CHAPTER

3

The Spending Outlook

Under the provisions of current law, federal outlays in 2014 will total $3.5 trillion, the Congressional Budget Office (CBO) estimates, about $90 billion (or 2.6 percent) higher than the amount spent in 2013. Mandatory spending, which makes up about 60 percent of the federal budget, accounts for most of that increase: Such spending is projected to rise by about $85 billion, from $2.0 trillion last year to $2.1 trillion this year (see Table 3-1). In contrast, discretionary spending, which accounts for about one-third of the budget and totaled $1.2 trillion in 2013, is projected to edge down by $7 billion in 2014. Payments for net interest are expected to rise by $12 billion this year to $233 billion. (See Box 3-1 for descriptions of the three major types of federal spending.) All together, federal outlays in 2014 will equal 20.5 percent of gross domestic product (GDP), CBO estimates, which is below last year's total of 20.8 percent. As a percentage of GDP, spending in 2014 is projected to be lower than it has been since 2008 and the same as the average percentage during the past 40 years.

Over the next decade, total outlays in CBO's baseline projections rise relative to GDP, reaching 22.4 percent by 2024. That 1.8 percentage-point increase over the share projected for 2014 reflects growth in spending for Social Security, major health care programs, and net interest, and a decline (relative to GDP) in other mandatory outlays and discretionary spending. Specifically, according to CBO's baseline, federal spending is projected to take the following path:

- Outlays for the largest federal program, Social Security, are expected to rise from 4.9 percent of GDP in 2014 to 5.6 percent in 2024, as the retirement of the baby boomers helps boost the number of people collecting Social Security benefits by one-third.

- Federal outlays for major health care programs—Medicare, Medicaid, the Children's Health Insurance Program (CHIP), and subsidies offered through health insurance exchanges—are projected to increase more rapidly than outlays for Social Security, from 4.8 percent of GDP in 2014 to 6.1 percent in 2024 (net of offsetting receipts for Medicare). That increase is driven by the increasing number of retirees, the expansion of federal subsidies for health insurance, and rising health care spending per beneficiary.

- Outlays for all other mandatory programs (net of other offsetting receipts) are expected to decline from 2.5 percent of GDP in 2014 to 2.2 percent in 2024 because per-beneficiary spending for many of those programs grows with inflation (which is projected to increase at a lower rate than the overall economy) and because the number of beneficiaries of some of those programs is expected to drop as the economy improves.

- Over the next decade, discretionary spending is projected to rise at an average annual rate of less than 2 percent, largely because appropriations are constrained through 2021 by the caps originally established by the Budget Control Act of 2011 (Public Law 112-25) and modified in limited ways by subsequent legislation. As a result, both defense and nondefense discretionary outlays are projected to fall by more than 20 percent relative to the size of the economy over the next 10 years, from 6.9 percent of GDP in 2014 to 5.2 percent in 2024.

- Net interest payments are expected to rise from 1.3 percent of GDP in 2014 to 3.3 percent of GDP in 2024. Such outlays are projected to increase rapidly, by an average of roughly 14 percent per year, as interest rates return to more typical levels and federal debt continues to mount.

Table 3-1.

Outlays Projected in CBO's Baseline

	Actual, 2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total 2015-2019	Total 2015-2024
								In Billions of Dollars						
Mandatory														
Social Security	808	846	886	933	989	1,050	1,116	1,188	1,263	1,341	1,422	1,506	4,975	11,694
Medicare	585	603	613	660	680	715	786	839	899	995	1,031	1,087	3,453	8,304
Medicaid	265	298	328	368	393	413	437	461	487	515	543	574	1,940	4,520
Other spending	679	658	712	768	791	794	805	827	855	894	901	911	3,870	8,259
Offsetting receipts	-306	-289	-217	-227	-239	-250	-267	-276	-291	-307	-324	-341	-1,199	-2,739
Subtotal	2,032	2,116	2,323	2,502	2,614	2,722	2,877	3,039	3,213	3,437	3,573	3,737	13,039	30,038
Discretionary														
Defense	625	604	603	611	616	624	642	657	673	695	707	719	3,096	6,546
Nondefense	576	590	589	581	578	586	596	609	620	634	650	664	2,930	6,107
Subtotal	1,201	1,194	1,192	1,192	1,194	1,210	1,239	1,266	1,293	1,329	1,356	1,383	6,026	12,653
Net interest	221	233	268	326	404	493	569	635	694	755	819	880	2,059	5,842
Total Outlays	**3,454**	**3,543**	**3,783**	**4,020**	**4,212**	**4,425**	**4,684**	**4,939**	**5,200**	**5,522**	**5,749**	**6,000**	**21,124**	**48,534**
On-budget	2,821	2,838	3,038	3,231	3,372	3,531	3,733	3,924	4,115	4,364	4,513	4,678	16,906	38,499
Off-budget[a]	634	705	745	789	840	894	951	1,016	1,085	1,158	1,236	1,322	4,219	10,034
Memorandum:														
Gross Domestic Product	16,627	17,273	18,126	19,083	20,052	20,954	21,867	22,799	23,755	24,746	25,774	26,830	100,082	223,984
								As a Percentage of Gross Domestic Product						
Mandatory														
Social Security	4.9	4.9	4.9	4.9	4.9	5.0	5.1	5.2	5.3	5.4	5.5	5.6	5.0	5.2
Medicare	3.5	3.5	3.4	3.5	3.4	3.4	3.6	3.7	3.8	4.0	4.0	4.1	3.4	3.7
Medicaid	1.6	1.7	1.8	1.9	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.1	1.9	2.0
Other spending	4.1	3.8	3.9	4.0	3.9	3.8	3.7	3.6	3.6	3.6	3.5	3.4	3.9	3.7
Offsetting receipts	-1.8	-1.7	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.3	-1.3	-1.2	-1.2
Subtotal	12.2	12.3	12.8	13.1	13.0	13.0	13.2	13.3	13.5	13.9	13.9	13.9	13.0	13.4
Discretionary														
Defense	3.8	3.5	3.3	3.2	3.1	3.0	2.9	2.9	2.8	2.8	2.7	2.7	3.1	2.9
Nondefense	3.5	3.4	3.2	3.0	2.9	2.8	2.7	2.7	2.6	2.6	2.5	2.5	2.9	2.7
Subtotal	7.2	6.9	6.6	6.2	6.0	5.8	5.7	5.6	5.4	5.4	5.3	5.2	6.0	5.6
Net interest	1.3	1.3	1.5	1.7	2.0	2.4	2.6	2.8	2.9	3.1	3.2	3.3	2.1	2.6
Total Outlays	**20.8**	**20.5**	**20.9**	**21.1**	**21.0**	**21.1**	**21.4**	**21.7**	**21.9**	**22.3**	**22.3**	**22.4**	**21.1**	**21.7**
On-budget	17.0	16.4	16.8	16.9	16.8	16.9	17.1	17.2	17.3	17.6	17.5	17.4	16.9	17.2
Off-budget[a]	3.8	4.1	4.1	4.1	4.2	4.3	4.3	4.5	4.6	4.7	4.8	4.9	4.2	4.5

Source: Congressional Budget Office.

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

Box 3-1.

Categories of Federal Spending

On the basis of its treatment in the budget process, federal spending can be divided into three broad categories:

Mandatory spending consists primarily of spending for benefit programs, such as Social Security, Medicare, and Medicaid. The Congress generally 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 (CBO) generally assumes that existing laws and policies governing those programs will remain unchanged. Mandatory spending also includes offsetting receipts—fees and other charges that are recorded as negative budget authority and outlays. Offsetting receipts differ from revenues in that revenues are collected in the exercise of the government's sovereign powers (for example, in the form of income taxes), whereas offsetting receipts generally are collected from other government accounts or from members of the public for businesslike transactions (for example, as premiums for Medicare or as rental payments and royalties for the drilling of oil or gas on public lands).

Discretionary spending is controlled by annual appropriation acts; policymakers decide each year how much money to provide for given activities. Appropriations fund a broad array of government activities, including defense, law enforcement, and transportation. They also fund the national park system, disaster relief, and foreign aid. Some fees and other charges that are triggered by appropriation action are classified as offsetting collections, which are credited against discretionary spending for the particular accounts affected.

For individual discretionary accounts, CBO's baseline depicts the path of that spending as directed by the provisions of the Balanced Budget and Emergency Deficit Control Act of 1985. That act stated that current appropriations should be assumed to grow with inflation in the future. However, the Budget Control Act of 2011 (Public Law 112-25) imposed caps on discretionary appropriations through 2021, and the baseline incorporates the assumption that such funding, in total, will not exceed those caps as amended.

The caps can be adjusted upward for certain appropriations, however—specifically, those for war-related activities known as overseas contingency operations, certain disaster assistance purposes, specified "program integrity" initiatives, or designated emergencies. As a result, CBO's baseline projections use the most recent appropriations for those categories, with increases for inflation, to account for future adjustments to the caps.

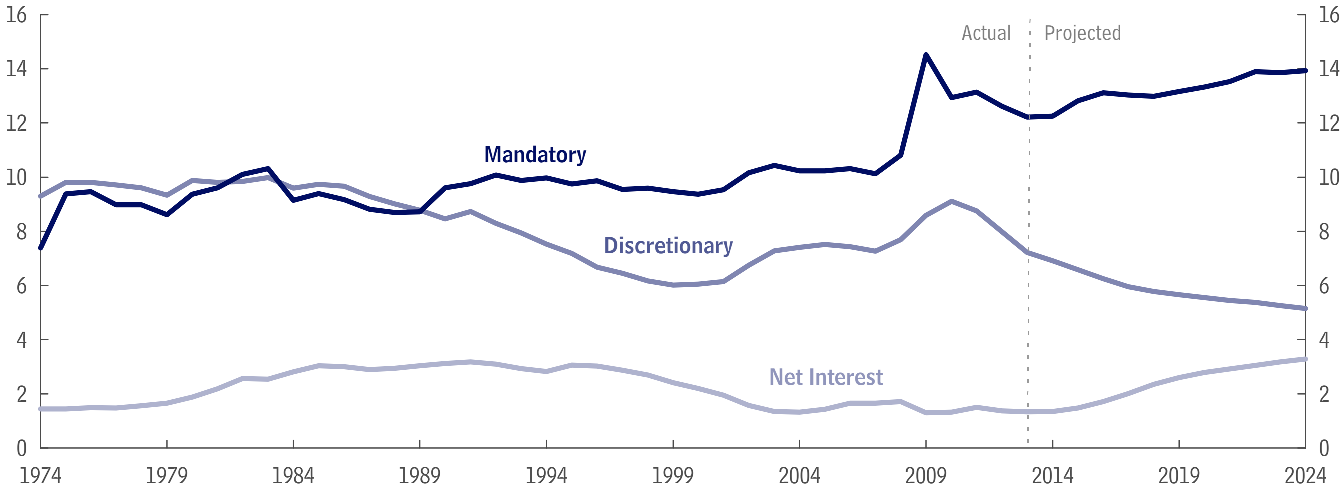
In addition to spending from appropriations subject to the caps, the baseline includes discretionary spending for highway infrastructure, highway and motor carrier safety, public transit, and airport infrastructure programs that receive mandatory budget authority from authorizing legislation. Each year, however, the annual appropriation acts control spending for those programs by limiting how much of the budget authority the Department of Transportation can obligate. For that reason, such obligation limitations are treated as a measure of discretionary resources, and the resulting outlays are considered discretionary spending. Thus far in 2014, transportation obligation limitations total $53 billion.

Net interest includes interest paid on Treasury securities and other interest the government pays (for example, on late refunds issued by the Internal Revenue Service) minus interest that the government collects from various sources (for example, some states are required to pay the federal unemployment trust fund interest on advances they received when their state unemployment accounts were insolvent). Net interest is determined by the size and composition of the government's debt, annual budget deficits or surpluses, and market interest rates.

Figure 3-1.

Outlays, by Category

(Percentage of gross domestic product)



Source: Congressional Budget Office.

In developing its baseline projections, CBO generally assumes that the provisions of current law governing federal taxes and spending will remain unchanged, consistent with the rules established by the Balanced Budget and Emergency Deficit Control Act of 1985 (referred to as the Deficit Control Act). Therefore, when projecting spending for mandatory programs, CBO assumes that existing laws will not be altered and that future outlays will depend on changes in caseloads, benefit costs, and other factors. When projecting spending for discretionary programs, CBO assumes that most discretionary appropriations provided between 2014 and 2021 will be constrained by the statutory caps enacted in the Budget Control Act and that appropriations in subsequent years will equal those in the prior year, with adjustments for inflation.[1]

1. CBO developed its projections of discretionary spending through 2021 by inflating the appropriations provided for specific activities in 2014 and then reducing total projected funding for defense and nondefense activities by the amounts necessary to achieve compliance with the caps. Certain appropriations are not constrained by the caps—those for overseas contingency operations (that is, war-related spending), activities receiving emergency designations, disaster relief, and spending designed to enhance program integrity by reducing overpayments in certain benefit programs—and are assumed to grow with inflation from the amounts provided in 2014.

Mandatory Spending

Mandatory—or direct—spending includes spending for benefit programs and certain other payments to people, businesses, nonprofit institutions, and state and local governments. It is generally governed by statutory criteria and is not normally constrained by the annual appropriation process.[2] Certain types of payments that federal agencies receive from the public and other government agencies are classified as offsetting receipts and offset gross mandatory spending.

Relative to the size of the economy, mandatory spending peaked in 2009 at 14.5 percent of GDP. Since then, spending that increased because of the financial crisis and economic downturn and because of policymakers' response to those developments—outlays for unemployment insurance, for example—has declined, and total mandatory spending dropped to 12.2 percent of GDP in 2013 (see Figure 3-1). Over the next 10 years, however, the aging of the population, the expansion of health insurance subsidies, and rising health care costs per beneficiary will boost spending for federal programs that

2. Each year, some mandatory programs are modified by provisions contained in annual appropriation acts. Such changes may decrease or increase spending for the affected programs (for just one year or for multiple years). In addition, provisions of the Deficit Control Act and the Balanced Budget Act of 1997 govern how CBO projects spending for mandatory programs whose authorizations have expired.

serve the elderly and subsidize health care. As a result, CBO projects, mandatory spending will reverse its recent decline relative to GDP and resume its long-term upward trend.

If no laws are enacted that affect mandatory spending, such spending will rise by 4 percent in 2014, to $2.1 trillion, or 12.3 percent of GDP, in CBO's estimation. Mandatory spending will then rise to $2.3 trillion in 2015, CBO projects, and increase thereafter at an average rate of close to 6 percent per year, reaching $3.7 trillion, or 13.9 percent of GDP, in 2024 (see Table 3-2). By comparison, mandatory spending has averaged 11.7 percent of GDP during the past 10 years and 10.0 percent during the past 40 years.

Mandatory outlays are affected by the timing of certain payments. Specifically, monthly payments for Medicare, veterans' benefits, Supplemental Security Income (SSI), and military retirement are shifted to the previous month if the payment date—normally the first of the month—falls on a weekend or holiday. If the first day of the fiscal year, October 1, falls on a weekend, the shift would result in payments being made in the previous fiscal year. Because October 1, 2022, and October 1, 2023, both fall on weekends, certain payments that ordinarily would be made on those days will instead be made at the end of September, thus shifting them into the previous fiscal year. If not for the effects of those timing shifts, mandatory spending would be 14.1 percent of GDP in 2024.[3]

At $1.8 trillion in 2014, federal outlays for Social Security and for Medicare, Medicaid, and other major health care programs will make up nearly three-quarters of mandatory spending (not including offsetting receipts) and equal 10.3 percent of GDP. Under current law, CBO projects, spending for those programs will rise by $1.6 trillion from 2014 to 2024—accounting for nearly all of the growth in mandatory spending over that period. By 2024, spending for those programs will represent more than half of the federal budget and 12.4 percent of GDP.[4]

3. Pay for active-duty military personnel is also affected by shifts in the timing of payments, but such spending is classified as discretionary.

4. Including offsetting receipts for Medicare, net outlays for those programs would rise from 9.7 percent of GDP in 2014 to 11.7 percent in 2024.

Programs that are designed to provide income security—such as certain refundable tax credits, the Supplemental Nutrition Assistance Program (SNAP), and unemployment compensation—will account for about 13 percent of mandatory spending and 1.8 percent of GDP in 2014.[5] By 2024, though, outlays for those programs will shrink to 9 percent of mandatory spending and 1.3 percent of GDP, primarily because the expected economic expansion will allow spending for many of those programs to recede to more typical levels.

Additional mandatory spending programs include retirement benefits for federal civilian and military employees, benefits for veterans, student loans, and support for agriculture. Under current law, CBO projects, such spending will equal 1.7 percent of GDP in 2014 and 1.3 percent of GDP in 2024. Civilian and military retirement benefits account for about half of those amounts. In addition, CBO estimates, offsetting receipts will reduce mandatory outlays by 1.7 percent of GDP in 2014—including payments to the Treasury by Fannie Mae and Freddie Mac equaling 0.5 percent of GDP—and by an average of about 1.2 percent of GDP in ensuing years (when CBO does not record such payments by those two entities).

Social Security

Social Security, which is the largest federal spending program, provides cash benefits to the elderly, people with disabilities, and their dependents and survivors. Social Security comprises two main parts: Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI). Social Security outlays grew by about 5 percent in 2013 because of increases in caseloads and average benefits.

CBO estimates that, under current law, outlays for Social Security in 2014 will total $846 billion, or 4.9 percent of GDP. Over the next decade, spending for Social Security benefits will climb steadily (by an average of about 6 percent per year) as the nation's elderly population grows and as average benefits rise (see Figure 3-2 on page 56). By 2024, CBO estimates, Social Security outlays will total $1.5 trillion, or 5.6 percent of GDP, if current laws are unchanged.

Old-Age and Survivors Insurance. OASI, the larger of Social Security's two components, pays full benefits to

5. Tax credits reduce a taxpayer's overall income tax liability; if a refundable credit exceeds a taxpayer's other income tax liabilities, the excess may be refunded to the taxpayer, in which case that payment is recorded as an outlay in the budget.

Table 3-2.

Mandatory Outlays Projected in CBO's Baseline

(Billions of dollars)

	Actual, 2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total 2015-2019	Total 2015-2024
Social Security														
Old-Age and Survivors Insurance	668	703	738	780	831	886	946	1,011	1,076	1,145	1,216	1,290	4,182	9,920
Disability Insurance	140	144	148	153	158	164	170	177	186	196	206	216	793	1,774
Subtotal	808	846	886	933	989	1,050	1,116	1,188	1,263	1,341	1,422	1,506	4,975	11,694
Major Health Care														
Medicare[a]	585	603	613	660	680	715	786	839	899	995	1,031	1,087	3,453	8,304
Medicaid	265	298	328	368	393	413	437	461	487	515	543	574	1,940	4,520
Health insurance subsidies and related spending	1	18	62	95	118	121	127	135	143	150	158	166	523	1,275
Children's Health Insurance Program	9	14	15	7	6	6	6	6	6	6	6	6	40	68
Subtotal[a]	861	933	1,018	1,129	1,197	1,255	1,356	1,442	1,535	1,665	1,738	1,832	5,956	14,167
Income Security														
Earned income, child, and other tax credits[b]	84	87	89	92	93	94	78	80	81	82	84	85	446	858
Supplemental Nutrition Assistance Program	83	80	80	79	78	76	76	75	75	74	74	74	388	761
Supplemental Security Income	53	54	55	61	59	55	62	64	66	74	71	67	293	634
Unemployment compensation	69	46	41	41	42	44	47	50	53	55	58	61	215	491
Family support and foster care[c]	32	31	31	32	32	32	32	32	33	33	33	33	159	323
Child nutrition	20	21	22	23	23	24	25	26	27	28	30	31	117	259
Subtotal	340	319	318	327	326	326	320	327	334	347	349	351	1,618	3,327
Federal Civilian and Military Retirement														
Civilian[d]	92	94	97	100	103	106	109	113	117	121	125	128	515	1,120
Military	54	55	57	62	59	56	62	64	65	72	69	66	296	633
Other	7	8	8	8	8	8	9	9	10	9	9	9	41	88
Subtotal	152	158	161	170	170	171	180	186	192	202	204	204	852	1,840
Veterans[e]														
Income security	66	70	73	82	79	75	83	85	86	94	87	81	392	825
Other	14	14	15	16	16	17	18	19	20	22	22	22	81	186
Subtotal	80	85	88	98	95	91	101	104	105	115	109	104	473	1,010
Other Programs														
Agriculture	24	15	14	17	15	15	15	15	15	15	15	16	76	152
Deposit insurance	4	-10	-9	-11	-11	-12	-17	-17	-12	-13	-14	-15	-60	-133
MERHCF	8	9	9	10	10	11	12	12	13	14	15	16	52	123
Higher education	-26	-7	-9	-8	-4	-1	-1	-2	-2	-3	-3	-3	-24	-37
Other	85	57	63	64	66	66	62	61	60	61	62	68	321	633
Subtotal	96	64	68	72	76	79	70	69	75	74	75	81	365	738

Continued

workers who start collecting those benefits at a specified normal retirement age, which depends on a worker's year of birth (normal retirement is currently defined as occurring at age 66 but is slated to rise to age 67); however, workers can choose to start collecting reduced benefits as early as age 62. The program also makes payments to eligible spouses and children of deceased workers. OASI spending totaled $668 billion in 2013, accounting for more than 80 percent of Social Security's outlays.

About 46 million people received OASI benefits in 2013. Over the 2014–2024 period, as more baby boomers become eligible to receive benefits under the program, the number of people collecting those benefits will increase by an average of about 3 percent per year, CBO

Table 3-2. **Continued**

Mandatory Outlays Projected in CBO's Baseline

(Billions of dollars)

	Actual, 2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total 2015-2019	Total 2015-2024
Offsetting Receipts														
Medicare[f]	-93	-98	-100	-105	-113	-122	-131	-138	-149	-161	-174	-189	-570	-1,381
Federal share of federal employees' retirement														
Social Security	-16	-17	-17	-18	-18	-19	-20	-20	-21	-22	-23	-24	-91	-201
Military retirement	-21	-20	-20	-20	-21	-21	-22	-23	-24	-25	-26	-27	-103	-227
Civil service retirement and other	-29	-29	-30	-30	-33	-34	-35	-36	-37	-39	-40	-41	-162	-355
Subtotal	-66	-66	-66	-68	-72	-74	-77	-80	-82	-85	-88	-92	-357	-784
Receipts related to natural resources	-15	-14	-14	-14	-14	-15	-19	-18	-18	-18	-19	-21	-76	-170
MERHCF	-9	-8	-8	-8	-8	-9	-9	-10	-11	-11	-12	-13	-43	-99
Other	-123	-103	-29	-32	-32	-30	-30	-31	-31	-31	-31	-27	-154	-306
Subtotal	-306	-289	-217	-227	-239	-250	-267	-276	-291	-307	-324	-341	-1,199	-2,739
Total Mandatory Outlays	**2,032**	**2,116**	**2,323**	**2,502**	**2,614**	**2,722**	**2,877**	**3,039**	**3,213**	**3,437**	**3,573**	**3,737**	**13,039**	**30,038**
Memorandum:														
Mandatory Spending Excluding Offsetting Receipts	2,338	2,405	2,540	2,729	2,853	2,972	3,144	3,315	3,504	3,744	3,897	4,077	14,238	32,777
Medicare Spending Net of Offsetting Receipts	492	505	513	555	567	593	655	701	750	833	858	898	2,883	6,923
Spending for Major Health Care Programs Net of Offsetting Receipts[g]	768	835	918	1,025	1,084	1,133	1,225	1,303	1,386	1,504	1,564	1,643	5,385	12,786

Source: Congressional Budget Office.

Notes: Data on spending for benefit programs in this table generally exclude administrative costs, which are discretionary.

MERHCF = Department of Defense Medicare-Eligible Retiree Health Care Fund (including TRICARE for Life).

a. Excludes offsetting receipts.

b. Includes outlays for the American Opportunity Tax Credit and other credits.

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

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

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

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

g. Consists of outlays for Medicare (net of offsetting receipts), Medicaid, health insurance subsidies and related spending, and the Children's Health Insurance Program.

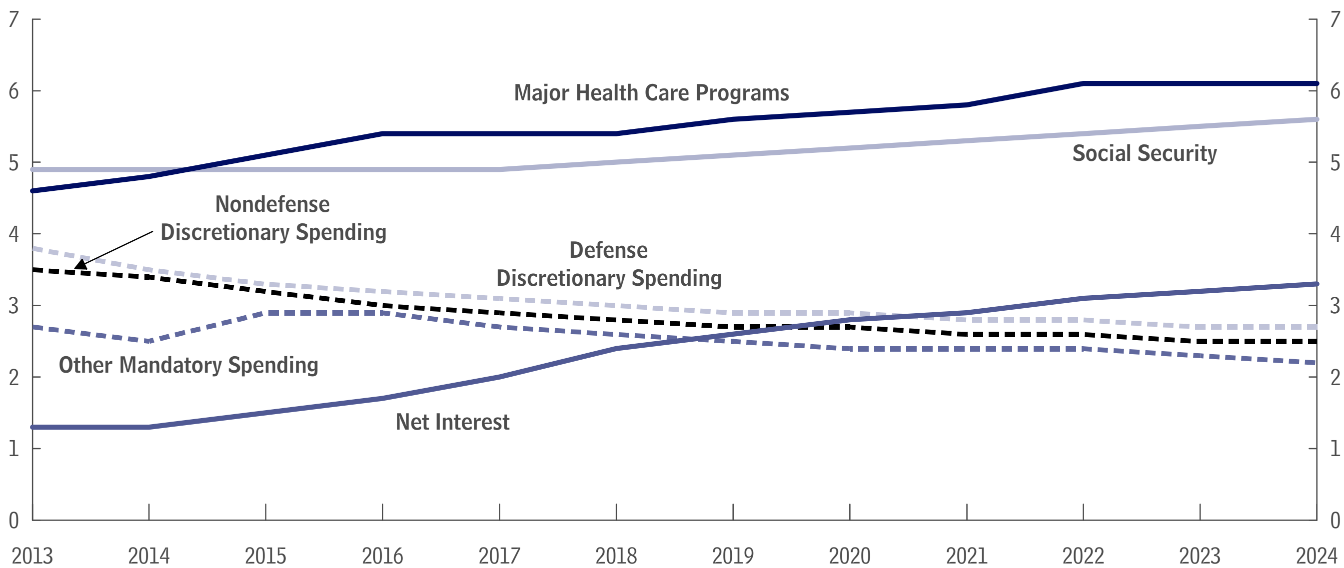
estimates, reaching 63 million by 2024, 38 percent more than the number of recipients in 2013.

Average benefits will also rise over time because beneficiaries generally receive annual cost-of-living adjustments (COLAs) and because initial benefits are based on people's lifetime earnings, which tend to increase over time. OASI beneficiaries received a COLA of 1.5 percent in January 2014. CBO anticipates that beneficiaries will receive a COLA of 1.6 percent in 2015 and that COLAs will average 2.3 percent annually from 2016 through 2024. All told, the average benefit will rise by 3 percent

Figure 3-2.

Projected Spending in Major Budget Categories

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Note: Major health care programs consist of Medicare, Medicaid, the Children's Health Insurance Program, and subsidies offered through health insurance exchanges and related spending. (Medicare spending is net of offsetting receipts.) Other mandatory spending is all mandatory spending other than that for major health care programs, Social Security, and net interest.

per year over the 2014–2024 period, according to CBO's estimates. The increasing average benefit, in combination with the growing number of beneficiaries, is projected to boost outlays for OASI by an average of about 6 percent per year over that period.

Disability Insurance. Social Security's disability benefits are paid to workers who suffer debilitating health conditions before they reach OASI's full retirement age. Payments also are made to the eligible spouses and children of those recipients. In 2013, the federal government paid $140 billion in DI benefits.

The number of people receiving those benefits rose by about 2 percent in 2013, to 11 million, after increasing by 4 percent per year, on average, between 2007 and 2012. The growth in the DI caseload is expected to slow further in 2014 and in subsequent years, as the improving economy leads fewer people to seek disability benefits and as a greater portion of the population qualifies for benefits under OASI. Like OASI beneficiaries, those receiving benefits under DI received a COLA of 1.5 percent for 2014. Including COLAs that will be paid in future years, average DI benefits under current law will grow by just under 3 percent per year, on average, from 2014 through 2024, and the program's outlays will rise by an average of about 4 percent annually during those years, CBO estimates.

Medicare, Medicaid, and Other Major Health Care Programs

At $861 billion, gross federal outlays for Medicare, Medicaid, and other major programs related to health care accounted for 37 percent of mandatory spending in 2013 and 5.2 percent of GDP. Under current law, CBO estimates, gross federal outlays for those programs in 2014 will jump to $933 billion, or 5.4 percent of GDP. In CBO's baseline projections, gross federal spending for major health care programs nearly doubles between 2014 and 2024, rising by an average of about 7 percent per year, and in 2024 reaches $1.8 trillion, or 6.8 percent of GDP. Net of offsetting receipts (mostly from premiums paid by Medicare beneficiaries), spending for the government's major health care programs is projected to constitute about one-quarter of all federal spending throughout the 10-year projection period.

In CBO's baseline, gross spending for Medicare rises by about 80 percent over the coming decade, but spending for the combination of Medicaid and other health care programs more than doubles, largely because the Affordable Care Act (ACA) is expanding eligibility for Medicaid and providing subsidies for health insurance purchased through exchanges.

Medicare. Medicare provides subsidized medical insurance to the elderly and to some people with disabilities. The program has three principal components: Part A (Hospital Insurance), Part B (Medical Insurance, which covers doctors' services, outpatient care, home health services, and other medical services), and Part D (which covers outpatient prescription drugs).[6] People generally become eligible for Medicare at age 65 or two years after they qualify for Social Security disability benefits.

Gross spending for Medicare will total $603 billion in 2014, CBO estimates, or 3.5 percent of GDP, the same share recorded in 2013. By 2024, the program's spending will reach nearly $1.1 trillion, or 4.1 percent of GDP. Medicare also collects substantial offsetting receipts, mostly in the form of premiums paid by beneficiaries, which rise from $98 billion in 2014 to $189 billion in 2024 under CBO's baseline projections. (See the section of this chapter on offsetting receipts for further details.) Including those offsetting receipts, net spending for Medicare will be 2.9 percent of GDP in 2014 and 3.3 percent in 2024, CBO estimates.[7]

Under current law, spending for Medicare is expected to grow by an average of 6 percent per year over the next 10 years. That growth can be attributed in roughly equal parts to increasing caseloads and rising costs per beneficiary. CBO projects that Medicare caseloads will expand at an average rate of 3 percent per year, as growing numbers of baby boomers become eligible for benefits at age 65. In 2013, Medicare had about 51 million beneficiaries; that number is expected to climb to 71 million in 2024.

CBO projects that spending per beneficiary will also grow at an average rate of 3 percent per year over the coming decade—much more slowly than it has grown historically. In particular, CBO projects that after adjusting for inflation, Medicare spending per beneficiary will increase at an average annual rate of 1.5 percent between 2014 and 2024, compared with average annual growth of 4 percent between 1985 and 2007 (excluding the jump in spending that occurred in 2006 with the implementation of Part D, the prescription drug program).

The comparatively slow growth in per-beneficiary spending that CBO projects for the next decade results from a combination of factors. First, the anticipated influx of beneficiaries when they turn 65 will bring down the average age of Medicare beneficiaries, which in turn will reduce average health care costs per beneficiary, holding all else equal.

Second, the slowdown in Medicare cost growth during the past several years has been sufficiently broad and persistent to lead CBO to project that growth will be slower than usual for some years to come. Markedly lower growth rates for Medicare spending in recent years have extended across all types of services, beneficiaries, and major regions.[8] As spending has fallen short of CBO's projections, the agency has made a series of downward adjustments to those projections. For example, since March 2010, CBO has reduced its projection of Medicare outlays in 2020 (the last year included in the March 2010 projection) by $109 billion, or about 12 percent, based on analysis by CBO and other analysts of data on Medicare spending. (CBO has also made other revisions to its projections for Medicare spending in response to legislative action and revisions to CBO's economic outlook.)

The third factor leading to slow projected growth in Medicare spending per beneficiary for the coming decade is the constraints on payment rates for most services that are built into current law:

6. Medicare Part C (known as Medicare Advantage) specifies the rules under which private health care plans can assume responsibility for, and be compensated for, providing benefits covered under Parts A, B, and D.

7. Because October 1, 2023—the first day of fiscal year 2024—falls on a weekend, certain payments to private plans in Medicare will be shifted to the end of fiscal year 2023. Without that shift in timing, net spending for Medicare would be 3.5 percent of GDP in 2024.

8. See Michael Levine and Melinda Buntin, *Why Has Growth in Spending for Fee-for-Service Medicare Slowed?* Working Paper 2013-06 (Congressional Budget Office, August 22, 2013), www.cbo.gov/publication/44513.

- Payment rates for physicians' services are set according to the sustainable growth rate mechanism, or SGR. Under current law, payment rates for those services will be reduced by 24 percent in April 2014 and will increase by small amounts in most subsequent years, CBO projects. However, if future legislation overrides the scheduled reductions (as has happened in every year since 2003), spending for Medicare will be greater than the amount that is projected in CBO's baseline. For example, if payment rates for physicians' services remained at the current level through 2024, net Medicare outlays through 2024 would be about $115 billion (or roughly 2 percent) higher than in CBO's baseline projections. If those payment rates were increased over time, the impact on Medicare outlays would be even greater.

- Payments to other types of providers are limited by provisions of the ACA that hold annual increases in payment rates for Medicare services—apart from those provided by physicians—to about 1 percentage point less than inflation. Under CBO's economic projections, those payment rates are expected to increase by about 1 percent per year on average.[9]

Despite the relatively slow rates of growth projected over the next 10 years, federal spending per beneficiary for Parts A and B is projected to grow by 35 percent; federal spending per beneficiary for Part D, which accounts for a small share of total Medicare spending, will grow much more—by 101 percent—largely because of a combination of rising drug costs and provisions in the ACA that expanded the extent of coverage for some prescription drugs.

Medicaid. Medicaid is a joint federal and state program that funds medical care for certain low-income, elderly, and disabled people. The federal government shares costs with states for approved services and administrative costs; that share varies from state to state but has averaged about 57 percent in most years. Federal outlays for Medicaid totaled $265 billion in 2013—nearly 6 percent above the previous year's amount, mostly because of higher per-person spending.

CBO projects that, under current law, federal spending for Medicaid will rise by about 9 percent per year between 2013 and 2018, as states expand coverage under the provisions of the ACA. (See Appendix B for more information on the insurance coverage provisions of the ACA.) After that, spending growth is expected to return to near its historical rate of about 6 percent annually.

Beginning in 2014 and continuing through 2018, states are expected to gradually take up the coverage option made available under the ACA. Many states are likely to take up that option because, of the costs that states incur for newly eligible enrollees under the ACA, the federal government will pay 100 percent from 2014 through 2016, a declining share during the next few years, and 90 percent in 2020 and thereafter.[10] Enrollment in Medicaid is expected to rise from 69 million people at some point in 2013 to 73 million in 2014, because CBO estimates that about 25 states (with about 40 percent of the potential newly eligible population) will expand their programs. CBO anticipates that additional states will expand coverage during the next few years so that by 2018 about 80 percent of the eligible population will be in states that have extended coverage and enrollment in Medicaid will be about 87 million. By 2024, about 89 million people will be enrolled in Medicaid at some point during the year, CBO projects.

Under current law, federal outlays for Medicaid are expected to total $574 billion by 2024, more than twice the amount spent in 2013; spending will equal about 2.1 percent of GDP, compared with 1.6 percent last year, CBO estimates.

Health Insurance Subsidies and Related Spending. Individuals and families can now purchase private health insurance coverage through marketplaces known as exchanges that are operated by the federal government or state governments. Certain participants in the exchanges

9. One other factor affecting payments to Medicare providers—but not growth rates over the 2015–2024 period—is a provision of the Budget Control Act of 2011, as amended by the Bipartisan Budget Act of 2013 (P.L. 113-67), that reduces payment rates for most Medicare services by 2 percent. That reduction will apply to payments for services furnished through March 2023; the reduction will be greater—2.9 percent—for services furnished from April 2023 through September 2023, and it will fall to 1.1 percent for services furnished from October 2023 through April 2024.

10. Taking into account the enhanced federal matching rates for populations made eligible under the ACA, the average federal share of spending for Medicaid is expected to be between 58 percent and 61 percent in 2014 and later years, compared with a historical average of 57 percent.

will be eligible for subsidies to cover a portion of their health insurance premiums and additional subsidies to reduce cost-sharing amounts (out-of-pocket payments under their insurance policies). "Related spending" consists of grants to states for establishing health insurance exchanges and outlays for risk adjustment, reinsurance, and risk corridor programs.[11] Outlays for those premium and cost-sharing subsidies combined with related spending are expected to total $18 billion in 2014 and to rise to $166 billion in 2024.

CBO estimates that about 5 million people will receive exchange subsidies in 2014. After a couple of years of rapid increases in enrollment as more people respond to the new coverage choices, roughly 19 million will receive subsidies in 2016, the agency projects. (Other people will purchase health insurance coverage through the exchanges but will not be eligible for subsidies.) After that, enrollment is expected to remain fairly steady. According to CBO's estimates, outlays for exchange subsidies will total $15 billion in 2014 and will rise to $143 billion by 2024. (Additional subsidies will be provided in the form of reductions in people's tax payments.)[12]

CBO estimates that outlays for grants to states for exchange operations will be about $2 billion in 2014. Spending of those grants is winding down because funds for new grants must be obligated by the end of 2014. In CBO's baseline, outlays associated with those grants gradually decline to zero by 2018.

Under the ACA, payments to health insurance plans for risk adjustment (amounts paid to plans that attract less healthy enrollees), reinsurance (amounts paid to plans that enroll individuals who end up with high costs), and risk corridors (amounts paid to health insurance plans whose actual costs for medical claims exceed expected costs) became effective in 2014. Outlays are expected to begin in 2015 and total $20 billion in that year. Over the 2015–2024 period, CBO projects, outlays for those programs will total $208 billion; however, those payments will be more than offset by associated revenues. The three programs are intended to spread more widely—either to other insurance plans or to the federal government—some of the risk that health insurers face when selling health insurance through new exchanges or in the individual or small group markets outside the exchanges. Under current law, the reinsurance and risk corridor programs are authorized for three years (although spending associated with the programs is expected to extend a little beyond those years), and the risk adjustment program is permanent.

By law, risk adjustment payments and reinsurance payments will be offset by collections from health insurance plans of equal magnitudes; those collections will be recorded as revenues. As a result, those payments and collections can have no net effect on the budget deficit. In contrast, risk corridor collections (which will be recorded as revenues) will not necessarily equal risk corridor payments, so that program can have net effects on the budget deficit. CBO projects that the government's risk corridor payments will be $8 billion over three years and that its collections will be $16 billion over that same period (see Appendix B for further discussion).

Children's Health Insurance Program. The Children's Health Insurance Program provides health insurance coverage to children in families whose income, although modest, is too high for them to qualify for Medicaid. The program is jointly financed by the federal government and the states and is administered by the states within broad federal guidelines. Total federal spending for CHIP was approximately $9 billion in 2013. Such spending is expected to increase by nearly 50 percent in 2014, rising to $14 billion—largely as a result of the ACA, which added funding to the allotments for states in 2014 and 2015, required that all individuals have health coverage, and increased publicity about the availability of insurance coverage, all of which are expected to increase enrollment in CHIP.

Annual spending for CHIP is projected to reach $15 billion in 2015—the year in which the program is scheduled to expire. Under the rules governing baseline projections for expiring programs, funding for CHIP

11. In previous reports, CBO combined outlays for risk adjustment, reinsurance, and risk corridor payments in the category labeled "Other" under "Health Care Programs" in its table showing mandatory outlays projected in the baseline. In Table 3-2 on page 54 of this report, outlays for all three of those programs are included in "Health insurance subsidies and related spending."

12. The subsidies for health insurance premiums are structured as refundable tax credits; the portions of such credits that exceed taxpayers' other income tax liabilities are classified as outlays, whereas the portions that reduce tax payments appear in the budget as reductions in revenues. The cost-sharing subsidies for enrollees in insurance plans offered through exchanges also are categorized as outlays.

after 2015 is set at an annualized level of about $6 billion; outlays are projected to fall to that amount a few years later.[13] About 8 million people will be enrolled in CHIP at some point in 2014, CBO estimates. Enrollment drops later in the decade, according to baseline projections, mostly because funding is assumed to decline after 2015.

Income-Security Programs

The federal government makes various payments to people and government entities to assist the poor, the unemployed, and others in need. Federal spending for the refundable portions of the earned income tax credit (EITC) and the child tax credit, SNAP, Supplemental Security Income (SSI), unemployment compensation, family support, foster care, and other services peaked in 2010 at $438 billion, more than twice the $202 billion spent for them in 2007, before the severe recession. The surge in spending occurred partly because outlays for many of those programs tend to rise automatically when the economy falters (and ebb later as the economy recovers) and partly because lawmakers responded to the weak economy by enacting temporary measures to increase the number of people eligible or the benefits payable for some of the programs. As the economy improved, spending for those programs fell; such spending in 2013 totaled $340 billion, or 2.0 percent of GDP.

Under current law, spending on income-security programs is projected to decline by another 6 percent in 2014, reflecting the anticipated further improvement in the economy and the expiration of certain provisions of law. CBO projects that such spending will remain below the 2013 amount until 2022. By 2024, outlays for those programs are anticipated to be 1.3 percent of GDP—about the same as the average during the past 40 years.

Earned Income, Child, and Other Tax Credits. Refundable tax credits reduce a filer's overall income tax liability; if the credit exceeds the rest of the filer's income tax liability, the government may pay that excess to the taxpayer. Those payments—the refundable portions of the EITC, child tax credit, American Opportunity Tax Credit (AOTC), and other, much smaller credits—are categorized as outlays. The EITC is a fully refundable credit available primarily to people with earnings and income that fall below established maximums. The child tax credit is a partially refundable credit (limited to 15 percent of earnings over a predetermined threshold) available to qualifying families with dependent children. The AOTC allows certain individuals (including those who owe no taxes) to claim a credit for college expenses. Outlays for those credits totaled $84 billion in 2013.

Such outlays are projected to reach $94 billion in 2018 but drop to $78 billion in 2019 following the expiration, under current law, of the AOTC and of the temporary expansions in the child tax credit and EITC that were enacted at the beginning of January 2013. By 2024, outlays for refundable tax credits will total $85 billion, CBO projects.

Supplemental Nutrition Assistance Program. Outlays for SNAP (formerly known as the Food Stamp program) have risen significantly over the past few years. In 2008, spending for SNAP was $39 billion, with enrollment (as measured by the average monthly caseload) of roughly 28 million; in 2013, spending for SNAP was $83 billion, with enrollment of almost 48 million. CBO estimates that the program's spending will decline to $80 billion this year, in part because of the expiration of temporary provisions that increased the maximum benefit amount. As the economy continues to improve, CBO expects that the number of people collecting SNAP benefits will gradually diminish. However, average per-person benefits will increase each year because of adjustments for inflation in prices for food. By 2024, CBO projects, SNAP enrollment will be 34 million and outlays will total $74 billion. On January 27, 2014, the Congress completed a conference agreement for a new farm bill that would reauthorize and make other changes to SNAP. CBO estimates that those changes would reduce outlays by $8 billion over the 2014–2023 period, relative to the agency's May 2013 baseline projections, but that effect is not included in the February 2014 baseline.[14]

13. In projecting spending for certain expiring mandatory programs, the Deficit Control Act calls for CBO to extrapolate such funding at the end of its authorization. Under current law, funding for the Children's Health Insurance Program in 2015 consists of two semiannual allotments of $2.85 billion—amounts that are much smaller than the allotments made in the four preceding years. (The first semiannual allotment in 2015 will be supplemented by $15.4 billion in one-time funding for the program.) Following the rules prescribed by the Deficit Control Act, CBO extrapolates the $2.85 billion provided for the second half of the year to arrive at projected annual funding of $5.7 billion.

14. For details, see CBO's cost estimate for the conference agreement for H.R. 2642, the Agricultural Act of 2014 (January 28, 2014), www.cbo.gov/publication/45049.

Supplemental Security Income. SSI provides cash benefits to people with low income who are elderly or disabled. Outlays for SSI rose by nearly 13 percent in 2013 to $53 billion, mostly because a shift of the October 2012 benefit payments into September resulted in one fewer payment in that year; absent that shift, the increase would have been 4 percent. According to CBO's estimates, outlays for SSI will increase by 2 percent in 2014 and at the same rate, on average, over the coming decade. Spending for SSI benefits will be close to $70 billion in the last few years of the 10-year projection period, CBO estimates.

Unemployment Compensation. In 2013, outlays for unemployment compensation were $69 billion, 25 percent below the amount spent in 2012. However, outlays for that program remained significantly higher than the $33 billion spent in 2007, before the severe recession, because of persistently high unemployment and the availability of emergency benefits for the long-term unemployed (people without a job for more than 26 consecutive weeks). Since late 2008, spending for unemployment compensation has been boosted significantly by changes in law that temporarily provided additional benefits to people who have been out of work for more than 26 weeks; those emergency benefits expired at the end of December 2013.[15] Assuming there are no changes to current law, outlays will drop again in 2014, CBO estimates, to $46 billion.

As the economic recovery continues, CBO expects that the number of people receiving first-time payments of regular unemployment benefits will continue to decline, generating further declines in outlays for unemployment benefits. Beginning in 2017, outlays for unemployment compensation are projected to rise gradually, pushed up by growth in the labor force and wages (which serve as the basis for benefits). By 2024, CBO projects, outlays for unemployment compensation will amount to $61 billion, or 0.2 percent of GDP, roughly the same share of the economy that they were in 2007.

15. If those expiring provisions that allowed for additional benefits were extended through December 2014, total spending for unemployment compensation would be $17 billion higher in 2014 and $6 billion higher in 2015, CBO estimates. That estimate differs slightly from previous estimates that CBO has prepared, which were based on baseline projections that the agency issued in May 2013.

Family Support and Foster Care. Spending for family support programs—grants to states that help fund welfare programs, foster care, child support enforcement, and the Child Care Entitlement—is expected to remain close to last year's level, about $32 billion, throughout the coming decade. Funding for two major components of family support are capped: The primary Temporary Assistance to Needy Families (TANF) program is limited to roughly $17 billion annually (although some additional funding is available if states' unemployment rates or SNAP caseloads exceed certain thresholds); funding for the Child Care Entitlement is capped at just under $3 billion per year. Under current law, the regular TANF program and the Child Care Entitlement are funded only through the end of this fiscal year, but CBO's baseline reflects the assumption (as specified in the Deficit Control Act) that such funding will continue throughout the projection period.

Outlays for federal grants to states for foster care and adoption assistance are expected to remain near last year's level—at about $7 billion—in 2014. CBO estimates that such spending will increase slightly over the coming decade and amount to $8 billion in 2024.

Child Nutrition. CBO projects that federal spending for child nutrition—which provides cash and commodities for meals and snacks in schools, day care settings, and summer programs—will rise by 4 percent in 2014, to $21 billion, spurred by increased participation and reimbursement rates in the free-lunch program. CBO anticipates that growth in the number of meals provided and their reimbursement rates will continue over the next decade. As a result, spending for child nutrition is projected to climb at an average annual rate of 4 percent and reach $31 billion in 2024.

Civilian and Military Retirement

Retirement and survivors' benefits for federal civilian employees (along with benefits provided through several smaller retirement programs for employees of various government agencies and for retired railroad workers) amounted to $92 billion in 2013. Such outlays will grow by about 3 percent annually over the next 10 years, CBO projects, reaching $128 billion in 2024.

Growth in federal civil service retirement benefits is attributable primarily to cost-of-living adjustments for retirees and to increases in federal salaries, which boost benefits for people entering retirement. (CBO's projections reflect the assumption that federal salaries will continue to rise in accordance with the employment cost index for wages and salaries of workers in private industry.) One factor that is restraining growth in spending for retirement benefits is the ongoing, gradual replacement of the Civil Service Retirement System (CSRS) with the Federal Employees Retirement System (FERS). FERS covers employees hired after 1983 and provides a smaller benefit than that provided by CSRS. FERS recipients, however, are eligible for Social Security benefits on the basis of their federal employment (CSRS employees are not). In addition, their contributions to the federal Thrift Savings Plan are matched in part by their employing agencies (but those matching funds are categorized as discretionary costs, not mandatory).

The federal government also provides annuities to personnel who retire from the military and their survivors. Outlays for those annuities totaled $54 billion in 2013. Most of the annual growth in those outlays results from COLAs and increases in basic pay.[16] Outlays for military retirement annuities are projected to grow over the next 10 years, reaching $66 billion in 2024 (reflecting the effect of one fewer monthly payment in that year because of a shift in the payment date).

Veterans' Benefits

Mandatory spending for veterans' benefits—including housing, readjustment benefits, life insurance, disability compensation, pensions, and burial benefits—has increased rapidly over the past few years, averaging about 13 percent annually since 2008. Outlays for those benefits totaled $80 billion in 2013, an amount that does not include the significant spending for veterans' health care, which is funded by discretionary appropriations. The rapid growth in spending in recent years has resulted from increased use of benefits available under the Post-9/11 Veterans Educational Assistance Act of 2008 (commonly referred to as the Post-9/11 GI Bill), which greatly expanded education benefits available to veterans, reservists, and active-duty service members. Also, in 2013, the Department of Veterans Affairs significantly reduced the backlog of older disability claims, resulting in a jump in disability compensation benefits.

As a result of the reduction in the backlog of older disability claims and CBO's expectation that use of the Post-9/11 GI Bill is leveling off, growth in veterans' benefits is expected to moderate in the future, averaging about 3 percent a year between 2014 and 2024. CBO estimates that spending in 2024 will total $104 billion.[17]

Other Mandatory Spending

Other mandatory spending includes spending for agricultural support, net outlays for deposit insurance, health care benefits for military retirees, subsidy costs for student loans, and other payments. Outlays in some of those categories can fluctuate markedly from year to year and may be either positive or negative.

Agricultural Support. Mandatory spending for agricultural support totaled $24 billion in 2013. Spending was relatively high in 2013, primarily because of substantial crop insurance payments necessitated by significant weather-related crop losses in 2012 and 2013.

Such spending would average $15 billion in each year between 2014 and 2024, if the farm programs authorized in the Food, Conservation, and Energy Act of 2008 (commonly referred to as the 2008 Farm Bill) were reauthorized. Most of those programs expired at the end of September 2013. On January 27, 2014, the Congress completed a conference agreement for a new farm bill that would reauthorize and make other changes to agricultural support programs. On balance, CBO estimates that those changes would reduce such outlays by about $9 billion over the 2014–2023 period, relative to CBO's May 2013 baseline projections, but that effect is not included in the February 2014 baseline.

Deposit Insurance. Net outlays for deposit insurance were $4 billion last year. Those outlays reflect the cost of

16. The Bipartisan Budget Act of 2013 reduced the annual COLAs for most military retirees under the age of 62 by 1 percentage point, lowering outlays by about $1 billion per year by 2024, CBO estimates. (The Consolidated Appropriations Act, 2014 [P.L. 113-76] later reversed that change in COLAs for disabled retirees only.) The Bipartisan Budget Act also made a change to civil service retirement: As of January 1, 2014, most new employees must contribute 4.4 percent of their salary toward their future retirement benefit, which represents an increase of 1.3 percentage points over the previous contribution rate for new employees; those additional payments will be recorded as revenues. The act made no modifications to the program that affect spending for civil service retirement benefits.

17. That amount reflects 11 payments during the year because one payment will be shifted into 2023. If 12 payments were made during 2024, outlays for that year would total $111 billion, CBO estimates.

resolving failed institutions minus the net receipts from premiums paid by financial institutions. Beginning in 2014, premium payments will exceed amounts spent on failed institutions, CBO projects, and net outlays for deposit insurance will be negative, ranging from -$9 billion to -$17 billion annually over the coming decade.

Medicare-Eligible Retiree Health Care Fund. The Department of Defense's Medicare-Eligible Retiree Health Care Fund (MERHCF) provides health care benefits through the TRICARE for Life program to retirees of the uniformed services (and to their dependents and surviving spouses) who are eligible for Medicare. Outlays for those benefits totaled $8 billion in 2013. Over the coming decade, spending from MERHCF is projected to rise at an average annual rate of roughly 6 percent, reaching $16 billion in 2024.

Higher Education. Mandatory outlays for higher education were -$26 billion in 2013. That figure includes the budget impact of student loans originated in 2013, which amounted to -$27 billion (on a present-value basis); and a reduction in the estimated cost of direct and guaranteed loans originated in previous years, which amounted to -$15 billion (also on a present-value basis).[18] The budgetary effects of student loans were offset somewhat by mandatory spending for Pell grants, which totaled $16 billion in 2013.[19] CBO estimates that subsidies for student loans made in 2014 will be -$22 billion and that mandatory spending for the Federal Pell Grant Program will be $15 billion this year, resulting in net mandatory outlays for higher education of -$7 billion. (Those projected outlays do not include any potential revision to the estimated subsidy costs of loans or guarantees made before 2014.)

In 2013, lawmakers enacted legislation governing student loans that will set interest rates for new borrowers based on the 10-year Treasury note rate determined by the last auction in May of each year. Before that change, loans were made at a fixed rate stated in the Higher Education Act of 1965, as amended. For the coming decade, CBO's forecast of rising interest rates will increase the present-value cost to the government of outstanding loans for this program, but the student loan program will continue to have negative subsidy costs through 2024, CBO estimates. Over the 2015–2024 period, net mandatory outlays for higher education will total -$37 billion, in CBO's estimation.

Offsetting Receipts

Offsetting receipts are funds collected by government agencies from other government accounts or from the public in businesslike or market-oriented transactions that are recorded as negative outlays (that is, credits against direct spending). Such receipts include beneficiaries' premiums for Medicare; 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 harvested timber and minerals extracted from federal lands; and various fees paid by users of public property and services. In 2013, offsetting receipts totaled $306 billion (see Table 3-2 on page 54).

Medicare. Offsetting receipts for Medicare in 2013 reached $93 billion, constituting a little more than 30 percent of all offsetting receipts. Over the coming years, those receipts will rise at about the same rate as spending for Medicare, totaling $189 billion in 2024 under CBO's baseline projections. Such receipts are

18. CBO's calculations of subsidy costs for student loans follow 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 made during the 2014–2024 period is projected to exceed the discounted present value of the government's costs. (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 today; 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 by a "credit subsidy reestimate" in subsequent years, on the basis of updated valuations of the present-value costs of the cash flows associated with the outstanding loans and loan guarantees.

    FCRA accounting, however, does not consider some costs borne by the government. In particular, it omits the risk taxpayers face because federal receipts from interest and principal payments on student loans tend to be low when economic and financial conditions are poor and resources therefore are more valuable. Fair-value accounting methods account for such risk and, as a result, the program's savings are less (or its costs are greater) under fair-value accounting than they are under FCRA's rules.

19. Under current law, most of the funding for the Pell grant program is from discretionary appropriations.

primarily premiums paid by Medicare beneficiaries, but they also include recoveries of overpayments made to providers and payments made by states to cover a portion of the prescription drug costs for low-income beneficiaries.

Federal retirement. In 2013, $66 billion in offsetting receipts consisted of intragovernmental transfers from federal agencies to the federal funds from which employees' retirement benefits are paid (mostly trust funds for Social Security and for military and civilian retirement). Those intragovernmental payments from agencies' operating accounts to the funds have no net effect on federal outlays. Such payments will grow by nearly 3 percent per year, on average, CBO estimates, reaching $92 billion in 2024.

Natural resources. Receipts stemming from the extraction of natural resources—particularly oil, natural gas, and minerals—from federally owned lands totaled $15 billion in 2013. By 2024, CBO estimates, those receipts will be $21 billion.

Medicare-Eligible Retiree Health Care Fund. Intragovernmental transfers also are made to the Department of Defense's MERHCF, which pays for the health care costs of Medicare-eligible retirees of the uniformed services (including the TRICARE for Life benefit). Contributions to the fund are made on an accrual basis: The services contribute an amount each year sufficient to cover the future costs of their current service members who will eventually retire and draw benefits from the fund. Such payments totaled $9 billion in 2013 and, because of rising health care costs, are projected to grow to $13 billion by 2024.

Fannie Mae and Freddie Mac. In September 2008, the government placed Fannie Mae and Freddie Mac, two institutions that facilitate the flow of funding for home loans nationwide, into conservatorship as a result of their mounting losses.[20] Because the Administration considers Fannie Mae and Freddie Mac to be nongovernmental entities for federal budgeting purposes, it records the Treasury's payments to those entities as outlays in the budget, and payments by those entities to the Treasury as offsetting receipts. In 2013, the Treasury made no payments to those entities and received payments totaling $97 billion from them. Specifically, Fannie Mae made a one-time payment to the Treasury of about $50 billion because revaluation of certain deferred tax assets significantly increased the company's net worth, and both Fannie Mae and Freddie Mac made quarterly payments to the Treasury in amounts related to their net worth. CBO estimates that net payments from those entities to the Treasury will amount to $81 billion in 2014 (which includes a payment of $24 billion made by Freddie Mac at the end of December 2013, to recognize a revaluation of its deferred tax assets, similar to the one-time payment made by Fannie Mae in fiscal year 2013).

In contrast to the Administration's approach, CBO projects the budgetary impact of the two entities' operations in future years as if they were being conducted by a federal agency because of the degree of management and financial control that the government exercises over them.[21] Therefore, CBO estimates the net lifetime costs—that is, the subsidy costs adjusted for market risk—of guarantees that will be issued by as well as loans that will be held by the entities and counts those costs as federal outlays in the year of issuance. For the 2015–2024 period, CBO projects, the costs for new guarantees and loans held by the entities will be $19 billion.

Legislation Assumed in the Baseline

In keeping with the rules established by the Deficit Control Act, CBO's baseline projections incorporate the assumption that some mandatory programs will be extended when their authorization expires, although the assumption applies differently to programs created before and after the Balanced Budget Act of 1997. All direct spending programs that predate that act and have current-year outlays greater than $50 million are assumed to continue in CBO's baseline projections. For programs established after 1997, continuation is assessed program by program, in consultation with the House and Senate Budget Committees.

CBO's baseline projections therefore incorporate the assumption that the following programs whose authorization expires within the current projection period will continue: SNAP, TANF, CHIP, rehabilitation services,

20. Conservatorship is the legal process in which an entity is appointed to establish control and oversight of a company to put it in a sound and solvent condition.

21. See Congressional Budget Office, *Fannie Mae, Freddie Mac, and the Federal Role in the Secondary Mortgage Market* (December 2010), www.cbo.gov/publication/21992; and Congressional Budget Office, *CBO's Budgetary Treatment of Fannie Mae and Freddie Mac* (January 2010), www.cbo.gov/publication/41887.

the Child Care Entitlement, trade adjustment assistance for workers, child nutrition, family preservation and support, and most farm subsidies. In addition, the Deficit Control Act directed CBO to assume that a cost-of-living adjustment for veterans' compensation would be granted each year. In CBO's projections, the assumption that expiring programs will continue accounts for $12 billion in mandatory outlays for 2014 and about $1.3 trillion between 2015 and 2024 (see Table 3-3). Almost two-thirds of that amount over the next 10 years is attributable to the Supplemental Nutrition Assistance Program.[22]

Discretionary Spending

Roughly one-third of federal outlays stem from budget authority provided in annual appropriation acts.[23] That funding—referred to as discretionary—translates into outlays when the money is spent. Although some appropriations (for example, those designated for employees' salaries) are spent quickly, others (such as those intended for major construction projects) are disbursed over several years. In any given year, discretionary outlays include spending from new budget authority and from budget authority provided in previous appropriations.

Several transportation programs have an unusual budgetary treatment: Their budget authority is provided in authorizing legislation, rather than in appropriation acts, but their spending is constrained by *obligation limitations* imposed by appropriation bills. Consequently, their budget authority is considered mandatory, but their outlays are discretionary. (The largest of those programs is the Federal-Aid Highway program, which is funded from the Highway Trust Fund.) As a result, total discretionary outlays in the budget are greater than total discretionary budget authority. In some cases, the amounts of those obligation limitations are added to discretionary budget authority to produce a measure of the total *funding* provided for discretionary programs.

In CBO's baseline projections, most appropriations for the 2014–2021 period are assumed to be constrained by the caps and automatic enforcement procedures put in place by the Budget Control Act and subsequent legislation; CBO developed those projections by inflating the appropriations provided for specific activities in 2014 and then reducing total projected defense and nondefense funding by the amounts necessary to achieve compliance with the caps. For the period from 2022 through 2024, CBO assumes that those appropriations would grow at the rate of inflation from the amounts estimated for 2021. Funding for certain purposes is not constrained by the caps: for military operations in Afghanistan and related activities (also known as overseas contingency operations, or OCO), programs receiving emergency designations, disaster relief, and spending designed to enhance program integrity by reducing overpayments in some benefit programs. CBO developed projections for such funding by assuming that it would grow at the rate of inflation from the amount appropriated for 2014.

Because discretionary funding grows much more slowly than the economy under those assumptions, discretionary outlays in CBO's baseline projections fall from 6.9 percent of GDP in 2014 to 5.2 percent of GDP in 2024, a smaller share than in any year since 1962 (the first year for which comparable data are available).

Trends in Discretionary Outlays

Discretionary outlays declined from about 10 percent of GDP during much of the 1970s and 1980s to 6.0 percent in 1999 (see Figure 3-3 on page 70). Those outlays then began to increase relative to the size of the economy, reaching 6.7 percent of GDP in 2002 and 7.7 percent in 2008. That rise occurred in part because of actions taken in response to the terrorist attacks of September 11, 2001, and subsequent military operations in Afghanistan and Iraq. (Funding for those operations from 2001 to 2014 is examined in Box 3-2 on page 68.) In 2009 and 2010, discretionary outlays jumped to 8.6 percent and 9.1 percent of GDP, respectively, in part because of $281 billion in discretionary funding provided by the American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5). In 2013, discretionary outlays declined to 7.2 percent of GDP, mostly because of the

22. CBO constructed Table 3-3 before enactment of the Agricultural Act of 2014. The authorizations provided in that legislation would change the expiration dates of SNAP and certain agricultural programs and therefore affect some of the numbers presented in that table.

23. Budget authority is the authority provided by law to incur financial obligations that will result in immediate or future outlays of federal funds. Budget authority may be provided in an appropriation act or authorization act and may take the form of a direct appropriation of funds from the Treasury, borrowing authority, contract authority, entitlement authority, or authority to obligate and expend offsetting collections or receipts. Offsetting collections and receipts are shown as creating negative budget authority.

Table 3-3.

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

(Billions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total 2015-2019	Total 2015-2024
Supplemental Nutrition Assistance Program													
Budget authority	0	80	79	78	76	76	75	75	74	74	74	388	761
Outlays	0	80	79	78	76	76	75	75	74	74	74	388	761
Temporary Assistance for Needy Families													
Budget authority	12	17	17	17	17	17	17	17	17	17	17	87	173
Outlays	10	16	17	17	17	17	17	17	17	17	17	85	171
Commodity Credit Corporation[a]													
Budget authority	*	7	11	10	9	9	10	10	11	11	12	47	101
Outlays	*	6	10	9	9	9	10	10	11	11	12	43	97
Children's Health Insurance Program													
Budget authority	0	0	6	6	6	6	6	6	6	6	6	23	51
Outlays	0	0	6	6	6	6	6	6	6	6	6	23	51
Veterans' Compensation COLAs													
Budget authority	0	1	3	4	5	7	9	11	13	14	14	21	83
Outlays	0	1	3	4	5	7	9	11	13	14	14	21	83
Rehabilitation Services and Disability Research													
Budget authority	0	3	3	3	4	4	4	4	4	4	4	17	37
Outlays	0	2	3	3	3	4	4	4	4	4	4	15	34
Child Care Entitlements to States													
Budget authority	2	3	3	3	3	3	3	3	3	3	3	15	29
Outlays	2	3	3	3	3	3	3	3	3	3	3	14	29
Trade Adjustment Assistance for Workers													
Budget authority	0	*	1	1	1	1	1	1	1	1	1	4	9
Outlays	0	*	1	1	1	1	1	1	1	1	1	4	9
Child Nutrition[b]													
Budget authority	0	0	1	1	1	1	1	1	1	1	1	3	8
Outlays	0	0	1	1	1	1	1	1	1	1	1	3	8

Continued

constraints put in place by the Budget Control Act to limit new discretionary budget authority and decreased spending from funding for OCO and from ARRA.

Discretionary outlays for defense declined from 6.0 percent of GDP in 1986 to a low of 2.9 percent of GDP between 1999 and 2001. In part boosted by funding for operations in Afghanistan and Iraq, outlays for defense rose to 3.8 percent of GDP in 2004 and to 4.7 percent of GDP in 2010. Since then, outlays have fallen to 3.8 percent of GDP in 2013, owing mostly to a reduction in funding for overseas military operations. As a whole,

Table 3-3. **Continued**

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

(Billions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total 2015-2019	Total 2015-2024
Ground Transportation Programs Not Subject to Annual Obligation Limitations													
Budget authority	1	1	1	1	1	1	1	1	1	1	1	3	6
Outlays	1	1	1	1	1	1	1	1	1	1	1	3	6
Family Preservation and Support													
Budget authority	0	0	0	*	*	*	*	*	*	*	*	1	3
Outlays	0	0	0	*	*	*	*	*	*	*	*	1	2
Ground Transportation Programs Controlled by Obligation Limitations[c]													
Budget authority	0	50	50	50	50	50	50	50	50	50	50	251	501
Outlays	0	0	0	0	0	0	0	0	0	0	0	0	0
Air Transportation Programs Controlled by Obligation Limitations[c]													
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
Natural Resources													
Budget authority	0	0	0	0	0	0	0	0	0	0	0	0	0
Outlays	0	*	*	*	*	*	*	*	*	*	*	*	*
Total													
Budget authority	**15**	**163**	**178**	**177**	**177**	**178**	**180**	**182**	**184**	**186**	**187**	**873**	**1,793**
Outlays	**12**	**108**	**123**	**122**	**122**	**124**	**126**	**128**	**131**	**132**	**134**	**599**	**1,250**

Source: Congressional Budget Office.

Notes: This table was constructed before the enactment of the Agricultural Act of 2014. The authorizations provided in that law would change the expiration dates for the Supplemental Nutrition Assistance Program and certain agricultural programs and thus would affect some of the numbers shown here.

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

a. Agricultural commodity price and income supports under the Food, Conservation, and Energy Act of 2008 generally expired at the end of September 2013. CBO has included an extension of its May 2013 baseline in this report because that baseline was used to evaluate the costs of the conference report on the Agricultural Act of 2014 (see U.S. House of Representatives, *Agricultural Act of 2014: Conference Report to Accompany H.R. 2642,* House Report 113-333, January 27, 2014.). The estimated costs of that act are not included here because the legislation had not yet been enacted when this report was completed.

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

c. Authorizing legislation for those 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.

Box 3-2.

Funding for Operations in Afghanistan and Iraq and for Related Activities

Since September 2001, lawmakers have provided almost $1.6 trillion in budget authority for operations in Afghanistan and Iraq and for related activities (see the table). That amount includes funding for military and diplomatic operations in Afghanistan, Iraq, and certain other regions; for some veterans' benefits and services; and for related actions of the Department of Justice. Appropriations specifically designated for those purposes averaged about $70 billion a year from 2001 through 2006, rose to $170 billion in 2007 and to $187 billion in 2008, and then declined to an average of $150 billion over the 2009–2012 period. For 2013, lawmakers appropriated $99 billion in the Consolidated and Further Continuing Appropriations Act, 2013 (Public Law 113-6), an amount that was reduced by $5.6 billion as a result of sequestration (a cancellation of budgetary resources). Almost $92 billion has been provided for 2014.

Funding to date for military operations and other defense activities totals $1.4 trillion, most of which has gone to the Department of Defense (DoD)—about $860 billion for operation and maintenance costs, $300 billion for procurement, and another $190 billion for military personnel costs. Lawmakers have also provided $86 billion to train and equip indigenous security forces in Afghanistan and Iraq.[1] In addition, $81 billion has been provided for diplomatic operations and foreign aid to Afghanistan, Iraq, and other countries that are assisting the United States in those efforts. The majority of those funds have been appropriated to the Economic Support Fund ($21 billion), diplomatic and consular programs ($18 billion), and the Iraq Relief and Reconstruction Fund ($16 billion).

DoD reports that in fiscal year 2013, obligations for operations in Afghanistan and Iraq and for related activities averaged $6.7 billion per month. That monthly average is about $2.7 billion less than the amount reported for 2012. Operation Enduring Freedom (in and around Afghanistan) accounted for 96 percent of those obligations in 2013. Operation New Dawn (formerly known as Operation Iraqi Freedom) accounted for the remaining 4 percent.

Because most appropriations for operations in Afghanistan and Iraq and for related activities appear in the same budget accounts as appropriations for DoD's other functions, it is impossible to determine precisely how much has been spent on those activities. The Congressional Budget Office (CBO) estimates that the $1.5 trillion appropriated for military operations, other defense activities, and indigenous security forces in those two countries has resulted in outlays of about $1.3 trillion through 2013; about $115 billion of that spending occurred in 2013. Of the $81 billion appropriated for international affairs activities related to the war efforts, about $60 billion was spent through 2013, CBO estimates, including $7 billion in 2013. In total, outlays for all of those activities amounted to about $125 billion last year. On the basis of sums appropriated for 2014, CBO estimates that outlays will total about $105 billion this year.

1. That $86 billion includes $5 billion provided for Iraqi security forces in 2004 in an appropriation for the State Department's Iraq Relief and Reconstruction Fund.

Continued

funding for defense declined by 3.5 percent in nominal terms, or 13 percent in real terms, between 2007 and 2013. That change was heavily influenced by reductions in funding for OCO. Excluding those amounts, funding for defense increased by 13 percent in nominal terms, or 1.9 percent in real terms, over that period.

Nondefense discretionary programs encompass such activities as transportation, education grants, housing assistance, health-related research, veterans' health care, most homeland security activities, the federal justice system, foreign aid, and environmental protection. Between 1990 and 2008, nondefense outlays represented a fairly stable share of GDP, ranging between 3.1 percent and

Box 3-2. **Continued**

Funding for Operations in Afghanistan and Iraq and for Related Activities

Estimated Appropriations Provided for U.S. Operations in Afghanistan and Iraq and for Other War-Related Activities Since 2001

(Billions of dollars of budget authority)

	2001-2006	2007	2008	2009	2010	2011	2012	2013[a]	2014	Total, 2001-2014
Military Operations and Other Defense Activities[b]										
Iraq	256	113	133	90	59	42	10	3	1	707
Afghanistan	56	24	29	38	87	98	89	65	74	560
Other[c]	66	15	13	13	5	6	6	10	6	139
Subtotal	378	152	175	140	151	146	104	78	81	1,405
Indigenous Security Forces[d]										
Iraq	14	6	3	1	1	2	0	0	0	26
Afghanistan	3	7	3	6	9	12	11	4	5	60
Subtotal	17	13	6	7	10	13	11	4	5	86
Diplomatic Operations and Foreign Aid[e]										
Iraq	22	3	3	2	2	0	4	4	2	41
Afghanistan	4	1	1	5	2	0	5	5	1	24
Other	7	*	*	1	*	0	2	2	3	16
Subtotal	33	4	5	7	4	0	11	11	7	81
Other Services and Activities[f]										
Iraq	*	1	1	*	0	0	0	0	0	2
Afghanistan	*	*	*	*	0	0	0	0	0	*
Other	*	*	*	*	0	0	0	0	0	1
Subtotal	*	1	2	*	0	0	0	0	0	3
Total	**428**	**170**	**187**	**154**	**165**	**159**	**127**	**93**	**92**	**1,575**

Source: Congressional Budget Office.

Note: * = between zero and $500 million.

a. Amounts for 2013 are net of reductions implemented in response to the Administration's sequestration order of March 1, 2013.

b. CBO estimated the funding provided for operations in Afghanistan and Iraq by allocating funds on the basis of information in budget justification materials from the Department of Defense and in the department's monthly reports on its obligations. Some allocations for prior years have been adjusted to reflect more recent information.

c. Includes Operation Noble Eagle (homeland security missions, such as combat air patrols, in the United States), additional personnel and other restructuring efforts for Army and Marine Corps units, classified activities other than those funded by appropriations for the Iraq Freedom Fund, and other operations. (From 2005 through 2014, funding for Operation Noble Eagle was intermingled with regular appropriations for the Department of Defense; that funding is not included in this table.)

d. Funding for indigenous security forces is used to train and equip local military and police units in Afghanistan and Iraq. That funding was appropriated in accounts for diplomatic operations and foreign aid (budget function 150) in 2004 and in accounts for defense (budget function 050) starting in 2005.

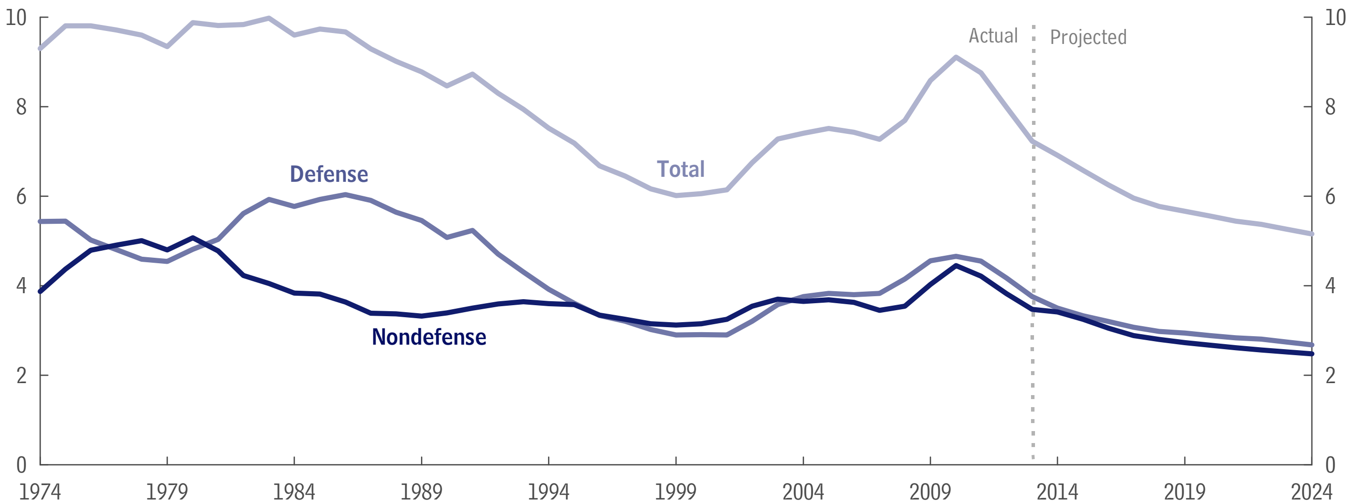
e. In 2010 and 2011, most funding for diplomatic operations in, and foreign aid to, countries helping the United States fight terrorism was provided in regular appropriations and cannot be separated from appropriations for activities unrelated to those operations.

f. Includes funding for some veterans' benefits and services and for certain activities of the Department of Justice. Excludes about $23 billion in spending by the Department of Veterans Affairs for the incremental costs of medical care, disability compensation, and survivors' benefits for veterans of operations in Afghanistan and Iraq and the war on terrorism. That amount is based on CBO's estimates of spending from regular appropriations for the Department of Veterans Affairs and was not explicitly appropriated for war-related expenses.

Figure 3-3.

Discretionary Outlays, by Category

(Percentage of gross domestic product)



Source: Congressional Budget Office.

3.7 percent. Funding from ARRA helped push that share to 4.0 percent of GDP in 2009 and 4.5 percent in 2010. However, by 2013, more than 90 percent of discretionary funding from ARRA had been spent; and as caps on budget authority reduced funding levels, nondefense discretionary outlays fell as a share of GDP, reaching 3.5 percent in 2013. Although funding for nondefense discretionary activities in 2013 was only slightly above its share of GDP for 2007, it was higher by 21 percent in nominal terms and by 9 percent in real terms. Excluding OCO and hurricane relief, funding for nondefense discretionary activities was higher in 2013 than in 2007, by 11 percent in nominal terms and by 0.2 percent in real terms.

Discretionary Appropriations and Outlays in 2014

For 2014, discretionary budget authority provided to date totals $1,130 billion, roughly 1 percent less than the $1,145 billion provided for fiscal year 2013 (see Table 3-4).[24] Funding for relief and recovery from Hurricane Sandy amounted to $48 billion last year, but no additional funding has been provided for this year. Other appropriations increased by $34 billion (or 3.4 percent).

The caps on budget authority for 2014 are set at $1,012 billion—$520 billion for defense programs and $492 billion for nondefense programs. However, those limits on funding are adjusted when appropriations are provided for certain purposes. Specifically, budget authority designated as an emergency requirement or provided for OCO would lead to an increase in the caps, as would budget authority provided for some types of disaster relief or for certain "program integrity" initiatives.[25] To date, such adjustments to the caps on discretionary budget authority for 2014 have totaled $98 billion; most of that amount, $92 billion, resulted from funding for OCO. In addition, the amount of budget authority in CBO's baseline is about $20 billion more than the caps, primarily because savings from changes to mandatory programs that were included in the Continuing Appropriations Act, 2014 (P.L. 113-76) were credited against discretionary spending when the legislation was enacted; those savings appear as reductions in mandatory spending in CBO's baseline.

In the absence of additional appropriations for 2014, CBO projects that discretionary outlays will decrease slightly from $1,201 billion in 2013 to $1,194 billion in 2014. Although appropriations for defense are up slightly

24. In addition, obligation limitations for transportation programs in 2014 total $53 billion, about $1 billion above the amount legislated for 2013.

25. Such initiatives are aimed at reducing improper benefit payments in Disability Insurance, Supplemental Security Income, Medicare, Medicaid, and the Children's Health Insurance Program.

Table 3-4.

Changes in Discretionary Budget Authority From 2013 to 2014

(Billions of dollars)

	Actual, 2013	Estimated, 2014	Percentage Change
Defense			
Overseas contingency operations	82	85	3.7
Hurricane Sandy	*	0	-100.0
Other	518	520	0.5
Subtotal	600	606	0.9
Nondefense			
Overseas contingency operations	11	7	-39.9
Hurricane Sandy	48	0	-100.0
Other	486	517	6.4
Subtotal	545	524	-3.8
Total Discretionary Budget Authority			
Overseas contingency operations	93	92	-1.4
Hurricane Sandy	48	0	-100.0
Other	1,004	1,038	3.4
Total	**1,145**	**1,130**	**-1.3**

Source: Congressional Budget Office.

Notes: Excludes budgetary resources provided by obligation limitations for certain ground and air transportation programs.

* = between zero and $500 million.

in 2014, defense spending is expected to drop by $21 billion in 2014 because funding has been lower over the past few years. Funding for defense programs this year is $104 billion lower than the amount provided for 2011; about three-quarters of that drop reflects a decline in OCO funding. In contrast, appropriations for nondefense activities are lower in 2014 than they were in 2013 (because of the large disaster relief appropriation in 2013), but nondefense outlays in 2014 are expected to be $14 billion higher, largely because of a drop in receipts credited to the Federal Housing Administration's mortgage insurance program ($7 billion) and an increase in estimated spending from the appropriations in 2013 related to Hurricane Sandy ($5 billion). As a percentage of GDP, total discretionary outlays are estimated to fall from 7.2 percent in 2013 to 6.9 percent in 2014.

Defense Discretionary Funding. Budget authority provided for defense discretionary programs in 2014 is expected to be about 1 percent more than it was in 2013, rising from $600 billion to $606 billion. Three major categories of funding within the Department of Defense account for 83 percent of the defense appropriation in 2014: operation and maintenance ($262 billion), military personnel ($144 billion), and procurement ($99 billion). Appropriations for research and development ($63 billion) account for another 10 percent of total funding for defense. The rest of the appropriation, about 6 percent, is made up of funding for military construction, family housing, and other Department of Defense programs ($12 billion); funding for atomic energy activities, primarily within the Department of Energy ($17 billion); and funding for various defense-related programs in other departments and agencies ($8 billion).

Nondefense Discretionary Funding. Seven broad budget categories (referred to as budget functions) account for more than 75 percent of the $577 billion in resources appropriated in 2014 for nondefense discretionary activities (see Table 3-5). Activities related to education, training, employment, and social services have received $92 billion, claiming 16 percent of total nondefense discretionary funding.[26] Transportation programs have received $85 billion, or 15 percent, of the total, which

26. Spending for student loans and several other federal programs in the category of education, training, employment, and social services is not included in that total because their funding is considered mandatory.

Table 3-5.

Changes in Nondefense Discretionary Funding From 2013 to 2014

(Billions of dollars)

Budget Function	Actual, 2013	Estimated, 2014	Change
Education, Training, Employment, and Social Services	89	92	3
Transportation[a]	96	85	-12
Income Security	60	65	5
Veterans' Benefits and Services	62	64	4
Health	53	56	3
Administration of Justice	49	52	3
International Affairs	52	51	-2
Natural Resources and Environment	39	34	-4
General Science, Space, and Technology	28	29	1
Community and Regional Development	45	17	-28
General Government	17	17	*
Medicare	6	6	*
Agriculture	6	6	*
Social Security	5	6	*
Energy	4	5	1
Commerce and Housing Credit	-12	-7	5
Total	**597**	**577**	**-20**

Source: Congressional Budget Office.

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

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

includes $53 billion in obligation limitations for several ground and air transportation programs. Income-security programs and veterans' benefits and services each account for 11 percent of the total nondefense funding, totaling $65 billion and $64 billion, respectively.[27] Health programs account for 10 percent of the nondefense funding, totaling $56 billion, and administration of justice ($52 billion) and international affairs ($51 billion) each account for 9 percent of the total. All told, funding for nondefense programs in 2014 is expected to be $20 billion lower than the total amount provided in 2013; however, excluding funding related to Hurricane Sandy (most of which had appeared last year in the budget functions for transportation and for community and regional development), nondefense discretionary funding is $28 billion higher than last year's total.

Projections for 2015 Through 2024

The Budget Control Act of 2011 established limits on discretionary budget authority for 2012 through 2021; in addition, that legislation also provided for automatic procedures that, if triggered, would reduce the limits that were originally set. The Bipartisan Budget Act of 2013 canceled the automatic spending reductions related to discretionary funding that were set to occur in 2014 and 2015 under the Budget Control Act; for 2015, the Bipartisan Budget Act established new caps of $521 billion for defense programs and $492 billion for nondefense programs. According to CBO's estimates, those caps are $9 billion higher for both defense and nondefense programs than the caps in place under prior law.

In CBO's baseline projections, discretionary outlays total about the same amount in 2015, 2016, and 2017 that they do in 2014 (see Table 3-6). Such outlays are expected to start slowly increasing again in 2018 and to grow by about 2 percent per year thereafter, reaching nearly $1.4 trillion by 2024. As a share of GDP, they are projected to fall markedly, from 6.6 percent in 2015 to 5.2 percent in 2024.

Alternative Paths for Discretionary Spending

Total funding for discretionary activities in 2014 will amount to about $1,183 billion on an annualized basis,

27. Some significant income-security programs, such as unemployment compensation and TANF, are not reflected in the total because they are included in mandatory spending.

CBO estimates—$1,130 billion in budget authority and $53 billion in transportation-related obligation limitations. In CBO's baseline projections, discretionary funding is projected for subsequent years on the basis of the amounts and procedures prescribed in the Budget Control Act. However, if the policies governing discretionary appropriations changed, funding could differ greatly from the baseline projections. To illustrate such differences, CBO has estimated the budgetary consequences of several alternative paths for discretionary funding (see Table 3-6).

The first alternative path addresses spending for operations in Afghanistan and related activities. The outlays projected in the baseline come from budget authority provided for those purposes in 2013 and prior years, the $92 billion in budget authority provided for 2014, and the $1 trillion that is assumed to be appropriated over the 2015–2024 period (under the assumption that annual funding is set at $92 billion plus adjustments for anticipated inflation, in accordance with the rules governing baseline projections).[28]

In coming years, the funding required for overseas contingency operations—in Afghanistan or other countries—might be smaller than the amounts projected in the baseline if the number of deployed troops and the pace of operations diminished over time. For that reason, CBO has formulated a budget scenario that assumes a reduction in the deployment of U.S. forces abroad for military actions, and a concomitant reduction in diplomatic operations and foreign aid. Many other scenarios—some costing more and some less—are also possible.

In 2013, the number of U.S. active-duty, Reserve, and National Guard personnel deployed for war-related activities averaged about 85,000, CBO estimates. In this alternative scenario, the average number of military personnel deployed for war-related purposes would decline over three years: from 60,000 in 2014 to 40,000 in 2015, 35,000 in 2016, and 30,000 in 2017 and thereafter. (Those levels could represent various allocations of forces among Afghanistan and other regions.) Under that scenario, and assuming that the related funding for diplomatic operations and foreign aid declines at a similar rate, total discretionary outlays over the 2015–2024 period would be $572 billion less than the amount in the baseline.[29]

For the second policy alternative, CBO assumed that discretionary funding would grow at the rate of inflation after 2014. If that occurred, discretionary outlays would surpass CBO's baseline projections by $735 billion over the 2015–2024 period. In that scenario, discretionary outlays would increase by an average of 2.2 percent a year over the next decade.

The third scenario reflects the assumption that most discretionary budget authority and obligation limitations would be frozen at the 2014 level for the entire projection period.[30] In that case, total discretionary outlays for the 10-year period would be $688 billion lower than those projected in the baseline, and total discretionary spending would fall to 4.5 percent of GDP by 2024.

For the final alternative scenario, CBO projected what would occur if lawmakers canceled the automatic enforcement procedures for discretionary spending specified in the Budget Control Act. Those automatic procedures will reduce discretionary (and mandatory) spending over the 2016 through 2021 period (the automatic spending reductions for 2014 and 2015 were canceled by the Bipartisan Budget Act and new caps were set). If, instead, lawmakers chose to prevent those automatic cuts to discretionary spending each year, outlays would be $747 billion (or about 6 percent) higher over the 2015–2024 period than the amount projected in CBO's baseline.

28. Funding for overseas contingency operations in 2014 includes $85 billion for military operations and indigenous security forces and $7 billion for diplomatic operations and foreign aid.

29. Legislation that placed limits on appropriations for overseas contingency operations that were below the amounts in CBO's baseline would result in estimated reductions in spending relative to the outlays in CBO's baseline, which are based on the projection of $1.0 trillion in budget authority over 10 years, extrapolated from 2014 funding. That sum, however, is just a baseline projection; such funding has not yet been provided, and there are no funds in the Treasury set aside for that purpose. As a result, reductions relative to the baseline might simply reflect policy decisions that have already been made and that would be realized even without such funding constraints. Moreover, if future policymakers believed that national security required appropriations above the capped amounts, they would almost certainly provide emergency appropriations that would not, under current law, be counted against the caps.

30. Some items, such as offsetting collections and payments made by the Treasury on behalf of the Department of Defense's TRICARE for Life program, would not be held constant.

Table 3-6.

CBO's Projections of Discretionary Spending Under Selected Policy Alternatives

(Billions of dollars)

	Actual, 2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total 2015-2019	Total 2015-2024
CBO's February 2014 Baseline (Spending caps in effect through 2021)														
Budget Authority														
Defense	600	606	608	611	626	641	656	672	688	706	723	742	3,143	6,674
Nondefense	545	524	506	506	518	530	545	558	571	586	601	617	2,605	5,538
Total	1,145	1,130	1,114	1,118	1,144	1,171	1,201	1,230	1,259	1,291	1,324	1,358	5,748	12,212
Outlays														
Defense	625	604	603	611	616	624	642	657	673	695	707	719	3,096	6,546
Nondefense	576	590	589	581	578	586	596	609	620	634	650	664	2,930	6,107
Total	1,201	1,194	1,192	1,192	1,194	1,210	1,239	1,266	1,293	1,329	1,356	1,383	6,026	12,653
Reduce the Number of Troops Deployed for Overseas Contingency Operations to 30,000 by 2017[a]														
Budget Authority														
Defense	600	606	579	566	569	579	592	606	621	637	654	671	2,885	6,073
Nondefense	545	524	504	503	514	526	540	553	566	581	596	611	2,586	5,493
Total	1,145	1,130	1,083	1,068	1,083	1,105	1,131	1,160	1,187	1,218	1,249	1,282	5,470	11,566
Outlays														
Defense	625	604	593	577	569	568	582	593	607	628	640	651	2,889	6,008
Nondefense	576	590	589	580	575	582	593	605	616	630	645	660	2,919	6,073
Total	1,201	1,194	1,181	1,156	1,145	1,151	1,174	1,198	1,223	1,257	1,285	1,311	5,807	12,081
Increase Discretionary Appropriations at the Rate of Inflation After 2014[b]														
Budget Authority														
Defense	600	606	618	633	649	667	684	702	721	740	760	780	3,251	6,954
Nondefense	545	524	536	549	564	581	597	616	632	649	666	683	2,827	6,072
Total	1,145	1,130	1,154	1,182	1,213	1,247	1,281	1,318	1,353	1,389	1,426	1,462	6,078	13,025
Outlays														
Defense	625	604	609	627	636	647	668	685	704	728	741	755	3,187	6,801
Nondefense	576	590	606	613	617	631	646	662	678	694	712	728	3,112	6,587
Total	1,201	1,194	1,215	1,239	1,254	1,278	1,314	1,348	1,381	1,422	1,454	1,484	6,300	13,388

Continued

Net Interest

In 2013, outlays for net interest were $221 billion, very close to the amount spent in 2012. As a share of GDP, net interest was 1.3 percent in 2013 and is expected to be about the same in 2014 because of continued historically low interest rates (see Table 3-7).

Net interest payments are dominated by the interest paid to holders of the debt that the Department of 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. In addition, other federal accounts pay and receive interest for various reasons.[31]

The federal government's interest payments depend primarily on market interest rates and the amount of debt held by the public; however, other factors, such as the rate of inflation and the maturity structure of outstanding

31. For additional information, see Congressional Budget Office, *Federal Debt and Interest Costs* (December 2010), www.cbo.gov/publication/21960.

Table 3-6. **Continued**

CBO's Projections of Discretionary Spending Under Selected Policy Alternatives

(Billions of dollars)

	Actual, 2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total 2015-2019	Total 2015-2024
Freeze Most Discretionary Appropriations at the 2014 Amount[c]														
Budget Authority														
Defense	600	606	607	609	612	614	617	619	622	624	627	630	3,059	6,181
Nondefense	545	524	526	527	528	529	530	532	532	532	533	531	2,640	5,301
Total	1,145	1,130	1,134	1,136	1,139	1,143	1,147	1,151	1,154	1,157	1,160	1,161	5,699	11,482
Outlays														
Defense	625	604	602	608	605	603	609	611	613	620	618	617	3,026	6,106
Nondefense	576	590	600	596	587	585	584	584	582	581	581	579	2,952	5,859
Total	1,201	1,194	1,202	1,204	1,192	1,188	1,193	1,195	1,195	1,201	1,199	1,196	5,978	11,965
Remove the Effect on Discretionary Spending of the Automatic Enforcement Procedures Specified in the Budget Control Act[d]														
Budget Authority														
Defense	600	606	608	665	680	695	710	726	742	761	780	800	3,359	7,168
Nondefense	545	524	506	544	555	567	581	593	605	621	637	653	2,752	5,861
Total	1,145	1,130	1,114	1,209	1,235	1,262	1,291	1,319	1,347	1,382	1,417	1,453	6,110	13,029
Outlays														
Defense	625	604	603	644	662	674	694	710	726	749	762	776	3,277	7,000
Nondefense	576	590	589	602	608	619	631	644	654	669	684	700	3,049	6,400
Total	1,201	1,194	1,192	1,246	1,270	1,293	1,325	1,354	1,381	1,417	1,447	1,476	6,326	13,400

Source: Congressional Budget Office.

Note: Nondefense discretionary outlays are usually higher than budget authority because of spending from the Highway Trust Fund and the Airport and Airway Trust Fund that is subject to obligation limitations set in appropriation acts. The budget authority for such programs is provided in authorizing legislation and is not considered discretionary.

a. For this alternative, CBO does not extrapolate the $92 billion in budget authority for military operations, diplomatic activities, and foreign aid in Afghanistan and other countries provided for 2014. Rather, the alternative incorporates the assumption that, as the number of troops falls to about 30,000 by 2017, funding for overseas contingency operations declines as well, to $62 billion in 2015, $46 billion in 2016, and then an average of about $35 billion a year from 2017 on—for a total of $380 billion over the 2015–2024 period.

b. These estimates reflect the assumption that appropriations will not be constrained by caps and will instead grow at the rate of inflation from their 2014 level. Discretionary funding related to federal personnel is inflated using the employment cost index for wages and salaries; other discretionary funding is adjusted using the gross domestic product price index.

c. This option reflects the assumption that appropriations other than those for overseas contingency operations would generally be frozen at the 2014 level through 2024.

d. The Budget Control Act of 2011 specified that if lawmakers did not enact legislation originating from the Joint Select Committee on Deficit Reduction that would reduce projected deficits by at least $1.2 trillion, automatic procedures would go into effect to reduce both discretionary and mandatory spending during the 2013–2021 period. Those procedures are now in effect (with some limited changes made by later legislation) and generally take the form of equal cuts (in dollar terms) in funding for defense and nondefense programs. For the 2016–2021 period, the automatic procedures lower the caps on discretionary budget authority specified in the Budget Control Act (caps for 2014 and 2015 were revised by the Bipartisan Budget Act of 2013); for the 2022–2024 period, CBO has extrapolated the reductions estimated for 2021.

Table 3-7.

Federal Interest Outlays Projected in CBO's Baseline

(Billions of dollars)

	Actual, 2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total 2015-2019	Total 2015-2024
Interest on Treasury Debt Securities (Gross interest)[a]	416	425	468	533	625	732	825	905	977	1,046	1,116	1,184	3,184	8,412
Interest Received by Trust Funds														
Social Security	-106	-102	-99	-99	-101	-104	-109	-112	-114	-114	-113	-111	-511	-1,075
Other[b]	-51	-50	-57	-61	-68	-75	-82	-87	-92	-93	-95	-99	-344	-810
Subtotal	-157	-152	-156	-160	-168	-179	-191	-199	-206	-207	-208	-210	-855	-1,884
Other Interest[c]	-35	-38	-44	-48	-53	-59	-65	-70	-76	-82	-88	-94	-268	-678
NRRIT Investment Income (Non-Treasury holdings)[d]	-3	-2	*	*	-1	-1	-1	-1	-1	-1	-1	-1	-3	-7
Net Interest Outlays	**221**	**233**	**268**	**326**	**404**	**493**	**569**	**635**	**694**	**755**	**819**	**880**	**2,059**	**5,842**

Source: Congressional Budget Office.

Note: * = between -$500 million and zero.

a. Excludes interest costs on debt issued by agencies other than the Treasury (primarily the Tennessee Valley Authority).

b. Mainly the Civil Service Retirement, Military Retirement, Medicare, and Unemployment Insurance Trust Funds.

c. Primarily interest on loans to the public.

d. Earnings on investments by the National Railroad Retirement Investment Trust (NRRIT), an entity created to manage and invest assets of the Railroad Retirement program.

securities, also affect interest costs. (For example, longer-term securities generally pay higher interest than do shorter-term securities.) Interest rates are determined by a combination of market forces and the policies of the Federal Reserve System. Debt held by the public is determined mostly by cumulative budget deficits, which depend on policy choices about spending and revenues and on economic conditions and other factors. At the end of 2013, debt held by the public reached nearly $12 trillion, and in CBO's baseline, it is projected to total $21.3 trillion in 2024. (For detailed projections of debt held by the public, see Table 1-3 on page 17.)

Although debt held by the public surged in the past few years to its highest levels relative to GDP since the early 1950s, outlays for net interest have remained low relative to GDP because interest rates on Treasury securities have been remarkably low. Rates on 3-month Treasury bills plummeted from an average of nearly 5 percent in 2007 to 0.1 percent in 2010; those rates averaged 0.1 percent in 2013 as well. Similarly, rates on 10-year Treasury notes dropped from an average of nearly 5 percent in 2007 to a low of 1.9 percent in 2012; those rates picked up only slightly in 2013, to an average of 2.1 percent. As a result, even though debt held by the public rose dramatically—climbing from 35 percent of GDP at the end of 2007 to 72 percent at the end of 2013—outlays for net interest as a percentage of GDP fell from 1.7 percent in 2007 to 1.3 percent in 2013. By comparison, such outlays averaged about 3 percent of GDP in the 1980s and 1990s.

Baseline Projections of Net Interest

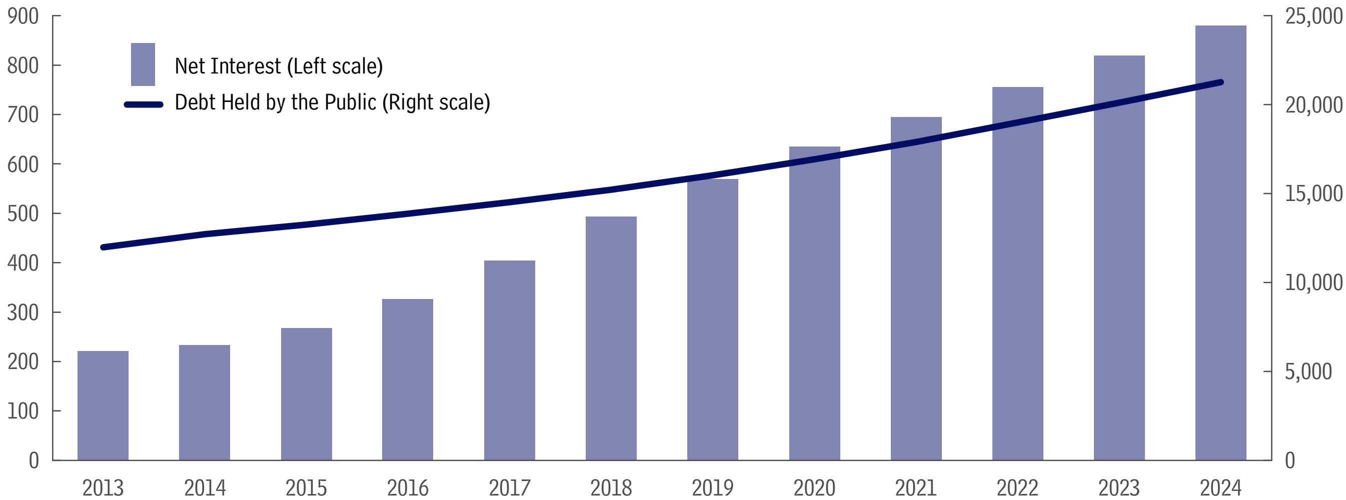
Under CBO's baseline assumptions, net interest costs are projected to nearly quadruple from 2014 through 2024, from $233 billion in 2014 to $880 billion in 2024. Debt held by the public is projected to increase by nearly 70 percent (in nominal terms) over the next 10 years, reaching $21.3 trillion in 2024 (see Figure 3-4 on page 77).[32] In addition, CBO estimates, the interest rate paid on 3-month Treasury bills will rise from 0.1 percent in 2013 to 3.7 percent in 2018 and subsequent years, and the rate on 10-year Treasury notes will increase from 2.1 percent in 2013 to 5.0 percent. As a result, under current law, net interest is projected to reach 3.3 percent of GDP in 2024.

32. Debt held by the public does not include securities issued by the Treasury to federal trust funds and other government accounts. Those securities are included as part of the measure of gross debt. (For further details, see Chapter 1.)

Figure 3-4.

Projected Debt Held by the Public and Net Interest

(Billions of dollars)



Source: Congressional Budget Office.

Gross Interest

In 2013, interest paid by the Treasury on all of its debt issuances totaled $416 billion. Nearly 40 percent of that total, $157 billion, represents payments to other entities (such as trust funds) within the federal government; the remainder is paid to owners of Treasury debt issued to the public. In CBO's baseline, gross interest payments from 2015 through 2024 total $8.4 trillion. Almost 75 percent of that amount reflects interest paid on debt held by the public.

Interest Received by Trust Funds

The Treasury has issued more than $4.7 trillion in securities to federal trust funds and other government accounts. Trust funds are the dominant holders of such securities, owning more than 90 percent of them. The interest paid on those securities has no net impact on federal spending because it is credited to accounts elsewhere in the budget. In 2014, trust funds will be credited with $152 billion of such intragovernmental interest, CBO estimates, mostly for the Social Security, Military Retirement, and Civil Service Retirement and Disability trust funds. Over the 2015–2024 period, the intragovernmental interest received by trust funds is projected to total $1.9 trillion.

Other Interest

The net payments of $38 billion in other interest that CBO anticipates the government will receive in 2014 represent the net result of many transactions, including both interest collections and interest payments.

The largest interest collections come from the government's credit financing accounts, which have been established to record the cash transactions related to federal direct loan and loan guarantee programs. For those programs, net subsidy costs are recorded in the budget, but the cash flows that move through the credit financing accounts are not. Credit financing accounts pay interest to and receive interest from Treasury accounts that appear in the budget; but, on net, they pay more interest to the Treasury than they receive from it. CBO estimates that net receipts from the credit financing accounts will total $30 billion in 2014 and steadily increase to $66 billion in 2024. Interest payments associated with the direct student loan program dominate the annual totals.

Among the interest outflows from the government are payments for interest on tax refunds issued more than 45 days after the date on which the corresponding tax returns were filed and interest payments made for certain bonds that were issued to finance the resolution of the savings and loan crisis of the 1980s. Together, those payments are expected to total nearly $6 billion in 2014 and to average about that amount each year through 2024.

The government also receives investment income from the financial assets held by the National Railroad Retirement Investment Trust. CBO estimates that net receipts from the trust will be $2 billion in 2014 and total $7 billion for the rest of the 10-year period.