 2034. Even then, debt as a percentage of GDP would stabilize at a level close to its all-time high, which was recorded right after World War II. (The exact level at which debt would stabilize and the precise amount by which net interest costs would be reduced would depend on the specific options selected and when they were implemented.) To stabilize debt at its current level or to reduce it in relation to the size of the economy, larger reductions in primary deficits would be needed.

The options are intended to illustrate what would be involved in making changes of the size necessary to stabilize debt at the end of the projection period. Many other approaches to reducing deficits could be used.

32. Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions* (December 2022), www.cbo.gov/publication/58164. The estimates of the options' effects on deficits presented in that report were made relative to a previous baseline, so the estimated sizes of the deficit reductions may have changed; still, the options are useful for illustrative purposes.