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# Major Entitlement Spending

The federal government faces long-term budget challenges. Some measures of fiscal solvency indicate that, under current policy, the United States faces a persistent future budgetary imbalance. Projections show that this is largely due to rising health care costs and the related increase in government-financed health care spending.

Federal spending is divided into three broad categories: discretionary spending, mandatory spending, and net interest. Mandatory spending is composed of budget outlays controlled by laws other than appropriation acts. Entitlement programs, such as Social Security and Medicare, make up the bulk of mandatory spending. In contrast to mandatory spending, discretionary spending is provided and controlled through appropriations acts. Net interest spending is the government's interest payments on debt held by the public, offset by interest income that the government receives.

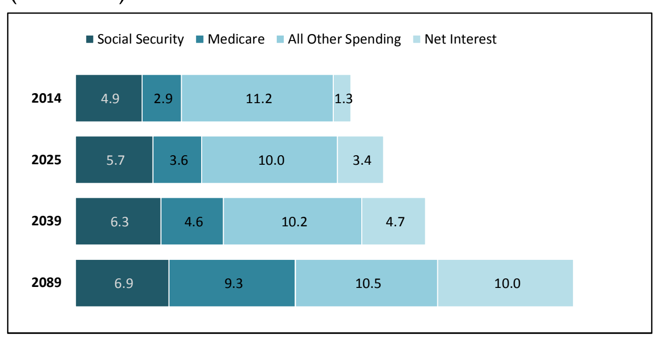
In FY2014, mandatory spending accounted for nearly 60% of total federal spending and more than 12% of GDP. Social Security alone accounted for 24% of total federal spending. Medicare accounted for 17% of total federal spending. Over the next decade and beyond, mandatory spending is projected to continue rising as a share of total federal spending and as a share of GDP.

According to CBO's extended baseline projection, federal mandatory spending on Medicare is projected to expand from 2.9% of GDP in FY2014 to 3.6% of GDP in FY2025 and to 9.3% of GDP in FY2089. Social Security is projected to grow from 4.9% of GDP in FY2014 to 5.7% of GDP in FY2025 and to 6.9% of GDP by FY2089. Meanwhile, spending on all other federal noninterest programs, including other mandatory programs, is projected to fall from 11.2% of GDP in FY2014 to 10.0% of GDP in FY2025 before increasing slightly to 10.5% of GDP in FY2089. Although these forecasts are highly uncertain, it seems probable that spending on large mandatory programs will rise as a share of GDP over time.

In addition, growing debt and rising interest rates are projected to cause interest payments to consume a greater share of future federal spending. Under current law, CBO projects that spending to service the federal debt (net interest payments) will grow rapidly from 1.3% of GDP today to 3.4% of GDP in FY2025 and to 10.0% of GDP in FY2089. By FY2089, interest payments are projected to be slightly higher than total Medicare spending and only slightly lower than all other noninterest, non-Social Security, non-Medicare spending.

Keeping future federal outlays at 20% of GDP, or approximately at its historical average, and leaving fiscal policies unchanged, according to CBO projections, would require drastic reductions in all spending other than that for Medicare, Social Security, and Medicaid, or reining in the costs of these programs. Under CBO's extended baseline, maintaining the debt-to-GDP ratio at today's level (74%) through FY2039 would require an immediate and permanent cut in noninterest spending or increase in revenues or some combination of the two in the amount of 1.2% of GDP (or about $225 billion in FY2015 alone) in each year. Maintaining this debt-to-GDP ratio beyond FY2039 would require additional savings. If policy makers wanted to lower future debt levels relative to today, the annual spending reductions or revenue increases would have to be larger. For example, in order to bring debt as a percentage of GDP in FY2039 down to its historical average over the past 40 years (39% of GDP), spending reductions or revenue increases or some combination of the two would need to total roughly 2.6% of GDP (or $465 billion in FY2015 alone) in each year.

**Figure 1. Projections of Federal Spending**
(% of GDP)




**Source:** Congressional Budget Office, *Updated Budget Projections: 2015 to 2025*, March 2015, and *The 2014 Long-Term Budget Outlook*, July 2014.

## Social Security

Social Security provides monthly cash benefits to retired or disabled workers and their family members and to the family members of deceased workers. Of the 59 million beneficiaries, approximately 81% are retired or disabled workers and 19% are family members. Among retired-worker beneficiaries, for example, the average annual benefit is about $16,000. In 2014, the program paid $848 billion in benefits.

Workers become eligible for benefits for themselves and their family members by working in Social Security-covered employment. An estimated 94% of workers in paid employment or self-employment are covered (168 million workers), and their earnings are subject to the Social Security payroll tax. Employers and employees each pay 6.2% of covered earnings, up to an annual limit on taxable earnings ($118,500). Dedicated payroll tax revenues are the primary source of funding for the program (86% of total income). Social Security also receives income from federal income taxes that some beneficiaries pay on a portion of their benefits and interest earned on accumulated assets (Treasury securities) held by the Social Security trust funds. In 2014, the program received $884 billion in total income.

On a combined basis, the Social Security trust funds have accumulated assets of nearly $3 trillion (i.e., the Old-Age and Survivors Insurance [OASI] Trust Fund and the Disability Insurance [DI] Trust Fund combined). The Social Security Board of Trustees (the trustees) projects that incoming receipts and accumulated trust fund assets will allow the program to pay benefits scheduled under current law (in full and on time) until 2033. Over the next 75 years on average, however, the trustees project that Social Security expenditures will exceed income by about 21% under the program's current financing and benefit structure. The projected long-range financial imbalance is attributed largely to demographic factors and to some extent program design features.

Social Security is an issue of interest to many lawmakers. For some, the focus is on restoring long-range solvency to the trust funds. For others, the focus is on constraining the projected growth in spending for Social Security and other entitlement programs in the context of broader efforts to reduce growing federal budget deficits. The Social Security debate reflects other policy objectives as well, such as improving the adequacy and equity of benefits, and different philosophical views about the role of the Social Security program and the federal government in providing retirement income. As such, Congress may consider a range of policy options.

On a more immediate basis, interest among lawmakers has focused on the projected insolvency of the DI trust fund in late 2016. (Separately, the OASI trust fund is projected to be exhausted in 2034.) The trustees project that, following DI trust fund exhaustion in late 2016, continuing income to the DI trust fund would be sufficient to pay about 80% of scheduled benefits. Stated another way, full payment of DI benefits beyond 2016 requires some form of legislative action. As the trustees point out, one option that Congress may consider is a reallocation of payroll taxes from the OASI trust fund to the DI trust fund. Congressional debate on the topic reflects differing views on whether any payroll tax reallocation should be considered as a stand-alone change, or in combination with other program changes designed to improve the system's overall financial outlook.

**Medicare**

Medicare is the nation's health insurance program for individuals aged 65 and older and certain disabled persons. Medicare consists of four distinct parts: Part A, or Hospital Insurance (HI); Part B, or Supplementary Medical Insurance (SMI); Part C, or Medicare Advantage (MA); and Part D, the outpatient prescription drug benefit. The Part A program is financed primarily through payroll taxes levied on current workers and their employers; these are credited to the HI trust fund. The Part B and D programs are financed through a combination of monthly premiums paid by current enrollees and general revenues. Income from these sources is credited to the SMI trust fund. Beneficiaries can choose to receive all their Medicare services, except hospice, through managed care plans under the MA program; payment is made in appropriate parts from the HI and SMI trust funds.

In 2015, 55 million (1 out of 6) Americans are enrolled in Medicare. CBO estimates that federal spending for Medicare benefits and administration will reach $534 billion in FY2015, and grow to almost $1 trillion by FY2025. Over the same period, federal spending for Medicare is projected to increase from 2.9% to 3.6% of GDP.

Since the program was enacted in 1965, the Medicare program has faced significant financial challenges. In an attempt to control spending, Congress has made numerous changes to the program, such as increasing payroll taxes and changing how health care providers are reimbursed under the program. For example, during the 111th Congress, the Patient Protection and Affordable Care Act (ACA; P.L. 111-148 and P.L. 111-152) made numerous changes to the Medicare program that modify provider reimbursements, provide incentives to increase the quality and efficiency of care, and address fraud and abuse. However, in the absence of further congressional action, the Medicare program is expected to be unsustainable in the long run. The 2014 Medicare Board of Trustees report estimates that the HI trust fund will become insolvent in 2030. Because of the way that it is financed, the SMI fund cannot face insolvency; however, the trustees project that SMI expenditures will continue to grow rapidly, and thus place increasing demands on Medicare beneficiaries and all taxpayers. As such, Congress may consider a range of Medicare reform options, from making changes within the current structure, including modifying provider payments and revising existing oversight and regulatory mechanisms, to restructuring the entire program.

The 113th Congress did not take major action to address the long-term fiscal situation, or the current or future solvency issues related to Social Security and Medicare.

For more information, see CRS Report R43933, *The Federal Budget: Overview and Issues for FY2016 and Beyond*, by Mindy R. Levit, CRS Report R42035, *Social Security Primer*, by Dawn Nuschler, and CRS Report R40425, *Medicare Primer*, coordinated by Patricia A. Davis and Scott R. Talaga.

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