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Mandatory Spending Since 1962

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Summary

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, including federal spending on entitlement programs. Entitlement programs such as Social Security and Medicare make up the bulk of mandatory spending. Other mandatory spending programs include Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), unemployment insurance, some veterans' benefits, federal employee retirement and disability, and Supplemental Nutrition Assistance Program (SNAP). 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 over 12% of GDP. Social Security alone accounted for 24% of federal spending. Medicare and the federal share of Medicaid, the fastest growing components of mandatory spending, together accounted for 26% of federal spending. Therefore, spending on Social Security, Medicare, and Medicaid made up nearly 50% of total federal spending. The composition of mandatory spending has changed significantly over the past 40 years. In 1962, before the creation of Medicare and Medicaid, mandatory spending was less than 30% of all federal spending. At that time, Social Security accounted for about 13% of total federal spending or about half of all mandatory spending.

Mandatory spending levels have and will continue to be affected by the automatic spending reduction process enacted as part of the Budget Control Act of 2011 (BCA; P.L. 112-25), as amended. Though the majority of the spending reductions affect the discretionary side of the budget, mandatory spending was reduced by $17 billion in FY2013, $18 billion in FY2014, and $18 billion in FY2015. Under current law, reductions to mandatory spending will continue through FY2024. However, increases in mandatory spending primarily related to rising health care costs are projected to result in a continued upward trend despite these reductions.

Over the next decade, mandatory spending is projected to reach 14% of GDP. Discretionary spending is projected to continue to fall further to 5% of GDP, its lowest level ever. By FY2022 discretionary spending's share of the economy is projected to be equal to or less than spending in each of the two largest categories of mandatory programs, Social Security and Major Health Programs.

Over the long term, projections suggest that if current policies remain unchanged, the United States could face a major fiscal imbalance, largely due to rising health care costs and impending baby boomer retirements. Federal mandatory spending on health care is projected to expand from 5% of GDP in FY2014 to 14% in FY2089 according to CBO's extended baseline projection. Social Security is projected to grow from 5% of GDP in FY2014 to 7% of GDP by FY2089. The share of mandatory spending continues to increase as a portion of total federal spending.

Because discretionary spending is a smaller proportion of total federal outlays compared to mandatory spending, some budget experts contend that any significant reductions in federal spending must include cuts in entitlement spending. Other budget and social policy experts contend that cuts in entitlement spending could compromise their goals: the economic security of the elderly and the poor. This report will be updated annually.

Contents

Figures

Tables

Contacts

Overview

Mandatory spending is composed of budget outlays controlled by laws other than appropriation acts, including federal spending on entitlement programs.[1] Entitlement programs such as Social Security and Medicare make up the bulk of mandatory spending. Other mandatory spending programs include Supplemental Security Income (SSI), unemployment insurance, certain veterans' benefits, federal employee retirement and disability, Supplemental Nutrition Assistance Program (SNAP),[2] and various tax credits. (See list in **Table 1**.) Mandatory spending also includes many smaller budgetary items, such as salaries of Members of Congress and the President. Congress sets eligibility requirements and benefits for entitlement programs. If the eligibility requirements are met for a specific mandatory program, outlays are made automatically.

In FY2014, mandatory spending—totaling 12.2% of gross domestic product (GDP)—exceeded discretionary spending's 6.8% share of GDP.[3] In addition, federal net interest payments accounted for 1.3% of GDP. Together, total federal spending represented 20.3% of GDP. Mandatory spending composed nearly 60% of all federal spending in FY2014. Social Security, Medicare, and the federal share of Medicaid alone composed nearly 50% of all federal spending.

Mandatory spending plays a major role in larger fiscal trends. During economic downturns, government revenues fall and expenditures rise as more people become eligible for mandatory programs such as unemployment insurance and income security programs, causing deficits to increase or surpluses to shrink. These effects, known as "automatic stabilizers," provide a countercyclical fiscal stimulus in the short run without the need for new legislative action. As a result of the recent economic downturn and federal actions taken in response to it, mandatory spending was higher than its historical levels (as a percentage of GDP) between FY2009 and FY2011.

Since then, mandatory spending has remained relatively constant around 12% of GDP. The Congressional Budget Office (CBO) projects mandatory spending will increase slightly from its current levels and then will remain relatively constant, as a share of GDP, through FY2020 (around 13% of GDP). After FY2021, mandatory spending is projected to account for nearly 14% of GDP between 2022 and 2024 before topping 14% in 2025. Mandatory spending, according to CBO current-law projections, will be about 14.2% of GDP in FY2025. However, CBO baseline projections, which extend 10 years forward, do not reflect the full force of the pressures the aging population and increasing health care costs are expected to exert on the federal budget over the longer term.

This report looks at mandatory spending and its growth over time relative to total federal spending and the size of the U.S. economy. It also analyzes future mandatory spending levels and how they are projected to impact the federal budget.

[1] Mandatory spending is also referred to as direct spending in budgetary legislation.

[2] The Food Stamps program has been renamed the Supplemental Nutrition Assistance Program (SNAP).

[3] Unless otherwise noted, all data are from Congressional Budget Office, *The Budget and Economic Outlook: 2015 to 2025*, January 2015.

What Does Mandatory Spending Include?

Mandatory spending is controlled by laws other than appropriations acts. Such laws generally take the form of authorizing legislation. Authorizing legislation establishes or continues the operation of a federal program or agency, either indefinitely or for a specified period. Mandatory spending typically is provided in permanent or multi-year appropriations contained in the authorizing law, and therefore, the funding becomes available automatically each year, without further legislative action by Congress. In most cases, the authorizing law requires payment, based on a benefit formula, to an individual or entity (e.g., a state) if eligibility criteria are met. In contrast, discretionary spending is provided and controlled through the annual appropriations process.[4] Net interest payments, the final category of federal spending, are automatically authorized and are the government's interest payments on debt held by the public offset by interest income that the government receives.

Entitlement spending, such as for Medicaid and certain veterans' programs, is funded in annual appropriations acts. Such entitlement spending is referred to as appropriated entitlements. The level of spending for appropriated entitlements, like other entitlements, is based on the benefit and eligibility criteria established in law. The amount of budget authority provided in appropriations acts for these specific programs is based on meeting projected spending levels. Since the authorizing legislation effectively determines the amount of budget authority required, the Budget Enforcement Act (BEA) of 1990 (P.L. 101-508) classified appropriated entitlement spending as mandatory.[5]

Not all mandatory spending funds entitlement programs. For example, the Forest Service makes some payments to states that are mandatory, but are not entitlements. Some agencies gained authority to sign contracts or create obligations in other ways, which GAO has termed "backdoor" spending authority.[6] Those obligations become part of mandatory spending unless limited by the BEA or other budget legislation. As noted above, salaries of Members of Congress and the President are also deemed mandatory but are not entitlements.

Table 1, below, shows CBO baseline projections for mandatory spending from FY2014 (actual) to FY2025.

[4] For more information on discretionary spending trends, see CRS Report RL34424, *The Budget Control Act and Trends in Discretionary Spending*, by (name redacted) .

[5] For a discussion of procedural issues, see CRS Report RS20129, *Entitlements and Appropriated Entitlements in the Federal Budget Process*, by (name redacted)

[6] U.S. General Accounting Office, *Budget Issues: Inventory of Accounts With Spending Authority and Permanent Appropriations*, GAO/AIMD-96-79, May 31, 1996.

Table 1. Mandatory Outlays, FY2014-FY2025

January 2015 CBO Baseline Projections (billions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Social Security	**845**	**883**	**921**	**971**	**1,032**	**1,096**	**1,165**	**1,237**	**1,313**	**1,392**	**1,476**	**1,564**
Major Health Programs	**926**	**1,012**	**1,111**	**1,163**	**1,210**	**1,312**	**1,394**	**1,485**	**1,617**	**1,682**	**1,744**	**1,900**
Medicare[a]	600	622	668	681	699	772	826	886	986	1,021	1,052	1,175
Medicaid	301	335	360	384	405	428	452	477	503	530	558	588
Health insurance subsidies & related spending	15	45	71	93	101	106	110	116	122	125	128	131
Children's Health Insurance Program	9	10	11	6	6	6	6	6	6	6	6	6
Income Security	**311**	**307**	**317**	**316**	**316**	**310**	**316**	**324**	**336**	**338**	**341**	**355**
Earned income, child, and other tax credits[b]	86	87	89	90	91	75	76	77	78	79	80	82
Supplemental Nutrition Assistance Program	76	78	78	76	75	74	74	74	73	74	74	75
Supplemental Security Income	54	55	60	57	54	61	63	64	71	68	65	72
Unemployment compensation	44	35	36	37	39	42	46	49	51	54	57	60
Family support and foster care[c]	31	31	32	32	32	33	33	33	34	34	34	35
Child nutrition	20	21	22	23	24	25	26	27	28	29	31	32
Federal Civilian and Military Retirement	**164**	**160**	**167**	**167**	**168**	**178**	**184**	**191**	**202**	**203**	**204**	**215**
Civilian[d]	100	97	99	102	105	108	112	116	120	124	128	132
Military	55	57	62	59	56	62	64	66	73	70	67	74
Other	8	7	6	6	7	7	8	9	9	9	9	9
Veterans[e]	**87**	**99**	**102**	**95**	**91**	**100**	**103**	**105**	**114**	**109**	**103**	**114**
Income security	71	74	82	79	74	83	84	85	93	87	81	91
Other	16	25	20	16	16	18	18	19	21	21	21	23
Other Programs	**40**	**69**	**73**	**87**	**89**	**83**	**78**	**84**	**84**	**84**	**84**	**89**

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Agriculture	19	11	16	19	17	16	15	15	15	15	15	15
MERHCF[f]	9	10	10	10	11	11	12	13	14	15	16	17
Deposit Insurance	-14	-10	-10	-10	-9	-14	-16	-10	-12	-13	-14	-15
Fannie Mae and Freddie Mac[g]	0	0	3	3	3	2	1	1	2	2	2	2
Higher education	-12	-3	-7	-4	-1	0	2	2	1	1	1	1
Other	38	61	62	69	68	68	64	64	64	64	65	69
Offsetting Receipts	**-276**	**-275**	**-216**	**-237**	**-253**	**-263**	**-273**	**-288**	**-303**	**-321**	**-336**	**-346**
Medicare[h]	-95	-99	-106	-113	-121	-130	-139	-149	-163	-178	-189	-199
Federal share of federal employees'retirement	-65	-68	-68	-71	-73	-75	-78	-80	-83	-85	-88	-90
Fannie Mae and Freddie Mac[g]	-74	-26	0	0	0	0	0	0	0	0	0	0
Other	-42	-82	-42	-53	-58	-57	-56	-59	-57	-58	-60	-57
Total Mandatory Outlays	**2,096**	**2,255**	**2,475**	**2,563**	**2,653**	**2,816**	**2,968**	**3,137**	**3,363**	**3,486**	**3,616**	**3,891**

Source: CBO, *The Budget and Economic Outlook: 2015 to 2025*, January 2015, Table 3-2.

Notes: Totals and subtotals shown in bold. Items may not sum to totals due to rounding. Figures for FY2014 are actual; figures for FY2015 are estimated; figures for FY2016-FY2025 are projected

a. Excludes offsetting receipts.

b. Includes outlays for the American Opportunity credit and other tax credits.

c. Includes Temporary Assistance for Needy Families program, the Child Support Enforcement program, the Child Care Entitlement program, and other programs that benefit children.

d. Includes Civil Service, Foreign Service, Coast Guard, and other, smaller retirement programs as well as annuitants' health benefits.

e. Income security includes veterans' compensation, pensions, and life insurance programs. Other benefits are primarily education subsidies. (The costs of veterans' health care are classified as discretionary spending and thus are not shown in this table.

f. MERHCF is the Department of Defense Medicare-Eligible Retiree Health Care Fund, including TRICARE For Life.

g. The Administration records cash payments from Fannie Mae and Freddie Mac to the Treasury as offsetting receipts, while Treasury's payments to those entities are recorded as outlays (if any). CBO, however, treats the operations of these entities similar to other federal credit agencies and estimates their net lifetime cost (i.e., a subsidy cost adjusted for market risk) and records that as outlays for the program. The above table reflects the Administration's methodology for FY2014 and FY2015. Beginning in 2016, the table reflects CBO's methodology of net lifetime costs of the guarantees that those entities will issue and of the loans that they will hold.

h. Includes Medicare premiums and amounts paid by states from savings on Medicaid prescription drug costs.

Mandatory spending is partially offset by certain fees and payments, known as offsetting receipts, which are generally counted as negative budget authority. Market-like charges, such as Medicare Part A deductibles and Medicare Part B premiums, are considered offsetting receipts. Payments by Medicare beneficiaries and the federal government's tax and pension contributions in its role as an employer comprise the largest component of offsetting receipts.

Most mandatory spending is accounted for in the budget based on the dollar amount spent in each fiscal year. However, some mandatory programs are recorded differently. For example, federal student loan programs, like other federal loan and loan guarantee programs, are scored under terms of the Federal Credit Reform Act of 1990 (FCRA; P.L. 101-508). Rather than being accounted for on a cash basis, FCRA programs are accounted for on a net subsidy basis. FCRA required that the reported budgetary cost of a credit or loan program equal the estimated subsidy costs at the time the credit is provided. In other words, the subsidy cost is the estimated long-term cost to the government of a direct loan or a loan guarantee, calculated on a net present value basis, excluding administrative costs. This places the cost of federal credit programs on a budgetary basis equivalent to other federal outlays.[7]

Mandatory Spending Trends Over Time

Mandatory spending has taken up a larger and larger share of the federal budget over time. Mandatory spending grew over time with enactment of the Social Security Act of 1935 (P.L. 74-271) and the Medicare Act of 1965 (P.L. 89-97).[8] In FY1962, three years before the creation of Medicare and Medicaid, less than 30% of all federal spending was mandatory. At that time, Social Security accounted for about 13% of total federal spending or about half of all mandatory spending.[9] In the mid-1970s, growth of mandatory spending as a share of total federal spending slowed. During part of the 1980s, mandatory spending declined as a share of total federal spending. Since then, mandatory spending has increased its share of federal spending at a gradual pace.

Figure 1 shows historical trends in mandatory spending between FY1962 and FY2014 and CBO's baseline projections for these components to FY2025, expressed as a percentage of total federal spending.[10]

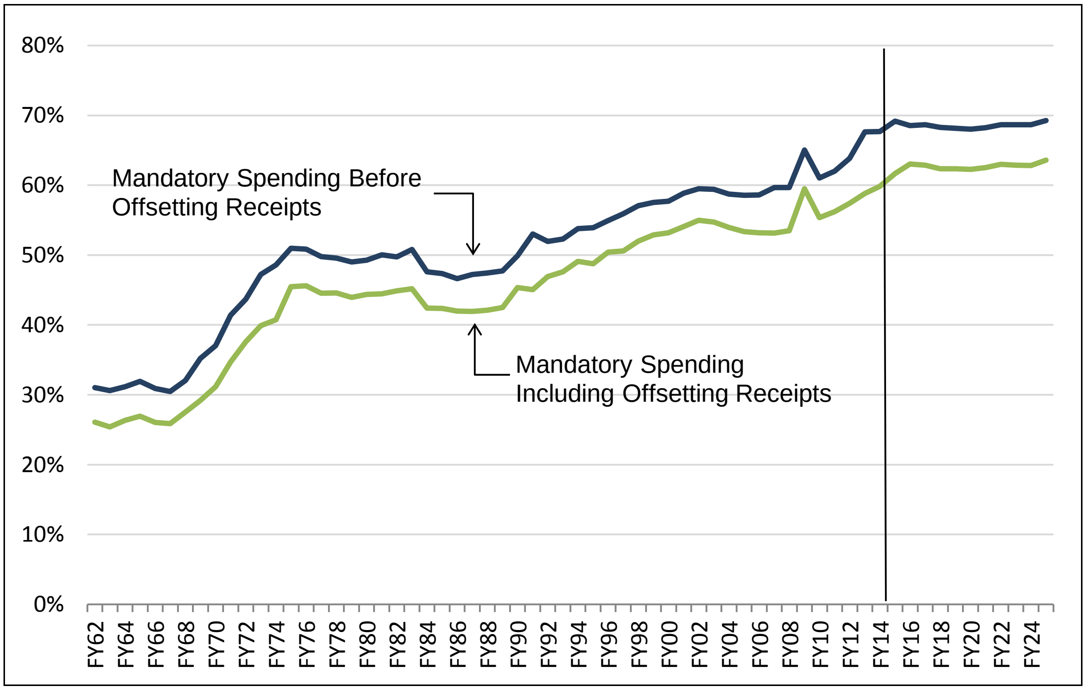
[7] For more information, see CRS Report R42632, *Budgetary Treatment of Federal Credit (Direct Loans and Loan Guarantees): Concepts, History, and Issues for Congress*, by (name redacted)

[8] Officially titled "Social Security Amendments of 1965."

[9] Offsetting receipts are not taken into account for the cost of individual programs in this and subsequent calculations in order to provide comparability to the figures in **Table 2**. In 2013, offsetting receipts totaled $306 billion or 13% of total spending on mandatory programs.

[10] The CBO baseline is intended as a neutral starting point for the estimation of budgetary effects of legislative changes.

Figure 1. Mandatory Spending and Offsetting Receipts as a Percentage of Total Outlays (FY1962-FY2025)



Source: Data for FY1962-FY1973 from OMB, Budget for Fiscal Year 2015, Historical Tables, Tables 1.3 and 8.5; Data for FY1974-FY2025 from CBO Historical Tables and CBO Budget Projections data.

Notes: CBO treats some offsetting receipts, especially regarding Medicare, differently than OMB. CBO baseline projections are shown to the right of the vertical line.

Mandatory spending was about a quarter of total federal spending in FY1962 (nearly a third if offsetting receipts are excluded). In FY1968, mandatory spending began growing relative to total federal spending and by FY1975 accounted for about 45% of total spending (about half before offsetting receipts). From the mid-1980s through 1990, mandatory spending's share in total spending remained relatively steady, before starting to grow again after FY1990.

In FY2014, mandatory spending accounted for nearly 60% of total spending and 12.2% of GDP (or just under 14% of GDP before offsetting receipts). Mandatory spending spiked between FY2008 and FY2009 largely due to increases in outlays related to federal financial interventions and the economic downturn. After falling in FY2010 (12.9% of GDP) relative to FY2009 levels (14.5% of GDP), mandatory spending rose again in FY2011 (13.2% of GDP). It began to fall again in FY2012 (12.6% of GDP) and remained constant between FY2013 and FY2014 (12.2% of GDP). The Congressional Budget Office (CBO) projects mandatory spending will increase slightly before remaining relatively constant, as a share of GDP through FY2020. After FY2021, mandatory spending is projected to account for nearly 14% of GDP between 2022 and 2024 before topping 14% in 2025. Mandatory spending, according to CBO current-law projections, will be about 14.2% of GDP in FY2025.

Table 2, below, presents components of mandatory spending in FY2014 and FY2015 (estimated) and CBO baseline projections in FY2025 (projected) in dollar terms, as a percentage of total mandatory spending, and as a percentage of GDP.

Table 2. Mandatory Program Spending as a Percentage of Total Mandatory Outlays and GDP

	FY2014 (Actual)			FY2015 (Estimated)			FY2025 (CBO Baseline Projections)		
Category	$ Billions	% of Mandatory Spending[a]	% of GDP	$ Billions	% of Mandatory Spending[a]	% of GDP	$ Billions	% of Mandatory Spending[a]	% of GDP
Social Security	**845**	**35.6%**	**4.9%**	**883**	**34.9%**	**4.9%**	**1,564**	**36.9%**	**5.7%**
Major Health Programs	**926**	**39.0%**	**5.4%**	**1,012**	**40.0%**	**5.6%**	**1,900**	**44.8%**	**6.9%**
Medicare	600	25.3%	3.5%	622	24.6%	3.5%	1,175	27.7%	4.3%
Medicaid	301	12.7%	1.7%	335	13.2%	1.9%	588	13.9%	2.1%
Exchange subsidies and related spending	15	0.6%	0.1%	45	1.8%	0.2%	131	3.1%	0.5%
Children's Health Insurance Program	9	0.4%	0.1%	10	0.4%	0.1%	6	0.1%	0.0%
Income Security	**311**	**13.1%**	**1.8%**	**307**	**12.1%**	**1.7%**	**355**	**8.4%**	**1.3%**
Earned income, child, and other tax credits	86	3.6%	0.5%	87	3.4%	0.5%	82	1.9%	0.3%
Supplemental Nutrition Assistance Program	76	3.2%	0.4%	78	3.1%	0.4%	75	1.8%	0.3%
Supplemental Security Income	54	2.3%	0.3%	55	2.2%	0.3%	72	1.7%	0.3%
Unemployment compensation	44	1.9%	0.3%	35	1.4%	0.2%	60	1.4%	0.2%
Family support and foster care	31	1.3%	0.2%	31	1.2%	0.2%	35	0.8%	0.1%
Child nutrition	20	0.8%	0.1%	21	0.8%	0.1%	32	0.8%	0.1%
Federal Civilian and Military Retirement	**164**	**6.91%**	**0.95%**	**160**	**6.3%**	**0.9%**	**215**	**5.1%**	**0.8%**
Civilian	100	4.22%	0.58%	97	3.8%	0.5%	132	3.1%	0.5%
Military	55	2.33%	0.32%	57	2.2%	0.3%	74	1.7%	0.3%
Other	8	0.36%	0.05%	7	0.3%	0.0%	9	0.2%	0.0%
Veterans	**87**	**3.7%**	**0.5%**	**99**	**3.9%**	**0.5%**	**114**	**2.7%**	**0.4%**
Income Security	71	3.0%	0.4%	74	2.9%	0.4%	91	2.1%	0.3%
Other	16	0.7%	0.1%	25	1.0%	0.1%	23	0.5%	0.1%
Other Programs	**40**	**1.7%**	**0.2%**	**69**	**2.7%**	**0.4%**	**89**	**2.1%**	**0.3%**
Agriculture	19	0.8%	0.1%	11	0.4%	0.1%	15	0.4%	0.1%

Category	FY2014 (Actual)			FY2015 (Estimated)			FY2025 (CBO Baseline Projections)		
	$ Billions	**% of Mandatory Spending[a]**	**% of GDP**	**$ Billions**	**% of Mandatory Spending[a]**	**% of GDP**	**$ Billions**	**% of Mandatory Spending[a]**	**% of GDP**
Deposit insurance	-14	-0.6%	-0.1%	-10	-0.4%	-0.1%	-15	-0.4%	-0.1%
MERHCF	9	0.4%	0.1%	10	0.4%	0.1%	17	0.4%	0.1%
Fannie Mae and Freddie Mac	0	0.0%	0.0%	0	0.0%	0.0%	2	0.0%	0.0%
Higher education	-12	-0.5%	-0.1%	-3	-0.1%	-0.0%	1	0.0%	0.0%
Other	38	1.6%	0.2%	61	2.4%	0.3%	69	1.6%	0.3%
Mandatory Spending Excluding Offsetting Receipts	**2,373**	**100%**	**13.8%**	**2,530**	**100%**	**14.0%**	**4,237**	**100%**	**15.4%**
Offsetting Receipts	**-276**		**-1.6%**	**-275**		**-1.5%**	**-346**		**-1.3%**
Medicare	-95		-0.6%	-99		-0.5%	-199		-0.7%
Federal share of federal employees' retirement	-65		-0.4%	-68		-0.4%	-90		-0.3%
Fannie Mae and Freddie Mac	-74		-0.4%	-26		-0.1%	0		0.0*
Other	-42		-0.2%	-82		-0.5%	-57		-0.2%
Total Mandatory Spending	**2,096**		**12.2%**	**2,255**		**12.5%**	**3,891**		**14.2%**
Medicare Spending Net of Offsetting Receipts	505		2.9%	523		2.9%	976		3.6%

Source: CRS calculations based on CBO, *The Budget and Economic Outlook: 2015 to 2025*, January 2015, Tables 1-2 and 3-2.

Notes: Some items do not sum to subtotals due to rounding. See **Table 1** for other notes.

a. Excludes offsetting receipts.

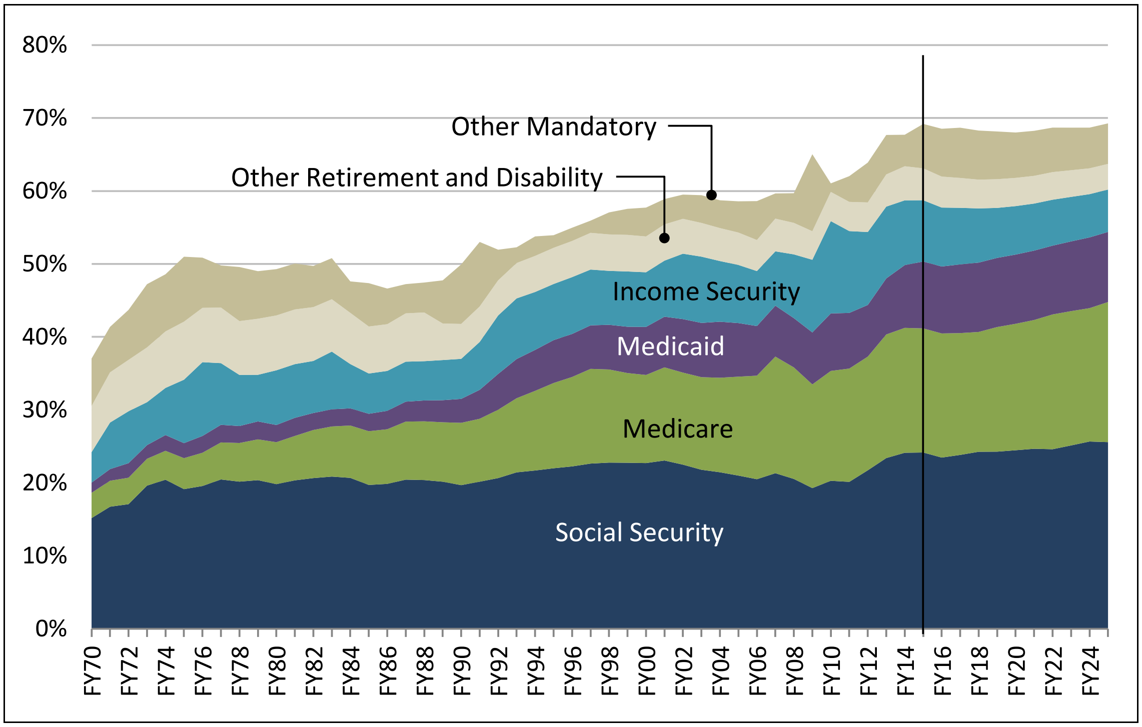
In FY2009, total mandatory spending increased by 31% in dollar terms over FY2008, primarily due to the economic downturn and federal financial interventions, including assistance provided in the Troubled Asset Relief Program (TARP) and to the GSEs (Fannie Mae and Freddie Mac). The majority of the impact of the enacted federal financial intervention programs on mandatory spending occurred in FY2009 for TARP and between FY2009 and FY2012 for GSE assistance.[11] Outlays for income security programs, like unemployment compensation and SNAP, also increased in FY2009 and continued at elevated levels through FY2013. By FY2014, outlays for these programs returned to their FY2008 levels (as a percentage of GDP) as the economic recovery continued, lessening the reliance on these "automatic stabilizers." However, mandatory spending as a whole is projected to remain on an upward trajectory primarily due to higher levels of federal health spending.

Changes in Mandatory Spending

The composition of mandatory spending has changed dramatically over the past 40 years and, according to CBO baseline projections, will continue to change over the decade. **Figure 2** shows how major components of mandatory spending as a percentage of total federal spending have evolved since 1970.

[11] The budgetary impact of assistance for TARP and the GSEs was scored using the rules of the Federal Credit Reform Act (FCRA) and was counted as mandatory spending in the amount of the estimated subsidy over the life of the program, as calculated each fiscal year. Over time, the subsidy amount in subsequent fiscal years has been revised downward, eventually resulting in a negative subsidy amount for these programs. For more information on federal financial assistance provided by TARP and to the GSEs, see CRS Report R41073, *Government Interventions in Response to Financial Turmoil*, by (name redacted) and (name redacted)

Figure 2. Components of Mandatory Spending as a Percentage of Federal Spending (FY1970-FY2025)



Source: CRS calculations based on data from CBO, Historical Tables and Budget Projections.

Notes: The "Other Mandatory" category includes Health Insurance Subsidies, Exchanges, and Related Spending, MERHCF, CHIP, veterans' programs, agriculture, deposit insurance, Fannie Mae and Freddie Mac, higher education, and other mandatory spending. Offsetting receipts are excluded. CBO baseline projections depicted to the right of the vertical line.

Persistent increases in health care spending have been a particularly important driver of mandatory spending trends. Since enactment of the 1965 Medicare Act, the Medicare and Medicaid programs have composed a growing share of mandatory spending. Medicare and Medicaid spending grew from 4.9% of total federal outlays in FY1970 to 25.7% in FY2014. CBO baseline projections show further increases in federal health spending will cause the Medicaid and Medicare share of total spending to continue to rise. In addition, federal spending on other health related programs is projected to increase as larger portions of the Affordable Care Act (Patient Protection and Affordable Care Act, P.L. 111-148, and the health care provisions of the Health Care and Education Reconciliation Act of 2010, P.L. 111-152) take effect beginning in 2014.[12] By FY2025, based on CBO baseline projections, spending on Medicare, Medicaid, and other major federal health care programs is projected to account for 31.1% of total federal spending.

[12] In an effort to reform the private insurance market and expand health insurance coverage to the uninsured as federal spending on health care increases, the Patient Protection and Affordable Care Act (PPACA; P.L. 111-148) and the Health Care and Education Reconciliation Act of 2010 (HCERA; P.L. 111-152) were signed into law on March 23 and March 30, 2010, respectively. Among other provisions, this legislation established a mandate for most U.S. residents to obtain health insurance, set up insurance exchanges, expanded Medicaid, and imposed various tax code changes. As a result of this legislation, mandatory federal outlays for health programs are projected by CBO to increase relative to what they were prior to the enactment of this legislation. For more information on PPACA and HCERA, see http://www.crs.gov/Pages/subissue.aspx?cliid=3746&parentid=13.

Over the next decade, spending on mandatory programs outside of Medicare, Medicaid, and other federal health programs is expected to remain flat or decline as a share of total federal spending. Social Security's share of outlays is projected to remain essentially flat as a share of federal spending, ranging between 24% and 26% of total federal spending, throughout the decade. As the economic recovery continues, outlays for income security programs are projected to fall from 8.9% of total federal spending in FY2014 to 5.8% by FY2025.[13] Spending on other mandatory programs, including federal civilian and military retirement, veterans benefits, agriculture supports, and other activities, is also projected to decline over the next decade.

Mandatory spending levels have and will continue to be affected by the automatic spending reduction process enacted as part of the Budget Control Act of 2011 (BCA; P.L. 112-25).[14] In addition to including a mechanism to increase the debt limit, the BCA contained a variety of measures intended to reduce the budget deficit through spending reductions. Though the majority of the spending reductions affect the discretionary side of the budget, mandatory spending was reduced (sequestered) by $17 billion in FY2013, $18 billion in FY2014, and $18 billion in FY2015. Mandatory spending is projected to be reduced by an additional $164 billion over the FY2016-FY2025 period.[15] However, as discussed above, increases in mandatory spending primarily related to rising health care costs are projected to result in a continued upward trend despite these reductions.

Mandatory Spending and the Economy

Evaluating mandatory spending trends as a percentage of GDP shows what share of total economic resources is devoted to these programs. Outlays for mandatory programs can be affected by increases in costs, programmatic changes, the economy, and variations in the number of people who meet eligibility criteria for program participation. **Figure 3** shows the evolution of mandatory spending and its components relative to GDP since FY1970.

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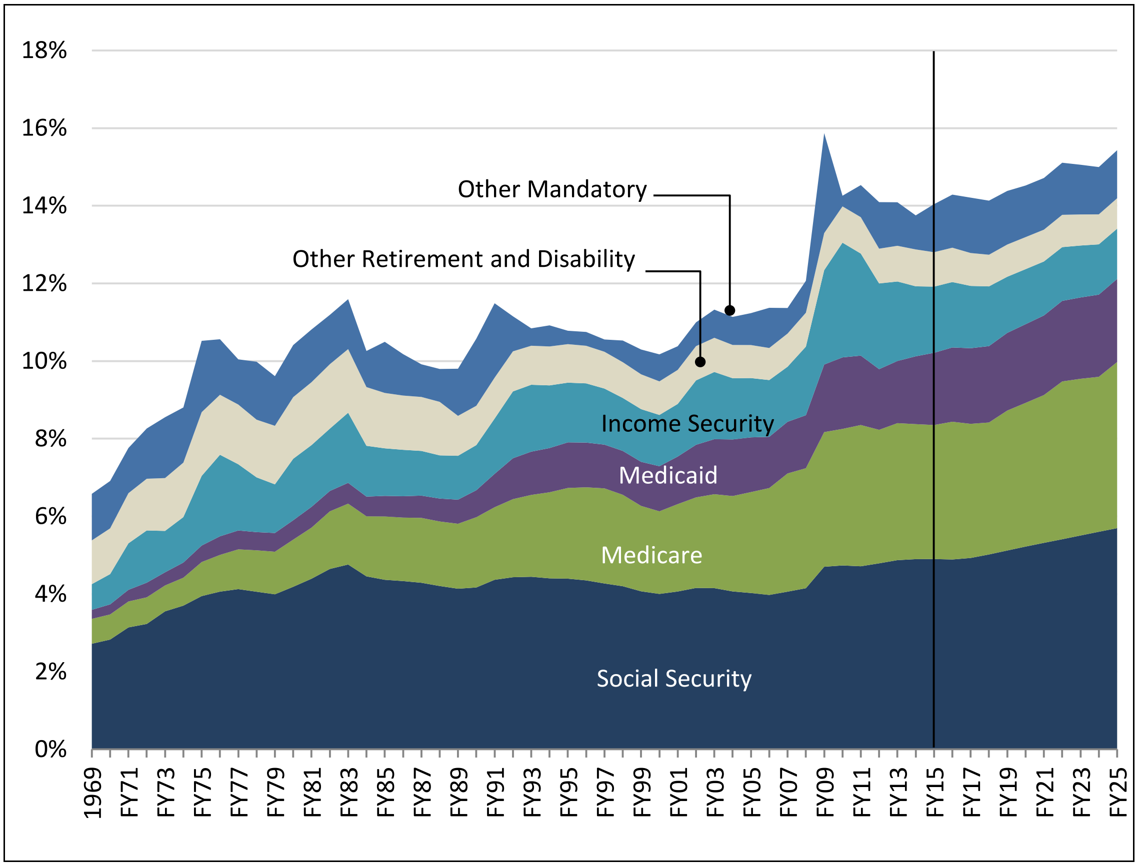
[13] Spending on income security programs peaked in FY2010 at 12.7% of total outlays.

[14] For more information on the BCA, see CRS Report R42506, *The Budget Control Act of 2011: The Effects on Spending and the Budget Deficit* , by (name redacted) and (name redacted)

[15] Office of Management and Budget, *OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2013*, March 1, 2013, Tables 2 and 3 and *OMB Sequestration Preview Report to the President and Congress for Fiscal Year 2014 and OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2014*, May 20, 2013, Table 3, and *OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2015, March 10, 2014, Tables 3*; CBO, The Budget and Economic Outlook: 2015 to 2025, January 2015, p 26.In addition to the BCA's automatic spending reduction process, other changes in mandatory spending from program integrity, Pell grants, and other education programs amount to a reduction in spending of $20 billion over the FY2012 to FY2021 period. (Associated debt service savings are not included.) CBO, Letter to the Honorable John A. Boehner, Speaker and the Honorable Harry Reid, Majority Leader, *Estimated Effect on the Deficit of the Budget Control Act as posted on the web site of the Committee on Rules*, August 1, 2011, Table 3.

Figure 3. Mandatory Spending Before Offsetting Receipts as a Percentage of GDP (FY1970-FY2025)



Source: CRS calculations based on data from CBO, *Historical Tables* and *Budget Projections*.

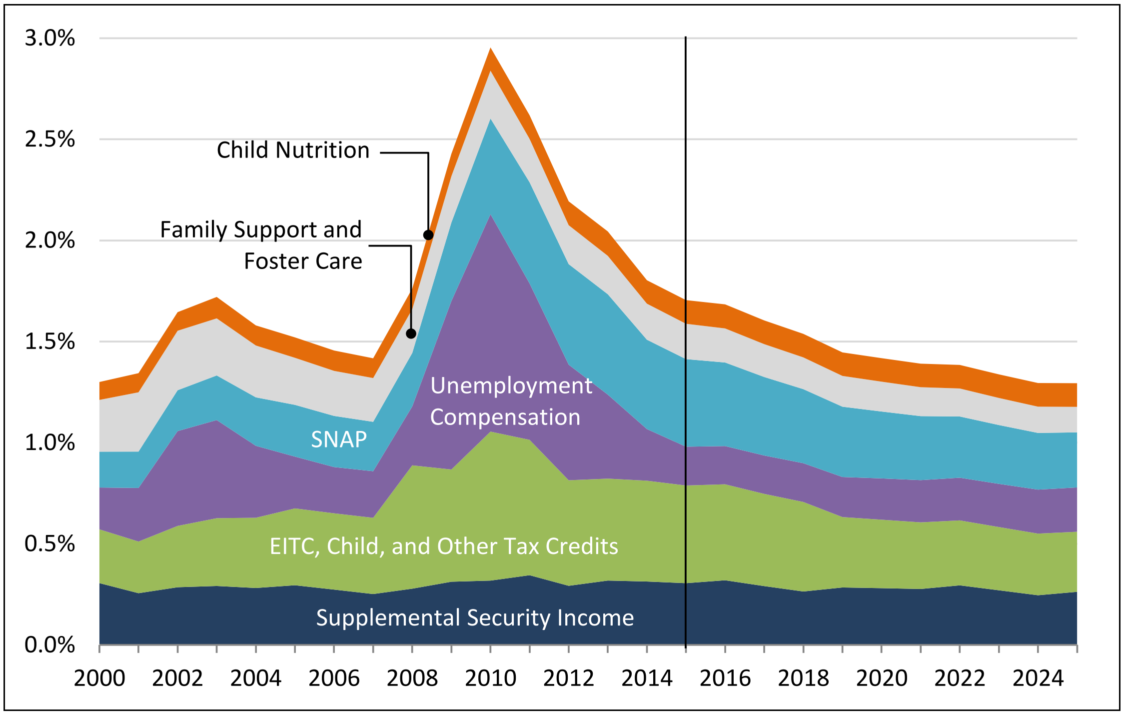
Notes: See **Figure 2**.

Mandatory spending, relative to the size of the economy, grew rapidly in the late 1960s and 1970s. In the 1980s, Medicare, Medicaid, and Social Security continued to grow, while other components of mandatory spending fluctuated with the business cycle. In the 1990s, mandatory spending including offsetting receipts (about 1% of GDP) remained between 9 and 10% of the economy.

Social Security spending grew relative to the economy from 2.9% of GDP in FY1970 to 4.8% of GDP in FY1983. Since then, Social Security has generally fluctuated between 4.0% and 4.8% of GDP. CBO projects Social Security spending will increase from 4.9% in FY2014 to 5.7% of GDP in FY2025. Both Medicare and Medicaid have grown faster than the overall economy, and continued growth is expected. In FY1970, spending on Medicare and Medicaid totaled 0.9% of GDP. In FY2011, spending on these two programs reached 5.4% of GDP. After falling in FY2012 to 5.0% of GDP, spending on these programs is projected to increase to 6.4% of GDP in FY2025. Spending on other major federal health programs (the Children Health Insurance Program and Health Insurance Subsidies & Related Spending) is projected to grow from 0.1% of GDP in FY2014 to 0.5% of GDP in FY2025.

During recessions, GDP falls and spending automatically increases on unemployment insurance and other means-tested programs such as SNAP. Spending on income security programs, therefore, is often more volatile than Social Security and Medicare spending because income security spending is more closely tied to economic fluctuations. In the 1960s, income security programs accounted for about 1% of GDP or less. In the wake of the 1974-1976 recession and the 1974 creation of the Supplemental Security Income (SSI) program, income security spending rose to over 2% of GDP. In recent years, income security spending has hovered around 1.5% of GDP. During the recent economic downturn and as a result of associated policy changes, income security spending rose to 3.0% of GDP in FY2010 before falling to 2.6% of GDP in FY2011, 2.2% of GDP in FY2012, and 1.8% of GDP in FY2013. By FY2025, income security spending is projected to fall to 1.3% of GDP. **Figure 4** depicts how outlays for income security programs have changed in response to economic conditions over the last decade and where they are projected to be as the economy continues to recover. Projections of spending on these programs beyond FY2015, as depicted in this chart, are from the CBO baseline.

Figure 4. Income Security Programs as a Percentage of GDP (FY2000-FY2025)



Source: CRS calculation based on CBO data.

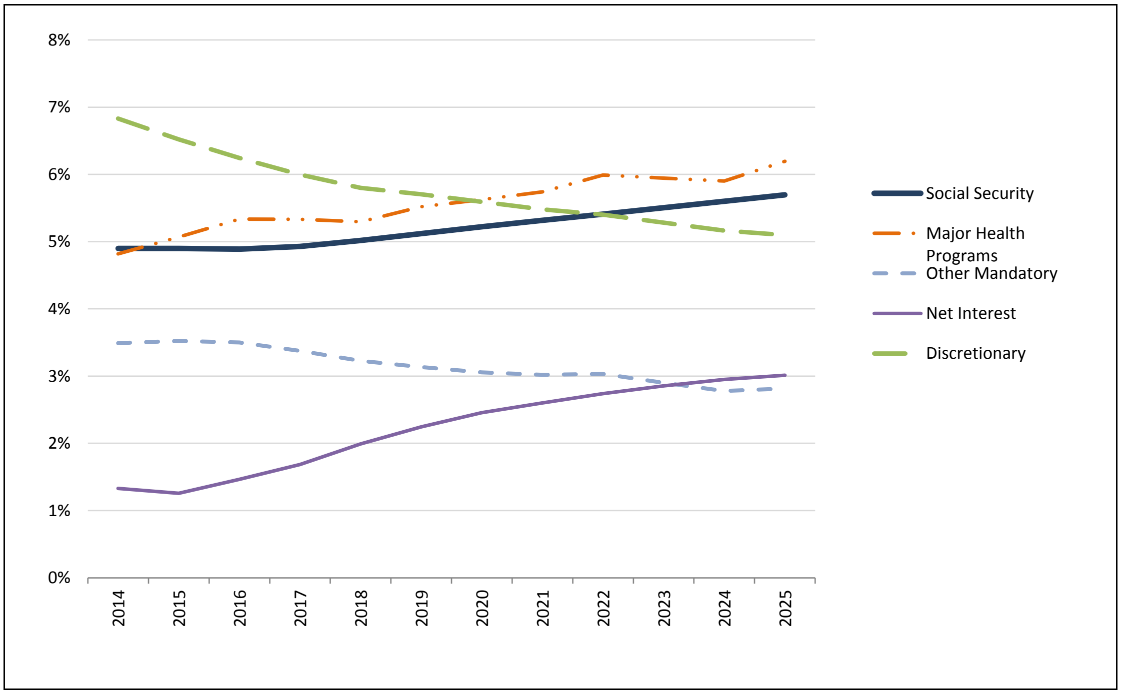
Notes: CBO baseline projections depicted to the right of the vertical line.

Trends in Spending Over the Next Decade

While the share of mandatory spending has increased as a portion of total federal spending, discretionary spending has fallen. Discretionary spending, defined as spending provided and controlled through appropriations acts, generally made up a larger share of total federal spending through the late 1980s. Mandatory spending now counts for the majority of total federal spending. As a share of GDP, discretionary spending has fallen from 10% of GDP in FY1983 to a low of 6.0% in FY1999 to 6.8% in FY2014. Over the last four decades, mandatory spending has risen from roughly 7.5% of GDP to more than 10% in the mid-2000s to 12.2% in FY2014.

Over the next decade, mandatory spending is projected to reach 14.2% of GDP. Discretionary spending is projected to continue to fall further to 5.1% of GDP, its lowest level ever. By FY2022 discretionary spending's share of the economy is projected to be equal to or less than spending in each of the two largest categories of mandatory programs, Social Security and Major Health Programs.[16] In that year, discretionary spending is projected to total 5.4% of GDP, Social Security spending is projected to total 5.4% of GDP and spending on major health programs is projected to total 6.7% of GDP. At the same time, spending on other mandatory programs (income security, federal civilian and military retirement, veterans' programs, agriculture, MERHCF – the Department of Defense Medicare-Eligible Retiree Health fund, deposit insurance, Fannie Mae and Freddie Mac, higher education, and other mandatory spending) is projected to be less than projected spending on net interest payments beginning in FY2024. These trends in spending are shown in **Figure 5** below.

Figure 5. Projected Trends in Federal Spending as a Percentage of GDP (FY2014-FY2025)



Source: CBO, Budget Projections.

Notes: The "Other Mandatory" category includes spending in the income security, federal civilian and military retirement, veterans' programs, MERHCF, agriculture, deposit insurance, Fannie Mae and Freddie Mac, higher education, and other mandatory spending categories.

Mandatory Spending Beyond FY2024

CBO baseline projections, which extend 10 years forward, do not reflect the full force of the pressures the impending retirement of the large baby boom generation are expected to exert on the federal budget. Though the first baby boomers reached age 65 in 2011, most will not reach age 65 until after 2015. Extended baseline projections suggest that Social Security spending could amount to 6.8% of GDP by FY2085—an increase of 1.9 percentage points of GDP from its

[16] Spending on major health programs, Medicare, Medicaid, Exchange subsidies and related spending, and the Children's Health Insurance Program, is projected to surpass spending on discretionary programs in FY2018.

FY2014 level. According to CBO extended baseline projections, federal mandatory spending on health care, in large part due to rising costs, is projected to reach 13.4% of GDP by FY2085.[17] By contrast, total federal spending on these health programs in FY2014 was 5.4% of GDP. It is important to note that numerous uncertainties exist when trying to project future levels of spending, particularly for large mandatory programs.

Most fiscal experts assert that avoiding the accumulation of large, unsustainable debts will require cuts in entitlement benefits, large increases in federal revenues, a significant reduction in discretionary spending, or some mix of those policies. Because federal deficits and debts have adverse economic consequences, including lower economic growth, the longer such adjustments are delayed, the more difficult it will be to make adjustments.

Conclusion

Mandatory spending has taken up an increasingly large share of federal spending over the past half century. By the end of the decade, according to CBO baseline projections, mandatory spending will account for more than three out of every five dollars of federal spending. Mandatory spending has grown relative to the economy, even as the size of total federal spending relative to the overall economy has remained roughly constant.

Major entitlement programs play a larger and larger part within the category of mandatory spending. In 1962, before Medicare and Medicaid were created, Social Security accounted for just over half of all mandatory spending. Today, Social Security accounts for roughly 40% of mandatory spending. Medicare and Medicaid, since their inception, have taken up an increasingly large share of mandatory spending. Together, outlays for these two programs now exceed Social Security spending. CBO current-law projections indicate that federal health spending, including Medicare, Medicaid, and outlays for new health care exchanges and subsidies, could make up nearly 50% of mandatory spending in FY2025.

Reducing the federal deficit significantly by cutting spending without reducing mandatory spending, and in particular entitlements, would be difficult. Focusing budget cuts on mandatory spending, particularly Social Security, Medicare, and Medicaid, however, could adversely affect the elderly or the poor. Limiting budget reductions to smaller mandatory programs, like Temporary Assistance for Needy Families (TANF), SSI, and SNAP, would not reduce the federal deficit by as much because most of the increases in federal spending have been occurring in Medicare and Medicaid. Further reform of the health programs may be needed to eliminate long-term fiscal strains while preserving the goals of these programs.

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[17] CBO, *The 2014 Long-Term Budget Outlook*, Supplemental Data, July 2014.