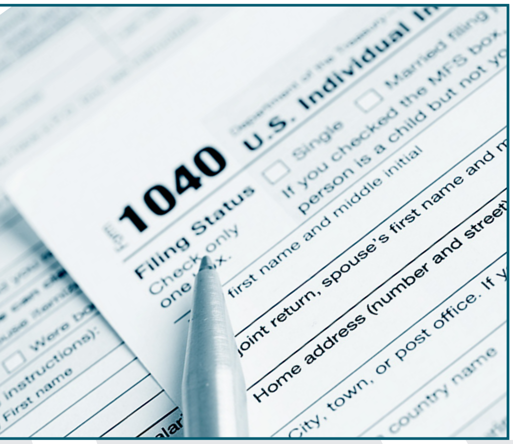
Congressional Budget Office
Nonpartisan Analysis for the U.S. Congress

Options for Reducing the Deficit: 2025 to 2034



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Notes About This Report

The estimates for the options in this report were completed in October 2024. They may differ from previous or subsequent cost estimates for legislative proposals that resemble the options presented here.

Unless this report indicates otherwise, all years referred to regarding budgetary spending and revenues are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end.

Some of the tables in this report give values for two related concepts: budget authority and outlays. Budget authority is the authority provided by federal law to incur financial obligations that will result in immediate or future outlays of federal government funds. Outlays generally represent the issuance of checks, disbursement of cash, or electronic transfer of funds made to liquidate an obligation.

The numbers in the text and tables are in nominal (current-year) dollars unless otherwise indicated. Those numbers may not add up to totals because of rounding. In the tables, for changes in outlays, revenues, and the deficit, negative numbers indicate decreases, and positive numbers indicate increases. Thus, negative numbers for outlays and positive numbers for revenues reduce the deficit, and positive numbers for outlays and negative numbers for revenues increase it.

Certain changes in tax provisions would reduce outlays for refundable tax credits; those effects are incorporated in the estimates.

The budgetary effects of spending options are generally calculated relative to the 10-year spending projections in Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2024 to 2034* (June 2024), www.cbo.gov/publication/60039. The budgetary effects of revenue options are generally calculated relative to the 10-year revenue projections in Congressional Budget Office, *The Budget and Economic Outlook: 2024 to 2034* (February 2024), www.cbo.gov/publication/59710. Consistent with CBO's regular practice, spending and revenue projections are updated to reflect legislation as it is enacted.

CBO's website includes a search tool that allows users to filter options by savings amount, major budget category, budget function, topic, and date (www.cbo.gov/budget-options). The tool includes all the options that appear in this report. It also includes options that were analyzed in the past and were not updated for this report but that remain informative. In addition, the website includes previous editions of this report (https://tinyurl.com/36nn4f7w).

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Chapter 1: Introduction

The Congress faces an array of policy choices as it confronts large federal deficits and rising federal debt. In June 2024, under the assumption that current laws governing taxes and spending generally would not change, the Congressional Budget Office projected that the federal deficit would average $1.9 trillion per year between 2025 and 2034, or 5.4 percent of gross domestic product (GDP) over that period.[1] In comparison, over the past 50 years, the annual deficit averaged 3.7 percent of GDP.

CBO also projected that federal debt held by the public would rise to 122 percent of GDP at the end of 2034. Debt would continue to increase thereafter, reaching 166 percent of GDP in 2054.[2] Debt that is high and rising as a percentage of GDP could slow economic growth; raise interest payments to foreign holders of U.S. debt; heighten the risk of a fiscal crisis; elevate the likelihood of other, less abrupt adverse effects; make the U.S. fiscal position more vulnerable to an increase in interest rates; and cause lawmakers to feel more constrained in their policy choices.

To put the federal budget on a sustainable long-term path, lawmakers would need to make significant policy changes—taking actions to cause revenues to rise more than they would under current law, reducing spending for large benefit programs to amounts below those currently projected, or adopting some combination of those approaches. To help inform lawmakers as they address budgetary challenges, CBO periodically issues a compendium of policy options and their effects on the federal budget.

This report presents 76 options for altering spending or revenues to reduce federal budget deficits over the next decade. The appendix of this report presents the long-term and distributional effects of the 5 options that have significant direct effects on Social Security spending or revenues. The 2022 edition of this report includes a qualitative description of the distributional and economic effects of options that were projected to have the largest budgetary savings at that time.[3] Links to those extended discussions are provided for relevant options in this report.

The options in this report come from various sources. Some originated in proposed legislation or budget proposals of various Administrations; others come from Congressional offices, federal agencies, or the private sector. As a collection, the options are intended to reflect a range of possibilities, not a ranking of priorities or an exhaustive list. Inclusion or exclusion of any particular option does not imply approval or disapproval by CBO, and the report makes no recommendations.

The options cover many areas in the federal budget (see Table 1-1). The budgetary effects identified for the options span the 10 years from 2025 to 2034 (the period covered by the baseline budget projections CBO produced in June 2024). This report presents options in the following categories:

- **Mandatory outlays** (or direct spending), which includes outlays for some federal benefit programs and for certain other payments to people, businesses, and state and local governments. Such outlays are generally governed by statutory criteria and are not normally constrained by the annual appropriation process.
- **Discretionary outlays** are controlled by appropriation acts in which policymakers specify how much money will be provided for certain government programs and activities in specific years.
- **Revenues**, the majority of which are generated from individual income and payroll taxes.[4]

1. Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2024 to 2034* (June 2024), www.cbo.gov/publication/60039.

2. For CBO's most recent long-term projections of federal debt, see Congressional Budget Office, *The Long-Term Budget Outlook: 2024 to 2054* (March 2024), www.cbo.gov/publication/59711.

3. Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions* (December 2022), www.cbo.gov/publication/58164.

4. For an extended discussion of these categories and an explanation of common budgetary terms, see Congressional Budget Office, *Common Budgetary Terms Explained* (December 2021), www.cbo.gov/publication/57420.

Table 1-1.

Projected Savings From Options for Reducing the Deficit

Billions of dollars

Option	Title	Savings, 2025–2034[a]
	Mandatory Spending	
1	Reduce Subsidies in the Crop Insurance Program	47
2	Raise Fannie Mae's and Freddie Mac's Guarantee Fees and Decrease Their Eligible Loan Limits	7 to 15
3	Eliminate the Add-On to Pell Grants, Which Is Funded With Mandatory Spending	44[b]
4	Establish Caps on Federal Spending for Medicaid	459 to 893
5	Limit State Taxes on Health Care Providers	48 to 612
6	Reduce Federal Medicaid Matching Rates	69 to 561
7	Increase the Premiums Paid for Medicare Part B	510
8	Reduce Medicare Advantage Benchmarks	489
9	Adopt a Voucher Plan and Slow the Growth of Federal Contributions for Federal Employees' Health Benefits	14 to 16[b]
10	Introduce Enrollment Fees in TRICARE for Life	17
11	Introduce Minimum Out-of-Pocket Requirements in TRICARE for Life	32
12	Change the Cost-Sharing Rules for Medicare and Restrict Medigap Insurance	20 to 129
13	Reduce Medicare's Coverage of Bad Debt	17 to 54
14	Consolidate and Reduce Medicare Payments for Graduate Medical Education at Teaching Hospitals	94 to 103
15	Modify Payments to Medicare Advantage Plans for Health Risk	124 to 1,049
16	Reduce Payments for Hospital Outpatient Departments	6 to 157
17	Reduce Payments for Drugs Delivered by 340B Hospitals	15 to 74
18	Eliminate Subsidies for Certain Meals in the National School Lunch, School Breakfast, and Child and Adult Care Food Programs	14
19	Reduce Social Security Benefits for High Earners	48 to 197
20	Establish a Uniform Social Security Benefit	283 to 607
21	Raise the Full Retirement Age for Social Security	95
22	Require Social Security Disability Insurance Applicants to Have Worked More in Recent Years	60
23	Introduce Means-Testing for Eligibility for VA's Disability Compensation	384
24	End VA's Individual Unemployability Payments to Disabled Veterans at the Full Retirement Age for Social Security	14 to 61
25	Reduce VA's Disability Benefits for Veterans Who Are Older Than the Full Retirement Age for Social Security	34
26	Narrow Eligibility for VA's Disability Compensation by Excluding Veterans With Low Disability Ratings	11 to 59
27	Use an Alternative Measure of Inflation to Index Social Security and Other Mandatory Programs	278
	Discretionary Spending	
28	Reduce the Department of Defense's Annual Budget	959
29	Cap Increases in Basic Pay for Military Service Members	22[b]
30	Replace Some Military Personnel with Civilian Employees	17[b]
31	Stop Building Ford Class Aircraft Carriers	15
32	Cancel the Long-Range Standoff Weapon	15
33	Cancel the Army's Future Long-Range Assault Aircraft	11
34	Reduce the Size of the Bomber Force by Retiring the B-1B	6
35	Reduce the Size of the Fighter Force by Retiring the F-22	29
36	Reduce the Basic Allowance for Housing to 80 Percent of Average Housing Costs	17[b]
37	Reduce Funding for International Affairs Programs	187
38	Eliminate Federal Funding for National Community Service	10
39	Tighten Eligibility for Pell Grants	22[b]
40	End Enrollment in VA Medical Care for Veterans in Priority Groups 7 and 8	60[b]
41	Reduce the Annual Across-the-Board Adjustment for Federal Civilian Employees' Pay	77[b]
42	Reduce Selected Nondefense Discretionary Spending	339
43	Reduce Funding for Certain Grants to State and Local Governments	67
44	Repeal the Davis-Bacon Act	18[b]

Continued

Table 1-1. Continued

Projected Savings From Options for Reducing the Deficit

Billions of dollars

Option	Title	Savings, 2025–2034[a]
	Revenues	
45	Increase Individual Income Tax Rates on Ordinary Income	570 to 1,185
46	Impose a Surtax on Individuals' Adjusted Gross Income	1,051 to 1,440
47	Raise the Tax Rates on Long-Term Capital Gains and Qualified Dividends by 2 Percentage Points	103
48	Eliminate or Modify Head-of-Household Filing Status	76 to 209
49	Eliminate or Limit Itemized Deductions	736 to 3,424
50	Limit the Deduction for Charitable Giving	324 to 348
51	Change the Taxation of Assets Transferred at Death	197 to 536
52	Eliminate the Tax Exemption for New Qualified Private Activity Bonds	43
53	Expand the Base of the Net Investment Income Tax to Include the Income of Active Participants in S Corporations and Limited Partnerships	420
54	Tax Carried Interest as Ordinary Income	13
55	Include VA's Disability Payments in Taxable Income	235
56	Reduce Tax Subsidies for Employment-Based Health Benefits	521 to 965
57	Further Limit Annual Contributions to Retirement Plans	187
58	Eliminate Certain Tax Preferences for Education Expenses	130
59	Lower the Investment Income Limit for the Earned Income Tax Credit and Extend That Limit to the Refundable Portion of the Child Tax Credit	11
60	Require People Who Claim the Earned Income Tax Credit and Child Tax Credit to Have a Social Security Number That is Valid for Employment	28
61	Impose a New Payroll Tax	1,282 to 2,540
62	Increase the Maximum Taxable Earnings That Are Subject to Social Security Payroll Taxes	728 to 1,427
63	Expand Social Security to Include Newly Hired State and Local Government Employees	149
64	Increase the Corporate Income Tax Rate by 1 Percentage Point	136
65	Tax All Foreign Income of U.S. Corporations at the Full Statutory Corporate Rate	340
66	Repeal the "Last In, First Out" Approach to Inventory Identification and the "Lower of Cost or Market" and "Subnormal Goods" Methods of Inventory Valuation	104
67	Require Half of Advertising Expenses to Be Amortized Over 5 or 10 Years	83 to 177
68	Repeal the Low-Income Housing Tax Credit	69
69	Increase Taxes on Alcoholic Beverages	88 to 102
70	Increase Excise Taxes on Tobacco Products	51
71	Increase Excise Taxes on Motor Fuels and Index Them for Inflation	212
72	Impose a 5 Percent Value-Added Tax	2,180 to 3,380
73	Impose a Tax on Emissions of Greenhouse Gases	645 to 919
74	Impose a Tax on Financial Transactions	297
75	Increase Certain Fees Charged by Citizenship and Immigration Services and Customs and Border Protection by 20 Percent	16
76	Increase Federal Civilian Employees' Contributions to the Federal Employees Retirement System	40

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

VA = Department of Veterans Affairs.

a. For options affecting primarily mandatory spending or revenues, savings sometimes would derive from changes in both. When that is the case, the savings shown include effects on both mandatory spending and revenues. For options affecting primarily discretionary spending, the savings shown are the decrease in discretionary outlays.

b. Savings do not encompass all budgetary effects.

The estimates in this report generally reflect changes in the behavior of individuals, businesses, and other entities. By long-standing convention, CBO's cost estimates generally reflect the expectation that the size of the economy remains unchanged.

The estimated budgetary effects of the options do not reflect the extent to which the options would reduce interest payments on federal debt. Those savings may be included as part of a comprehensive budget plan (such as a Congressional budget resolution), but CBO does not generally make such calculations for individual pieces of legislation or for individual options of the type discussed here. For options in this report that would reduce the deficit by large amounts, the interest savings could be significant, especially for options that would generate large savings in the earlier years of the 10-year period.[5] For instance, reducing outlays or increasing revenues in 2025 by $50 billion would reduce interest outlays by approximately $19 billion from 2026 to 2034.

Options that would increase an excise tax (or any other indirect tax imposed at an intermediate stage of production and sale) or employers' contributions for payroll taxes would reduce the amount of income subject to income and payroll taxes. The estimates for options in this report that increase indirect taxes or employers' contributions for payroll taxes include an offset that accounts for that reduction.[6]

Estimates for options could differ from cost estimates for similar proposals that CBO or the staff of the Joint Committee on Taxation (JCT) might produce later for several reasons. First, the proposals on which those estimates would be based might not precisely match the options presented here. Second, the baseline budget projections against which such proposals would be measured might have changed and thus would differ from the projections used for this report. Third, future estimates might reflect more recent data and improvements in estimating methodology. And finally, estimates for legislation directly affecting one program might include indirect effects on other programs that are not encompassed by the estimates in this report.

Many of the options in this report could be used as building blocks for broader changes. In some cases, however, combining various spending or revenue options would produce budgetary effects that would differ from the sums of those estimates as presented here because some options would overlap or interact in ways that would change their budgetary impact. Furthermore, some options are mutually exclusive.

5. For estimates of how changes in revenues and outlays would affect debt service, deficits, and debt under CBO's June 2024 baseline projections, see Congressional Budget Office, "How Changes in Revenues and Outlays Would Affect Debt Service, Deficits, and Debt" (interactive, October 2024), www.cbo.gov/publication/60868.

6. Congressional Budget Office, *CBO's Use of the Income and Payroll Tax Offset in Its Budget Projections and Cost Estimates* (October 2022), www.cbo.gov/publication/58421.

Chapter 2: Mandatory Spending Options

Option 1—Mandatory Spending | Function 350

Reduce Subsidies in the Crop Insurance Program

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in outlays												
Reduce premium subsidies	-1.2	-3.4	-3.4	-3.4	-3.5	-3.5	-3.5	-3.6	-3.6	-3.6	-14.9	-32.7
Limit administrative expenses and the rate of return	-0.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-6.5	-14.0
Total	-1.7	-4.9	-4.9	-4.9	-5.0	-5.0	-5.0	-5.1	-5.1	-5.1	-21.4	-46.7

This option would take effect in June 2025.

The federal crop insurance program protects farmers from losses caused by natural disasters and low market prices. The Department of Agriculture sets premiums for federal crop insurance so that they equal the expected payments to farmers for crop losses. The federal government pays about 60 percent of total premiums, on average, and farmers pay about 40 percent.

Private insurance companies sell and service policies purchased through the program, and the federal government reimburses them for their administrative costs. The Standard Reinsurance Agreement limits those administrative expenses, which are expected to range from $2.4 billion to $2.5 billion per year over the 2025–2034 period, and establishes the terms and conditions under which the federal government provides subsidies and reinsurance on eligible crop insurance contracts, which are sold or reinsured by private insurance companies.

The Congressional Budget Office estimates that between crop years 2013 and 2023, the rate of return fluctuated between 14.4 percent and 34.0 percent; it was 14.5 percent for crop year 2023.

This option would reduce the federal share of total crop insurance premiums to 40 percent, on average. It would also limit the reimbursement rate for crop insurance companies' administrative expenses and the targeted rate of return on investment for those firms. Reimbursement for administrative expenses would be limited to an average of 9.25 percent of estimated premiums, or roughly $1.5 billion each year from 2026 through 2034. (Currently, reimbursement rates depend on the type of policy, and the rates for all but the lowest level of insurance exceed 9.25 percent.) The rate of return on investment for crop insurance companies would be targeted at 12 percent.

Related CBO Publication: *Options to Reduce the Budgetary Costs of the Federal Crop Insurance Program* (December 2017), www.cbo.gov/publication/53375

Option 2—Mandatory Spending **Function 370**

Raise Fannie Mae's and Freddie Mac's Guarantee Fees and Decrease Their Eligible Loan Limits

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in outlays[a]												
Increase guarantee fees	0	0	0	0	0	0	0	0	-3.3	-3.4	0	-6.7
Decrease loan limits	0	0	-0.1	-0.3	-0.6	-0.8	-1.1	-1.4	-2.8	-3.3	-1.0	-10.4
Implement both alternatives[b]	0	0	-0.1	-0.3	-0.6	-0.8	-1.1	-1.4	-5.0	-5.4	-1.0	-14.7

This option would take effect in January 2025.

a. Excludes the potential effects on spending by the Federal Housing Administration and Ginnie Mae. Spending by those agencies is governed by annual appropriation acts and thus is classified as discretionary, whereas spending by Fannie Mae and Freddie Mac is not determined by appropriation acts and thus is classified by the Congressional Budget Office as mandatory.

b. Because of interactions between the alternatives, if both alternatives were enacted, the total effects in 2033 and 2034 would be less than the sum of the effects for each alternative.

Fannie Mae and Freddie Mac are government-sponsored enterprises (GSEs) that were federally chartered to help ensure a stable supply of financing for residential mortgages. The GSEs carry out that mission in the secondary mortgage market (the market for buying and selling mortgages after they have been issued): They buy mortgages from lenders and pool those mortgages to create mortgage-backed securities (MBSs), which they sell to investors and guarantee (for a fee) against losses from defaults. Under current law, in calendar year 2024 Fannie Mae and Freddie Mac generally can purchase mortgages of up to $1,149,825 in areas with high housing costs and $766,550 in other areas; regulators can alter those limits if house prices change, and those limits will be higher in 2025. The Temporary Payroll Tax Cut Continuation Act (TCCA) of 2011 implemented an additional fee of 10 basis points per year, remitted to the Treasury. (A basis point is equivalent to 0.01 percentage point.) The act is scheduled to expire in 2032.

In September 2008, the federal government took Fannie Mae and Freddie Mac into conservatorship. As a result, the Congressional Budget Office concluded, the institutions effectively became governmental entities whose operations should be reflected in the federal budget. By contrast, the Administration considers the GSEs to be nongovernmental entities. CBO projects that under current law, the mortgage guarantees issued by the GSEs will have a budgetary cost—that is, the cost of the guarantees is expected to exceed the fees received by the GSEs.

This option consists of two alternatives. The first alternative would extend the TCCA fee by two years. Doing so would keep the average guarantee fee at about 58 basis points, its level in 2025, CBO projects. It would result in additional income for the government and lower subsidy costs. Under the second alternative, the size of the mortgages that Fannie Mae and Freddie Mac could include in their MBSs would be reduced. Beginning in 2027, the higher limit in high-cost areas would be eliminated, and maximum mortgage in all areas would be set at $691,800, 10 percent less than the current maximum in other areas. That maximum would be reduced by 5 percent per year until 2034, resulting in lower subsidy costs over the 10-year projection period. The delay in phasing in the lower limits would give the mortgage market time to adjust.

Related CBO Publications: *Fannie Mae and Freddie Mac's Housing Goals* (November 2024), www.cbo.gov/publication/60190; *Effects of Recapitalizing Fannie Mae and Freddie Mac Through Administrative Actions* (August 2020), www.cbo.gov/publication/56496; *Accounting for Fannie Mae and Freddie Mac in the Federal Budget* (September 2018), www.cbo.gov/publication/54475; *Transitioning to Alternative Structures for Housing Finance: An Update* (August 2018), www.cbo.gov/publication/54218; *Modeling the Subsidy Rate for Federal Single-Family Mortgage Insurance Programs* (January 2018), www.cbo.gov/publication/53402; *Transferring Credit Risk on Mortgages Guaranteed by Fannie Mae or Freddie Mac* (December 2017), www.cbo.gov/publication/53380; *The Effects of Increasing Fannie Mae's and Freddie Mac's Capital* (October 2016), www.cbo.gov/publication/52089; *The Federal Role in the Financing of Multifamily Rental Properties* (December 2015), www.cbo.gov/publication/51006

Option 3—Mandatory Spending **Function 500**

Eliminate the Add-On to Pell Grants, Which Is Funded With Mandatory Spending

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in mandatory outlays	0	-1.4	-5.2	-5.3	-5.3	-5.4	-5.4	-5.4	-5.5	-5.5	-17.2	-44.4
Change in discretionary spending												
Budget authority	0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4	-0.9
Outlays	0	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-0.8

This option would take effect in July 2025.

* = between -$50 million and zero.

The Federal Pell Grant Program is the largest source of federal grant aid to low-income students for undergraduate education. Eligibility for Pell grants is chiefly determined by an individual's student aid index. That amount, calculated using a formula established under federal law and information that the student provides in their Free Application for Federal Student Aid (FAFSA), measures a family's ability to contribute to the cost of the student's postsecondary education.

Funding for the Pell grant program has both discretionary and mandatory components. The maximum award funded by the discretionary component is set in each fiscal year's appropriation act. There are two mandatory components. One component, funded by the Higher Education Act, is dedicated to supporting the discretionary program. The other mandatory component is known as add-on funding, which under current law increases the maximum award by $1,060.

This option would eliminate the mandatory add-on component of Pell grant funding. The reduction in discretionary outlays is caused by a small overall decline in postsecondary enrollment and in the number of Pell grant recipients, which is attributable to the lower award amount.

Related Options: Option 39, "Tighten Eligibility for Pell Grants" (page 48); Option 58, "Eliminate Certain Tax Preferences for Education Expenses" (page 69)

Related CBO Publications: *Student Loan Repayment, 2009 to 2019* (September 2024), www.cbo.gov/publication/58963; *The Volume and Repayment of Federal Student Loans: 1995 to 2017* (November 2020), www.cbo.gov/publication/56706; *Federal Aid for Postsecondary Students* (June 2018), www.cbo.gov/publication/53736; *Distribution of Federal Support for Students Pursuing Higher Education in 2016* (June 2018), www.cbo.gov/publication/53732

Option 4—Mandatory Spending **Function 550**

Establish Caps on Federal Spending for Medicaid

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Caps on overall spending												
Apply caps to all eligibility categories, with growth of caps based on the CPI-U												
Change in outlays	0	-2	-3	-43	-63	-83	-103	-127	-155	-182	-111	-761
Change in revenues[a]	0	*	*	-1	-2	-2	-3	-3	-4	-4	-3	-19
Decrease (-) in the deficit	0	-2	-3	-42	-61	-81	-100	-124	-151	-178	-108	-742
Apply caps to all eligibility categories, with growth of caps based on the CPI-U plus 1 percentage point												
Change in outlays	0	-2	-3	-23	-36	-49	-63	-79	-100	-119	-64	-474
Change in revenues[a]	0	*	*	-1	-1	-2	-2	-3	-3	-3	-2	-15
Decrease (-) in the deficit	0	-2	-3	-22	-35	-47	-61	-76	-97	-116	-62	-459
Caps on spending per enrollee												
Apply caps to all eligibility categories, with growth of caps based on the CPI-U												
Change in outlays	0	-2	-3	-64	-84	-105	-126	-149	-174	-200	-153	-907
Change in revenues[a]	0	*	*	-1	-1	-2	-2	-2	-3	-3	-2	-14
Decrease (-) in the deficit	0	-2	-3	-63	-83	-103	-124	-147	-171	-197	-151	-893
Apply caps to all eligibility categories, with growth of caps based on the CPI-U plus 1 percentage point												
Change in outlays	0	-2	-3	-41	-55	-69	-83	-98	-115	-133	-101	-599
Change in revenues[a]	0	*	*	-1	-1	-1	-2	-2	-2	-2	-2	-11
Decrease (-) in the deficit	0	-2	-3	-40	-54	-68	-81	-96	-113	-131	-99	-588

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

This option would be enacted in 2025 and would take effect in October 2027. A reduction in the deficit would occur in 2026 and 2027 because CBO expects that states that would have opted to expand Medicaid coverage in those years would choose not to do so in anticipation of the caps' taking effect in 2027.

CPI-U = consumer price index for all urban consumers; * = between -$500 million and zero.

a. Estimates include the effects on Social Security payroll tax receipts, which are classified as off-budget.

Medicaid is a joint federal-state program that covers acute and long-term health care for groups of people with low income, chiefly families with dependent children, elderly people (those 65 or older), nonelderly people with disabilities, and—at the discretion of individual states—other nonelderly adults whose family income is up to 138 percent of the federal poverty guidelines. State governments contribute to the financing and administration of Medicaid, but the federal government provides the majority of Medicaid's funding. Under current law, almost all federal funding is open-ended: If a state spends more because enrollment increases or costs per enrollee rise, larger federal payments are generated automatically. In 2023, the states received a total of $614 billion in federal funding and contributed $280 billion in state funds. The Congressional Budget Office expects that, under current law, federal spending for Medicaid will increase faster than overall inflation because of several factors, including increases in health care prices that exceed the rate of overall inflation, enrollment growth, and changes in utilization and technology.

This option consists of two alternatives that would limit federal Medicaid spending: The first would establish overall spending caps, and the second would establish per-enrollee caps. Both alternatives would limit federal spending for all medical services for all eligibility groups but would not affect states' current authority concerning optional benefits, optional enrollees, and payment rates for providers and health care plans. To illustrate a range of savings, CBO used two growth factors for updating each type of cap over time: the annual change in the consumer price index for all urban consumers (CPI-U) and the change in the CPI-U plus 1 percentage point.

The first alternative would set an annual maximum amount of funding that the federal government would provide to each state to operate Medicaid. That amount would be based on spending on medical services in 2024 inflated by the growth factor. The second alternative would set an annual upper limit on federal payments per Medicaid enrollee. Under this alternative, each state's total federal funding would be limited to the product of the number of enrollees and the capped per-enrollee spending amount, which would vary for the different Medicaid eligibility groups in each state. Unlike an overall spending cap, the upper limit on federal spending would depend on the number of enrollees in each eligibility category.

The effects of this option on the deficit stem from lower federal costs per enrollee and changes in Medicaid enrollment, subsidized coverage in the nongroup market, and employment-based coverage. In response to lower federal payments for Medicaid, CBO expects states would reduce the size of their Medicaid programs by lowering payment rates to providers, cutting some optional services, and reducing enrollment. About half of people who would no longer enroll in Medicaid would instead obtain other federally subsidized health insurance through an employer or the health insurance marketplaces established by the Affordable Care Act, which would lead to both an increase in outlays and a decrease in revenues.

Extended Discussion of This Option in 2022: "Establish Caps on Federal Spending for Medicaid," www.cbo.gov/budget-options/58622

Related Option: Option 6, "Reduce Federal Medicaid Matching Rates" (page 11)

Related CBO Publication: *Preliminary Analysis of Legislation That Would Replace Subsidies for Health Care With Block Grants* (September 2017), www.cbo.gov/publication/53126

Option 5—Mandatory Spending Function 550

Limit State Taxes on Health Care Providers

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Lower the tax threshold to 5 percent												
Change in outlays	0	-2	-3	-4	-5	-6	-6	-7	-7	-8	-14	-48
Change in revenues[a]	0	*	*	*	*	*	*	*	*	*	*	*
Decrease (-) in the deficit	0	-2	-3	-4	-5	-6	-6	-7	-7	-8	-14	-48
Lower the tax threshold to 2.5 percent												
Change in outlays	0	-13	-16	-20	-24	-29	-32	-35	-38	-41	-73	-248
Change in revenues[a]	0	*	*	-1	-1	-1	-1	-1	-1	-1	-2	-7
Decrease (-) in the deficit	0	-13	-16	-19	-23	-28	-31	-34	-37	-40	-71	-241
Eliminate the tax threshold												
Change in outlays	0	-33	-41	-51	-62	-74	-81	-88	-96	-104	-187	-630
Change in revenues[a]	0	-1	-1	-1	-2	-2	-2	-3	-3	-3	-5	-18
Decrease (-) in the deficit	0	-32	-40	-50	-60	-72	-79	-85	-93	-101	-182	-612

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

This option would take effect in October 2025.

* = between -$500 million and zero.

a. Estimates include the effects on Social Security payroll tax receipts, which are classified as off-budget.

Medicaid is a joint federal-state program that covers acute and long-term health care for groups of people with low income, chiefly families with dependent children, elderly people (those 65 or older), nonelderly people with disabilities, and—at the discretion of individual states—other nonelderly adults whose family income is up to 138 percent of the federal poverty guidelines. The federal and state governments share in the cost of the program. The federal government reimburses about 63 percent of states' costs, on average, with the rest of the funding coming from the states' general funds or from other state sources. Most states finance a portion of their Medicaid spending through taxes collected from health care providers.

Until 1993, some states had "hold-harmless" arrangements with providers, wherein they taxed providers who received a large amount of Medicaid payments at higher rates than they taxed other providers of the same type (hospitals, for example). The collected taxes were returned to those providers in the form of higher Medicaid payments, thereby leaving them at least no worse off (that is, held harmless). Such arrangements led to large increases in federal Medicaid outlays.

In response, federal lawmakers began to require states that taxed health care providers to collect those taxes at uniform rates from all providers of the same type, regardless of the number of Medicaid patients served. In addition, states generally were no longer allowed to establish hold-harmless arrangements. However, federal law provided for a "safe harbor" exception that allows a state to use hold-harmless arrangements when the taxes it collects do not exceed 6 percent of a provider's net revenues from treating patients.

This option consists of three alternatives. Under the first alternative, the tax threshold for using hold-harmless arrangements would be lowered to 5 percent. Under the second alternative, the threshold would be lowered to 2.5 percent. Under the third alternative, the threshold would be eliminated; that is, states would no longer be allowed to collect revenues under hold-harmless arrangements.

For each alternative, the Congressional Budget Office expects that federal spending would decline because states would reduce some of their Medicaid spending in response to decreases in their collection of taxes paid by providers. Some people would no longer enroll in Medicaid and would instead obtain other federally subsidized health insurance through an employer or the health insurance marketplaces established by the Affordable Care Act, which would lead to both an increase in outlays and a decrease in revenues.

Extended Discussion of This Option in 2022: "Limit State Taxes on Health Care Providers," www.cbo.gov/budget-options/58623

Option 6—Mandatory Spending **Function 550**

Reduce Federal Medicaid Matching Rates

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Use the same matching rate for all categories of administrative services												
Change in outlays	0	-6	-7	-7	-7	-8	-8	-8	-9	-9	-27	-69
Remove the FMAP floor												
Change in outlays	0	-48	-50	-53	-56	-59	-61	-64	-68	-71	-207	-530
Reduce the matching rate for enrollees made eligible by the ACA												
Change in outlays	0	-44	-48	-54	-62	-67	-72	-77	-83	-89	-208	-596
Change in revenues[a]	0	-1	-2	-3	-4	-4	-5	-5	-5	-6	-10	-35
Decrease (-) in the deficit	0	-43	-46	-51	-58	-63	-67	-72	-78	-83	-198	-561

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

This option would take effect in October 2025.

ACA = Affordable Care Act; FMAP = federal medical assistance percentage.

a. Estimates include the effects on Social Security payroll tax receipts, which are classified as off-budget.

Medicaid is a joint federal-state program that covers acute and long-term health care for groups of people with low income, chiefly families with dependent children, elderly people (those 65 or older), nonelderly people with disabilities, and—at the discretion of individual states—other nonelderly adults whose family income is up to 138 percent of the federal poverty guidelines. The federal and state governments share in the costs of the program; the federal government's share varies by type of cost (that is, costs for medical services or administrative expenses), by state, and by eligibility category.

For medical services used by Medicaid enrollees who were not made eligible by the Affordable Care Act (ACA), the share of Medicaid costs paid by the federal government is specified by the federal medical assistance percentage (FMAP) rate, which varies by state. The FMAP rate is determined by a formula that provides a higher rate of federal reimbursement for states with lower per capita income relative to the national average and relative to states with higher pre-capita income. By law, a state's FMAP rate can be no less than 50 percent and no more than 83 percent. (For medical services provided to enrollees made eligible by the ACA, the federal share of Medicaid costs is fixed at 90 percent and does not vary by state.)

By contrast, the federal government's share of administrative expenses does not vary by state. Instead, it varies by the type of cost; those costs are specified by statute. The federal government's share of general administrative expenses is 50 percent; however, for 25 specified categories of administrative costs, the federal share ranges from about 70 percent to 100 percent.

This option consists of three alternatives. Under the first alternative, the federal government's share for all categories of administrative spending would be 50 percent. Under the second alternative, the 50 percent floor on the FMAP rate that applies to medical services for enrollees not made eligible by the ACA would be removed. Under the third alternative, the federal share of medical expenditures for enrollees made eligible by the ACA would be reduced by applying the same FMAP formula that is used for all other enrollees.

The effects of this option on the deficit stem from lower federal costs per enrollee and changes in Medicaid enrollment, subsidized coverage in the nongroup market, and employment-based coverage. The Congressional Buddget Office anticipates that in response to the reduced matching rates for enrollees made eligible by the ACA under the third alternative, some states would discontinue coverage for that category of enrollees, and all states that would have adopted such coverage in the future would no longer choose to do so. As a result, some people would no longer enroll in Medicaid and would instead obtain other federally subsidized health insurance through an employer or the health insurance marketplaces established by the ACA, which would lead to both an increase in outlays and a decrease in revenues.

Extended Discussion of This Option in 2022: "Reduce Federal Medicaid Matching Rates," www.cbo.gov/budget-options/58624

Related Option: Option 4, "Establish Caps on Federal Spending for Medicaid" (page 8)

Option 7—Mandatory Spending **Function 570**

Increase the Premiums Paid for Medicare Part B

											Total	
Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2025–2029	2025–2034
Decrease (-) in the deficit	0	-10	-21	-34	-49	-67	-72	-78	-86	-93	-114	-510

This option would take effect in January 2026.

Medicare is a federal health insurance program for people age 65 or older and for younger people with long-term disabilities or end-stage renal disease. Part B of Medicare covers physicians' and other outpatient services, and everyone who chooses to enroll in Medicare Part B is charged a basic premium. That premium is set to cover about 25 percent of expected costs for Part B benefits per enrollee age 65 or older. In calendar year 2025, it is scheduled to be $185 per month. Enrollees with low incomes and few assets can receive subsidies through Medicaid to cover their Part B premium.

This option would increase the basic premium to cover 35 percent of expected costs for Part B benefits. Beginning in calendar year 2026, the basic premium (as a share of expected costs) would increase by 2 percentage points each year until it covered 35 percent of expected costs in 2030, and then it would remain at that percentage.

This option would lead to increased Medicaid spending because the premiums of some Part B enrollees are paid for by that program.

Extended Discussion of This Option in 2022: "Increase the Premiums Paid for Medicare Part B," www.cbo.gov/budget-options/58625

Option 8—Mandatory Spending **Function 570**

Reduce Medicare Advantage Benchmarks

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in outlays	0	0	-18	-50	-52	-61	-66	-72	-85	-85	-120	-489

This option would take effect in January 2027.

The Medicare Advantage program allows Medicare beneficiaries—people age 65 or older and younger people with long-term disabilities or end-stage renal disease—to enroll in private plans for their Medicare coverage (a Medicare Advantage plan) instead of the publicly administered Medicare fee-for-service (FFS) program. About 31 million Medicare beneficiaries (or 52 percent of beneficiaries) were enrolled in a Medicare Advantage plan in 2023. The federal government pays a fixed amount for each beneficiary to insurers offering those plans, and the insurers bear the cost of any health care expenses incurred by the beneficiary for services covered by the plan.

Insurers submit bids indicating the amount they will accept for providing the benefits covered by Medicare Part A (which primarily covers inpatient services provided by hospitals and care in skilled nursing facilities, home health care, and hospice care) and Part B (which mainly covers services provided by physicians and other practitioners and by hospitals' outpatient departments) for a beneficiary of average health. How much the federal government pays insurers depends on those bids and how they compare with predetermined benchmarks set by the federal government. Benchmarks are currently tied to the projected spending for an average beneficiary in Medicare FFS in the same county.

This option would reduce benchmarks in the Medicare Advantage program by 10 percent, beginning in January 2027. That reduction would be applied uniformly across all counties. All other methods for calculating payments to Medicare Advantage plans would continue as required under current law.

This option would result in higher cost sharing, higher premiums, and fewer supplemental benefits for Medicare Advantage enrollees. Other effects would depend on how the change in outlays for Medicare Advantage affected the benefits passed through to Medicare recipients and the profits of Medicare Advantage insurers.

Extended Discussion of This Option in 2022: "Reduce Medicare Advantage Benchmarks," www.cbo.gov/budget-options/58626

Related Option: Option 15, "Modify Payments to Medicare Advantage Plans for Health Risk" (page 22)

Option 9—Mandatory Spending Function 550

Adopt a Voucher Plan and Slow the Growth of Federal Contributions for Federal Employees' Health Benefits

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Adopt a voucher plan with growth based on the CPI-U												
Change in mandatory outlays[a]	0	0	-0.4	-0.7	-1.0	-1.6	-2.2	-2.5	-3.2	-3.7	-2.1	-15.3
Change in revenues[b]	0	0	*	*	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.1	-0.9
Decrease (-) in the deficit from changes in mandatory outlays and revenues[c]	0	0	-0.4	-0.7	-0.9	-1.5	-2.1	-2.3	-3.0	-3.5	-2.0	-14.4
Change in discretionary spending												
Budget authority	0	0	-0.3	-0.8	-1.2	-1.8	-2.4	-3.0	-3.6	-4.2	-2.3	-17.3
Outlays	0	0	-0.3	-0.8	-1.2	-1.8	-2.4	-3.0	-3.6	-4.2	-2.3	-17.3
Adopt a voucher plan with growth based on the chained CPI-U												
Change in mandatory outlays[a]	0	0	-0.4	-0.7	-1.3	-1.8	-2.4	-2.9	-3.6	-4.2	-2.4	-17.3
Change in revenues[b]	0	0	*	*	-0.1	-0.1	-0.1	-0.2	-0.2	-0.3	-0.1	-1.0
Decrease (-) in the deficit from changes in mandatory outlays and revenues[c]	0	0	-0.4	-0.7	-1.2	-1.7	-2.3	-2.7	-3.4	-3.9	-2.3	-16.3
Change in discretionary spending												
Budget authority	0	0	-0.4	-0.9	-1.4	-2.1	-2.7	-3.4	-4.1	-4.8	-2.7	-19.8
Outlays	0	0	-0.4	-0.9	-1.4	-2.1	-2.7	-3.4	-4.1	-4.8	-2.7	-19.8

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

This option would take effect in January 2027.

CPI-U = consumer price index for all urban consumers; * = between -$50 million and zero.

a. Estimates include estimated savings by the Postal Service, whose spending is classified as off-budget.

b. Estimates include the effects on Social Security payroll tax receipts, which are classified as off-budget.

c. As the dashed line indicates, changes in discretionary spending are not included because they would be realized only if future appropriations were adjusted accordingly and because the Congress uses different procedures to enforce its budgetary goals related to discretionary spending.

The Federal Employees Health Benefits (FEHB) program provides health insurance coverage for federal workers and annuitants, including current and retired employees of the Postal Service, and for their dependents and survivors. Under the program, the government covers up to 75 percent of the cost of enrollees' premiums for active non-postal employees and annuitants. The Postal Service Health Benefits (PSHB) program, a separate program within FEHB, provides benefits for postal employees, annuitants, and dependents. Government contributions for participants in that program are determined by collective bargaining agreements.

Both the FEHB and PSHB programs would be affected by this option. It consists of two alternatives to replace the current premium-sharing structure with a voucher that would not be subject to income and payroll taxes. Under both alternatives, the value of the voucher in 2027 for each type of coverage (self only, self plus one, and family) would be equal to the government's average expected contributions to FEHB or PSHB premiums in 2026, adjusted to remove the effects of inflation. Under the first alternative, the value of the voucher in 2027 and each subsequent year would be determined using the projected rate of inflation as measured by the consumer price index for all urban consumers (CPI-U). The second alternative would index the voucher to the chained CPI-U, which is another measure of inflation designed to account for changes in spending patterns and to address several types of statistical biases that exist in the traditional CPI measures. Since 2001, the chained CPI-U has grown by an average of about 0.25 percentage points per year more slowly than the traditional CPI-U. Both alternatives would slow the growth of government contributions to FEHB and PSHB premiums because premiums are expected to increase more quickly than the alternative measures.

Government spending on premiums for annuitants and postal workers is classified as mandatory spending, whereas spending on premiums for other federal employees is classified as discretionary. Both alternatives would reduce mandatory spending for the FEHB and PSHB programs because the federal government would make smaller payments for premiums for annuitants and postal workers than it would under current law. The alternatives would also decrease mandatory spending because some FEHB and PSHB participants would leave the program. The net effect of those disenrolled participants on changes in mandatory spending would be small relative to savings from the vouchers.

Revenues would also be affected because some people would leave the program and would instead obtain other employment-based coverage through a spouse. That change would reduce federal tax revenues by shifting some of those spouses' compensation from taxable wages to tax-favored health insurance, according to estimates by the staff of the Joint Committee on Taxation and the Congressional Budget Office. Both alternatives would also reduce discretionary spending by lowering federal agencies' payments for FEHB premiums for current employees and their dependents if appropriations were reduced to reflect those lower payments.

Option 10—Mandatory Spending Function 550

Introduce Enrollment Fees in TRICARE for Life

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in outlays												
MERHCF	0	0	-1.4	-2.3	-2.9	-3.1	-3.3	-3.4	-3.6	-3.7	-6.6	-23.7
Medicare	0	0	0.3	0.6	0.9	1.0	1.0	1.0	1.1	1.1	1.8	7.0
Total	0	0	-1.1	-1.7	-2.0	-2.1	-2.3	-2.4	-2.5	-2.6	-4.8	-16.7

This option would take effect in January 2027.

MERHCF = Department of Defense Medicare-Eligible Retiree Health Care Fund.

TRICARE for Life (TFL) is a supplement to Medicare for military retirees and their eligible family members. Beneficiaries who are eligible for TRICARE (the health benefit plan administered by the Department of Defense) are automatically enrolled in TFL when they become eligible for Medicare. The program pays nearly all medical costs not covered by Medicare, and there are no enrollment fees (although beneficiaries must pay their premium for Medicare Part B, which covers physicians' and other outpatient services). About 2.5 million people are enrolled in TFL.

This option would require most Medicare-eligible beneficiaries who chose to enroll in TFL to pay an annual enrollment fee. (Members who received a disability retirement and survivors of members who died on active duty would not be required to pay the fee.) The enrollment fees would be set to match the fees for the preferred-provider plan in TRICARE paid by retirees who were not yet eligible for Medicare and who entered service after 2017. The Congressional Budget Office estimates that in 2027, those fees will be $610 for individual coverage or $1,220 for family coverage. The enrollment fees would be indexed to grow at the same rate as average Medicare costs in later years. This option would result in some beneficiaries switching to other Medicare supplemental plans, which would cause Medicare spending to increase because some costs currently paid by TFL would shift to Medicare.

Related Option: Option 11, "Introduce Minimum Out-of-Pocket Requirements in TRICARE for Life" (page 18)

Related CBO Publications: *Long-Term Implications of the 2025 Future Years Defense Program* (November 2024), www.cbo.gov/publication/60665; *Approaches to Changing Military Compensation* (January 2020), www.cbo.gov/publication/55648; *Approaches to Changing Military Health Care* (October 2017), www.cbo.gov/publication/53137

Option 11—Mandatory Spending **Function 550**

Introduce Minimum Out-of-Pocket Requirements in TRICARE for Life

											Total	
Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2025–2029	2025–2034
Change in outlays												
MERHCF	0	0.1	0.1	-1.8	-2.8	-3.0	-3.2	-3.3	-3.5	-3.6	-4.4	-21.0
Medicare	0	0	0	-0.5	-1.3	-1.6	-1.7	-1.7	-1.8	-1.9	-1.8	-10.5
Total	0	0.1	0.1	-2.3	-4.1	-4.6	-4.9	-5.0	-5.3	-5.5	-6.2	-31.5

This option would take effect in January 2028, although some changes to outlays would occur earlier.

MERHCF = Department of Defense Medicare-Eligible Retiree Health Care Fund.

TRICARE for Life (TFL) is a supplement to Medicare for military retirees and their eligible family members. The program pays nearly all medical costs not covered by Medicare and requires few out-of-pocket fees. About 2.5 million people are enrolled in TFL.

This option would introduce minimum out-of-pocket requirements for TFL beneficiaries. Beginning in calendar year 2028, TFL would not cover the first $850 of an enrollee's cost-sharing payments (those costs for which enrollees are responsible when they receive health care) under Medicare and would cover only 50 percent of the next $7,650 of such payments. All further costs would be covered by TFL, so enrollees would not be obligated to pay more than $4,675. After 2028, those dollar limits would be indexed to grow at the same rate as average Medicare costs (excluding Part D drug benefits). To reduce beneficiaries' incentive to avoid out-of-pocket costs by switching to military facilities (which currently charge no copayments for hospital services provided to TFL beneficiaries), this option would also require TFL beneficiaries seeking care from those facilities to make payments roughly comparable to the charges they would face at civilian facilities. This option would reduce spending for Medicare as well as for TFL because higher out-of-pocket costs would lead beneficiaries to use fewer medical services.

Related Options: Option 10, "Introduce Enrollment Fees in TRICARE for Life" (page 17); Option 12, "Change the Cost-Sharing Rules for Medicare and Restrict Medigap Insurance" (page 19)

Related CBO Publications: *Long-Term Implications of the 2025 Future Years Defense Program* (November 2024), www.cbo.gov/publication/60665; *Approaches to Changing Military Compensation* (January 2020), www.cbo.gov/publication/55648; *Approaches to Changing Military Health Care* (October 2017), www.cbo.gov/publication/53137

Option 12—Mandatory Spending **Function 570**

Change the Cost-Sharing Rules for Medicare and Restrict Medigap Insurance

											Total	
Billions of dollars	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2025–2029**	**2025–2034**
Change in outlays												
Establish uniform cost sharing and an out-of-pocket cap for Medicare	0	0	0	-2	-3	-3	-3	-3	-3	-3	-5	-20
Restrict medigap policies	0	0	0	-11	-15	-16	-17	-18	-19	-20	-26	-116
Implement both alternatives[a]	0	0	0	-13	-18	-18	-19	-20	-20	-21	-31	-129

This option would take effect in January 2028.

a. Although the total savings of this alternative would approximate the sum of the savings from the first two alternatives, that relationship might not apply if different dollar amounts for the deductible and out-of-pocket cap were used.

In the traditional fee-for-service (FFS) portion of the Medicare program, cost sharing—the payments for which enrollees are responsible when they receive health care—varies significantly depending on the type of service provided. Cost sharing in FFS Medicare can take the following forms: deductibles, coinsurance, or copayments. Deductibles are the amount of spending an enrollee incurs before coverage begins, and coinsurance (a specified percentage) and copayments (a specified dollar amount) represent the portion of spending an enrollee pays at the time of service.

Under Medicare Part A, which primarily covers services provided by hospitals and other facilities, enrollees are liable for an initial copayment (sometimes called the Part A deductible) of $1,632 (in 2024) for each "spell of illness" that requires hospitalization and substantial daily copayments for extended stays. Under Medicare Part B, which mainly covers outpatient services, enrollees pay an annual deductible of $240 (in 2024) and generally pay coinsurance of 20 percent of allowable costs in excess of that deductible. There is no annual cap on enrollees' Medicare cost-sharing payments. Therefore, most people enrolled in FFS Medicare have some form of supplemental coverage that reduces or eliminates their cost-sharing obligations and protects them from high out-of-pocket costs. The most common way people obtain supplemental coverage is by purchasing specialized insurance policies, known as medigap plans, directly from insurers. Other Medicare enrollees retain coverage from a former employer as retirees. Medicaid also covers Medicare's cost sharing for most people who enroll in both Medicare and Medicaid.

This option consists of three alternatives that would all take effect in 2028. The first alternative would replace Medicare's current cost-sharing requirement with a single annual deductible of $850 for all Part A and Part B services, a uniform coinsurance rate of 20 percent for all spending above that deductible, and an annual out-of-pocket cap of $8,500. The second alternative would leave Medicare's cost-sharing rules unchanged but would restrict existing and new medigap policies. Specifically, it would bar those policies from paying any of the first $850 of an enrollee's cost-sharing obligations for Part A and Part B services and would limit coverage to 50 percent of the next $7,650 of those cost-sharing obligations. Medigap policies would cover all further cost-sharing obligations, so policyholders would not pay more than $4,675 in cost sharing. The third alternative would combine the changes from the first and second alternatives. After 2028, dollar amounts in all three alternatives—the combined deductible and cap (the first and third alternatives) and the medigap thresholds (the second and third alternatives)—would be indexed to the rate of growth of average FFS Medicare spending per enrollee.

Related Option: Option 11, "Introduce Minimum Out-of-Pocket Requirements in TRICARE for Life" (page 18)

Related CBO Publication: Noelia Duchovny and others, *CBO's Medicare Beneficiary Cost-Sharing Model: A Technical Description*, Working Paper 2019-08 (October 2019), www.cbo.gov/publication/55659

Option 13—Mandatory Spending Function 570

Reduce Medicare's Coverage of Bad Debt

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in outlays												
Reduce the percentage of allowable bad debt to 45 percent	0	-0.6	-1.3	-2.1	-1.9	-2.1	-2.1	-2.1	-2.3	-2.2	-5.9	-16.7
Reduce the percentage of allowable bad debt to 25 percent	0	-1.3	-2.6	-4.1	-3.9	-4.1	-4.2	-4.2	-4.5	-4.3	-11.9	-33.2
Eliminate the coverage of allowable bad debt	0	-2.1	-4.2	-6.7	-6.3	-6.7	-6.8	-6.9	-7.3	-7.1	-19.3	-54.1

This option would take effect in October 2025.

When hospitals and other health care providers cannot collect out-of-pocket payments from their patients, those uncollected funds are called bad debt. Historically, Medicare has paid some of the bad debt owed by Medicare fee-for-service beneficiaries. The unpaid and uncollectible cost-sharing amounts for covered services provided to Medicare beneficiaries are referred to as allowable bad debt. In the case of dual-eligible beneficiaries—Medicare beneficiaries who also are enrolled in Medicaid—out-of-pocket obligations that remain unpaid by Medicaid are uncollectible and therefore are also included in Medicare's allowable bad debt. Under current law, Medicare reimburses eligible facilities—hospitals, skilled nursing facilities, various types of health care centers, and facilities treating end-stage renal disease—for 65 percent of allowable bad debt.

This option consists of three alternatives. Under the first and second alternatives, the percentage of allowable bad debt that Medicare reimbursed to participating facilities would be reduced to 45 percent and 25 percent, respectively. Under the third alternative, Medicare's coverage of allowable bad debt would be eliminated. The reductions would start to take effect in 2026 and would be phased in evenly until becoming fully implemented in 2028.

Option 14—Mandatory Spending **Function 570**

Consolidate and Reduce Medicare Payments for Graduate Medical Education at Teaching Hospitals

											Total	
Billions of dollars	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2025–2029**	**2025–2034**
Change in outlays												
Establish a grant program, with growth of funding based on the CPI-U	0	-4	-5	-7	-8	-10	-12	-14	-16	-18	-24	-94
Establish a grant program, with growth of funding based on the CPI-U minus 1 percentage point	0	-4	-6	-7	-9	-11	-13	-15	-18	-20	-26	-103

This option would take effect in October 2025.

CPI-U = consumer price index for all urban consumers.

Hospitals with teaching programs can receive funds from Medicare for costs related to graduate medical education (GME). Medicare's payments cover two types of costs: those for direct graduate medical education (DGME) and those for indirect medical education (IME). DGME costs are for the compensation of medical residents and institutional overhead. IME costs are other teaching-related costs—for instance, costs associated with the added demands placed on staff as a result of teaching activities and the greater number of tests and procedures ordered by residents as part of the educational process. The Congressional Budget Office projects that total mandatory federal spending for hospital-based GME will grow at an average annual rate of 7 percent from 2025 to 2034 (about 5 percentage points faster than the average annual growth rate of the consumer price index for all urban consumers, or CPI-U).

This option would consolidate all Medicare payments for GME into a grant program for teaching hospitals. Total funds available for distribution in 2026 would be fixed at an amount equaling the sum of Medicare's 2024 payments for DGME and IME. CBO examined two alternatives for how the funding for the grant program would grow over time; both would result in less funding than what CBO projects for the existing programs under current law. Under the first alternative, funding for the grant program would grow with the CPI-U; under the second alternative, funding for the grant program would grow with the CPI-U minus 1 percentage point per year.

Option 15—Mandatory Spending Function 570

Modify Payments to Medicare Advantage Plans for Health Risk

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in outlays												
Increase the minimum risk score reduction from 5.9 percent to 8 percent	0	0	-15	-17	-16	-18	-20	-22	-26	-25	-48	-159
Increase the minimum risk score reduction from 5.9 percent to 20 percent	0	0	-98	-113	-103	-122	-132	-143	-170	-168	-314	-1,049
Use two years of diagnostic data to calculate risk scores and exclude diagnoses from health risk assessments	0	0	-12	-13	-12	-14	-16	-17	-20	-20	-37	-124

This option would take effect in January 2027.

More than half of Medicare beneficiaries are enrolled in the Medicare Advantage program. Under Medicare Advantage, private health insurers receive a payment from the government for each beneficiary they enroll. The remaining Medicare beneficiaries are enrolled in the Medicare fee-for-service (FFS) program. In that program, the government pays providers directly for medical services.

Payments to insurers in the Medicare Advantage program depend, in part, on the risk scores of a plan's enrollees. Plan beneficiaries are assigned risk scores on the basis of recorded health conditions and other characteristics. Higher risk scores indicate higher expected health care spending, and an insurer is paid more for enrollees with higher risk scores. Risk scores are calculated using the diagnoses "coded" on an enrollee's claims from the previous calendar year. Medicare Advantage insurers have a financial incentive to code more diagnoses for their enrollees and to ensure that diagnoses are carried over from year to year.

In the Medicare FFS program, payments to providers are not tied to risk scores. Thus, providers have less of a financial incentive to code beneficiaries' diagnoses or to carry over diagnoses from year to year.

One tool for coding a beneficiary's diagnoses is a health risk assessment (HRA). HRAs are evaluations by providers that can help determine a beneficiary's health needs and set a course for treatment. In Medicare FFS, diagnoses from an HRA are only coded when a beneficiary receives care associated with that assessment. Medicare Advantage insurers often code diagnoses even if the beneficiary receives no subsequent care. To account for differences in coding, federal law currently requires the Centers for Medicare & Medicaid Services (CMS) to apply an across-the-board reduction of at least 5.9 percent to Medicare Advantage plan payments to account for the difference in coding intensity between FFS and Medicare Advantage.

This option consists of three alternatives. The first alternative would require CMS to increase the across-the-board reduction in payments to Medicare Advantage plans from at least 5.9 percent to at least 8 percent. The second alternative would require CMS to increase the across-the-board reduction in payments to Medicare Advantage plans to at least 20 percent. The third alternative would make two changes to risk-adjustment policy. First, to calculate risk scores in both FFS and Medicare Advantage, CMS would be required to use two years of diagnostic data to calculate risk scores rather than one, which would decrease the difference in coding intensity between Medicare Advantage and FFS. Second, risk scores would no longer reflect diagnoses captured from health risk assessments.

This option would result in higher cost sharing, higher premiums, and fewer supplemental benefits for Medicare Advantage enrollees. Other effects would depend on how the change in outlays for Medicare Advantage affected the benefits passed through to Medicare recipients and the profits of Medicare Advantage insurers.

Related Option: Option 8, "Reduce Medicare Advantage Benchmarks" (page 14)

Option 16—Mandatory Spending **Function 570**

Reduce Payments for Hospital Outpatient Departments

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in outlays												
Pay site-neutral rates for most services to all off-campus and on-campus HOPDs	0	-7.4	-12.5	-14.4	-14.6	-16.9	-18.9	-21.0	-24.8	-26.4	-48.9	-156.9
Apply site-neutral rates to drug administration services for all off-campus HOPDs	0	-0.3	-0.4	-0.5	-0.5	-0.6	-0.7	-0.8	-0.9	-0.9	-1.7	-5.6
Apply site-neutral rates to imaging services for all off-campus HOPDs	0	-0.4	-0.6	-0.7	-0.7	-0.8	-0.9	-1.0	-1.2	-1.3	-2.4	-7.6

This option would take effect in January 2026.

HOPD = hospital outpatient department.

Medicare beneficiaries receive a wide range of services in hospital outpatient departments (HOPDs). Medicare's payments for services received in HOPDs are generally higher than payments for services received in physicians' offices, even when those services are almost identical. Under the Bipartisan Budget Act of 2015, Medicare lowered payments for newly established off-campus HOPDs. (Off-campus HOPDs are financially integrated with a hospital but are located away from the hospital's main campus.) Off-campus HOPDs that were billing Medicare before November 2015 were exempt from the policy change. Those lower payments, referred to as site-neutral payments, are 60 percent lower than typical hospital outpatient rates and are intended to make Medicare payments for services in HOPDs comparable to payments for similar services provided in physicians' offices.

This option includes three alternatives. The first alternative would apply site-neutral payments to both off-campus and on-campus HOPDs for services that are commonly supplied in physicians' offices. The second alternative would apply site-neutral payments to all off-campus HOPDs for drug administration services. The third alternative would apply site-neutral rates to all off-campus HOPDs for imaging services.

Related CBO Publications: *Policy Approaches to Reduce What Commercial Insurers Pay for Hospitals' and Physicians' Services* (September 2022), www.cbo.gov/publication/58222; *The Prices That Commercial Health Insurers and Medicare Pay for Hospitals' and Physicians' Services* (January 2022), www.cbo.gov/publication/57422

Option 17—Mandatory Spending

Function 570

Reduce Payments for Drugs Delivered by 340B Hospitals

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in outlays												
Reduce payment rates for 340B hospitals to a drug's average sales price minus 22.5 percent	0	-5.2	-5.7	-6.6	-6.7	-7.7	-8.6	-9.6	-11.3	-12.1	-24.2	-73.5
Reduce payment rates for 340B hospitals to a drug's average sales price	0	-1.1	-1.2	-1.4	-1.4	-1.6	-1.8	-2.0	-2.4	-2.5	-5.1	-15.4

This option would take effect in January 2026.

Under Section 340B of the Public Health Service Act, certain hospitals and clinics are permitted to buy outpatient drugs at significant discounts from drug manufacturers. Those hospitals are known as 340B hospitals. They generate savings from the program when the amount they are paid by insurers, including Medicare, exceeds the cost of drugs acquired through the 340B program. Under current law, Medicare's payments for drugs covered under Medicare Part B are generally equal to a drug's average sales price plus 6 percent. That payment is the same regardless of whether a facility is enrolled in the 340B program. Thus, 340B hospitals can receive more in Medicare reimbursements than the drugs cost to acquire. The Medicare program previously lowered payment rates for drugs provided by 340B hospitals to their average sales price minus 22.5 percent, but the policy was reversed by a Supreme Court decision.

This option consists of two alternatives. The first would reduce payment rates for 340B hospitals to a drug's average sales price minus 22.5 percent, the rate previously used by Medicare. The second would reduce payment rates for 340B hospitals to a drug's average sales price. In both cases, the payment change would not be subject to the budget-neutrality adjustment that is usually applied to payment under Medicare's prospective payment system for outpatient hospitals.

Related CBO Publication: *Policy Approaches to Reduce What Commercial Insurers Pay for Hospitals' and Physicians' Services* (September 2022), www.cbo.gov/publication/58222

Option 18—Mandatory Spending **Function 600**

Eliminate Subsidies for Certain Meals in the National School Lunch, School Breakfast, and Child and Adult Care Food Programs

											Total	
Billions of dollars	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2025–2029**	**2025–2034**
Change in outlays	-0.1	-1.1	-1.4	-1.5	-1.6	-1.6	-1.6	-1.7	-1.7	-1.8	-5.7	-14.1

This option would take effect in July 2025.

The National School Lunch Program, the School Breakfast Program, and the Child and Adult Care Food Program provide funds that enable public schools, nonprofit private schools, child and adult care centers, and residential child care institutions to offer subsidized meals and snacks to participants. The programs provide subsidies for all meals served, though those subsidies are larger for meals served to participants from households with income at or below 185 percent of the federal poverty guidelines (commonly known as the federal poverty level, or FPL).

This option would eliminate the subsidies for meals and snacks served to participants from households with income greater than 185 percent of the FPL through the National School Lunch Program and the School Breakfast Program, and in child and adult care centers through the Child and Adult Care Food Program. Meals and snacks served to participants from households with income at or below 185 percent of the FPL would still be subsidized. Similarly, all meals served in schools participating in the Community Eligibility Provision, which allows certain high poverty schools to offer free meals to all enrolled students, would still be subsidized. This option would not affect Child and Adult Care Food Program participants in day care homes.

Related Option: Option 23, “Introduce Means-Testing for Eligibility for VA’s Disability Compensation” (page 31)

Related CBO Publication: *Child Nutrition Programs: Spending and Policy Options* (September 2015), www.cbo.gov/publication/50737

Option 19—Mandatory Spending Function 650

Reduce Social Security Benefits for High Earners

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in outlays												
Add a bend point at the 70th percentile of earners and reduce PIA factors over 9 years	0	*	*	-1	-2	-3	-6	-8	-12	-16	-3	-48
Add a bend point at the 50th percentile of earners and reduce PIA factors over 9 years	0	*	-1	-2	-5	-8	-13	-20	-29	-39	-8	-117
Add a bend point at the 50th percentile of earners and reduce PIA factors over 5 years	0	*	-2	-4	-9	-15	-24	-35	-47	-61	-15	-197

This option would take effect in January 2026.

Estimates displayed in this table include budgetary effects for Social Security benefits; that spending is classified as off-budget.

PIA = primary insurance amount; * = between -$500 million and zero.

The Social Security benefit paid to a retired worker who claims benefits at the full retirement age or to a disabled worker is called the primary insurance amount (PIA). It is calculated using a formula applied to that worker's average indexed monthly earnings (AIME). A worker's AIME is a measure of their average taxable monthly earnings, with past earnings indexed to account for growth in economy-wide earnings using the national average wage index. For retired workers, the average is taken over the 35 years in which they received the highest earnings.

The AIME is separated into three brackets using two threshold amounts, often called bend points. In calendar year 2024, the first bend point is $1,174 and the second bend point is $7,078. The AIME in each of the three brackets is multiplied by three corresponding factors (90 percent, 32 percent, and 15 percent) to calculate the PIA; the largest factor applies to the bracket containing the lowest average indexed earnings. The bend points change each year with average wages, but the PIA factors do not change.

This option consists of three alternatives, each of which would create an additional bend point in the PIA formula between the two existing bend points and would reduce the PIA factors for new beneficiaries with higher lifetime earnings. Under all three alternatives, the PIA factor for the lowest bracket would remain at 90 percent and at 32 percent for the second-lowest bracket (although that bracket would be smaller than it is under current law). The PIA factor applied between the new bend point and the highest bend point would decrease from 32 percent to 10 percent, and the PIA factor applied above the highest bend point would be reduced from 15 percent to 5 percent. People already eligible for Social Security benefits would not be affected. Only new beneficiaries with an AIME above the new bend point would receive smaller benefits under this option.

Under the first alternative, the bend point would be added at the 70th percentile of earners—that is, about 70 percent of newly eligible beneficiaries would have an AIME below the new bend point, so their benefits would not change. The top 30 percent of newly eligible beneficiaries (those whose AIME was above the new bend point) would receive smaller benefits than under current law. The changes to the PIA factors would be phased in over nine years. Under the second alternative, the new bend point would be set at the 50th percentile of earners—that is, about 50 percent of newly eligible beneficiaries would have an AIME below the new bend point—and the changes would be phased in over nine years. Under the third alternative, a new bend point would be added at the 50th percentile, but the changes to the PIA factors would be phased in over five years.

For information about the long-term and distributional effects of this option, see the appendix.

Extended Discussion of This Option in 2022: "Reduce Social Security Benefits for High Earners," www.cbo.gov/budget-options/58628

Related Options: Option 20, "Establish a Uniform Social Security Benefit" (page 28); Option 62, "Increase the Maximum Taxable Earnings That Are Subject to Social Security Payroll Taxes" (page 73)

Related CBO Publication: *CBO's 2024 Long-Term Projections for Social Security* (August 2024), www.cbo.gov/publication/60392

Option 20—Mandatory Spending Function 650

Establish a Uniform Social Security Benefit

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in outlays												
Set Social Security benefits to 150 percent of the federal poverty guidelines	0	-1	-4	-8	-14	-22	-34	-50	-65	-85	-27	-283
Set Social Security benefits to 125 percent of the federal poverty guidelines	0	-3	-10	-21	-35	-52	-75	-106	-135	-170	-69	-607

This option would take effect in January 2026.

Estimates displayed in this table include budgetary effects for Social Security benefits; that spending is classified as off-budget.

Initial Social Security benefits for retired and disabled workers are based on their average lifetime earnings, which are adjusted for changes in economywide wages. A progressive formula is then applied to that average amount, which means that benefits replace a higher percentage of earnings for workers with lower earnings than for workers with higher earnings. However, benefits are still higher for workers with higher earnings than for workers with lower earnings.

For retired worker beneficiaries, initial benefits are also adjusted depending on the age at which a recipient chooses to start claiming them relative to the full retirement age (FRA). (The FRA varies by the year of birth of the worker and is 67 for workers who turn 62 in 2022 or later.) People who claim benefits before their FRA receive a smaller initial benefit, and people who claim after their FRA up to age 70 receive a larger initial benefit.

This option consists of two alternatives. Under both alternatives, Social Security benefits for all newly eligible beneficiaries at their FRA would be the same in any given year—an amount that would be determined relative to the federal poverty guidelines (commonly known as the federal poverty level, or FPL) for a single person. The FPL is adjusted annually using the consumer price index for all urban consumers (CPI-U).

Under the first alternative, the benefit amount would be same for all beneficiaries, set to 150 percent of the FPL, which would equal about $1,990 per month in calendar year 2026. In 2026, about one-third of newly eligible beneficiaries would receive higher benefits than under current law and about two-thirds would receive lower benefits. Under the second alternative, the uniform benefit amount would be set to 125 percent of the FPL, equaling about $1,660 per month in calendar year 2026. That year, about one-quarter of newly eligible beneficiaries would receive higher benefits and about three-quarters would receive lower benefits.

For both alternatives, eligibility criteria for Social Security benefits and adjustments to benefit levels for early and delayed claiming would remain unchanged from current law, and all retired and disabled workers would be eligible for the same dollar amount of benefit upon entitlement. Additionally, both alternatives would provide benefits to dependents and survivors as under current law.

For information about the long-term and distributional effects of this option, see the appendix.

Extended Discussion of This Option in 2022: “Set Social Security Benefits to a Flat Amount,” www.cbo.gov/budget-options/58629

Related Options: Option 19, “Reduce Social Security Benefits for High Earners” (page 26); Option 62, “Increase the Maximum Taxable Earnings That Are Subject to Social Security Payroll Taxes” (page 73)

Related CBO Publication: *CBO’s 2024 Long-Term Projections for Social Security* (August 2024), www.cbo.gov/publication/60392

Option 21—Mandatory Spending **Function 650**

Raise the Full Retirement Age for Social Security

											Total	
Billions of dollars	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2025–2029**	**2025–2034**
Change in outlays	0	-0.1	-0.3	-0.9	-1.8	-3.2	-9.6	-16.6	-25.4	-36.8	-3.1	-94.7

This option would take effect in January 2026.

Estimates displayed in this table include budgetary effects for Social Security benefits; that spending is classified as off-budget.

The age at which workers become eligible for full retirement benefits from Social Security—known as the full retirement age (FRA)—depends on their year of birth. For workers born after 1959, the FRA is 67. (For workers born earlier, the FRA is lower.) Workers, regardless of when they were born, may claim benefits as early as age 62. Their scheduled benefit is adjusted on the basis of how much earlier or later than their FRA they choose to start receiving benefits. Up to age 70, the later a worker begins receiving benefits, the larger the monthly benefit.

Under this option, the FRA would increase from 67 by two months per birth year for workers born between 1964 and 1981. As a result, for all workers born in 1981 or later, the FRA would be 70. As under current law, workers could still choose to begin receiving benefits at age 62, but the reduction in their initial scheduled monthly benefit for claiming benefits early would be larger under this option than under current law. An increase in the FRA would reduce scheduled lifetime benefits for every affected Social Security recipient, regardless of the age at which a person claimed benefits. Under this option, workers could maintain the same scheduled monthly benefit as under current law by claiming benefits at a later age, but they would then receive benefits for fewer months.

For information about the long-term and distributional effects of this option, see the appendix.

Related CBO Publications: *CBO's 2024 Long-Term Projections for Social Security* (August 2024), www.cbo.gov/publication/60392; *Social Security Policy Options, 2015* (December 2015), www.cbo.gov/publication/51011

Option 22—Mandatory Spending Function 650

Require Social Security Disability Insurance Applicants to Have Worked More in Recent Years

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in outlays	0	-0.9	-2.3	-3.9	-5.3	-6.7	-8.1	-9.5	-10.9	-12.2	-12.4	-59.8

This option would take effect in January 2026.

Estimates displayed in this table include budgetary effects for Social Security benefits; that spending is classified as off-budget. The estimates do not include effects on other federal programs that could be affected, such as Supplemental Security Income, Medicare, Medicaid, and subsidies for coverage obtained through marketplaces established by the Affordable Care Act.

To be eligible for benefits under Social Security Disability Insurance, most disabled workers must have worked 5 of the previous 10 years. Specifically, workers over age 30 must have earned at least 20 quarters of coverage in the previous 10 years. (In this option, the 10-year time frame is referred to as the look-back period.)

This option would increase the share of recent years that disabled workers must have worked and shorten the look-back period. It would require disabled workers older than 30 to have earned 16 quarters of coverage in the previous 6 years—usually equivalent to working 4 of the previous 6 years. That change in policy would apply to new applicants seeking benefits and would not affect blind applicants, who are exempt from the requirement to have worked recently. Disabled workers already receiving disability benefits would not be affected.

Related CBO Publications: *Social Security Disability Insurance: Participation and Spending* (June 2016), www.cbo.gov/publication/51443; *Social Security Policy Options, 2015* (December 2015), www.cbo.gov/publication/51011

Option 23—Mandatory Spending Functions 600, 700

Introduce Means-Testing for Eligibility for VA's Disability Compensation

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in outlays	0	-26	-37	-43	-38	-43	-45	-47	-53	-52	-144	-384

This option would take effect in January 2026.

Veterans with medical conditions or injuries that occurred or worsened during active-duty service may receive disability compensation from the Department of Veterans Affairs (VA). Payments are structured differently than other disability programs. VA's disability payments are intended to compensate for the average earnings that veterans would be expected to lose given the severity of their service-connected medical conditions or injuries, whether or not a particular veteran's condition reduced his or her earnings. Unlike disability programs such as Social Security Disability Insurance, payments are unaffected by a veteran's earnings or other types of income.

Under this option, VA would means-test (that is, restrict full compensation to those with income below a certain amount) all current and prospective recipients of VA's disability compensation. Beginning in January 2026, veterans with service-related disabilities and total household income below $135,000, excluding disability income from the VA, would receive full benefits. That threshold corresponds to the 70th percentile of total household income in the United States in 2022, adjusted for inflation to reach the threshold value applicable to 2026 benefits. CBO estimates that nearly 30 percent of veterans receiving disability payments from VA will have household income above that threshold in 2026. (After 2026, that income threshold would rise with the consumer price index for urban wage earners and clerical workers.) Above the threshold, benefits would be phased out at a constant rate: For every additional two dollars of gross household income, disability compensation would decrease by one dollar.

Extended Discussion of This Option in 2022: "Reduce Spending on Other Mandatory Programs," www.cbo.gov/budget-options/58631

Related Options: Option 24, "End VA's Individual Unemployability Payments to Disabled Veterans at the Full Retirement Age for Social Security" (page 32); Option 25, "Reduce VA's Disability Benefits to Veterans Who Are Older Than the Full Retirement Age for Social Security" (page 33); Option 26, "Narrow Eligibility for VA's Disability Compensation by Excluding Veterans With Low Disability Ratings" (page 34); Option 55, "Include VA's Disability Payments in Taxable Income" (page 65)

Related CBO Publications: *Work Requirements and Work Supports for Recipients of Means-Tested Benefits* (June 2022), www.cbo.gov/publication/57702; *Possible Higher Spending Paths for Veterans' Benefits* (December 2018), www.cbo.gov/publication/54881; *Veterans' Disability Compensation: Trends and Policy Options* (August 2014), www.cbo.gov/publication/45615

Option 24—Mandatory Spending Function 700

End VA's Individual Unemployability Payments to Disabled Veterans at the Full Retirement Age for Social Security

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in outlays												
End IU payments to all veterans age 67 or older	0	-4.3	-6.1	-7.0	-6.0	-6.9	-7.1	-7.4	-8.3	-8.0	-23.4	-61.1
End IU payments to all veterans age 67 or older who would begin receiving IU after December 2025	0	-0.1	-0.4	-0.9	-1.0	-1.5	-1.8	-2.2	-2.7	-2.9	-2.4	-13.5

This option would take effect in January 2026.

IU = Individual Unemployability.

The Department of Veterans Affairs (VA) provides disability compensation to veterans with medical conditions or injuries that were incurred or worsened during active-duty service. The amount of compensation depends on the severity of their disabilities (which are rated between zero and 100 percent) and other factors. In addition, VA may increase certain veterans' disability compensation to the 100 percent level even though the department has not rated their service-connected disabilities at that level. To receive the resulting supplemental compensation, termed Individual Unemployability (IU) payments, disabled veterans must apply for the benefit and meet two criteria. First, they generally must have a disability rating between 60 percent and 90 percent. Second, VA must determine that the veterans cannot maintain "substantial gainful employment" because of the severity of a service-connected disability. Receipt of IU is not based on age, voluntary withdrawal from work, or other factors.

This option consists of two alternatives. Under the first, VA would stop making IU payments to veterans age 67 or older (the full retirement age for Social Security benefits for those born after 1959). That restriction would apply to both current and prospective recipients. When veterans reached age 67, all VA disability payments would revert to the amount associated with the rated disability level; veterans age 67 or older who were already receiving IU payments would no longer receive them after the effective date of the option. Under the second alternative, veterans who began receiving the IU supplement after December 2025 would no longer receive those payments once they reached age 67, and no new applicants age 67 or older would be eligible for IU benefits after that date. Veterans currently receiving IU payments who would reach age 67 or older after the effective date of the option would continue to collect the IU supplement.

Related Options: Option 23, "Introduce Means-Testing for Eligibility for VA's Disability Compensation" (page 31); Option 25, "Reduce VA's Disability Benefits for Veterans Who Are Older Than the Full Retirement Age for Social Security" (page 33); Option 26, "Narrow Eligibility for VA's Disability Compensation by Excluding Veterans With Low Disability Ratings" (page 34); Option 55, "Include VA's Disability Payments in Taxable Income" (page 65)

Related CBO Publications: *Possible Higher Spending Paths for Veterans' Benefits* (December 2018), www.cbo.gov/publication/54881; *Veterans' Disability Compensation: Trends and Policy Options* (August 2014), www.cbo.gov/publication/45615

Option 25—Mandatory Spending **Function 700**

Reduce VA's Disability Benefits for Veterans Who Are Older Than the Full Retirement Age for Social Security

											Total	
Billions of dollars	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2025–2029**	**2025–2034**
Change in outlays	0	-0.6	-1.6	-2.4	-3.1	-3.8	-4.5	-5.2	-5.9	-6.7	-7.7	-33.8

This option would take effect in January 2026.

Veterans with medical conditions or injuries that occurred or worsened during active-duty service receive disability compensation from the Department of Veterans Affairs (VA). By law, VA's disability ratings (the basis for disability payments) depend, as far as practicable, on the average earnings that veterans would be expected to lose given the severity of their service-connected medical conditions or injuries. Those ratings do not depend on whether a particular veteran's conditions reduce the person's earnings. Veterans who work are eligible for benefits, and most working-age veterans who receive such compensation are employed. After veterans reach Social Security's full retirement age, VA's disability payments continue at the same level. (Social Security's full retirement age is 67 for people born after 1959.) By contrast, the income that people receive from Social Security or private pensions after they retire usually is less than their earnings from wages and salary before retirement.

Under this option, veterans who start receiving disability compensation payments in 2026 or later would have those payments reduced by 30 percent at age 67. Social Security and pension benefits would be unaffected by this option. Veterans who are already collecting disability compensation would see no reduction in their VA disability benefits when they reached age 67.

Related Options: Option 23, "Introduce Means-Testing for Eligibility for VA's Disability Compensation" (page 31); Option 24, "End VA's Individual Unemployability Payments to Disabled Veterans at the Full Retirement Age for Social Security" (page 32); Option 26, "Narrow Eligibility for VA's Disability Compensation by Excluding Veterans With Low Disability Ratings" (page 34); Option 55, "Include VA's Disability Payments in Taxable Income" (page 65)

Related CBO Publications: *Possible Higher Spending Paths for Veterans' Benefits* (December 2018), www.cbo.gov/publication/54881; *Veterans' Disability Compensation: Trends and Policy Options* (August 2014), www.cbo.gov/publication/45615

Option 26—Mandatory Spending Function 700

Narrow Eligibility for VA's Disability Compensation by Excluding Veterans With Low Disability Ratings

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in outlays												
Require disability ratings of 30 percent or higher for disability compensation for all veterans	0	-3.2	-4.9	-5.4	-6.0	-6.6	-7.2	-7.8	-8.4	-9.1	-19.5	-58.6
Require disability ratings of 30 percent or higher for disability compensation for new applicants	0	-0.1	-0.4	-0.7	-1.0	-1.3	-1.5	-1.8	-2.1	-2.3	-2.2	-11.2

This option would take effect in January 2026.

Veterans with medical conditions or injuries that occurred or worsened during active-duty service may receive disability compensation from the Department of Veterans Affairs (VA). The amount of compensation depends on the severity of their disabilities (which are rated between zero and 100 percent) and other factors. By law, VA's disability ratings (the basis for disability payments) are to be based, as far as practicable, on the average earnings that veterans would be expected to lose given the severity of their service-connected medical conditions or injuries. Those ratings do not depend on whether a particular veteran's conditions reduce his or her earnings.

Under this option's first alternative, VA would narrow eligibility for disability compensation by requiring a disability rating of 30 percent or higher for all veterans; as a result, some current recipients would no longer receive benefits. The second alternative would require a 30 percent or higher disability rating only for new disability compensation applicants. (Current recipients would not be affected.) CBO estimates that in 2026, about 20 percent of veterans will have a disability rating below 30 percent.

Related Options: Option 23, "Introduce Means-Testing for Eligibility for VA's Disability Compensation" (page 31); Option 24, "End VA's Individual Unemployability Payments to Disabled Veterans at the Full Retirement Age for Social Security" (page 32); Option 25, "Reduce VA's Disability Benefits for Veterans Who Are Older Than the Full Retirement Age for Social Security" (page 33); Option 55, "Include VA's Disability Payments in Taxable Income" (page 65)

Related CBO Publications: *Possible Higher Spending Paths for Veterans' Benefits* (December 2018), www.cbo.gov/publication/54881; *Veterans' Disability Compensation: Trends and Policy Options* (August 2014), www.cbo.gov/publication/45615

Option 27—Mandatory Spending **Multiple Functions**

Use an Alternative Measure of Inflation to Index Social Security and Other Mandatory Programs

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in outlays												
Social Security	0	-2.9	-7.2	-11.8	-16.6	-21.9	-27.3	-33.0	-38.8	-44.7	-38.5	-204.2
Other benefit programs with COLAs[a]	0	-0.8	-1.9	-3.1	-4.4	-5.4	-6.7	-8.0	-9.4	-10.8	-10.2	-50.5
Effects on SNAP from interactions with COLA programs[b]	0	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0	4.5
Health programs[c]	0	-0.4	-0.9	-1.4	-1.8	-2.5	-3.4	-6.5	-5.0	-5.6	-4.5	-27.5
Other federal spending[d]	0	*	-0.1	-0.2	-0.3	-0.4	-0.5	-0.7	-0.8	-1.0	-0.6	-4.0
Total	0	-4.0	-9.9	-16.2	-22.7	-29.7	-37.3	-47.5	-53.2	-61.2	-52.8	-281.7
Change in revenues[e]	0	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.8	-0.9	-1.1	-0.5	-3.7
Decrease (-) in the deficit	0	-3.9	-9.8	-16.1	-22.5	-29.5	-37.1	-46.7	-52.3	-60.1	-52.3	-278.0

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

This option would take effect in January 2026.

Estimates displayed in this table include budgetary effects for Social Security benefits; that spending is classified as off-budget.

COLA = cost-of-living adjustment; SNAP = Supplemental Nutrition Assistance Program; * = between -$50 million and zero.

a. Other benefit programs with COLAs include civil service retirement, military retirement, Supplemental Security Income, veterans' pensions and compensation, and other retirement programs whose COLAs are linked directly to those for Social Security or civil service retirement.

b. The policy change would reduce payments from other federal programs to people who also receive benefits from SNAP. Because SNAP benefits are based on a formula that considers such income, a decrease in those other payments would lead to an increase in SNAP benefits.

c. Outlays for health programs consist of spending for Medicare (net of premiums and other offsetting receipts), Medicaid, and the Children's Health Insurance Program, as well as outlays to subsidize health insurance purchased through the marketplaces established by the Affordable Care Act and related spending.

d. Other federal spending includes changes to benefits and various aspects (eligibility thresholds, funding levels, and payment rates, for instance) of other federal programs, such as those providing Pell grants and student loans, SNAP, child nutrition programs, and programs (other than health programs) linked to the federal poverty guidelines. (The changes in spending on SNAP included here are those besides the changes in benefits that result from interactions with COLA programs.)

e. The effects on revenues reflect slightly higher enrollment in employment-based health insurance coverage under the option.

Cost-of-living adjustments (COLAs) for Social Security and many other parameters of federal programs are indexed to increases in traditional measures of the consumer price index (CPI). The CPI measures overall inflation and is calculated by the Bureau of Labor Statistics (BLS). In addition to the traditional measures of the CPI, BLS computes another measure of inflation—the chained CPI—which is designed to account for changes in spending patterns and to eliminate several types of statistical biases that exist in the traditional CPI measures. Under current law, the chained CPI is used for indexing most parameters of the tax system, including the individual income tax brackets. Since 2001, the chained CPI has grown by an average of about 0.25 percentage points more slowly per year than the traditional CPI measures have, and the Congressional Budget Office expects that trend to continue.

This option would expand the use of the chained CPI. The chained CPI would be used to determine COLAs for some programs, such as Social Security and veterans' pensions and compensation, and to compute inflation-indexed parameters of some programs, such as Medicaid.

For information about the long-term and distributional effects of this option, see the appendix.

Chapter 3: Discretionary Spending Options

Option 28—Discretionary Spending **Function 050**

Reduce the Department of Defense's Annual Budget

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in spending												
Budget authority	0	-28	-57	-88	-120	-154	-161	-165	-170	-175	-293	-1,118
Outlays	0	-15	-38	-64	-93	-125	-143	-153	-161	-167	-210	-959

This option would take effect in October 2025.

Estimates of outlay savings displayed in the table reflect the Congressional Budget Office's assessment of how quickly total funding provided to the Department of Defense would be spent and do not reflect the details of any particular alternative.

Each year, the Department of Defense (DoD) provides the Congress with a budget request designed to align military forces to the National Security Strategy within fiscal constraints. In its 2025 budget request, DoD requested $850 billion to support a force of 1.3 million active-component military personnel. DoD's request represents 49 percent of all proposed discretionary funding requested for that year. In its analysis of the long-term implications of the 2025 defense budget, the Congressional Budget Office projects that, under DoD's current plans, funding for defense programs would be $1,093 billion in 2034 (or $921 billion in 2025 dollars).

DoD's 2025 plan is estimated to cost about $9,610 billion over 10 years ($8,810 billion in 2025 dollars). This option would reduce DoD's funding by $1,118 billion over that 10-year period (about $1,000 billion in 2025 dollars). This option could be implemented in different ways. The number of active-component military personnel could be reduced by about 17 percent by 2034 relative to the 2025 force, leaving the current composition (by unit type) of the force unchanged. The reduction also could be achieved in many other ways, such as reducing ground combat and air combat units (including brigade combat teams, infantry battalions, tactical aviation squadrons, and aircraft carriers and airwings), further reducing the number of active military personnel, or further de-emphasizing the use of U.S. combat forces and instead relying on allies to provide more of their own defense.

Extended Discussion of This Option in 2022: "Reduce the Department of Defense's Annual Budget," www.cbo.gov/budget-options/58632

Related CBO Publications: *Long-Term Implications of the 2025 Future Years Defense Program* (November 2024), www.cbo.gov/publication/60665; "CBO's Interactive Force Structure Tool" (November 2023), www.cbo.gov/force-structure-tool; *Illustrative Options for National Defense Under a Smaller Defense Budget* (October 2021), www.cbo.gov/publication/57128; *The U.S. Military's Force Structure: A Primer, 2021 Update* (May 2021), www.cbo.gov/publication/57088; *Replacing Military Personnel in Support Positions With Civilian Employees* (December 2015), www.cbo.gov/publication/51012

Option 29—Discretionary Spending Function 050

Cap Increases in Basic Pay for Military Service Members

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in discretionary spending												
Budget authority	0	-0.4	-1.0	-1.6	-2.3	-3.0	-3.2	-3.3	-3.4	-3.5	-5.3	-21.7
Outlays	0	-0.4	-1.0	-1.6	-2.2	-2.9	-3.2	-3.3	-3.4	-3.5	-5.2	-21.5
Change in mandatory outlays	0	0.1	0.2	0.4	0.6	0.8	0.8	0.9	0.9	0.9	1.3	5.6

This option would take effect in January 2026.

About 25 percent of the discretionary savings displayed in the table are reductions in intragovernmental payments. Such transactions would transfer resources from one category of the budget to another: Capping increases in basic pay would lower the Department of Defense's payments for retirement accruals and Social Security contributions, but those smaller payments would reduce federal receipts by an equal amount and thus would fully offset the savings. The increase in mandatory outlays shown above represents the reduction in those offsetting receipts.

Basic pay is typically the largest component of military service members' cash compensation. Under current law, the annual pay raise for service members is, by default, set equal to the percentage change in the employment cost index (ECI) for wages and salaries of workers in private industry. Lawmakers have sometimes enacted pay raises that are larger or smaller than the default adjustment.

This option would set basic pay raises for military service members at 0.5 percentage points below the annual increase in the ECI through the end of calendar year 2030.

Related Option: Option 41, "Reduce the Annual Across-the-Board Adjustment for Federal Civilian Employees' Pay" (page 50)

Related CBO Publications: *Long-Term Implications of the 2025 Future Years Defense Program* (November 2024), www.cbo.gov/publication/60665; *Atlas of Military Compensation* (December 2023), www.cbo.gov/publication/59475; *Alternative Approaches to Adjusting Military Cash Pay* (September 2021), www.cbo.gov/publication/57192; *Approaches to Changing Military Compensation* (January 2020), www.cbo.gov/publication/55648

Option 30—Discretionary Spending **Function 050**

Replace Some Military Personnel With Civilian Employees

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in discretionary spending												
Budget authority	0	-0.3	-0.9	-1.5	-2.1	-2.5	-2.6	-2.7	-2.8	-3.0	-4.8	-18.4
Outlays	0	-0.2	-0.7	-1.3	-1.9	-2.3	-2.5	-2.6	-2.7	-2.9	-4.1	-17.1
Change in mandatory outlays	0	0.1	0.4	0.7	1.0	1.2	1.2	1.2	1.2	1.2	2.2	8.2

This option would take effect in October 2025.

About 40 percent of the discretionary savings displayed in the table are reductions in intragovernmental payments. Such transactions would transfer resources from one category of the budget to another: Having fewer military personnel would lower the Department of Defense's (DoD's) payments for retirement accruals and Social Security contributions, but those smaller payments would reduce federal receipts by an equal amount and thus would fully offset the savings. About 90 percent of the increase in mandatory outlays shown above represents the reduction in those offsetting receipts.

The reduced cost to DoD of having fewer military personnel would be partially offset by the increased cost to DoD of having more civilian personnel and the increased cost to the Department of Veterans Affairs of some veterans' receiving health care benefits earlier than anticipated in the Congressional Budget Office's baseline. Some of the cost for veterans' health care would be paid from the Toxic Exposure Fund (TEF) established by Public Law 117-168, the Honoring Our PACT Act, enacted on August 10, 2022; TEF is a mandatory appropriation.

The workforce of the Department of Defense (DoD) consists of members of the active-duty and reserve military, federal civilian employees, and private contractors. According to data from DoD, more than 300,000 active-duty members of the military work in jobs that are not inherently military in nature, like medical support roles, logistics, or administration; those jobs could be performed by civilian employees or contractors. In the Congressional Budget Office's assessment, a smaller number of civilians could provide the same quantity and quality of services at a lower cost than are currently provided by military personnel. Civilian staffing requires fewer personnel because civilians receive less on-the-job training, do not have to devote part of the work year to general military training, and are less likely to rotate among positions as rapidly as military personnel.

Under this option, DoD would replace, over four years, 80,000 active-duty military personnel in commercial jobs with 64,000 civilian employees.

Related CBO Publication: *Replacing Military Personnel in Support Positions With Civilian Employees* (December 2015), www.cbo.gov/publication/51012

Option 31—Discretionary Spending **Function 050**

Stop Building Ford Class Aircraft Carriers

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in planned defense spending												
Budget authority	0	0	-0.6	-2.7	-2.9	-3.0	-4.6	-5.5	-5.2	-2.9	-6.2	-27.4
Outlays	0	0	*	-0.2	-0.8	-1.4	-2.0	-2.7	-3.5	-4.0	-1.0	-14.6

This option would take effect in October 2025.

Estimates of savings displayed in the table are based on the Department of Defense's 2025 Future Years Defense Program and the Congressional Budget Office's extension of that plan.

* = between -$50 million and zero.

The Navy's current 30-year shipbuilding plan includes the construction of new aircraft carriers.

Under this option, the Navy would stop building new aircraft carriers after the completion of its fourth modern Ford class carrier, which lawmakers authorized in 2019 and which the Navy expects to be completed in 2032. The Navy's plans to order the fifth Ford class carrier in 2030, designated as CVN-82, would be canceled, as would plans to purchase additional carriers in subsequent years.

Because those ships are expensive and take a long time to build, the Congress appropriates funds for construction over eight years, beginning two years before it authorizes a ship's purchase. To estimate the savings for this option, the Congressional Budget Office relies on the assumption that the Navy proceeds with its current shipbuilding plan and that the Congress authorizes the Navy to order the sixth carrier, designated as CVN-83, in 2034. If the Navy ordered it in 2035 instead, then the savings would be slightly less over the 2025–2034 period.

Related CBO Publications: *Long-Term Implications of the 2025 Future Years Defense Program* (November 2024), www.cbo.gov/publication/60665; *An Analysis of the Navy's Fiscal Year 2024 Shipbuilding Plan* (October 2023), www.cbo.gov/publication/59508; *How CBO Estimates the Cost of New Ships* (April 2018), www.cbo.gov/publication/53785; *Comparing a 355-Ship Fleet With Smaller Naval Forces* (March 2018), www.cbo.gov/publication/53637; *Costs of Building a 355-Ship Navy* (April 2017), www.cbo.gov/publication/52632

Option 32—Discretionary Spending **Function 050**

Cancel the Long-Range Standoff Weapon

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in planned defense spending												
Budget authority	0	-2.1	-2.5	-2.7	-3.1	-2.8	-2.2	-0.4	-0.2	0	-10.4	-16.0
Outlays	0	-0.9	-1.6	-1.9	-2.2	-2.3	-2.4	-2.0	-1.3	-0.6	-6.6	-15.2

This option would take effect in October 2025.

Estimates of savings displayed in the table are based on the Department of Defense's 2025 Future Years Defense Program, the Department of Energy's 2025 Future Years Nuclear Security Program, and the Congressional Budget Office's extension of those plans.

The Department of Defense (DoD) and the Department of Energy (DOE) currently oversee two programs aimed at developing nuclear weapons for the new B-21 stealth bomber. In the B61-12 life extension program (LEP), DOE is working to refurbish and combine several varieties of the B61 bomb into a single hybrid design. In the other program, DoD is developing the Long-Range Standoff Weapon (LRSO), a new nuclear air-launched cruise missile (ALCM) designed to replace the one currently carried by the B-52H. DOE is producing a warhead, the W80-4, for the LRSO to carry.

This option would cancel the LRSO and W80-4 warhead development program but retain the B61-12 LEP. Thus, the Air Force would stop equipping bombers with cruise missiles armed with nuclear warheads after the current ALCMs reached the end of their service life (around 2030). This option would not change the planned size of the strategic bomber fleet or its ability to conduct non-nuclear missions, and aircraft that are capable of carrying nuclear bombs would still be able to do so.

Related CBO Publications: *Long-Term Implications of the 2025 Future Years Defense Program* (November 2024), www.cbo.gov/publication/60665; *Projected Costs of U.S. Nuclear Forces, 2023 to 2032* (July 2023), www.cbo.gov/publication/59054

Option 33—Discretionary Spending | Function 050

Cancel the Army's Future Long-Range Assault Aircraft

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in planned defense spending												
Budget authority	0	-0.8	-1.1	-1.1	-1.4	-1.7	-1.8	-2.1	-2.0	-1.9	-4.4	-13.9
Outlays	0	-0.3	-0.7	-0.9	-1.0	-1.2	-1.4	-1.5	-1.7	-1.8	-2.9	-10.5

This option would take effect in October 2025.

Estimates of savings displayed in the table are based on the Department of Defense's 2025 Future Years Defense Program and the Congressional Budget Office's extension of that plan.

The Department of Defense (DoD) established the Future Vertical Lift (FVL) initiative to focus on research and development of technologies for the next generation of vertical lift aircraft for U.S. armed forces. Although all branches of the armed forces would benefit from the FVL initiative, the Army has been its primary developer, and most funding has been provided in Army appropriation accounts. The Army had been developing two new aircraft as part of its FVL efforts: the Future Attack Reconnaissance Aircraft (FARA) and the Future Long-Range Assault Aircraft (FLRAA). The FARA was expected to fill the role of the retired Kiowa Warrior scout helicopter, but its development was canceled in the Army's 2025 budget request. The FLRAA, which is expected to replace the Blackhawk transport helicopter, remains in development. It is designed to be faster and have a longer range than the Blackhawk and is expected to enter service in the early 2030s.

This option would end development of the FLRAA. The Army would continue to operate its current fleet of helicopters, most of which have been purchased or refurbished within the past 15 years. Older Blackhawks would be replaced by purchasing additional M-model Blackhawks.

Related CBO Publication: *The Cost of Replacing Today's Army Aviation Fleet* (May 2019), www.cbo.gov/publication/55180

Option 34—Discretionary Spending **Function 050**

Reduce the Size of the Bomber Force by Retiring the B-1B

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in planned defense spending												
Budget authority	0	-1.3	-1.3	-1.1	-0.9	-0.7	-0.5	0	0	0	-4.6	-5.8
Outlays	0	-0.9	-1.2	-1.1	-1.0	-0.8	-0.6	-0.2	*	*	-4.2	-5.8

This option would take effect in October 2025.

Estimates of savings displayed in the table are based on cost estimates from the Air Force.

* = between -$50 million and zero.

The Air Force uses B-1B bombers for conventional (nonnuclear) missions. Although the Air Force plans to replace them with B-21 bombers that are under development, the potential service life of many B-1B bombers extends well into the 2030s.

This option would retire the entire B-1B bomber fleet in 2026 and eliminate the military personnel positions in the squadrons that would be removed from the force. If the positions were reassigned to other parts of the Air Force rather than eliminated, then the outlay savings over the 2025–2034 period would be $1.6 billion less.

Related CBO Publication: *Long-Term Implications of the 2025 Future Years Defense Program* (November 2024), www.cbo.gov/publication/60665

Option 35—Discretionary Spending | Function 050

Reduce the Size of the Fighter Force by Retiring the F-22

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in planned defense spending												
Budget authority	0	-3.8	-3.7	-3.7	-3.7	-3.6	-3.3	-3.1	-3.0	-3.1	-14.9	-31.0
Outlays	0	-1.8	-2.8	-3.3	-3.6	-3.6	-3.6	-3.5	-3.3	-3.2	-11.5	-28.7

This option would take effect in October 2025.

Estimates of savings displayed in the table are based on cost estimates from the Air Force.

The Air Force's 186 F-22 fighter aircraft are designed to engage in combat with enemy aircraft. Built to be a stealthy fighter, the F-22 is difficult for enemy radar to detect. The F-22 is only one part of the Air Force's stealth fighter fleet; the Air Force now operates more than 400 stealthy F-35A fighter aircraft.

This option would retire the entire F-22 fleet in 2026 and eliminate the military personnel positions associated with the aircraft. The Air Force would rely on other aircraft, stealthy and nonstealthy, to carry out the F-22's mission. If the positions were reassigned to other parts of the Air Force rather than eliminated, then the outlay savings over the 2025–2034 period would be $5.1 billion less.

Related CBO Publication: *The Cost of Replacing Today's Air Force Fleet* (December 2018), www.cbo.gov/publication/54657

Option 36—Discretionary Spending Function 050

Reduce the Basic Allowance for Housing to 80 Percent of Average Housing Costs

											Total	
Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2025–2029	2025–2034
Change in discretionary spending												
Budget authority	0	-0.1	-0.3	-0.8	-1.2	-1.7	-2.3	-2.9	-3.5	-4.1	-2.4	-16.9
Outlays	0	-0.1	-0.3	-0.8	-1.2	-1.7	-2.3	-2.8	-3.4	-4.0	-2.4	-16.6
Change in mandatory outlays	0	*	*	-0.1	-0.2	-0.3	-0.4	-0.6	-0.8	-0.8	-0.3	-3.2

This option would take effect in January 2026.

* = between -$50 million and zero.

The Department of Defense provides assistance to eligible military personnel and their families to ensure they have access to affordable and quality housing. If government-owned military housing is not available (which is typically the case because it is very limited), service members are provided with a basic allowance for housing (BAH) to offset most of their costs for rent and utilities. The 1998 legislation that established BAH prescribed a formula for determining the allowance on the basis of variations in local rental markets. BAH initially covered an average of 80 percent of the costs for rent and utilities, but it now covers about 95 percent of average costs.

This option would return BAH to its original percentage of average housing costs by reducing it by 1.7 percentage points each January for nine years. (To minimize disruptions for service members currently in private housing, BAH would not change until they moved.) As a result, by 2034, BAH would once again cover 80 percent of rental and utility costs. Because the housing benefit that the Department of Veterans Affairs (VA) provides as part of the Post-9/11 GI Bill is tied to BAH rates, this option would also reduce VA's mandatory spending.

Related CBO Publication: *How the Military's Basic Allowance for Housing Compares With Civilian Housing Costs* (March 2024), www.cbo.gov/publication/59570

Option 37—Discretionary Spending Function 150

Reduce Funding for International Affairs Programs

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in spending												
Budget authority	0	-23	-24	-24	-25	-25	-26	-26	-27	-27	-96	-227
Outlays	0	-8	-15	-19	-22	-23	-24	-25	-25	-26	-64	-187

This option would take effect in October 2025.

The budget for international affairs funds diplomatic and consular programs, global health initiatives, security assistance, and other programs. Most funding for international affairs programs is administered by the Department of State or the Agency for International Development.

This option would reduce the total international affairs budget by 25 percent.

Option 38—Discretionary Spending **Function 500**

Eliminate Federal Funding for National Community Service

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in spending												
Budget authority	0	-1.3	-1.3	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5	-1.6	-5.4	-12.9
Outlays	0	-0.3	-0.9	-1.1	-1.2	-1.2	-1.3	-1.4	-1.4	-1.5	-3.5	-10.3

This option would take effect in October 2025.

The Corporation for National and Community Service (CNCS), which operates the AmeriCorps and Senior Corps programs, receives public funding—from federal, state, and local governments—and funding from private entities. CNCS programs provide financial and in-kind assistance to students, seniors, and others who volunteer in their communities in areas such as education, public safety, the environment, and health care. Participants in those programs receive one or more types of compensation, which include living allowances, training, health coverage, and child care. In addition, upon completing their service, participants in certain programs can earn education awards, paid from the National Service Trust (NST), which is managed by CNCS.

This option would eliminate all federal funding for CNCS except for funding for the NST. In the absence of federal funding, the volunteer programs would continue to operate only to the extent that state and local governments and private entities chose to fund them.

Option 39—Discretionary Spending Function 500

Tighten Eligibility for Pell Grants

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in discretionary spending												
Budget authority	0	-2.5	-2.5	-2.6	-2.7	-2.7	-2.8	-2.8	-2.8	-2.8	-10.3	-24.2
Outlays	0	-0.6	-2.5	-2.6	-2.6	-2.7	-2.7	-2.8	-2.8	-2.8	-8.3	-22.1
Change in mandatory outlays	0	-0.3	-1.0	-1.1	-1.1	-1.1	-1.1	-1.1	-1.2	-1.2	-3.5	-9.2

This option would take effect in July 2026.

The Federal Pell Grant Program is the largest source of federal grant aid to students with low income for undergraduate education. Eligibility for Pell grants is chiefly determined by a person's student aid index—an amount that measures their family's ability to contribute toward the cost of their postsecondary education. The student aid index is calculated using a formula established under federal law and using information that the student provides on their student aid application. The amount of a student's grant is determined on the basis of the student's financial need and enrollment status (such as whether they attend school full-time or part-time). Funding for the Pell grant program has both discretionary and mandatory components.

This option would restrict eligibility to students eligible for the maximum award.

Related Options: Option 3, "Eliminate the Add-On to Pell Grants, Which Is Funded With Mandatory Spending" (page 7); Option 58, "Eliminate Certain Tax Preferences for Education Expenses" (page 69)

Related CBO Publications: *Student Loan Repayment, 2009 to 2019* (September 2024), www.cbo.gov/publication/58963; *Federal Aid for Postsecondary Students* (June 2018), www.cbo.gov/publication/53736; *Distribution of Federal Support for Students Pursuing Higher Education in 2016* (June 2018), www.cbo.gov/publication/53732

Option 40—Discretionary Spending **Function 700**

End Enrollment in VA Medical Care for Veterans in Priority Groups 7 and 8

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in discretionary spending												
Budget authority	0	-8.9	-8.8	-7.5	-7.4	-6.1	-6.0	-5.4	-5.3	-5.2	-32.6	-60.6
Outlays	0	-8.1	-8.7	-7.5	-7.4	-6.2	-6.0	-5.4	-5.3	-5.2	-31.7	-59.8
Change in mandatory outlays	0	4.1	4.1	3.5	3.5	2.9	2.9	2.6	2.6	2.6	15.2	28.8

This option would take effect in October 2026.

The Department of Veterans Affairs (VA) provides a wide range of medical services at little or no charge to enrolled veterans, including inpatient and outpatient care, prescription drug coverage, and assistive devices (such as hearing aids and prosthetics). Veterans who seek medical care from VA are assigned to one of eight priority groups on the basis of disability status and income, among other factors. Veterans in priority group 7 do not have compensable service-connected disabilities, and their annual income is above a national threshold set by VA but below a geographically adjusted one. The national threshold for a household of one in 2024 is about $40,000; the geographically adjusted threshold is generally higher than the national one. (Whether a veteran falls above or below a threshold is determined by their income in the previous year.) Veterans in priority group 8 do not have compensable service-connected disabilities, and their income is above both the national and the geographic thresholds. In 2023, about 1 million veterans who were enrolled in priority groups 7 and 8 used the VA health care system. The number of veterans enrolled in those groups is expected to decrease over time, primarily because the Honoring Our PACT Act (Public Law 117-168) moved veterans deemed to have been exposed to toxic substances to higher priority groups. In addition, VA ended enrollment of veterans in priority group 8 in 2003, although veterans who were enrolled at that time were allowed to remain in VA's health care system. (Since then, enrollment in that group has been reopened to some veterans.)

This option would end enrollment in VA's health care system for all veterans in priority groups 7 and 8: No new enrollees would be accepted, and current enrollees would be disenrolled starting in October 2026. Some of those veterans would be eligible for Medicare and would shift their health care from VA to Medicare, increasing mandatory spending.

Option 41—Discretionary Spending

Multiple Functions

Reduce the Annual Across-the-Board Adjustment for Federal Civilian Employees' Pay

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in discretionary spending												
Budget authority	0	-1.2	-2.8	-4.5	-6.3	-8.2	-10.3	-12.4	-14.6	-17.0	-14.8	-77.3
Outlays	0	-1.1	-2.7	-4.4	-6.2	-8.2	-10.2	-12.3	-14.5	-16.9	-14.4	-76.5
Change in mandatory outlays	0	0.3	0.7	1.1	1.5	2.0	2.5	3.0	3.6	4.2	3.6	18.9

This option would take effect in January 2026.

About a quarter of the discretionary savings displayed in the table are reductions in intragovernmental payments. Such transactions would transfer resources from one category of the budget to another: Reducing future increases in federal pay would lower agencies' contributions for federal employees' retirement, Social Security, and Medicare, but those smaller payments would reduce federal receipts by an equal amount and thus would offset part of the savings. The increase in mandatory outlays shown above represents the reduction in those offsetting receipts.

Under the Federal Employees Pay Comparability Act of 1990 (FEPCA), most federal civilian employees receive a pay adjustment each January. The adjustment is equal to the annual growth in the employment cost index (ECI) for wages and salaries of workers in private industry minus 0.5 percentage points. Since 2010, however, policymakers have often lowered the adjustment.

This option would reduce the pay adjustment specified in FEPCA by an additional 0.5 percentage points. As a result, from 2026 to 2034, the adjustment would equal the growth rate of the ECI minus 1 percentage point. If the growth rate of the ECI was less than 1 percent, which has not occurred since the enactment of FEPCA, then no across-the-board adjustment would be granted for that year.

Related Option: Option 29, "Cap Increases in Basic Pay for Military Service Members" (page 38)

Related CBO Publications: *Comparing the Compensation of Federal and Private-Sector Employees in 2022* (April 2024), www.cbo.gov/publication/59970; Justin Falk and Nadia Karamcheva, *Comparing the Effects of Current Pay and Defined Benefit Pensions on Employee Retention*, Working Paper 2018-06 (June 2018), www.cbo.gov/publication/54056

Option 42—Discretionary Spending Functions 400, 500

Reduce Selected Nondefense Discretionary Spending

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in spending												
Spending authority	0	-41	-43	-43	-44	-45	-46	-47	-48	-49	-171	-406
Outlays	0	-13	-30	-36	-39	-41	-43	-44	-46	-47	-118	-339

This option would take effect in October 2025.

Spending authority consists of obligation limitations for transportation programs and budget authority for education programs.

Nondefense discretionary spending is controlled by lawmakers through appropriation acts, which specify how much money can be obligated for certain government programs in specific years. Those acts fund a wide array of federal activities that provide direct benefits to individuals, give grants to state and local governments and private entities, pay for federal employees' salaries, and fund contracts for goods and services provided by the private sector. Nondefense discretionary spending also includes outlays for certain highway and airport infrastructure and public transit programs whose funding is considered mandatory. The outlays for those programs are considered discretionary because annual appropriation acts limit the obligations that can be made from the mandatory funding.

There are many possible ways to reduce nondefense discretionary spending. Under this option, the reduction would be achieved by decreasing by one-third funding for two of the largest areas of nondefense discretionary spending: grants to state and local governments for transportation programs and for education programs. (For transportation programs, obligation limitations would be reduced; for education programs, budget authority would be reduced.) For transportation programs, highway and transit grants would be most affected by the reductions. For education programs, grants that provide funding for the education of children from low-income households and of children with disabilities would be substantially affected by the cuts.

Extended Discussion of This Option in 2022: "Reduce Nondefense Discretionary Spending," www.cbo.gov/budget-options/58633

Related Options: Option 43, "Reduce Funding for Certain Grants to State and Local Governments" (page 52); Option 71, "Increase Excise Taxes on Motor Fuels and Index Them for Inflation" (page 82)

Related CBO Publications: *Federal Financial Support for Public Transportation* (March 2022), www.cbo.gov/publication/57636; *Economic Effects of Expanding Subsidized Child Care and Providing Universal Preschool* (November 2021), www.cbo.gov/publication/57630; Sheila Campbell and Chad Shirley, *Fiscal Substitution in Spending for Highway Infrastructure*, Working Paper 2021-13 (October 2021), www.cbo.gov/publication/57430; *Effects of Physical Infrastructure Spending on the Economy and the Budget Under Two Illustrative Scenarios* (August 2021), www.cbo.gov/publication/57327; *Reauthorizing Federal Highway Programs: Issues and Options* (May 2020), www.cbo.gov/publication/56346; *Federal Investment, 1962 to 2018* (June 2019), www.cbo.gov/publication/55375; *Public Spending on Transportation and Water Infrastructure, 1956 to 2017* (October 2018), www.cbo.gov/publication/54539; Sheila Campbell, *Fiscal Substitution of Investment for Highway Infrastructure*, Working Paper 2018-08 (August 2018), www.cbo.gov/publication/54371; "How CBO Analyzes the Economic Effects of Changes in Federal Subsidies for Education and Job Training," *CBO Blog* (May 3, 2017), www.cbo.gov/publication/52361; *The Macroeconomic and Budgetary Effects of Federal Investment* (June 2016), www.cbo.gov/publication/51628

Option 43—Discretionary Spending **Multiple Functions**

Reduce Funding for Certain Grants to State and Local Governments

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Reduce Department of Energy funding for energy conservation and weatherization grants												
Change in spending												
Budget authority	0	-0.1	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-1.0	-2.5
Outlays	0	*	-0.1	-0.1	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.4	-1.8
Reduce Environmental Protection Agency funding for wastewater and drinking water infrastructure and other grants[a]												
Change in spending												
Budget authority	0	-4.0	-2.3	-2.4	-2.4	-2.5	-2.5	-2.6	-2.6	-2.7	-11.1	-24.0
Outlays	0	-0.2	-1.0	-2.1	-2.6	-2.8	-2.9	-2.9	-2.7	-2.6	-5.9	-19.8
Reduce Department of Housing and Urban Development funding for Community Development Block Grants												
Change in spending												
Budget authority	0	-5.3	-3.6	-3.6	-3.7	-3.8	-3.8	-3.9	-4.0	-4.1	-16.2	-35.8
Outlays	0	-0.1	-0.9	-1.7	-2.3	-2.9	-3.3	-3.4	-3.6	-3.7	-5.0	-21.9
Reduce funding for certain Department of Education grants												
Change in spending												
Budget authority	0	-0.5	-1.0	-1.1	-1.2	-1.4	-1.6	-1.9	-2.2	-2.7	-3.8	-13.6
Outlays	0	0	-0.3	-0.8	-1.0	-1.2	-1.3	-1.5	-1.7	-2.0	-2.1	-9.8
Reduce funding for certain Department of Justice grants[b]												
Change in spending												
Budget authority	0	-2.1	-2.1	-2.2	-2.2	-2.3	-2.3	-2.4	-2.4	-2.4	-8.6	-20.4
Outlays	0	-0.1	-0.4	-0.9	-1.5	-1.9	-2.1	-2.1	-2.2	-2.2	-2.9	-13.4
Total												
Change in spending												
Budget authority	0	-12.0	-9.3	-9.6	-9.8	-10.3	-10.5	-11.1	-11.5	-12.2	-40.7	-96.3
Outlays	0	-0.4	-2.7	-5.6	-7.6	-9.0	-9.9	-10.2	-10.5	-10.8	-16.3	-66.7

This option would take effect in October 2025.

* = between -$50 million and zero.

a. These estimates include savings in budget authority through 2026 specified by division J of Public Law 117-58, the Infrastructure Investment and Jobs Act (IIJA). In the Congressional Budget Office's baseline, IIJA funding is projected to continue in future years; these estimates do not include that projected funding.

b. These estimates do not include budget authority that was specified in division B of subtitle D of P.L. 117-159, the Bipartisan Safer Communities Act, which provided advance funding through 2026 for certain programs.

The federal government provides grants to state and local governments to finance local projects, encourage policy experimentation by state and local governments, and promote national priorities. This option would reduce new funding for the following grants by 25 percent in 2026 and by 50 percent after 2026:

- The Department of Energy's grants for energy conservation and weatherization, made through the Office of State and Community Energy Programs.
- The Environmental Protection Agency's grants for wastewater and drinking water infrastructure as well as other grants that help states implement federal water, air, waste, and chemical programs.

- The Department of Housing and Urban Development's Community Development Block Grant (CDBG) program. The reduction includes only base CDBG funding and does not include any possible funding for future disaster recovery efforts.
- Certain Department of Education grants, like those for the 21st Century Community Learning Centers, that fund nonacademic programs that address students' physical, emotional, and social well-being.
- Certain Department of Justice grants to nonprofit community organizations and state and local law enforcement agencies. Those grants include State and Local Law Enforcement Assistance programs, Juvenile Justice programs, Community Oriented Policing Services grants, and grants administered through the Office on Violence Against Women.

Related Option: Option 42, "Reduce Selected Nondefense Discretionary Spending" (page 51)

Related CBO Publications: *Federal Investment, 1962 to 2018* (June 2019), www.cbo.gov/publication/55375; *Public Spending on Transportation and Water Infrastructure, 1956 to 2017* (October 2018), www.cbo.gov/publication/54539

Option 44—Discretionary Spending | Multiple Functions

Repeal the Davis-Bacon Act

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in discretionary spending												
Spending authority	0	-1.5	-2.7	-2.8	-2.8	-2.9	-2.9	-3.0	-3.0	-3.1	-9.8	-24.7
Budget authority	0	-0.8	-1.3	-1.3	-1.3	-1.4	-1.4	-1.4	-1.4	-1.4	-4.7	-11.7
Outlays	0	-0.8	-1.9	-2.0	-2.1	-2.2	-2.2	-2.2	-2.2	-2.2	-6.8	-17.8
Change in mandatory outlays	0	*	-0.1	-0.1	-0.1	-0.1	*	*	*	*	-0.3	-0.4

This option would take effect in October 2025.

Spending authority includes both budget authority and obligation limitations (such as those for certain transportation programs).

The estimates displayed in the table include savings in budget authority specified by division J of Public Law 117-58, the Infrastructure Investment and Jobs Act (IIJA), which provided funding through 2026 for certain programs. In the Congressional Budget Office's baseline, IIJA funding is projected to continue in future years; these estimates do not include that projected funding.

* = between -$50 million and zero.

The Davis-Bacon Act requires that workers on all federally funded or federally assisted construction projects whose contracts total more than $2,000 be paid no less than the prevailing wages in the area where the project is located. In 2024, more than a third of all federal or federally financed construction was funded through the Department of Transportation.

This option would repeal the Davis-Bacon Act, thereby lowering the federal government's costs for construction. The reduction in wages and benefits would account for most of the savings from repeal, but repealing the Davis-Bacon Act would also reduce contractors' administrative costs associated with compliance. To reflect those lower costs, the option would make corresponding reductions in mandatory and discretionary appropriations and in limits on the government's authority to enter into obligations for certain transportation programs. Most of the spending for federal or federally financed construction is discretionary, but this option would also result in a small reduction in mandatory outlays.

Chapter 4: Revenue Options

Option 45—Revenues

Increase Individual Income Tax Rates on Ordinary Income

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit												
Raise all tax rates on ordinary income by 1 percentage point	-82.3	-106.3	-106.4	-111.7	-116.5	-121.5	-126.8	-132.4	-137.9	-143.5	-523.2	-1,185.3
Raise tax rates on ordinary income in the four highest brackets by 2 percentage points	-45.1	-53.0	-50.7	-53.3	-55.1	-57.2	-59.7	-62.4	-65.0	-67.9	-257.2	-569.5

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

Taxable ordinary income is all income subject to the individual income tax other than most long-term capital gains and dividends, minus allowable adjustments, exemptions, and deductions. The tax code specifies the tax rates that apply to ordinary income.

Tax rates vary depending on the tax bracket, or income range, in which a taxpayer's income falls. (Tax brackets vary by taxpayers' filing status and are adjusted, or indexed, each year to include the effects of inflation.) Beginning in 2018, the 2017 tax act (Public Law 115-97) temporarily lowered the tax rates and adjusted the tax brackets that apply to ordinary income. Through calendar year 2025, taxable ordinary income earned by most individuals is subject to the following seven statutory rates: 10 percent, 12 percent, 22 percent, 24 percent, 32 percent, 35 percent, and 37 percent. At the end of 2025, the rates and brackets will revert to those in effect under pre-2018 tax law. Specifically, beginning in 2026, the rates will be 10 percent, 15 percent, 25 percent, 28 percent, 33 percent, 35 percent, and 39.6 percent.

This option consists of two alternatives for increasing statutory rates under the individual income tax. Under the first alternative, all tax rates on ordinary income would increase by 1 percentage point. Under the second alternative, tax rates on ordinary income in the top four brackets would increase by 2 percentage points. Under both alternatives, the scheduled changes to the underlying tax brackets and rates would still take effect in 2026.

Extended Discussion of This Option in 2022: "Increase Individual Income Tax Rates," www.cbo.gov/budget-options/58634

Related Options: Option 46, "Impose a Surtax on Individuals' Adjusted Gross Income" (page 56); Option 49, "Eliminate or Limit Itemized Deductions" (page 59); Option 47, "Raise the Tax Rates on Long-Term Capital Gains and Qualified Dividends by 2 Percentage Points" (page 57)

Related CBO Publications: *The Distribution of Household Income in 2021* (September 2024), www.cbo.gov/publication/60341; *The Distribution of Major Tax Expenditures in 2019* (October 2021), www.cbo.gov/publication/57413

Option 46—Revenues

Impose a Surtax on Individuals' Adjusted Gross Income

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit												
Impose a surtax of 1 percentage point on AGI above $20,000 for single filers and $40,000 for joint filers	-70.7	-124.4	-131.3	-139.0	-145.2	-151.7	-158.6	-165.9	-173.1	-180.4	-610.6	-1,440.1
Impose a surtax of 2 percentage points on AGI above $100,000 for single filers and $200,000 for joint filers	-49.5	-89.1	-94.2	-101.2	-105.8	-110.8	-116.3	-122.1	-127.9	-133.9	-439.8	-1,051.0

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

AGI = adjusted gross income.

Adjusted gross income (AGI) consists of income from all sources not specifically excluded by the tax code, minus certain deductions called statutory adjustments. Those adjustments to income include a portion of the self-employment tax, certain contributions to retirement accounts, and interest on student loans. Under current law, AGI is not directly taxed. A narrower measure of income—taxable income—is subject to the individual income tax.

This option consists of two alternatives for imposing a surtax on AGI. Under the first alternative, a surtax of 1 percentage point would be imposed on AGI above $20,000 for single filers and $40,000 for joint filers. Under the second alternative, a surtax of 2 percentage points would be imposed on AGI above $100,000 for single filers and $200,000 for joint filers. After 2025, the thresholds for the surtax would be adjusted, or indexed, to include the effects of inflation.

Extended Discussion of This Option in 2022: "Increase Individual Income Tax Rates," www.cbo.gov/budget-options/58634

Related Options: Option 45, "Increase Individual Income Tax Rates on Ordinary Income" (page 55); Option 47, "Raise the Tax Rates on Long-Term Capital Gains and Qualified Dividends by 2 Percentage Points" (page 57); Option 49, "Eliminate or Limit Itemized Deductions" (page 59)

Related CBO Publications: *The Distribution of Household Income in 2021* (September 2024), www.cbo.gov/publication/60341; *The Distribution of Major Tax Expenditures in 2019* (October 2021), www.cbo.gov/publication/57413

Option 47—Revenues

Raise the Tax Rates on Long-Term Capital Gains and Qualified Dividends by 2 Percentage Points

											Total	
Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2025–2029	2025–2034
Decrease (-) in the deficit	-2.4	-8.3	-8.4	-10.8	-11.2	-11.5	-12.0	-12.5	-12.9	-13.4	-41.1	-103.3

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

When people sell an asset for more than the price at which they obtained it, they generally realize a net capital gain that is subject to taxation. Under current law, long-term capital gains (those realized on assets held for more than a year) and qualified dividends (which include most dividends) are usually taxed at lower rates than other sources of income, such as wages and interest. The statutory rate on most long-term capital gains and qualified dividends is 0 percent, 15 percent, or 20 percent, depending on a taxpayer's filing status and taxable income.

This option would raise the statutory tax rates on long-term capital gains and qualified dividends by 2 percentage points. The new rates would be 2 percent, 17 percent, and 22 percent. The option would not change other provisions of the tax code that affect taxes on capital gains and dividends.

Related Options: Option 45, "Increase Individual Income Tax Rates On Ordinary Income" (page 55); Option 46, "Impose a Surtax on Individuals' Adjusted Gross Income" (page 56); Option 51, "Change the Taxation of Assets Transferred at Death" (page 61); Option 53, "Expand the Base of the Net Investment Income Tax to Include the Income of Active Participants in S Corporations and Limited Partnerships" (page 63); Option 64, "Increase the Corporate Income Tax Rate by 1 Percentage Point" (page 75); Option 74, "Impose a Tax on Financial Transactions" (page 86)

Related CBO Publications: *The Distribution of Major Tax Expenditures in 2019* (October 2021), www.cbo.gov/publication/57413; *The Distribution of Asset Holdings and Capital Gains* (August 2016), www.cbo.gov/publication/51831

Option 48—Revenues

Eliminate or Modify Head-of-Household Filing Status

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2032	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit												
Eliminate head-of-household filing status	-17.8	-19.8	-18.1	-19.1	-20.0	-20.9	-21.8	-22.8	-23.9	-24.9	-94.8	-209.2
Limit head-of-household filing status to unmarried people with a qualifying child under age 17	-5.9	-6.9	-6.5	-6.9	-7.3	-7.7	-8.0	-8.4	-8.8	-9.2	-33.5	-75.7

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

On their tax returns, people must indicate their filing status (such as married, single, or head of household), which has implications for the amount of taxes they owe. Taxpayers who are not married generally file as single or as head of household. People who file as head of household receive tax preferences that are not available to other unmarried individuals: They are eligible for a larger standard deduction, and lower tax rates apply to a greater share of their income. Moreover, heads of households qualify for some tax preferences at higher levels of income than those who file as single.

To qualify for head-of-household filing status, unmarried people must pay more than half of the costs of maintaining the household in which they have resided with a qualifying person for more than half of the year. The rules for claiming a qualifying person vary. A child claimed as a qualifying person must meet certain residency and relationship criteria and also must be under the age of 19, under 24 and a full-time student, or permanently and totally disabled. Other dependent relatives, who also must meet residency and relationship criteria, must receive more than half of their support from the head of household and have gross income below a specified amount ($5,050 in calendar year 2024).

This option consists of two alternatives. The first alternative would eliminate the head-of-household filing status. The second alternative would retain that status but limit it to unmarried taxpayers who pay more than half of the costs of maintaining the household in which they have resided with a qualifying child under the age of 17.

Related CBO Publication: *How Dependents Affect Federal Income Taxes* (January 2020), www.cbo.gov/publication/56004

Option 49—Revenues

Eliminate or Limit Itemized Deductions

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit												
Eliminate itemized deductions	-66.4	-240.7	-340.6	-350.3	-357.9	-375.7	-396.9	-414.4	-431.8	-448.7	-1,355.9	-3,423.5
Eliminate state and local tax deductions	-8.8	-89.2	-166.9	-168.4	-176.5	-184.7	-193.3	-202.1	-211.2	-220.0	-609.8	-1,621.0
Limit the tax benefit of itemized deductions to 15 percent of their total value	-41.5	-134.9	-184.1	-193.8	-201.8	-210.8	-220.3	-232.0	-241.1	-249.5	-756.1	-1,909.8
Limit the tax benefit of itemized deductions to 4 percent of AGI	-20.4	-54.0	-68.3	-72.2	-75.7	-79.8	-84.3	-89.1	-94.0	-98.5	-290.6	-736.4

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

AGI = adjusted gross income.

When preparing their income tax returns, taxpayers may choose to take the standard deduction—a flat dollar amount—or to itemize and deduct certain expenses, such as state and local taxes, mortgage interest, charitable contributions, and some medical expenses. Deductions reduce the amount of income subject to taxation (taxable income), and taxpayers benefit from itemizing when the value of their deductions exceeds the amount of the standard deduction. The tax code imposes limits on the amount of itemized deductions that taxpayers can claim. For example, taxpayers currently cannot deduct more than $10,000 in state and local taxes.

Many of the tax rules relating to itemized deductions were affected by the 2017 tax act (Public Law 115-97) and are scheduled to expire at the end of 2025. Beginning in 2026, deductions for state and local taxes will not be limited, and the overall value of certain itemized deductions will be reduced for taxpayers whose adjusted gross income, or AGI, exceeds a specified threshold. (AGI consists of income from all sources not specifically excluded by the tax code, minus certain deductions.) That threshold, often called the Pease limitation, can reduce the value of some itemized deductions by up to 80 percent, depending on the taxpayer's income.

This option consists of four alternatives. The first alternative would eliminate all itemized deductions, and the second would eliminate the itemized deduction for state and local taxes. The third alternative would limit the tax benefit of itemized deductions to 15 percent of their total value and permanently remove the Pease limitation. The fourth alternative would limit the tax benefit of itemized deductions to 4 percent of a taxpayer's AGI and permanently remove the Pease limitation.

Extended Discussion of This Option in 2022: "Eliminate or Limit Itemized Deductions," www.cbo.gov/budget-options/58635

Related Options: Option 45, "Increase Individual Income Tax Rates on Ordinary Income" (page 55); Option 50, "Limit the Deduction for Charitable Giving" (page 60)

Related CBO Publication: *The Distribution of Major Tax Expenditures in 2019* (October 2021), www.cbo.gov/publication/57413

Option 50—Revenues

Limit the Deduction for Charitable Giving

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit												
Limit deductibility to charitable contributions in excess of 2 percent of adjusted gross income	-3.6	-21.3	-34.2	-36.0	-37.7	-39.4	-41.1	-42.9	-44.8	-46.6	-132.8	-347.7
Limit deductibility to cash contributions	-4.7	-25.2	-31.7	-32.9	-34.2	-35.7	-37.4	-39.1	-40.8	-42.5	-128.7	-324.3

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

Taxpayers who itemize can deduct the value of their contributions to qualifying charitable organizations. Two restrictions apply to the deduction. First, deductible charitable contributions may not exceed a certain percentage of a taxpayer's adjusted gross income, or AGI. (AGI includes income from all sources not specifically excluded by the tax code, minus certain deductions.) The second restriction, which was temporarily lifted but will resume in 2026, reduces the total value of certain itemized deductions—including the deduction for charitable donations—for taxpayers with higher income.

This option consists of two alternatives that would limit the deduction for charitable donations. Under the first alternative, only the amount of a taxpayer's contributions that exceeded 2 percent of their AGI would be deductible. Under the second alternative, the deduction would be eliminated for noncash contributions. Both alternatives would continue to be limited to taxpayers who itemize, and taxpayers with higher income would still be subject to the additional reduction in the total value of certain deductions after 2025.

Related Option: Option 49, "Eliminate or Limit Itemized Deductions" (page 59)

Option 51—Revenues

Change the Taxation of Assets Transferred at Death

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit												
Enact carryover basis for assets held until death	-1.0	-7.5	-11.5	-15.1	-18.6	-21.9	-25.1	-28.5	-32.0	-35.6	-53.7	-196.9
Include accrued capital gains in the last income tax return of decedents	-9.1	-48.7	-46.8	-48.8	-51.9	-55.8	-60.5	-65.8	-71.4	-77.3	-205.3	-536.1

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

When people sell an asset for more than the price for which they obtained it, they realize a net capital gain. The net gain is typically calculated as the sale price minus the asset's adjusted basis—generally the original purchase price adjusted for improvements and depreciation. To calculate the gains on inherited assets, taxpayers generally use the asset's fair-market value at the time of the owner's death, often referred to as the stepped-up basis, instead of the adjusted basis derived from the asset's value when the decedent initially acquired it. When the heir sells the asset, capital gains taxes are assessed only on the change in the asset's value relative to the stepped-up basis. As a result, any appreciation in value that occurred while the decedent owned the asset is not included in taxable income and therefore is not subject to the capital gains tax.

This option consists of two alternatives that would change how capital gains (or losses) on assets transferred at death were taxed. Under the first alternative, taxpayers would generally adopt the adjusted basis of the decedent (known as carryover basis) on assets they inherit. As a result, the decedent's unrealized capital gain would be taxed at the heirs' tax rate when they eventually sell the assets. (This alternative would adjust the basis of some bequeathed assets that would be subject to both the estate tax and the capital gains tax. That adjustment would minimize the extent to which the asset's appreciation in value would be subject to both taxes.)

Under the second alternative, capital gains would be taxed as if the decedent had sold the asset at death. Capital gains realized at death would generally use the adjusted basis derived from the asset's value when the decedent initially acquired it. The capital gain would be included as taxable income on the decedent's final income tax return. This alternative would not change the heir's stepped-up basis. Under this alternative, the capital gains taxed at death would be deductible from estate taxes to avoid taxing the same appreciation under both taxes.

Related Option: Option 47, "Raise the Tax Rates on Long-Term Capital Gains and Qualified Dividends by 2 Percentage Points" (page 57)

Related CBO Publications: *Understanding Federal Estate and Gift Taxes* (June 2021), www.cbo.gov/publication/57129; *The Distribution of Asset Holdings and Capital Gains* (August 2016), www.cbo.gov/publication/51831

Option 52—Revenues

Eliminate the Tax Exemption for New Qualified Private Activity Bonds

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit	-0.2	-0.9	-1.9	-2.9	-3.8	-4.8	-5.7	-6.7	-7.6	-8.6	-9.7	-43.1

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

These estimates do not include any potential interaction between private activity bonds and the low-income housing tax credit.

The U.S. tax code permits state and local governments to finance certain projects by issuing bonds whose interest payments are exempt from federal income taxes. For the most part, proceeds from tax-exempt bonds are used to finance public projects, such as the construction of highways and schools. In some cases, however, state and local governments issue tax-exempt bonds to finance private-sector projects. Such bonds—known as qualified private activity bonds—may be used to fund private projects that provide at least some public benefits. Eligible projects include the construction of infrastructure, such as roads, airports, broadband networks, and carbon dioxide capture facilities, as well as certain activities undertaken by nonprofit organizations, such as building schools and hospitals.

This option would eliminate the tax exemption for new qualified private activity bonds.

Related Option: Option 68, "Repeal the Low-Income Housing Tax Credit" (page 79)

Related CBO Publications: Testimony of Joseph Kile, Director of Microeconomic Analysis, before the Senate Committee on Finance, *Options for Funding and Financing Highway Spending* (May 18, 2021), www.cbo.gov/publication/57206; *Public-Private Partnerships for Transportation and Water Infrastructure* (January 2020), www.cbo.gov/publication/56003; *Federal Support for Financing State and Local Transportation and Water Infrastructure* (October 2018), www.cbo.gov/publication/54549

Option 53—Revenues

Expand the Base of the Net Investment Income Tax to Include the Income of Active Participants in S Corporations and Limited Partnerships

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit	-24.5	-37.1	-40.0	-40.7	-41.9	-43.4	-45.2	-47.0	-48.8	-51.0	-184.2	-420.0

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

In addition to the individual income tax, taxpayers with high income face two taxes on certain types of income above specified thresholds. The first—the additional Medicare tax—is a 0.9 percent tax on wages and self-employment income in excess of those thresholds (bringing their overall Medicare tax rate to 3.8 percent). The second tax faced by taxpayers with high income is the net investment income tax (NIIT), which is a 3.8 percent tax on qualifying investment income, such as interest, dividends, capital gains, rents, royalties, and passive income from businesses not subject to the corporate income tax.

Income generated by some types of businesses—specifically, limited partnerships (wherein certain partners are not liable for the debts of the business in excess of their initial investment) and S corporations (which are not subject to the corporate income tax because they meet certain criteria defined in subchapter S of the tax code)—may be excluded from both taxes under some circumstances. If a taxpayer with high income is actively involved in running such a business, as some limited partners and most owners of S corporations are, that person's share of the firm's net profits is not subject to either the additional Medicare tax or the NIIT. If the taxpayer receives a salary from the firm, however, that income is subject to the additional Medicare tax.

This option would impose the NIIT on all income derived from business activity that is subject to the individual income tax but not to the additional Medicare tax.

Related Option: Option 47, "Raise the Tax Rates on Long-Term Capital Gains and Qualified Dividends by 2 Percentage Points" (page 57)

Option 54—Revenues

Tax Carried Interest as Ordinary Income

											Total	
Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2025–2029	2025–2034
Decrease (-) in the deficit	-0.5	-1.1	-1.3	-1.3	-1.3	-1.4	-1.4	-1.5	-1.5	-1.6	-5.5	-13.0

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

Investment funds—such as private equity funds, real estate funds, and hedge funds—are often organized as partnerships. Those partnerships typically have two types of partners: general partners and limited partners. General partners manage investment funds and typically receive two types of compensation: a management fee tied to a percentage of the fund's assets and a percentage of the fund's profits, which is called carried interest. Carried interest associated with gains from the sale of an asset held for more than three years is usually taxed at the long-term capital gains rate, which is typically lower than that for ordinary income. Additionally, carried interest is not subject to the self-employment tax.

This option would treat carried interest that general partners received as compensation for performing investment management services as labor income, taxed at the rate of ordinary income and subject to the self-employment tax. Income those partners received as a return on their own capital contribution would not be affected.

Related Options: Option 45, "Increase Individual Income Tax Rates on Ordinary Income" (page 55); Option 46, "Impose a Surtax on Individuals' Adjusted Gross Income" (page 56); Option 47, "Raise the Tax Rates on Long-Term Capital Gains and Qualified Dividends by 2 Percentage Points" (page 57)

Option 55—Revenues

Include VA's Disability Payments in Taxable Income

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit	-1.6	-16.6	-18.3	-20.4	-26.7	-25.9	-28.1	-30.0	-31.7	-35.0	-83.6	-234.5

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

The Department of Veterans Affairs (VA) provides disability compensation to veterans with medical conditions or injuries that occurred or worsened during active-duty service. By law, VA's disability ratings (the basis for disability payments) are to be based, as far as practicable, on the average earnings that veterans would be expected to lose given the severity of their service-connected medical conditions or injuries. Those ratings do not depend on whether a particular veteran's conditions reduce that person's earnings. Disability compensation is not means-tested (that is, restricted to those with income below a certain amount), and payments are exempt from income taxes. Payments are in the form of monthly annuities and typically continue until the beneficiary's death.

This option would include VA's disability benefit payments in taxable income.

Related Options: Option 23, "Introduce Means-Testing for Eligibility for VA's Disability Compensation" (page 31); Option 24, "End VA's Individual Unemployability Payments to Disabled Veterans at the Full Retirement Age for Social Security" (page 32); Option 26, "Narrow Eligibility for VA's Disability Compensation by Excluding Veterans With Low Disability Ratings" (page 34)

Related CBO Publications: *Atlas of Military Compensation* (December 2023), www.cbo.gov/publication/59475; *Veterans' Disability Compensation: Trends and Policy Options* (August 2014), www.cbo.gov/publication/45615

Option 56—Revenues

Reduce Tax Subsidies for Employment-Based Health Benefits

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Limit the income and payroll tax exclusion for employment-based health insurance to the 50th percentile of premiums												
Change in mandatory outlays	0	0	0	1	2	3	4	2	4	4	3	20
Change in revenues[a]	0	0	0	82	120	131	144	156	169	183	202	985
Decrease (-) in the deficit	0	0	0	-81	-118	-128	-140	-154	-165	-179	-199	-965
Limit the income and payroll tax exclusion for employment-based health insurance to the 75th percentile of premiums												
Change in mandatory outlays	0	0	0	*	1	2	2	2	3	3	1	13
Change in revenues[a]	0	0	0	42	63	70	77	85	94	103	105	534
Decrease (-) in the deficit	0	0	0	-42	-62	-68	-75	-83	-91	-100	-104	-521
Limit only the income tax exclusion for employment-based health insurance to the 50th percentile of premiums												
Change in mandatory outlays	0	0	0	**	1	2	2	1	3	3	1	12
Change in revenues[a]	0	0	0	59	86	94	103	112	123	132	145	709
Decrease (-) in the deficit	0	0	0	-59	-85	-92	-101	-111	-120	-129	-144	-697

Data sources: Staff of the Joint Committee on Taxation; Congressional Budget Office.

This option would take effect in January 2028.

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

a. Estimates include the effects on Social Security payroll tax receipts, which are classified as off-budget.

The federal government provides tax subsidies for health insurance purchased through an employer by excluding employers' payments for their employees' health insurance premiums from income and payroll taxes. As a result, tax revenues are less than they would otherwise be. For about 90 percent of workers enrolled in employment-based coverage, the amount they pay for health insurance premiums is also excluded from income and payroll taxes. The federal tax system also excludes certain contributions made to various health spending accounts that employees can use to pay for eligible out-of-pocket health care costs, such as flexible spending arrangements, health reimbursement arrangements, and health savings accounts.

This option consists of three alternatives that would limit the extent to which employers' and employees' contributions for health benefits could be excluded from taxation. Under the first alternative, the total amount of contributions for a worker's premiums and health spending accounts in 2028 that exceeded $10,000 for individual coverage or $24,400 for family coverage would be subject to both income and payroll taxes. Those limits would be based on the 50th percentile of employment-based health insurance premiums in 2026. (A percentile's value indicates the percentage of observations that fall below it.) To set the tax exclusion limits in 2028 and later years, those 2026 premium percentiles would be indexed for inflation using the chained consumer price index for all urban consumers (chained CPI-U), one measure of overall price inflation. Under the second alternative, the limits would be based on the 75th percentile of premiums in 2026 and similarly indexed for inflation, resulting in limits of $12,700 per year for individual coverage and $31,300 per year for family coverage in 2028. Under the third alternative, contributions for health benefits that exceeded the same limits used in the first alternative (based on the 50th percentile of premiums) would be subject to income taxes but still excluded from payroll taxes.

All three alternatives would reduce federal deficits by increasing tax revenues, because some workers would enroll in lower-premium plans (which would increase their taxable income) and others would remain enrolled in higher-premium plans and pay taxes on the portion that remained above the threshold. To a lesser extent, revenues would also increase because fewer workers would enroll in employment-based coverage. Revenue increases would be partially offset by higher federal outlays for workers and their families who newly enrolled in the health insurance marketplaces established by the Affordable Care Act, Medicaid, or the Children's Health Insurance Program.

Extended Discussion of This Option in 2022: "Reduce Tax Subsidies for Employment-Based Health Insurance," www.cbo.gov/budget-options/58627

Related CBO Publications: "CBO Publishes New Projections Related to Health Insurance for 2024 to 2034," *CBO Blog* (June 2024), www.cbo.gov/publication/60383; *Federal Subsidies for Health Insurance: 2023 to 2033* (September 2023), www.cbo.gov/publication/59273; *The Distribution of Major Tax Expenditures in 2019* (October 2021), www.cbo.gov/publication/57413

Option 57—Revenues

Further Limit Annual Contributions to Retirement Plans

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit	-10.4	-15.1	-16.8	-18.0	-18.9	-20.2	-21.0	-21.6	-22.1	-22.9	-79.2	-187.1

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

To the extent that the option would affect Social Security payroll taxes, a portion of the decrease in the deficit would be off-budget. In addition, the option would increase outlays for Social Security by a small amount. The estimates displayed in the table do not include those effects on outlays.

Current law allows taxpayers to make contributions to certain types of tax-preferred retirement plans up to a maximum annual amount that varies depending on the type of plan and the age of the taxpayer. The most common such plans are defined contribution plans (any plan that does not guarantee a particular benefit amount upon retirement) and individual retirement accounts (IRAs). Defined contribution plans are sponsored by employers. Some—most commonly, 401(k) plans—accept contributions by employees; others are funded entirely by the employer. IRAs are established and funded by the participants themselves. Traditional tax-preferred retirement plans allow participants to exclude contributions from their taxable income and defer the payment of taxes until they withdraw funds. Contributions to Roth retirement plans, by contrast, cannot be excluded from taxable income but are not subject to tax when withdrawn.

People under the age of 50 may contribute up to $23,000 to 401(k) and similar employment-based plans in 2024; participants age 50 or older are also allowed to make “catch-up” contributions of up to $7,500. Contributions to 457(b) plans, which are available primarily to employees of state and local governments, are subject to a separate limit. Employers may also contribute to their workers’ defined contribution plans, up to a maximum of $69,000 per person in 2024, minus any contributions made by the employee.

Under current law, combined contributions to traditional and Roth IRAs are limited to $7,000 for taxpayers under the age of 50. People age 50 or older can make additional catch-up contributions of up to $1,000. (Beginning in 2025, higher catch-up limits apply to people ages 60 to 63.) Taxpayers with income above certain thresholds are not allowed to contribute to Roth IRAs. However, some participants can circumvent those limits by contributing to a traditional IRA and then converting it to a Roth IRA. Annual contribution limits for all types of plans are adjusted, or indexed, to include the effects of inflation.

Under this option, a participant’s maximum allowable contributions would be reduced to $20,000 per year for 401(k)–type plans and $6,000 per year for IRAs, regardless of the person’s age. The option would also require that all contributions to employment-based plans—including 457(b) plans—be subject to a single combined limit. Total allowable employer and employee contributions to a defined contribution plan would be reduced from $69,000 per year to $62,000. As under current law, those limits would be indexed. Finally, conversions of traditional IRAs to Roth IRAs would not be permitted for taxpayers whose income was above the top threshold for making Roth contributions.

Option 58—Revenues

Eliminate Certain Tax Preferences for Education Expenses

											Total	
Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2025–2029	2025–2034
Decrease (-) in the deficit	-3.0	-14.8	-14.8	-14.6	-14.4	-14.2	-13.9	-13.7	-13.5	-13.3	-61.6	-130.4

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

Certain tax preferences, including two tax credits, directly support students pursuing higher education. First, the American Opportunity Tax Credit (AOTC) covers qualifying educational expenses for up to four years of postsecondary education. In 2024, the AOTC can total as much as $2,500 per student and is partially refundable—that is, families whose income tax liability (before the credit is applied) is less than the total amount of the credit may receive a portion of the credit as a payment. (Such payments are classified as outlays in the federal budget.) Second, the nonrefundable Lifetime Learning Tax Credit provides up to $2,000 per tax return per year for qualifying tuition and fees. The two credits are available to taxpayers whose income is below certain thresholds.

This option would eliminate the AOTC and the Lifetime Learning Tax Credit.

Related Options: Option 3, "Eliminate the Add-On to Pell Grants, Which Is Funded With Mandatory Spending" (page 7); Option 39, "Tighten Eligibility for Pell Grants" (page 48)

Related CBO Publication: *Distribution of Federal Support for Students Pursuing Higher Education in 2016* (June 2018), www.cbo.gov/publication/53732

Option 59—Revenues

Lower the Investment Income Limit for the Earned Income Tax Credit and Extend That Limit to the Refundable Portion of the Child Tax Credit

											Total	
Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2025–2029	2025–2034
Decrease (-) in the deficit	*	-1.5	-1.2	-1.2	-1.2	-1.2	-1.1	-1.1	-1.1	-1.1	-5.1	-10.6

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

* = between -$50 million and zero.

People with low or moderate income are eligible for certain refundable tax credits if they meet specified criteria. Refundable tax credits differ from other tax preferences, such as deductions, in that their value may exceed the amount of income taxes that a person owes. If the amount of a refundable tax credit exceeds a person's tax liability before that credit is applied, the government pays the excess to that person. Refundable tax credits thus can result in net payments from the government to a taxpayer. Those payments are classified as outlays in the federal budget. Two refundable tax credits are available only to workers: the earned income tax credit (EITC) and the refundable portion of the child tax credit (referred to in the tax code as the additional child tax credit).

To qualify for the EITC and the refundable portion of the child tax credit, people must meet several income requirements. First, they must have income from wages, salaries, or self-employment. Second, their income cannot exceed certain thresholds, which vary according to family characteristics. Finally, for the EITC only, eligibility is restricted to filers with investment income below a certain threshold. In 2024, that threshold is $11,600. (Investment income comprises interest, including tax-exempt interest, dividends, capital gains, royalties and rents from personal property, and returns from passive activities—that is, business pursuits in which the person is not actively involved.)

This option would lower the EITC threshold for investment income to $2,000. As under current law, that threshold would be adjusted, or indexed, to include the effects of inflation. Moreover, the option would extend the investment threshold to the refundable portion of the child tax credit.

Related Option: Option 60, "Require People Who Claim the Earned Income Tax Credit and Child Tax Credit to Have a Social Security Number That Is Valid for Employment" (page 71)

Related CBO Publications: *The Distribution of Major Tax Expenditures in 2019* (October 2021), www.cbo.gov/publication/57413; *Marginal Federal Tax Rates on Labor Income: 1962 to 2028* (January 2019), www.cbo.gov/publication/54911; *Effective Marginal Tax Rates for Low- and Moderate-Income Workers in 2016* (November 2015), www.cbo.gov/publication/50923

Option 60—Revenues

Require People Who Claim the Earned Income Tax Credit and Child Tax Credit to Have a Social Security Number That Is Valid for Employment

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit	-1.1	-3.7	-2.7	-3.0	-3.0	-2.9	-2.9	-2.8	-2.8	-2.8	-13.5	-27.8

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

The earned income tax credit (EITC) and the child tax credit both provide assistance to certain taxpayers with low or moderate income, but the eligibility rules differ. To be eligible for the EITC, claimants and their qualifying children must all have Social Security numbers that are issued by the Social Security Administration solely to people authorized to work in the United States. (There are exceptions for some Social Security numbers issued before 2003.) By contrast, eligibility for the child tax credit currently requires only the qualifying child—not the claimant—to have a Social Security number that is valid for employment purposes. After 2025, noncitizens will be able to claim the child tax credit if they and their qualifying child have Social Security numbers (with no restriction on the reason for issuance) or individual taxpayer identification numbers, which are issued by the Internal Revenue Service (IRS) to anyone who is required to file a tax return but cannot obtain a Social Security number.

Under this option, people who are not authorized to work in the United States would not be eligible for either the EITC or the child tax credit. For both credits, taxpayers, spouses, and qualifying children would be required to have Social Security numbers issued to U.S. citizens and noncitizens authorized to work in the United States. The IRS would be authorized to deny the credits using "mathematical and clerical error" (math error) procedures when taxpayers and their children did not have Social Security numbers that were valid for employment purposes. Using math error procedures would prevent the credits from being paid to those taxpayers and would not require the IRS to take further action, although the taxpayers would retain the right to dispute the IRS's determination.

Related Option: Option 59, "Lower the Investment Income Limit for the Earned Income Tax Credit and Extend That Limit to the Refundable Portion of the Child Tax Credit" (page 70)

Related CBO Publications: *How Dependents Affect Federal Income Taxes* (January 2020), www.cbo.gov/publication/56004; *How Changes in Immigration Policy Might Affect the Federal Budget* (January 2015), www.cbo.gov/publication/49868

Option 61—Revenues

Impose a New Payroll Tax

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit												
Impose a payroll tax of 1 percent on earnings	-56.7	-118.2	-122.8	-127.2	-131.1	-135.3	-140.1	-145.0	-150.0	-155.0	-556.0	-1,281.5
Impose a payroll tax of 2 percent on earnings	-112.4	-234.5	-243.6	-251.2	-259.2	-268.4	-278.0	-287.7	-297.5	-307.4	-1,100.9	-2,540.0

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

Payroll taxes are levied on the earnings (primarily wages and salaries) of people who work for an employer and on the net earnings of people who are self-employed. Unlike the individual income tax, those taxes have few, if any, adjustments and are not applied to other sources of income, such as interest, dividends, or capital gains.

Payroll taxes are used to finance social insurance programs, including Social Security and Medicare. Only earnings up to a statutory maximum are subject to Social Security taxes. (That maximum amount is $168,600 in calendar year 2024.) Social Security benefits likewise accrue only for earnings up to the statutory maximum. The Medicare payroll tax is levied on all earnings, and no taxable maximum applies.

This option consists of two alternatives. The first would impose a new payroll tax of 1 percent on all earnings, and the second would impose a new payroll tax of 2 percent. The new tax would be paid entirely by employees. Self-employed individuals would face the same tax rates as those who work for an employer. The proceeds of the new tax would be part of general revenues and would not be tied to the financing of a specific social insurance program. This option would not make any changes to existing payroll taxes.

Extended Discussion of This Option in 2022: "Impose a New Payroll Tax," www.cbo.gov/budget-options/58636

Related CBO Publications: Dorian Carloni, *Revisiting the Extent to Which Payroll Taxes Are Passed Through to Employees*, Working Paper 2021-06 (June 2021), www.cbo.gov/publication/57089; *Marginal Federal Tax Rates on Labor Income: 1962 to 2028* (January 2019), www.cbo.gov/publication/54911

Option 62—Revenues

Increase the Maximum Taxable Earnings That Are Subject to Social Security Payroll Taxes

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit												
Raise the taxable share to 90 percent of earnings[a]	-22.5	-72.3	-73.9	-75.3	-77.0	-78.9	-80.2	-81.4	-82.5	-83.6	-321.0	-727.6
Subject earnings greater than $250,000 to payroll taxes	-35.7	-122.0	-129.4	-136.7	-143.7	-152.5	-161.7	-171.5	-181.5	-192.0	-567.5	-1,426.8

Data sources: Staff of the Joint Committee on Taxation; Congressional Budget Office.

This option would take effect in January 2025.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

This option would increase receipts from Social Security payroll taxes (which would be off-budget). That increase would be offset in part by a reduction in individual income tax revenues (which would be on-budget).

a. Estimates include increased outlays for additional payments of Social Security benefits, which would be classified as off-budget.

Social Security—which consists of Old-Age and Survivors Insurance and Disability Insurance—is financed primarily by payroll taxes on employers, employees, and people who are self-employed. Only earnings up to a maximum, which is $168,600 in calendar year 2024, are subject to the taxes, and only earnings below the maximum are used to determine benefits. The Social Security tax rate is 12.4 percent of earnings. Employees have 6.2 percent of earnings deducted from their paychecks, and the remaining 6.2 percent is paid by their employers. Self-employed individuals generally pay 12.4 percent of their net self-employment income. In 2022, about 82 percent of earnings from employment fell below the maximum taxable amount and were thus subject to the Social Security payroll tax.

This option consists of two alternatives that would increase the share of earnings subject to payroll taxes. The first alternative would increase the taxable share of earnings from jobs covered by Social Security to 90 percent in calendar year 2025. Staff of the Joint Committee on Taxation estimate that doing so would raise the maximum taxable amount to $305,100 in 2024. (In later years, the maximum would grow at the same rate as average wages, as it would under current law.) Because Social Security benefits are tied to the amount of earnings on which taxes are paid, some of the increase in revenues under this alternative would be offset by additional benefits paid to people with earnings above the maximum taxable amount under current law.

The second alternative would apply the 12.4 percent payroll tax to earnings over $250,000 in addition to earnings below the maximum taxable amount under current law. (For example, in 2025, all earnings below $176,100—the taxable maximum for that year—would be taxed, as would earnings above $250,000. Earnings between $176,100 and $250,000 would not be taxed.) The taxable maximum would continue to grow with average wages, but the $250,000 threshold would not change, so the gap between the two would shrink. The Congressional Budget Office projects that the taxable maximum would exceed $250,000 in calendar year 2036; after that, all earnings from jobs covered by Social Security would be subject to payroll taxes. The current-law taxable maximum would still be used for calculating benefits, so scheduled benefits would not change under this alternative.

For information about the long-term and distributional effects of this option, see the appendix.

Extended Discussion of This Option in 2022: "Increase the Maximum Taxable Earnings That Are Subject to Social Security Payroll Taxes," www.cbo.gov/budget-options/58630

Related Options: Option 19, "Reduce Social Security Benefits for High Earners" (page 26); Option 20, "Establish a Uniform Social Security Benefit" (page 28)

Related CBO Publications: *CBO's 2024 Long-Term Projections for Social Security* (August 2024), www.cbo.gov/publication/60392; *The Long-Term Budget Outlook: 2024 to 2054* (March 2024), www.cbo.gov/publication/59711; *Social Security Policy Options, 2015* (December 2015), www.cbo.gov/publication/51011

Option 63—Revenues

Expand Social Security to Include Newly Hired State and Local Government Employees

											Total	
Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2025–2029	2025–2034
Decrease (-) in the deficit	-1.3	-4.5	-7.7	-10.3	-13.5	-16.5	-19.4	-22.5	-25.0	-28.2	-37.3	-148.8

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

The decrease in the deficit would consist of an increase in receipts from Social Security payroll taxes (which would be off-budget), offset in part by a reduction in individual tax revenues (which would be on-budget). In addition, the option would increase outlays for Social Security by a small amount in the short term. The estimates displayed in the table do not include those effects on outlays.

Under federal law, state and local governments can opt out of enrolling their employees in the Social Security program if they provide a separate retirement plan for those workers. As a result, about a quarter of workers employed by state and local governments are not covered by Social Security.

Under this option, Social Security coverage would be expanded to include all state and local government employees hired after December 31, 2024. Consequently, all newly hired state and local government employees would pay the Social Security payroll tax. Expanding Social Security coverage to all newly hired state and local government employees would have little impact on the federal government's spending for Social Security in the short term; therefore, the 10-year estimates shown above do not include any effects on outlays. The increased outlays for Social Security would grow in the following decades and would partly offset the additional revenues generated by newly covered employees.

Related CBO Publications: *CBO's 2024 Long-Term Projections for Social Security* (August 2024), www.cbo.gov/publication/60392; *The Long-Term Budget Outlook: 2024 to 2054* (March 2024), www.cbo.gov/publication/59711; *CBO's Use of the Income and Payroll Tax Offset in Its Budget Projections and Cost Estimates* (October 2022), www.cbo.gov/publication/58421; *Social Security Policy Options, 2015* (December 2015), www.cbo.gov/publication/51011

Option 64—Revenues

Increase the Corporate Income Tax Rate by 1 Percentage Point

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit	-7.5	-12.7	-13.6	-13.7	-14.1	-14.4	-14.5	-14.6	-14.9	-15.7	-61.6	-135.7

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

The U.S. statutory corporate income tax rate is 21 percent.

This option would increase the corporate income tax rate by 1 percentage point, to 22 percent.

Related Option: Option 65, "Tax All Foreign Income of U.S. Corporations at the Full Statutory Corporate Rate" (page 76)

Option 65—Revenues

Tax All Foreign Income of U.S. Corporations at the Full Statutory Corporate Rate

											Total	
Billions of dollars	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2025–2029**	**2025–2034**
Decrease (-) in the deficit	-21.4	-36.5	-31.3	-33.3	-34.6	-35.8	-35.0	-34.6	-37.9	-39.7	-157.1	-340.0

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

The United States currently taxes the foreign income earned by a domestic corporation using a hybrid system that incorporates elements of territorial and worldwide systems. (Under a pure territorial system, the corporation's home country does not tax foreign income at all. Under a pure worldwide system, any foreign income is taxed immediately by the corporation's home country.) Some categories of foreign income earned by U.S. corporations are taxed immediately by the United States. Most of those categories, including certain types of passive or highly mobile income (sometimes referred to as Subpart F income), are taxed at the full statutory corporate rate. However, global intangible low-tax income (GILTI) is taxed at a reduced rate. GILTI is the amount of foreign income that exceeds 10 percent of foreign tangible assets. In calculating their U.S. tax liability, corporations are allowed to claim credits for the foreign taxes paid on U.S. taxable income from foreign sources. Foreign tax credits are limited so that they do not exceed the U.S. tax liability on that income. For GILTI, the credits are also limited to 80 percent of foreign taxes paid. The remaining types of foreign income earned by U.S. corporations are exempt from U.S. taxation.

This option would move the United States from its hybrid system to a worldwide system for taxing foreign income. All types of foreign income earned by U.S. corporations would be taxed immediately at the full statutory corporate rate: The option would remove the tangible assets exemption in the calculation of GILTI, tax GILTI at the full rate instead of a reduced rate, and eliminate the 80 percent foreign tax credit limit for GILTI. This option would not change the taxation of categories of foreign income that the United States currently taxes at the full statutory corporate rate.

Related Option: Option 64, "Increase the Corporate Income Tax Rate by 1 Percentage Point" (page 75)

Related CBO Publication: *International Comparisons of Corporate Income Tax Rates* (March 2017), www.cbo.gov/publication/52419

Option 66—Revenues

Repeal the "Last In, First Out" Approach to Inventory Identification and the "Lower of Cost or Market" and "Subnormal Goods" Methods of Inventory Valuation

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit	-11.6	-23.2	-23.1	-23.1	-12.6	-2.1	-2.1	-2.2	-2.2	-2.3	-93.6	-104.4

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

To determine its taxable income, a business must first deduct from its receipts the cost of purchasing or producing the goods it sold during the year. Most companies calculate the cost of those goods by adding the value of the inventory at the beginning of the year to the cost of goods purchased or produced during the year, and then subtracting from that total the value of the inventory at the end of the year. To determine the value of its year-end inventory, a business must distinguish between goods that were sold from inventory that year and goods that remain in inventory.

Businesses can choose among several approaches to identify and determine the value of items in their inventory. Under one approach, the specific-identification approach, firms itemize and value goods by tracking each item in inventory and matching it to its actual cost. Other approaches do not require firms to track specific items. The "last in, first out" (LIFO) approach permits them to assume that the last goods added to the inventory were the first ones sold; the "first in, first out" (FIFO) approach allows them to assume that the first goods added to their inventory were the first ones sold.

Firms that use the specific-identification approach or the FIFO approach can then value their inventory using the "lower of cost or market" (LCM) method. The LCM method allows firms to use the current market value of an item (that is, the current-year cost to reproduce or repurchase it) in their calculation of year-end inventory values if that market value is less than the cost assigned to the item. In addition, businesses can qualify for the "subnormal goods" method of inventory valuation, which allows a company to value its inventory below cost if its goods cannot be sold at cost because they are damaged or flawed.

This option would eliminate the LIFO approach to identifying inventory, as well as the LCM and subnormal-goods methods of inventory valuation. Businesses would be required to use either the specific-identification or the FIFO approach to account for goods in their inventory and to set the value of that inventory on the basis of cost. Those changes would be phased in over four years.

Option 67—Revenues

Require Half of Advertising Expenses to Be Amortized Over 5 or 10 Years

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit												
Require half of advertising expenses to be amortized over 5 years	-14.3	-21.4	-16.6	-11.0	-5.1	-2.8	-2.9	-3.0	-3.1	-3.1	-68.4	-83.2
Require half of advertising expenses to be amortized over 10 years	-16.1	-26.5	-25.0	-22.9	-20.6	-18.3	-15.9	-13.3	-10.7	-7.9	-111.1	-177.2

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

Business expenses can generally be categorized as either investments, which create assets whose value persists over a multiyear period, or current expenses, which go toward goods or services whose value dissipates during the first year after they are purchased. The two categories are often treated differently for tax purposes: Current expenses can be deducted from income in the year they are incurred, but some investment costs, such as the cost of constructing buildings, must be deducted over a multiyear period. Advertising is treated by the tax system as a current expense; its costs can therefore be immediately deducted, even in cases in which it creates longer-term value.

This option consists of two alternatives. Both would recognize half of advertising expenses as immediately deductible current expenses. The other half would be treated as an investment in brand image and would be amortized over a period of years. Under the first alternative, that period of amortization would be 5 years; under the second alternative, it would be 10 years.

Related CBO Publication: *How Taxes Affect the Incentive to Invest in New Intangible Assets* (November 2018), www.cbo.gov/publication/54648

Option 68—Revenues

Repeal the Low-Income Housing Tax Credit

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit	-0.1	-0.8	-2.1	-3.7	-5.5	-7.4	-9.3	-11.3	-13.4	-15.6	-12.2	-69.1

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

Real estate developers who provide rental housing to people with low income may qualify for low-income housing tax credits (LIHTCs), which are designed to encourage investment in affordable housing. The credits, which can be used to reduce the federal income tax liability of the developer or an investor in the project over a period of 10 years, cover a portion of the costs of constructing new housing units or substantially rehabilitating existing units. For a property to qualify for the credits, developers must agree to meet two requirements for at least 30 years. First, they must set aside a certain percentage of rental units for people whose income is below a certain threshold. Second, they must agree to limit the rent they charge on the units occupied by low-income people.

This option would repeal the LIHTC, although real estate investors could continue to claim credits granted before 2025 until those credits expired.

Related Option: Option 52, "Eliminate the Tax Exemption for New Qualified Private Activity Bonds" (page 62)

Related CBO Publication: *Federal Housing Assistance for Low-Income Households* (September 2015), www.cbo.gov/publication/50782

Option 69—Revenues

Increase Taxes on Alcoholic Beverages

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit												
Increase tax	-6.6	-8.7	-8.8	-8.9	-9.0	-9.1	-9.2	-9.2	-9.3	-9.4	-42.0	-88.2
Increase tax and index for inflation	-6.6	-8.9	-9.4	-9.8	-10.2	-10.6	-11.0	-11.5	-11.9	-12.4	-44.9	-102.3

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table. Changes in health and life expectancy resulting from reduced alcohol consumption would probably affect federal subsidies for health insurance and spending on disability and retirement programs. Evidence of the magnitude of those effects is still emerging. The estimates do not include those effects.

Alcoholic beverages are not taxed uniformly: Beer (including other malt beverages and most hard seltzers) and wine (including ciders) are taxed by volume, whereas distilled spirits are taxed by alcohol content. After accounting for alcohol by volume, the alcohol content of beer and wine is taxed at a lower rate than the alcohol content of distilled spirits. The highest tax rate on distilled spirits is $13.50 per proof gallon. (A proof gallon is a liquid gallon that is 50 percent alcohol by volume.) A tax rate of $13.50 per proof gallon translates to about 21 cents per ounce of pure alcohol. The general tax on beer is equivalent to about 9 cents per ounce of pure alcohol, and the general tax on wine is about 6 cents per ounce of pure alcohol.

Several additional factors affect how specific alcoholic beverages are taxed. Tax rates are generally lower for quantities of alcoholic beverages below certain thresholds for producers of all sizes. Wines with higher volumes of alcohol and sparkling wines face a higher tax per gallon than other wines. Also, specific provisions of tax law can lower the effective tax rate on small quantities of beer for certain small producers. Finally, small volumes of beer and wine that are produced for personal or family use are exempt from taxation.

This option consists of two alternatives. The first alternative would standardize the base on which the federal excise tax is levied by using the proof gallon as the measure for all alcoholic beverages. The tax rate would be raised to $16 per proof gallon, or 25 cents per ounce of pure alcohol. The first alternative would also eliminate the provisions of law that allow for reduced tax rates for quantities of alcohol below certain thresholds as well as those that lower effective tax rates for small producers, thus making the tax rate equal for all quantities and producers of alcohol. The second alternative would raise the tax rate to $16 per proof gallon and eliminate the provisions that lower effective tax rates, but unlike the first alternative, it would index the tax for inflation each year using the chained consumer price index for all urban consumers. Under both alternatives, exporters of alcoholic beverages would no longer be able to claim drawbacks (or refunds) of excise taxes on beverages for which they have not paid such taxes. (That ability was created by a recent court ruling.)

Related Option: Option 70, "Increase Excise Taxes on Tobacco Products" (page 81)

Related CBO Publication: *CBO's Use of the Income and Payroll Tax Offset in Its Budget Projections and Cost Estimates* (October 2022), www.cbo.gov/publication/58421

Option 70—Revenues

Increase Excise Taxes on Tobacco Products

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Change in outlays	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-0.8
Change in revenues	3.1	4.4	4.6	4.9	5.1	5.3	5.6	5.7	5.8	5.7	22.1	50.2
Decrease (-) in the deficit	-3.1	-4.4	-4.7	-4.9	-5.2	-5.4	-5.7	-5.8	-5.9	-5.8	-22.4	-51.0

Data sources: Staff of the Joint Committee on Taxation; Congressional Budget Office.

This option would take effect in January 2025.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

* = between -$50 million and zero.

The federal government taxes tobacco products, including cigarettes, cigars, pipe tobacco, and roll-your-own tobacco. The federal excise tax on cigarettes is just over $1.00 per pack. Large cigars are taxed at 52.75 percent of the manufacturer's sales price, with a maximum tax of 40.26 cents per cigar. Pipe and roll-your-own tobacco are taxed at $2.83 and $24.78 per pound, respectively.

This option would make several changes to the federal excise taxes on tobacco products. It would raise the federal excise tax on all tobacco products by 50 percent. In addition, it would raise the tax on pipe tobacco to equal that for roll-your-own tobacco and set a minimum tax rate on large cigars equal to the tax rate on cigarettes. Under this option, exporters of tobacco products would no longer be able to claim drawbacks (or refunds) of excise taxes on tobacco products for which they have not paid such taxes. (That ability was created by a recent court ruling.)

This option would also reduce mandatory outlays over the 10-year period shown above, mainly because improvements in people's health would lead to lower spending for Medicaid and Medicare.

Related Option: Option 69, "Increase Taxes on Alcoholic Beverages" (page 80)

Related CBO Publications: *CBO's Use of the Income and Payroll Tax Offset in Its Budget Projections and Cost Estimates* (October 2022), www.cbo.gov/publication/58421; *Raising the Excise Tax on Cigarettes: Effects on Health and the Federal Budget* (June 2012), www.cbo.gov/publication/43319

Option 71—Revenues

Increase Excise Taxes on Motor Fuels and Index Them for Inflation

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit	-14.6	-20.5	-20.9	-21.3	-21.7	-22.1	-22.3	-22.5	-22.7	-22.9	-99.0	-211.6

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2025.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

Since 1993, federal excise tax rates on traditional motor fuels have been set at 18.4 cents per gallon of gasoline and 24.4 cents per gallon of diesel fuel. The revenues from those taxes are credited to the Highway Trust Fund to pay for highway construction and maintenance as well as for investment in mass transit. (A small portion of the fuel tax—0.1 cent per gallon—is credited to the Leaking Underground Storage Tank Trust Fund.) Those tax rates are not adjusted for inflation.

Under this option, federal excise tax rates on gasoline and diesel fuel would increase by 15 cents per gallon. The tax would be indexed for inflation each year using the chained consumer price index for all urban consumers.

Related CBO Publications: *CBO's Use of the Income and Payroll Tax Offset in Its Budget Projections and Cost Estimates* (October 2022), www.cbo.gov/publication/58421; *Reauthorizing Federal Highway Programs: Issues and Options* (May 2020), www.cbo.gov/publication/56346; *Issues and Options for a Tax on Vehicle Miles Traveled by Commercial Trucks* (October 2019), www.cbo.gov/publication/55688; *Approaches to Making Federal Highway Spending More Productive* (February 2016), www.cbo.gov/publication/50150

Option 72—Revenues

Impose a 5 Percent Value-Added Tax

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit												
Apply a 5 percent VAT to a broad base	0	-230	-350	-360	-370	-390	-400	-410	-430	-440	-1,310	-3,380
Apply a 5 percent VAT to a narrow base	0	-140	-220	-230	-240	-250	-260	-270	-280	-290	-830	-2,180

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2026.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

VAT = value-added tax.

The United States does not currently have a broad consumption-based tax at the federal level, although it does impose federal excise taxes on purchases of several types of goods and services, including gasoline, air travel, alcohol, and cigarettes. A value-added tax (VAT) is a broader type of consumption tax that is levied on the incremental increase in the value of a good or service that occurs at each stage of the supply chain until the final point of sale. For example, a manufacturer would pay a VAT on the difference between the value of the materials used to produce a good and the value of the finished good it sold to retailers; a retailer would pay a VAT on the difference between the value of goods it sold to consumers and the value of those goods when it purchased them from manufacturers.

This option consists of two alternatives that would impose a consumption tax in the form of a VAT, both of which would go into effect on January 1, 2026. The first alternative would apply a 5 percent VAT to a broad base that would include most goods and services. Certain goods and services would be excluded from the base because their value is difficult to measure. Those include the consumption of financial services without explicit fees, primary and secondary education, some other services provided by government agencies and nonprofit organizations for a small fee or no cost, and existing housing.

The second alternative would apply a 5 percent VAT to a narrower base of goods and services. In addition to the items excluded under the first alternative, this alternative would exclude certain goods and services that are considered necessary for subsistence or provide broad social benefits—specifically, new residential housing, food purchased for home consumption, health care, and postsecondary education.

Extended Discussion of This Option in 2022: "Impose a Tax on Consumption," www.cbo.gov/budget-options/58637

Related Option: Option 73, "Impose a Tax on Emissions of Greenhouse Gases" (page 84)

Related CBO Publications: *CBO's Use of the Income and Payroll Tax Offset in Its Budget Projections and Cost Estimates* (October 2022), www.cbo.gov/publication/58421; Jaeger Nelson and Kerk Phillips, *The Economic Effects of Financing a Large and Permanent Increase in Government Spending*, Working Paper 2021-03 (Congressional Budget Office, March 2021), www.cbo.gov/publication/57021

Option 73—Revenues

Impose a Tax on Emissions of Greenhouse Gases

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit												
Apply a $25 tax per metric ton of emissions and increase that tax annually by 5 percent	-53.4	-81.3	-82.5	-85.1	-89.4	-94.1	-99.4	-105.0	-111.0	-118.1	-391.7	-919.3
Apply a $25 tax per metric ton of emissions and increase that tax annually by 2 percent	-53.4	-80.2	-79.4	-79.6	-81.1	-82.9	-85.3	-87.7	-90.4	-93.6	-373.7	-813.6
Apply a $15 tax per metric ton of emissions and increase that tax annually by 8 percent	-33.1	-50.7	-52.9	-56.5	-60.8	-65.6	-71.4	-77.6	-84.5	-92.4	-254.0	-645.4
Apply a $25 tax per metric ton of emissions, excluding gasoline, and increase that tax annually by 5 percent	-42.2	-63.3	-63.3	-65.0	-67.9	-71.2	-75.1	-79.3	-83.8	-89.2	-301.7	-700.2

Data sources: Staff of the Joint Committee on Taxation; Congressional Budget Office.

This option would take effect in January 2025.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

All increases in the tax rate under this option would be adjusted for inflation.

The accumulation of greenhouse gases in the atmosphere—particularly of carbon dioxide (CO_2) released when fossil fuels (such as coal, oil, and natural gas) are burned—contributes to climate change. Climate change imposes costs and increases the risk of severe economic harm to countries around the globe, including the United States. The federal government imposes a fee on certain emissions of methane from the oil and gas industry, provides subsidies to reduce emissions from specific sources, and regulates some emissions in an effort to reduce them; however, emissions of CO_2 and most other greenhouse gases are not taxed.

This option consists of four alternatives that would tax emissions of greenhouse gases. (The option would not impose a tax on methane emissions from the oil and gas industry that are already subject to a charge.)

The first alternative would impose a tax of $25 per metric ton on energy-related emissions of CO_2 in the United States (such as those from electricity generation, manufacturing, and transportation) and on some other greenhouse gas emissions from large U.S. manufacturing facilities. The tax would increase at an annual rate of 5 percent plus the rate of inflation since the previous year.

The second alternative is identical to the first, except that the annual rate of increase would be 2 percent, adjusted for inflation.

The third alternative would start the tax at a lower initial rate, $15 per metric ton, but would increase that tax more rapidly over time—by 8 percent each year, adjusted for inflation.

The fourth alternative would, like the first, start the tax at $25 per metric ton and increase it by 5 percent each year, adjusted for inflation. Unlike the first alternative, however, the fourth alternative would exclude gasoline from the tax.

Extended Discussion of This Option 2022: "Impose a Tax on Emissions of Greenhouse Gases," www.cbo.gov/budget-options/58638

Related Option: Option 72, "Impose a 5 Percent Value-Added Tax" (page 83)

Related CBO Publications: *How CBO Analyzes the Effects of Charging the Oil and Gas Industry for Methane Emissions* (August 2022), www.cbo.gov/publication/58166; Ron Gecan, *How Carbon Dioxide Emissions Would Respond to a Tax or Allowance Price: An Update*, Working Paper 2021-16 (December 2021), www.cbo.gov/publication/57580; Dorian Carloni and Terry Dinan, *Distributional Effects of Reducing Carbon Dioxide Emissions With a Carbon Tax*, Working Paper 2021-11 (September 2021), www.cbo.gov/publication/57399; *Budgetary Effects of Climate Change and of Potential Legislative Responses to It* (April 2021), www.cbo.gov/publication/57019; Evan Herrnstadt and Terry Dinan, *CBO's Projection of the Effect of Climate Change on U.S. Economic Output*, Working Paper 2020-06 (September 2020), www.cbo.gov/publication/56505; *Reauthorizing Federal Highway Programs: Issues and Options* (May 2020), www.cbo.gov/publication/56346; *Issues and Options for a Tax on Vehicle Miles Traveled by Commercial Trucks* (October 2019), www.cbo.gov/publication/55688

Option 74—Revenues

Impose a Tax on Financial Transactions

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Increase or decrease (-) in the deficit	10.3	-10.3	-25.0	-32.7	-35.9	-37.6	-39.1	-40.6	-42.2	-43.8	-93.6	-296.8

Data source: Staff of the Joint Committee on Taxation.

This option would take effect in January 2026, although an increase in the deficit would occur earlier because of an immediate reduction in the value of financial assets.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

The United States is home to large financial markets with high volumes of trading. Under current federal tax law, no tax is imposed on the purchase of securities (stocks and bonds) or other financial products. However, the Securities and Exchange Commission charges a fee of approximately 0.003 percent on most transactions.

This option would impose a tax on the purchase of most securities and on transactions involving derivatives (contracts requiring one or more payments that are calculated by reference to the change in an observable variable, such as the price of a security). For purchases of stocks (including exchange-traded funds), bonds, and other debt obligations, the tax generally would be 0.01 percent of the value of the security. For purchases of derivatives, the tax would be 0.01 percent of all payments made under the terms of the contract, including the price paid when the contract was written, any periodic payments, and any amount paid when the contract expired. The tax would not apply to the initial issuance of stock or debt securities, transactions of debt obligations with fixed maturities of no more than 100 days, or currency transactions (although transactions involving currency derivatives would be taxed). It would be imposed on transactions that occurred within the United States and on transactions that took place outside the country and involved at least one U.S. taxpayer (whether a corporation, partnership, citizen, or resident).

Related Option: Option 47, "Raise the Tax Rates on Long-Term Capital Gains and Qualified Dividends by 2 Percentage Points" (page 57)

Related CBO Publication: *CBO's Use of the Income and Payroll Tax Offset in Its Budget Projections and Cost Estimates* (October 2022), www.cbo.gov/publication/58421

Option 75—Revenues

Increase Certain Fees Charged by Citizenship and Immigration Services and Customs and Border Protection by 20 Percent

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit												
USCIS fees	0	-0.6	-1.1	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-4.1	-10.1
CBP fees[a]	0	-0.4	-0.8	-0.9	-0.9	-0.9	-0.9	-0.2	-0.2	-0.2	-3.0	-5.4
Total	0	-1.0	-1.9	-2.1	-2.1	-2.1	-2.1	-1.4	-1.4	-1.4	-7.1	-15.5

This option would take effect in October 2025.

An offset to reflect reduced income and payroll taxes has been applied to the estimates in this table.

CBP = Customs and Border Protection; USCIS = U.S. Citizenship and Immigration Services.

a. The decrease in the deficit from 2032 to 2034 is smaller than in earlier years because, under current law, certain fees collected by CBP—the Consolidated Omnibus Budget Reconciliation Act (COBRA) customs user fees and merchandise processing fees—expire at the end of 2031.

Citizenship and Immigration Services (USCIS) and Customs and Border Protection (CBP) are agencies within the Department of Homeland Security that oversee lawful immigration and work to prevent unlawful entry into the United States. USCIS assesses fees on immigration and naturalization applicants and collected $4.9 billion in fees in 2023. CBP collected $5.1 billion in user fees in 2023, including fees for merchandise processing. The fees serve as an important funding source for both agencies, and under current law, both agencies have the authority to spend most fees they collect to support their operations without further appropriation.

This option would introduce a 20 percent surcharge on some fees assessed by USCIS: immigration examinations fees, H-1B nonimmigrant petitioner fees for highly skilled foreign workers, and fraud prevention and detection fees. It would add the same surcharge to certain fees collected by CBP: immigration inspection user fees, the Consolidated Omnibus Budget Reconciliation Act (COBRA) customs user fees, and merchandise processing fees. Unlike the current fees, many of which are used to fund the agencies' operational costs, the revenues from the new surcharge would remain with the Treasury, thereby reducing the federal deficit.

Related CBO Publication: *CBO's Use of the Income and Payroll Tax Offset in Its Budget Projections and Cost Estimates* (October 2022), www.cbo.gov/publication/58421

Option 76—Revenues

Increase Federal Civilian Employees' Contributions to the Federal Employees Retirement System

Billions of dollars	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025–2029	Total 2025–2034
Decrease (-) in the deficit	-1.3	-2.6	-3.9	-5.0	-4.9	-4.7	-4.6	-4.4	-4.2	-4.0	-17.7	-39.6

This option would take effect in January 2025.

The federal government provides most of its civilian employees with a defined benefit retirement plan through the Federal Employees Retirement System (FERS). The plan provides eligible retirees with a monthly benefit in the form of an annuity. Those annuities are jointly funded by the employees and the federal agencies that hire them. Employees' contributions are counted as federal revenues. Nearly all federal employees participate in FERS and contribute a percentage of their salary toward their future annuity. Most people who were hired before 2013 contribute 0.8 percent, most people hired in 2013 contribute 3.1 percent, and most people hired in 2014 or later contribute 4.4 percent. About half of all federal civilian employees fall into the last category.

Under this option, most employees enrolled in FERS would contribute 4.4 percent of their salary toward their retirement annuity. The increase in the contribution rates (of 3.6 percentage points for employees who enrolled in FERS before 2013 and 1.3 percentage points for those who enrolled in 2013) would be phased in over four years. The dollar amount of future annuities would not change under the option, and the option would not affect employees hired in 2014 or later who already contribute 4.4 percent. Agencies' contributions would remain the same under the option.

Related CBO Publications: *Comparing the Compensation of Federal and Private-Sector Employees in 2022* (April 2024), www.cbo.gov/publication/59970; Justin Falk and Nadia Karamcheva, *Comparing the Effects of Current Pay and Defined Benefit Pensions on Employee Retention*, Working Paper 2018-06 (June 2018), www.cbo.gov/publication/54056; *Options for Changing the Retirement System for Federal Civilian Workers* (August 2017), www.cbo.gov/publication/53003

Appendix: Long-Term and Distributional Effects of Options That Would Modify Social Security

This appendix presents analyses of the long-term and distributional effects of selected options in this report. Specifically, it examines options that would have significant direct effects on Social Security. For each of those options, the Congressional Budget Office examined three long-term effects on Social Security's finances:

- Changes to Social Security spending or revenues, measured as a percentage of gross domestic product (GDP);
- Changes to the actuarial balance of the Old-Age and Survivors Insurance (OASI) Trust Fund and the Disability Insurance (DI) Trust Fund, if they were combined, measured as a percentage of GDP and as a percentage of taxable payroll; and
- Changes to the year in which the balance of the OASI trust fund and the DI trust fund would be exhausted, if those two trust funds were combined.[1]

In addition, CBO examined the following distributional effects, by birth year:

- Changes to the average annual benefits (net of income taxes) for retired workers if they claimed benefits at age 65;
- Changes to lifetime benefits or payroll taxes measured in relation to lifetime earnings for beneficiaries; and
- Changes to lifetime benefits measured in relation to lifetime payroll taxes paid.

1. The actuarial balance is the sum of the present value of projected income and the current trust fund balance, minus the sum of the present value of projected outlays and a year's worth of benefits at the end of the period. For Social Security, that balance is traditionally presented as a percentage of the present value of GDP or of taxable payroll over 75 years. (A present-value estimate translates a flow of current and future income or payments into an equivalent lump-sum value today.)

Table A-1.

Long-Term Effects on Social Security's Finances of the First Alternative in Option 19, "Reduce Social Security Benefits for High Earners"

Percent

	Under current law	Change from current law
Spending, as a percentage of GDP		
Calendar year 2054	5.9	-0.3
Calendar year 2098	6.7	-0.4
The 75-year actuarial balance for the combined OASDI trust funds[a]		
As a percentage of GDP	-1.5	0.3
As a percentage of taxable payroll	-4.3	0.8
The exhaustion year for the balance of the combined OASDI trust funds (fiscal year)	2034	No change

Data source: Congressional Budget Office. See www.cbo.gov/publication/60557#data.

GDP = gross domestic product; OASDI = Old-Age, Survivors, and Disability Insurance; PIA = primary insurance amount.

Under this alternative, a new bend point would be added at the 70th percentile of earners. Changes to PIA factors would be phased in over nine years. For more details about the alternative, see Option 19, "Reduce Social Security Benefits for High Earners" (page 26).

The estimates displayed in this table assume that benefits will be paid as scheduled under the Social Security Act, regardless of the balances in the trust funds.

a. The actuarial balance is the sum of the present value of projected income and the current trust fund balance, minus the sum of the present value of projected outlays and a year's worth of benefits at the end of the period. For Social Security, that balance is traditionally presented as a percentage of the present value of GDP or of taxable payroll over 75 years. (A present-value estimate translates a flow of current and future income or payments into an equivalent lump-sum value today.)

Table A-2.

Distributional Effects of the First Alternative in Option 19, "Reduce Social Security Benefits for High Earners"

	Under current law			Change from current law[a]		
Lifetime household earnings quintile[b]	Birth year 1960–1969	Birth year 1970–1979	Birth year 1980–1989	Birth year 1960–1969	Birth year 1970–1979	Birth year 1980–1989
	Average annual benefits for retired workers if they claimed benefits at age 65[c]					
	(thousands of 2024 dollars)			(percent)		
Lowest	12	13	14	**	**	**
Middle	23	24	26	*	-1	*
Highest	32	35	39	-3	-14	-13
	Average lifetime benefits relative to average lifetime earnings for beneficiaries (percent)[d]					
Lowest	31	32	31	*	*	*
Middle	17	18	18	*	*	*
Highest	8	7	7	-4	-15	-15
	Ratio of average Social Security benefits to average payroll taxes over beneficiaries' lifetime[e]					
Lowest	2.6	2.7	2.5	*	*	**
Middle	1.4	1.5	1.5	*	*	*
Highest	1.0	1.0	0.9	-4	-15	-15

Data source: Congressional Budget Office. See www.cbo.gov/publication/60557#data

PIA = primary insurance amount; * = between -1 percent and zero; ** = between zero and 1 percent.

Under this alternative, a new bend point would be added at the 70th percentile of earners. Changes to PIA factors would be phased in over nine years. For more details about the alternative, see Option 19, "Reduce Social Security Benefits for High Earners" (page 26).

The estimates displayed in this table assume that benefits will be paid as scheduled under the Social Security Act, regardless of the balances in the trust funds.

a. Effects are measured as a percentage change from the current-law value. For example, under current law, the average lifetime benefits for high earners born in the 1980s will be 7 percent of lifetime earnings. The 1 percentage-point decrease in that ratio—from 7 percent to 6 percent—is expressed as a 15 percent decrease in this table.

b. The lowest, middle, and highest fifths of people within a 10-year birth cohort ranked by lifetime household earnings. For someone who is single in all years, lifetime household earnings equal the present value of inflation-adjusted earnings over that person's lifetime. In any year in which a person is married, lifetime household earnings equal the average of the couple's earnings, adjusted for economies of scale in household consumption.

c. CBO projected the benefit amounts that retired workers would receive in their first year of receiving such benefits if they began claiming them at age 65. To remove the effects of inflation on those benefits, CBO used the price index for all goods and services that make up gross domestic product. The agency computed those benefits for all people who are eligible to claim retirement benefits at age 62 and who have not yet claimed any other Social Security benefits. All amounts are net of income taxes paid on benefits.

d. Lifetime benefits include the present value of all Social Security benefits except those received by young widows, young spouses, and children, which are excluded from this measure because of insufficient data for years before 1984. To calculate present value, CBO adjusted the amounts to remove the effects of inflation and discounted the amounts to age 65. (A present-value estimate translates a flow of current and future income or payments into an equivalent lump-sum value today.)

e. Lifetime payroll taxes consist of the present value of the employer's and employee's shares of Social Security payroll taxes. To calculate present value, CBO adjusted the amounts to remove the effects of inflation and discounted the amounts to age 65.

Table A-3.

Long-Term Effects on Social Security's Finances of the Second Alternative in Option 19, "Reduce Social Security Benefits for High Earners"

Percent

	Under current law	Change from current law
Spending, as a percentage of GDP		
Calendar year 2054	5.9	-0.7
Calendar year 2098	6.7	-0.9
The 75-year actuarial balance for the combined OASDI trust funds[a]		
As a percentage of GDP	-1.5	0.6
As a percentage of taxable payroll	-4.3	1.8
The exhaustion year for the balance of the combined OASDI trust funds (fiscal year)	2034	No change

Data source: Congressional Budget Office. See www.cbo.gov/publication/60557#data.

GDP = gross domestic product; OASDI = Old-Age, Survivors, and Disability Insurance; PIA = primary insurance amount.

Under this alternative, a new bend point would be added at the 50th percentile of earners. Changes to PIA factors would be phased in over nine years. For more details about the alternative, see Option 19, "Reduce Social Security Benefits for High Earners" (page 26).

The estimates displayed in this table assume that benefits will be paid as scheduled under the Social Security Act, regardless of the balances in the trust funds.

a. The actuarial balance is the sum of the present value of projected income and the current trust fund balance, minus the sum of the present value of projected outlays and a year's worth of benefits at the end of the period. For Social Security, that balance is traditionally presented as a percentage of the present value of GDP or of taxable payroll over 75 years. (A present-value estimate translates a flow of current and future income or payments into an equivalent lump-sum value today.)

Table A-4.

Distributional Effects of the Second Alternative in Option 19, "Reduce Social Security Benefits for High Earners"

Lifetime household earnings quintile[b]	Under current law: Birth year 1960–1969	Under current law: Birth year 1970–1979	Under current law: Birth year 1980–1989	Change from current law[a]: Birth year 1960–1969	Change from current law[a]: Birth year 1970–1979	Change from current law[a]: Birth year 1980–1989
Average annual benefits for retired workers if they claimed benefits at age 65[c]	**(thousands of 2024 dollars)**			**(percent)**		
Lowest	12	13	14	**	**	**
Middle	23	24	26	-3	-9	-7
Highest	32	35	39	-6	-25	-25
Average lifetime benefits relative to average lifetime earnings for beneficiaries (percent)[d]						
Lowest	31	32	31	*	*	**
Middle	17	18	18	-2	-7	-6
Highest	8	7	7	-6	-25	-26
Ratio of average Social Security benefits to average payroll taxes over beneficiaries' lifetime[e]						
Lowest	2.6	2.7	2.5	*	*	**
Middle	1.4	1.5	1.5	-2	-7	-6
Highest	1.0	1.0	0.9	-6	-25	-26

Data source: Congressional Budget Office. See www.cbo.gov/publication/60557#data.

PIA = primary insurance amount; * = between -1 percent and zero; ** = between zero and 1 percent.

Under this alternative, a new bend point would be added at the 50th percentile of earners. Changes to PIA factors would be phased in over nine years. For more details about the alternative, see Option 19, "Reduce Social Security Benefits for High Earners" (page 26).

The estimates displayed in this table assume that benefits will be paid as scheduled under the Social Security Act, regardless of the balances in the trust funds.

a. Effects are measured as a percentage change from the current-law value. For example, under current law, the average lifetime benefits for high earners born in the 1980s will be 7 percent of lifetime earnings. The 2 percentage-point decrease in that ratio—from 7 percent to 5 percent—is expressed as a 26 percent decrease in this table.

b. The lowest, middle, and highest fifths of people within a 10-year birth cohort ranked by lifetime household earnings. For someone who is single in all years, lifetime household earnings equal the present value of inflation-adjusted earnings over that person's lifetime. In any year in which a person is married, lifetime household earnings equal the average of the couple's earnings, adjusted for economies of scale in household consumption.

c. CBO projected the benefit amounts that retired workers would receive in their first year of receiving such benefits if they began claiming them at age 65. To remove the effects of inflation on those benefits, CBO used the price index for all goods and services that make up gross domestic product. The agency computed those benefits for all people who are eligible to claim retirement benefits at age 62 and who have not yet claimed any other Social Security benefits. All amounts are net of income taxes paid on benefits.

d. Lifetime benefits include the present value of all Social Security benefits except those received by young widows, young spouses, and children, which are excluded from this measure because of insufficient data for years before 1984. To calculate present value, CBO adjusted the amounts to remove the effects of inflation and discounted the amounts to age 65. (A present-value estimate translates a flow of current and future income or payments into an equivalent lump-sum value today.)

e. Lifetime payroll taxes consist of the present value of the employer's and employee's shares of Social Security payroll taxes. To calculate present value, CBO adjusted the amounts to remove the effects of inflation and discounted the amounts to age 65.

Table A-5.

Long-Term Effects on Social Security's Finances of the Third Alternative in Option 19, "Reduce Social Security Benefits for High Earners"

Percent

	Under current law	Change from current law
Spending, as a percentage of GDP		
Calendar year 2054	5.9	-0.8
Calendar year 2098	6.7	-0.9
The 75-year actuarial balance for the combined OASDI trust funds[a]		
As a percentage of GDP	-1.5	0.6
As a percentage of taxable payroll	-4.3	1.8
The exhaustion year for the balance of the combined OASDI trust funds (fiscal year)	2034	No change

Data source: Congressional Budget Office. See www.cbo.gov/publication/60557#data.

GDP = gross domestic product; OASDI = Old-Age, Survivors, and Disability Insurance; PIA = primary insurance amount.

Under this alternative, a new bend point would be added at the 50th percentile of earners. Changes to PIA factors would be phased in over five years. For more details about the alternative, see Option 19, "Reduce Social Security Benefits for High Earners" (page 26).

The estimates displayed in this table assume that benefits will be paid as scheduled under the Social Security Act, regardless of the balances in the trust funds.

a. The actuarial balance is the sum of the present value of projected income and the current trust fund balance, minus the sum of the present value of projected outlays and a year's worth of benefits at the end of the period. For Social Security, that balance is traditionally presented as a percentage of the present value of GDP or of taxable payroll over 75 years. (A present-value estimate translates a flow of current and future income or payments into an equivalent lump-sum value today.)

Table A-6.

Distributional Effects of the Third Alternative in Option 19, "Reduce Social Security Benefits for High Earners"

	Under current law			Change from current law[a]		
Lifetime household earnings quintile[b]	**Birth year 1960–1969**	**Birth year 1970–1979**	**Birth year 1980–1989**	**Birth year 1960–1969**	**Birth year 1970–1979**	**Birth year 1980–1989**
	Average annual benefits for retired workers if they claimed benefits at age 65[c]					
	(thousands of 2024 dollars)			**(percent)**		
Lowest	12	13	14	**	**	**
Middle	23	24	26	-4	-10	-7
Highest	32	35	39	-10	-26	-25
	Average lifetime benefits relative to average lifetime earnings for beneficiaries (percent)[d]					
Lowest	31	32	31	*	*	**
Middle	17	18	18	-3	-7	-6
Highest	8	7	7	-10	-26	-26
	Ratio of average Social Security benefits to average payroll taxes over beneficiaries' lifetime[e]					
Lowest	2.6	2.7	2.5	*	*	**
Middle	1.4	1.5	1.5	-3	-7	-6
Highest	1.0	1.0	0.9	-10	-26	-26

Data source: Congressional Budget Office. See www.cbo.gov/publication/60557#data.

PIA = primary insurance amount; * = between -1 percent and zero; ** = between zero and 1 percent.

Under this alternative, a new bend point would be added at the 50th percentile of earners. Changes to PIA factors would be phased in over five years. For more details about the alternative, see Option 19, "Reduce Social Security Benefits for High Earners" (page 26).

The estimates displayed in this table assume that benefits will be paid as scheduled under the Social Security Act, regardless of the balances in the trust funds.

a. Effects are measured as a percentage change from the current-law value. For example, under current law, the average lifetime benefits for high earners born in the 1980s will be 7 percent of lifetime earnings. The 2 percentage-point decrease in that ratio—from 7 percent to 5 percent—is expressed as a 26 percent decrease in this table.

b. The lowest, middle, and highest fifths of people within a 10-year birth cohort ranked by lifetime household earnings. For someone who is single in all years, lifetime household earnings equal the present value of inflation-adjusted earnings over that person's lifetime. In any year in which a person is married, lifetime household earnings equal the average of the couple's earnings, adjusted for economies of scale in household consumption.

c. CBO projected the benefit amounts that retired workers would receive in their first year of receiving such benefits if they began claiming them at age 65. To remove the effects of inflation on those benefits, CBO used the price index for all goods and services that make up gross domestic product. The agency computed those benefits for all people who are eligible to claim retirement benefits at age 62 and who have not yet claimed any other Social Security benefits. All amounts are net of income taxes paid on benefits.

d. Lifetime benefits include the present value of all Social Security benefits except those received by young widows, young spouses, and children, which are excluded from this measure because of insufficient data for years before 1984. To calculate present value, CBO adjusted the amounts to remove the effects of inflation and discounted the amounts to age 65. (A present-value estimate translates a flow of current and future income or payments into an equivalent lump-sum value today.)

e. Lifetime payroll taxes consist of the present value of the employer's and employee's shares of Social Security payroll taxes. To calculate present value, CBO adjusted the amounts to remove the effects of inflation and discounted the amounts to age 65.

Table A-7.

Long-Term Effects on Social Security's Finances of the First Alternative in Option 20, "Establish a Uniform Social Security Benefit"

Percent

	Under current law	Change from current law
Spending, as a percentage of GDP		
Calendar year 2054	5.9	-1.5
Calendar year 2098	6.7	-3.7
The 75-year actuarial balance for the combined OASDI trust funds[a]		
As a percentage of GDP	-1.5	1.7
As a percentage of taxable payroll	-4.3	4.9
The exhaustion year for the balance of the combined OASDI trust funds (fiscal year)	2034	1[b]

Data source: Congressional Budget Office. See www.cbo.gov/publication/60557#data.

GDP = gross domestic product; OASDI = Old-Age, Survivors, and Disability Insurance.

Under this alternative, Social Security benefits would be set to 150 percent of the federal poverty guidelines. For more details about this alternative, see Option 20, "Establish a Uniform Social Security Benefit" (page 28).

The estimates displayed in this table assume that benefits will be paid as scheduled under the Social Security Act, regardless of the balances in the trust funds.

a. The actuarial balance is the sum of the present value of projected income and the current trust fund balance, minus the sum of the present value of projected outlays and a year's worth of benefits at the end of the period. For Social Security, that balance is traditionally presented as a percentage of the present value of GDP or of taxable payroll over 75 years. (A present-value estimate translates a flow of current and future income or payments into an equivalent lump-sum value today.)

b. Under this alternative, the balance of the combined trust funds would be exhausted in calendar year 2035, one year later than the projected exhaustion date under current law. However, under this alternative, the trust funds' income would rise above the scheduled benefits later in the projection period. If scheduled benefits were paid in full throughout the period, as assumed for this analysis, and the trust funds operated with temporarily negative balances, the annual surpluses later in the projection period would result in a positive trust fund balance again in the 2080s.

Table A-8.

Distributional Effects of the First Alternative in Option 20, "Establish a Uniform Social Security Benefit"

	Under current law			Change from current law[a]		
Lifetime household earnings quintile[b]	Birth year 1960–1969	Birth year 1970–1979	Birth year 1980–1989	Birth year 1960–1969	Birth year 1970–1979	Birth year 1980–1989
	Average annual benefits for retired workers if they claimed benefits at age 65[c]					
	(thousands of 2024 dollars)			**(percent)**		
Lowest	12	13	14	35	52	42
Middle	23	24	26	-11	-21	-26
Highest	32	35	39	-25	-46	-51
	Average lifetime benefits relative to average lifetime earnings for beneficiaries (percent)[d]					
Lowest	31	32	31	18	36	34
Middle	17	18	18	-7	-17	-23
Highest	8	7	7	-24	-46	-51
	Ratio of average Social Security benefits to average payroll taxes over beneficiaries' lifetime[e]					
Lowest	2.6	2.7	2.5	18	36	34
Middle	1.4	1.5	1.5	-7	-17	-23
Highest	1.0	1.0	0.9	-24	-46	-51

Data source: Congressional Budget Office. See www.cbo.gov/publication/60557#data.

Under this alternative, Social Security benefits would be set to 150 percent of the federal poverty guidelines. For more details about this alternative, see Option 20, "Establish a Uniform Social Security Benefit" (page 28).

The estimates displayed in this table assume that benefits will be paid as scheduled under the Social Security Act, regardless of the balances in the trust funds.

a. Effects are measured as a percentage change from the current-law value. For example, under current law, the average lifetime benefits for low earners born in the 1960s will be 31 percent of lifetime earnings. The 6 percentage-point increase in that ratio—from 31 percent to 37 percent—is expressed as an 18 percent increase in this table.

b. The lowest, middle, and highest fifths of people within a 10-year birth cohort ranked by lifetime household earnings. For someone who is single in all years, lifetime household earnings equal the present value of inflation-adjusted earnings over that person's lifetime. In any year in which a person is married, lifetime household earnings equal the average of the couple's earnings, adjusted for economies of scale in household consumption.

c. CBO projected the benefit amounts that retired workers would receive in their first year of receiving such benefits if they began claiming them at age 65. To remove the effects of inflation on those benefits, CBO used the price index for all goods and services that make up gross domestic product. The agency computed those benefits for all people who are eligible to claim retirement benefits at age 62 and who have not yet claimed any other Social Security benefits. All amounts are net of income taxes paid on benefits.

d. Lifetime benefits include the present value of all Social Security benefits except those received by young widows, young spouses, and children, which are excluded from this measure because of insufficient data for years before 1984. To calculate present value, CBO adjusted the amounts to remove the effects of inflation and discounted the amounts to age 65. (A present-value estimate translates a flow of current and future income or payments into an equivalent lump-sum value today.)

e. Lifetime payroll taxes consist of the present value of the employer's and employee's shares of Social Security payroll taxes. To calculate present value, CBO adjusted the amounts to remove the effects of inflation and discounted the amounts to age 65.

Table A-9.

Long-Term Effects on Social Security's Finances of the Second Alternative in Option 20, "Establish a Uniform Social Security Benefit"

Percent

	Under current law	Change from current law
Spending, as a percentage of GDP		
Calendar year 2054	5.9	-2.1
Calendar year 2098	6.7	-4.3
The 75-year actuarial balance for the combined OASDI trust funds[a]		
As a percentage of GDP	-1.5	2.2
As a percentage of taxable payroll	-4.3	6.4
The exhaustion year for the balance of the combined OASDI trust funds (fiscal year)	2034	2[b]

Data source: Congressional Budget Office. See www.cbo.gov/publication/60557#data.

GDP = gross domestic product; OASDI = Old-Age, Survivors, and Disability Insurance.

Under this alternative, Social Security benefits would be set to 125 percent of the federal poverty guidelines. For more details about this alternative, see Option 20, "Establish a Uniform Social Security Benefit" (page 28).

The estimates displayed in this table assume that benefits will be paid as scheduled under the Social Security Act, regardless of the balances in the trust funds.

a. The actuarial balance is the sum of the present value of projected income and the current trust fund balance, minus the sum of the present value of projected outlays and a year's worth of benefits at the end of the period. For Social Security, that balance is traditionally presented as a percentage of the present value of GDP or of taxable payroll over 75 years. (A present-value estimate translates a flow of current and future income or payments into an equivalent lump-sum value today.)

b. Under this alternative, the balance of the combined trust funds would be exhausted in calendar year 2036, two years later than the projected exhaustion date under current law. However, under this alternative, the trust funds' income would rise above the scheduled benefits later in the projection period. If scheduled benefits were paid in full throughout the period, as assumed for this analysis, and the trust funds operated with temporarily negative balances, the annual surpluses later in the projection period would result in a positive trust fund balance again in the 2050s.

Table A-10.

Distributional Effects of the Second Alternative in Option 20, “Establish a Uniform Social Security Benefit”

	Under current law			Change from current law[a]		
Lifetime household earnings quintile[b]	**Birth year 1960–1969**	**Birth year 1970–1979**	**Birth year 1980–1989**	**Birth year 1960–1969**	**Birth year 1970–1979**	**Birth year 1980–1989**
	Average annual benefits for retired workers if they claimed benefits at age 65[c]					
	(thousands of 2024 dollars)			**(percent)**		
Lowest	12	13	14	19	27	18
Middle	23	24	26	-19	-34	-38
Highest	32	35	39	-31	-55	-59
	Average lifetime benefits relative to average lifetime earnings for beneficiaries (percent)[d]					
Lowest	31	32	31	10	19	15
Middle	17	18	18	-13	-29	-34
Highest	8	7	7	-29	-53	-58
	Ratio of average Social Security benefits to average payroll taxes over beneficiaries’ lifetime[e]					
Lowest	2.6	2.7	2.5	10	19	15
Middle	1.4	1.5	1.5	-13	-29	-34
Highest	1.0	1.0	0.9	-28	-54	-58

Data source: Congressional Budget Office. See www.cbo.gov/publication/60557#data.

Under this alternative, Social Security benefits would be set to 125 percent of the federal poverty guidelines. For more details about this alternative, see Option 20, “Establish a Uniform Social Security Benefit” (page 28).

The estimates displayed in this table assume that benefits will be paid as scheduled under the Social Security Act, regardless of the balances in the trust funds.

a. Effects are measured as a percentage change from the current-law value. For example, under current law, the average lifetime benefits for low earners born in the 1960s will be 31 percent of lifetime earnings. The 3 percentage-point increase in that ratio—from 31 percent to 34 percent—is expressed as a 10 percent increase in this table.

b. The lowest, middle, and highest fifths of people within a 10-year birth cohort ranked by lifetime household earnings. For someone who is single in all years, lifetime household earnings equal the present value of inflation-adjusted earnings over that person’s lifetime. In any year in which a person is married, lifetime household earnings equal the average of the couple’s earnings, adjusted for economies of scale in household consumption.

c. CBO projected the benefit amounts that retired workers would receive in their first year of receiving such benefits if they began claiming them at age 65. To remove the effects of inflation on those benefits, CBO used the price index for all goods and services that make up gross domestic product. The agency computed those benefits for all people who are eligible to claim retirement benefits at age 62 and who have not yet claimed any other Social Security benefits. All amounts are net of income taxes paid on benefits.

d. Lifetime benefits include the present value of all Social Security benefits except those received by young widows, young spouses, and children, which are excluded from this measure because of insufficient data for years before 1984. To calculate present value, CBO adjusted the amounts to remove the effects of inflation and discounted the amounts to age 65. (A present-value estimate translates a flow of current and future income or payments into an equivalent lump-sum value today.)

e. Lifetime payroll taxes consist of the present value of the employer’s and employee’s shares of Social Security payroll taxes. To calculate present value, CBO adjusted the amounts to remove the effects of inflation and discounted the amounts to age 65.

Table A-11.

Long-Term Effects on Social Security's Finances of Option 21, "Raise the Full Retirement Age for Social Security"

Percent

	Under current law	Change from current law
Spending, as a percentage of GDP		
Calendar year 2054	5.9	-0.6
Calendar year 2098	6.7	-0.8
The 75-year actuarial balance for the combined OASDI trust funds[a]		
As a percentage of GDP	-1.5	0.5
As a percentage of taxable payroll	-4.3	1.4
The exhaustion year for the balance of the combined OASDI trust funds (fiscal year)	2034	No change

Data source: Congressional Budget Office. See www.cbo.gov/publication/60557#data.

GDP = gross domestic product; OASDI = Old-Age, Survivors, and Disability Insurance.

Under this option, the full retirement age for Social Security would increase from 67 by two months per birth year for workers born between 1964 and 1981. As a result, for all workers born in 1981 or later, the full retirement age would be 70. For more details, see Option 21, "Raise the Full Retirement Age for Social Security" (page 29).

The estimates displayed in this table assume that benefits will be paid as scheduled under the Social Security Act, regardless of the balances in the trust funds.

a. The actuarial balance is the sum of the present value of projected income and the current trust fund balance, minus the sum of the present value of projected outlays and a year's worth of benefits at the end of the period. For Social Security, that balance is traditionally presented as a percentage of the present value of GDP or of taxable payroll over 75 years. (A present-value estimate translates a flow of current and future income or payments into an equivalent lump-sum value today.)

Table A-12.

Distributional Effects of Option 21, “Raise the Full Retirement Age for Social Security”

	Under current law			Change from current law[a]		
Lifetime household earnings quintile[b]	**Birth year 1960–1969**	**Birth year 1970–1979**	**Birth year 1980–1989**	**Birth year 1960–1969**	**Birth year 1970–1979**	**Birth year 1980–1989**
	Average annual benefits for retired workers if they claimed benefits at age 65[c]					
	(thousands of 2024 dollars)			**(percent)**		
Lowest	12	13	14	-3	-13	-19
Middle	23	24	26	-3	-13	-19
Highest	32	35	39	-3	-13	-19
	Average lifetime benefits relative to average lifetime earnings for beneficiaries (percent)[d]					
Lowest	31	32	31	*	-5	-9
Middle	17	18	18	-2	-8	-12
Highest	8	7	7	-2	-10	-14
	Ratio of average Social Security benefits to average payroll taxes over beneficiaries’ lifetime[e]					
Lowest	2.6	2.7	2.5	*	-5	-9
Middle	1.4	1.5	1.5	-2	-8	-12
Highest	1.0	1.0	0.9	-2	-10	-14

Data source: Congressional Budget Office. See www.cbo.gov/publication/60557#data.

* = between -1 percent and zero.

Under this option, the full retirement age for Social Security would increase from 67 by two months per birth year for workers born between 1964 and 1981. As a result, for all workers born in 1981 or later, the full retirement age would be 70. For more details, see Option 21, “Raise the Full Retirement Age for Social Security” (page 29).

The estimates displayed in this table assume that benefits will be paid as scheduled under the Social Security Act, regardless of the balances in the trust funds.

a. Effects are measured as a percentage change from the current-law value. For example, under current law, the average lifetime benefits for low earners born in the 1980s will be 31 percent of lifetime earnings. The 3 percentage-point decrease in that ratio—from 31 percent to 28 percent—is expressed as a 9 percent decrease in this table.

b. The lowest, middle, and highest fifths of people within a 10-year birth cohort ranked by lifetime household earnings. For someone who is single in all years, lifetime household earnings equal the present value of inflation-adjusted earnings over that person’s lifetime. In any year in which a person is married, lifetime household earnings equal the average of the couple’s earnings, adjusted for economies of scale in household consumption.

c. CBO projected the benefit amounts that retired workers would receive in their first year of receiving such benefits if they began claiming them at age 65. To remove the effects of inflation on those benefits, CBO used the price index for all goods and services that make up gross domestic product. The agency computed those benefits for all people who are eligible to claim retirement benefits at age 62 and who have not yet claimed any other Social Security benefits. All amounts are net of income taxes paid on benefits.

d. Lifetime benefits include the present value of all Social Security benefits except those received by young widows, young spouses, and children, which are excluded from this measure because of insufficient data for years before 1984. To calculate present value, CBO adjusted the amounts to remove the effects of inflation and discounted the amounts to age 65. (A present-value estimate translates a flow of current and future income or payments into an equivalent lump-sum value today.)

e. Lifetime payroll taxes consist of the present value of the employer’s and employee’s shares of Social Security payroll taxes. To calculate present value, CBO adjusted the amounts to remove the effects of inflation and discounted the amounts to age 65.

Table A-13.

Long-Term Effects on Social Security's Finances of Option 27, "Use an Alternative Measure of Inflation to Index Social Security and Other Mandatory Programs"

Percent

	Under current law	Change from current law
Spending, as a percentage of GDP		
Calendar year 2054	5.9	-0.2
Calendar year 2098	6.7	-0.2
The 75-year actuarial balance for the combined OASDI trust funds[a]		
As a percentage of GDP	-1.5	0.2
As a percentage of taxable payroll	-4.3	0.5
The exhaustion year for the balance of the combined OASDI trust funds (fiscal year)	2034	No change

Data source: Congressional Budget Office. See www.cbo.gov/publication/60557#data.

CPI = consumer price index; GDP = gross domestic product; OASDI = Old-Age, Survivors, and Disability Insurance.

Under this option, the chained CPI would be used to determine cost-of-living adjustments for Social Security. For more details, see Option 27, "Use an Alternative Measure of Inflation to Index Social Security and Other Mandatory Programs" (page 35). The analysis of long-term effects on Social Security in this table does not consider the effects of using the chained CPI for other mandatory programs.

The estimates displayed in this table assume that benefits will be paid as scheduled under the Social Security Act, regardless of the balances in the trust funds.

a. The actuarial balance is the sum of the present value of projected income and the current trust fund balance, minus the sum of the present value of projected outlays and a year's worth of benefits at the end of the period. For Social Security, that balance is traditionally presented as a percentage of the present value of GDP or of taxable payroll over 75 years. (A present-value estimate translates a flow of current and future income or payments into an equivalent lump-sum value today.)

Table A-14.

Distributional Effects of Option 27, "Use an Alternative Measure of Inflation to Index Social Security and Other Mandatory Programs"

Lifetime household earnings quintile[b]	Under current law: Birth year 1960–1969	Under current law: Birth year 1970–1979	Under current law: Birth year 1980–1989	Change from current law[a]: Birth year 1960–1969	Change from current law[a]: Birth year 1970–1979	Change from current law[a]: Birth year 1980–1989
Average annual benefits for retired workers if they claimed benefits at age 65[c]						
	(thousands of 2024 dollars)			(percent)		
Lowest	12	13	14	*	*	*
Middle	23	24	26	*	*	*
Highest	32	35	39	*	*	*
Average lifetime benefits relative to average lifetime earnings for beneficiaries (percent)[d]						
Lowest	31	32	31	-2	-3	-3
Middle	17	18	18	-3	-3	-3
Highest	8	7	7	-3	-3	-3
Ratio of average Social Security benefits to average payroll taxes over beneficiaries' lifetime[e]						
Lowest	2.6	2.7	2.5	-2	-3	-3
Middle	1.4	1.5	1.5	-3	-3	-3
Highest	1.0	1.0	0.9	-3	-3	-3

Data source: Congressional Budget Office. See www.cbo.gov/publication/60557#data.

CPI = consumer price index; * = between -1 percent and zero.

Under this option, the chained CPI would be used to determine cost-of-living adjustments for Social Security. For more details, see Option 27, "Use an Alternative Measure of Inflation to Index Social Security and Other Mandatory Programs" (page 35). The analysis of distributional effects on Social Security in this table does not consider the effects of using the chained CPI for other mandatory programs.

The estimates displayed in this table assume that benefits will be paid as scheduled under the Social Security Act, regardless of the balances in the trust funds.

a. Effects are measured as a percentage change from the current-law value. For example, under current law, the average lifetime benefits for low earners born in the 1960s will be 31 percent of lifetime earnings. The 1 percentage-point decrease in that ratio—from 31 percent to 30 percent—is expressed as a 2 percent decrease in this table.

b. The lowest, middle, and highest fifths of people within a 10-year birth cohort ranked by lifetime household earnings. For someone who is single in all years, lifetime household earnings equal the present value of inflation-adjusted earnings over that person's lifetime. In any year in which a person is married, lifetime household earnings equal the average of the couple's earnings, adjusted for economies of scale in household consumption.

c. CBO projected the benefit amounts that retired workers would receive in their first year of receiving such benefits if they began claiming them at age 65. To remove the effects of inflation on those benefits, CBO used the price index for all goods and services that make up gross domestic product. The agency computed those benefits for all people who are eligible to claim retirement benefits at age 62 and who have not yet claimed any other Social Security benefits. All amounts are net of income taxes paid on benefits.

d. Lifetime benefits include the present value of all Social Security benefits except those received by young widows, young spouses, and children, which are excluded from this measure because of insufficient data for years before 1984. To calculate present value, CBO adjusted the amounts to remove the effects of inflation and discounted the amounts to age 65. (A present-value estimate translates a flow of current and future income or payments into an equivalent lump-sum value today.)

e. Lifetime payroll taxes consist of the present value of the employer's and employee's shares of Social Security payroll taxes. To calculate present value, CBO adjusted the amounts to remove the effects of inflation and discounted the amounts to age 65.

Table A-15.

Long-Term Effects on Social Security's Finances of the First Alternative in Option 62, "Increase the Maximum Taxable Earnings That Are Subject to Social Security Payroll Taxes"

Percent

	Under current law	Change from current law
Spending, as a percentage of GDP		
Calendar year 2054	5.9	0.1
Calendar year 2098	6.7	0.2
Revenues, as a percentage of GDP		
Calendar year 2054	4.4	0.4
Calendar year 2098	4.6	0.4
The 75-year actuarial balance for the combined OASDI trust funds[a]		
As a percentage of GDP	-1.5	0.2
As a percentage of taxable payroll	-4.3	0.9
The exhaustion year for the balance of the combined OASDI trust funds (fiscal year)	2034	3[b]

Data source: Congressional Budget Office. See www.cbo.gov/publication/60557#data.

GDP = gross domestic product; OASDI = Old-Age, Survivors, and Disability Insurance.

Under this alternative, the share of earnings subject to Social Security payroll taxes would be increased to 90 percent. For more details about this alternative, see Option 62, "Increase the Maximum Taxable Earnings That Are Subject to Social Security Payroll Taxes" (page 73).

The estimates displayed in this table assume that benefits will be paid as scheduled under the Social Security Act, regardless of the balances in the trust funds.

a. The actuarial balance is the sum of the present value of projected income and the current trust fund balance, minus the sum of the present value of projected outlays and a year's worth of benefits at the end of the period. For Social Security, that balance is traditionally presented as a percentage of the present value of GDP or of taxable payroll over 75 years. (A present-value estimate translates a flow of current and future income or payments into an equivalent lump-sum value today.)

b. Under this alternative, the balance of the combined trust funds would be exhausted in calendar year 2037, three years later than the projected exhaustion date under current law.

Table A-16.

Distributional Effects of the First Alternative in Option 62, "Increase the Maximum Taxable Earnings That Are Subject to Social Security Payroll Taxes"

	Under current law			Change from current law[a]		
Lifetime household earnings quintile[b]	Birth year 1960–1969	Birth year 1970–1979	Birth year 1980–1989	Birth year 1960–1969	Birth year 1970–1979	Birth year 1980–1989
	Average annual benefits for retired workers if they claimed benefits at age 65[c]					
	(thousands of 2024 dollars)			(percent)		
Lowest	12	13	14	*	*	*
Middle	23	24	26	*	*	*
Highest	32	35	39	**	4	7
	Average lifetime benefits relative to average lifetime earnings for beneficiaries (percent)[d]					
Lowest	31	32	31	*	*	*
Middle	17	18	18	*	*	*
Highest	8	7	7	2	6	8
	Average lifetime payroll taxes relative to average lifetime earnings for beneficiaries (percent)[e]					
Lowest	12	12	12	**	**	**
Middle	12	12	12	**	**	**
Highest	8	8	8	5	12	18
	Ratio of average Social Security benefits to average payroll taxes over beneficiaries' lifetime					
Lowest	2.6	2.7	2.5	*	*	*
Middle	1.4	1.5	1.5	*	*	*
Highest	1.0	1.0	0.9	-2	-6	-8

Data source: Congressional Budget Office. See www.cbo.gov/publication/60557#data.

* = between -1 percent and zero; ** = between zero and 1 percent.

Under this alternative, the share of earnings subject to Social Security payroll taxes would be increased to 90 percent. For more details about this alternative, see Option 62, "Increase the Maximum Taxable Earnings That Are Subject to Social Security Payroll Taxes" (page 73).

The estimates displayed in this table assume that benefits will be paid as scheduled under the Social Security Act, regardless of the balances in the trust funds.

a. Effects are measured as a percentage change from the current-law value. For example, under current law, the average lifetime benefits for high earners born in the 1980s will be 7 percent of lifetime earnings. The 1 percentage-point increase in that ratio—from 7 percent to 8 percent—is expressed as an 8 percent increase in this table.

b. The lowest, middle, and highest fifths of people within a 10-year birth cohort ranked by lifetime household earnings. For someone who is single in all years, lifetime household earnings equal the present value of inflation-adjusted earnings over that person's lifetime. In any year in which a person is married, lifetime household earnings equal the average of the couple's earnings, adjusted for economies of scale in household consumption.

c. CBO projected the benefit amounts that retired workers would receive in their first year of receiving such benefits if they began claiming them at age 65. To remove the effects of inflation on those benefits, CBO used the price index for all goods and services that make up gross domestic product. The agency computed those benefits for all people who are eligible to claim retirement benefits at age 62 and who have not yet claimed any other Social Security benefits. All amounts are net of income taxes paid on benefits.

d. Lifetime benefits include the present value of all Social Security benefits except those received by young widows, young spouses, and children, which are excluded from this measure because of insufficient data for years before 1984. To calculate present value, CBO adjusted the amounts to remove the effects of inflation and discounted the amounts to age 65. (A present-value estimate translates a flow of current and future income or payments into an equivalent lump-sum value today.)

e. Lifetime payroll taxes consist of the present value of the employer's and employee's shares of Social Security payroll taxes. To calculate present value, CBO adjusted the amounts to remove the effects of inflation and discounted the amounts to age 65.

Table A-17.

Long-Term Effects on Social Security's Finances of the Second Alternative in Option 62, "Increase the Maximum Taxable Earnings That Are Subject to Social Security Payroll Taxes"

Percent

	Under current law	Change from current law
Revenues, as a percentage of GDP		
Calendar year 2054	4.4	0.9
Calendar year 2098	4.6	0.9
The 75-year actuarial balance for the combined OASDI trust funds[a]		
As a percentage of GDP	-1.5	0.9
As a percentage of taxable payroll	-4.3	3.0
The exhaustion year for the balance of the combined OASDI trust funds (fiscal year)	2034	17[b]

Data source: Congressional Budget Office. See www.cbo.gov/publication/60557#data.

GDP = gross domestic product; OASDI = Old-Age, Survivors, and Disability Insurance.

Under this alternative, earnings greater than $250,000 would be subject to Social Security payroll taxes. For more details about this alternative, see Option 62, "Increase the Maximum Taxable Earnings That Are Subject to Social Security Payroll Taxes" (page 73).

The estimates displayed in this table assume that benefits will be paid as scheduled under the Social Security Act, regardless of the balances in the trust funds.

a. The actuarial balance is the sum of the present value of projected income and the current trust fund balance, minus the sum of the present value of projected outlays and a year's worth of benefits at the end of the period. For Social Security, that balance is traditionally presented as a percentage of the present value of GDP or of taxable payroll over 75 years. (A present-value estimate translates a flow of current and future income or payments into an equivalent lump-sum value today.)

b. Under this alternative, the balance of the combined trust funds would be exhausted in calendar year 2051, 17 years later than the projected exhaustion date under current law.

Table A-18.

Distributional Effects of the Second Alternative in Option 62, "Increase the Maximum Taxable Earnings That Are Subject to Social Security Payroll Taxes"

Lifetime household earnings quintile[b]	Under current law: Birth year 1960–1969	Under current law: Birth year 1970–1979	Under current law: Birth year 1980–1989	Change from current law[a]: Birth year 1960–1969	Change from current law[a]: Birth year 1970–1979	Change from current law[a]: Birth year 1980–1989
Average annual benefits for retired workers if they claimed benefits at age 65[c]						
	(thousands of 2024 dollars)			**(percent)**		
Lowest	12	13	14	*	*	*
Middle	23	24	26	*	*	*
Highest	32	35	39	*	*	*
Average lifetime benefits relative to average lifetime earnings for beneficiaries (percent)[d]						
Lowest	31	32	31	*	*	*
Middle	17	18	18	*	*	*
Highest	8	7	7	*	*	*
Average lifetime payroll taxes relative to average lifetime earnings for beneficiaries (percent)[e]						
Lowest	12	12	12	**	**	**
Middle	12	12	12	**	**	**
Highest	8	8	8	17	39	49
Ratio of average Social Security benefits to average payroll taxes over beneficiaries' lifetime						
Lowest	2.6	2.7	2.5	*	*	*
Middle	1.4	1.5	1.5	*	*	*
Highest	1.0	1.0	0.9	-15	-28	-33

Data source: Congressional Budget Office. See www.cbo.gov/publication/60557#data.

* = between -1 percent and zero; ** = between zero and 1 percent.

Under this alternative, earnings greater than $250,000 would be subject to Social Security payroll taxes. For more details about this alternative, see Option 62, "Increase the Maximum Taxable Earnings That Are Subject to Social Security Payroll Taxes" (page 73).

The estimates displayed in this table assume that benefits will be paid as scheduled under the Social Security Act, regardless of the balances in the trust funds.

a. Effects are measured as a percentage change from the current-law value. For example, under current law, the average lifetime payroll taxes for high earners born in the 1960s will be 8 percent of lifetime earnings. The 1 percentage-point increase in that ratio—from 8 percent to 9 percent—is expressed as a 17 percent increase in this table.

b. The lowest, middle, and highest fifths of people within a 10-year birth cohort ranked by lifetime household earnings. For someone who is single in all years, lifetime household earnings equal the present value of inflation-adjusted earnings over that person's lifetime. In any year in which a person is married, lifetime household earnings equal the average of the couple's earnings, adjusted for economies of scale in household consumption.

c. CBO projected the benefit amounts that retired workers would receive in their first year of receiving such benefits if they began claiming them at age 65. To remove the effects of inflation on those benefits, CBO used the price index for all goods and services that make up gross domestic product. The agency computed those benefits for all people who are eligible to claim retirement benefits at age 62 and who have not yet claimed any other Social Security benefits. All amounts are net of income taxes paid on benefits.

d. Lifetime benefits include the present value of all Social Security benefits except those received by young widows, young spouses, and children, which are excluded from this measure because of insufficient data for years before 1984. To calculate present value, CBO adjusted the amounts to remove the effects of inflation and discounted the amounts to age 65. (A present-value estimate translates a flow of current and future income or payments into an equivalent lump-sum value today.)

e. Lifetime payroll taxes consist of the present value of the employer's and employee's shares of Social Security payroll taxes. To calculate present value, CBO adjusted the amounts to remove the effects of inflation and discounted the amounts to age 65.

About This Document

At the request of the House and Senate Committees on the Budget, the Congressional Budget Office periodically issues a compendium of budget options to help inform federal lawmakers about the implications of possible policy choices that would reduce the deficit. This report, the latest in the series, presents 76 options for altering spending and revenues to reduce federal budget deficits.

The options come from a variety of sources, including legislative proposals, budget proposals from various Administrations, Congressional staff, federal agencies, and private groups. The options are intended to reflect a range of possibilities rather than to rank priorities or present a comprehensive list. The inclusion or exclusion of a particular option does not represent an endorsement or a rejection by CBO. In keeping with CBO's mandate to provide objective, impartial analysis, this report makes no recommendations.

This report is the result of work by more than 90 people at CBO, whose names are listed on the following pages, as well as by the staff of the Joint Committee on Taxation. This report is available on CBO's website at www.cbo.gov/publication/60557.

CBO seeks feedback to make its work as useful as possible. Please send comments to communications@cbo.gov.

Phillip L. Swagel
Director
December 2024

Overview

The spending estimates that appear in this report were prepared by the staff of CBO's Budget Analysis Division (supervised by Chad Chirico, Christina Hawley Anthony, Sam Papenfuss, Barry Blom, Elizabeth Cove Delisle, Sean Dunbar, Ann E. Futrell, Justin Humphrey, Sarah Masi, David Newman, Robert Reese, Asha Saavoss, and Emily Stern); Health Analysis Division (supervised by Chapin White, Tamara Hayford, Berna Demiralp, Alexandra Minicozzi, and Aditi Sen); Financial Analysis Division (supervised by Sebastien Gay); Labor, Income Security, and Long-Term Analysis Division (supervised by Julie Topoleski, Molly Dahl, and Xiaotong Niu); and National Security Division (supervised by David Mosher and Edward G. Keating). Most of the revenue estimates were prepared by the staff of the Joint Committee on Taxation, although some were done by the staff of CBO's Tax Analysis Division (supervised by John McClelland, Edward Harris, Molly Saunders-Scott, and Joshua Shakin), Microeconomic Analysis Division (supervised by Joseph Kile and Nicholas Chase), and Budget Analysis Division.

The discussions of the options were written and reviewed by analysts and managers throughout CBO in the seven divisions just mentioned. Kelly Durand, Madeleine Fischer, Anthony Montano, Kaylee Nielson, Noah Swart, and Grace Watson helped fact-check this report. Michael Cohen and David Hughes coordinated work on this report and reviewed it in conjunction with Mark Doms, Jeffrey Kling, David Austin, Ann Futrell, Sarah Masi, Noah Meyerson, Shannon Mok, Lara Robillard, Molly Sherlock, Chad Shirley, and Emily Stern.

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Appendix

Molly Dahl coordinated work on the appendix. Xinzhe Cheng and Madeleine Fischer contributed to the estimates.

Editing and Publishing

The editing and publishing of this report were handled by CBO's editing and publishing group, supervised by Lora Engdahl and John Skeen, and the agency's communications team, supervised by Leigh Angres. Caitlin Verboon edited this report, and Casey Labrack prepared the text for publication. Annette Kalicki prepared the online version of budget options, and Jared Jageler prepared a consolidated table of the options to be posted online.