APPENDIX

A

Changes in CBO's Baseline Since August 2015

The Congressional Budget Office anticipates that in the absence of further legislation affecting spending and revenues, the budget deficit for fiscal year 2016 will total $544 billion. That amount is $130 billion greater than the $414 billion deficit CBO projected in August 2015, when the agency last reported on its baseline (see Table A-1).[1] Much of the projected increase in the deficit stems from legislation enacted since the August update; CBO estimates that the effects of those laws will boost this year's deficit by $164 billion. Changes related to CBO's economic forecast add another $17 billion to the deficit projected for 2016; other, technical, factors reduce the gap by $51 billion.

CBO now projects that the cumulative deficit for the 2016–2025 period would be about $1.5 trillion higher than shown in its August projections—$8.6 trillion rather than $7.0 trillion—if current laws generally remained the same. In the baseline described in this report, for all years of the projection period after 2016, revenues are lower and outlays are higher than the amounts projected in the August baseline. On net, about half of the total increase in the cumulative deficit arises from the enactment of new legislation, but CBO's updated economic forecast and other, technical, factors also increase the deficit projected for each year through 2025.[2]

1. See Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2015 to 2025* (August 2015), www.cbo.gov/publication/50724. CBO constructs its baseline projections in accordance with provisions of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) and the Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344). To project revenues and mandatory spending, CBO assumes that current laws, with only a few exceptions, will remain unchanged throughout the 10-year projection period. To project discretionary spending, CBO assumes that most annual appropriations through 2021 will adhere to the caps and automatic spending reductions established in the Budget Control Act of 2011 (P.L. 112-25), as amended, and that appropriations thereafter will grow from the 2021 amounts at the rate of inflation. Certain discretionary appropriations are not constrained by the caps, such as those designated for overseas contingency operations. In CBO's baseline, those appropriations grow in future years at the rate of inflation. CBO's baseline is not intended to predict budgetary outcomes. Rather, it serves as a benchmark against which to measure the potential effects of changes in laws governing taxes and spending.

Legislative Changes to Projections

The largest changes in CBO's projections of the deficit since August—both for the current year and for the 2016–2025 period—stem from a few laws enacted toward the end of 2015. The Consolidated Appropriations Act, 2016 (Public Law 114-113), had by far the greatest effect, but three other laws also had notable influence on CBO's projections: the Fixing America's Surface Transportation Act (also called the FAST Act, P.L. 114-94), the Bipartisan Budget Act of 2015 (P.L. 114-74), and the National Defense Authorization Act for Fiscal Year 2016 (often called the 2016 NDAA, P.L. 114-92). Other legislation enacted between August and the end of 2015 had small effects on CBO's baseline projections.

The $164 billion addition to the deficit for 2016 that arises from new legislation stems mostly from an estimated $134 billion reduction in revenues for that year. The increase in the cumulative deficit over 10 years is split more evenly between revenues and outlays: The new laws added an estimated $749 billion to the projected 10-year cumulative deficit—reducing projected revenues by $425 billion (or 1.0 percent) and increasing projected outlays by $324 billion (or 0.7 percent).

Changes to Revenues

The enactment of the Consolidated Appropriations Act, 2016, led CBO to lower projected revenues by $523 billion for the 2016–2025 period, although that change was partially offset by the effects of two other laws: the

2. Some late changes to CBO's economic forecast have not yet been incorporated into the budget projections, but they would probably not materially affect the overall outlook.

Table A-1.

Changes in CBO's Baseline Projections of the Deficit Since August 2015

Billions of Dollars

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total 2016-2020	Total 2016-2025
Deficit in CBO's August 2015 Baseline	-414	-416	-454	-596	-687	-767	-885	-895	-886	-1,008	-2,566	-7,007
Legislative Changes												
Changes to Revenues												
Individual income taxes	-56	-29	-24	-21	-9	-4	-8	-10	-13	-15	-139	-190
Corporate income taxes	-96	-52	-40	-27	*	7	-6	-15	-23	-28	-215	-280
Payroll taxes	*	*	*	*	*	1	1	1	1	1	*	4
Other	18	-10	2	1	1	5	5	6	6	7	11	41
All Changes in Revenues	-134	-91	-62	-48	-8	8	-7	-19	-29	-36	-343	-425
Changes in Outlays												
Mandatory outlays												
Refundable tax credits	0	-1	-1	22	22	22	22	22	23	23	42	154
Military retirement	0	2	2	3	3	3	4	4	4	5	10	30
Medicare	5	1	-2	-3	-3	-2	-1	1	2	-19	-2	-21
Strategic Petroleum Reserve	0	0	*	*	*	*	*	-2	-2	-2	-1	-8
Pension Benefit Guaranty Corporation	0	0	*	-1	-1	-1	-1	-1	-1	-4	-2	-8
Other	*	*	-1	-3	-1	*	-1	-1	-2	-8	-5	-17
Subtotal, mandatory	5	3	-2	18	20	22	23	24	24	-6	43	130
Discretionary outlays												
Defense	2	1	-5	-5	-4	-5	-5	-5	-5	-6	-11	-37
Nondefense	23	24	15	6	5	4	4	4	4	4	74	93
Subtotal, discretionary	25	25	10	1	1	*	-1	-1	-1	-2	63	56
Debt service	1	4	7	12	14	16	17	20	22	25	38	137
All Changes in Outlays	30	31	16	31	35	37	39	42	45	17	143	324
Increase (-) in the Deficit From Legislative Changes	**-164**	**-123**	**-78**	**-78**	**-43**	**-29**	**-46**	**-61**	**-74**	**-53**	**-487**	**-749**
Economic Changes												
Changes in Revenues												
Individual income taxes	-8	-11	-13	-16	-24	-36	-43	-49	-55	-61	-72	-317
Corporate income taxes	-27	-29	-27	-22	-20	-18	-18	-20	-24	-27	-125	-232
Payroll taxes	3	*	-5	-13	-19	-23	-27	-30	-33	-36	-33	-182
Other	-1	1	4	-2	-4	-5	-7	-8	-8	-9	-3	-40
All Changes in Revenues	-33	-39	-40	-53	-67	-82	-95	-108	-120	-132	-233	-771
Changes in Outlays												
Mandatory outlays												
Medicaid	-2	-3	-3	-3	-4	-4	-5	-5	-6	-6	-15	-41
Unemployment compensation	-2	-4	-4	-3	-3	-3	-3	-3	-3	-4	-16	-31
Social Security	*	-4	-4	-3	-3	-2	-1	-2	-4	-5	-13	-27
Outer Continental Shelf	2	2	2	2	2	2	2	2	2	2	8	17
Medicare	*	-1	-1	-2	-2	-2	-2	-2	-2	-2	-6	-16
Other	-1	-4	-4	-3	-3	-3	-3	-3	-3	-3	-15	-29
Subtotal, mandatory	-3	-14	-15	-13	-12	-11	-11	-13	-17	-16	-56	-126
Discretionary outlays	0	-1	-2	-3	-3	-4	-4	-4	-4	-4	-8	-27
Net interest outlays												
Debt service	*	*	1	2	2	4	6	8	11	14	5	47
Effect of rates and inflation	-14	-9	-16	-20	-24	-25	-28	-29	-32	-33	-82	-228
Subtotal, net interest	-13	-9	-15	-19	-21	-21	-22	-21	-21	-20	-77	-181
All Changes in Outlays	-16	-23	-32	-34	-37	-36	-37	-38	-42	-40	-142	-334
Increase (-) in the Deficit From Economic Changes	**-17**	**-16**	**-9**	**-19**	**-30**	**-46**	**-58**	**-69**	**-79**	**-93**	**-92**	**-437**

Continued

Table A-1. Continued

Changes in CBO's Baseline Projections of the Deficit Since August 2015

Billions of Dollars

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total 2016-2020	Total 2016-2025
							Technical Changes					
Changes in Revenues												
Individual income taxes	20	12	13	13	6	9	10	11	12	12	64	117
Corporate income taxes	5	*	-7	-11	-14	-16	-14	-14	-14	-15	-27	-101
Payroll taxes	-3	*	-1	*	-4	-5	-6	-7	-8	-8	-7	-41
Other	6	2	1	*	*	-2	-3	-3	-3	-3	8	-5
All Changes in Revenues	28	13	6	1	-12	-15	-13	-13	-13	-14	37	-30
Changes in Outlays												
Mandatory outlays												
Medicaid	6	10	14	16	18	21	23	25	27	28	64	187
Veterans' compensation and pensions	5	8	9	12	14	16	20	21	21	25	47	152
Social Security	-2	-3	-6	-7	-10	-12	-13	-14	-15	-15	-28	-97
Fannie Mae and Freddie Mac	-23	-1	-1	-1	-1	*	-1	-1	-1	-1	-27	-30
Medicare	4	2	5	4	4	4	3	-3	-4	8	20	28
Other	-17	-2	6	13	9	2	3	2	*	-1	10	17
Subtotal, mandatory	-27	15	27	37	35	31	36	30	29	45	87	258
Discretionary outlays	-3	-4	*	1	1	2	2	2	2	2	-5	3
Net interest outlays												
Debt service	*	-1	*	1	2	4	6	8	10	12	1	41
Other	7	10	11	7	*	-1	-1	-1	-2	*	35	31
Subtotal, net interest	7	9	10	8	2	3	5	7	8	12	36	72
All Changes in Outlays	-23	20	37	46	38	36	42	39	39	59	118	333
Increase (-) or Decrease in the Deficit From Technical Changes	**51**	**-7**	**-31**	**-45**	**-50**	**-51**	**-55**	**-52**	**-51**	**-73**	**-81**	**-363**
							All Changes					
Increase (-) in the Deficit	**-130**	**-146**	**-118**	**-142**	**-123**	**-126**	**-159**	**-182**	**-204**	**-218**	**-659**	**-1,549**
Deficit in CBO's January 2016 Baseline	-544	-561	-572	-738	-810	-893	-1,044	-1,077	-1,089	-1,226	-3,225	-8,556
Memorandum:												
Changes in Revenues	-139	-117	-96	-100	-87	-88	-115	-139	-162	-182	-540	-1,226
Changes in Outlays	-9	28	22	42	37	38	44	43	42	37	120	323

Source: Congressional Budget Office.

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

FAST Act, which CBO projects will increase revenues by $66 billion over the next 10 years, and the Bipartisan Budget Act of 2015, which is projected to increase revenues by $32 billion over the same period.

Among other actions, the Consolidated Appropriations Act, 2016, retroactively and prospectively extended, for two years or longer and sometimes in modified form, several provisions that had reduced corporate and individual income taxes and, to a much lesser extent, excise taxes; those provisions had expired at the end of calendar year 2014 or were scheduled to expire within the next several years. According to estimates by the staff of the Joint Committee on Taxation (JCT), the largest such reductions in revenues over the 2016–2025 period stem from permanent extensions of certain tax provisions, including a modified form of the research and experimentation tax credit ($113 billion), a provision that allows businesses to defer certain foreign financing income ($78 billion), a modified form of a provision that allows businesses with relatively small amounts of investment to take an immediate deduction for that investment ($77 billion), and a provision that offers people who itemize their deductions the option of deducting either state and local sales taxes or state and local income taxes from their taxable income ($42 billion).

The largest near-term effects on revenues stem from the extension for 2014 through 2017, and then a phase-out over the next three years, of the provision allowing businesses with large investments in equipment to immediately expense some of those investments. According to JCT's estimates, that change would reduce revenues by $151 billion over the 2016–2019 period and then increase them by $140 billion over the 2020–2025 period, for a net reduction of $11 billion over the next decade.

Less than one-fifth of the revenue reduction projected for the 2016–2025 period that is attributable to the Consolidated Appropriations Act, 2016, will be offset by the effects of the FAST Act and the Bipartisan Budget Act of 2015. The FAST Act, which authorized funding for federal highway programs, also requires the Federal Reserve to reduce its surplus account and remit the difference to the Treasury.[3] In addition, the FAST Act lowered the rate at which the Federal Reserve pays dividends to large member banks on capital contributed as a condition of membership. The Bipartisan Budget Act of 2015 also includes several provisions that affect revenues, including tax compliance initiatives aimed at partnerships.

Changes to Outlays

Since August, CBO has boosted its estimate of 2016 outlays by $30 billion ($5 billion in mandatory spending and $25 billion in discretionary spending) as a result of new legislation. CBO also anticipates that outlays would be higher for the full projection period than it projected in August, mainly as a result of increased spending for refundable tax credits and higher debt-service costs stemming from enacted legislation.

Mandatory Spending. Recent legislative activity led CBO to boost its estimates of mandatory outlays by $5 billion for 2016 and by $130 billion for the 10-year projection period, largely because of the extension of certain refundable tax credits.

Refundable Tax Credits. The Consolidated Appropriations Act, 2016, permanently extended the American Opportunity Tax Credit and expansions of the child tax credit and earned income tax credit that were first enacted in 2009 and that had been set to expire at the end of 2017.[4] Those changes will increase outlays by $159 billion over the 2016–2025 period (and reduce revenues by $39 billion over the same period), according to estimates by JCT. Other provisions of the law, mainly dealing with tax compliance, will reduce outlays for refundable tax credits by about $5 billion over the 2016–2025 period, JCT estimates.

Military Retirement. The 2016 NDAA made changes to the way retirement benefits are calculated for certain members of the uniformed services. Among the differences are a reduction in the multiplier used to set retirement annuities (which will reduce the amount of those annuities) and an option for future retirees to exchange part of their annuity stream for a lump-sum payment at the time they separate from service. Over the long term, those changes will reduce mandatory spending. However, because future annuities will be smaller, the contributions that the Department of Defense will make to the Military Retirement Fund to cover the future cost of retirement benefits for current service members will also be smaller. Because those contributions are recorded as offsetting receipts to the Military Retirement Fund, reductions in them cause a net increase in mandatory spending.[5] As a result, CBO's projections of mandatory spending over the 2016–2025 period increased by about $30 billion.

Medicare. Several new laws led CBO to lower its cumulative projection of Medicare spending by $21 billion for the 2016–2025 period from the amount it published in

3. Such transfers have no practical effect on the government's fiscal condition because the Federal Reserve would have remitted its earnings on such funds to the Treasury anyway; the location of the funds has no significant economic importance. See Chapter 4 of this volume and Congressional Budget Office, letter to the Honorable Tom Price, concerning a revision to the CBO cost estimate for the Surface Transportation Reauthorization and Reform Act of 2015 transmitted on November 17, 2015 (November 19, 2015), pp. 3–4, www.cbo.gov/publication/51015.

4. Refundable tax credits reduce a filer's income tax liability overall; if the credit exceeds the rest of the filer's income tax liability, the government pays all or some portion of that excess to the taxpayer. See Congressional Budget Office, *Refundable Tax Credits* (January 2013), www.cbo.gov/publication/43767.

5. Because the contributions to the Military Retirement Fund are subject to annual appropriation acts, any changes to those contributions and their associated mandatory offsetting receipts are generally not counted for budget enforcement purposes when legislation is being considered.

August. The largest effect is attributable to the Bipartisan Budget Act of 2015, which modified the timing of certain Medicare Part B premium receipts and limited payments for certain outpatient hospital items and services. That act also replaced the varied-percentage cuts in payments to most providers (the result of a budgetary action known as sequestration) in 2023 and 2024 with a 2 percent annual reduction (as exists under current law for 2016 through 2022), and it extended those statutory, across-the-board reductions through September 2025, at a rate of 4 percent.

Strategic Petroleum Reserve. Together, the Bipartisan Budget Act of 2015 and the FAST Act direct the Department of Energy to sell a total of 124 million barrels of oil from the Strategic Petroleum Reserve over the 2018–2025 period. CBO expects that the receipts from those sales will total about $8 billion during that period.[6]

Pension Benefit Guaranty Corporation. The Bipartisan Budget Act of 2015 made changes to pension-funding rules, premium rates, and the timing of premium payments. CBO projects that those changes will decrease mandatory spending by $8 billion over the 2016–2025 period. The changes with the largest budgetary effects for that period increased the premium rates paid by employers to the Pension Benefit Guaranty Corporation (a change that CBO estimates would increase premium payments by $4 billion) and accelerated the payment date of premiums that would have been paid in 2026 (for a $3 billion increase). Those changes decreased CBO's projection of mandatory spending because such premiums are considered offsetting collections.

Discretionary Spending. New legislation also prompted changes in CBO's baseline projections for discretionary spending, boosting projected outlays by $25 billion for the current year and by a total of $56 billion over the 2016–2025 period. For that period, CBO projects $37 billion less in defense spending but $93 billion more in nondefense spending than it projected in August.

The Bipartisan Budget Act of 2015 adjusted the caps on budget authority for defense and nondefense programs, raising the cap for each category by $25 billion for 2016 and by $15 billion for 2017 relative to the limits as originally set in the Budget Control Act of 2011 (P.L. 112-25) and subsequently reduced by the automatic spending reductions described in that act. The Bipartisan Budget Act of 2015, however, did not provide the actual appropriations for 2016—those were provided in the Consolidated Appropriations Act, 2016, which also provided appropriations for categories of spending that are not constrained by the caps established in the Budget Control Act of 2011, such as overseas contingency operations (OCO), disaster relief, emergency requirements, and program integrity initiatives.[7]

Defense Spending. Three changes affected CBO's projections of defense outlays: First, the additional 2016 funding provided by the Consolidated Appropriations Act, 2016, and the cap increase for 2017 boost projected outlays over the next several years. But two other changes reduced projected outlays over the 10-year period. The actual appropriations for 2016 shifted toward slower-spending categories (such as procurement and research and development) and away from faster-spending categories (such as operations and maintenance and military personnel). And OCO funding in 2016 is $6.5 billion less than the amount CBO projected in its August baseline (that amount was extrapolated from the appropriations provided for 2015). In the current baseline, that lower funding is extrapolated through 2026, thus reducing projected spending in each year. As a result of those three factors, defense outlays are projected to be slightly higher in 2016 and 2017 but lower by $4 billion to $6 billion annually thereafter.

Nondefense Spending. Recent legislation results in higher nondefense outlays in all years in CBO's current baseline projections. From 2016 to 2018, those outlays are $62 billion above the amount projected in August, mostly because of the increase in actual and projected appropriations that are constrained by the caps established in the Budget Control Act of 2011.

6. As those pieces of legislation were being considered, CBO estimated, on the basis of its March 2015 baseline, that such receipts would total $11 billion for the period. Since then, however, oil prices have fallen significantly, as has CBO's projection for the price of oil over the next decade.

7. Program integrity initiatives are aimed at reducing improper benefit payments in one or more of the following programs: Disability Insurance, Supplemental Security Income, Medicare, Medicaid, and the Children's Health Insurance Program. For more information on the discretionary caps established in the Budget Control Act of 2011, see Congressional Budget Office, *Final Sequestration Report for Fiscal Year 2016* (December 2015), www.cbo.gov/publication/51038.

For the full 10-year period, nondefense outlays in the baseline are higher by $93 billion. In addition to the cap increases, some changes in funding levels for categories of spending not constrained by the caps contribute to that revision in projected outlays:

- The 2016 OCO appropriation for nondefense activities is nearly $6 billion more than the sum provided in the previous year. That increase in funding, when extrapolated through 2025, boosts projected outlays in CBO's baseline by about $50 billion, relative to the August projections.

- The FAST Act increased spending authority for certain surface transportation programs and authorized increases in obligation limitations.[8] Hence, as part of the appropriations for 2016, those obligation limitations were increased by about $3 billion; that increase is extrapolated through the end of the projection period in CBO's baseline. As a result, additional spending on surface transportation programs—which is not constrained by the caps established by the Budget Control Act of 2011—increased CBO's projection of nondefense discretionary outlays by about $15 billion from 2016 through 2025.

- In the other direction, funding designated as an emergency requirement is nearly $5 billion less in 2016 than the amount provided for 2015; extrapolating that difference reduces projected outlays in CBO's baseline by about $45 billion over the 2016–2025 period.

Debt Service. All told, the changes that CBO made to its projections of revenues and outlays because of recently enacted legislation increased its projection of the cumulative deficit for the 2016–2025 period by $612 billion (excluding debt-service costs). The resulting growth in the estimate of federal borrowing led CBO to raise its projection of outlays for interest payments on federal debt by $137 billion through 2025.

8. An obligation limitation is a provision of law or legislation that restricts or reduces the availability of budget authority that would have become available under another law. Spending for most surface transportation programs is governed by obligation limitations set in appropriation acts.

Economic Changes to Projections

CBO's economic forecast from early December, which underlies the budget projections in this report, incorporated updated projections of gross domestic product (GDP), the unemployment rate, interest rates, inflation, and other factors that affect federal spending and revenues. In total, that economic forecast led the agency to increase its estimate of the deficit by $17 billion for the current year and by $437 billion for the 10-year period.[9]

Changes to Revenues

The economic forecast underlying the current projections led CBO to reduce its revenue projections by $33 billion (or 0.9 percent) for 2016 and by $771 billion (or 1.9 percent) for the 2016–2025 period, from the amounts in the previous baseline. The chief cause is CBO's expectation of slower growth in economic output over the 10-year projection period.

Since August, CBO reduced its estimate of nominal GDP by about 2 percent, on average, over the 2016–2025 period. Lower projections for GDP led to lower projections for associated income—much of it taxable—including wages and salaries, corporate profits, and proprietors' income. Those changes led CBO to lower its projections of receipts from each of the three major revenue sources over the 2016–2025 period: In its projections, receipts of individual income taxes fell by $317 billion (or 1.5 percent), corporate income taxes fell by $232 billion (or 5.3 percent), and payroll taxes fell by $182 billion (or 1.4 percent).

Changes to Outlays

As a result of the economic forecast underlying the current projections, CBO reduced its estimates of outlays by $16 billion for 2016 and by $334 billion for the 2016–2025 period. That 10-year change is almost entirely the

9. As noted in the Summary, CBO did not have enough time to incorporate into its budget projections the most recent updates to its economic forecast, which accounted for legislation enacted in December and for other developments through the end of that month. A preliminary analysis suggests that if CBO had incorporated those updates into its budget projections, as it will in March, projected revenues would be between $100 billion and $200 billion (or 0.2 percent to 0.4 percent) higher over the 2016–2026 period than they are currently projected to be. Projected outlays also would be affected, but probably to a lesser extent. CBO will also make technical estimating changes in its March projections that could be larger than those amounts, in either direction.

result of projections of lower spending for mandatory programs and of reduced net interest costs.

Mandatory Spending. Revisions to the economic forecast led CBO to reduce its projections of mandatory spending by $3 billion for 2016 and by $126 billion for the 2016–2025 period. The largest changes occurred in CBO's projections for Medicaid, unemployment compensation, Social Security, royalties from leases on the Outer Continental Shelf, and Medicare.

Medicaid. Reductions in the prices projected for most medical services and in projected labor costs for health care workers, combined with a downward revision to the unemployment rate (which lowers projected Medicaid enrollment), have reduced CBO's baseline projections of Medicaid spending by $41 billion (or 0.9 percent) for the 2016–2025 period.

Unemployment Compensation. CBO's forecast of the unemployment rate over the next 10 years was revised downward by about 0.5 percentage points for 2016 through 2018 and by an average of about 0.2 percentage points for 2019 through 2025. In addition, the labor force is projected to shrink by about 350,000 participants each year because of the lower participation rate projected for the next few years and, to a smaller extent, because of lower projected population growth. CBO also projects that wage growth will be slower than it previously anticipated. Combined, those changes are projected to reduce outlays for unemployment compensation by $31 billion over the 2016–2025 period.

Social Security. CBO now projects that Social Security beneficiaries will receive a cost-of-living adjustment of 0.9 percent in January 2017, an increase that is 0.6 percentage points less than CBO's estimate in August. That reduction is partially offset by an increase in projected cost-of-living adjustments for 2018 through 2021. Taken together, those changes reduce estimated benefit payments over the 2016–2025 period by $32 billion. When combined with other smaller changes, which boost CBO's estimate of initial benefit amounts for new retirees, the baseline projections of Social Security spending over the 2016–2025 period have declined by a total of $27 billion (or 0.2 percent).

Outer Continental Shelf. When CBO prepared its economic projections in early December 2015, the agency expected that crude oil prices would be lower in each year than it had expected in August. As a result, royalties from leases in the Outer Continental Shelf are $17 billion lower for the 2016–2025 period than they were in the August projections. A reduction in royalties leads to an increase in outlays.

Medicare. Under current law, payment rates for much of Medicare's fee-for-service sector (such as hospital care and services provided by home health agencies and skilled nursing facilities) are updated automatically. Those updates are tied to changes in the prices of the labor, goods, and services that health care providers purchase, coupled with an adjustment for economywide gains in productivity (the ability to produce the same output using fewer inputs, such as hours of labor, than before) over a 10-year period. In general, CBO's projections show a smaller difference between price growth and productivity growth than the agency forecast in August. Consequently, CBO now anticipates lower payment rates for Medicare services than it did in August—a change that decreases outlays in CBO's baseline projections for the 2016–2025 period by $16 billion (or 0.2 percent).

Net Interest. Since August, CBO has revised its projections of net interest costs because of changes in the agency's forecasts for interest rates and inflation as well as changes in its projections of government borrowing that result from changes in the economic outlook (labeled in Table A-1 on page 108 as debt service). Together, those revisions led CBO to reduce—by $181 billion—its baseline projection for net interest spending for the period from 2016 through 2025, mostly because of the revisions related to interest rates and inflation.

Specifically, CBO expects that interest rates on most Treasury securities will be lower (by an average of about 0.2 percentage points) throughout the period. The agency also has markedly reduced (by about 0.6 percentage points) its estimate of inflation for 2016, which results in a lower projection of the cost of Treasury inflation-protected securities, but has left its estimate of inflation over the 2017–2025 period mostly unchanged. Overall, those and other changes to CBO's economic forecast since last August have led the agency to project net interest outlays that are $14 billion lower for 2016 and $228 billion lower for the 2016–2025 period.

In addition, the economic forecast led CBO to increase its projection of the total deficit for the 2016–2025 period by $390 billion (the net effect of updates to projections of revenues and outlays). Because of the greater borrowing associated with larger deficits, CBO has increased its projections of debt-service costs for the 2016–2025 period by $47 billion.

Technical Changes to Projections

Technical changes, which are those that are not related to recently enacted legislation or to revised economic factors, also affect CBO's baseline projections for revenues and outlays. Such changes caused CBO to reduce its estimate of the 2016 deficit by $51 billion but to increase its estimate of the 10-year deficit by $363 billion. Nearly equal changes to estimates of revenues and outlays contributed to the decline in the estimated deficit for the current year; however, almost all of the projected increase in the cumulative deficit for 2016 through 2025 stems from an increase in CBO's projection of outlays.

Changes to Revenues

Overall, CBO modified its August 2015 revenue projections by relatively small amounts to incorporate various technical adjustments. As a result, the agency increased its 2016 revenue projections by $28 billion (or 0.8 percent), but reduced the cumulative revenue projections for the 2016–2025 period by $30 billion (or 0.1 percent).

Most significantly, CBO reduced its projections of corporate income tax receipts for technical reasons by $101 billion over the 2016–2025 period. That change largely reflects an increase in CBO's projections of certain tax deductions as a share of domestic economic profits—the measure of profits from the Bureau of Economic Analysis that is projected as a part of CBO's economic outlook; those deductions have amounted to a larger percentage of domestic economic profits in recent years than CBO had expected, and CBO now expects the recent trend to continue. The higher projected tax deductions lower CBO's projections of taxable profits and tax receipts.

Those reductions were partially offset by the net effect of changes to the projections of individual income and payroll taxes. The most significant technical change in that regard was to increase the rate of growth of wages and salaries for higher-income taxpayers relative to the growth of such income for other taxpayers—anticipating a greater difference in those growth rates than CBO had previously incorporated into its projections. That adjustment, which reflects a reexamination of recent trends, causes a greater share of total wages and salaries in CBO's updated projections to be taxed at higher income tax rates. However, that same adjustment pushes more wages and salaries in CBO's projections above the maximum amount per taxpayer that is subject to the Social Security payroll tax (currently $118,500). As a result of that and other changes, for the 2016–2025 period, CBO raised its projections of receipts from individual income taxes by $117 billion and lowered its projections of receipts from payroll taxes by $41 billion.

Changes to Outlays

As a result of technical updates to spending estimates for various programs and to estimates for certain offsetting receipts, CBO lowered its estimate of 2016 outlays by $23 billion (largely as a result of the recording of cash receipts from Fannie Mae and Freddie Mac). In the other direction, CBO raised its projection of outlays for the 2016–2025 period by $333 billion (or 0.7 percent), mostly because of higher projections of mandatory outlays.

Mandatory Spending. Technical revisions have reduced the amount of spending projected for the current year by $27 billion. For the 2016–2025 period, technical updates increased the total projection for mandatory spending by $258 billion.

Medicaid. CBO's 10-year projections of spending for Medicaid are $187 billion (or 4 percent) higher than the agency estimated in August 2015. That change is largely attributable to an increase in the projection of spending for newly eligible enrollees under the Affordable Care Act (ACA). Actual enrollment and spending for that category in 2015 exceeded CBO's prior estimates, and the agency has significantly boosted its projections of enrollment and spending for the 2016–2025 period. CBO now projects that in 2025 about 14.5 million people who will be eligible for Medicaid as a result of the ACA will enroll in the program; in August, CBO had estimated that number at about 11.5 million. Similarly, CBO projects that spending for those newly eligible enrollees will be about $114 billion in 2025; its August 2015 projection was $97 billion.

Veterans' Compensation and Pensions. CBO has made significant changes to projections for veterans' disability compensation, increasing mandatory outlays by about $152 billion (or 14 percent) over the 2016–2025 period. Veterans' disability compensation is driven by two factors: the number of veterans receiving compensation and the amount of the average benefit payment. On the basis of its observation of sustained trends, CBO boosted its projection of the number of veterans receiving disability compensation for the 10-year projection period by 400,000. In addition, updated information from the Department of Veterans Affairs showed that, on average, benefit payments for disability compensation have risen by about 5 percent per year over the past decade—a faster rate of increase than CBO had used in its earlier projections. CBO's current baseline reflects monthly disability payments that are, on average, about $150 higher per veteran.

Social Security. CBO has reduced its projections of outlays for Social Security over the 2016–2025 period by $97 billion (or 0.8 percent). Two-thirds of that reduction is in Old-Age and Survivors Insurance (OASI); the other third is in Disability Insurance (DI). About half of the reduction in OASI outlays stems from updated population projections, which reduced the number of people eligible for benefits. Most of the remaining change occurred because CBO is now projecting slightly slower growth in the share of older people who will receive OASI benefits, based on recent trends. The reduction in DI outlays is based primarily on recent data showing smaller caseloads than previously projected.

Fannie Mae and Freddie Mac. Because the government placed Fannie Mae and Freddie Mac into conservatorship in 2008 and now controls their operations, CBO considers their activities governmental and includes the budgetary effects of their activities in its projections as if they were federal agencies. On that basis, for the 10-year period after the current fiscal year, CBO projects subsidy costs of their new activities using procedures that are similar to those specified in the Federal Credit Reform Act of 1990 for determining the costs of federal credit programs—but with adjustments to reflect the associated market risk. The Administration, in contrast, considers Fannie Mae and Freddie Mac to be outside the federal government for budgetary purposes and records cash transactions between those entities and the Treasury as federal outlays or receipts. (In CBO's view, those transactions should be considered intragovernmental.)

In its baseline, CBO treats the current fiscal year differently, in order to provide its best estimate of the amount that the Treasury ultimately will report as the federal deficit for 2016. Toward that end, CBO's baseline includes an estimate of net cash payments from Fannie Mae and Freddie Mac to the Treasury this year (that is, adopting the Administration's treatment for 2016), but it retains the risk-adjusted projections of subsidy costs for later years. CBO estimates that net payments from Fannie Mae and Freddie Mac to the Treasury will total $20 billion in 2016 (on the basis of the entities' most recent quarterly financial releases); those payments are recorded in the budget as offsetting receipts (reductions in outlays). By comparison, CBO's August 2015 baseline showed an estimated subsidy cost—that is, additional outlays—of about $3 billion for their activities in 2016. All told, that mostly conceptual difference reduces 2016 outlays in the baseline by $23 billion.

For 2017 through 2025, CBO's baseline follows the agency's customary approach of showing the estimated subsidy costs of mortgage guarantees provided and by loans purchased by Fannie Mae and Freddie Mac. To reflect market risk, those estimates are calculated on a fair-value basis. For the 2017–2025 period, CBO now estimates that those subsidy costs will total $11 billion—about $7 billion less than it projected in August. CBO expects that Fannie Mae and Freddie Mac will guarantee fewer mortgages over the next decade and that those mortgages will have lower associated fair-value costs.

Medicare. CBO increased its projection of Medicare outlays by $28 billion for the 2016–2025 period as a result of technical revisions. Most of that increase stems from the Centers for Medicare & Medicaid Services' release in November 2015 of its annual update of actuarial rates, premium rates, and deductibles for Part B of Medicare. Incorporating those data led CBO to reduce its projections of premiums paid for Part B, thus boosting the net spending projected for Medicare.

Other Mandatory Programs. Technical updates to other mandatory programs led CBO to lower its outlay projections by $17 billion for 2016 but raise them by the same amount for the entire projection period. Increased outlays for the Supplemental Nutrition Assistance Program ($11 billion) and unemployment compensation ($11 billion) are the largest contributors to that 10-year total change. Partially offsetting those increases, CBO and JCT decreased, by $7 billion over the 2016–2025 period, estimated outlays for federal subsidies for health insurance purchased through the ACA's exchanges and for related spending. The spending decrease stems from a reduction of 4 million in the number of people estimated to receive subsidies in 2016 through enrollment in the exchanges.[10] Smaller increases and decreases to projections of outlays for a variety of other mandatory programs increase projected outlays by an additional $2 billion over the 2016–2025 period.

10. CBO and JCT estimate that about 11 million people, on average, will use subsidies to purchase insurance through an exchange during calendar year 2016. Additionally, the agencies project that about 2 million people will not be eligible for subsidies, but will purchase coverage through an exchange, for a total of 13 million people enrolled in coverage purchased through exchanges. Previously, in the March 2015 baseline projections, CBO and JCT projected that about 15 million people would receive exchange subsidies, on average, in 2016 and that an additional 6 million people would purchase unsubsidized coverage through an exchange, for a total of 21 million people enrolled in coverage purchased through exchanges. As discussed in Chapter 3, the enrollment projections and other factors underlying the estimates of exchange subsidies for years after 2016 have not been updated since March 2015, except to incorporate the effects of enacted legislation.

Discretionary Spending. As a result of technical updates, CBO's estimates of discretionary spending for 2016 are $3 billion lower than those in the August baseline; however, for the 2016–2025 period, such updates increase projected outlays by $3 billion. The largest changes over the 10-year period arise from a lower estimated negative subsidy rate (and thus higher outlays) related to mortgage guarantees provided by the Federal Housing Administration and from higher projected outlays for diplomatic and consular programs of the Department of State.

Net Interest. CBO's estimate of net interest outlays increased by $7 billion for 2016 and by $72 billion for the 2016–2025 period as a result of technical updates.

Higher debt-service costs—mostly resulting from larger deficits attributable to technical changes in CBO's baseline for revenues and outlays—add $41 billion to net interest outlays in CBO's baseline over the 10-year period.

In addition, CBO's estimate of interest outlays increased by $31 billion over the 2016–2025 period mostly because the agency now projects smaller receipts from the financing accounts associated with the government's credit programs (mostly stemming from a reduction in the projected volume of federal student loans).