APPENDIX

A

Changes in CBO's Baseline Since August 2016

If current laws affecting spending and revenues generally remained unchanged, the cumulative deficit from 2017 through 2026 would total $8.6 trillion, the Congressional Budget Office projects. That amount is $6 billion more than CBO projected in its August 2016 baseline—a difference of less than 0.1 percent (see Table A-1).[1] For 2017, CBO estimates that the deficit will total $559 billion, which is $35 billion less than the $594 billion projected in August.

The differences between the current projections and those CBO published in August 2016 consist of three types of changes:

- Legislative changes, which are directly tied to the enactment of new laws;
- Economic changes, which stem from the agency's updated economic forecast; and
- Technical changes, which result from factors other than new laws or updated assessments of the economy.

1. See Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2016 to 2026* (August 2016), www.cbo.gov/publication/51908. CBO constructs its baseline projections in accordance with provisions of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) and the Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344). To project revenues and mandatory spending, CBO assumes that current laws, with only a few exceptions, will remain unchanged throughout the 10-year projection period. To project discretionary spending, CBO assumes that most annual appropriations through 2021 will adhere to the caps and automatic spending reductions established for the 2012–2021 period in the Budget Control Act of 2011 (P.L. 112-25), as amended. It also assumes that appropriations thereafter will increase from the 2021 amounts at the rate of inflation. Certain discretionary appropriations are not constrained by the caps, such as those designated for overseas contingency operations. In CBO's baseline projections, those appropriations generally increase at the rate of inflation. CBO's baseline is not intended to predict budgetary outcomes; rather, it serves as a benchmark against which to measure the potential effects of changes in laws governing taxes and spending.

For the 2017–2026 period, technical changes to projections of outlays and revenues caused the largest difference, reducing CBO's deficit projection by $133 billion. That result was slightly more than offset by the effects of newly enacted legislation, which increased the projection of the deficit by $127 billion, and by changes arising from CBO's updated economic forecast, which increased it by $12 billion.

Legislative Changes

The effect of new legislation on CBO's updated deficit projections both for 2017 and for the 10-year projection period is seen almost entirely in changes to outlays. Since the August 2016 baseline was published, the differences in CBO's revenue projections that have been attributable to legislative changes have been close to zero. All in all, legislative changes—mostly stemming from recent appropriations—added $127 billion (or 1.5 percent) to the projected 10-year cumulative deficit.

Changes in Discretionary Spending

On net, legislative changes to discretionary programs enacted since August led CBO to boost its estimates of outlays by $9 billion for 2017 and by a cumulative total of $117 billion for the 10-year projection period. Because most discretionary spending is subject to the caps established by the Budget Control Act of 2011, legislative changes to outlay projections in the baseline result chiefly from changes in appropriations for programs that are not constrained by the caps: overseas contingency operations, disaster relief, emergency requirements, program integrity initiatives, and certain health-related programs.[2]

2. Overseas contingency operations are war-related activities (primarily in Afghanistan), and program integrity initiatives aim to reduce improper benefit payments in Disability Insurance, Supplemental Security Income, Medicare, Medicaid, and the Children's Health Insurance Program. For more information on the discretionary caps, see Congressional Budget Office, *Sequestration Update Report: August 2016* (August 2016), www.cbo.gov/publication/51873.

Table A-1.

Changes in CBO's Baseline Projections of the Deficit Since August 2016

Billions of Dollars

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total 2017-2021	Total 2017-2026
Deficit in CBO's August 2016 Baseline	-594	-520	-625	-714	-806	-954	-988	-1,000	-1,128	-1,243	-3,258	-8,571
Legislative Changes												
Changes in Revenues	*	*	*	*	*	*	*	*	*	*	*	1
Changes in Outlays												
Mandatory outlays	-1	-2	-2	-1	1	1	*	-1	-1	*	-5	-6
Discretionary outlays	9	11	17	11	12	11	11	12	12	12	59	117
Debt service	*	*	*	1	1	2	2	3	3	4	3	16
Total Change in Outlays	8	9	16	11	13	14	14	14	14	15	57	127
Increase (-) in the Deficit From Legislative Changes	**-8**	**-9**	**-16**	**-11**	**-13**	**-13**	**-13**	**-13**	**-14**	**-15**	**-57**	**-127**
Economic Changes												
Changes in Revenues												
Individual income taxes	-4	-12	-9	-2	*	*	-2	-4	-6	-8	-27	-47
Corporate income taxes	16	14	8	9	11	10	8	6	3	2	59	87
Payroll taxes	-1	-1	1	-1	-3	-3	-3	-4	-5	-6	-5	-27
Other	-1	-2	*	-1	-3	-4	-5	-5	-5	-4	-6	-30
Total Change in Revenues	10	*	1	5	4	2	-2	-7	-12	-17	20	-16
Changes in Outlays												
Mandatory outlays												
Medicare	*	*	1	2	5	7	10	12	15	19	7	70
Earned income and child tax credits	1	1	2	3	3	4	4	5	5	6	10	34
Supplemental Nutrition Assistance Program	*	-2	-2	-2	-2	-2	-2	-2	-2	-2	-9	-20
Social Security	-1	*	*	*	*	-1	-1	-2	-2	-3	-2	-12
Other	1	-2	-5	-5	-2	-2	-1	-1	-1	-2	-12	-19
Subtotal, mandatory	1	-4	-5	-2	3	6	9	12	15	18	-7	53
Discretionary outlays	0	1	1	1	*	1	1	1	1	1	2	5
Net interest outlays												
Effect of rates and inflation	5	*	-12	-18	-13	-8	-5	-3	-1	1	-37	-53
Debt service	*	*	*	-1	-1	-2	-2	-2	-1	*	-3	-9
Subtotal, net interest	5	*	-12	-19	-15	-10	-7	-5	-2	1	-40	-63
Total Change in Outlays	6	-3	-16	-20	-11	-3	3	7	13	20	-45	-4
Increase (-) or Decrease in the Deficit From Economic Changes	**4**	**3**	**17**	**25**	**16**	**5**	**-5**	**-14**	**-26**	**-36**	**65**	**-12**

Continued

Table A-1. Continued

Changes in CBO's Baseline Projections of the Deficit Since August 2016

Billions of Dollars

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total 2017-2021	Total 2017-2026
						Technical Changes						
Changes in Revenues												
Individual income taxes	-11	12	4	-9	-17	-24	-26	-31	-35	-39	-22	-177
Corporate income taxes	-17	-11	-8	-8	-8	-7	-7	-6	-6	-7	-52	-85
Payroll taxes	2	3	1	-1	*	3	6	7	8	10	5	39
Other	*	*	-10	-9	-8	-11	-10	-10	-10	-9	-28	-77
Total Change in Revenues	-27	4	-13	-27	-33	-39	-38	-41	-43	-45	-96	-300
Changes in Outlays												
Mandatory outlays												
Social Security	-3	-4	-5	-7	-8	-9	-11	-12	-14	-15	-26	-87
Medicare	-1	-2	-5	-8	-8	-10	-11	-9	-16	-13	-24	-82
Medicaid	-4	-6	-8	-7	-7	-8	-7	-7	-5	-4	-33	-63
Earned income and child tax credits	-1	-2	-3	-3	-4	-5	-6	-7	-8	-9	-12	-47
Deposit insurance	-3	*	4	6	5	4	5	5	6	6	12	38
Pension Benefit Guaranty Corporation	-2	-2	-3	-3	-3	-2	-2	-2	-3	-2	-13	-24
Fannie Mae and Freddie Mac	-17	*	*	0	*	1	1	1	1	1	-18	-13
Other	-23	-7	-7	-11	-4	-2	-2	-2	*	-1	-51	-58
Subtotal, mandatory	-55	-23	-27	-32	-29	-31	-33	-33	-38	-37	-166	-337
Discretionary outlays	-6	-6	-2	-3	-3	-3	-3	-3	-2	-2	-21	-34
Net interest outlays												
Debt service	*	*	*	*	*	1	1	2	2	2	*	9
Other	-6	-6	-7	-7	-8	-8	-9	-8	-7	-6	-33	-71
Subtotal, net interest	-6	-6	-7	-7	-8	-7	-7	-6	-5	-4	-33	-62
Total Change in Outlays	-66	-35	-36	-43	-40	-41	-43	-41	-45	-42	-220	-433
Increase (-) or Decrease in the Deficit From Technical Changes	**40**	**39**	**23**	**16**	**6**	**3**	**6**	**1**	**3**	**-3**	**124**	**133**
						All Changes						
Total Increase (-) or Decrease in the Deficit	**35**	**32**	**24**	**30**	**9**	**-6**	**-13**	**-27**	**-37**	**-54**	**131**	**-6**
Deficit in CBO's January 2017 Baseline	-559	-487	-601	-684	-797	-959	-1,000	-1,027	-1,165	-1,297	-3,127	-8,577
Memorandum:												
Changes in Revenues	-17	4	-12	-22	-29	-36	-40	-47	-55	-61	-76	-315
Changes in Outlays	-52	-28	-36	-52	-38	-31	-27	-20	-18	-7	-207	-310

Source: Congressional Budget Office.

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

Legislative changes since August primarily have involved funding for overseas contingency operations, as provided in the Further Continuing and Security Assistance Appropriations Act, 2017 (Public Law 114-254). For the current year, that funding (on an annualized basis) is $11 billion more than the amount provided in 2016. (Some of those funds would not be spent in 2017.) Because, as specified by law, projections of future appropriations for such operations are based on the assumption that funding will equal current amounts with an adjustment for inflation, the larger amount provided for 2017 led CBO to increase its projection of discretionary outlays by $84 billion for the 2017–2026 period.

Excluding supplemental funding, appropriations in 2017 also have risen by $2 billion for activities designated as emergency requirements and by $1 billion for disaster relief; combined, the extrapolation of those two types of funding contributes another $24 billion to the increase in discretionary outlays between 2017 and 2026. Furthermore, the Continuing Appropriations and Military Construction, Veterans Affairs, and Related Agencies Appropriations Act, 2017, and Zika Response and Preparedness Act (P.L. 114-223) provided supplemental funding for fiscal year 2016 that will add $1.5 billion to outlays over the 2017–2026 period, CBO estimates.

The 21st Century Cures Act (P.L. 114-255) authorized additional discretionary funding for certain programs that would not be counted against the discretionary caps. The spending projections that result from extrapolation of such funding provided for 2017 added $5 billion to CBO's projection of discretionary outlays for the 2017–2026 period. (The 2017 appropriations were provided by P.L. 114-254.)

Changes in Mandatory Spending

Recently enacted legislation led CBO to lower its estimates of mandatory outlays by $1 billion for 2017 and by $6 billion for the 2017–2026 period. The largest reductions for the 10-year period were attributable to the enactment of the 21st Century Cures Act, which, among its other effects, resulted in a $3.5 billion reduction in outlays projected for the Prevention and Public Health Fund and a $1 billion increase in offsetting receipts (that is, negative outlays) from additional sales of oil from the Strategic Petroleum Reserve.

Changes in Debt Service

Excluding the cost of debt service, the changes that CBO made to its projections of revenues and outlays because of recently enacted legislation increased its projection of the cumulative deficit for the 2017–2026 period by $110 billion. The resulting growth in the estimate of federal borrowing led CBO to raise its cumulative projection of outlays for interest payments on federal debt by $16 billion for the 10-year period.

Economic Changes

CBO's economic forecast from early December 2016, which underlies the budget projections in this report, updated the agency's projections of gross domestic product (GDP), the unemployment rate, interest rates, inflation, and other factors that affect federal spending and revenues. In total, compared with the August 2016 baseline projections, the December economic forecast led the agency to decrease its estimate of the deficit by $4 billion for the current year but to raise it by $12 billion for the 2017–2026 period.

Changes in Revenues

Overall, CBO's revenue projections were not substantially affected by the updated economic forecast, which included relatively small changes to the projections of nominal GDP (which are lower by 0.1 percent, on average, over the 2017–2026 period than in the agency's August projections). The composition of GDP and other elements of the forecast that affect revenues changed modestly, leading to small and largely offsetting revisions to CBO's revenue projections. As a result, economic revisions are relatively minor, on net: The agency increased its 2017 revenue projection by $10 billion (or 0.3 percent) but reduced the cumulative revenue projection for the 2017–2026 period by $16 billion (a negligible percentage).

The largest differences in the revenue projections that arise from changes in the economic forecast concern corporate income tax receipts, which are $87 billion (or about 2 percent) higher in CBO's updated projections for the next 10 years. That change is attributable to updated projections of domestic economic profits, which are higher by about 3 percent over the coming decade, reflecting upward revisions to profits in the national income and product accounts (NIPAs) for recent quarters, lower business interest payments resulting from lower projected interest rates, and other factors. (The

NIPAs, which are produced by the Bureau of Economic Analysis, track components of the nation's economic output and income that CBO uses in its economic analyses.)

Changes in the economic forecast since August led CBO to reduce its projections of revenues from the collection of other types of taxes and fees. Most significantly, CBO lowered its projections of revenues from individual income taxes by $47 billion (or 0.2 percent) over the 2017–2026 period. That slight decline relative to the August baseline was primarily attributable to a reduction of about 15 percent in projections of income received by people in the form of monetary interest—a relatively small part of the individual income tax base. The revision to interest income largely reflected recent NIPA data, which showed that, beginning in 2015, smaller amounts of such interest income have been earned than previously had been estimated, suggesting a lower path of interest income going forward for a given projection of interest rates. CBO also lowered its projections of interest rates, which contributed to the decrease in estimated interest income.

In addition, CBO lowered its projections of payroll taxes (by $27 billion, or 0.2 percent), of revenues from customs duties (by $24 billion, or 5 percent), and of receipts from other sources (by $5 billion). The small reductions in revenues from those sources reflected slightly lower wages and imports, among other factors.

Changes in Outlays

Changes in the economic forecast led CBO to increase its estimate of outlays by $6 billion for 2017, but to lower the projection for the 2017–2026 period by $4 billion. The updated 10-year total is the result of largely offsetting changes: an increase in projected mandatory spending ($53 billion), an increase in discretionary outlays ($5 billion), and a decrease in projected net interest costs ($63 billion).

Mandatory Spending. CBO increased its projections of mandatory spending by $1 billion for 2017 and by $53 billion for the 2017–2026 period. The largest economic changes occurred in CBO's projections for Medicare, outlays for certain refundable tax credits, the Supplemental Nutrition Assistance Program (SNAP), and Social Security.

Medicare. Under current law, payment rates for much of Medicare's fee-for-service sector (such as hospital care and services provided by home health agencies and skilled nursing facilities) are updated automatically. Those updates are tied to changes in the prices of the labor, goods, and services that health care providers purchase, coupled with an adjustment for economywide gains in productivity (the ability to produce the same output using fewer inputs, such as hours of labor, than before) over a 10-year period. In general, CBO's current projections show a larger difference between price growth and productivity growth (inflation is now higher relative to productivity) than the agency forecast in August. Consequently, CBO now anticipates higher payment rates for Medicare services than it did in August—a change that increases Medicare outlays in CBO's baseline projections for the 2017–2026 period by $70 billion (or 1 percent).

Earned Income and Child Tax Credits. Projected outlays for these two refundable tax credits are $34 billion higher over the 2017–2026 period because of revisions to CBO's economic forecast.[3] About three-quarters of that increase is attributable to the earned income tax credit. CBO projects that employment will be higher and wages will be lower than it did in August, resulting in lower earnings per worker. The refundable portion of those credits tends to increase when earnings are lower among lower-earning taxpayers.

Supplemental Nutrition Assistance Program. Since August, changes in the economic forecast have led CBO to lower its spending projections for SNAP over the 2017–2026 period by about $20 billion (or 3 percent). An unexpected decline in food prices in 2016 led CBO to lower projected food prices, and thus projected SNAP benefits, in subsequent years.

Social Security. Because of lower projections of inflation and wage growth, CBO also lowered its projections of outlays for Social Security for the 2017–2026 period by $12 billion (or 0.1 percent). In August, CBO estimated that Social Security beneficiaries would receive a 0.6 percent cost-of-living adjustment (COLA) in January 2017; the actual COLA was 0.3 percent. In the other direction, CBO increased its forecast of the January 2018 COLA by

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

0.2 percentage points; its COLA projections for other years remain unchanged from the August baseline.

Net Interest. Since August, CBO has revised its projections of net interest costs because of changes in the agency's forecasts for interest rates and inflation. It also has made new projections of government borrowing as a result of changes in the economic outlook (see Table A-1). Together, those revisions, mostly related to updated interest rates, led CBO to reduce its baseline projection of net interest spending by $63 billion for the 2017–2026 period.

CBO has changed its projections for rates on most Treasury securities relative to those included in its August report. In the current projections, those rates are lower by an average of about 0.15 percentage points (or 15 basis points) for the first half of the coming decade but about the same as before over the second half. As a result, CBO reduced its projection of net interest outlays by $53 billion over the 2017–2026 period.

CBO further reduced its projection of net interest outlays by $9 billion over that period to account for debt service effects. That reduction reflects the net effect of updates to projections of revenues and outlays attributable to CBO's new economic forecast, which led the agency to raise its projection of the total deficit for the 2017–2026 period by $21 billion (not including the effects of debt service). However, because that net increase in the 10-year deficit results from reductions in the deficits projected for the first six years, followed by increases in the deficits projected for the final four years, the cumulative effect is to reduce CBO's projection of debt service costs for the 2017–2026 period.

Technical Changes

In total, technical updates to CBO's budget projections led the agency to reduce its estimate of the 2017 deficit by $40 billion, almost one-third of the total revision for technical reasons over the 10-year period. In nearly every year, such changes lowered projections of both revenues and outlays relative to those reported in August 2016; reductions in revenues are outpaced by downward adjustments to outlays for most years, reducing projected deficits. Many of the changes in this category stem from new data or from information that became available from federal agencies after September 2016, the end of the prior fiscal year.

Changes in Revenues

Overall, CBO reduced its revenue projections by $300 billion (or 1 percent) for the 2017–2026 period to incorporate various technical adjustments. Revenue projections fell by $27 billion for 2017, rose by $4 billion for 2018, and declined for each year over the 2019–2026 period by a total of $277 billion.

The reduction in 2017 and slight increase in 2018 are mostly attributable to new data on tax collections, along with CBO's expectation that some revenues from capital gains taxes will be shifted out of 2017 and into 2018. The new data show that corporate and individual income taxes have been lower in recent months than can be explained by currently available economic data. Although the main factors responsible for the shortfall will be clearer when additional data from tax returns and other sources become available, CBO slightly lowered its revenue projections for 2017 and 2018 in response. CBO also revised its estimate of the point at which the government would receive some payments for individual income tax liabilities incurred in calendar years 2016 and 2017. The most significant adjustment to the timing of tax payments arises because some taxpayers appear to have deferred realizing their capital gains from late in calendar year 2016 until calendar year 2017 or 2018, anticipating legislation to lower tax rates on those gains. As a result, CBO reduced its projections of revenues in fiscal year 2017 but increased them by a corresponding amount in 2018 (slightly more than offsetting the reduction in taxes that arises from other factors, such as new data on tax collections) and, to a smaller extent, in 2019.

All told, for technical reasons, CBO lowered its projections of revenues from individual income taxes over the 2017–2026 period by $177 billion (or about 1 percent). The most significant reason is a downward revision to the share of total wages and salaries received by high earners. Data for recent years show smaller-than-expected increases in the share of wages and salaries received by high earners. In response, CBO made a downward revision to projected increases in that share over the next decade. That change reduced CBO's projections of individual income tax revenues because people with lower income are subject to lower income tax rates. Increases in projected revenues from capital gains taxes offset part of that reduction. Reflecting the fact that capital gains realizations in 2014 and 2015 were higher than CBO expected, the agency raised its projection of revenues from capital gains over the 2017–2026 period.[4]

Technical reasons also led CBO to lower its projection of corporate income tax revenues by $85 billion (or about 2 percent) for the 2017– 2026 period. The change largely reflects a slight reduction in the projected average tax rate on corporate profits, based on historical data from the NIPAs and on information from corporate income tax returns about the corporate tax base as a share of domestic economic profits. It also reflects CBO's expectation that the recent declines in corporate tax collections that are not explained by currently available data on profits will take several years to fully dissipate.

In addition, for technical reasons, CBO lowered its projection of revenues from smaller sources by $77 billion, on net, over the 2017–2026 period. Most of that change reflects lower penalties that would be collected from employers that do not offer health insurance to their employees. The change in those collections stems from CBO's higher projections of enrollment in employment-based coverage.

CBO boosted its projection of revenues from one main source—payroll taxes—for technical reasons. With a smaller share of wages and salaries received by high earners, a larger share will be received by people whose annual earnings are below the maximum amount subject to Social Security payroll taxes (currently $127,200). The positive effect on payroll taxes is about half as large as the resulting negative effect on individual income taxes. The increase projected for payroll taxes was reduced somewhat because new information from tax returns showed a smaller amount of total wages covered by the payroll tax system than CBO previously expected. Overall, CBO raised its projections of payroll taxes for technical reasons by $39 billion over the 2017–2026 period.

Changes in Outlays

Largely because of technical updates to spending estimates for various mandatory programs and to estimates for certain offsetting receipts, CBO lowered 2017 outlays in the baseline by $66 billion. For the 2017–2026 period, the projection of outlays was lowered by $433 billion (or 1 percent), mostly because of changes to estimates of mandatory outlays.

Mandatory Spending. Technical revisions have reduced the amount of mandatory spending estimated for the current year by $55 billion (or 2 percent). For the 2017–2026 period, technical updates decreased the total projection for mandatory spending by $337 billion (or 1 percent).

Social Security. CBO has reduced its projection of outlays for Social Security over the 2017–2026 period by $87 billion (or 1 percent). Two-thirds of that reduction is in Old-Age and Survivors Insurance (OASI); the other third is in Disability Insurance (DI). The largest change CBO made to its estimate of OASI spending stemmed from updated population projections, which reduced by 0.4 percent the number of eligible beneficiaries. The largest change in DI outlays resulted from a reduction in caseloads of about 2 percent (recent data have shown smaller caseloads than previously projected).

Medicare. Technical revisions caused CBO to decrease its projection of Medicare outlays by $82 billion (or 1 percent) for the 2017–2026 period, mostly because spending for Medicare last year was less than CBO had anticipated in its August baseline. The main factors responsible for the shortfall will be clearer when more detailed data about the program's spending become available. Meanwhile, in response, CBO has made slight downward revisions to its projection of spending over the next decade.

Medicaid. CBO's 10-year projection of spending for Medicaid is $63 billion (or 1 percent) lower than the agency estimated in August. That change arises largely from a reduction in CBO's projection of enrollment in the Supplemental Security Income program (whose recipients automatically receive Medicaid benefits), based on recent data showing smaller caseloads than previously projected. In addition, information from the Centers for Medicare & Medicaid Services led CBO to allocate more managed care spending to long-term services and supports and somewhat less to acute care services. Because CBO anticipates that spending will rise more slowly for long-term services and supports than for acute care services, that change reduced spending projections overall.

4. Higher tax rates on capital gains took effect in 2013, and it is likely that many taxpayers shifted a portion of those gains from 2013 to 2012 in anticipation of that change. In calendar years 2014 and 2015—the first two after the rate changes—the amount of gains realized would have been unaffected by significant shifting of gains in anticipation of the rate change.

Earned Income and Child Tax Credits. CBO has decreased its combined projection of outlays for these refundable tax credits by $47 billion over the 2017–2026 period. (Projected outlays for the earned income tax credit are down by $36 billion, and those for the child tax credit are lower by $11 billion.) CBO now projects that lower earners will receive a larger share of total wages and salaries than it did in August, which will tend to reduce eligibility for the refundable credits.

Deposit Insurance. Net outlays for deposit insurance are projected to be $38 billion higher over the 2017–2026 period than CBO reported in its August 2016 baseline. Most of that change ($31 billion) stems from a reduction in CBO's estimate of the amount of insurance premiums collected for the Deposit Insurance Fund, which is administered by the Federal Deposit Insurance Corporation (FDIC). The change better reflects assessments levied by the FDIC over the past several years, and it accounts for new FDIC regulations. The remaining $7 billion is primarily attributable to reduced interest earnings on the Deposit Insurance Fund because of a lower projected balance and because of other small changes in the estimates for programs administered by the FDIC and the National Credit Union Administration.

Pension Benefit Guaranty Corporation. CBO's 10-year projections of net outlays for that agency are $24 billion lower than it projected in the previous baseline. (Net outlays are negative because collections from premiums and other sources exceed gross outlays, which are primarily for benefit payments. CBO's new projections are more negative than the previous ones.) The largest source of the decrease in net outlays was an increase in projected receipts from variable-rate premiums paid by underfunded single-employer pension plans, reflecting newly available data on premiums for the first part of fiscal year 2017. The updated baseline also includes the effects of an increase in projected interest receipts, which are intragovernmental transfers that do not affect the deficit.

Fannie Mae and Freddie Mac. For 2017, CBO's updated baseline reports a $17 billion reduction in net outlays associated with Fannie Mae and Freddie Mac, two institutions that facilitate the flow of funding for home loans nationwide. In CBO's baseline, the budgetary treatment of those entities in the current fiscal year is different from that in the later years of the projection period: For the current year, the baseline includes an estimate of the net cash payments from those entities to the Treasury, following the treatment in the Administration's budget reports. For later years, the baseline includes risk-adjusted projections of subsidy costs.[5] CBO estimates that the net payments from Fannie Mae and Freddie Mac will total $15 billion in 2017 (on the basis of their most recent quarterly financial releases); those payments are recorded in the budget as offsetting receipts (reductions in outlays). By comparison, CBO's August baseline showed an estimated subsidy cost—that is, additional outlays—of about $3 billion for their activities in 2017. All told, that conceptual difference reduces 2017 outlays in the baseline by $17 billion.

For the 2018–2026 period, CBO now estimates that those subsidy costs will total $14 billion—about $4 billion more than it projected in August. CBO expects that Fannie Mae and Freddie Mac will guarantee fewer mortgages over the next decade but that those mortgages will have higher associated fair-value costs.

In total, CBO's projection of net outlays for Fannie Mae and Freddie Mac is $13 billion lower for the 2017–2026 period than its August projection.

Other Mandatory Programs. Technical updates concerning other mandatory programs led CBO to lower its outlay projections by $23 billion for 2017 and by $58 billion for the 10-year period.

The largest changes for 2017 include a $7 billion reduction in estimated outlays for agriculture programs and a $3 billion reduction in subsidies for health insurance purchased through the marketplaces established under the Affordable Care Act. The net effect of smaller adjustments in other programs further reduced CBO's estimate of 2017 outlays by about $13 billion.

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

For the 2017–2026 period, the largest technical change was an $18 billion increase in projected receipts from contributions by federal agencies toward their employees' retirement (shown as a reduction in outlays). Those projections were updated to account for new information on the average retirement benefit received by new retirees in 2016 and for revised projections from the Office of Personnel Management of the number and characteristics of future retirees.

In addition, CBO and the staff of the Joint Committee on Taxation reduced by $16 billion their 10-year projections of outlays associated with the health insurance marketplaces. The largest component of that change was a reduction of $15 billion in outlays for the risk adjustment program, which transfers funds from health insurance plans that attract a relatively small proportion of high-risk enrollees (people with serious chronic conditions, for example) to plans that attract a relatively large proportion of such people in both the nongroup and the small-group insurance markets. CBO lowered its estimate because actual spending in 2016 was less than the amount that it had previously anticipated. (CBO also made a corresponding reduction to its projection of revenues from the risk adjustment program. Collections and payments for risk adjustment ultimately offset each other, but because of differences in the timing of collections and payments, slight discrepancies between the two will occur in any given period.) Most of the remaining $1 billion reduction is the net effect of changes associated with subsidies for health insurance obtained through the marketplaces established under the Affordable Care Act. Those changes include a decrease in projected spending resulting from a lower projection of subsidized enrollment through the marketplaces, partially offset by an increase in spending arising from an increase in estimated premiums for such insurance.

Lower projections of spending related to crop insurance ($13 billion) and the National Flood Insurance Program ($10 billion) also contributed to the overall reduction in CBO's 10-year spending projections.

Discretionary Spending. As a result of technical updates, CBO's estimates of discretionary outlays for 2017 are $6 billion lower than those in the August baseline; projected outlays for the 2017–2026 period are $34 billion (or 0.1 percent) lower. The largest changes over the 10-year period arise from downward adjustments to spending for certain military activities of the Department of Defense (mostly in the areas of operation and maintenance and procurement, to bring projections more in line with historical spending patterns) and from lower projected outlays for medical services provided by the Department of Veterans Affairs (largely because of recent trends of slower spending).

Net Interest. Technical changes led CBO to decrease its projections of net interest outlays by $6 billion for 2017 and by $62 billion for the 2017–2026 period. The longer-term decrease is mainly attributable to an increase in projected interest payments from the financing accounts associated with federal credit programs. CBO has increased its estimate of the balances held by those accounts—mostly as a result of higher-than-expected disbursements of student loans. After reviewing recent patterns of such payments, CBO also increased the average interest rate that it projects will be paid to the Treasury from those financing accounts.

CBO raised its projection of debt service costs by $9 billion for the 2017–2026 period. That effect stems largely from the additional debt that would be required to finance the increased activity in the federal credit programs, partially offset by the projected reduction in the cumulative deficit stemming from technical changes in other areas of the budget.