REDUCING THE DEFICIT IN A SMART AND BALANCED WAY

By making investments in our people and infrastructure, we will strengthen the middle class, make America a magnet for jobs and innovation, and grow our economy, which will in turn help us to reduce deficits. But economic growth alone will not solve our Nation's long-term fiscal challenges.

Over the past few years, Democrats and Republicans have cut the deficit by more than $2.5 trillion through a mix of spending cuts and tax reform, including more than $1.4 trillion in spending cuts to discretionary programs in the Budget Control Act (BCA) and appropriations bills since 2011, and over $600 billion in new revenue in the American Taxpayer Relief Act (ATRA) from raising income tax rates on the highest income Americans. When interest savings are included, this amounts to over $2.5 trillion of deficit reduction, more than halfway toward the goal of $4 trillion in deficit reduction. That amount is what economists find is needed to bring deficits below three percent of Gross Domestic Product (GDP), put our debt on a downward trajectory, and put us on a fiscally sustainable path.

On multiple occasions, the President has presented comprehensive plans that would achieve this $4 trillion deficit reduction goal—in his April 2011 Framework for Shared Prosperity and Shared Fiscal Responsibility, in his July 2011 offer to Congressional Republicans during negotiations over extending the debt ceiling, in his September 2011 submission to the Joint Select Committee on Deficit Reduction, in his 2013 Budget, and in his latest offer to Congressional Republicans during negotiations that led to the passage of the ATRA at the start of this year.

The President stands by the compromise offer he made to Speaker Boehner in December 2012. This Budget includes all of the proposals in that offer. These proposals would achieve nearly $1.8 trillion in additional deficit reduction over the next 10 years, bringing total deficit reduction to $4.3 trillion. This represents more than enough deficit reduction to replace the damaging cuts required by the Joint Committee sequestration. The key elements of the offer include:

- About $580 billion in additional revenue relative to ATRA, from tax reform that closes tax loopholes and reduces tax benefits for those who need them least;
- About $400 billion in health savings that build on the health reform law and strengthens Medicare;
- About $200 billion in savings from other mandatory programs, such as reductions to farm subsidies and reforms to Federal retirement contributions;
- About $200 billion in additional discretionary savings, with near equal amounts from defense and non-defense programs;
- $230 billion in savings from using a more accurate measure of inflation for cost-of-living adjustments throughout the Budget, with protections for the most vulnerable;
- Almost $200 billion in savings from reduced interest payments on the debt, discretionary effects of program integrity cap adjustments, and other effects; and

- $50 billion for immediate infrastructure investments, as described in chapter 1, to repair our roads and transit systems, create jobs, and build a foundation for economic growth.

Because all of the President's proposed investments are fully paid for with additional savings not counted toward the totals above, the Budget locks in the nearly $1.8 trillion in deficit reduction from the President's offer to Speaker Boehner.

As a result, deficits under the Budget fall to below three percent of GDP in 2016, and the Federal debt begins to decline as a share of the economy. Over the next 10 years, deficits fall to about two percent of GDP, and debt continues to decline, reaching 73 percent of GDP in 2023, the last year of the budget window. Putting our Budget on a sustainable fiscal path is a critical step toward ensuring that we have a solid foundation on which to build a strong economy and a thriving middle class for years to come.

REFORMING THE INDIVIDUAL INCOME TAX CODE—ASKING EVERYONE TO PAY THEIR FAIR SHARE

While the ATRA raised revenue from higher tax rates, the next stage of deficit reduction will require additional revenue from reforming the tax code. To reach the goal of $4 trillion in total deficit reduction, the President is proposing more than $1 trillion in savings from spending cuts, entitlement reforms, and interest savings. But he is also proposing to do what leaders of both parties have suggested: save hundreds of billions of dollars through tax reform that reduces tax benefits for high-income households. Tax reform holds the potential to improve economic growth by reducing complexity for individuals and small businesses, improving efficiency, and lowering the deficit. Without it, reducing the deficit through spending cuts alone will undermine growth by slashing investments in education, energy, and medical research, and endangering Medicare and Social Security. The Administration believes in a balanced approach that cuts spending and reforms entitlements responsibly, but also raises revenue from tax reform that closes special interest loopholes and addresses deductions and exclusions that let some of the wealthiest members of society pay a smaller fraction of their income in taxes than many middle class families.

As a first step toward balanced deficit reduction and tax reform, the President proposes that the Congress immediately enact two measures that would raise $583 billion in revenue by broadening the tax base and reducing tax benefits for those who need them the least:

Reduce the Value of Itemized Deductions and Other Tax Preferences to 28 Percent for Families with Incomes in the Highest Tax Brackets. Currently, a millionaire who contributes to charity or deducts a dollar of mortgage interest enjoys a deduction that is more than twice as generous as that for a middle class family. The Budget would limit the tax rate at which high-income taxpayers can reduce their tax liability to a maximum of 28 percent, a limitation that would affect only the top three percent of families in 2014. This limit would apply to: all itemized deductions; foreign excluded income; tax-exempt interest; employer sponsored health insurance; retirement contributions; and selected above-the-line deductions. The proposed limitation would return the deduction rate to the level it was at the end of the Reagan Administration.

Observe the Buffett Rule. The Budget also puts forward a specific proposal to comply with the Buffett Rule, requiring that wealthy millionaires pay no less than 30 percent of income—after charitable contributions—in taxes. This proposal will prevent high-income households from using tax preferences, including low tax rates on capital gains and dividends, to reduce their total tax bills to less than what many middle class families pay.

Beyond these measures, the President is committed to working with the Congress to further reform the tax code to make it more fair, promote economic growth and job creation, and improve competitiveness.

BUILDING ON SAVINGS IN THE HEALTH CARE LAW

Health care comprises one-quarter of non-interest Federal spending, and the health care costs of an aging population are a major driver of future deficit growth. To help reduce health care costs, the President signed into law the Affordable Care Act (ACA). This law has already contributed to significant reductions in the growth of private and public health care spending. In addition, according to the Congressional Budget Office's latest analysis, the health care law will reduce the deficit by more than $1 trillion over the next two decades. Realizing this deficit reduction and efficiencies in the health care system will reduce cost and improve quality requires effective implementation of the ACA. The President is committed to ensuring ACA implementation is effective, efficient, and swift. Repealing or failing to implement the health care law would return the Nation to a path of rapidly increasing health care costs and add trillions of dollars to deficits over the long-run.

To continue our commitment to make health care affordable and strengthen Medicare, Medicaid, and other health programs, the Budget includes $401 billion in health savings over 10 years that build on the ACA by eliminating excess payments and fraud and supporting reforms that boost the quality of care. It accomplishes this without shifting significant risks onto individuals, slashing benefits, or undermining the fundamental compact these programs represent to our Nation's seniors, people with disabilities, and low-income families. These reforms will extend Medicare's solvency by approximately four years.

Encourage Adoption of New Physician Payment Models. The Administration is committed to working with the Congress to reform Medicare physician payments to provide predictable payments that incentivize quality and efficiency in a fiscally responsible way. The Administration supports a period of payment stability lasting several years to allow time for the continued development of scalable accountable payment models. Such models would encourage care coordination, reward practitioners who provide high-quality efficient care, and hold practitioners accountable, through the application of financial risk, for consistently providing low-quality care at excessive costs. Following the period of stability, practitioners will be encouraged to partner with Medicare by participating in an accountable payment model, and over time, the payment update for physician's services would be linked to such participation.

Reduce Medicare Coverage of Bad Debts. This proposal will align Medicare policy more closely with private sector standards by reducing bad debt payments from 65 percent generally to 25 percent for all eligible providers over three years starting in 2014. This proposal will save approximately $25 billion over 10 years.

Better Align Graduate Medical Education Payments with Patient Care Costs. Medicare compensates teaching hospitals for the indirect costs created from residents "learning by doing." The Medicare Payment Advisory Commission (MedPAC) has determined that these Indirect Medical Education (IME) add-on payments are significantly greater than the additional patient care costs that teaching hospitals experience. This proposal will modify these payments and save approximately $11 billion over 10 years.

Better Align Payments to Rural Providers with the Cost of Care. Medicare makes a number of special payments to account for the unique challenges of delivering medical care to beneficiaries in rural areas. These payments continue to be important; however, in specific cases, the adjustments may be greater than necessary to ensure continued access to care. The Budget proposes to improve the consistency of payments across rural hospital types, provide incentives for efficient delivery of care, and eliminate higher than necessary reimbursement, saving approximately $2 billion over 10 years.

Encourage Efficient Post-Acute Care. Medicare covers services in skilled nursing facilities (SNFs), long-term care hospitals (LTCHs), inpatient rehabilitation facilities (IRFs) and home health agencies. Over the years, MedPAC has noted that expenditures for post-acute care have increased dramatically, and payments are in excess of the costs of providing high-quality and efficient care, placing a drain on Medicare. Recognizing the importance of these services, the Administration supports policies that will encourage efficient utilization of services and improve the quality of care. The Budget's proposals include adjusting payment updates for certain post-acute care providers and equalizing payments for certain conditions commonly treated in IRFs and SNFs, which will save about $81 billion over 10 years. The Budget encourages appropriate use of inpatient rehabilitation hospitals and adjusts SNF payments to reduce unnecessary hospital readmissions, saving almost $5 billion over 10 years. Also, the Budget proposes to restructure payments for post-acute care services using a bundled payment approach, saving about $8 billion over 10 years.

Improve Payment Accuracy for Medicare Advantage. Medicare Advantage plans receive a minimum statutory adjustment to their payment to account for differences in coding of medical conditions between Medicare Advantage and fee-for-service providers. The Government Accountability Office (GAO) has identified this minimum adjustment as inadequate to account for overpayments resulting from this difference. Therefore, the Budget proposes to increase the minimum coding intensity adjustment beginning in 2015. This proposal will save approximately $15 billion over 10 years. In addition, MedPAC has identified potential changes to the way employer group waiver plans are paid. The Budget proposes to align employer group waiver plan payments with the average individual Medicare Advantage plan bid in each Medicare Advantage payment area beginning in 2015. This proposal is estimated to save $4 billion over 10 years.

Align Medicare Drug Payment Policies with Medicaid Policies for Low-Income Beneficiaries. The Department of Health and Human Services Office of Inspector General has found substantial differences in rebate amounts and net prices paid for brand name drugs under Medicare and Medicaid, with Medicare receiving significantly lower rebates and paying higher prices than Medicaid—even for Medicaid beneficiaries also enrolled in Medicare. Moreover, Medicare per capita spending in Part D is expected to grow significantly faster over the next 10 years than spending in Parts A or B under current law. This proposal would allow Medicare to benefit from the same rebates that Medicaid receives for brand name and generic drugs provided to beneficiaries who receive the Part D Low-Income Subsidy beginning in 2014. This option is estimated to save $123 billion over 10 years.

Accelerate Manufacturer Drug Rebates to Provide Relief to Medicare Beneficiaries in the Coverage Gap. The Affordable Care Act closes the coverage gap in Part D by 2020 through a combination of manufacturer discounts and Federal subsidies. Since the law's enactment, over six million Medicare beneficiaries have saved on their prescription drug costs. The Budget proposes to increase manufacturer discounts for brand name drugs from 50 to 75 percent in 2015, effectively closing the coverage gap for brand name drugs in 2015, five years sooner than under current law. This proposal is estimated to save approximately $11 billion over 10 years.

Increase Income-Related Premiums Under Medicare Parts B and D. Under Medicare Parts B and D, higher income beneficiaries pay higher premiums. Beginning in 2017, the Budget proposes to restructure income-related premiums under Parts B and D by increasing the lowest income-related premium five percentage points, from 35 percent to 40 percent and also increasing other income brackets until capping the highest tier at 90 percent. The proposal maintains the income thresholds associated with income-related premiums until 25 percent of beneficiaries under Parts B and D are subject to these premiums. This will help improve the financial stability of the Medicare program by reducing the Federal subsidy of Medicare costs for those beneficiaries who can most afford them. This proposal will save approximately $50 billion over 10 years.

Promote Targeted, Shared Responsibility for New Beneficiaries. The Budget proposes three targeted policies to promote appropriate use of health care for new enrollees in Medicare starting in 2017. First, to strengthen program financing and encourage beneficiaries to seek high-value health care services, the Budget proposes to apply a $25 increase in the Part B deductible in 2017, 2019, and 2021 for new beneficiaries. Second, Medicare beneficiaries currently do not make co-payments for Medicare home health services. This proposal would create a home health copayment of $100 per home health episode for new beneficiaries, applicable for episodes with five or more visits not preceded by a hospital or other inpatient post-acute care stay. This proposal is consistent with a MedPAC recommendation to establish a per episode copayment. Third, to encourage more efficient health care choices, the Budget proposes a Part B premium surcharge equivalent to about 15 percent of the average Medigap premium for beneficiaries that purchase Medigap policies with particularly low cost-sharing requirements.

Medigap policies sold by private insurance companies cover most, or all, of the cost-sharing Medicare requires. This protection, however, gives individuals less incentive to consider the costs of health care services and thus raises Medicare costs and Part B premiums. Together these proposals will save approximately $7 billion over 10 years.

Strengthen the Independent Payment Advisory Board (IPAB) to Reduce Long-Term Drivers of Medicare Cost Growth. IPAB has been highlighted by economists and health policy experts as a key contributor to Medicare's long term solvency, and this proposal would lower the target rate from the GDP per capita growth rate plus one percentage point to plus 0.5 percentage point.

Encourage the Use of Generic Drugs By Low Income Beneficiaries. Medicare provides Part D cost-sharing subsidies for beneficiaries with incomes below 150 percent of the Federal poverty level. Evidence has shown that low income subsidy (LIS) individuals have higher rates of brand name drug utilization than other beneficiaries. To increase generic utilization by LIS beneficiaries, the Budget proposes in most instances to increase specified copayments for brand drugs from their current law level, while lowering specified copayments for generic drugs by more than 15 percent. Beneficiaries would continue to be charged the current law amounts for brand drugs if a generic substitute is not appropriate or available. This proposal will save approximately $7 billion over 10 years.

Cut Waste, Fraud, and Abuse in Medicare and Medicaid. In this fiscal environment, we cannot tolerate waste, fraud, and abuse in Medicare, Medicaid, and the Children's Health Insurance Program (CHIP), or any Government program. That is why the Administration has made targeting waste, fraud, and abuse a priority. The Administration is aggressively implementing new tools for fraud prevention included in the Affordable Care Act, as well as the fraud prevention system, a predictive analytic model similar to those used by private sector experts. In addition, the Budget proposes a series of policies to build on these efforts that will save nearly $4.1 billion over the next 10 years. Specifically, the Budget proposes new initiatives to reduce improper payments in Medicare; require prior authorization for advanced imaging; direct States to track high prescribers and utilizers of prescription drugs in Medicaid to identify aberrant billing and prescribing patterns; expand authorities to investigate and prosecute allegations of abuse or neglect of Medicaid beneficiaries in additional health care settings; and affirm Medicaid's position as a payer of last resort by removing exceptions to the requirement that State Medicaid agencies reject medical claims when another entity is legally liable to pay the claim. In addition, the Budget would alleviate State program integrity reporting requirements by consolidating redundant error rate measurement programs to create a streamlined audit program with meaningful outcomes, while maintaining the Federal and State Government's ability to identify and address improper Medicaid payments.

Limit Medicaid Reimbursement of Durable Medical Equipment (DME) Based on Medicare Rates. Under current law, States have experienced challenges in preventing overpayments for DME. This proposal, starting in 2014, would limit Federal reimbursement for a State's Medicaid spending on certain DME services to what Medicare would have paid in the same State for the same services. This proposal is projected to save $4.5 billion over 10 years.

Better Align Medicaid Disproportionate Share Hospital (DSH) Payments with Expected Levels of Uncompensated Care. Supplemental DSH payments are intended to help support hospitals that provide care to disproportionate numbers of low-income and uninsured individuals. The ACA reduced State DSH allotments from 2014 through 2020 to reflect the reduced need as a result of the increased coverage provided in the Act, and these reductions have since been extended in legislation through 2022. To better align DSH payments with expected levels of uncompensated care, the Budget proposes to begin the reductions in 2015, instead of 2014, and to determine future State DSH allotments based on States' actual DSH allotments as reduced by the Affordable Care Act. This proposal is projected to save $3.6 billion over 10 years.

Lower Drug Costs. The Budget includes a number of policies to lower drug costs to taxpayers and consumers. It proposes targeted adjustments in Medicaid prescription drug financing by clarifying the definition of brand drugs, excluding authorized generic drugs from average manufacturer price calculations for determining manufacturer rebate obligations for brand drugs, making a technical correction to the ACA alternative rebate for new drug formulations, and calculating Medicaid Federal upper limits based only on generic drug prices. These proposals are projected to save $8.8 billion over 10 years. In addition, beginning in 2014, the Budget proposes to increase the availability of generic drugs and biologics by authorizing the Federal Trade Commission to stop companies from entering into anti-competitive deals, known also as "pay for delay" agreements, intended to block consumer access to safe and effective generics. Such deals can cost consumers billions of dollars because generic drugs are typically priced significantly less than their branded counterparts. The Administration's proposal will generate $11 billion over 10 years in savings to Federal health programs including Medicare and Medicaid. The Budget also proposes to accelerate access to affordable generic biologics by modifying the length of exclusivity on brand name biologics. Beginning in 2014, this proposal would award brand biologic manufacturers seven years of exclusivity, rather than 12 years under current law, and prohibit additional periods of exclusivity for brand biologics due to minor changes in product formulations, a practice often referred to as "evergreening." The proposal will result in $3 billion in savings over 10 years to Federal health programs including Medicare and Medicaid.

Modernize the Federal Employee Health Benefits Program (FEHBP). The health insurance marketplace has changed significantly since the FEHBP was enacted in 1959, and the current governing statute leaves little flexibility for the program to evolve with the changing market. The Budget proposes to modernize FEHBP by taking several steps beginning in 2015: employees would be given the option to enroll in a "self plus one" coverage option rather than being limited to just self or family options; domestic partners of Federal employees and new retirees would be eligible for health benefits; the Office of Personnel Management (OPM) would be authorized to contract with modern types of health plans rather than being limited to the current four statutorily-defined plans reflective of the 1950s insurance market; OPM would be authorized to contract separately for pharmacy benefit management services; and OPM would be given authority to make adjustments to premiums based on an enrollee's tobacco use and/or participation in a wellness program. These proposals are estimated to save $8.4 billion over 10 years.

Encourage Additional Provider Efficiencies. The Budget contains several proposals encouraging more appropriate compensation for the efficient provision of services under the Medicare program. MedPAC cautions that physician self-referral of ancillary services leads to a higher volume when combined with fee-for-service payments, a finding consistent with GAO analysis. The Budget encourages more appropriate use of ancillary services by only allowing providers who meet certain accountability standards to self-refer radiation therapy, therapy services, and advanced imaging services. In addition, the Budget would modernize Medicare payments for clinical laboratory services by more closely aligning payment levels with the private sector and granting the Secretary authority to make other appropriate payment adjustments, as well as supporting policies to encourage electronic reporting of laboratory results. The Budget would also expand the availability of Medicare data released to physicians and other providers for performance improvement, fraud prevention, value-added analysis, and other purposes. In addition, the Budget would reduce payment of physician administered Part B drugs from 106 percent of average sales price to 103 percent of average sales price. These proposals would save approximately $20 billion over 10 years.

MAKING FURTHER TOUGH CHOICES TO REDUCE THE DEFICIT

As part of a balanced deficit reduction plan, the Budget includes other tough choices to cut spending and find further savings in other mandatory programs across the Government. These additional savings proposals include:

Maintain Farm Safety Net While Making Common-Sense Reforms. The President is committed to building a strong rural economy by ensuring targeted investments in renewable energy, infrastructure, conservation, and agricultural, food, and environmental research. The farm sector continues to be one of the strongest sectors of our economy, with net farm income expected to reach $128 billion in 2013, a nominal record and the highest level in real terms since 1973. With the continuing high value of both crop and livestock production, income support payments based upon historical levels of production can no longer be justified. The Budget proposes to reform agricultural programs while reducing spending by $38 billion over 10 years.

A key reform and cost savings is the elimination of "direct payments," while providing mandatory disaster assistance to livestock and orchard producers to protect them from significant losses, such as those experienced in the recent drought. The Budget also proposes to reduce subsidies for crop insurance companies by establishing a reasonable rate of return to participating crop insurance companies and reducing the reimbursement rate of administrative and operating costs. In addition, the Budget proposes to reduce producers' premium subsidy by three basis points for policies with subsidies greater than 50 percent and reducing the subsidy for the harvest price option by two basis points. Conservation programs are strengthened by the creation of a new agricultural conservation easement program, which would combine programs designed to preserve wetlands, agriculture land, and grasslands under one streamlined program. To offset the cost of the new program, the Budget proposes to reduce the Conservation Reserve Program to 25 million acres from 32 million acres and cuts the Conservation Stewardship Program from 12.7 million to 10.3 million acres. At the same time, the Budget targets funding for priorities such as bioenergy, specialty crops, organic foods, and beginning farmer assistance.

Restrain Increases in Federal Civilian Worker Pay. Putting the Nation back on a sustainable fiscal path will take some tough choices and sacrifices. Federal civilian employees are central to the Federal Government's success in serving the American people. They assure the safety of the country's food and airways, defend the homeland, provide health care to the Nation's veterans, search for cures to devastating diseases, and provide vital support to our troops at home and abroad. The men and women who serve their fellow Americans as civilian Federal workers are patriots who work for the Nation often at great personal sacrifice; they deserve our respect and gratitude. But just as families and businesses across the country are tightening their belts, so too must the Federal Government. On his first day in office, the President froze salaries for all senior political appointees at the White House. Starting in 2011, the President proposed and the Congress enacted a two year pay freeze for all civilian Federal workers, which is expected to save more than $60 billion over the next 10 years. And in 2013 and again in 2014, the President is proposing to freeze the pay for senior political officials. However, a permanent pay freeze for the remaining civilian employees is neither sustainable nor desirable. In light of the fiscal constraints we are under, the Budget proposes a one-percent increase in civilian pay for 2014. Compared to the baseline, this slight increase in civilian pay would free up $1 billion in 2014 and $18 billion over 10 years to fund programs and services and is one of the measures the Administration proposes to help meet the discretionary caps.

Reform Federal Civilian Worker Retirement. The President's 2011 Plan for Economic Growth and Deficit Reduction proposed to increase the Federal employees' contributions toward their accruing retirement costs, from 0.8 percent to 2.0 percent of pay, over three years, beginning in 2013. In response, the Congress created the Revised Annuity Employee retirement plan for Federal employees hired after 2012, through which those employees contribute 3.1 percent of their pay toward their pensions. In order to make reasonable adjustments to contributions made by those who joined the workforce prior to 2013, the Budget again proposes to increase contributions of those employees by 1.2 percent of pay, over three years, beginning in 2014. While Federal agency contributions for currently accruing costs of employee pensions would decline, these Federal employers would pay an additional amount toward unfunded liabilities of the retirement system that would leave total agency contributions unchanged.

Under the proposed plan, the amount of the employee pension would remain unchanged. This proposal is estimated to save $20 billion over 10 years. In addition, the Budget again proposes to eliminate the FERS Annuity Supplement for new employees. These changes are expected to neither negatively impact on the Administration's ability to manage its human resources, nor inhibit the Government's ability to serve the American people.

Adjust TRICARE Fees to Better Reflect Costs. Over the past decade, U.S. health care costs have grown substantially and the Military Health System (MHS) costs have been no exception. Although the Congress recently permitted small increases in the TRICARE Prime enrollment fees for working age retirees and some adjustments to Pharmacy copays, the savings from these changes are not enough to control the large increases in health care costs. For example, in 1996 a working age retiree's family of three who used TRICARE civilian care contributed on average roughly 27 percent of the total cost of their health care through fees and copays. Today that percentage has dropped to less than 11 percent, which is substantially less than the average 40 percent contribution paid by Federal employees. The Department of Defense continues to seek efficiencies within the MHS, but also requires additional savings. The Budget includes small TRICARE benefit adjustments to address health care cost increases and make the health benefit more sustainable. TRICARE fee adjustments include increased Prime enrollment fees, annual Standard/Extra enrollment fees with adjusted deductibles and catastrophic caps. In addition, the Budget makes targeted increases to TRICARE pharmacy benefit copayments and establishes annual TRICARE-For-Life Enrollment fees. Survivors of members who died while on active duty and disability retirees and their family members will be exempt from the fee and copay adjustments.

Reform Aviation Passenger Security Fee to Reflect Costs More Accurately. Reflecting its commitment to keeping air travel and commerce safe, the Administration has invested heavily in personnel, technology, and infrastructure to mitigate the constantly evolving risks to aviation security. As risk changes, so too must the way in which we fund our aviation security efforts. Since its establishment in 2001, the Aviation Passenger Security Fee has been statutorily limited to $2.50 per enplanement, with a maximum fee of $5.00 per one-way trip. This recovers less than 30 percent of the Transportation Security Administration's aviation security costs, including overhead and the Federal Air Marshal Service, which have risen over the years while the fee has remained the same. The Budget proposes to replace the current "per enplanement" fee structure so that passengers pay the fee only one time per one-way trip; remove the current statutory fee limit and replace it with a statutory fee minimum of $5.00, with annual incremental increases of 50 cents from 2015 to 2019, resulting in a fee of $7.50 in 2019 and thereafter; and allow the Secretary of Homeland Security to adjust the fee through regulation when necessary. The proposed fee would collect an estimated $9 billion in additional fee revenue over five years, and $25.9 billion over 10 years. Of this amount, $18 billion will go towards debt reduction.

Share Payments More Equitably for Air Traffic Services. All flights that use controlled air space require a similar level of air traffic services. However, commercial and general aviation can pay very different aviation fees for those same air traffic services. To reduce the deficit and more equitably share the cost of air traffic services across the aviation user community, the Budget proposes to create a $100 per flight fee, payable to the Federal Aviation Administration, by aviation operators who fly in controlled airspace. All piston aircraft, military aircraft, public aircraft, air ambulances, aircraft operating outside of controlled airspace, and Canada-to-Canada flights would be exempted. This fee would generate an estimated $7.3 billion over 10 years. Assuming the enactment of the fee, total charges collected from aviation users would finance roughly three-fourths of airport investments and air traffic control system costs. To ensure appropriate input from stakeholders on the design of the fee, the proposal would also establish an expert Commission that could recommend to the President a replacement charge, or charges, that would raise no less in revenue than the enacted fee.

Provide Postal Service Financial Relief and Undertake Reform. The Budget includes a comprehensive and balanced legislative proposal to provide short-term financial relief and longer term reforms to the financially strapped Postal Service. It includes flexibilities that will allow the Postal Service to realign its business plan to better compete in the changing marketplace of increasingly digital communication, including provisions that enable the agency to reduce its costs and increase its revenues. These reforms will result in savings of more than $20 billion over 10 years, and build on the Postal Service's ongoing initiatives to implement operating efficiencies and business solutions to return it to sustainability.

Strengthen Pension Benefit Guaranty Corporation to Protect Worker Pensions. The Budget gives the Board of Directors of the Pension Benefit Guaranty Corporation (PBGC) discretion to increase premium rates to generate up to an additional $25 billion beginning in 2015. This reform is necessary to ensure the continued financial soundness of PBGC, which currently has a deficit of $35 billion. PBGC premiums are currently much lower than what a private financial institution would charge for insuring the same risk, and unlike private insurers (or even other similar agencies, such as the FDIC), the PBGC is currently unable to adjust the premiums it assesses from plan sponsors to cover potential liabilities.

Strengthen UI Safety Net and Improve Program Integrity. The combination of chronically underfunded reserves and the economic downturn has placed a considerable financial strain on States' Unemployment Insurance (UI) operations. Currently, 23 States owe more than $28 billion to the Federal UI trust fund, and employers in those States are now facing automatic Federal tax increases.

The Budget would put the UI system back on the path to solvency by providing immediate tax relief to employers to encourage job creation now and reestablishing State fiscal responsibility going forward. Under this proposal, employers in

States that are indebted to the Federal UI trust fund would receive tax relief for two years. To encourage State solvency, the Budget would also raise the minimum level of wages subject to unemployment taxes in 2016 to $15,000, a level slightly less in real, inflation-adjusted terms than it was in 1983, after President Reagan signed into law the last wage base increase. The higher wage base would be offset by lower tax rates to avoid a Federal tax increase.

To enhance UI program integrity, the Budget also includes a discretionary cap adjustment for UI improper payment reviews and reemployment and eligibility assessments. Reducing UI improper payments is a top management challenge identified by GAO and the Department of Labor's Inspector General. The Budget expands an initiative begun in 2005 to finance in-person interviews to assess UI beneficiaries' need for employment services and their continued eligibility for benefits. The resulting savings in UI benefit payments would total $1.24 billion.

The Budget further enhances program integrity by requiring States to use the Treasury Offset Program to recover UI debts stemming from overpayments due to fraud or failure to report earnings, and the State Information Data Exchange System, or a successor system, to obtain information from employers necessary to determine a claimant's eligibility.

Step Up Efforts to Reduce Social Security Payment Errors and Boost Program Integrity. The Budget provides a dedicated source of mandatory funding for the Social Security Administration (SSA) to conduct Continuing Disability Reviews (CDRs) in the Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) programs, as well as redeterminations of eligibility for SSI. This dedicated funding will enable SSA to work down a backlog of CDRs and ensure that only those eligible for benefits continue to receive them. The resulting savings come from reduced spending on benefits in SSDI, SSI, Medicare (since SSDI beneficiaries generally qualify for Medicare), and Medicaid (since SSI beneficiaries automatically qualify for Medicaid). CDRs and redeterminations generate significant deficit reduction, with a return on investment for CDRs of approximately $9 in lifetime program savings for every $1 spent on these activities, and a return on investment for redeterminations of approximately $5 to $1.

Dispose of Excess or Under-Utilized Federal Property. With over 1.1 million buildings, structures, and land parcels, the Federal Government is the largest property owner in the United States. Over time, agencies have accumulated more properties than the Government needs to effectively meet its mission. That is why, from his first days in office, the President has made it a priority to eliminate wasteful spending on Federal real estate. We have already made significant progress. In June 2010, the President directed agencies to accelerate efforts to shed unneeded property, reduce operating costs, and adopt more efficient real estate management practices to achieve $8 billion in savings by the end of 2012. The President's directive included two parts: $5 billion in savings through the Base Realignment and Closure Commission (BRAC) process, as well as $3 billion in non-BRAC savings. As of the end of 2012, agencies achieved $5.1 billion in BRAC savings and $3.5 billion in non-BRAC savings, exceeding the President's goals.

Building on the lessons learned from this real estate savings initiative, the Administration's new real property goal will track the square footage baseline from its recent "Freeze the Footprint" guidance, which will limit the growth of the Federal real property inventory even further. In addition, individual agency co-location, consolidation, and disposal projects will be tracked on *Performance.gov*.

The Administration will also continue to pursue enactment of the Civilian Property Realignment Act (CPRA), which it first proposed in the 2012 Budget. Building on the best practices of BRAC, CPRA would create an independent board of experts to identify opportunities to consolidate, reduce, and realign the Federal footprint, as well as expedite the disposal of properties. The proposal utilizes bundled recommendations, a fast-track congressional procedure, streamlined disposal and consolidation authorities, and a revolving fund to provide logistical and financial support to agencies.

The Administration's continuing efforts to dispose of unneeded Federal property will generate at least $2 billion in net deficit reduction over the next 10 years.

Reform Federal Oil, Gas, and Coal Management. The U.S. Treasury receives billions of dollars annually from oil and gas development on Federal lands and waters, but recent studies from GAO and others have found that taxpayers could earn a better return through policy changes and more rigorous oversight. The Budget proposes a package of legislative and administrative reforms to improve the management of the Department of the Interior's (DOI) onshore and offshore oil and gas programs, with a key focus on increasing the return to taxpayers from the sale of these Federal resources and on enhancing transparency and oversight. Proposed changes include royalty reforms and incentives to diligently develop leases, such as shorter primary lease terms, stricter enforcement of lease terms, and monetary incentives to get leases into production through a new per-acre fee on nonproducing leases. Revenue collection improvements include simplification of the royalty valuation process, elimination of interest accruals on company overpayments of royalties, and permanent repeal of DOI's authority to accept in-kind royalty payments. States will also be asked to help pay for the costs of administering energy and mineral receipts from which they receive benefits, but they will also benefit from higher Federal revenue sharing payments as a result of the other reforms. Some States that have already completed reclamation of priority abandoned coal mines would no longer receive unrestricted payments from the abandoned coal mine land fund. Collectively, these reforms will generate over $3 billion in net revenue to the Treasury over 10 years.

LOWERING CAPS ON DISCRETIONARY SPENDING

In August 2011, the President signed into law the BCA, which put in place a down payment toward deficit reduction. The BCA included a cap on discretionary spending that would achieve approximately $1.2 trillion in deficit reduction over ten years, including savings on interest payments. ATRA, signed into law in January 2013, reduced those caps even further, achieving an additional $12 billion in savings. Because of those caps, by the beginning of the next decade, domestic discretionary spending will drop to its lowest level as a share of the economy since at least the 1950's, when Dwight D. Eisenhower sat in the Oval Office.

Importantly, although discretionary spending represents only one-third of Federal spending, it supports critical investments in education, infrastructure, energy, and scientific research, all of which are engines of job creation and economic growth. Cutting discretionary spending in these areas hinders our ability to innovate and compete in the 21st Century economy and jeopardizes the Nation's long-term economic strength, as well as its national security.

However, in the interest of reaching bipartisan agreement on a balanced deficit reduction package, the Budget proposes to lower the discretionary caps even further, reducing discretionary spending by an additional $202 billion over the next decade. The proposed cuts are almost evenly distributed between defense and non-defense spending, and are timed to take effect beginning in 2017, after the economy is projected to have fully recovered. While the President would not support lowering the discretionary caps on their own, because doing so will make it more difficult for the country to make needed investments to grow the economy, he is willing to accept this level of cuts as part of a balanced compromise that will put the country on a sustainable long-term fiscal path.

USING A MORE ACCURATE MEASURE OF INFLATION

In the interest of achieving a bipartisan deficit reduction agreement, beginning in 2015 the Budget would change the measure of inflation used by the Federal Government for most programs and for the Internal Revenue Code from the standard Consumer Price Index (CPI) to the alternative, more accurate chained CPI, which grows slightly more slowly. Unlike the standard CPI, the chained CPI fully accounts for a consumer's ability to substitute between goods in response to changes in relative prices and also adjusts for small sample bias. Most economists agree that the chained CPI provides a more accurate measure of the average change in the cost of living than the standard CPI.

Switching to the chained CPI, which will reduce deficits and improve Social Security solvency, has been proposed in almost every major bipartisan deficit reduction plan put forward over the past several years, including the Bowles-Simpson Fiscal Commission plan, the Bipartisan "Gang of Six" plan, and the Domenici-Rivlin Bipartisan Policy Center plan.

The President has made clear that any such change in approach should protect the most vulnerable. For that reason, the Budget includes protections for the very elderly and others who rely on Social Security for long periods of time, and only applies the change to non-means tested benefit programs. The switch to chained CPI will reduce deficits by at least $230 billion over the next 10 years.