Chapter 3: The Spending Outlook

Overview

Excluding the effects of any legislation enacted after April 8, 2022, federal outlays this year will amount to $5.9 trillion, the Congressional Budget Office estimates, 14 percent less than last year's total, as federal spending in response to the coronavirus pandemic wanes. In the agency's baseline projections, outlays increase after 2022, reaching $8.9 trillion in 2032, or 24.3 percent of gross domestic product (GDP), up from 23.8 percent in 2022; Social Security, Medicare, and net interest costs are the largest contributors to that growth (see Table 3-1).[1]

Decline in Pandemic-Related Spending Drives Change in Outlays for 2022

In CBO's projections, total federal outlays decrease by $1.0 trillion in 2022. (That amount excludes shifts in the timing of some outlays; the discussion of CBO's projections that follows reflects adjustments to remove the effects of timing shifts.[2]) The decline in 2022 is dominated by a $1.1 trillion drop in estimated mandatory spending—the result of sharply lower pandemic-related spending—to $3.7 trillion this year. That large decrease is partially offset by much smaller increases in discretionary outlays and net interest costs. Assuming no changes to current law, discretionary outlays are projected to increase by $81 billion (or 5 percent) and reach $1.7 trillion this year; the government's net interest costs are projected to increase by $47 billion (or 13 percent), to $0.4 trillion. (See Box 3-1 on page 60 for descriptions of the three major categories of federal outlays.)

CBO now estimates total outlays for 2022 to be $0.3 trillion more than the agency estimated in July 2021. That change is the net result of several increases and decreases in outlays. For example, spending for some pandemic-related programs occurred more slowly than CBO anticipated, so some outlays originally estimated to occur in 2021 are now anticipated to occur this year. (For more information on the changes in CBO's baseline projections, see Appendix A.)

Relative to the size of the economy, and excluding shifts in the timing of some outlays, total federal outlays in 2022 are projected to equal 23.5 percent of GDP, above the 50-year average of 20.6 percent but 7 percentage points below the 30.5 percent of GDP that federal outlays totaled last year. Mandatory spending (net of the offsetting receipts that are credited against such spending) is expected to equal 14.9 percent of GDP in 2022, down from 21.6 percent in 2021 but still higher than the 10.7 percent it averaged over the 1972–2021 period. As a share of GDP, the other major components of federal spending are estimated to be below their 50-year averages: In CBO's projections, discretionary outlays equal 7.0 percent of GDP this year, compared with their 8.1 percent average over the past 50 years, and net outlays for interest equal 1.6 percent of GDP, compared with their 50-year average of 2.0 percent (see Figure 3-1 on page 61).

Outlays Are Projected to Rise Relative to GDP After 2024

In CBO's baseline projections, spending related to the pandemic continues to decline over the next few years, pushing total outlays lower relative to the size of the economy. In 2023 and 2024, projected outlays decrease by 1.2 percent of GDP and 0.1 percent, respectively, reflecting declines in mandatory and discretionary spending, on net, that are partially offset by rising net interest costs.

From 2025 to 2032, total outlays as a percentage of GDP are projected to increase by an average of 0.3 percentage points per year. Mandatory spending follows a path similar to that of total outlays, and net interest costs are also projected to rise, but at a much faster rate. In contrast, discretionary outlays are projected to decline

1. This chapter describes updates to CBO's spending projections, which were last updated in July 2021. For more information about those projections, see Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2021 to 2031* (July 2021), www.cbo.gov/publication/57218.

2. Outlays in some years are affected by shifts in the timing of certain federal payments: When October 1—the first day of a fiscal year—falls on a weekend, certain payments that are due on that date are made at the end of September and, as a result, are recorded in the previous fiscal year. Timing shifts affect mandatory outlays and, to a much lesser degree, discretionary outlays. Net interest outlays are not affected. CBO estimates that $68 billion in outlays ($63 billion of which is mandatory) will shift from 2023 into 2022, $80 billion ($75 billion of which is mandatory) will shift from 2024 into 2023, and $113 billion ($107 billion of which is mandatory) will shift from 2029 into 2028.

Table 3-1.

CBO's Baseline Projections of Outlays

	Actual, 2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
							In Billions of Dollars							
Mandatory														
Social Security	1,129	1,212	1,320	1,409	1,491	1,577	1,665	1,760	1,860	1,963	2,068	2,175	7,463	17,288
Medicare[a]	868	983	1,019	1,034	1,165	1,262	1,360	1,541	1,480	1,672	1,782	1,929	5,840	14,245
Medicaid	521	589	601	545	547	578	608	639	672	708	749	789	2,880	6,437
Other spending	2,650	1,433	1,084	1,018	1,004	1,010	991	1,041	1,019	1,067	1,091	1,115	5,107	10,440
Offsetting receipts	-333	-466	-350	-350	-374	-395	-419	-441	-466	-499	-529	-548	-1,888	-4,370
Subtotal	4,834	3,751	3,674	3,656	3,834	4,032	4,206	4,542	4,564	4,911	5,162	5,461	19,401	44,041
Discretionary														
Defense	742	760	795	814	842	863	885	914	924	953	976	998	4,199	8,964
Nondefense	895	962	963	984	1,020	1,067	1,111	1,144	1,172	1,202	1,233	1,262	5,145	11,158
Subtotal	1,636	1,722	1,758	1,798	1,862	1,930	1,996	2,057	2,096	2,155	2,209	2,261	9,344	20,122
Net Interest	352	399	442	525	604	681	756	842	925	1,007	1,099	1,194	3,009	8,075
Total	**6,822**	**5,872**	**5,874**	**5,980**	**6,300**	**6,643**	**6,958**	**7,441**	**7,585**	**8,074**	**8,469**	**8,915**	**31,754**	**72,238**
On-budget	5,819	4,794	4,688	4,705	4,942	5,208	5,436	5,826	5,872	6,258	6,546	6,887	24,979	56,368
Off-budget[b]	1,004	1,077	1,186	1,275	1,358	1,436	1,521	1,614	1,713	1,816	1,923	2,029	6,775	15,870
Memorandum:														
Outlays Adjusted to Exclude Timing Shifts[c]														
Mandatory outlays	4,834	3,688	3,662	3,731	3,834	4,032	4,206	4,435	4,671	4,911	5,162	5,461	19,464	44,104
Discretionary outlays	1,636	1,717	1,757	1,803	1,862	1,930	1,996	2,051	2,102	2,155	2,209	2,261	9,349	20,127
Total Outlays	**6,822**	**5,804**	**5,861**	**6,060**	**6,300**	**6,643**	**6,958**	**7,328**	**7,698**	**8,074**	**8,469**	**8,915**	**31,822**	**72,306**
Gross Domestic Product	22,365	24,694	26,240	27,291	28,271	29,266	30,332	31,487	32,716	33,996	35,318	36,680	141,400	311,596

Continued

relative to GDP. In CBO's projections, between 2022 and 2032:

- Mandatory outlays as a share of GDP fall from 2022 to 2025, as pandemic-related spending continues to decline. After that, outlays rise through 2032. All told, mandatory outlays fall from 14.9 percent of GDP this year to 13.6 percent of GDP in 2025 before rising back to 14.9 percent in 2032.
- Discretionary outlays fall from 7.0 percent of GDP this year to 6.2 percent in 2032. That decline reflects waning pandemic-related spending in addition to the assumption (required by law) that discretionary funding will grow at the rate of inflation—which is slower than projected growth in nominal GDP.
- Net outlays for interest climb steadily as interest rates rise and debt continues to accumulate, roughly doubling from 1.6 percent of GDP in 2022 to 3.3 percent by 2032.

Among mandatory programs, outlays for Social Security and for the major health care programs—Medicare, Medicaid, subsidies offered through the health insurance marketplaces established under the Affordable Care Act and related spending, and the Children's Health Insurance Program (CHIP)—rise relative to GDP; outlays for all other mandatory programs, on net, decline relative to GDP (see Figure 3-2 on page 62). In particular, outlays for mandatory programs as a share of GDP change in the following ways:

- Outlays for the largest federal spending program, Social Security, rise from 4.9 percent of GDP in 2022 to 5.9 percent in 2032.
- Federal outlays for the major health care programs grow from 5.8 percent of GDP in 2022 to 6.8 percent in 2032, mostly because of growth in spending for Medicare.[3]

3. Spending for Medicare is presented net of premium payments and other offsetting receipts, unless otherwise noted.

Table 3-1. Continued

CBO's Baseline Projections of Outlays

	Actual, 2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
							As a Percentage of Gross Domestic Product							
Mandatory														
Social Security	5.0	4.9	5.0	5.2	5.3	5.4	5.5	5.6	5.7	5.8	5.9	5.9	5.3	5.5
Medicare[a]	3.9	4.0	3.9	3.8	4.1	4.3	4.5	4.9	4.5	4.9	5.0	5.3	4.1	4.6
Medicaid	2.3	2.4	2.3	2.0	1.9	2.0	2.0	2.0	2.1	2.1	2.1	2.2	2.0	2.1
Other spending	11.8	5.8	4.1	3.7	3.6	3.5	3.3	3.3	3.1	3.1	3.1	3.0	3.6	3.4
Offsetting receipts	-1.5	-1.9	-1.3	-1.3	-1.3	-1.4	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5	-1.3	-1.4
Subtotal	21.6	15.2	14.0	13.4	13.6	13.8	13.9	14.4	14.0	14.4	14.6	14.9	13.7	14.1
Discretionary														
Defense	3.3	3.1	3.0	3.0	3.0	3.0	2.9	2.9	2.8	2.8	2.8	2.7	3.0	2.9
Nondefense	4.0	3.9	3.7	3.6	3.6	3.6	3.7	3.6	3.6	3.5	3.5	3.4	3.6	3.6
Subtotal	7.3	7.0	6.7	6.6	6.6	6.6	6.6	6.5	6.4	6.3	6.3	6.2	6.6	6.5
Net Interest	1.6	1.6	1.7	1.9	2.1	2.3	2.5	2.7	2.8	3.0	3.1	3.3	2.1	2.6
Total	**30.5**	**23.8**	**22.4**	**21.9**	**22.3**	**22.7**	**22.9**	**23.6**	**23.2**	**23.7**	**24.0**	**24.3**	**22.5**	**23.2**
On-budget	26.0	19.4	17.9	17.2	17.5	17.8	17.9	18.5	17.9	18.4	18.5	18.8	17.7	18.1
Off-budget[b]	4.5	4.4	4.5	4.7	4.8	4.9	5.0	5.1	5.2	5.3	5.4	5.5	4.8	5.1
Memorandum:														
Outlays Adjusted to Exclude Timing Shifts[c]														
Mandatory outlays	21.6	14.9	14.0	13.7	13.6	13.8	13.9	14.1	14.3	14.4	14.6	14.9	13.8	14.2
Discretionary outlays	7.3	7.0	6.7	6.6	6.6	6.6	6.6	6.5	6.4	6.3	6.3	6.2	6.6	6.5
Total Outlays	**30.5**	**23.5**	**22.3**	**22.2**	**22.3**	**22.7**	**22.9**	**23.3**	**23.5**	**23.7**	**24.0**	**24.3**	**22.5**	**23.2**

Data source: Congressional Budget Office. See www.cbo.gov/publication/57950#data.

a. Excludes the effects of Medicare premiums and other offsetting receipts.

b. Off-budget outlays stem from transactions related to the Social Security trust funds and the net cash flow of the Postal Service.

c. Consists of all outlays except for net outlays for interest.

- Outlays for all other mandatory programs (net of offsetting receipts) decline from 4.3 percent of GDP in 2022 to 2.2 percent in 2032.

Mandatory Spending

Mandatory—or direct—spending consists of spending for some benefit programs and certain payments to people, businesses, nonprofit institutions, and state and local governments. Mandatory spending is generally governed by statutory criteria and is not normally constrained by the annual appropriation process.[4] Certain types of payments that federal agencies receive from the public and from other government agencies are classified as offsetting receipts and are accounted for in the budget as reductions in mandatory spending. In 2022, mandatory outlays (net of offsetting receipts) are estimated to account for over 60 percent of total federal outlays.

The Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177), referred to here as the Deficit Control Act, requires that CBO's projections

4. Each year, some mandatory programs are modified by provisions in annual appropriation acts. Such changes may increase or decrease spending for the affected programs for one or more years. In addition, some mandatory programs, such as Medicaid, the Supplemental Nutrition Assistance Program, and benefits for Coast Guard retirees and annuitants, are considered mandatory but require benefits to be paid from amounts provided in appropriation acts. Section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985 requires CBO to project outlays for those programs as if they were fully funded, regardless of the amounts actually appropriated.

Box 3-1.

Categories of Federal Outlays

Outlays are the issuance of checks, disbursement of cash, or electronic transfer of funds made to liquidate a federal obligation. (Budget authority, sometimes referred to as funding, is the authority provided by federal law to incur such obligations.) On the basis of their treatment in the budget process, federal outlays can be divided into three broad categories: mandatory, discretionary, and net interest.

Mandatory outlays consist primarily of payments for benefit programs, such as Social Security, Medicare, and Medicaid. The Congress largely determines funding for those programs by setting rules for eligibility, benefit formulas, and other parameters rather than by appropriating specific amounts each year. In making baseline projections, the Congressional Budget Office generally assumes that the existing laws and policies governing those programs will remain unchanged. Mandatory outlays are net of offsetting receipts—fees and other charges that are recorded as negative budget authority and outlays. Offsetting receipts differ from revenues: Revenues are collected through the government's sovereign powers (in the form of income taxes, for example), whereas offsetting receipts are mostly collected from other government accounts or from members of the public for businesslike transactions (in the form of premiums for Medicare or royalties for the drilling of oil on public lands, for example).

Discretionary outlays result from the funding controlled by appropriation acts in which policymakers specify how much money can be obligated for certain government programs in specific years. Appropriations fund a broad array of government activities, including defense, law enforcement, education, and veterans' health programs. They also fund the national park system, disaster relief, and foreign aid. Some of the fees and charges triggered by appropriation acts are classified as offsetting collections and are credited against discretionary budget authority and outlays for the particular accounts affected.

CBO's baseline projections depict the path of funding for individual discretionary accounts as directed by the provisions of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177). That law states that current appropriations should be assumed to grow with inflation in the future, using specified indexes.[1]

The baseline projections also include discretionary outlays for highway and airport infrastructure programs and public transit programs, all of which receive mandatory budget authority from authorizing legislation. Typically, outlays from mandatory budget authority are also classified as mandatory. However, appropriation acts each year include limits on how much of that mandatory budget authority the Department of Transportation can obligate. For that reason, those obligation limitations are often treated as a measure of discretionary budgetary resources, and the resulting outlays are considered discretionary.[2]

Net interest outlays consist of interest paid on Treasury securities and other interest that the government pays (for example, interest paid on late refunds issued by the Internal Revenue Service) minus the interest that it collects from various sources (for example, from states that pay the interest on advances they received from the federal Unemployment Trust Fund when the balances of their state unemployment accounts were insufficient to pay benefits promptly). Net interest outlays are determined mostly by the size and composition of the government's debt and by market interest rates.

1. In CBO's baseline projections, discretionary funding related to federal personnel is inflated using the employment cost index for wages and salaries of workers in private industry; other discretionary funding is adjusted using the gross domestic product price index.

2. Discretionary budgetary resources include new budget authority, unobligated balances of budget authority provided in previous years, and obligation limitations.

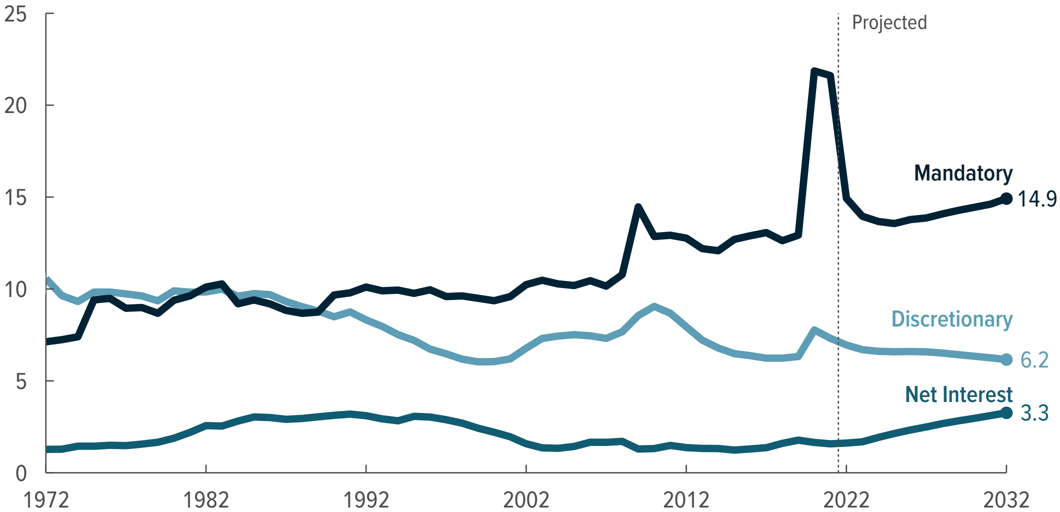
incorporate the assumption that current laws governing mandatory programs generally remain unchanged.[5] Therefore, CBO's baseline projections of mandatory spending reflect the estimated effects on the cost of those programs of economic influences, growth in the number of participants, and other factors, even for some programs that otherwise are set to expire. The projections also incorporate a set of across-the-board reductions

5. Section 257 of the Deficit Control Act also requires CBO to assume that certain mandatory programs will continue beyond their scheduled expiration and that entitlement programs—including Social Security and Medicare, which pay benefits from trust funds—will be fully funded and thus will be able to make all scheduled payments. Other rules that govern the construction of CBO's baseline have been developed by the agency in consultation with the House and Senate Committees on the Budget. For further details, see Congressional Budget Office, *How CBO Prepares Baseline Budget Projections* (February 2018), www.cbo.gov/publication/53532.

Figure 3-1.

Outlays, by Category of Spending

Percentage of GDP



Under current law, mandatory outlays fall for the next few years before higher spending for Social Security and the major health care programs cause those outlays to rise. Discretionary outlays fall in relation to GDP as funding grows modestly in nominal terms. Net interest outlays increase substantially as interest rates rise and debt mounts.

Data source: Congressional Budget Office. See www.cbo.gov/publication/57950#data.

When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that date are instead made at the end of September and thus are shifted into the previous fiscal year. Outlays have been adjusted to remove the effects of those shifts.

GDP = gross domestic product.

(known as sequestration) that are required under current law through 2031. (For the effects of sequestration on CBO's projections of spending on certain mandatory programs, see Box 3-2 on page 64.) In the discussion of mandatory spending that follows, all numbers have been adjusted to exclude the effects of timing shifts.

CBO's Baseline Projections of Mandatory Spending for 2022 to 2032

In 2022, if there are no changes in law, total mandatory outlays will amount to $3.7 trillion, or 14.9 percent of GDP, CBO estimates, down from $4.8 trillion, or 21.6 percent of GDP, in 2021. Most of that decrease is attributable to waning spending in response to the pandemic. CBO estimates that outlays for certain refundable tax credits will fall by half a trillion dollars from 2021 to 2022. CBO also anticipates significant declines in pandemic-related outlays for unemployment compensation, the Small Business Administration, the Coronavirus Relief Fund, and higher education.

Mandatory outlays are projected to fall in 2023 and 2024 as pandemic-related spending continues to decline. In CBO's projections, after 2024, outlays grow by about 5 percent per year, on average, reaching $5.5 trillion by 2032. As a share of GDP, mandatory outlays follow a similar path, declining to 13.6 percent in 2025 and then rising steadily to 14.9 percent in 2032. By comparison, those outlays averaged 12.7 percent of GDP over the 2010–2019 period and 10.7 percent over the past 50 years. (Pandemic-related spending pushed total mandatory outlays to historic highs in 2020 and 2021, when they reached 21.9 percent and 21.6 percent of GDP, respectively.)

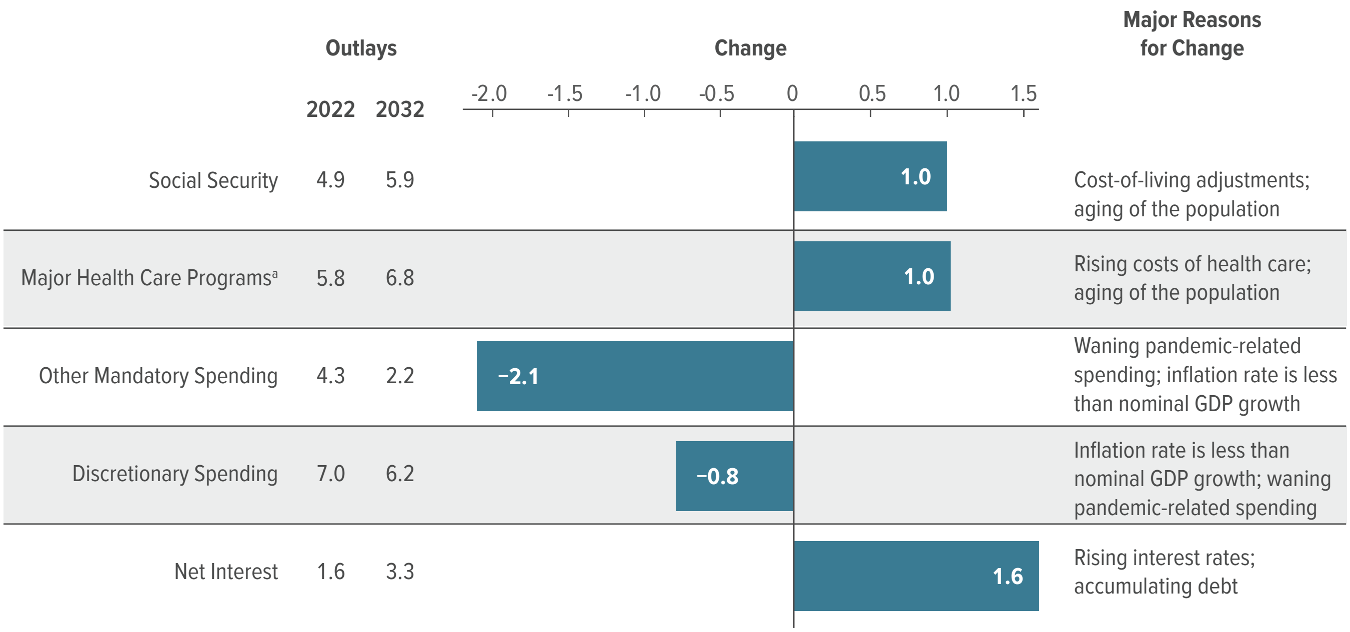
Much of the projected growth in mandatory spending after 2025 is attributable to two factors. First, the number of people age 65 or older has been growing significantly—it is now more than two and a half times what it was 50 years ago—and it is expected to rise by about a quarter by 2032, which will increase caseloads, and therefore outlays, for Social Security and Medicare. Second, the costs of health care (adjusted to account for the aging of the population) are projected to grow faster than the economy over the long term.

Social Security. The largest federal spending program, Social Security provides cash benefits to elderly people, to people with disabilities, and to the dependents and survivors of people covered by the program. Last year,

Figure 3-2.

Major Changes in Projected Outlays From 2022 to 2032

Percentage of GDP



Data sources: Congressional Budget Office; Department of the Treasury. See www.cbo.gov/publication/57950#data.

When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. Outlays have been adjusted to exclude the effects of those shifts.

GDP = gross domestic product.

a. Consists of outlays for Medicare (net of premiums and other offsetting receipts), Medicaid, subsidies for health insurance purchased through the marketplaces established under the Affordable Care Act and related spending, and the Children's Health Insurance Program.

Social Security outlays totaled $1.1 trillion, or 5.0 percent of GDP (see Table 3-2 on page 66). Under current law, outlays for Social Security are projected to rise by $83 billion (or about 7 percent) in 2022. That rate of increase is greater than it has been in recent years, mostly because Social Security beneficiaries received a cost-of-living adjustment (COLA) of 5.9 percent in January 2022, the largest since 1982.

Spending for Social Security is projected to grow by 9 percent in 2023 and nearly 7 percent in 2024, boosted by estimated COLAs of 6.0 percent for 2023 and 2.9 percent for 2024. For the remainder of the projection period, outlays for Social Security are projected to grow at an average rate of about 6 percent per year, reaching $2.2 trillion—or 5.9 percent of GDP—by 2032. In general, growth over the 2023–2032 period reflects increases in the amount of the average benefit and in the number of beneficiaries. In CBO's projections, average benefits grow by about 4 percent per year, mainly because annual COLAs are projected to average close to 3 percent over this period and because initial benefits are based on average economywide earnings, which tend to increase over time. The number of beneficiaries is anticipated to grow by a little less than 1 percent from 2021 to 2022, and then to grow by an average of 2 percent per year, from 65 million beneficiaries in 2022 to 77 million in 2032.

Medicare, Medicaid, and the Other Major Health Care Programs. In 2021, net federal outlays for Medicare, Medicaid, and the other major programs related to health care totaled $1.3 trillion, or 5.8 percent of GDP (net of offsetting receipts; see Table 3-2 on page 66, memorandum). In CBO's baseline projections, those outlays increase by $124 billion, or 10 percent, in 2022 and by $96 billion, or 7 percent, in 2023; from 2024 to 2032, they increase more slowly, at an average rate of nearly 6 percent per year, reaching almost $2.5 trillion, or 6.8 percent of GDP, by the end of that period.

Medicare. Outlays for Medicare, a program that provides subsidized health insurance to people age 65 or older and to some people with disabilities, account for about 30 percent of the projected rise in outlays for the major health care programs from 2021 to 2022. CBO estimates that Medicare outlays (net of offsetting receipts, which are mostly in the form of premiums paid by beneficiaries) will grow from $689 billion to $726 billion, or about 5 percent, from 2021 to 2022. Projected outlays rise further in 2023, by $113 billion, or 16 percent. The growth in those years is affected by recoupments of accelerated and advance payments to Medicare providers recorded in 2021 and 2022, which decrease net outlays.[6] Without those recoupments, the projected increases in outlays for Medicare would be 7 percent in 2022 and 8 percent in 2023.

In CBO's projections, growth in outlays for Medicare represents about 80 percent of the growth in spending for the major health care programs over the 2023–2032 period. That growth in Medicare spending is driven by increasing enrollment as well as by higher spending per beneficiary. Enrollment is projected to grow from 65 million people in 2023 to 77 million in 2032, or by roughly 2 percent per year. Per capita spending in the program is estimated to grow at an average rate of 5 percent per year over the period. In 2032, projected net outlays for Medicare total $1.6 trillion, or 4.3 percent of GDP. (CBO's projections of Medicare outlays incorporate the assumption that outlays from the Hospital Insurance Trust Fund will continue to be made, even if the balances are exhausted. See Box 3-3 on page 68.)

Medicaid. Outlays for Medicaid, a joint federal-state program that funds medical care for certain low-income, elderly, and disabled people, are estimated to increase by 13 percent to $589 billion in 2022, accounting for about half of the projected rise in outlays for the major health care programs from 2021 to 2022. The higher outlays in 2022 are the result of temporary policies, enacted in 2020 and 2021 in response to the pandemic, that increased federal reimbursement to states and Medicaid participation. In CBO's projections, increased outlays associated with those policies continue into 2023, but overall growth in outlays slows to 2 percent in that year. As those temporary policies wind down, outlays drop by 9 percent in 2024 and then increase slightly in 2025. From 2026 through 2032, outlays grow by about 5 percent per year, reaching $789 billion, or 2.2 percent of GDP, in the final year of the period.

Premium Tax Credits and Related Spending. CBO and staff of the Joint Committee on Taxation (JCT) estimate that premium tax credits—which are federal subsidies for health insurance purchased through the marketplaces established by the Affordable Care Act—and related spending will be $89 billion in 2022, which is $18 billion (or 24 percent) higher than it was in 2021.[7] Related spending consists almost entirely of payments for risk adjustment and the Basic Health Program. The increase in estimated outlays for 2022 is mostly attributable to higher enrollment in policies purchased through the marketplaces.

In CBO's projections, the growth in outlays for health insurance subsidies and related spending varies over the first few years of the 2023–2032 period. In 2023, projected outlays drop by about 30 percent because of the expiration of a temporary policy enacted for 2021 and 2022. That policy extended eligibility for premium tax credits to individuals with income over 400 percent of the federal poverty level and increased subsidies for those made eligible for those credits by the Affordable Care Act. After 2023, outlays are projected to grow as premiums increase: CBO and JCT estimate that, under current law, outlays for health insurance subsidies and related spending would rise by 76 percent over the projection period, increasing from $60 billion in 2023 to $105 billion by 2032.

Children's Health Insurance Program. Financed jointly by the states and the federal government, CHIP provides health insurance coverage to children in families whose income, although modest, is too high for them to qualify for Medicaid. CBO estimates that in 2022, outlays for the program will be about $17 billion, which is $1 billion more than outlays in 2021. In 2023, outlays are projected to increase by about 4 percent and in 2024, to fall by about 3 percent. That decrease in projected outlays reflects CBO's assumption that the public health emergency will end in 2023, thus concluding a temporary

6. As part of the federal government's response to the pandemic, Medicare provided about $100 billion in accelerated and advance payments to providers, beginning in April 2020, to be recouped later through reductions in future claim payments. Recoupment began in 2021 and will be completed by the end of 2022.

7. Federal health subsidies lower the cost of health insurance purchased through the marketplaces by people who meet income and other criteria for eligibility.

Box 3-2.

How Sequestration Affects CBO's Projections of Mandatory Spending

The Budget Control Act of 2011 (Public Law 112-25) reinstituted procedures set forth in the Balanced Budget and Emergency Deficit Control Act of 1985 (the Deficit Control Act, P.L. 99-177) to automatically reduce funding provided for certain mandatory programs from 2013 through 2021.[1] The law directed the Office of Management and Budget to determine and enforce the amount of the reduction each year for defense and nondefense programs in a process of across-the-board reductions known as sequestration. The full-year reductions began in 2014 at 9.8 percent for defense and 7.3 percent for nondefense and steadily declined to reductions of 8.3 percent for defense accounts and of 5.7 percent for most nondefense accounts in 2021.

Subsequent legislation extended the cuts to mandatory funding through 2031 and specified that future reductions would use the same percentages as calculated for 2021. Different rules apply to Medicare, the largest program subject to sequestration. Its funding is reduced by 2 percent in most years.

Which Mandatory Accounts are Subject to Sequestration?

All federal programs are subject to sequestration unless they are explicitly listed as exempt or fall in one of the general categories for exemption detailed in section 255 or section 256 of the Deficit Control Act. Exempted categories include funding for Social Security benefits, veterans' programs, net interest, and certain refundable tax credits.

How Does CBO Apply Sequestration to Its Baseline Projections?

In each account where budgetary resources are subject to sequestration, the Congressional Budget Office includes a separate entry detailing the amount by which that account's resources would be reduced. CBO also estimates how those reductions to funding would affect outlays and therefore deficits. Certain accounts—including revolving funds, trust funds, and special funds—are subject to sequestration, but any amounts made unavailable in one year are restored to those funds the following year. Those accounts are included in the total reductions in funding that result from sequestration, although they have little net effect on the deficit.

How Large is the Effect of Sequestration on CBO's Projections of Deficits?

CBO estimates that, as a result of the sequestration provisions in the Budget Control Act of 2011, as amended, outlays—and therefore deficits—will be $256 billion lower over the 2023–2032 period. Most of that savings ($241 billion) is attributable to reductions in Medicare funding. The overall

1. The law also established caps on discretionary funding for defense and nondefense programs. Those caps expired after fiscal year 2021.

Continued

policy that increased federal reimbursement to states for the duration of that emergency. From 2025 to 2030, outlays for the program are projected to grow by about 3.5 percent per year, on average. In 2031 and 2032, they are projected to fall substantially. CHIP is authorized through 2027 and after that year, consistent with section 257 of the Deficit Control Act, CBO's baseline reflects the assumption that annual funding for the program will continue at a level based on the amount of budget authority currently specified in law for the final half of 2027—an amount that is significantly lower than the level of funding provided in earlier years. That amount of funding ($15 billion per year) eventually would be insufficient to maintain outlays at their previous levels: CBO projects that by 2031, balances from the funding provided in years before the expiration of the program's authorization would be exhausted, resulting in a significant drop in outlays in the final two years of the period.

Income Security Programs. Mandatory spending for income security includes outlays for the Supplemental Nutrition Assistance Program (SNAP), certain refundable tax credits, Supplemental Security Income (SSI), unemployment compensation, and certain programs that support children and families. CBO estimates that outlays for income security will decrease by 60 percent in 2022, to $0.6 trillion, from $1.4 trillion in 2021. CBO projects that, under current law, total mandatory outlays for income security would continue to fall through 2024, as pandemic-related spending continues to wane. Starting in 2025, spending would increase again in most years by an average of about 1.0 percent per year, slower than the rate at which GDP is projected to grow. As a result, such outlays are estimated to shrink as a percentage of GDP from 6.2 percent in 2021 to 2.3 percent in 2022 and to 1.1 percent in 2032.

Supplemental Nutrition Assistance Program. SNAP provides benefits to help people in low-income households purchase food. CBO expects that outlays for the program will increase by 18 percent this year, from $135 billion in 2021 to $159 billion in 2022.

Box 3-2. Continued

How Sequestration Affects CBO's Projections of Mandatory Spending

reductions in 2022 will total $6 billion, CBO estimates, and increase to $19 billion the following year. Reductions this year are smaller than they otherwise would be because of provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 (P.L. 116-136) and subsequent legislation that canceled or modified the sequestration of Medicare funding from May 2020 to June 2022. In CBO's projections, the overall effect of sequestration on deficits steadily increases, equaling $32 billion in 2030. In 2031, sequestration's effect on deficits jumps to $52 billion, largely because of increases in the rate of reduction to Medicare funding.[2]

2. Under current law, the rate of sequestration of Medicare funds varies towards the end of the projection period. In April 2030, reductions to Medicare funding will increase from 2.0 percent to 2.25 percent for six months. In 2031, such funding will be reduced by 3.0 percent in the first half of the year and by 4.0 percent in the second half of the year.

Effects of Sequestration on CBO's Baseline Projections of Mandatory Spending

Billions of Dollars

												Total	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2023–2027	2023–2032
Budget Authority													
Medicare	-6	-18	-18	-20	-22	-24	-27	-26	-31	-54	0	-102	-239
Defense	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	*	-5	-10
Other	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	2	-4	-6
Total Budget Authority	**-8**	**-20**	**-20**	**-23**	**-24**	**-26**	**-29**	**-28**	**-33**	**-56**	**2**	**-112**	**-256**
Outlays													
Medicare	-5	-17	-18	-20	-22	-23	-26	-26	-30	-50	-8	-101	-241
Defense	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	0	-5	-10
Other	-1	-1	*	*	-1	-1	-1	-1	-1	-1	1	-3	-5
Total Outlays	**-6**	**-19**	**-20**	**-22**	**-24**	**-25**	**-28**	**-28**	**-32**	**-52**	**-7**	**-109**	**-256**

Data source: Congressional Budget Office. See www.cbo.gov/publication/57950#data.

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

SNAP benefit levels are determined by the price of the Thrifty Food Plan (TFP), a basket of foods selected by the Department of Agriculture that would provide a nutritious diet for a household of a particular size. The Department of Agriculture recently reevaluated the TFP, and, largely as a result of that reevaluation, the price of the TFP is about 23 percent higher in 2022 than it was last year; that increase accounts for much of the increase in outlays for SNAP in 2022. (See Figure A-3 on page 121.)[8]

In addition, CBO projects that many SNAP participants will continue to receive emergency allotments as authorized by the Families First Coronavirus Response Act (P.L. 116-127) until the month following the end of the public health emergency. (In CBO's projections, the public health emergency ends in July 2023, and thus the emergency allotments would conclude in August 2023.) CBO also expects that some families will continue to receive benefits through the Pandemic Electronic Benefit Transfer program through 2023. As a result, total benefits are projected to remain relatively high in 2022 and 2023 before declining in 2024 and 2025.

In CBO's projections, SNAP participation rates gradually decrease through 2032. However, because decreased outlays from lower participation are expected to be offset by increases in the cost of food (which SNAP benefits are linked to), projected outlays for the program increase in most years after 2025, by an average of about 1 percent

8. For more information on the reevaluation of the Thrifty Food Plan, see Department of Agriculture, Food and Nutrition Service, "USDA Modernizes the Thrifty Food Plan, Updates SNAP Benefits" (August 16, 2021), https://go.usa.gov/xuGRQ.

Table 3-2.

CBO's Baseline Projections of Mandatory Outlays, Adjusted to Exclude Effects of Timing Shifts

Billions of Dollars

	Actual, 2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Social Security														
Old-Age and Survivors Insurance	988	1,070	1,171	1,253	1,328	1,404	1,482	1,572	1,664	1,760	1,858	1,957	6,637	15,448
Disability Insurance	141	142	149	156	163	173	184	189	196	203	210	218	826	1,841
Subtotal	1,129	1,212	1,320	1,409	1,491	1,577	1,665	1,760	1,860	1,963	2,068	2,175	7,463	17,288
Major Health Care Programs														
Medicare[a,b]	868	941	1,009	1,086	1,165	1,262	1,360	1,462	1,559	1,672	1,782	1,929	5,882	14,287
Medicaid	521	589	601	545	547	578	608	639	672	708	749	789	2,880	6,437
Premium tax credits and related spending[c]	72	89	60	65	71	75	77	81	86	90	97	105	348	807
Children's Health Insurance Program	16	17	18	17	18	18	19	20	20	21	17	15	91	184
Subtotal	1,476	1,637	1,688	1,714	1,802	1,933	2,064	2,201	2,338	2,491	2,645	2,839	9,201	21,715
Income Security Programs														
Supplemental Nutrition Assistance Program	135	159	140	110	104	106	105	106	106	108	109	111	565	1,104
Earned income, child, and other tax credits[d]	733	220	88	95	97	97	83	84	85	85	85	86	460	885
Supplemental Security Income[a]	56	56	59	62	65	67	68	70	71	73	74	76	321	685
Unemployment compensation	392	40	30	34	36	39	40	44	47	48	50	51	179	419
Family support and foster care[e]	35	48	43	42	42	37	36	36	36	36	37	37	198	381
Child nutrition	27	38	31	31	33	34	36	37	39	41	42	44	165	368
Subtotal	1,376	561	391	373	376	380	368	376	384	391	398	406	1,888	3,843
Federal Civilian and Military Retirement														
Civilian[f]	111	114	120	125	129	133	136	140	143	146	150	154	644	1,377
Military[a]	63	66	73	77	80	83	85	88	91	94	97	99	398	866
Other	6	47	26	30	2	10	6	6	6	6	6	6	74	103
Subtotal	179	227	218	233	211	225	228	234	240	246	252	259	1,115	2,346
Veterans' Programs														
Income security[a,g]	116	127	138	146	153	158	164	170	176	182	189	195	759	1,670
Other[a,h]	9	18	18	19	19	19	19	18	19	19	21	22	94	193
Subtotal	125	146	157	165	171	177	183	188	195	201	209	217	853	1,863
Other Mandatory Programs														
Agriculture	37	21	21	16	14	16	18	18	18	16	16	16	85	168
MERHCF	11	11	12	13	13	14	15	16	16	17	18	19	67	152
Education Stabilization Fund	9	50	50	32	19	5	0	0	0	0	0	0	106	106
Higher education	143	40	7	6	6	7	8	9	9	9	9	9	33	79
Fannie Mae and Freddie Mac[i]	0	0	4	6	7	6	4	3	3	3	3	4	28	43
Public Health and Social Services Emergency Fund	5	34	26	4	*	*	*	*	0	0	0	0	31	31
Coronavirus Relief Fund	243	115	2	2	0	0	0	0	0	0	0	0	4	4
Emergency Rental Assistance	33	9	2	1	*	0	0	0	0	0	0	0	4	4
Small Business Administration	313	7	1	*	*	*	*	*	*	0	0	0	1	1
Air carrier worker support	31	*	*	*	*	*	*	*	*	*	*	*	*	*
Other	56	84	113	108	95	86	71	70	75	73	73	66	474	831
Subtotal	881	372	238	189	156	134	116	116	121	118	118	112	833	1,418
Total Mandatory Outlays, Excluding the Effects of Offsetting Receipts	**5,167**	**4,154**	**4,012**	**4,082**	**4,207**	**4,427**	**4,624**	**4,875**	**5,137**	**5,410**	**5,690**	**6,009**	**21,352**	**48,473**

Continued

Data source: Congressional Budget Office. See www.cbo.gov/publication/57950#data.

Spending for benefit programs shown in this table generally excludes administrative costs, which are discretionary.

MERHCF = Department of Defense Medicare-Eligible Retiree Health Care Fund; n.a. = not applicable; * = between -$500 million and $500 million.

Table 3-2. Continued

CBO's Baseline Projections of Mandatory Outlays, Adjusted to Exclude Effects of Timing Shifts

Billions of Dollars

	Actual, 2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Offsetting Receipts														
Medicare[j]	-179	-216	-170	-181	-198	-216	-234	-253	-272	-293	-317	-345	-999	-2,478
Federal share of federal employees' retirement														
Civil service retirement and other	-47	-51	-54	-58	-61	-63	-66	-68	-70	-72	-75	-77	-301	-663
Military retirement	-25	-26	-28	-29	-30	-31	-32	-33	-34	-34	-35	-36	-152	-323
Social Security	-20	-22	-23	-23	-24	-25	-26	-27	-28	-29	-31	-32	-122	-269
Subtotal	-92	-99	-105	-111	-115	-120	-124	-128	-132	-136	-140	-145	-575	-1,255
Receipts related to natural resources	-12	-20	-15	-16	-15	-15	-16	-16	-17	-19	-19	-19	-78	-168
MERHCF	-9	-10	-10	-11	-11	-12	-12	-13	-14	-14	-15	-16	-56	-127
Fannie Mae and Freddie Mac	-5	-6	0	0	0	0	0	0	0	0	0	0	0	0
Other	-37	-116	-49	-31	-34	-33	-33	-31	-31	-37	-38	-24	-180	-342
Subtotal[a]	-333	-466	-350	-350	-374	-395	-419	-441	-466	-499	-529	-548	-1,888	-4,370
Total Mandatory Outlays, Net of Offsetting Receipts	**4,834**	**3,688**	**3,662**	**3,731**	**3,834**	**4,032**	**4,206**	**4,435**	**4,671**	**4,911**	**5,162**	**5,461**	**19,464**	**44,104**
Effect That Timing Shifts Have on Mandatory Outlays in CBO's Baseline Projections														
Medicare	0	42	10	-52	0	0	0	80	-80	0	0	0	n.a.	n.a.
Supplemental Security Income	0	4	*	-5	0	0	0	5	-5	0	0	0	n.a.	n.a.
Military retirement	0	5	*	-5	0	0	0	6	-6	0	0	0	n.a.	n.a.
Veterans' income security	0	11	2	-12	0	0	0	15	-15	0	0	0	n.a.	n.a.
Veterans' other	0	1	*	-1	0	0	0	1	-1	0	0	0	n.a.	n.a.
Total	**0**	**63**	**12**	**-75**	**0**	**0**	**0**	**107**	**-107**	**0**	**0**	**0**	**n.a.**	**n.a.**
Total Mandatory Outlays in CBO's Baseline Projections	**4,834**	**3,751**	**3,674**	**3,656**	**3,834**	**4,032**	**4,206**	**4,542**	**4,564**	**4,911**	**5,162**	**5,461**	**19,401**	**44,041**
Memorandum:														
Outlays, Net of Offsetting Receipts														
Medicare	689	726	839	905	967	1,047	1,127	1,209	1,288	1,379	1,465	1,585	4,884	11,809
Major health care programs	1,297	1,421	1,517	1,533	1,604	1,718	1,831	1,948	2,066	2,198	2,328	2,494	8,202	19,237

a. When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that date are instead made at the end of September and thus are shifted into the previous fiscal year. These outlays have been adjusted to remove the effects of those shifts.

b. Gross spending, excluding the effects of Medicare premiums and other offsetting receipts. (Net Medicare spending is included in the memorandum section of the table.)

c. Spending to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and provided through the Basic Health Program and spending to stabilize premiums for health insurance purchased by individuals and small employers.

d. Includes outlays for the American Opportunity Tax Credit and other refundable tax credits.

e. Includes Temporary Assistance for Needy Families, Child Support Enforcement, Child Care Entitlement to States, and other programs that benefit children.

f. Includes benefits for retirement programs in the civil service, foreign service, and Coast Guard; benefits for smaller retirement programs; and annuitants' health care benefits.

g. Includes veterans' compensation, pensions, and life insurance programs.

h. Primarily education subsidies. (The costs of veterans' health care are classified as discretionary spending and thus are not shown in this table.)

i. Cash payments from Fannie Mae and Freddie Mac to the Treasury are recorded as offsetting receipts in 2021 and 2022. Beginning in 2023, CBO's estimates reflect the net lifetime costs—that is, the subsidy costs adjusted for market risk—of the guarantees that those entities will issue and of the loans that they will hold. CBO counts those costs as federal outlays in the year of issuance.

j. Includes premium payments, recoveries of overpayments made to providers, and amounts paid by states from savings on Medicaid's prescription drug costs.

Box 3-3.

Assumptions About Payments From Trust Funds That Are Scheduled to Continue

In keeping with the rules of section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985 (the Deficit Control Act, Public Law 99-177), the Congressional Budget Office's baseline projections incorporate the assumption that scheduled payments will continue to be made in full after a trust fund has been exhausted, even though there is no legal authority to make such payments. How those payments continued would depend on future legislation.

CBO estimates that mandatory outlays not covered by income credited to trust funds would total $128 billion over the 2022–2032 period. The reason is that without legislative action to address budgetary shortfalls, the balance of Medicare's Hospital Insurance Trust Fund would be exhausted in 2030, CBO projects. Discretionary outlays not covered by income credited to trust funds would total $217 billion over the same period—because the Highway Trust Fund, which is a source of discretionary outlays, would be exhausted in 2027.

Payments That Are Assumed to Continue in CBO's Baseline After Certain Trust Funds Are Exhausted

Billions of Dollars

	Actual, 2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total, 2023–2032
Mandatory Outlays													
Hospital Insurance (Part A) Trust Fund	0	0	0	0	0	0	0	0	0	*	53	74	128
Discretionary Outlays													
Highway Trust Fund	0	0	0	0	0	0	7	39	41	42	44	45	217

Data source: Congressional Budget Office. See www.cbo.gov/publication/57950#data.

* = between zero and $500 million.

per year. CBO projects that under current law, outlays for SNAP would total $111 billion in 2032.

Earned Income, Child, and Other Tax Credits. Refundable tax credits reduce a filer's income tax liability, and if the credit exceeds the filer's income tax liability, the government pays all or some portion of that excess to the taxpayer.[9] Those payments, and certain advance payments of tax credits, are categorized as outlays.[10]

Outlays for refundable tax credits are projected to drop from $733 billion in 2021 to $220 billion in 2022. As part of the government's pandemic response, several new refundable tax credits were created and some preexisting credits were expanded, which boosted outlays significantly last year and to a much lesser extent this year. The biggest component of the decline in outlays from 2021 to 2022 is the recovery rebates paid to individuals, most of which were paid out last year.[11]

In CBO's updated baseline projections, outlays in 2022 remain higher than usual, mostly because of outlays for three credits: the expanded child tax credit, recovery rebates to individuals, and U.S. Coronavirus Refundable Credits (a group of credits for employers for sick and family leave, employee retention, and

9. For more information, see Congressional Budget Office, *Refundable Tax Credits* (January 2013), www.cbo.gov/publication/43767.

10. In some circumstances, refundable tax credits that have been issued before tax filing season, such as the child tax credit in 2021 and the recovery rebates paid to individuals, have been classified as outlays regardless of whether they reduce a filer's income tax liability.

11. Payments of recovery rebates to individuals totaled $275 billion in 2020 and $570 billion in 2021; CBO estimates that they will total $11 billion in 2022.

continuation of health insurance for certain workers). Of those, the expanded child tax credit has the largest effect. Eligibility for the tax credit and its size were expanded during the pandemic, and advance payments were made between July 2021 and December 2021 (which included the first three months of fiscal year 2022).

After 2022, projected outlays for refundable tax credits drop to $88 billion in 2023, before increasing to about $96 billion a year from 2024 to 2026. In 2027, projected outlays fall to $83 billion, and they then average about $85 billion per year through 2032. The most significant factor reducing outlays for refundable credits is the expiration of many provisions of the 2017 tax act (P.L. 115-97). The scheduled changes in calendar year 2026 would decrease the amount of the child tax credit and increase tax liabilities for most people, which would result in a larger share of the credits' being recorded as reductions in revenues rather than as outlays.

Supplemental Security Income. SSI provides cash benefits to people with low income who are elderly or disabled. CBO estimates that outlays for SSI will rise by less than $1 billion this year. Lower projections of SSI caseloads limit growth in projected outlays, despite relatively high COLAs compared with those in recent years. Over the 2023–2032 period, outlays for the program are projected to grow by 3 percent per year, on average, mainly because of those higher COLAs. By 2032, with no changes to current law, outlays for SSI would reach $76 billion.

Unemployment Compensation. The federal-state unemployment compensation program provides benefits to people who lose their jobs through no fault of their own and who meet other criteria established by the laws in their states. Outlays for unemployment compensation depend on several factors, such as the unemployment rate, labor force participation, and wages and salaries.

In 2021, outlays of unemployment compensation totaled $392 billion, or 1.8 percent of GDP, largely reflecting the continuation of enhanced unemployment benefits provided in response to the pandemic. CBO estimates that in 2022, outlays for unemployment compensation will decline by 90 percent, to $40 billion, primarily because those enhanced benefits expired near the end of fiscal year 2021.

In CBO's projections, outlays for unemployment compensation generally follow the changes in the unemployment rate. CBO expects the unemployment rate to decline over the next two years, to 3.9 percent in 2022 (a drop of 2.1 percentage points from the rate in fiscal year 2021) and to 3.6 percent in fiscal years 2023 and 2024. The unemployment rate is expected to increase in 2025 and 2026 before moderating at an average of about 4.5 percent through 2032. Over the 2023–2032 period, projected outlays follow a similar pattern, declining by 24 percent to $30 billion in 2023 and then increasing annually, reaching $51 billion in 2032. The rise in outlays after 2023 largely reflects higher projections of wages and salaries, which boost average weekly benefits for unemployment compensation.

Family Support and Foster Care Programs. Outlays for other programs that support children and families, such as Temporary Assistance for Needy Families (TANF) and Child Support Enforcement, totaled $35 billion in 2021 but are estimated to increase by 38 percent, to $48 billion in 2022. That increase mostly stems from $39 billion in child care funding provided to states through the Child Care and Development Block Grant in response to the pandemic. CBO estimates that outlays from that funding will total $13.5 billion this year, compared with $1.5 billion in 2021.

In CBO's projections, total spending in this category generally declines from 2023 to 2027, by an average of 6 percent a year—largely because of waning outlays from the pandemic-related funding. Spending then increases by about 1 percent a year through 2032. Outlays for all family support and foster care programs are projected to total $37 billion in 2032.

Child Nutrition. CBO estimates that outlays for child nutrition programs, which include programs such as the National School Lunch Program, the School Breakfast Program, and the Summer Food Service Program, will increase to $38 billion in 2022 (up from $27 billion in 2021). That increase largely results from nationwide pandemic-related waivers that allowed schools to provide free meals under the Seamless Summer Option during the 2021–2022 school year. Because that waiver program is scheduled to end in June 2022, outlays in 2023 decline to $31 billion in CBO's projections. After 2024, outlays increase by about 5 percent a year, on average, reaching $44 billion in 2032, largely because of rising food prices and population growth, which increase outlays for nutrition programs.

Federal Civilian and Military Retirement. Retirement and survivors' benefits for most federal civilian employees are estimated to cost $114 billion in 2022, an increase of $3 billion over the previous year's amount. (That total includes benefits provided through several smaller retirement programs for employees of various government agencies and for retired railroad workers.) The projected growth in federal civil service retirement benefits is attributable primarily to COLAs for retirees and to increases in federal salaries, which boost benefits for people entering retirement. Under current law, outlays would grow by 5 percent in 2023 and 4 percent in 2024, mostly because of the COLAs projected for those years. After 2024, such outlays would grow by an average of about 3 percent annually over the projection period, CBO estimates, reaching $154 billion in 2032.

The federal government also provides annuities to retired military personnel and their survivors. Outlays for those annuities totaled $63 billion in 2021; in 2022, they are projected to rise to $66 billion. Most of the projected annual growth in those outlays over the 2023–2032 period results from COLAs and increases in military basic pay. As in the civilian retirement program, military retirement outlays are projected to increase more rapidly in 2023 and 2024 because of larger COLAs in those years. After 2024, outlays for military retirement benefits are projected to grow by an average of about 3 percent per year, reaching $99 billion in 2032.

Veterans' Programs. Mandatory spending for veterans' benefits includes disability compensation, education and vocational rehabilitation benefits, pensions, insurance, housing assistance, and burial benefits. Outlays for those benefits totaled $125 billion in 2021, about 90 percent of which were for disability compensation. Outlays for veterans' benefits are projected to rise by 17 percent, to $146 billion, in 2022. (That total does not include most federal spending for veterans' health care, which is funded through discretionary appropriations.) The increase is primarily driven by the growth of disability compensation payments, which are rising faster than inflation. Those payments increase with the severity of veterans' service-connected injuries and illnesses. Both the average severity of beneficiaries' disabilities and the number of veterans with service-connected disabilities have been rising in recent years. The increase in estimated outlays for 2022 also reflects a significantly higher COLA for this year than was estimated in CBO's previous baseline. Under current law, mandatory outlays for veterans' benefits are projected to grow by 8 percent in 2023, by 5 percent in 2024, and then by an average of about 4 percent per year through the end of the period; outlays are projected to reach $217 billion in 2032.

Other Mandatory Programs. The remainder of mandatory spending encompasses outlays for a variety of other activities, including some of the largest programs aimed at pandemic relief, agricultural programs, deposit insurance, health care benefits for retirees of the uniformed services and their dependents and surviving spouses, cash transfers to and from Fannie Mae and Freddie Mac, and loans and other programs related to higher education. Together, those outlays are expected to decline by nearly 60 percent, from $881 billion last year to $372 billion this year, largely because of rapid drop-offs in pandemic-related spending.

The largest decreases in pandemic-related outlays from 2021 to 2022 include the following:

- A $306 billion drop in outlays by the Small Business Administration, primarily related to the Paycheck Protection Program;
- A $128 billion decrease in spending from the Coronavirus Relief Fund (which provides grants to state, local, tribal, and territorial governments);
- A $30 billion decline in spending by the Department of the Treasury for payroll support for the aviation industry; and
- A $24 billion decrease in outlays for the Emergency Rental Assistance Program (which provides grants to assist low-income households with paying rent during the pandemic).

Those decreases are partially offset by increases in other pandemic-related programs—including an increase of $41 billion in outlays for emergency grants through the Education Stabilization Fund and an increase of $29 billion in outlays from the Public Health and Social Services Emergency Fund.

Higher education outlays are estimated to drop significantly, from $143 billion in 2021 to $40 billion in 2022. The decrease is mostly the result of a smaller upward revision to the estimated subsidy costs of outstanding federal student loans recorded by the Department of Education in 2022 than in 2021.[12] In 2021, the upward revision was $133 billion, and in 2022, based on information in the President's budget, that amount is currently projected to be $27 billion.[13]

Over the remainder of the projection period, total outlays for the category of other mandatory programs are projected to decrease by more than half, from $238 billion in 2023 to $112 billion in 2032; outlays in the earlier years of the period are boosted by continued, but declining, pandemic-related spending.

12. CBO calculates the subsidy costs for student loans following the procedures specified in the Federal Credit Reform Act of 1990 (FCRA). Under FCRA, the discounted present value of expected income from federal student loans issued during the 2022–2032 period is projected to exceed the discounted present value of the government's costs. (A present value is a single number that expresses a flow of current and future income or payments in terms of an equivalent lump sum received or paid at a specific time; the present value depends on the rate of interest—known as the discount rate—that is used to translate future cash flows into current dollars.) Credit programs that produce net income rather than net outlays are said to have negative subsidy rates, which result in negative outlays. The original subsidy calculation for a set of loans or loan guarantees may be increased or decreased in subsequent years by a credit subsidy reestimate by the Office of Management and Budget that reflects an updated assessment of the cash flows associated with the outstanding loans or loan guarantees. For additional information about the costs of credit programs, see Congressional Budget Office, "Major Recurring Reports: Estimates of the Cost of Federal Credit Programs" (accessed May 16, 2022), https://go.usa.gov/xuenJ.

13. CBO's projections of the changes in the costs of the outstanding loan portfolio are based on information in the President's budget because those are the costs that CBO expects will be recorded by the Treasury. For fiscal year 2022, supplemental materials to the President's budget (released on April 6, 2022) include the estimated costs of the suspension of loan payments, interest accrual, and involuntary collections on defaulted loans through March 31, 2022. Those supplements do not include costs for the extension of those polices through August 30, 2022, nor do they include the costs of the Administration's policy to expand the type of payments that count toward forgiveness for either the Public Service Loan Forgiveness Program (announced on October 6, 2021) or the Income Based Repayment program (announced on April 19, 2022). When the Office of Management and Budget announces the costs that it plans to record for those changes, CBO will include them in its baseline.

Offsetting Receipts. Offsetting receipts are funds collected by federal agencies from other government accounts or from the public in businesslike or market-oriented transactions that are recorded as negative budget authority and outlays (that is, as reductions in direct spending). Such receipts include Medicare beneficiaries' premiums, intragovernmental payments made by federal agencies for their employees' retirement benefits, royalties and other charges for the production of oil and natural gas on federal lands, proceeds from sales of timber harvested and minerals extracted from federal lands, payments to the Treasury by Fannie Mae and Freddie Mac (shown for 2021 and 2022 only), and various fees paid by users of public property and services.[14]

CBO estimates that offsetting receipts will increase by $133 billion this year, rising from $333 billion in 2021 to $466 billion in 2022. Most of that increase stems from $86 billion in receipts that CBO estimates will be recorded this year from the auction of licenses to use the electromagnetic spectrum. (In 2021, such receipts totaled $9 billion.) Offsetting receipts from all other programs will be $52 billion larger in 2022 than in 2021, driven by increases in Medicare premiums paid by beneficiaries and Medicare's receipts from recoupments of accelerated and advance payments, CBO projects. From 2023 to 2032, offsetting receipts are projected to grow from $350 billion to $548 billion. Receipts from Medicare account for nearly 90 percent of that increase.

Assumptions About Legislation for Expiring Programs Incorporated Into the Baseline

In keeping with the rules established by the Deficit Control Act, CBO's baseline projections incorporate

14. 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 the subsidy costs of their new activities using procedures that are similar to those specified in FCRA for determining the costs of federal credit programs, but with adjustments to reflect the associated market risk. The Administration, by contrast, considers Fannie Mae and Freddie Mac to be outside the federal government for budgetary purposes and records cash transactions between those two entities and the Treasury as federal outlays or receipts. In its baseline projections, CBO treats only the current fiscal year in the same manner as the Administration to provide its best estimate of the amount that the Treasury ultimately will report as the federal deficit for 2022. Similarly, to match the Administration's historical budget totals, CBO uses the Administration's treatment for past years.

Table 3-3.

Costs for Mandatory Programs That Continue Beyond Their Current Expiration Date in CBO's Baseline Projections

Billions of Dollars

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Supplemental Nutrition Assistance Program													
Budget authority	0	0	103	104	104	105	105	106	108	109	111	416	956
Outlays	0	0	110	104	106	105	105	106	107	109	111	425	964
Veterans' Compensation COLAs													
Budget authority	0	7	11	15	19	23	27	32	36	41	46	76	257
Outlays	0	7	11	15	19	23	27	32	36	41	46	76	257
Temporary Assistance for Needy Families													
Budget authority	0	17	17	17	17	17	17	17	17	17	17	87	173
Outlays	0	13	16	16	17	17	17	17	17	17	17	79	165
Commodity Credit Corporation[a]													
Budget authority	0	0	4	4	13	14	15	14	13	12	13	35	102
Outlays	0	0	1	2	11	13	15	14	13	12	13	27	93
Children's Health Insurance Program													
Budget authority	0	0	0	0	0	0	15	15	15	15	15	0	77
Outlays	0	0	0	0	0	0	6	11	15	15	15	0	62
Rehabilitation Services													
Budget authority	0	4	4	4	4	4	5	5	5	5	5	21	45
Outlays	0	2	3	4	4	4	4	4	5	5	5	17	39
Child Care Entitlement to States													
Budget authority	0	4	4	4	4	4	4	4	4	4	4	18	36
Outlays	0	3	3	3	3	4	4	4	4	4	4	16	34
Child Nutrition[b]													
Budget authority	0	1	1	1	1	1	1	1	1	1	1	5	12
Outlays	0	1	1	1	1	1	1	1	1	1	1	5	12
Ground Transportation Programs Not Subject to Annual Obligation Limitations													
Budget authority	0	0	0	0	0	1	1	1	1	1	1	1	4
Outlays	0	0	0	0	0	*	*	1	1	1	1	*	3
Promoting Safe and Stable Families													
Budget authority	0	*	*	*	*	*	*	*	*	*	*	2	3
Outlays	0	*	*	*	*	*	*	*	*	*	*	1	3

Continued

the assumption that some mandatory programs will be extended when their authorization expires (see Table 3-3). The rules provide for different treatment of programs created before and after the Balanced Budget Act of 1997 (P.L. 105-33). All direct spending programs that predate that law and have current-year outlays greater than $50 million are assumed to continue in CBO's baseline projections. Whether programs of that size established after 1997 are assumed to continue is determined on a program-by-program basis in consultation with the House and Senate Budget Committees.

Programs whose authorization expires within the current projection period include SNAP, TANF, most farm subsidies, CHIP, rehabilitation services, the Child Care Entitlement to States, and child nutrition programs. In addition, the Deficit Control Act directs CBO to assume that a COLA for veterans' compensation will be granted

Table 3-3. Continued

Costs for Mandatory Programs That Continue Beyond Their Current Expiration Date in CBO's Baseline Projections

Billions of Dollars

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Trade Adjustment Assistance for Workers[c]													
Budget authority	0	*	*	*	*	*	*	*	*	*	*	1	2
Outlays	0	*	*	*	*	*	*	*	*	*	*	1	2
Ground Transportation Programs Controlled by Obligation Limitations[d]													
Budget authority	0	0	0	0	0	79	79	79	79	79	79	79	476
Outlays	0	0	0	0	0	0	0	0	0	0	0	0	0
Air Transportation Programs Controlled by Obligation Limitations[d]													
Budget authority	0	0	3	3	3	3	3	3	3	3	3	13	30
Outlays	0	0	0	0	0	0	0	0	0	0	0	0	0
Student Aid Administration (Account maintenance fees)													
Budget authority	0	*	*	*	*	*	*	*	*	*	*	*	*
Outlays	0	*	*	*	*	*	*	*	*	*	*	*	*
Natural Resources													
Budget authority	0	*	*	*	*	*	*	*	*	*	*	*	*
Outlays	0	*	*	*	*	*	*	*	*	*	*	*	-1
National Flood Insurance[e]													
Budget authority	0	0	0	0	0	0	0	0	0	0	0	0	0
Outlays	0	1	1	1	1	1	*	*	*	*	*	5	4
Total Budget Authority	**0**	**33**	**148**	**154**	**166**	**253**	**274**	**278**	**283**	**289**	**296**	**754**	**2,174**
Total Outlays	**0**	**27**	**147**	**147**	**163**	**168**	**180**	**190**	**200**	**205**	**213**	**652**	**1,640**

Data source: Congressional Budget Office. See www.cbo.gov/publication/57950#data.

COLAs = cost-of-living adjustments; * = between -$500 million and $500 million.

a. Agricultural commodity price and income supports and conservation programs under the Agriculture Improvement Act of 2018 generally expire after 2023. Although permanent price support authority under the Agricultural Adjustment Act of 1938 and the Agricultural Act of 1949 would then become effective, CBO adheres to the rule in section 257(b)(2)(ii) of the Balanced Budget and Emergency Deficit Control Act of 1985 that indicates that the baseline should reflect the assumption that the provisions of the Agriculture Improvement Act of 2018 remain in effect.

b. Includes the Summer Food Service Program and states' administrative expenses.

c. Excludes the cost of extending Reemployment Trade Adjustment Assistance.

d. Authorizing legislation for these programs provides contract authority, which is counted as mandatory budget authority. However, because the programs' spending is subject to obligation limitations specified in annual appropriation acts, outlays are considered discretionary.

e. Includes payments for claims (which are reflected as positive budget authority and outlays) as well as offsetting collections (that is, negative budget authority and outlays) of premiums from policyholders. In CBO's projections, payments for claims slightly exceed premium collections.

each year. Contract authority for certain transportation programs is also assumed to continue. (Outlays for those programs are typically controlled by obligation limitations set in appropriation acts, so their outlays are considered discretionary.) In the agency's projections, those assumptions account for $1.6 trillion in outlays between 2023 and 2032, most of which are for SNAP, TANF, and COLAs for veterans' compensation. That amount represents about 4 percent of all mandatory spending.

Discretionary Spending

Discretionary spending is controlled by lawmakers through appropriation acts. Those acts fund a wide array of activities, including national defense, transportation programs, veterans' health benefits, certain other health programs, education grants, housing programs, and the administration of justice. Such spending provides some direct benefits to individuals, provides grants to local governments and private entities, pays for federal employees' salaries and benefits, and funds contracts for goods and services provided by the private sector.

CBO projects discretionary spending in accordance with section 257 of the Deficit Control Act. That section requires projections of funding for discretionary programs to grow each year with inflation. For any program without an appropriation provided for future years, CBO projects funding in those years by applying an inflation factor to the most recently appropriated amount. The factor applied is specified in the Deficit Control Act and is based on CBO's economic forecast and estimates from the Office of Management and Budget that indicate how much of a program's funding is spent on compensation for federal employees and how much for other purposes.

Funding translates to outlays when the money is spent. Some funding is spent quickly, such as that provided for salaries and expenses for federal employees. Other funding, such as that for construction contracts, can be spent over several years. CBO estimates how quickly funds will be spent on the basis of how long the money is available for obligation by federal agencies and on historical patterns of related spending.

Discretionary Spending in 2022

In CBO's baseline (which incorporates legislation enacted through April 8, 2022), discretionary funding totals $1.7 trillion in 2022 (see Table 3-4). That funding primarily comes from amounts provided by the Consolidated Appropriations Act (CAA), 2022 (P.L. 117-103). Discretionary funding provided by that act totals $1.5 trillion.[15] The remaining $0.2 trillion arises from previously enacted appropriation legislation, including division J of the Infrastructure Investment and Jobs Act (IIJA, P.L. 117-58) and emergency funding for aid to those affected by natural disasters in 2020 and 2021, for humanitarian assistance to Afghanistan, and for funding to support Ukraine.[16] In total, discretionary appropriations provided for 2022 are $125 billion (or 8 percent) more than the amount provided in 2021.[17] (Taking into account obligation limitations that govern discretionary spending for certain transportation programs, funding is $140 billion more than it was in 2021, also an increase of 8 percent.)[18]

Much of the increase in funding between 2021 and 2022 is attributable to the IIJA, which boosted discretionary appropriations by $163 billion in 2022. (Most of that funding was designated as an emergency requirement. For more information on how appropriations provided by the IIJA affect CBO's projections, see Box 3-4.) Reductions in funding for other emergencies offset some of that increase. Not including the $163 billion in funding provided by the IIJA, funding designated as an emergency requirement for 2022—$58 billion—is less than the $194 billion in emergency-designated funding

15. The 2022 CAA became law on March 15, 2022. The amounts provided by the act are on an annualized basis. That is, in 2022, agencies generally may not spend more than the amounts provided by the 2022 CAA, including spending that occurred before the CAA became law. Prior to that law's enactment, funding for agencies in 2022 was provided by four continuing resolutions.

16. Since April 8, lawmakers have enacted the Additional Ukraine Supplemental Appropriations Act, 2022 (H.R. 7691), providing an additional $40 billion in such funding this year. That amount has not been included in the analysis in this report. For CBO's cost estimate for the bill, see Congressional Budget Office, cost estimate for H.R. 7691, the Additional Ukraine Supplemental Appropriations Act, 2022 (May 11, 2022), www.cbo.gov/publication/58100.

17. Included in the enacted appropriation legislation were changes in mandatory programs (often referred to as CHIMPs) that were counted as reductions to discretionary budget authority. Those reductions amounted to $14 billion in CBO's cost estimate for that legislation for 2022. In CBO's baseline, however, those reductions do not change discretionary budget authority; rather, those CHIMPs change mandatory budget authority and (to a lesser extent) outlays.

18. An obligation limitation is a restriction on the amount, purpose, or period of availability of budget authority and is typically included in an appropriation act. The limitation often affects budget authority that has been provided in an authorization act. Although the budget authority for many transportation programs is mandatory, the outlays from the obligation limitations for those programs are considered discretionary.

Table 3-4.

CBO's Baseline Projections of Discretionary Spending, Adjusted to Exclude Effects of Timing Shifts

Billions of Dollars

	Actual, 2021[a]	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total 2023–2027	Total 2023–2032
Budget Authority														
Defense														
Other discretionary	741	782	814	836	857	878	900	922	945	968	992	1,013	4,285	9,126
IIJA[b]	n.a.	*	*	*	*	*	*	*	*	*	*	*	*	1
Emergency	1	14	15	15	15	16	16	16	17	17	18	18	76	162
Subtotal	742	796	828	851	872	894	916	939	962	985	1,010	1,031	4,361	9,288
Nondefense														
Other discretionary	683	740	774	796	817	838	861	882	904	926	949	973	4,086	8,720
IIJA[b]	n.a.	163	162	165	168	168	172	176	179	183	187	191	834	1,750
Emergency	193	44	46	47	48	49	50	51	52	53	55	56	239	506
Subtotal	876	947	981	1,008	1,032	1,055	1,083	1,109	1,135	1,162	1,191	1,220	5,159	10,977
Total Budget Authority	**1,618**	**1,743**	**1,809**	**1,859**	**1,905**	**1,949**	**1,999**	**2,048**	**2,097**	**2,147**	**2,200**	**2,251**	**9,521**	**20,265**
Outlays														
Defense														
Other discretionary[c]	742	749	784	807	828	849	870	892	914	937	960	981	4,138	8,822
IIJA[b]	n.a.	*	*	*	*	*	*	*	*	*	*	*	*	1
Emergency[c]	n.a.	6	10	12	14	15	15	15	16	16	17	17	66	146
Subtotal[c]	742	755	794	819	842	863	885	907	930	953	976	998	4,204	8,969
Nondefense														
Other discretionary	895	943	901	884	886	905	928	949	970	993	1,017	1,041	4,504	9,473
IIJA[b]	n.a.	8	33	66	95	121	139	149	155	161	166	170	454	1,256
Emergency	n.a.	11	29	34	38	42	44	46	47	48	50	51	188	429
Subtotal	895	962	963	984	1,020	1,067	1,111	1,144	1,172	1,202	1,233	1,262	5,145	11,158
Total Outlays[c]	**1,636**	**1,717**	**1,757**	**1,803**	**1,862**	**1,930**	**1,996**	**2,051**	**2,102**	**2,155**	**2,209**	**2,261**	**9,349**	**20,127**
Memorandum:														
Effect That Timing Shifts Have on Discretionary Outlays in CBO's Baseline	0	5	*	-5	0	0	0	6	-6	0	0	0	n.a.	n.a
CBO's Baseline Projection of Discretionary Outlays	1,636	1,722	1,758	1,798	1,862	1,930	1,996	2,057	2,096	2,155	2,209	2,261	9,344	20,122
Outlays from IIJA Appropriations as Specified[d]	n.a.	8	30	52	62	71	65	52	35	23	16	12	279	417

Data sources: Congressional Budget Office; Department of the Treasury. See www.cbo.gov/publication/57950#data.

IIJA = Infrastructure Investment and Jobs Act; n.a. = not applicable; * = between zero and $500 million.

a. The Department of the Treasury does not distinguish between outlays stemming from emergency funding and outlays stemming from nonemergency funding. Consequently, the budget does not record any actual amounts attributed specifically to emergency funding.

b. Division J of the IIJA specifies discretionary appropriations each year for 2022 to 2026. After consulting with the Budget Committees, CBO applied the rules that govern how it constructs baseline projections to that funding. As a result, the amount of funding related to the IIJA in CBO's baseline exceeds the amounts specified in that law. For more information, see Box 3-4.

c. When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that date are instead made at the end of September and thus are shifted into the previous fiscal year. Outlays have been adjusted to remove the effects of those shifts.

d. The IIJA permanently appropriated to Superfund programs certain balances and future revenues received by the Hazardous Substance Superfund. That spending is considered discretionary and is estimated.

Box 3-4.

How the IIJA Affects CBO's Baseline Projections of Discretionary Spending

The Infrastructure Investment and Jobs Act (IIJA, Public Law 117-58) provided funding that significantly affected the Congressional Budget Office's projections of discretionary spending. The act provided $163 billion in supplemental appropriations for 2022 and $283 billion in advance appropriations over the 2023–2031 period, most of which was designated as an emergency requirement. Funding totals $163 billion in 2022, falls to $69 billion in 2023, and then tapers to $66 billion in 2026. From 2027 to 2031, roughly $2 billion is available each year. Most of the funding provided by the IIJA is for transportation programs, pollution control and abatement, broadband deployment, and energy programs.

In addition, the act provided $383 billion in contract authority—a type of budget authority—for transportation programs over the 2022–2026 period, a $90 billion increase relative to CBO's July 2021 baseline projections.

CBO's Baseline Treatment of Discretionary Funding in the IIJA

In consultation with the House and Senate Budget Committees, CBO applied provisions of law that require the agency to project future discretionary funding if appropriations for those years have not been provided by starting with existing appropriations and then adjusting funding for inflation. As a result, CBO's baseline projections of discretionary funding attributable to the IIJA grow from $163 billion in 2022 to $191 billion in 2032.

That additional budget authority projected in CBO's baseline results in additional outlays. In its cost estimate, the agency estimated that the IIJA would increase discretionary outlays by $415 billion over the 2022–2031 period, with outlays climbing between 2022 and 2026 and then falling through 2031.[1] In CBO's baseline, however, discretionary outlays grow steadily. All told, outlays over the 2022–2031 period (the same period as in CBO's cost estimate) from funding provided by the IIJA—and from the assumption that such funding would continue to be provided in future years—total $1.1 trillion in CBO's baseline, $678 billion more than the amount in the cost estimate. Over the 2022–2032 period, CBO's baseline treatment of the IIJA increases discretionary outlays by $839 billion.

CBO's baseline projections reflect the agency's updated assessment of how quickly funds provided by the IIJA will be spent. Delays to certain application processes have slowed outlays, and the amounts the Administration has spent so far indicate that the funds will be spent more slowly than CBO initially expected. CBO now estimates that discretionary outlays from funding provided by the IIJA will amount to $8 billion in 2022 instead of $14 billion. If, in its original cost estimate, CBO had estimated outlays with the new, slower rates of spending, outlays from that funding would have amounted to $30 billion in 2023 and $52 billion in 2024, instead of the $34 billion and $49 billion initially estimated for those years. However, those changes to rates of spending would not have drastically altered the agency's estimates of outlays over the entire 2022–2031 period. Over that period, the slower rates of spending would have resulted in outlays of $413 billion, $2 billion less than the amount in the cost estimate.

Contract Authority and Obligation Limitations

The classification of spending for certain transportation programs is split. Contract authority is specified in authorization acts and is considered mandatory, but appropriation laws regularly limit the ability of the Administration to obligate funds provided by that contract authority. As a result of those obligation limitations, the outlays for those programs are accounted

1. See Congressional Budget Office, cost estimate for Senate Amendment 2137 to H.R. 3684, the Infrastructure Investment and Jobs Act, as Proposed on August 1, 2021, (August 5, 2021, revised August 9, 2021), www.cbo.gov/publication/57406. In addition to appropriating advance funding and increasing contract authority, the bill also delayed the implementation of a rule affecting rebates for prescription drugs; established reporting requirements for digital assets; extended certain fees, taxes, and budget cuts; rescinded certain funds; and made other, smaller changes.

Continued

provided in 2021. Most of the emergency funding provided for 2022 (other than in the IIJA) is to aid those affected by natural disasters that occurred in 2020 and 2021; to finance U.S. activities in and provide humanitarian assistance to Afghanistan; and to respond to the conflict between Ukraine and Russia.

Discretionary outlays total $1.7 trillion in 2022 in CBO's baseline, an amount that includes outlays from funding provided this year as well as from previous years. That amount is $81 billion (or 5 percent) higher than discretionary outlays in 2021, which totaled $1.6 trillion.

Box 3-4. Continued

How the IIJA Affects CBO's Baseline Projections of Discretionary Spending

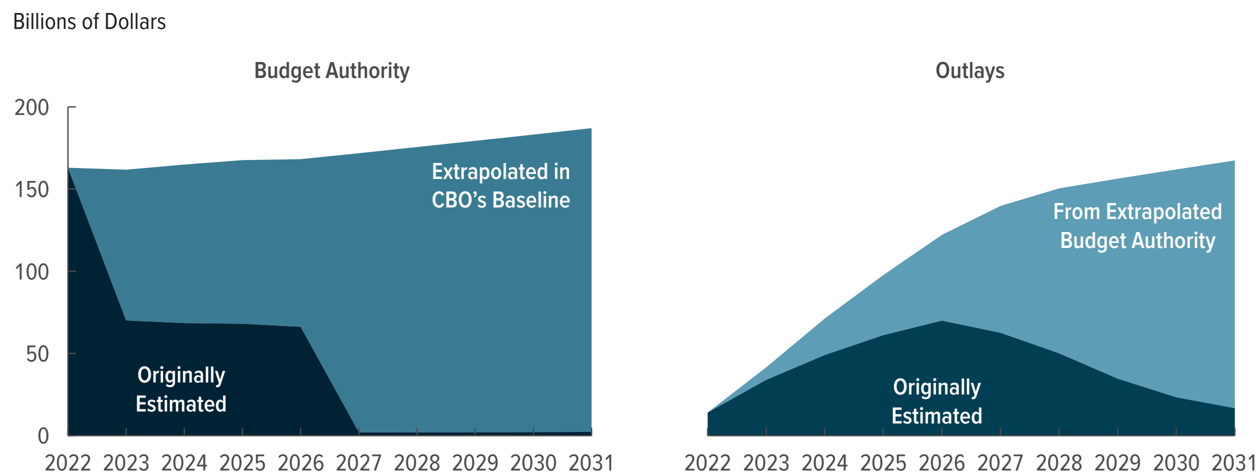
for at the time appropriations are made and are considered discretionary.[2]

Divisions A, B, and C of the IIJA provided contract authority of $383 billion over the 2022–2026 period, an increase of $90 billion relative to CBO's July 2021 baseline. Of that $383 billion, $73 billion is for 2022, $15 billion more than the amounts assumed in CBO's July 2021 baseline. Most of the additional contract authority provided by the IIJA was for federal aid for highways and for transit programs funded by the Highway Trust Fund. Because the IIJA did not increase obligation limitations, CBO did not estimate any additional outlays stemming from that additional contract authority.

The Consolidated Appropriation Act, 2022 (P.L. 117-103), provided obligation limitations for certain transportation programs for fiscal year 2022 at amounts consistent with the contract authority authorized in the IIJA. When CBO incorporated those obligation limitations into its baseline, the agency used the same procedures to adjust for inflation as required for other discretionary funding. Those new obligation limitations resulted in an increase in projected discretionary outlays of $118 billion over the 2022–2031 period. (That amount is in addition to the $1.1 trillion total mentioned above.)

2. For more information on the history of the split treatment of funding for transportation programs, see Congressional Budget Office, *The Highway Trust Fund and the Treatment of Surface Transportation Programs in the Federal Budget* (June 2014), www.cbo.gov/publication/45416.

Effects That Extrapolating Funding in the IIJA Has on CBO's Baseline Projections of Discretionary Spending



Because of the rules that govern how CBO constructs its budget projections, the baseline contains much more spending than the amounts provided by the IIJA. For that spending to materialize, lawmakers would have to appropriate additional amounts.

Data source: Congressional Budget Office. See www.cbo.gov/publication/57950#data.

CBO has revised its original estimate of how quickly appropriations made by the IIJA would be spent. This figure does not reflect those revisions.

IIJA = Infrastructure Investment and Jobs Act.

Nondefense Spending in 2022. Overall, funding for nondefense discretionary programs increased by $86 billion—or 9 percent—from 2021 to 2022, including obligation limitations for transportation programs. Nondefense budgetary resources comprise 56 percent of discretionary funding for 2022 in CBO's baseline, the same proportion as last year. However, the allocation of that funding has changed significantly since then, largely because of the enactment of the IIJA (see Table 3-5). Discretionary appropriations and obligation limitations for commerce and housing credit, natural resources and environment, and transportation programs increased by a total of $153 billion, nearly doubling the amounts provided to those programs in 2021. (The additional

Table 3-5.

Changes in Nondefense Discretionary Funding From 2021 to 2022

Billions of Dollars

	2021 Total	2022 Other	2022 IIJA	2022 Total	Total Difference	Change (Percent)
Transportation[a]	132	123	37	161	29	22
Veterans' Benefits and Services	105	113	0	113	8	8
Education, Training, Employment, and Social Services	185	106	*	105	-80	-43
Natural Resources and Environment	43	53	51	104	62	145
Income Security	95	97	*	97	2	2
Health	138	83	1	84	-54	-39
Administration of Justice	68	72	1	72	5	7
International Affairs	63	68	0	68	5	7
Commerce and Housing Credit	-8	-6	60	54	63	n.m.[b]
Community and Regional Development	33	52	-9	43	10	30
General Science, Space, and Technology	38	40	0	40	2	5
Energy	5	8	19	27	21	411
General Government	19	19	3	23	4	20
Agriculture	8	18	*	18	10	129
Medicare	8	8	0	8	*	**
Social Security	6	6	0	6	*	5
Total Nondefense	**937**	**860**	**163**	**1,023**	**86**	**9**
Memorandum:						
Outlays From Nondefense Discretionary Funding	895	954	8	962	67	7

Data sources: Congressional Budget Office; Department of the Treasury. See www.cbo.gov/publication/57950#data.

IIJA = Infrastructure Investment and Jobs Act; n.m. = not meaningful; * = between -$500 million and $500 million; ** = between -0.5 percent and zero.

a. Includes budgetary resources provided by obligation limitations for certain surface and air transportation programs.

b. Subsidies for commerce and housing credit programs are typically negative. When the federal government provides a loan under one of those programs, that negative subsidy results in a credit to the federal government, which is recorded as negative budget authority. Excluding the effect of credit programs and the IIJA, budget authority for credit and housing programs would amount to $6 billion for 2022. The IIJA provided $60 billion of budget authority (10 times the base amount).

funding will largely be used to bolster programs aimed at deploying and increasing adoption of broadband Internet, environmental remediation, and transportation infrastructure.) Increases in those programs are partially offset by a $134 billion drop in funding for certain education and health programs. Funding for education, training, employment, and social services programs decreased by $80 billion, mostly because funding for the Education Stabilization Fund was not renewed in 2022. Discretionary funding for health programs decreased by $54 billion in large part because of reduced funding for the Public Health and Social Services Emergency Fund. In 2021, that fund received $50 billion; this year, the 2022 CAA provided $3 billion.

In CBO's baseline, nondefense discretionary outlays in 2022 total $962 billion, $67 billion more than in 2021. About 55 percent, or $530 billion, of those outlays stem from funding provided in prior years, including funding provided in response to the pandemic. One of the largest components of that amount is pandemic-related spending from the Public Health and Social Services Emergency Fund, which will amount to $105 billion in 2022, CBO estimates.

Defense Spending in 2022. About 44 percent of discretionary funding (including obligation limitations for transportation programs) is for defense. Such funding amounts to $796 billion, a $54 billion—or 7 percent—increase from the sum provided in 2021 (see

Table 3-6.

Changes in Defense Discretionary Funding From 2021 to 2022

Billions of Dollars

	2021	2022	Difference	Change (Percent)
Operation and Maintenance	284	307	23	8
Research and Development	106	119	13	12
Procurement	141	145	5	3
Military Personnel	163	167	4	3
Other	48	57	9	19
Total Defense	**742**	**796**	**54**	**7**
Memorandum:				
Outlays From Defense Funding[a]	742	760	19	3
Outlays From Defense Funding, Excluding Effects of Timing Shifts	742	755	14	2

Data source: Congressional Budget Office. See www.cbo.gov/publication/57950#data.

a. When October 1 (the first day of the fiscal year) falls on a weekend, certain payments to military personnel that would have ordinarily been made on that date are instead made at the end of September and are thus shifted into the previous fiscal year. Outlays have been adjusted to remove the effects of those shifts.

Table 3-6).[19] Funding for operation and maintenance accounts for most of the increase, and funding for research and development, procurement, military personnel, and other defense programs accounts for smaller shares of the increase. Of the total increase in defense funding, $14 billion is designated as an emergency requirement; about half of that emergency funding is to respond to the conflict between Ukraine and Russia.

Outlays for defense are estimated to amount to $755 billion in 2022. That amount is $14 billion, or 2 percent, more than defense outlays in 2021. Most of those outlays come from funding provided in 2022; $289 billion comes from funding provided in prior years. Outlays for operation and maintenance, research and development, and military personnel account for nearly all the increase. Outlays for procurement are expected to drop by $2 billion relative to last year's amount.

19. Defense funding in 2021 totaled $742 billion, which included $69 billion designated for overseas contingency operations. Before 2022, funding for overseas contingency operations—mostly appropriations for Department of Defense operations in Iraq and Afghanistan—were accounted for separately from other funding during the appropriation process. Last year, the final year of that breakout, funding for overseas contingency operations amounted to $77 billion. Starting in 2022, those amounts are no longer separately appropriated.

Discretionary Spending Over the 2023–2032 Period

In CBO's baseline projections, all funding provided so far for 2022—including amounts provided by the IIJA and other funding designated as an emergency requirement—is assumed to continue in future years, with adjustments for inflation. As a result, in nominal terms, discretionary outlays are projected to increase over the next 10 years (see Table 3-4 on page 75), rising from $1.8 trillion in 2023 to $2.3 trillion by 2032. Outlays from funding designated as an emergency requirement (including funding provided by the IIJA) and from the assumption that such funding would continue to be provided each year account for 9 percent of outlays in CBO's baseline over that period.

Trends in Discretionary Outlays

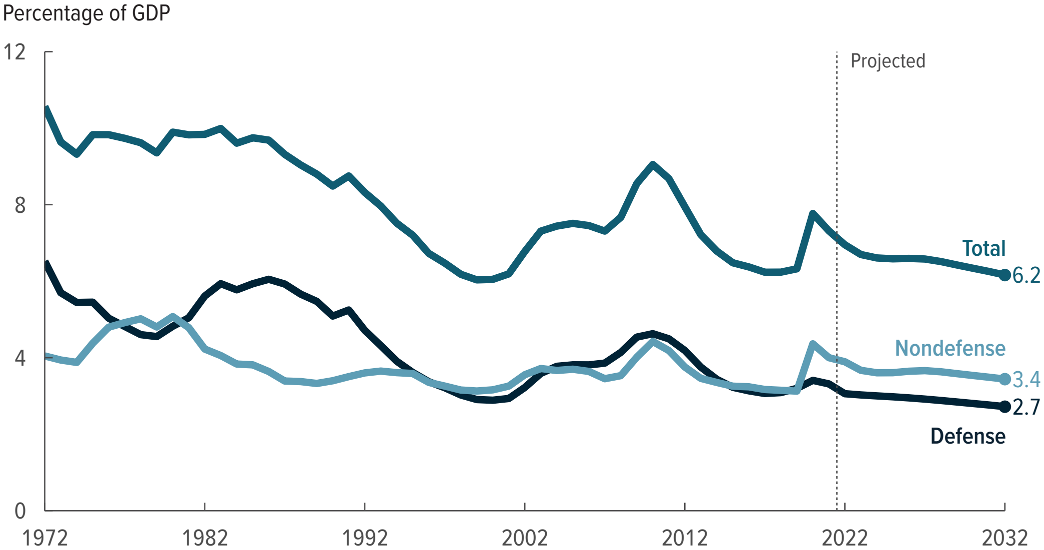
Total discretionary outlays as a share of the economy declined from 1972 to 2001, falling from 10.6 percent of GDP to 6.2 percent (see Figure 3-3). That decline was largely the result of decreasing outlays for defense (from 6.5 percent of GDP in 1972 to 2.9 percent in 2001). In the aftermath of September 11, 2001, outlays for defense increased, reaching 4.6 percent of GDP in 2010. Provisions in the American Recovery and Reinvestment Act (ARRA, P.L. 111-5), which was enacted in 2009, boosted nondefense outlays in that year and for several years thereafter. Those increases in defense and nondefense outlays resulted in discretionary outlays as a share of GDP, reaching 9.1 percent in 2010.

In 2011, discretionary outlays began to decline again as spending for operations in Iraq and Afghanistan and from ARRA waned. In addition, the caps put in place by the Budget Control Act of 2011 generally limited discretionary spending. (Those caps were raised several times in subsequent years and are no longer in effect.) In 2019, discretionary outlays fell to 6.3 percent of GDP.

The response to the global pandemic has resulted in a near-term boost to outlays: As a share of GDP, outlays in 2020 jumped to 7.8 percent, mostly from higher nondefense spending, and amounted to 7.3 percent of GDP in 2021. Pandemic-related spending will decrease this year and next, but the effects of the IIJA in CBO's baseline somewhat offset that decrease. By the end of the projection period, outlays return to 6.2 percent of GDP. That amount reflects the assumption that projected payments from the Highway Trust Fund will occur, regardless of the fund's balances. (For more on CBO's assumptions about payments from expiring trust funds, see Box 3-3 on page 68.)

Figure 3-3.

Discretionary Outlays, by Category



In CBO's projections, discretionary outlays as a percentage of GDP fall this year and next, as spending related to the coronavirus pandemic wanes. Such outlays continue to decline because the projections reflect the assumption that discretionary funding will grow at the rate of inflation, which is projected to be slower than the growth of nominal GDP.

Data source: Congressional Budget Office, using data from the Office of Management and Budget. See www.cbo.gov/publication/57950#data.

When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. Outlays have been adjusted to exclude the effects of those shifts.

GDP = gross domestic product.

If lawmakers provided funding that differed significantly from the amounts CBO projected using procedures specified in the Deficit Control Act, outlays also would differ. For example, funding for emergency requirements could vary greatly. Emergency funding for this year as provided in laws other than the IIJA totaled $58 billion as of April 8. Lawmakers have since enacted the Additional Ukraine Supplemental Appropriations Act, 2022 (H.R. 7691), providing an additional $40 billion in such funding. In 2019, 2020, and 2021, emergency funding amounted to $25 billion, $489 billion, and $194 billion, respectively, and in some years, no such funding has been provided.

Additionally, if none of the projected funding related to the IIJA in CBO's baseline materialized beyond the funding that was specified in that law, outlays stemming from that legislation would only amount to an estimated $417 billion over the 2023–2032 period instead of the $1.3 trillion projected in the baseline. Discretionary outlays as a percentage of GDP would amount to 5.7 percent in 2032 instead of the 6.2 percent projected in the baseline. (For additional information on how discretionary spending could differ from amounts in CBO's baseline, see Chapter 5.)

Net Interest

In the budget, net interest outlays primarily encompass the government's interest payments on federal debt, offset by income that the government receives from interest on loans. Net outlays for interest are dominated by the interest paid to holders of the debt that the Treasury issues to the public. The Treasury also pays interest on debt issued to trust funds and other government accounts, but such payments are intragovernmental transactions that have no effect on the budget deficit. (For more information on federal debt, see Chapter 1.) Other federal accounts also pay and receive interest for various reasons.[20]

In CBO's projections, net interest outlays increase from $352 billion in 2021 to $399 billion, or 1.6 percent of GDP, in 2022. Those outlays then triple by 2032, reaching $1.2 trillion, or 3.3 percent of GDP—1.3 percentage points higher than their 50-year average as a share of economic output.

20. See Congressional Budget Office, *Federal Debt: A Primer* (March 2020), www.cbo.gov/publication/56165, and *Federal Net Interest Costs: A Primer* (December 2020), www.cbo.gov/publication/56780.

The federal government's net interest costs are affected by interest rates on Treasury securities and the amount of debt held by the public as well as by the rate of inflation applicable to Treasury inflation-protected securities and the maturity structure of outstanding securities. (For example, longer-term securities generally pay higher interest rates.) Of those factors, the projected increase in interest rates is the most significant. The rate paid on 3-month Treasury bills is projected to rise from an average of 0.05 percent in 2021 to 2.6 percent in 2025 before falling back to 2.3 percent in 2028 and remaining close to that rate through 2032. Similarly, the rate on 10-year Treasury notes is projected to climb from 1.3 percent in 2021 to 3.8 percent in 2028, roughly where it is projected to remain through 2032. (For a more detailed discussion of CBO's forecast of interest rates, see Chapter 2.)

The increase in interest rates accounts for about 70 percent of the projected growth in net interest outlays over the 2022–2032 period. CBO estimated the contribution of rising interest rates to net interest costs by keeping interest rates on marketable debt held by the public at their values in the fourth quarter of fiscal year 2021. For example, the rate paid on 3-month Treasury bills was assumed to remain at 0.05 percent, and the rate on 10-year Treasury notes was assumed to remain at 1.3 percent. In that scenario, outlays for interest in 2032 would be $768 billion lower (including the effects of lower debt-service costs) than in CBO's baseline projections, and debt would be $4 trillion lower at the end of that year.

The large increase in interest costs projected over the next decade is also affected by the increase in debt underlying CBO's baseline projections. Debt held by the public is projected to rise by 66 percent (in nominal terms) over the next 10 years, increasing from $24.2 trillion at the end of 2022 to $40.2 trillion at the end of 2032. Relative to the size of the economy, debt is projected to increase from 98 percent of GDP at the end of this year to 110 percent of GDP in 2032. That level of debt relative to the size of the economy would be the largest in the nation's history and would be more than double the 50-year average of 46 percent.

Uncertainty About the Spending Outlook

Budget projections are inherently uncertain; even if no changes were made to current law, actual outcomes would undoubtedly differ from CBO's projections. The agency attempts to construct its spending projections so that they fall in the middle of the distribution of possible outcomes under current law. Hence, actual outlays could turn out to be higher or lower than CBO projects, both because laws could change and because outcomes could (and probably will) differ from CBO's estimates.

According to CBO's analysis of the accuracy of its past projections of outlays (excluding the effects of enacted legislation), those projections were generally close to actual amounts but, on average, were too high. The average absolute error of CBO's outlay projection for the second year of its baseline (often referred to as the budget year) was 2.2 percent between 1985 and 2021.[21] For CBO's sixth-year projections made for the years 1989 to 2021, the average absolute error was 6.3 percent. In CBO's current baseline projections, those percentage errors would equal about $130 billion (or 0.5 percent of GDP) in 2023 and $440 billion (or 1.4 percent of GDP) in 2027. (The baseline projection of outlays for 2023 is $5.9 trillion, or 22.4 percent of GDP, whereas for 2027, it is $7.0 trillion, or 22.9 percent of GDP.)

21. For a more detailed analysis of past outlay errors, see Congressional Budget Office, *The Accuracy of CBO's Budget Projections for Fiscal Year 2021* (January 2022), www.cbo.gov/publication/57614, and *An Evaluation of CBO's Past Outlay Projections* (November 2017), www.cbo.gov/publication/53328.