

A BIPARTISAN PLAN TO REDUCE OUR NATION'S DEFICITS

EXECUTIVE SUMMARY

This bipartisan, comprehensive, and balanced plan consistent with the recommendations of the Bowles-Simpson fiscal commission that will:

- Slash our nation's deficits by \$3.7 trillion/\$3.6 trillion over ten years under CBO's March 2011 baseline, or \$4.65 trillion/\$4.5 trillion under the original fiscal commission baseline (which used the President's 2011 budget request as the starting point for discretionary spending).
- Stabilize our publicly-held debt by 2014.
- Reduce our publicly-held debt to roughly 70% of our economy by 2021.
- Impose unprecedented budget enforcement.

A COMPREHENSIVE AND BALANCED PROPOSAL

The plan uses a two-step legislative process: (1) an initial bill that makes immediate cuts; and (2) a process for a second bill to enact comprehensive reform and put our nation on a stable fiscal path. The plan would:

Immediately implement aggressive deficit reduction down payment

- Cut deficits by \$500 billion.

Dramatically cut discretionary spending

- Cut nonsecurity and security discretionary spending over 10 years.
- Maintain investments that encourage economic growth, strengthen the safety net for those who truly need it, and preserve a strong national defense.

Carefully strengthen the solvency of our most important entitlement programs

- Spend health care dollars more efficiently in order to strengthen Medicare and Medicaid, while maintaining the basic structure of these critical programs.
- Fully pays for SGR (the "doc fix") over 10 years.

Fundamentally reform our tax code

- Reduce marginal income tax rates and abolish the \$1.7 trillion Alternative Minimum Tax.
- Encourage greater economic growth.
- Enhance the competitiveness of American businesses and workers against global competition.
- Reform spending through the tax code to eliminate investment distortions and tax gaming.
- Change the debate about taxes in America from rate levels and carve outs to competitiveness, fairness and growth.
- If CBO scored this plan, it would find net tax relief of approximately \$1.5 trillion.

Strictly tighten the government's budget processes

- Impose spending caps and security/nonsecurity firewalls.
- Sequester accounts at the end of the year to recoup any excessive spending by Congress.
- Restrict the use of emergency designations that circumvent the spending caps.
- Prevent Congress from exceeding the caps by requiring a stand-alone resolution subject to a 67-vote threshold, in order to isolate that vote to increase the deficit from any other policy items.

Reform Social Security for future generations

- Ensure 75-year solvency of Social Security and provide for a decennial review of the program to ensure it remains solvent.
- Reform Social Security on a separate track, isolated from deficit reduction – any savings from the program must go towards solvency.

AN AGGRESSIVE PLAN THAT INVOLVES THE WHOLE CONGRESS

The plan would be implemented through an open, aggressive two-step legislative process led by committees of jurisdiction and involving the American people by:

Enacting a \$500 billion down payment that would secure immediate deficit savings, while establishing a fast track process for the committees in Congress to specify further savings

- Impose statutory discretionary spending caps through 2015.
- Implement numerous budget process reforms.
- Shift to the chained-CPI (a more accurate measure of inflation) government-wide starting in 2012, along with the following specifications for Social Security: (1) exempt SSI from the shift for five years, and then phase in the shift over the next five years; and (2) provide a minimum benefit equal to 125% of the poverty line for five years. (*According to CBO, the shift to chained-CPI would result in the annual adjustment growing, on average, about 0.25 percentage points per year slower than the current CPI.*)
- Repeal the CLASS Act.
- Enact concrete policy changes that lock-in additional savings, including freezing Congressional pay and selling unused federal property.
- Require GAO and the Department of Labor to report to Congress on establishing a more effective unemployment insurance trigger.

Enacting a comprehensive deficit reduction plan that includes discretionary and entitlement savings as well as fundamental tax reform

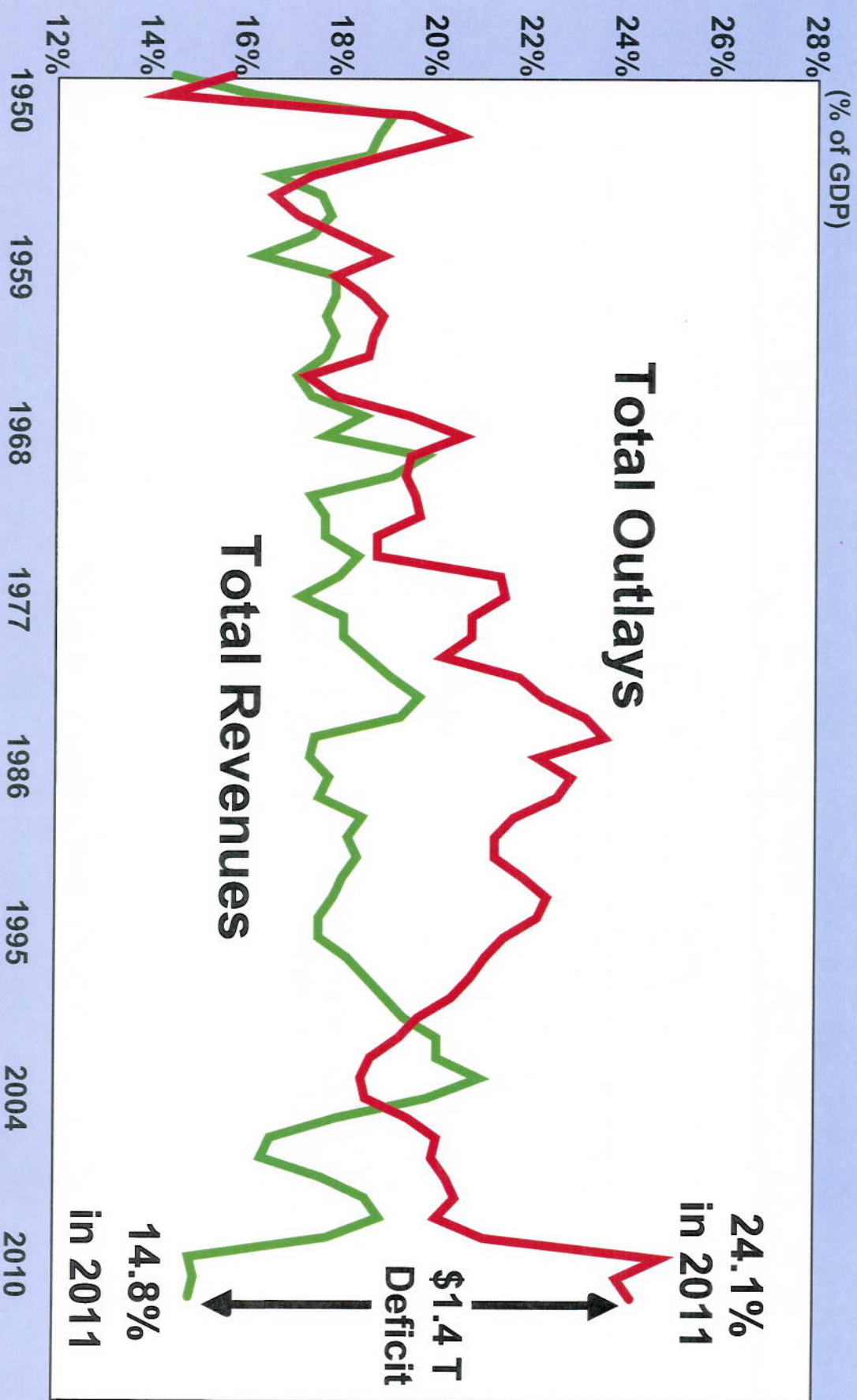
- Require committees to report legislation within six months that would deliver real deficit savings in entitlement programs over 10 years as follows:
 - Finance would permanently reform or replace the Medicare Sustainable Growth Rate formula (\$298 billion) and fully offset the cost with health savings, would find an additional \$202 billion/\$85 billion in health savings, and would maintain the essential health care services that the poor and elderly rely upon.
 - Armed Services would find \$80 billion.
 - Health, Education, Labor, and Pensions would find \$70 billion.
 - Homeland Security and Government Affairs would find \$65 billion.
 - Agriculture would find \$11 billion while protecting the Supplemental Nutrition Assistance Program.
 - Commerce would find \$11 billion.
 - Energy would find \$6 billion and may propose additional policies to generate savings that would be applied to the infrastructure deficit or to reduce the deficit.
 - Judiciary would find an unspecified amount through medical malpractice reform.
- Require the Finance Committee to report tax reform within six months that would deliver real deficit savings by broadening the tax base, lowering tax rates, and generating economic growth as follows:
 - Simplify the tax code by reducing the number of tax expenditures and reducing individual tax rates, by establishing three tax brackets with rates of 8–12 percent, 14–22 percent, and 23–29 percent.
 - Permanently repeal the \$1.7 trillion Alternative Minimum Tax.
 - Tax reform must be projected to stimulate economic growth, leading to increased revenue.
 - Tax reform must be estimated to provide \$1 trillion in additional revenue to meet plan

- targets and generate an additional \$133 billion by 2021, without raising the federal gas tax, to ensure improved solvency for the Highway Trust Fund.
- If CBO scored this plan, it would find net tax relief of approximately \$1.5 trillion.
 - To the extent future Congresses find that the dynamic effects of tax reform result in additional revenue beyond these targets, this revenue must go to additional rate reductions and deficit reduction, not to new spending.
 - Reform, not eliminate, tax expenditures for health, charitable giving, homeownership, and retirement, and retain support for low-income workers and families.
 - Retain the Earned Income Tax Credit and the Child Tax Credit, or provide at least the same level of support for qualified beneficiaries.
 - Maintain or improve the progressivity of the tax code.
 - Establish a single corporate tax rate between 23 percent and 29 percent, raise as much revenue as the current corporate tax system, and move to a competitive territorial tax system.
- Require the Budget Committee to report legislation within six months that would:
 - Extend discretionary caps and enforcement mechanisms through 2021.
 - Ensure Congressional action to reduce the deficit if the debt-to-GDP ratio after 2015 has not stabilized.
 - Review total federal health care spending starting in 2020 with a target of holding growth to GDP plus one percent per beneficiary and require action by Congress and the President if exceeded.
 - Achieve program integrity savings of \$26 billion in entitlement programs to curb fraud, abuse, and other wasteful spending government-wide.
 - Create a working group to provide updated budget concepts for CBO and OMB.
 - Provide expedited floor consideration for a consolidated bill meeting these instructions:
 - If any committee fails to report entitlement program savings, impose across the board cuts to programs in that committee's jurisdiction as necessary to achieve the required savings. To protect programs that benefit low income families, exempt from across the board cuts those most in need.
 - Allow a group of at least five senators from each party to introduce a resolution in lieu of the non-reporting committee.
 - If a resolution receives 60 votes on the floor, those recommendations will be added to the comprehensive bill.
 - If the Senate does not agree to those recommendations, the comprehensive bill cannot come to the floor under the special procedures established in the first (down payment) bill.
 - Bar substitute floor amendments that upset the revenue/spending balance or any amendments that make the deficit worse, but place no other limits on debate or the substance of amendments.
 - Allow the Majority Leader and Minority Leader to limit debate and the number of amendments, or impose other substantive restrictions by agreement, so that the Leaders can manage the bill with a process that satisfies 60 Senators and the process cannot be held up by a small group on either side. If the Leaders cannot agree, the bill is considered under the regular order.
 - Hold any such comprehensive bill that receives 60 votes at the desk pending consideration of the Social Security bill.

Enacting Social Security reform if the comprehensive deficit reduction plan has passed

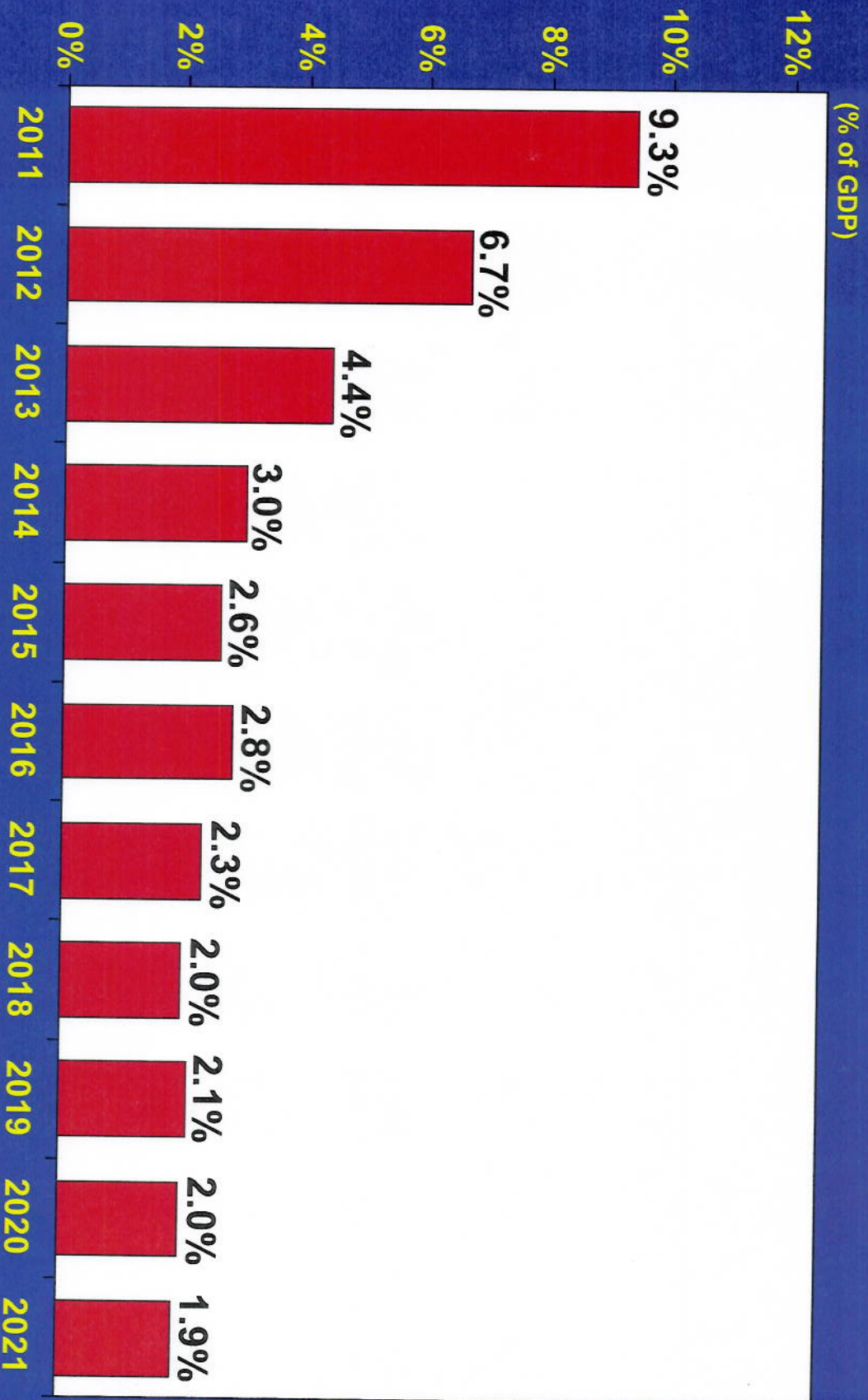
- Consider Social Security reform, if and only if the comprehensive deficit reduction bill has already received 60 votes.
- Reform must ensure 75-year solvency of the program and provide for a decennial review to ensure it remains solvent. Any savings from the program must go towards solvency, not deficit reduction.
- If Finance fails to report Social Security reform meeting the instructions, allow a group of at least five senators from each party to introduce a resolution with recommendations that meet the committee's instructions.
- Bar substitute amendments that worsen the solvency of Social Security.
- Combine any qualifying Social Security reform bill that receives 60 votes on final passage to the comprehensive bill at the desk before being sent to the House as a single bill.
- Vitiate the vote on the deficit-reduction bill if the Social Security reform bill does not receive 60 votes.

Spending and Revenues

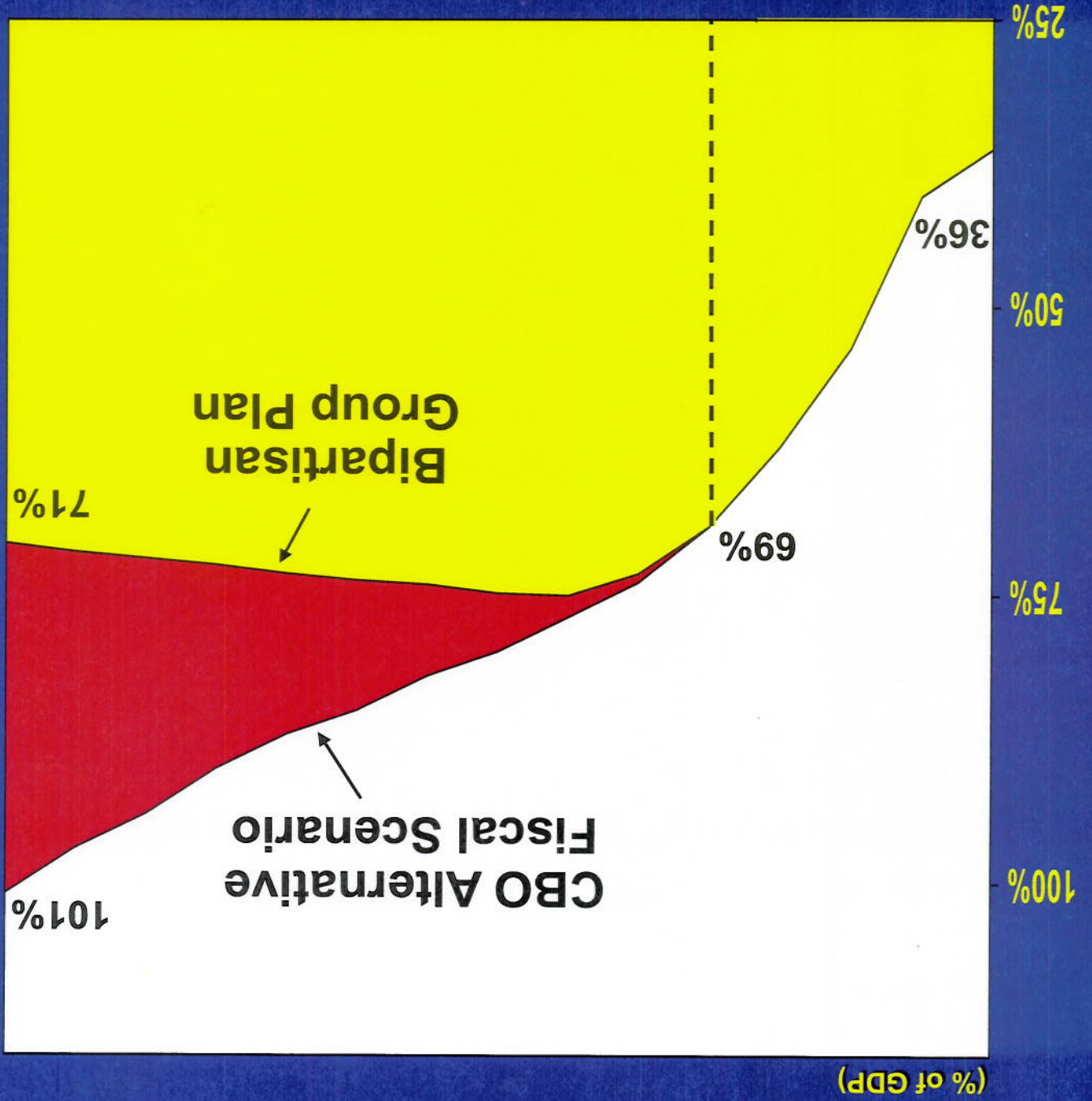


Sources: OMB, CBO

Deficit as Percent of GDP Under Bipartisan Group Plan



Debt as Percent of GDP Under Bipartisan Group Plan



Note: Publicly-held debt.

Comparison of Deficit Reduction Plans

Deficit Reduction over 2012-2021

Fiscal Commission Bipartisan Group Plan

Compared to “Regular” plausible baseline \$3.8 T \$3.73 T

Compared to Fiscal Commission plausible baseline \$4.7 T \$4.65 T

Note: Excludes Social Security savings. Fiscal Commission savings reflects revised estimate by the Moment of Truth Project.