PRINCIPLES & PRIORITIES

Group Budget Exercise

OPTIONS BOOK

2011 EDITION

THE CONCORD COALITION

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A NOTE ON SOURCES:

Most of the policy descriptions and cost estimates in this booklet are from the Congressional Budget Office and from their annual publication, *Budget Options.* The most recent edition was published in March 2011 and is available from the Congressional Budget Office Publications Office or via the internet at www.cbo.gov. Proposals not based on CBO materials are Concord Coalition estimates based on ideas and bills which are being considered or discussed by Congress. Unless otherwise indicated, all cost estimates are provided in billions of dollars of either budget authority or revenue over a ten-year period. For purposes of this exercise, actual cost estimates have been rounded to the nearest billion. Where possible, cost estimates take inflation into account.

Proponent and Opponent arguments on options are intended to represent those commonly used when debating the policy options and do not represent Concord Coalition policy or opinion.

CATEGORY ONE:

OPTIONS TO CHANGE GENERAL GOVERNMENT SPENDING PRIORITIES

OPTION 1: FREEZE DOMESTIC DISCRETIONARY SPENDING

This option would freeze all domestic government spending controlled annually by Congress. This would have the practical effect of cutting spending on homeland security, education, the environment, welfare, national parks, health research, student loans, etc.
Money Gain: +$750 billion

DESCRIPTION

- Annual appropriations by Congress (called "Discretionary Spending") cover one-third of all federal spending. Non-defense spending is about half of that (one-sixth). Washington debates most often center around these programs. Pork barrel spending and Congressional earmarks fall under this category but do not cost much money. Earmarks comprise at most 1% of the federal budget.

- This is an exclusive option because the only way to freeze spending is to spread the hardship and sacrifices across all of the discretionary programs. If a Congressional Committee picked only a few favorite programs, there would be a rush to support other pet programs, and the entire agreement would break down.

PROPONENTS ARGUE:

- A freeze in spending is the best way to force government to become more efficient. Spending has increased so much, the country should adjust and reallocate that money before appropriating any more.

OPPONENTS ARGUE:

- Because the population and economy are growing, freezing appropriations has the practical effect of cutting funding. For example, if Congress gives money to school districts for tutoring under-performing students, that money will buy a lot more hours of tutoring in the first year than it would ten years later because there might be 50 more students at the school and the cost for tutors might have risen.

- Cutting investment in research or education will hamstring economic growth in the long run and lead to an even worse fiscal environment.

- These programs are dwarfed by the cost of Social Security, Medicare and the other entitlement programs. Freezing discretionary spending is simply a diversion to avoid those more urgent fiscal issues.

- Earmarks allow representatives to reward programs that positively impact their communities. Don't they know their districts better than Washington bureaucrats?

OPTION 2: SUSTAIN INCREASES IN PELL GRANTS FOR COLLEGE STUDENTS

Maintain student aid availability by continuing recent increases in the maximum annual Pell Grant award from $4,860 to $5,500.
Money Loss: -$44 billion

DESCRIPTION

- College enrollment has increased, but the cost of a college education grew faster than family income for more than two decades. Currently, about 80 percent of students from upper-income families enroll in college or trade school immediately after high school graduation. In contrast, fewer than 50 percent of students from low-income families enroll.

- To help lower-income students, Congress has created several programs, one of which is the Pell Grant program. Option 2 would allow the Pell Grant program to award full-time students from $555 to $5,500 depending on their need; this money does not have to be repaid.

PROPONENTS ARGUE

- Maintaining recent Pell Grant increases would allow low-income students to continue attending college despite the increasing costs of tuition.

- Students might be able to transfer from a two-year college to a four-year college. Other students might be able to forgo working in order to focus entirely on their studies.

OPPONENTS ARGUE

- Many students who enroll in college drop out before graduating, in part because some of them are not adequately prepared. Increasing financial aid would be more effective if it were redirected toward elementary or high schools.

- Increasing the availability and amount of grants may unintentionally inflate college costs even further.

OPTION 3: FUND DEVELOPMENT OF HIGH-SPEED AND OTHER PASSENGER RAIL

This option would fund high-speed rail and other forms of passenger rail as part of an integrated national transportation strategy.
Money Loss: -$53 billion over six years.

DESCRIPTION

- This proposal spends $53 billion over the next six years for the construction of new high-speed rail systems across the country.
- The proposal's goal is to provide 80 percent of Americans with access to passenger rail within 25 years.

PROPONENTS ARGUE:

- Thousands of new jobs would be created in order to plan, construct and implement both the expansion of current passenger rail and the creation of new high-speed lines.
- U.S. dependence on foreign oil would be reduced and the economy would become more resistant to economic damage caused by surging oil prices.

OPPONENTS ARGUE:

- The nation's current infrastructure is already in need of major repairs. Diverting resources to new, unproven transportation systems is a poor use of resources.
- Passenger rail is unlikely to be as worthwhile in the United States as in other countries that are more geographically condensed and therefore more accustomed to relying on mass transit systems.

OPTION 4: ESTABLISH A NATIONAL INFRASTRUCTURE BANK TO SUPPORT ROAD IMPROVEMENT

This option would establish a National Infrastructure Bank (I-Bank) that would provide a mix of loans and grants for infrastructure projects across the country. Money loss: -$30 billion over six years.

DESCRIPTION

- The I-Bank would provide loans and grants to support individual projects.
- An important feature of the I-Bank would be a data-driven project comparison method that measures which projects offer the biggest value for the money spent.

PROPONENTS ARGUE:

- The funding method would mark a substantial improvement from current practice, which often results in funding of projects solely because of a particular legislator's power in Congress.
- Projects would improve the country's economic competitiveness, create jobs throughout the country, and prioritize projects that would benefit more than just one state or congressional district.

OPPONENTS ARGUE:

- The I-Bank would not prevent members of Congress from continuing to fund dubious projects such as the famed "Bridge to Nowhere."
- It is unclear whether states and localities could afford to pay back loans made by the I-Bank, which would bring the overall cost-effectiveness of the bank into question.

OPTION 5: ELIMINATE GRANTS TO STATES FOR WATER QUALITY IMPROVEMENT PROJECTS

This option would phase out federal assistance to state revolving funds, which fund water infrastructure maintenance and improvement projects. Money Gain: +$37 billion

DESCRIPTION

- The Clean Water Act and Safe Drinking Water Act authorized the federal government to fund state revolving funds, which in turn could be used to finance drinking water maintenance and quality improvement projects.
- This option would eliminate Environmental Protection Agency (EPA) grants to the state funds.

PROPONENTS ARGUE

- States would finance water infrastructure projects even without federal assistance.
- Federal aid encourages inefficiency because states are able to make loans below market-value interest rates for projects, which discourages finding the least costly ways to fund those projects.

OPPONENTS ARGUE

- The need to replace the nation's water infrastructure is too great to eliminate federal assistance to the states, which are already under tremendous budget pressures.
- Ultimately, the price of water might go up with the loss of federal assistance, causing hardships for low-income households.

OPTION 6: END AGRICULTURAL SUBSIDIES AND INSTEAD CREATE "RISK MANAGEMENT ACCOUNTS" FOR FARMERS

This option would implement farm-held "Risk Management Accounts" (RMAs). Money Gain: +$55 billion

DESCRIPTION

- This option would create a system of "Risk Management Accounts" (RMAs) and revenue insurance tools for farmers to use. RMAs would allow farmers to deposit their own tax-free money into individual accounts. The RMAs would be held jointly with the U.S. Department of Agriculture at a lending institution of the farmer's choice. Under this proposal, commodity subsidies would be phased out and an increased portion of each year's payment would be directed specifically toward the farmer's RMA. Farmers then use the money in their RMAs to cover losses beyond what they receive from crop and revenue insurance policies, to make investments, and to plan for the future.

- These reforms would change the dynamics of agricultural subsidies. They would create a farmer safety net, which costs nearly $55 billion less than the status quo over 10 years.

PROPONENTS ARGUE

- This reform moves America's farming away from production solely for a government paycheck. The current system results in overproduction and depressed prices while favoring multi-million dollar commodity producers over family farms. The RMAs would provide more of an individual incentive to farmers.

- Keeping the current agricultural subsidy system has international implications. While the government artificially lowers prices, developing countries cannot strengthen their own agricultural industries. This causes tension with our trading partners and limits global economic growth. The World Trade Organization already ruled our cotton subsidies illegal because of these market-distorting policies.

OPPONENTS ARGUE:

- American farmers are increasingly edged out of the competitive international market by cheaper foreign farmers and they depend on government subsidies to stay in business.

- This change represents a drastic transition for which farmers are not prepared. Farmers cannot be expected to survive without the government subsidies they rely upon so heavily.

OPTION 7: REDUCE FUNDING FOR THE ARTS & HUMANITIES

Reduce funding by 25 percent and maintain constant, nominal funding levels after the initial appropriations reduction.
Money Gain: +$5 billion

DESCRIPTION

- In 2010, combined funding for arts and humanities programs (e.g., the Smithsonian Institution, Corporation for Public Broadcasting, National Public Radio, National Endowment for the Arts) totaled approximately $1.8 billion.

- This option would cut support for those programs by 25 percent and freeze future appropriations at the resulting levels. Federal outlays would be reduced by about $2 billion between 2012 and 2016 and by $5 billion over the 2012–2021 period.

PROPONENTS ARGUE

- Such programs may not provide public benefits equivalent to their costs. The government should not step into funding an area where private entities can be profitable and charitable giving is plentiful.

- Several of the programs could generate revenue by imposing or increasing fees to cover operating costs.

OPPONENTS ARGUE

- The arts and humanities are an integral part of the nation's culture and reducing public funding could limit production or discourage some individuals from entering the field.

- Alternative sources of funding might not be sufficient to cover the loss of federal funding, resulting in a net reduction of support for arts and humanities projects.

- The news and entertainment businesses have shown that profit-motive doesn't always lead to the best or most effective programming, and there is a place for subsidizing important but not necessarily profitable endeavors.

OPTION 8: ELIMINATE THE ONE DOLLAR BILL

This option would phase out the paper dollar bill in exchange for coin currency. Money Gain: +$3 billion

DESCRIPTION

- Eliminating the one dollar bill and moving to a one dollar coin would accrue savings from seigniorage, or profit taken from minting coins due to the difference of the face value and the production cost.
- Coins have a thirty-year circulation life as opposed to 1.4 years for a bill. The Government Accountability Office recommends moving to the dollar coin and states that long-term annual average savings would be $395 million. The short-term savings would be slightly less due to startup costs.
- Other Western countries proved that the dollar bill would have to be completely removed from circulation before the coin would reach popularity.

PROPONENTS ARGUE

- Switching to a dollar coin would have a positive effect on deficit reduction.
- The public would be willing to accept a dollar coin if they understood the cost savings.

OPPONENTS ARGUE

- The U.S. government failed in its attempts to introduce the Susan B. Anthony dollar coin and the Sacagawea dollar coins. Much of the Sacagaweas have not entered circulation.
- The Greenback is an enduring symbol of America and of monetary strength. Over two-thirds of the public polled by the U.S. Mint is against getting rid of the one dollar bill.
- This option would hurt businesses that have to change or install new machines to accept one dollar coins.

OPTION 9: ELIMINATE SOME DEPARTMENT OF EDUCATION GRANTS FOR ELEMENTARY AND SECONDARY EDUCATION

This option would eliminate some grant programs for elementary and secondary institutions. Money Gain: +$17 billion

DESCRIPTION

- The Department of Education distributes funding for more than 50 discretionary grant programs to state and local educational agencies. This option would eliminate eleven of those programs, which address the physical, emotional, and social wellbeing of students both inside and outside of the school environment.

PROPONENTS ARGUE

- Educating children is primarily the responsibility of state and local governments, the federal government's involvement should be minimal, and grant programs such as the ones this option would eliminate go beyond an appropriate role for the federal government.

- An evaluation funded by the Department of Education concluded that programs funded by those grants had no significant impact on the academic achievement, parental involvement, or homework completion of participating students relative to similar students not participating in the program.

OPPONENTS ARGUE

- Federal funding is necessary to augment state and local efforts to educate children growing up in poor families; for those families, federal resources help compensate for a lack of resources in their home environment.

- Other research compiled by the Harvard Family Research Project has shown that increasing the social, physical and emotional health of students helps them become higher achievers.

OPTION 10: ELIMINATE AMTRAK AND OTHER INTERCITY RAIL SUBSIDIES

This option would eliminate federal subsidies for intercity rail systems, high-speed rail projects and Amtrak.
Money Gain: +$45 billion

DESCRIPTION

- This option would eliminate federal subsidies not only for Amtrak but also for high-speed and other intercity rail service, producing savings of $11 billion over the next 5 years and $30 billion over 10 years.

- In 1970, when Amtrak was established, Congress anticipated providing subsidies for a limited time. Instead, Congress continued to provide them and by 1999 Amtrak had consumed more than $20 billion in federal subsidies.

PROPONENTS ARGUE:

- The total commitments to passenger rail in the United States represent only a small down payment on the total required resources to achieve the Administration's goal of providing mass transit to 80 percent of the population within 25 years.

- Eliminating federal subsidies would force Amtrak in particular to become more efficient and profitable. For example, Amtrak could focus on services that have the most potential for profit, such as high-speed service between Washington and New York.

OPPONENTS ARGUE:

- Rail subsidies should be viewed in the overall context of the U.S. transportation system. Highways and the airline industries receive substantial federal support, while rail receives little by comparison.

- Continuing to subsidize Amtrak and intercity rail in general decreases congestion on highways and in airports.

- Reducing federal support could force Amtrak to cut service in much of the country, leaving few transportation choices outside the Northeast corridor. Amtrak is vital to those small communities.

CATEGORY TWO:

OPTIONS FOR FUNDING HOMELAND SECURITY AND NATIONAL DEFENSE

OPTION 11: INCREASE FUNDING FOR MASS TRANSIT SECURITY

This option would increase funding for rail and public transportation security programs. Money Loss: –$12 billion dollars

DESCRIPTION

- Fourteen million Americans take mass transportation every weekday.
- Funds would be used to install surveillance cameras in subways, put bomb-sniffing dogs in train stations and on railcars, install bomb detection devices, and hire more security personnel.

PROPONENTS ARGUE

- Terrorist attacks in London and Madrid demonstrate citizens using public transportation can be vulnerability to attack.
- More people use public transportation than fly in airplanes, but funding for mass transportation only accounts for 2% of the funds spent on aviation security.

OPPONENTS ARGUE:

- Public transportation is difficult to monitor and defend. For example, a subway system can have hundreds of entry and exit points -- unlike an airport which has a more centralized entrance.
- Taxpayer money should be redirected towards pre-attack intelligence.

OPTION 12: FREEZE DEPARTMENT OF DEFENSE APPROPRIATIONS AT 2011 LEVEL FOR FIVE YEARS

Holds defense appropriations constant through Fiscal Year 2016. Money Gain: +$161 billion dollars over five years.

DESCRIPTION

- Department of Defense (DoD) appropriations make up about 50 percent of all discretionary spending. Excluding DoD from consideration makes it virtually impossible to achieve substantial cuts in discretionary spending.

- Freezing spending provides a budgetary constraint that will enable DoD to figure out their best ideas for living within a budget instead of having programmatic changes imposed upon them.

- DoD employs about 1.5 million military personnel and 785,000 civilians; operates nearly 500,000 buildings and facilities on approximately 5,000 installations; manages 87 major defense acquisition programs; and spends about $200 billion annually to develop and acquire weapons and equipment.

PROPONENTS ARGUE

- Reducing spending on defense activities would free up resources to be used on more productive activities.

- Some of the activities funded by DoD that benefit other nations are costs which should be borne by those countries, especially in light of America's growing debt and deficits.

OPPONENTS ARGUE:

- With ongoing wars, this is no time to make cuts that could deprive the armed forces of needed resources to adequately address the national security threats to the country.

- Weapons systems are aging and in need of replacement.

OPTION 13: INCREASE FEES FOR AVIATION SECURITY

This option would change the security fee airlines can charge passengers from $2.50 per leg of travel to a $5 flat fee per one-way trip.
Money Gain: +$21 billion

DESCRIPTION

- After September 11, the federal government took responsibility for air transportation security, most notably empowering the Transportation Security Administration (TSA) to oversee passenger and baggage screening. This endeavor required thousands of new employees and advanced screening machines. To cover the cost, Congress authorized airlines to charge passengers a security fee of $2.50 each time they boarded a plane and authorized fees on the airlines themselves. Congress also authorized government funds to reimburse airlines, airport operators and service providers for security enhancement costs.

- This option would increase fees so that they cover a greater portion of the federal government's spending for aviation security. Implementing this option would replace existing passenger fees with a flat fee of $5 per one-way trip and boost collections by $10 billion through 2016.

PROPONENTS ARGUE

- The primary beneficiaries of increased airline security are the passengers and airlines themselves. Since they reap the benefits, they should pay the costs.

- Not just air travelers benefit from improved security. After all, ground targets were the main focus of the terrorist hijackings and if better security reduces the risk of terrorist attacks, the general public is better off.

- The air travel system is deeply intertwined with national economic productivity. Business and shipping depend upon its security.

OPPONENTS ARGUE

- Security costs are no different than fuel costs or labor costs. Why should airlines get yet another subsidy exclusive of other forms of transportation?

- The airline industry is very price-sensitive, and it cannot additional expenses associated with security. Numerous airlines are already on the verge of bankruptcy and additional per passenger fees could have an industry-wide impact.

OPTION 14: CANCEL THE MARITIME PREPOSITIONING FORCE (FUTURE) SHIPS

This option would eliminate all funding for the Maritime Prepositioning Force (Future) (or MPF(F)), a squadron of ships increasing the Navy's capabilities. Money Gain: +$18 billion

DESCRIPTION

- Over the next five years, the Navy plans to spend about $15 billion on a squadron of ships called the Maritime Prepositioning Force (Future), or MPF(F). Combined with ships in the current fleet, the MPF(F) would allow the Navy to deploy a Marine expeditionary brigade to a hostile shore -- and keep it supplied for almost three weeks -- without establishing a land base. The squadron would advance Navy and Department of Defense plans for "sea basing," which aims to increase the Navy's ability to respond to crises more quickly and flexibly.

- This option would cancel the MPF(F) squadron, and nothing would be bought in place of those ships.

PROPONENTS ARGUE

- The small benefits gained -- transporting and sustaining one Marine brigade -- do not justify the price tag, and canceling the program does not directly translate into fewer ships.

- The MPF(F) will be built to less stringent commercial standards. Experts believe it will require more development funds in the future, thereby raising budgetary costs.

OPPONENTS ARGUE

- This would disrupt a primary goal of senior Navy officials.

- Cutting this funding would reduce the Navy's ability to support Marines entirely from logistics at sea.

OPTION 15: CANCEL DEVELOPMENT OF THE NATIONAL MISSILE DEFENSE SYSTEM

This option would eliminate the funds to develop and maintain any additional parts of a national missile defense system designed to protect against ballistic missile attacks. Money Gain: +$13 billion

DESCRIPTION

- The current Ballistic Missile Defense System has two components. Block 2004 included interceptor missiles based in Alaska and California; detection and tracking radars located around the United States; command-and-control software; and a communications system used to relay information to and from the interceptors in flight. The Block 2004/2006 segment continued development and fielding of those capabilities, resulting in the 2005 completion of the Initial Defense Capability (IDC).

- This option would cancel the development of upgrades to the Ground-Based Midcourse Defense (GMD) system after the current effort, Block 2004/2006, is completed.

- Two interceptor sites would continue to operate and we would spend about $300 million a year developing improvements to initial capabilities. Future block developments would extend the system by providing more interceptors and radars and expanding to a third ground-based interceptor site.

PROPONENTS ARGUE

- Without improvement of technology and absent testing of its components individually and as a whole, the GMD system is not ready to field. Fielding the IDC alone would allow testing and provide limited tracking and engagement capacity for ballistic missiles launched from North Korea toward Alaska or the West Coast of the continental United States.

- The money going to this new version of "Star Wars" would be better spent dealing with more immediate threats to US security.

OPPONENTS ARGUE:

- Ballistic missile launches from enemy nations pose a current threat to the United States. Thus, developing and deploying all currently planned GMD segments would provide urgently needed protection for the nation and its allies.

- A nationwide missile defense system is essential to national security. In recent years, India, Pakistan, Iran, North Korea, and China have tested ballistic missiles. A nationwide shield would secure our current negotiating position with these nations.

OPTION 16: CANCEL THE FUTURE COMBAT SYSTEM PROGRAM

This option would cancel the Army's Future Combat System (FCS) and expand programs to keep current vehicles in service. Money Gain: +$22 billion

DESCRIPTION

- The Future Combat System (FCS) program is a cornerstone of the Army's effort to transform its ability to quickly deploy international combat units. The next generation of FCS combat vehicles would weigh two-thirds less and require less fuel and logistical support. The Army would develop eight combat vehicle models as well as new unmanned aerial and ground vehicles, sensors, and munitions -- all linked by advanced communications networks into an integrated combat system.

- This option would cancel the FCS and invest more in existing combat vehicles. The option would expand the Army's programs for upgrading Abrams tanks, Bradley fighting vehicles, M113 armored personnel carriers, and M109 self-propelled howitzers -- many purchased in the early 1980s -- to keep these vehicles in service for another 20 years.

PROPONENTS ARGUE

- The feasibility of the FCS program has been questioned by defense experts and by the Government Accountability Office. Many analysts have concluded that current technology does not permit the construction of lightweight combat vehicles that match or surpass current vehicles in effectiveness.

- The Army's experience in Iraq suggests that its strategy for making effective light armored vehicles may not be feasible.

OPPONENTS ARGUE

- Cancelling the FCS program might preclude Army transformation. A significant portion of the Army would continue to use systems developed in the 1980s or earlier, and some of these weapons are fuel inefficient and maintenance intensive.

- Improving the data processing and connectivity of those older systems would require integrating newer components into older frames, which can be difficult. Retaining the old systems might lead the Army to lose its technological and military edge.

OPTION 17: EASE RESTRICTIONS ON CONTRACTING FOR DEPOT MAINTENANCE

This option allows more private sector contractors to do equipment maintenance and repairs. Money Gain: +$4 billion

DESCRIPTION

- Currently, DoD follows a "50/50 rule to award contracts for up to half of its depot maintenance appropriations to private-sector bidders. This option would relax the rule to a 60/40 split allowing DoD open more depot work to competitive bidding, although it would take time to realize savings.

- Currently, the Department of Defense (DoD) spends about $27 billion annually for equipment maintenance and repairs provided at its central maintenance depots or at facilities operated by private-sector contractors.

- Historically, opening depot work to private-sector bidders has been estimated to save at least 20 percent of costs, including cases in which the government depot wins the work. Studies that have tracked post-competition costs have shown that the savings from competition persist beyond the initial contract award.

PROPONENTS ARGUE

- The current limits are arbitrary and reduce DoD's flexibility in determining which source is best to provide maintenance. Easing these restrictions would allow DoD to seek the most cost-effective source of support.

OPPONENTS ARGUE

- DoD should maintain an organic skill base. DoD needs the capacity to sharply increase depot maintenance when required, although private contractors can meet sudden increases in demand.

- This option would lead to the loss of federal civilian jobs.

OPTION 18: LIMIT TRICARE HEALTH INSURANCE BENEFITS FOR MILITARY RETIREES AND THEIR DEPENDENTS

This option would preclude military retirees and their dependants from enrolling in the TRICARE program with the lowest out-of-pocket costs. Money Gain: +$111 billion

DESCRIPTION

- TRICARE for life is the name of the health care program serving military retirees and their dependants. It has lower beneficiary cost-sharing (deductibles, co-payments, etc.) than any other government health insurance program and most private ones.

- In 1999, 55 percent of military retirees and their dependants signed up for other health insurance, but by 2009 that figure had dropped to 29 percent. Much of the shift is because of TRICARE's relatively low cost sharing. TRICARE spending more than doubled in real terms over that same 10-year period.

- Instead of enrolling in TRICARE Prime (which has the lowest out-of-pocket costs), military retirees and their dependants could enroll in TRICARE Standard or Extra -- which each have higher co-payments and deductibles. Enrollees would pay a monthly enrollment fee that would be set at 28 percent of the cost of providing benefits for that group, to be updated annually based on the average cost the group incurred in the previous year.

PROPONENTS ARGUE

- Currently, these health care expenses come directly out of the defense budget and if left unrestrained they will swamp the ability of DOD to perform its main task: defending the country.

- This option would begin to curtail the growth in retiree health care costs, freeing those resources for other important uses.

OPPONENTS ARGUE

- Reduced retirement benefits could affect military enlistment or retention if members expect their benefits to be curtailed. Many signed up for service expecting generous health benefits.

- This would discourage some patients (particularly low-income patients) from seeking required medical care, harming their health.

OPTION 19: TARGET PAY TO MEET MILITARY REQUIREMENTS

This option would substitute reenlistment bonuses for part of the basic pay increases. Money Gain: +$15 billion

DESCRIPTION

- The cash pay that military personnel receive includes basic pay, bonuses, allowances, and a tax advantage.
- Basic pay averages about 60 percent of cash compensation. Lawmakers typically use the employment cost index to set the annual military pay raise.
- Alternately, the services have used selective reenlistment bonus (SRB) to increase retention. The SRB is a cash incentive in occupational specialties with high training costs or demonstrated shortfalls. Each service branch regularly adjusts its SRBs to address current retention problems. In addition, the Army pays an SRB to all eligible soldiers who reenlist while deployed. This option would substitute reenlistment bonuses for part of the basic pay increase.

PROPONENTS ARGUE

- Reenlistment bonuses address occupational mismatches more efficiently than general pay increases because bonuses allow DoD to target compensation to specific occupational categories. Larger bonuses could also provide meaningful differences in pay among occupations, which could improve military readiness.

OPPONENTS ARGUE

- This would amplify pay differences among occupations and would counter the long-standing principles of equity in military compensation.
- Increasing bonuses deprives service members of the benefits they would receive if the money were part of basic pay throughout a career.

Category Three:

Options for Cutting Taxes and/or Raising Revenue

OPTION 20 & 21: EXTEND ALL OR SOME TAX CUTS

Option 20 would extend all of the expiring tax provisions. Money Loss: **-$2,502 billion.**

Option 21 would extend select popular tax cuts which have been referred to as the "middle class" tax cuts: including marriage penalty relief, an expansion of the 10%, 25%, and 28% tax bracket and an increase of the child tax credit. Money Loss: **-$1,308 billion.**

ONLY CHOOSE ONE OPTION.

DESCRIPTION

- Since 2001, Congress has enacted several tax packages with "sunset" provisions. These provisions initially set the tax cuts to expire at the end of 2010. Congress and the President extended the tax cuts for two years in December 2010 and they are now scheduled to expire in 2012.

- The largest tax package was the Economic Growth and Tax Relief Act of 2001, which included income tax rate cuts for all brackets of income, marriage penalty relief, repeal of the estate tax, doubling of the child tax credit, increased retirement incentives, and other provisions.

- In May 2003, Congress passed the Jobs and Growth Tax Relief Reconciliation Act of 2003. Taxes cut through this legislation include those on dividends and capital gains. (Capital gains are profits from selling investments such as stock, mutual funds, bonds, options, collectibles, etc. Dividends are payments from a company's earnings that are distributed to shareholders).

- Option 20 would allow all of the cuts to be extended for the next 10 years -- maintaining all individual income tax rates, reduced capital gains and dividend taxes, and the estate tax at the 2012 level.

- Option 21 would extend only those tax cuts that are said to most benefit "middle" income individuals (those that make under $200,000 a year, or $250,000 for families). These are the 10%, 25% and 28% marginal tax rate reductions, the increased child credit, and the elimination of the marriage penalty. Capital gains and dividend taxes would remain at their reduced rate for those of "middle income" as well.

PROPONENTS ARGUE

- Unless these tax cuts are extended, Americans will face higher tax bills when these tax cuts expire. With the economy not at full strength, the last thing we should do is increase taxes on hardworking Americans. If these tax cuts are extended, they will grow the economy.

- If not corrected, the "sunset" provisions in the tax code will needlessly complicate the lives of taxpayers and make it difficult for them to take advantage of the tax cuts. By making it difficult for citizens to plan for the future, the sunset provisions could impair the economic growth that the tax cuts intend to foster.

- No one should assume that repealing these tax cuts will actually lead to debt reduction. It is likely that money saved by repealing these tax cuts will not go to debt reduction, but will simply be spent by Washington bureaucrats on inefficient spending programs. Keeping these tax cuts will take the money out of Washington, and allow the taxpayers to decide what to do with it for themselves. They key to decreasing the debt is cutting spending not repealing tax cuts.

OPPONENTS ARGUE

- Keeping these tax cuts, while running large deficits, will simply pass the bills onto our children and grandchildren.

- There is relatively little economic evidence that bringing tax rates back to where they were during the 1990's -- a period of dramatic economic growth -- would harm the economy or small businesses.

- If these large tax cuts remain in effect, the loss of revenue will crowd out budgetary room to spend on other priorities such as defense, education, homeland security, health care, and the environment. Ultimately, these tax cuts could actually force state and local governments to increase their own taxes to make up for the decreased federal aid caused by this crowding out.

- Provisions such as the estate and gift tax, capital gains and dividend tax cuts, and even the marginal rate cuts for the "middle class" overwhelmingly benefit the wealthy. If they remain in effect, these tax cuts will continue to increase the debt for the purpose of providing even more tax relief to wealthy taxpayers who need it the least, further increasing economic inequality in this country.

OPTION 22: GRADUALLY ELIMINATE THE MORTGAGE INTEREST DEDUCTION

Reduce the maximum mortgage on which interest can be deducted from $1.1 million to $0 in 2024. Money Gain: +$215 billion over 10 years (additional gain in following decades)

DESCRIPTION

- Buying a home is the largest purchase many Americans make, and the tax code has traditionally helped Americans to make this important purchase. Currently, the tax code allows homeowners who finance their purchase with mortgages to claim the interest paid on the loan as a tax deduction. In addition, most capital gains from sales of homes are tax-exempt.

- Taxpayers use deductions to lower the amount of their income that is subject to the income tax. Most popular deductions -- like ones for home mortgage interest, medical expenses, or donations to charity -- can only be taken if taxpayers are willing to document these financial transactions by filling out an extra tax form. This process is called "itemizing." Those who would not benefit by this extra work, or who do not want to do it, are entitled to simply take a "standard deduction."

- This option would rein in the very expensive cost of the home mortgage interest deduction by gradually eliminating it.

- The maximum mortgage eligible for the interest deduction would be reduced from $1.1 million in 2013 to zero in 2024 in annual increments of $100,000. That change would boost revenues by only $14 billion from 2012 through 2016 but by $215 billion through 2021 and by increasing amounts relative to the size of the economy through 2024.

PROPONENTS ARGUE

- In addition to reining in the cost of an expensive tax deduction, this proposal would decrease the preferential treatment that the tax code shows to those who purchase homes. It also decreases the government's subsidy to wealthier individuals to buy larger homes.

- It seems unfair to allow taxpayers who buy vacation homes to deduct interest while some taxpayers who are less fortunate cannot deduct interest for consumer loans used to pay medical expenses and other needed purchases.

- The current law encourages excessive borrowing that may cause future adverse economic effects. The money spent on mortgages could instead be directed towards business investments to increase American productivity.

OPPONENTS ARGUE

- The current tax deduction encourages people to become homeowners and to purchase larger homes. Increasing homeownership contributes to political and social stability by strengthening the ties that people have to their neighborhoods.

- Changing the home mortgage interest deduction at this point may be unfair to those how have already made savings and investment decisions based on the tax code's current deduction.

- Many middle-class homeowners living in high-cost areas depend on the mortgage interest deduction to make ends meet.

OPTION 23: ELIMINATE THE EXCLUSION OF EMPLOYER CONTRIBUTIONS FOR HEALTH CARE BENEFITS

This option would tax employer provided health care contributions to an employee's income. Money Gain: +$633 billion (with significantly larger gains in later decades)

DESCRIPTION

- Most employees' health care benefits are a major component of their income, although the cost is often hidden because it is already incorporated into the employee's salary. Those health insurance premiums are exempted from income and payroll taxes.

- As health care costs grow and consume larger portions of employees' incomes, the amount of income that goes untaxed grows, resulting in substantial revenue loss to the federal government. Employee cash wages also shrink, as more compensation is paid in the form of health insurance instead of cash.

- This option would begin eliminating the exclusion in 2014.

PROPONENTS ARGUE

- The exclusion of health benefits from taxation distorts the health care market by encouraging higher levels of spending on health care. The higher spending, in turn, contributes to health care inflation -- which is a serious long-term budget dilemma for the federal government.

- Taxing employer-provided benefits would generate substantial revenues and encourage lower levels of health care spending -- two necessary conditions on the road to the nation's fiscal sustainability.

OPPONENTS ARGUE

- Taxing health care benefits will reduce overall health care spending because it increases an individuals out-of-pocket cost for health care. One result is that individuals who need health care services will be adversely affected by eliminating the exclusion.

- This represents a substantial middle-class tax increase.

- Ultimately, health care costs might continue to rise anyway: if individuals avoid consuming health care because of prohibitive costs, they might get sicker and more expensive to treat, defeating the money saving purpose of the option.

OPTION 24: LIMIT CHARITABLE GIVING DEDUCTIONS

This option would limit the deduction for charitable donations by allowing taxpayers to deduct only contributions that exceed 2 percent of their Adjusted Gross Income (AGI). Money Gain: +$219 billion

DESCRIPTION

- Current law allows taxpayers who itemize deductions to deduct the value of their contributions to qualifying charitable organizations. This is allowable for up to 50 percent of their Adjusted Gross Income (AGI). AGI is defined as gross income -- wages, capital gains, interest, etc. -- minus adjustments (such as contributions to deductible retirement accounts or alimony paid). By lowering the after-tax cost of donating to charities, the deduction provides an added incentive for such donations.

- In 2008 (the most recent year for which data are available), $173 billion in charitable contributions were claimed on 39 million tax returns. This proposal would limit the deduction for charitable donations -- while still preserving a tax incentive -- by allowing taxpayers to deduct only contributions that exceed 2 percent of their AGI.

PROPONENTS ARGUE

- A significant share of those donations would be made even without a deduction. In that case, allowing taxpayers to deduct contributions is economically inefficient because it results in a large subsidy for a very small increase in charitable giving. For taxpayers who give more than 2 percent of their AGI to charity, this option would maintain the current marginal incentive to donate but at much less cost to the federal government.

- Smaller contributions are apt to be a source of abuse among taxpayers, some of whom overstate their charitable donations in the belief that the government will not investigate.

OPPONENTS ARGUE

- Total charitable giving would decline. The Federal Trade Commission states that there are more than 700,000 federally recognized charities. By eliminating a tax incentive, smaller donors would reduce their contributions and eventually the federal government may need to financially support struggling institutions.

- This option encourages taxpayers to lump their donations together in one tax year to qualify for the deduction instead of spreading the gifts over several years.

OPTION 25: ELIMINATE TAX SUBSIDIES FOR THE OIL AND GAS INDUSTRY

This option would eliminate the tax preference that allows oil and gas companies to more quickly deduct the costs of exploration and development from their taxable income. Money Gain: +$44 billion

DESCRIPTION

- Current tax law provides exploration incentives for oil and gas companies to find new sources of oil, gas and other minerals. A major incentive is the provision in the tax code which allows companies to "expense" (rather than capitalize) the costs of exploration. Expensing allows the oil and gas industry to immediately deduct exploration costs as opposed to waiting for any income generated by exploration before deducting costs.

PROPONENTS ARGUE:

- Expensing encourages society to divert more resources to exploration rather than what would otherwise be more productive activities (in the absence of government intervention).

- Expensing also encourages the industry to produce more resources in a relatively shorter period of time than they would otherwise. In the near future, more oil and gas extraction in America could lower prices and make the U.S. less reliant on foreign supplies of energy resources. In the longer run, faster extraction would make the U.S. *more* reliant on foreign energy (because it will have used its own domestic resources more quickly).

- With the specter of global warming, we need to be making all fossil fuels more expensive in order to encourage alternative clean and renewable energy sources.

OPPONENTS ARGUE:

- Tax incentives are necessary to encourage energy producers to engage in more exploration, which is important to the country's energy security. Should a company explore an area that turns out not to be productive, allowing the company to expense the cost of exploration reduces the relative risk of seeking out new energy resources.

- The oil and gas industry supports a substantial amount of economic activity and millions of jobs. Increasing their taxes might harm economic growth.

OPTION 26: CREATE A MARKET FOR "CAPPING AND TRADING" GREENHOUSE GAS EMISSIONS

This option would establish a "cap-and-trade" program governing the emission of greenhouse gasses. Money Gain: +$1,179 billion

DESCRIPTION

- This option allows the government to develop a market for emission allowances. In this market, only a finite number of allowances to emit greenhouse gasses (the "cap") would be sold at open auctions (the "trade").

- According to estimates by the Congressional Budget Office, emissions from the sectors that were subject to the cap-and-trade policy would fall by roughly 20 percent from their projected amounts in 2025 and by 50 percent from their projected amounts in 2050. Firms would be allowed to shift their use of allowances from one year to another by "banking" unused allowances or by "borrowing" allowances from future allocations for current use.

- The cost of producing and consuming goods and services would increase in proportion to the amount of greenhouse gases emitted as a result of that production and consumption. Ultimately, those costs would be passed on to consumers in the form of higher prices. Those higher prices, in turn, would create incentives throughout the U.S. economy to reduce emissions of greenhouse gases.

PROPONENTS ARGUE

- Besides raising revenue, raising taxes on carbon emissions would encourage more conservation and make sustainable energy development and technologies more attractive.

- Setting an economy-wide price on carbon emissions would lower the overall expense of decreasing emissions by allowing the free market to determine how to achieve targeted reductions. This system worked well in curbing the problem of acid rain.

- A cap-and-trade program would generate a substantial amount of revenue, which policymakers could use in a variety of ways -- to reduce the national debt, invest in alternative energy sources, or any other number of policy options.

OPPONENTS ARGUE

- Any attempt to limit carbon emissions will result in higher prices for consumers and businesses -- and thus harm the economy.

- Short of a worldwide effort to reduce carbon emissions, any option imposed by the United States on its economy could have negligible effects on the overall rate of climate change, especially if heavy carbon using industries choose to relocate to countries with fewer restrictions on emissions.

OPTION 27: TAX THE WORLDWIDE INCOME OF U.S. CORPORATIONS AS IT IS EARNED

This option would subject all U.S. companies to U.S. taxes as their income is earned, rather than allow companies to avoid taxes based on any foreign taxes paid. Money Gained: +$114 billion

DESCRIPTION

- U.S. Corporations are subject to U.S. taxes on their worldwide income, regardless of where it is earned. In the case of income earned abroad, the same income may face both foreign and U.S. taxes. To prevent such "double taxation," U.S. companies are allowed to claim the foreign tax credit, reducing their U.S. taxes by the amount they have paid to foreign governments. The foreign tax credit may never exceed the amount of U.S. tax that would otherwise have been due.

- Under this option, all income earned by foreign subsidiaries of U.S. companies would be subject to U.S. taxes as it was earned, regardless of when it was repatriated. To prevent double taxation, foreign tax credits would still be allowed. For determining the limit on those credits, however, the U.S. parent corporation's overhead expenses would no longer be allocated between domestic and foreign activities.

PROPONENTS ARGUE

- By not taxing income until it is repatriated as dividends, the current system reduces the cost of foreign investment relative to the cost of domestic investment. Eliminating the rules for allocating overhead expenses and the provisions that distinguish between active foreign income (which is not taxed until it is repatriated) and passive foreign income (which is generally taxed as it is earned) would make international tax rules less complex.

- This would eliminate the bias toward foreign investment and thus increase the amount of domestic investment, which in turn would make U.S. workers more productive and boost their earnings.

OPPONENTS ARGUE

- It would put the U.S. multinational corporations at a competitive disadvantage with foreign multinationals. The cost of foreign investments by U.S. multinationals would rise, whereas the cost of foreign investments by foreign multinationals would not change.

- Any competitive disadvantage would shift market shares and production towards businesses controlled by foreign multinational corporations.

Category Four:

Changes in Entitlements and Mandatory Spending

OPTION 28: REPEAL THE "AFFORDABLE CARE ACT" -- THE 2010 HEALTH CARE REFORM LAW

Repeal all provisions of the Patient Protection and Affordable Care Act (ACA). Money Loss: -$210 billion over 10 years

DESCRIPTION

- The ACA increased spending on new health insurance subsidies while cutting Medicare spending and raising taxes. Thus the CBO has estimated the legislation represents a small net decrease in the deficit. Repealing it, would increase the deficit.

- This option would remove the mandate for individuals to purchase health insurance -- scheduled to take effect in 2014. This would mean approximately 30 million fewer insured individuals or families. The law's health insurance market reforms would also be rolled back, including the prohibition of insurance companies denying coverage based on pre-existing conditions; dropping coverage when someone gets sick, and imposing certain annual and lifetime limits on benefits. In addition, states would no longer establish insurance "exchanges" to increase access to insurance for Americans who don't qualify for other programs and don't have access to employer-provided insurance.

- This proposal would stop experimentation on measures to lower the growth of overall, systemic health care costs. These include incentives to provide quality of care over quantity of care, standard medical practices based on the use of comparative research and reviews, and a greater use of health IT to lower administrative costs and reduce unnecessary tests.

- This proposal lowers eligibility for Medicaid and SCHIP (a federal/state program that helps provide coverage to uninsured kids).

- This proposal removes investments in disease prevention and wellness initiatives -- intended to prevent both the onset and the progression of high-cost diseases like diabetes.

PROPONENTS ARGUE

- The ACA was an expensive creation of a new health insurance entitlement with only lip-service paid to decreasing health care inflation. Repeal is the best way to limit government spending in a time of large deficits.

- Health care is the single biggest factor in the government's projected long-term deficit. Including more people only compounds the problem and further harms the fiscal outlook.

- A mandate for people to purchase health insurance is unconstitutional.

- Many people can access health care at community health centers, free clinics or charity care. The government should not increase its expenditures and future liabilities to provide services that can be obtained in the private sector.

OPONENTS ARGUE

- The ACA represents a big step towards decreasing the overall growth of health care costs. The non-partisan CBO estimates that beyond the 10-year budget window, deficit reduction increases dramatically from the legislation. Systemic reforms also have the potential to spread industry-wide so that, in addition to decreasing government health care costs and improving the long-term fiscal outlook, the overall economy and business performance will be improved.

- Costly health care and the uncertainties of obtaining or keeping coverage through job changes, family changes, or illness are some of the biggest obstacles in the lives of American families. Additionally, health care costs are suppressing American business profitability. The government is best positioned to attack this problem on a large scale and an efficient basis.

OPTION 29: LIMIT MALPRACTICE LAWSUITS

This option imposes caps on some medical malpractice lawsuits. Limits include caps on noneconomic damages (or "pain and suffering" damages). Money Gain: +$62 billion

DESCRIPTION

- Currently, states treat malpractice lawsuits in a variety of ways. Some states impose strict caps on damage awards while others have enacted virtually no limits at all.
- This option standardizes and imposes nationwide standards on malpractice lawsuits.
- Noneconomic ("pain and suffering") damages are limited to $250,000. Punitive (economic) damages are limited to $500,000 (or twice the amount of the economic damages incurred, whichever is greater).
- The statute of limitations on malpractice lawsuits is restricted to one year for adults and three years for children (from the date of discovery of injuries).

PROPONENTS ARGUE:

- Limiting malpractice lawsuits would reduce the overall cost of health care, a major driver of deficits and debt in the coming years and decades.
- Doctors would face lower malpractice insurance premiums, thereby resulting in lower prices for patients. Some doctors might also use fewer treatments that they would otherwise use in order to protect against malpractice lawsuits. This would further lower total health care expenditures.

OPPONENTS ARGUE:

- Capping liability faced by doctors could result in a higher level of medical injuries due to negligence, as some doctors would be less cautious than they are today.
- Patients who have suffered injuries from serious malpractice would face the prospect of not obtaining the full compensation required to make them "whole" from the injuries inflicted by medical injuries.

OPTION 30: CONVERT THE FEDERAL SHARE OF MEDICAID PAYMENTS INTO A BLOCK GRANT

This option would limit federal assistance to the states for certain Medicaid services by providing a fixed annual block grant.
Money Gain: +$287 billion

DESCRIPTION

- This option would convert the federal share of Medicaid payments for long-term care services, as well as a portion of the federal share of Medicaid administrative costs, into a block grant to each state. This means a state would get a lump-sum, without strings attached, to support whatever long-term care system they wish to set up.

- Starting in 2012, a state's block grant for each fiscal year would apply to long-term care services for all of its Medicaid beneficiaries, but acute care would continue to receive funding as it does under current law.

- A state's block grant would equal its 2010 federal Medicaid payment for long-term care services indexed annually to one of two factors:

    - The employment cost index (ECI); or
    - The ECI **and** the number of aged, blind, and disabled people enrolled in Medicaid.

PROPONENTS ARGUE

- A block grant would provide greater predictability in federal spending for long-term care services, which represents a large portion of total Medicaid spending.

- It would eliminate the federal subsidy for each additional dollar that states spend on long-term care services, thereby providing a greater incentive for states to find more cost-effective ways to care for individuals who need long-term care.

OPPONENTS ARGUE

- Converting long-term care payments into a block grant would shift some of the burden of Medicaid's growing costs to the states.

- Distinguishing between long-term care and acute care could be difficult administratively, especially in cases where individuals receive both types of care.

OPTION 31: REFORM MEDICARE AND PROVIDE SENIORS A VOUCHER TO PURCHASE PRIVATE HEALTH INSURANCE

This option would fundamentally restructure Medicare and provide seniors with a voucher to purchase private insurance.
Money Gain: +$350 billion over 10 years. This would substantially lower future Medicare expenditures beyond 10 years.

DESCRIPTION

- This proposal most commonly called "premium support," has received a lot of attention recently from bi-partisan fiscal commissions.
- In the proposal, people who turn 65 in 2021 or later years would have the option of leaving traditional fee-for-service Medicare and instead receive a voucher with which to purchase private health insurance on an insurance exchange.
- The proposal saves money because, over time, the amount of the voucher declines relative to the historical rate of health care cost increases. Voucher values are to be calculated by taking the average federal cost per Medicare enrollee in 2012 and growing that amount at the annual rate of growth in GDP per capita plus one percentage point (the historical rate is GDP + 2.5 percent).
- Starting in 2021, the age of eligibility for Medicare would increase by two months per year until it reached 67 in 2032.

PROPONENTS ARGUE

- Medicare and Medicaid are on an unsustainable path and must be reined in soon. This proposal would reduce the federal government's overall commitment to health care and allow seniors more flexibility than under Medicare today.
- The marketplace would increase competition among health plans and lower costs.

OPPONENTS ARGUE

- Beneficiaries would face higher health care costs overall because of declining government assistance. The risk of health care inflation will be transferred to individuals instead of the entire nation and government -- where it can be spread out more easily.
- Future beneficiaries would also face higher premiums in the private health insurance market than in a government-subsidized market since Medicare is more administratively efficient than the private insurance market.

OPTION 32: TIE BASIC PREMIUMS FOR MEDICARE PART B TO 35 PERCENT OF THE PROGRAM'S COSTS

This option would raise the basic Medicare Part B premium to 35 percent of the program's costs starting in 2012 while preserving the income-related-premium shares specified in current law. Money Gain: +$241 billion

DESCRIPTION

- Medicare Part B's Supplementary Medicare Insurance Program (SMI) offers insurance coverage for physicians' services and hospital outpatient services. Benefits for the SMI program are partially funded from monthly premiums paid by enrollees. The remaining portion is funded through general federal revenues.

- Although the SMI premium was initially intended to cover 50 percent of the cost of benefits, that share declined between 1975 and 1983 because premiums have not been allowed to increase at the same rate as benefits. Currently, beneficiaries pay only 25 percent of Part B program costs; the remainder comes from general revenue.

- Over five years, this option would gradually raise the SMI premium that enrollees pay to 35 percent of the program's costs. The estimate assumes a continuation of the hold-harmless provision, which protects SMI enrollees from a drop in their monthly net Social Security benefits when the premium increase exceeds Social Security's COLA.

PROPONENTS ARGUE

- This option would ease budgetary pressures posed by rising Medicare costs, which will accelerate as the baby-boom generation ages. Even under this option, the public subsidy for most would remain at 70 percent -- far greater than originally intended.

- Linking premiums to income levels is a fiscally responsible step that could help to prepare the Medicare program for the retirement of the baby boomers. Federal subsidies should not be going to the well-off, particularly when Medicare is facing strong fiscal challenges and other programs in the budget are being forced to fight for every last dime.

OPPONENTS ARGUE

- Disposable income would be reduced by enacting this option.

- The income levels in this option will complicate the program and ultimately prove ineffective. A nationwide income level will not reflect local differences in the cost of living. Any effective reform should recognize that $75,000 in Birmingham, Alabama goes much further than $75,000 in New York or Los Angeles.

OPTION 33: RAISE SOCIAL SECURITY'S NORMAL RETIREMENT AGE

This option would raise the normal retirement age by speeding up the currently scheduled increase to age 67 and then further increasing to age 70. Money Gain: +$120 billion

DESCRIPTION

- The age at which workers can become fully eligible for Social Security benefits (the normal retirement age) depends on their year of birth. For workers born before 1938, that age is 65. For workers born between 1939 and 1959 the age slowly increases up to age 67 -- the age at which those born after 1960 are eligible for full benefits.

- Workers can claim benefits at age 62 -- the early retirement age -- but the amount of benefits is reduced from what they would be eligible for if they waited the full time.

- This option would speed up the increase in the retirement age for those born in 1950, reaching 67 for those born in 1955. After that, it would continue to increase until it reached 70 for those born in 1973. The early retirement age would still be 62, with the option to take reduced benefits.

PROPONENTS ARGUE

- Raising the retirement age will help to adjust for gains in life expectancy. Life expectancy at age 65 is expected to rise from 17.3 years for men and 19.7 for women to 19.0 for men and 21.1 years for women by 2035.

- In addition, this would help offset the great gains in life expectancy that have occurred over the course of Social Security's existence. As people live longer they are both able to work longer and collect benefits longer. Raising the age will address both of these issues and increase the long-term stability of the Social Security program.

OPPONENTS ARGUE

- Individuals in jobs that require physical labor will have a difficult time working until age 70. Because they are more likely to claim early retirement benefits at age 62, they will be severely penalized by the reduction in early benefits that follows from increases in the Normal Retirement Age.

- Raising the retirement age will cause more people to claim Social Security disability benefits earlier. This will offset any budgetary gains from this policy.

OPTION 34: INCREASE THE MAXIMUM TAXABLE EARNINGS FOR THE SOCIAL SECURITY PAYROLL TAX

This option would increase the share of total earnings subject to the Social Security payroll tax to 90 percent by raising the maximum taxable amount to $170,000 in 2012. Money Gain: +$457 billion

DESCRIPTION

- Social Security is financed by a payroll tax on employees, employers and the self-employed. Only earnings up to a specified maximum are subject to the tax. That maximum, which was $106,800 in 2011, automatically increases each year by the growth of the average wages in the economy.

- Despite that indexing, the overall fraction of taxable earnings has slipped in the past decade because earnings for the highest-paid workers have grown faster than the average. Thus, in 2009, 83 percent of wages fell below the maximum taxable amount. The proposed 90 percent coverage would generate an additional $457 billion in revenues over the 2012-2021 period.

PROPONENTS ARGUE

- Increasing the maximum taxable earnings for the Social Security payroll tax improves Social Security's long-term financial outlook.

- This option would make the payroll tax less regressive. The individuals who have income above the ceiling do not pay the tax on all their earnings. Thus, the tax is a smaller percentage of total income than individuals whose earnings are beneath the ceiling.

OPPONENTS ARGUE

- Since the Social Security benefits that retirees receive are tied to the amount they pay, some of the increases in revenues from this option would be offset by the additional retirement benefits that Social Security would pay to people with income above the current maximum taxable amount. The projected revenue gains do not reflect those outlays.

- Raising the earnings cap could weaken the link between the taxes that workers pay into the system and the benefits they receive, which has been an important aspect of the Social Security system since its inception. Moreover, this option would reduce the rewards of working for people with earnings above the current maximum by subjecting those earnings to the Social Security tax, which would raise the average tax rate. As a result, such earners may work less or take more fringe benefits not subject to the tax.

OPTION 35: BASE SOCIAL SECURITY COLAS ON AN ALTERNATIVE MEASURE OF INFLATION

This option would reduce yearly cost-of-living adjustments (COLAs) to Social Security benefits in order to better reflect the actual increase in the price of goods. Money Gain: +$112 billion

DESCRIPTION

- Each year, the Social Security Administration adjusts monthly Social Security benefits by the increase in the Consumer Price Index (CPI). The Consumer Price Index is a measurement of inflation designed to indicate the change in prices of consumer goods. Over the years, there has been a great deal of debate about whether or not the CPI accurately reflects the cost of living. For example, a commission headed by economist Michael Boskin estimated in 1996 that the CPI overstates inflation by 1.1 percentage points.

- This option would slow the growth of Social Security outlays by setting COLAs equal to an alternative measure of inflation -- the chained CPI -- beginning in 2008. In the CBO's estimation, the chained CPI is likely to grow 0.3 percentage points more slowly than the standard CPI.

PROPONENTS ARGUE

- CPI is not the only available index to protect against increases in the cost of living. As more studies show the problems with CPI, it makes sense to use an alternative measure.

- This proposal would help contain the long-term costs of Social Security, and could be a responsible first step in the process of making the program fiscally sustainable. In return, this option asks for a relatively small sacrifice from beneficiaries.

OPPONENTS ARGUE

- The CPI isn't perfect, but this doesn't mean that beneficiaries should suffer. This change would have a disproportionate effect on low-income Social Security recipients who need their full COLAs to keep from slipping back into poverty. After all, the prices those Social Security beneficiaries face are likely to grow faster than those for the population as a whole. This is a benefit cut in disguise. We should be helping our senior citizen to live comfortably in retirement, not cutting benefits.

- Legislating an adjustment of COLAs would set an irresponsible precedent. The whole purpose behind an automatic inflation adjustment was to take politics out of benefit increases. This option would reintroduce politics into the process, which could result in future irresponsible adjustments.