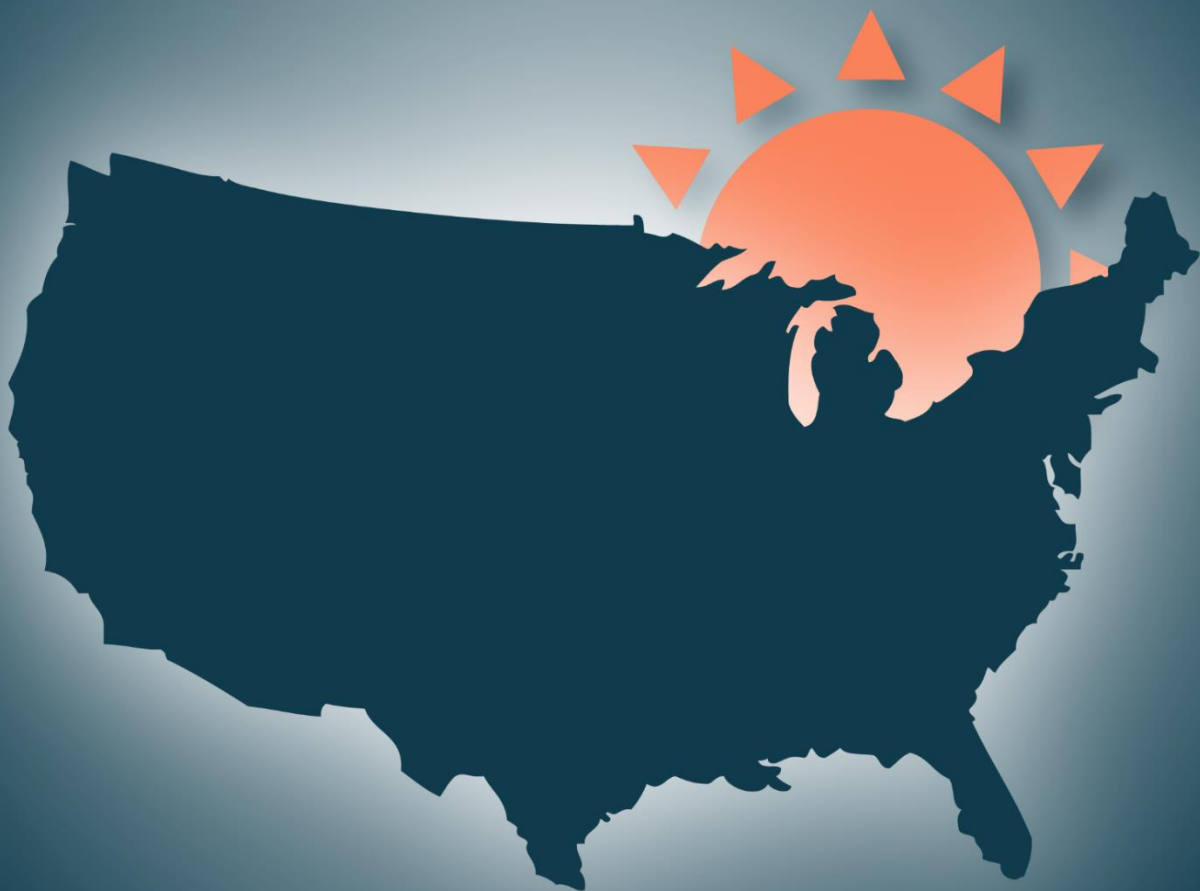


A BRIGHTER AMERICAN FUTURE

A Balanced Budget for FY 2019



BUDGET.HOUSE.GOV



HOUSE
BUDGET
COMMITTEE

CHAIRMAN STEVE WOMACK

Table of Contents

Introduction	3
The Current Fiscal Outlook	4
Tax Reform is Working	5
Deficits and Debt on the Rise	6
The Mandatory Spending Challenge	7
Getting the Nation's Fiscal House in Order	9
Topline Numbers	9
Mandatory Spending	9
Discretionary Spending	9
Achieving Balance	10
Budget Solutions for a Brighter American Future	11
Government Accountability	12
Welfare Reform	14
Health Care	15
Veterans	18
Financial Services	18
Education	19
Appendix I: Macroeconomic Feedback Effects of Pro-Growth Policies	21
Appendix II: Reconciliation	22
Appendix III: Summary Tables	24



A BRIGHTER AMERICAN FUTURE

A Balanced Budget Plan for FY 2019

Foundational to the conservative philosophy for governing is the belief that the United States of America is truly exceptional. Built out of optimism more than 250 years ago, the grand American experiment continues to inspire confidence in the future. And history has time and again proven that it is the American people who continue to truly make this nation thrive.

While America's future has always appeared bright, current fiscal challenges threaten to make the outlook seem bleak. For years, the Federal Government's finances have reflected irresponsible imbalance, steadily casting a darker and larger shadow on the hopes of future prosperity.

House Republicans have long warned that Congress must act in response to the warning signs and create a sustainable path for the future. While the task is daunting and worsened by years of inaction, it is possible to change the current course and secure a bright future for generations to come. However, in order to change course in the long-term, Congress must make tough decisions about the nation's finances in the short-term.

The *Budget for a Brighter American Future* offers a responsible plan to get America back on track. Adopting substantive spending restraint coupled with policies promoting significant economic growth, the fiscal year (FY) 2019 budget resolution does the following:

- **Balances in Nine Years**

Rising deficits and the growing national debt pose the greatest threat to America's future prosperity. Through thoughtful reforms and savings to government programs, this budget offers a sustainable spending path that reverses the current trend – responsibly achieving balance in nine years with estimated surpluses of \$26 billion in FY 2027 and \$142 billion in FY 2028.

- **Addresses Mandatory Spending**

The Federal Government is spending far more than it takes in. This increasing disparity is largely due to mandatory – or autopilot – spending, which includes safety-net programs like Medicare and Social Security, as well as the interest on the national debt. Currently comprising the largest share of total spending, mandatory spending's unchecked growth is driving the rapid rate at which the national debt is accumulating. This budget confronts this harsh reality by including instructions to 11 authorizing committees to achieve at least \$302 billion in deficit reduction through reconciliation and recommending reforms to preserve the existence of programs upon which many vulnerable Americans depend, while easing the fiscal burden currently being placed on future generations.

- **Continues Economic Growth**

Building on the success of the *Tax Cuts and Jobs Act*, this budget encourages economic growth. It calls for reducing burdensome regulations and suggests other key reforms to government programs in order to sustain and continue growth of the American economy.



- **Encourages Better Government and Greater Accountability**

Every tax dollar spent by the Federal Government should reflect good stewardship of hardworking taxpayer resources. Encouraging more responsible use of taxpayer dollars and promoting efficiency and effectiveness, this budget prescribes reforms to sustain vital government programs, identifies and confronts wasteful spending to reduce deficits, and strengthens accountability to generate better outcomes for Americans.

- **Empowers State and Local Governments**

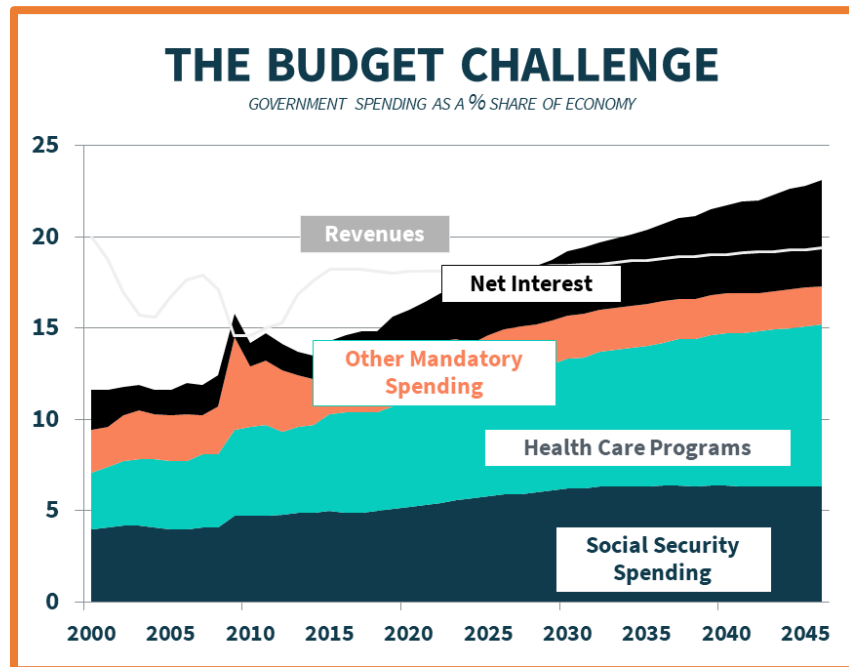
Respecting the powers granted to state and local governments by the Tenth Amendment of the U.S. Constitution, this budget acknowledges that some reforms are best decided by those distinct governing authorities. State and local governments have the ability to reform and modernize programs to meet the unique needs of their own citizens. For the purpose of more efficient use of taxpayer dollars, this budget scales back overreach of the Federal Government and restores power to the states in areas such as health care, welfare, environmental regulation, education, workforce development, and transportation.

THE CURRENT FISCAL OUTLOOK

In order to map out a budget plan, the House Budget Committee must consider the current fiscal reality and what that means for the future if policies remain the same. Each year, the Congressional Budget Office (CBO) provides the Committee with this critical piece in the budget planning and writing process.

Received on April 9, 2018, CBO's *Budget and Economic Outlook: 2018-2028*¹ includes budget and economic projections for the upcoming 10 years. Often referred to as the "baseline," this annual report serves as a neutral benchmark from which to consider the effects of policy options and determine funding levels. While the baseline is typically published at the beginning of the year, receipt of the report was

delayed this year in order to adjust projections for the recently enacted *Tax Cuts and Jobs Act* (Public Law 115-97), the *Bipartisan Budget Act of 2018* (Public Law 115-123), and the *Consolidated Appropriations Act, 2018* (Public Law 115-141).



¹ *The Budget and Economic Outlook: 2018 to 2028*, Congressional Budget Office, April 9, 2018, <https://www.cbo.gov/publication/53651>.

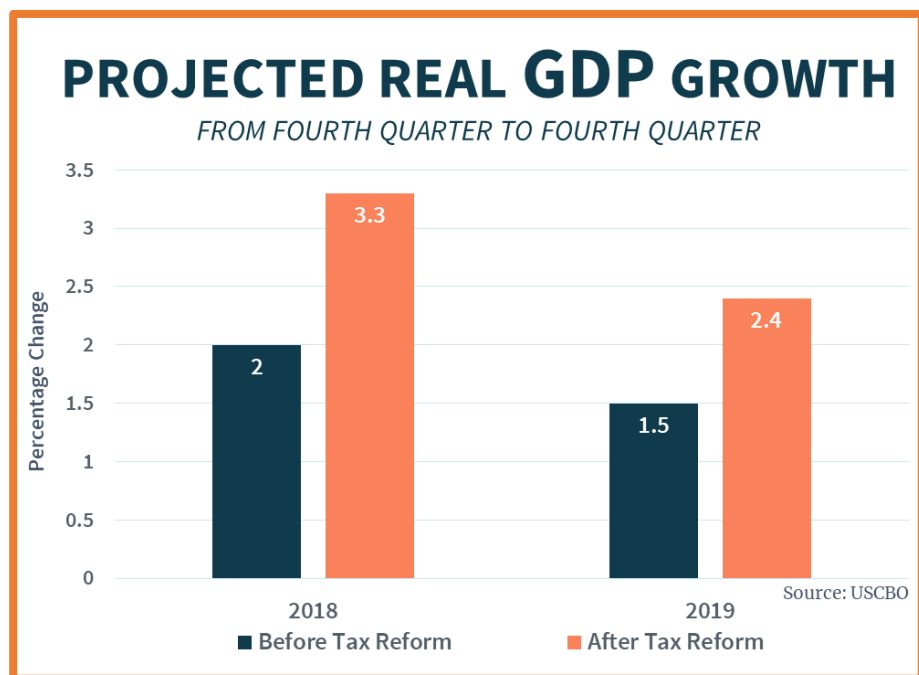
In its forecast for the next decade CBO's latest baseline, which assumes the continuation of current law, reveals both promising and sobering news. Discussed here are some of the key findings which informed the Committee's approach towards crafting the FY 2019 budget resolution.

TAX REFORM IS WORKING

Tax reform is delivering on the pro-growth benefits that Republicans promised. Just months since the *Tax Cuts and Jobs Act* was signed into law by President Trump, the good news continues for hardworking Americans, who are already seeing more money in their pockets. Businesses are also reacting positively to tax reform by investing back into their workforce and the economy. In fact, more than 500 businesses² have already announced that they have awarded bonuses, increased wages, or enhanced employee benefits.

Despite what some critics say, CBO's baseline supports the belief that tax reform will provide a positive long-term impact on the economy. In this year's baseline, CBO stated that the *Tax Cuts and Jobs Act* "will encourage workers to work more hours and businesses to increase investment in productive capital, thereby raising employment, income, and potential output...the increase in after-tax income will boost spending in the near term, boosting actual output..."³

Largely due to the *Tax Cuts and Jobs Act*, CBO expects the economy will grow by 3 percent this year (on a year-by-year basis), which would mark the strongest growth since before the Obama Administration. By comparison, during President Obama's eight years in the White House, economic growth averaged only 2 percent, over 14 million Americans left the labor force, and wages remained relatively stagnant, barely keeping up with the rate of inflation.



CBO also projects that heightened economic activity directly results from tax reform, generating greater demand for labor and higher wages for American workers. Another sign that recently-enacted policies are boosting the economy, CBO projects that unemployment will continue to decline in the next few years and that approximately one million jobs will be created over the next 11 years.

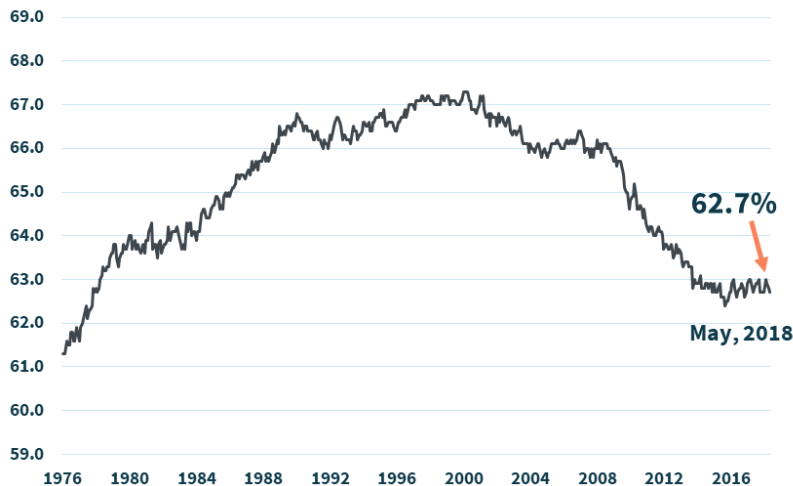
² John Kartch, "List of Tax Reform Good News," Americans for Tax Reform, May 23, 2018, <https://www.atr.org/list>.

³ *The Budget and Economic Outlook: 2018 to 2028*, Congressional Budget Office, April 9, 2018, <https://www.cbo.gov/publication/53651>, 11.



Indeed, the Department of Labor (DOL) recently announced even more positive economic news from the month of May directly resulting from the enactment of tax reform. According to the recent jobs report, unemployment hit 3.8 percent, its lowest level since 2000. Further, DOL found that the economy added roughly 2.4 million jobs in the last year, and in April, job openings reached a record high, exceeding the number of unemployed workers.⁴

THE LABOR FORCE PARTICIPATION RATE IS HISTORICALLY LOW



SOURCE: CBO

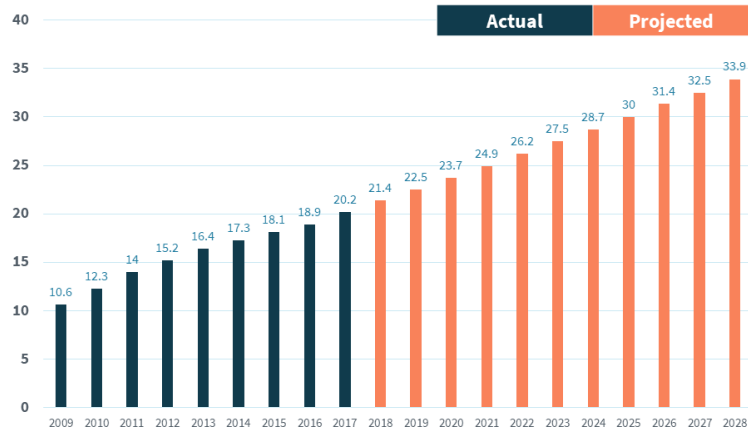
On the heels of tax reform, this budget continues to make economic strides in the right direction. It promotes the elimination of burdensome regulations and reforms government agencies and programs that have impeded economic growth. Reflecting the long-held conservative consensus in the House, this budget assumes Congress repeals Obamacare and replaces it with a patient-centered, free-market health care system. This budget also recommends welfare reforms that promote work and self-sufficiency.

DEFICITS AND DEBT ON THE RISE

As Admiral Mike Mullen, former Chairman of the Joint Chiefs of Staff, once said, “the most significant threat to our national security is our debt.”⁵ According to CBO, the national debt stands at roughly \$21.4 trillion – greater than the size of the entire economy. If this trajectory is unchanged, deficits will hit \$1.5 trillion in FY 2028 and total \$12.4 trillion over the next 10 years. As a result, debt held by the public is projected to increase by \$13 trillion, reaching \$28.7 trillion within 10 years and consuming nearly 100 percent of

GROWING NATIONAL DEBT

GROSS FEDERAL DEBT IN \$ TRILLIONS



SOURCE: CBO

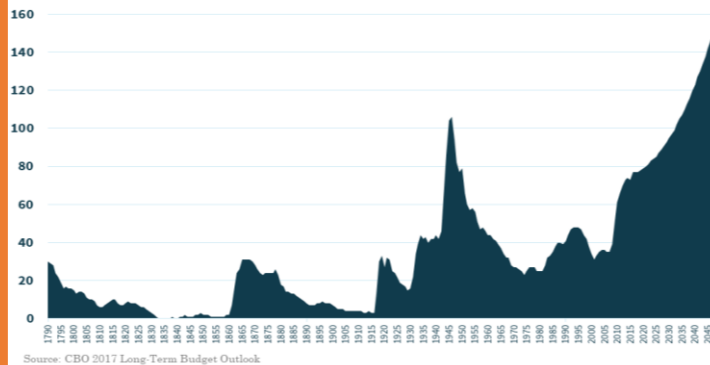
⁴ Bureau of Labor Statistics, *The Employment Situation – May 2018*, United States Department of Labor, Report No. USDL-18-0916, June 1, 2018, <https://www.bls.gov/news.release/emp.sit.nr0.htm>.

⁵ The CNN Wire Staff, “Mullen: Debt Is Top National Security Threat,” CNN, August 27, 2010, <http://www.cnn.com/2010/US/08/27/debt.security.mullen/index.html>.



THE NATIONAL DEBT KEEPS GROWING

DEBT HELD BY THE PUBLIC AS % OF GDP



gross domestic product (GDP). By FY 2028, interest on the federal debt is on track to be the third largest expenditure in the federal budget, outpacing all other spending programs besides Social Security and Medicare.

THE MANDATORY SPENDING CHALLENGE

Relative to the baseline, Republicans in Congress have cut discretionary spending. However, the rapid rise of mandatory spending continues to limit any meaningful impact on the federal budget. As has been the steady trend for years, mandatory

spending, including net interest, is the greatest driver of the nation's debt. Contributing significantly to annual deficits, this share of overall spending continues to grow at an alarming rate.

Comprising the largest share of our country's spending, mandatory spending (also referred to as direct spending) is driven mainly by economic and demographic factors. Most of the programs run on autopilot and are not subject to the annual appropriations process. As a result, this category of spending is left unchecked.

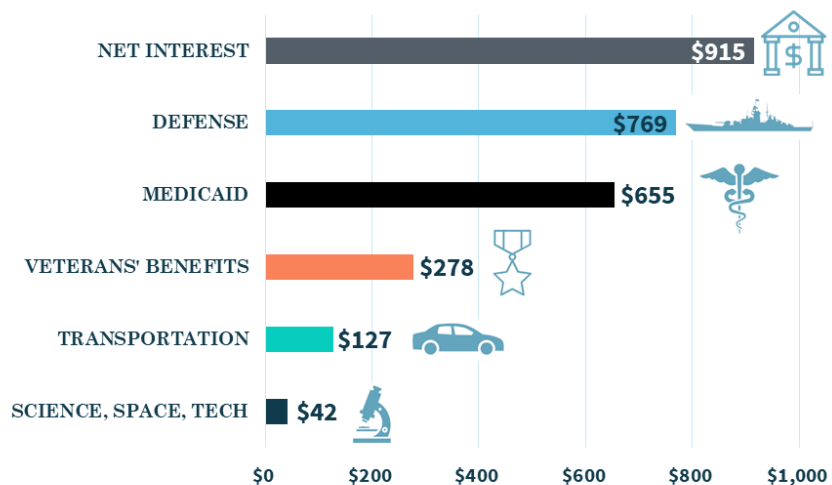
Today, mandatory spending consumes approximately 70 percent of all federal spending. Without action, CBO projects that mandatory spending will

increase from \$2.8 trillion in FY 2018 to \$4.9 trillion in FY 2028. By that date, mandatory programs will consume 77 percent of total spending and will account for roughly 16.6 percent of GDP.

Within overall non-interest mandatory spending, the two major social insurance programs are projected to continue growing faster than the economy as a whole. The cost of Social Security is projected to rise from \$984 billion in FY 2018 to \$1.8 trillion in FY 2028, and Medicare spending is expected to increase from \$707 billion in FY 2018 to \$1.5 trillion in FY 2028. This level of growth is not only unsustainable but threatens each program's solvency. In fact, CBO projects Social Security and Medicare will be insolvent by 2030 and 2026 respectively.

INTEREST VS. OTHER SPENDING

OUTLAYS, IN 2028 UNDER CBO BASELINE, IN BILLIONS



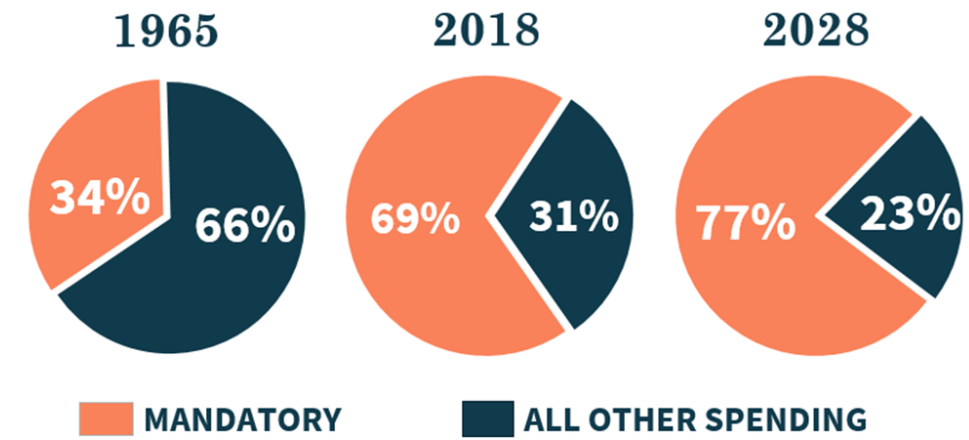
Note: Spending for Social Security or Medicare exceeds net interest.

SOURCE: CBO



Along the current path, programs designed for some of the most vulnerable are also in peril. According to CBO, spending on means-tested programs has almost doubled over the past decade. The largest of these programs is Medicaid, with spending expected to rise from \$383 billion in FY 2018 to \$655 billion in FY 2028. Outlays for exchange-based health insurance subsidies are projected to rise from \$47 billion in FY 2018 to \$78 billion in FY 2028. Other non-health income security programs are projected to increase from \$256 billion in FY 2018 to \$307 billion in FY 2028.

MANDATORY SPENDING GROWTH OVER TIME



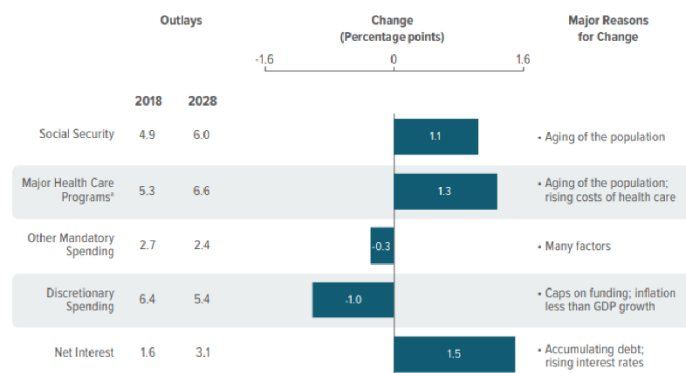
SOURCE: CBO

As usual, critics will falsely claim that this budget hurts seniors and other vulnerable citizens. However, the reality is that this budget reforms and *preserves* programs like Medicare and Medicaid, so that they can continue to provide support and assistance as intended. For example, under current law, Medicare cannot support the weight of its promise, and its imminent failure will result in massive cuts to retiree health care benefits. This budget makes reforms to Medicare that will put the program on a fiscally sustainable path for current and future generations.

The fiscal challenge posed by unsustainable mandatory spending extends beyond retirement, health care, and low-income programs into all functions of the government. It also includes federal employee retirement, agriculture and higher education subsidies, and a variety of other programs.

For years, House Republicans have called for real action to reform and strengthen the mandatory programs upon which many

MAJOR CHANGES IN PROJECTED OUTLAYS FROM 2018 TO 2028 PERCENTAGE OF GROSS DOMESTIC PRODUCT



Source: Congressional Budget Office

GDP = gross domestic product

Outlays as a percentage of GDP have been adjusted to exclude the effects of timing shifts.

a. Consists 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 under the Affordable Care Act and related spending.

Americans depend. If nothing is done, these programs *will* eventually fail for those relying on them today and may not exist for those who hope to depend on them in the future. The longer the delay in addressing these problems, the more difficult solutions become.

GETTING THE NATION'S FISCAL HOUSE IN ORDER

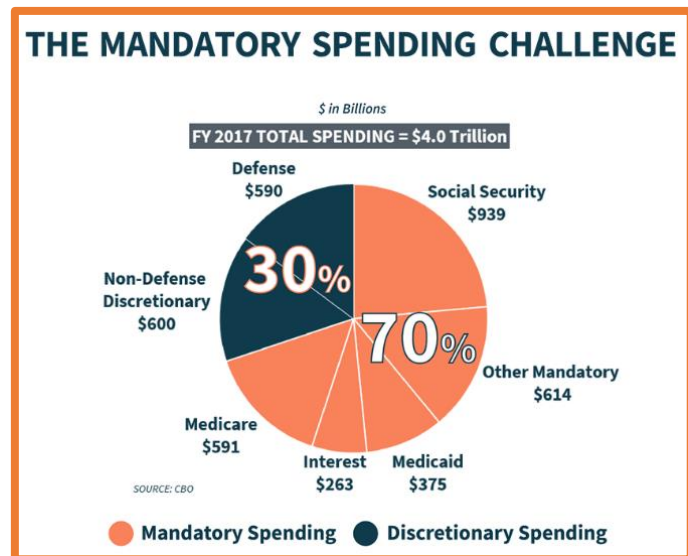
While CBO's projections are daunting, the current track does not have to dictate America's future. However, the longer Congress waits to act on responsible reforms to restrain spending and rein in deficits, the more daunting the task becomes. In this blueprint for fiscal year 2019, the *Budget for a Brighter American Future* outlines the tough choices needed to get the nation's fiscal house in order and on a balanced, sustainable path.

TOPLINE NUMBERS

In order to achieve balance, the *Budget for a Brighter American Future* does the following.

Mandatory Spending

Over the next decade, this budget achieves savings of \$5.4 trillion in mandatory programs, including reconciliation instructions for 11 House authorizing committees to find at least \$302 billion in deficit reduction. The budgetary tool of reconciliation enables Congress to enact real reforms to mandatory spending programs in order to lessen the fiscal burden placed on future generations. These targets are a floor, not a ceiling, and the Committee expects the authorizing committees can achieve significantly larger budgetary savings than the targets called for in the reconciliation instructions.



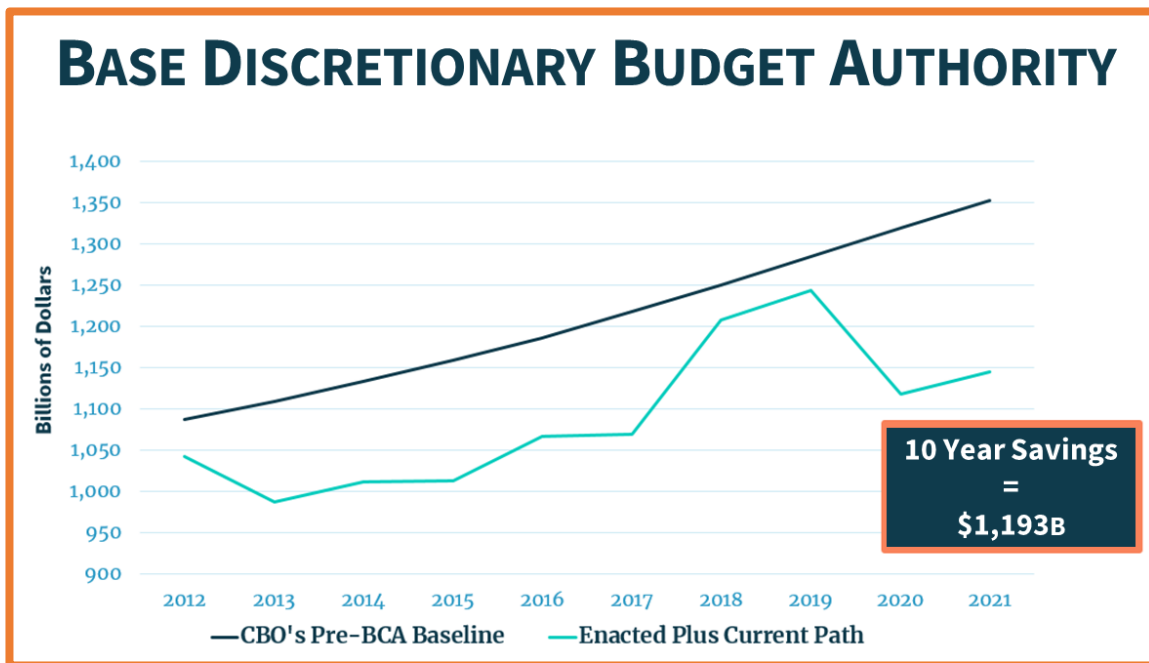
In the same spirit of fiscal responsibility reflected in the Committee's FY 2018 blueprint, this budget takes savings to be achieved through reconciliation even further. Building on last year's the instructions for \$203 billion in deficit reduction, *Budget for a Brighter American Future* increases the savings target by nearly \$100 billion.

Discretionary Spending

The *Budget for a Brighter American Future* sets topline discretionary spending levels for FY 2019 at \$647 billion for defense and \$597 billion for non-defense in accordance with the *Bipartisan Budget Act of 2018*.

There is "a significant gap between what the American people expect the military to be able to do and what it actually could do effectively if called upon today," according to the House Armed Services

Committee.⁶ With mounting threats to national security at home and abroad, it is more critical than ever to ensure the U.S. military has the resources it needs.



This budget preserves critical defense spending to protect vital national interests today and modernize the military to tackle tomorrow's challenges and the ever-evolving threats in the Middle East and around the globe. For FY 2019, this budget resolution provides \$647 billion in base defense discretionary funding. It also provides an additional \$69 billion in defense resources for the Global War on Terrorism (GWOT) fund, otherwise known as the Overseas Contingency Operations (OCO) fund.

From FY 2019 to FY 2021, the *Budget for a Brighter American Future* calls for a five percent annual increase to the base defense budget. For the remainder of the budget window, the budget's defense spending continues to grow, ultimately reaching \$736 billion in FY 2028.

For non-defense discretionary funding, the *Budget for a Brighter American Future* also adopts the FY 2019 level enacted by the *Bipartisan Budget Act of 2018* – \$597 billion. In the out-years, to responsibly steward taxpayer dollars, this budget calls for non-defense discretionary spending to steadily decline year over year, reaching a level of \$424 billion in FY 2028.

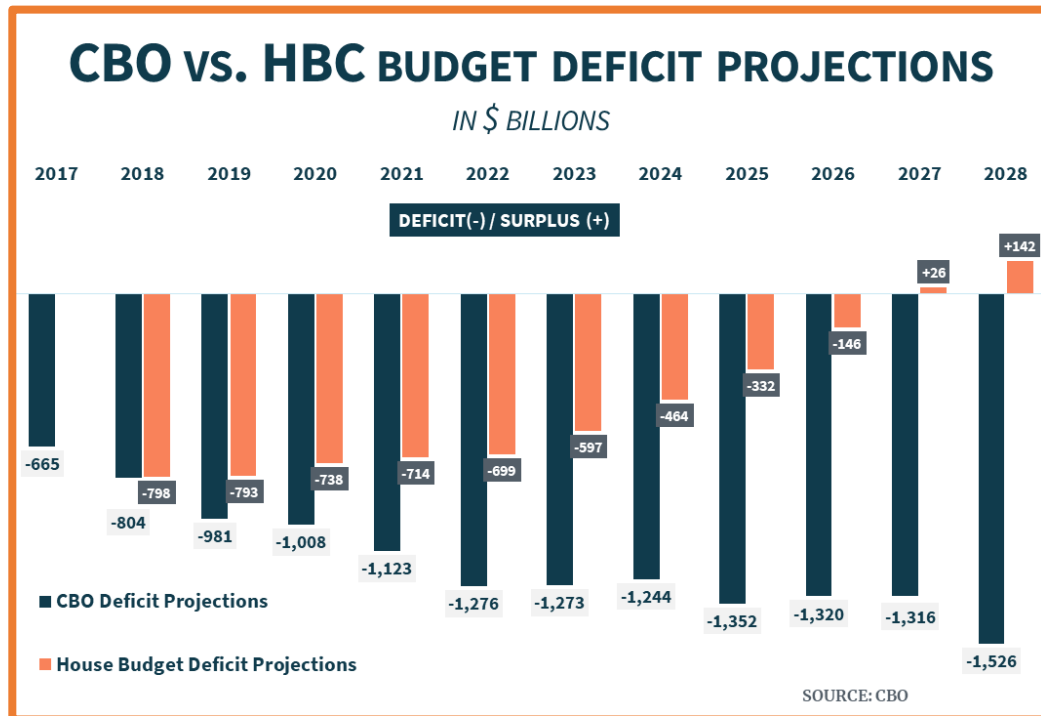
ACHIEVING BALANCE

The need to balance the budget is not only a decision rooted in commonsense, it is necessitated by America's dire fiscal outlook. If the nation's current financial trajectory remains unchanged, future generations will face a sovereign debt crisis that will cripple our economy and adversely affect every American family. Achieving balance requires thoughtful and immediate action, including significant spending restraint and pro-growth reforms.

⁶ U.S. Congress, House of Representatives, Committee on Armed Services, *Fiscal Year 2018 Views and Estimates Letter*, 115th Congress, 1st session, March 3, 2017.



Balancing within the budget window requires tough decisions about the direction of federal spending.



The spending path in this budget balances within nine years and starts a trend toward surpluses in order to start paying down the national debt. The Committee estimates budget surpluses of \$26 billion in FY 2027 and \$142 billion in FY 2028. At the same time, debt held by the public will decline from 78 percent of GDP today to approximately 64 percent of GDP in FY 2028.

In order to achieve balance, this budget does not make careless or sudden cuts. Instead, it holds spending growth to a manageable rate. Under current law, CBO expects the Federal Government will spend \$56.6 trillion over the next 10 years.⁷ In other words, on the current trajectory, federal spending will rise by an unmanageable annual average of 5.5 percent – significantly greater than the projected growth in nominal GDP. Under this budget, the Federal Government will spend roughly \$49.1 trillion, slowing the rate of that spending growth to 3.1 percent – less than the American economy’s nominal rate of expansion.

Over the long term, this budget assumes revenue projections consistent with CBO’s baseline. The Committee estimates revenues under this budget will grow from about 16.6 percent of GDP this year to approximately 17.2 percent of GDP by FY 2028.

BUDGET SOLUTIONS FOR A BRIGHTER AMERICAN FUTURE

If the policies incorporated in this budget are enacted, it would yield \$8.1 trillion in deficit reduction compared to current projections over the next 10 years. This budget calls for responsible reforms to

⁷ *The Budget and Economic Outlook: 2018 to 2028*, Congressional Budget Office, April 9, 2018, <https://www.cbo.gov/publication/53651>, Table 2-1.

government programs. It protects key priorities while eliminating waste. It avoids sudden and arbitrary cuts to current services, such as those the country would experience in a debt crisis.

Through the inclusion of various policy prescriptions, this budget offers a fiscally-responsible vision to rein in federal spending and achieve balance. This budget acknowledges the sobering reality of where the nation is headed without serious reforms, but it also faces the main driver of the nation's debt – mandatory spending – head on.

The Budget Committee recommends that House committees enact the following policy solutions to get the country on a path toward more economic opportunity and fiscal responsibility:

GOVERNMENT ACCOUNTABILITY

“In this present crisis, government is not the solution to our problem; government is the problem.” Former President Ronald Reagan’s famous words are still relevant today. As the Federal Government’s massive bureaucracy has continued to grow and grow, its agencies and their programs have become duplicative, confusing, inefficient, and, in many cases, unnecessary.

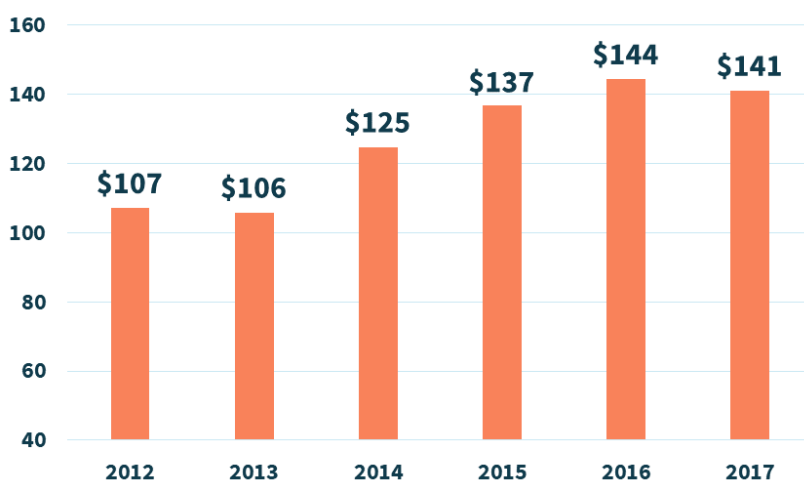
Americans work hard for their paychecks, and it is incumbent that Congress and the Federal Government not take that for granted. Congress should scrutinize all areas of spending and should strive to ensure all resources go to efficient, effective, and accountable services for the benefit of the American people.

This budget calls for the consolidation or elimination of duplicative federal programs and agencies and targets waste, fraud, and abuse throughout the government. It also calls for reeling in federal overreach and overregulation. By upholding the duty of responsible stewardship of each and every taxpayer dollar, spending can be eliminated if it fails to advance the cause for which it was allocated, fails to meet a core responsibility of government, or fails to achieve any measurable benefit beyond what another program or agency is already achieving.

This budget takes a serious look at improper payments, which are all too common across our government, in addition to thoroughly reviewing the efficacy of federal programs. The Budget Committee calls for House committees to show leadership in oversight and ensuring accountability in federal spending. Specifically, the *Budget for a Brighter American Future* includes the following policies that:

RISE IN IMPROPER PAYMENTS

BY FISCAL YEAR, IN \$ BILLIONS



SOURCE: GAO



- **Assume Spending Rescissions Adopted by H.R. 3, the *Spending Cuts to Expired and Unnecessary Programs Act*.** On May 8, 2018, President Trump sent a rescissions request to Congress asking for the permanent cancellation of previously enacted budget authority. This budget includes the President's final proposed reductions in spending authority, which were agreed to by the House of Representatives on June 7, 2018.
- **Establish a Commission on Reducing Improper Payments.** Waste and mismanagement are all too common throughout the government, at both the state and federal levels. The extent of government-wide payment errors is higher than most think. Improper payments – defined as any government payment made in an incorrect amount to the wrong individual or entity or for the wrong reason – occur throughout government, including 112 government programs across 22 agencies, the Government Accountability Office (GAO) reports.⁸ These payments totaled a stunning \$141 billion in 2017, up from \$107.1 billion in 2012. This budget establishes an independent commission to find tangible solutions for reducing government-wide improper payments by 50 percent within the next five years.
- **Reform Civil Service Pensions.** This budget adopts a policy proposed by the President's National Commission on Fiscal Responsibility. It calls for federal employees, including Members of Congress and congressional staff, to make greater contributions to their own defined benefit retirement plans. It would also end the special retirement supplement, which pays federal employees the equivalent of their Social Security benefits at an earlier age. This budget recognizes the need to create parity between federal employees and private sector employees by transitioning to defined contribution plans. These plans give ownership and flexibility to the employee. Similarly, federal employees would have more control over their own retirement security under this option.
- **Sell 100 Million Barrels of Strategic Petroleum Reserve.** The Strategic Petroleum Reserve (SPR) was created following the energy crisis of 1973 when Organization of the Petroleum Exporting Countries (OPEC) members proclaimed an oil embargo. Since then, the United States has significantly reduced its dependence on overseas oil. Furthermore, the recent significant expansion of U.S. oil supplies allows the Federal Government to safely draw down the number of barrels it holds in reserve. This budget assumes the sale of 100 million barrels of SPR, expecting that increased domestic energy production will allow the U.S. to maintain compliance with international agreements.
- **Repeal Stimulus-Driven Borrowing Authority Specifically for Green Transmission.** The \$3.25 billion in borrowing authority in the Western Area Power Administration's Transmission Infrastructure Program provides loans to develop new transmission systems aimed solely at integrating renewable energy. Lawmakers inserted this authority into the 2009 stimulus bill without the opportunity for debate. The authority includes a bailout provision that would require American taxpayers to pay outstanding balances on projects that private developers

⁸ Testimony of the Honorable Gene L. Dodaro, Comptroller General of the United States, before the U.S. Senate Committee on the Budget, *Government Efficiency and Effectiveness: Opportunities to Address Pervasive Management Risks and Challenges while Reducing Federal Costs*, U.S. Government Accountability Office, GAO-17-631T, May 17, 2017, <https://www.gao.gov/assets/690/684643.pdf>, 1.

fail to repay. This budget rescinds the program's unobligated funds, saving taxpayers almost \$1 billion.

WELFARE REFORM

One important role of the Federal Government is to serve as a safety net for the most-needy Americans. As such, the government operates a patchwork of more than 90 welfare programs, which annually spend over \$1 trillion across all levels of government.

However, the success of these programs should not be judged by the dollars they spend, but rather by their successes in helping Americans elevate out of poverty. Unfortunately, the web of welfare programs as it exists today and its overlapping services and differing benefit structures often keep individuals trapped in the cycle of poverty for generations by discouraging work and self-sufficiency.

Rather than exacerbating this cycle of dependency, the *Budget for a Brighter American Future* strives to help Americans break out of it, while also strengthening and improving the quality of anti-poverty programs. This budget adopts commonsense reforms to help Americans end the cycle of dependency, including those that:

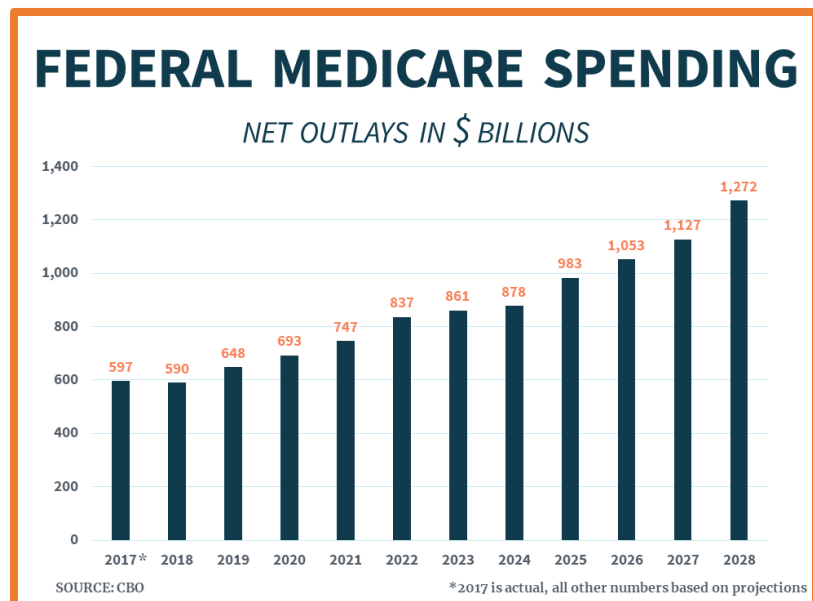
- **Strengthen Welfare Work Requirements.** Welfare reforms in the 1990s led to substantial declines in poverty, increases in work, and decreases in government dependency. The Temporary Assistance for Needy Families (TANF) program was a central feature of these reforms. This budget calls for reforms to strengthen TANF work requirements so states will engage more recipients in activities leading to self-sufficiency. This should include ending states' ability to reduce work targets by spending more than required, as well as enforcing penalties against states that fail to meet work targets. This budget also calls for TANF reforms to provide states with more options to help people prepare to leave welfare for work and to support states' efforts in getting people off welfare and into jobs.
- **Reform the Supplemental Nutrition Assistance Program (SNAP).** Pairing reformed work requirements with consistent enforcement will lead to more sustainable, self-sufficient outcomes for SNAP recipients. H.R. 2, the *Agriculture and Nutrition Act of 2018*, offers a model for ensuring that the SNAP program helps individuals transition to independence. This budget also reforms Broad-Based Categorical Eligibility to end the practice of making individuals eligible for SNAP simply by receiving a TANF-funded brochure or being referred to a social service telephone number. SNAP program integrity can be improved by limiting SNAP account balances to reasonable levels and eliminating abuse of the Low Income Housing Energy Assistance Program.
- **Eliminate the Ability to Receive Both Unemployment Insurance and Social Security Disability Insurance.** This option would eliminate concurrent receipt of unemployment and disability insurance, a clear example of duplication in the federal budget. The proposal would give the Social Security Administration the authority to identify fraud and prevent individuals from obtaining benefits from both programs. It is consistent with a similar policy proposal President Trump and former President Obama made in their budget requests. This budget takes the first step to preventing across-the-board benefit reductions to the Social Security program. This policy solution could save up to \$4 billion.



HEALTH CARE

America has the best health care system in the world. However, growth in health care spending is continuing to outpace growth in America's economy. These exploding costs have been fueled by a large, aging population aging into the Medicare program and the *Patient Protection and Affordable Care Act's* (Public Law 111-148; Obamacare) government takeover of health care.

Fiscal solvency cannot be reached without addressing one of the largest drivers of mandatory spending – Medicare. This year, costs from the Medicare program will total \$707 billion, and CBO projects spending to more than double by 2028, reaching \$1.5 trillion that year. Without significant reforms to strengthen and preserve the program, both CBO and the Medicare Board of Trustees now project Medicare will be insolvent in 2026, leaving seniors who rely on the program today and future generations of seniors without the promise of a program around which they have planned their retirements.



Instead of failing current and future retirees, the *Budget for a Brighter American Future* makes necessary reforms to Medicare today. This budget does so by strengthening and securing Medicare for today's seniors and saving Medicare for tomorrow's beneficiaries by adopting the following policies:

- **Fully Support a Patient-Centered Program that Enhances Quality and Choice in Medicare.** Under a premium support model, traditional Medicare – which would always remain an option available to future beneficiaries – and private plans providing the same level of health coverage would compete for seniors' business, just as Medicare Advantage does today. By adopting a competitive structure, the program would also deliver savings for seniors in the form of lower monthly premium costs. Today, only Medicare Advantage offers seniors the opportunity to choose from a selection of comprehensive coverage plans. Not surprisingly, Medicare Advantage enrollment has tripled in the past decade and currently serves 20 million individuals. Medicare Advantage also shows higher satisfaction rates than traditional Medicare.

CBO determined that a Medicare program following this policy would result in savings for both beneficiaries and taxpayers.⁹ Moreover, health plans that participate in this new option would

⁹ "A Premium Support System for Medicare: Updated Analysis of Illustrative Options," Congressional Budget Office, October 5, 2017, <https://www.cbo.gov/publication/53077>.

not be able to deny coverage to any Medicare recipient. This proposal would guarantee better health, improved value, and increased choice for America's seniors.

- **Reform Medical Liability Insurance.** This budget also advances commonsense protections against abusive and frivolous lawsuits, as outlined in H.R. 1215, the *Protecting Access to Care Act of 2017*. Medical lawsuits and excessive verdicts increase health care costs, result in reduced access to care, and contribute to the practice of defensive medicine. When mistakes happen, patients have a right to fair representation and fair compensation. The current tort litigation system, however, too often serves the interests of lawyers while driving up costs due to expenses associated with the practice of defensive medicine. The costs of defensive medicine are often overlooked but add a considerable burden to overall health care spending.

According to a study published in 2010,¹⁰ more than 30 percent of health care costs, or approximately \$650 billion annually, were attributable to defensive medicine. Even if the costs are only a fraction of this projection, such expenses are unnecessary and unsustainable for the Medicare program and America's seniors. Therefore, this budget supports several changes to laws governing medical liability.

- **Assess True Out-of-Pocket Costs Accurately.** Following the Trump Administration's proposal, this budget assumes an accurate calculation of Medicare Part D beneficiaries' true out-of-pocket (TrOOP) costs, reversing an Obama-era change. TrOOP costs are the expenses that count toward a beneficiary's out-of-pocket payment threshold, which determines when catastrophic coverage begins. This policy excludes all manufacturer rebates under the drug discount program from TrOOP calculations.
- **Improve Medicare Program Integrity.** Medicare was designated as a high-risk program by GAO in 1990 due to its size, complexity, and susceptibility to mismanagement and improper payments. This budget proposes to follow GAO's recommendations for reducing improper payments, growing expenditures, and increasing poor access to quality care. One option to achieve these goals is enhanced coordination with federal agencies to improve the effectiveness and oversight of the fragmented federal funding for physician graduate medical education.

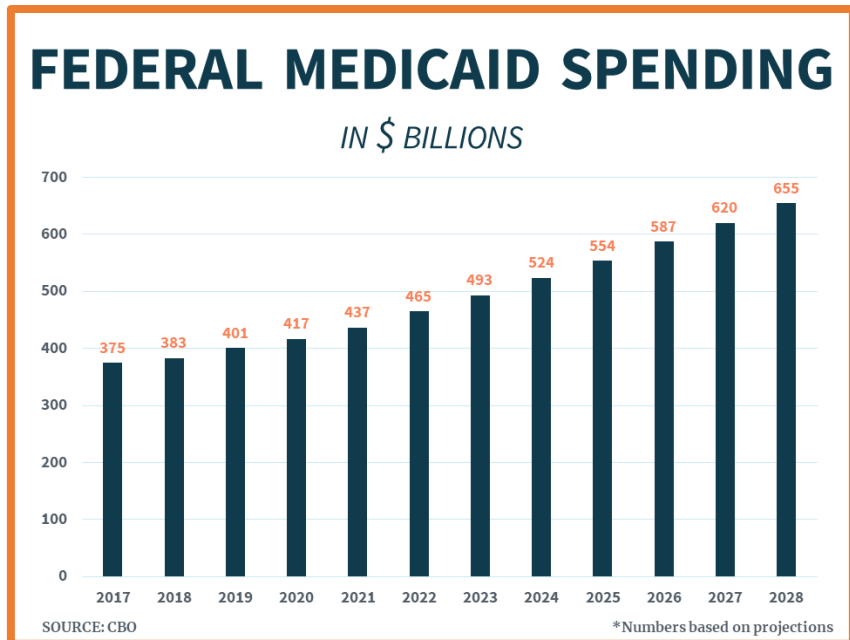
By putting Washington in charge of health care decisions rather than patients and providers, Obamacare has created challenges that span the entire health care system. Americans who have private health insurance have seen premiums increase by more than 100 percent since the law's passage and suffered from skyrocketing out-of-pocket costs. At the same time, Obamacare significantly expanded the Medicaid program, and Medicaid beneficiaries are now finding it more and more difficult to access a physician and receive the quality care they deserve.

¹⁰ "Physician Study: Quantifying the Cost of Defensive Medicine," Jackson Healthcare, 2010, <https://jacksonhealthcare.com/media-room/surveys/defensive-medicine-study-2010>.



Prior to expansion, Medicaid was already on an unsustainable path. By 2028, CBO projects federal spending for Medicaid to reach \$655 billion. Because Medicaid is financed through a federal-state partnership, CBO estimates that the program will cost taxpayers a total of \$1 trillion annually by 2028. As the price of Medicaid skyrockets, the program is becoming more and more unaffordable for states, potentially forcing states to consider limiting beneficiary access or cutting covered services. To protect this vital safety-net program for low-income children, parents,

pregnant women, and seniors, this budget assumes the repeal of the adopts the reforms of the House-passed *American Health Care Act* (AHCA) and refocuses resources on America's most vulnerable citizens. Solutions for Medicaid in this budget which contribute towards balance include reforms that:



- **Put Medicaid on a Budget.** AHCA institutes per capita caps for Medicaid – or optional block grants, if a state prefers – to put the program on a budget for the first time. This ensures Medicaid can continue to serve the most vulnerable Americans it was intended to help.
- **Apply Work Requirements to Medicaid.** This budget proposes to advance a work requirement for certain adults enrolled in Medicaid who are able to work. This proposal suggests that an able-bodied, working-age, non-pregnant adult without dependents could qualify for Medicaid only if he or she was working, actively seeking employment, or participating in an education, training, or community service program. These requirements would help target taxpayer dollars toward the most vulnerable populations, while preserving limited Medicaid resources for those on the precipice of poverty.
- **Stop Giving D.C. Preferential Medicaid Treatment.** Under the current Medicaid payment structure, Washington, D.C., receives preferential treatment over the rest of the country. States receive federal matching funds for Medicaid patients based on a statutory formula. The formula takes into account the per capita income of a state, in order to reserve more funds for the neediest states. D.C., however, is automatically guaranteed a federal match rate considerably higher than average, regardless of its need. This budget proposes treating D.C. the same way as states when setting its Medicaid match rate.
- **Improve Medicaid Program Integrity.** GAO has listed Medicaid as high-risk since 2003. This budget proposes to follow GAO's recommendations for reducing improper payments, growing expenditures, and improving poor access to quality care. The most significant aspect of this

effort is the enhancement of reporting by states on annual Medicaid data, along with greater coordination between the Centers for Medicare and Medicaid Services and state auditors.

VETERANS

Veterans are a top priority in this budget. The *Budget for a Brighter American Future* calls for \$86.8 billion in discretionary funding for veterans benefits and services for FY 2019. This level is consistent with CBO's most recent baseline.

However, despite large funding increases over the past decade, the Department of Veterans Affairs (VA) has been riddled with scandal, mismanagement, system failures, and a lack of accountability, ultimately hindering our veterans from getting the care and support they need and deserve. It is clear that the VA has a management problem – not a money problem – and needs to be held accountable. This budget supports the House Committee on Veterans' Affairs' continued oversight efforts to ensure the VA is accountable and transparent in its work and the nation's veterans receive effective and efficient health care services and benefits. Specifically, this budget calls for:

- **Better Resource Management.** The VA needs to better manage appropriated resources under the *Veterans' Health Care Eligibility Reform Act of 1996* (Public Law 104-262) to provide a timely, high-quality health care services to our veterans. The VA must rebalance its health care system with a heightened emphasis on its core service population within available appropriated resources.
- **Address the VA's GAO 'High-Risk' status.** Every two years at the start of a new Congress, GAO releases a "high-risk" list that calls attention to federal programs' "vulnerabilities to fraud, waste, abuse, and mismanagement," or those needing transformation. In 2015, the VA's health care system was placed on GAO's "high-risk" list for its inability to ensure allocated resources are being used "cost-effectively and efficiently to improve veterans'" health care access, safety, and quality.¹¹ This budget calls for Congress and the VA to review and implement GAO's recommendations to update and improve the VA's health care system and benefit programs.

FINANCIAL SERVICES

The Republican pro-growth agenda and the successes of the *Tax Cuts and Jobs Act* have demonstrated that our economy can prosper when Washington gets out of the way.

Regulations are important. However, in contrast to President Obama, whose response to the financial crisis and subsequent recession was to promulgate regulation after regulation, the *Budget for a Brighter American Future* takes a smart approach that cuts down on needless regulations wherever possible, while making the rules we do need more efficient and effective, particularly for our small businesses. This includes policies that:

- **Assume Provisions of the House-Passed Financial CHOICE Act (H.R. 10) to Repeal Dodd-Frank.** The *Financial Creating Hope and Opportunity for Investors, Consumer, and*

¹¹ "Managing Risks and Improving VA Health Care," in *High-Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others*, U.S. Government Accountability Office, report to Congressional committees, GAO-17-317, February 2017, <https://www.gao.gov/assets/690/682765.pdf>.



Entrepreneurs (CHOICE) Act, passed by the House of Representatives on June 8, 2017, is the first comprehensive reform bill to replace the Dodd-Frank Act. The bill allows financial institutions and markets to invest in America, without government regulation second-guessing every decision and driving up the cost of capital. It also enhances U.S. financial market resiliency by offering an “off ramp” from Dodd-Frank’s suffocating regulations to well-managed and capitalized institutions with a leverage ratio of 10 percent. The *Financial CHOICE Act* is the legislative manifestation of policies the Committee has recommended for years and continues to recommend in this budget.

- **Privatize the Business of Government-Controlled Mortgage Giants Fannie Mae and Freddie Mac.** In 2008, the Federal Government placed Fannie Mae and Freddie Mac in conservatorship to prevent them from going bankrupt. The United States Treasury has already provided \$187 billion in bailouts to Fannie and Freddie, and taxpayers remain exposed to \$5 trillion in Fannie Mae and Freddie Mac’s outstanding commitments, as long as the entities remain in conservatorship. This budget recommends putting an end to corporate subsidies and taxpayer bailouts in housing finance.
- **Incorporate Fair-Value Accounting Principles in the Credit Reform Act.** Not only are taxpayers exposed to the risks of Fannie Mae and Freddie Mac, but they are also vulnerable to having to bail out another housing giant, the Federal Housing Administration (FHA). Today, FHA insures over \$1 trillion in home loans, but it has a delinquency rate of over 8 percent. According to government accounting rules, however, FHA accounting does not incorporate this high level of delinquencies when reporting on its financial health. FHA also “competes” with other private businesses by pricing its guarantees in a way that does not reflect the riskiness of the underlying loan. Simply put, FHA does not have to comply with the same accounting rules as every other business; it goes a step further and undercuts these same businesses because it is backed by the full faith and credit of the U.S. government. The government should adopt measures to control the assumption of risk by FHA, as other government-backed entities wind down.

EDUCATION

Millions of Americans choose to enroll in two- and four-year colleges and universities every year, while others pursue their goals through career and technical education (CTE) programs. Ensuring our education system complements the diverse interests and career paths of the American people is essential to building a better economy. By increasing choice, access, and affordability for all educational routes, this budget makes sure our workers have the skills to compete in a changing economy and contribute to its growth and success.

However, federal programs that ostensibly serve these goals are sometimes mismanaged or contain perverse incentives. This budget proposes policies that strengthen CTE, reform workforce development programs, streamline higher education programs and financing, and encourage innovation in higher education. Specifically, this budget recommends enactment of policies that:

- **Simplify and Streamline Higher Education Programs and Financing to Protect Students and Taxpayers.** The current federal student aid system is overly complicated and time-consuming. Currently, there are six loans, nine loan repayment plans, eight loan forgiveness

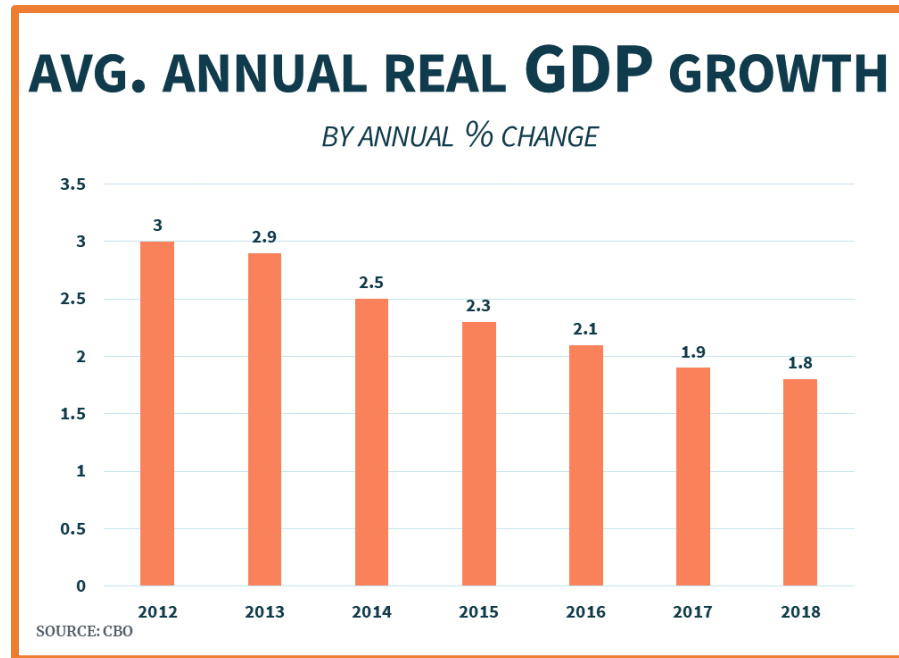
programs, and 32 options for loan deferment and forbearance, with each having different eligibility criteria and terms. This budget envisions a simplified, transparent, and fiscally-sustainable aid system so that students and parents can more easily navigate student loan financing. Principles for reform include increasing transparency for loans and repayment plans, removing perverse incentives to over-borrow, consolidating the array of programs, and protecting taxpayers.

- **Account for the True Costs of Student Loans.** By statute, the government’s accounting procedures for assessing the costs of student loan programs do not incorporate market risk and therefore, do not always provide an accurate total program cost. To measure student loan program costs, this budget recommends using fair-value accounting, which does assume such market risk.
- **Make the Pell Grant Program Sustainable.** The Pell Grant program, which offers low-income students portable grants to pay for college, is the foundation of federal student aid. Congress and previous administrations made repeated decisions to raise the program’s maximum award and expand eligibility, putting the program on financially-shaky ground. Between fiscal years 2006 and 2017, the Pell Grant program’s discretionary costs ballooned from \$12.8 billion to \$23.4 billion. Future reforms should ensure Pell Grants go to students with the greatest need, students complete school in a timely manner, and the program is financially sustainable and available for future students.

APPENDIX I: Macroeconomic Feedback Effects of Pro-Growth Policies

Over a given period of time, economic growth is one of the major determinants of revenue and spending levels, contributing to the size of budget deficits. For instance, when the rate of GDP growth is higher, it may lead to lower projected spending if it translates into reduced burdens on government safety net programs.

Higher GDP growth can also generate higher revenue due to increases in taxable incomes. This pattern would cause a reduction in federal deficits and debt relative to current estimates. Conversely, lower rates of growth can cause the opposite outcomes: greater increases in spending and lower revenue growth.



On the other hand, federal policies – including tax policy, regulations, and rising deficits and debt – can affect the economy’s potential to grow and generate changes in economic performance, impacting budgetary outcomes. Consequently, fiscally-responsible policies that improve the economy’s long-term growth prospects can help reduce the size of budget deficits over a given period.

This budget incorporates the macroeconomic feedback effects of its deficit-reduction and pro-growth policies, including net deficit reduction of more than \$8.1 trillion from spending restraint, regulatory reforms championed by the Trump Administration and Republicans in Congress, welfare reform, and Obamacare repeal and replace legislation. The Committee estimates that economic growth will average 2.6 percent over 10 years with the implementation of the *Budget for a Brighter American Future’s* pro-growth policies.

The Committee’s estimate falls in between CBO’s baseline growth rate of 1.8 percent average and OMB’s projected 3 percent annual growth. It is still well below the U.S.’s long-term average annual growth rate of just over 3 percent and yields a macroeconomic effect on the budget of \$1.67 trillion over 10 years, compared to the April 2018 CBO baseline.

APPENDIX II: Reconciliation

RECONCILIATION IN THE BUDGET PROCESS

One of the most unique aspects of the congressional budget process is the budgetary tool of reconciliation – a fast-track procedure that cannot be filibustered in the Senate.








Triggered by the adoption of a concurrent budget resolution, reconciliation may be used to change mandatory spending (i.e., spending not subject to annual appropriations), revenue levels, and/or the debt limit. The intent of reconciliation is to change substantive law so that revenue and mandatory spending levels are brought into line with the budget’s policies and targets.

The reconciliation process includes the following steps:

1. Both chambers adopt a concurrent budget resolution, which includes instructions to one or more authorizing committees to produce legislation that hits a budgetary target (i.e. specific dollar amount of deficit reduction) by a certain date.
2. The Budget Committee reports the reconciliation legislation without substantive revision.
3. In the House, the Rules Committee reports a rule governing House floor consideration of the reconciliation legislation.
4. After House passage, the reconciliation legislation is sent to the Senate for consideration.

Like all pieces of legislation, the House and Senate must agree on and pass the same bill, which is then signed into law by the President. Because reconciliation is a privileged measure, it allows for expedited consideration procedures in the Senate. Notably, it is filibuster-proof, which means debate is limited to 20 hours and only requires a simple majority – or 51 votes – to pass.

However, there are limits under the Senate’s Byrd Rule. Reconciliation legislation cannot include “extraneous” matters or provisions. Reconciliation legislation also cannot increase the federal deficit outside the 10-year budget window. For expedited consideration in the Senate, all policies in a reconciliation bill must have a direct budgetary impact. Otherwise, they may be subject to a point of order and possibly struck from the bill.

Highlights of the Tool of Reconciliation	
Permitted Changes	Not Permitted
Mandatory Spending Levels 	 Provisions without budgetary effect
Revenue Levels 	Provisions outside the reporting committee’s jurisdiction 
The Debt Limit 	Provisions increasing the deficit beyond the budget window 
	Provisions affecting Social Security 

RECONCILIATION INSTRUCTIONS FOR FY 2019

The *Budget for a Brighter American Future* envisions the use of reconciliation to address deficit reduction. It contains reconciliation instructions for 11 authorizing committees to achieve at least \$302 billion in deficit reduction and reforms.

Each committee that receives reconciliation instructions must produce and submit legislation to the Budget Committee achieving the net deficit reduction target called for in the instructions. However, these instructions cannot dictate what policies to include to reach those savings. Reconciliation instructions only set savings targets for the instructed committees. It is up to the authorizing committees to decide which policies to include in the reconciliation bill to meet those targets.

Not all mandatory spending is comprised of safety net programs like Medicare and Social Security. In fact, much of the mandatory pie is made up of non-health, non-income security programs that are a part of the management of many of the Federal Government's operations. It is also important to note that Social Security cannot be addressed in reconciliation.

While the Committee cannot force specific policy changes, this budget reflects the fiscally responsible view that all mandatory spending be carefully evaluated and considered and that reconciliation should be utilized every year.

RECONCILIATION SAVINGS BY COMMITTEE

OVER 10 YEARS

Agriculture: \$1 billion

Homeland Security: \$3 billion

Armed Services: \$1 billion

Natural Resources: \$5 billion

Education & Workforce: \$20 billion

Judiciary Committee: \$45 billion

Energy & Commerce: \$20 billion

Oversight & Gov. Reform: \$32 billion

Financial Services: \$24 billion

Veterans Affairs: \$1 billion

Ways & Means: \$150 billion

APPENDIX III: Summary Tables

S-1

FY2019 House Budget (Nominal dollars in billions)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2028
House Budget											
Outlays	4,293	4,436	4,590	4,791	4,955	5,088	5,224	5,418	5,593	5,758	50,145
Revenue	3,490	3,678	3,827	4,012	4,228	4,444	4,663	5,002	5,299	5,520	44,162
Macroeconomic Impact on the Deficit	-10	-20	-50	-80	-130	-180	-230	-270	-320	-380	-1,670
Deficit(+)/Surplus(-)	793	738	714	699	597	464	332	146	-26	-142	+4,314
Debt Held by Public	16,568	17,364	18,126	18,869	19,513	20,027	20,412	20,615	20,645	20,561	
As a Share of GDP											10-Year Average
Outlays	20.3%	20.0%	19.8%	19.8%	19.5%	19.1%	18.7%	18.5%	18.2%	17.9%	19.2%
Revenue	16.5%	16.6%	16.5%	16.6%	16.7%	16.7%	16.7%	17.1%	17.3%	17.2%	16.8%
Macroeconomic Fiscal Impact	0.0%	-0.1%	-0.2%	-0.3%	-0.5%	-0.7%	-0.8%	-0.9%	-1.0%	-1.2%	-0.6%
Deficit(+)/Surplus(-)	3.7%	3.3%	3.1%	2.9%	2.4%	1.7%	1.2%	0.5%	-0.1%	-0.4%	+1.8%
Debt Held by Public	78.2%	78.4%	78.3%	78.0%	76.9%	75.2%	72.9%	70.3%	67.3%	64.0%	n.a.

S-2

FY2019 House Budget vs. CBO Baseline (Nominal dollars in billions)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2028
Outlays	-174	-248	-356	-499	-548	-604	-795	-909	-1,027	-1,295	-6,454
Revenue	0	0	0	0	0	0	0	0	0	0	0
Macroeconomic Impact on Deficit	-10	-20	-50	-80	-130	-180	-230	-270	-320	-380	-1,670
Deficit	-184	-268	-406	-579	-678	-784	-1,025	-1,179	-1,347	-1,675	-8,124
Debt Held by Public	-184	-452	-858	-1,436	-2,114	-2,898	-3,923	-5,102	-6,449	-8,124	

S-3

**FY2019 House Budget by Major Category
(Outlays in billions)**

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019- 2028
Social Security	1,043	1,110	1,179	1,252	1,330	1,410	1,494	1,583	1,675	1,773	13,849
Medicare (Net)	640	667	718	804	822	819	894	951	1,012	1,139	8,466
Medicaid & Other Health	460	443	413	454	474	494	516	540	557	575	4,924
Other Mandatory	425	394	370	314	340	366	301	316	306	208	3,340
Discretionary (Base)	1,297	1,295	1,310	1,318	1,311	1,308	1,316	1,319	1,321	1,329	13,124
Global War on Terrorism	39	49	43	33	20	15	13	4	1	0	217
Net Interest	388	479	556	616	657	676	689	704	720	734	6,220
Total Outlays	4,293	4,436	4,590	4,791	4,955	5,088	5,224	5,418	5,593	5,758	50,145

S-4

FY2019 House Budget vs. CBO Baseline by Major Category
(Outlays in billions)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2028
Social Security	0	0	0	0	0	-1	-1	-1	-1	-1	-4
Medicare (Net)	-1	-18	-20	-25	-30	-49	-79	-91	-104	-121	-537
Medicaid & Other Health	-54	-87	-140	-134	-147	-162	-176	-190	-214	-237	-1,540
Other Mandatory	-96	-143	-191	-282	-250	-213	-299	-312	-321	-471	-2,578
Discretionary	-22	6	8	-31	-78	-116	-156	-203	-244	-284	-1,120
Net Interest	-1	-6	-13	-27	-44	-62	-85	-113	-144	-181	-675
Total Outlays	-174	-248	-356	-499	-548	-604	-795	-909	-1,027	-1,295	-6,454

FY2019 House Budget Base Discretionary Budget Authority vs. Budget Control Act Caps (Nominal dollars in billions)

S-5

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2028
Total in Budget Resolution	1,244	1,221	1,268	1,271	1,275	1,278	1,282	1,285	1,289	1,291	12,705
Defense	647	679	713	717	720	724	727	731	734	736	7,129
Non-Defense	597	542	555	555	555	555	555	555	555	555	5,575
Global War on Terrorism	77	60	43	26	12	12	12	0	0	0	242
Total in Budget Control Act Caps ¹	1,244	1,118	1,145	1,173	1,203	1,233	1,263	1,295	1,327	1,361	12,362
Defense	647	576	590	605	620	635	651	668	684	701	6,378
Non-Defense	597	542	555	568	583	597	612	627	643	659	5,984
Total Difference	0	+103	+123	+98	+72	+46	+18	-10	-39	-70	+343
Defense	0	+103	+123	+112	+100	+88	+76	+63	+50	+35	+751
Non-Defense	0	0	0	-14	-28	-43	-58	-73	-89	-105	-408

¹Budget Control Act spending caps are valid for fiscal years 2019-2021. For fiscal years 2022-2028, the data reflects CBO's baseline estimate for base discretionary budget authority.