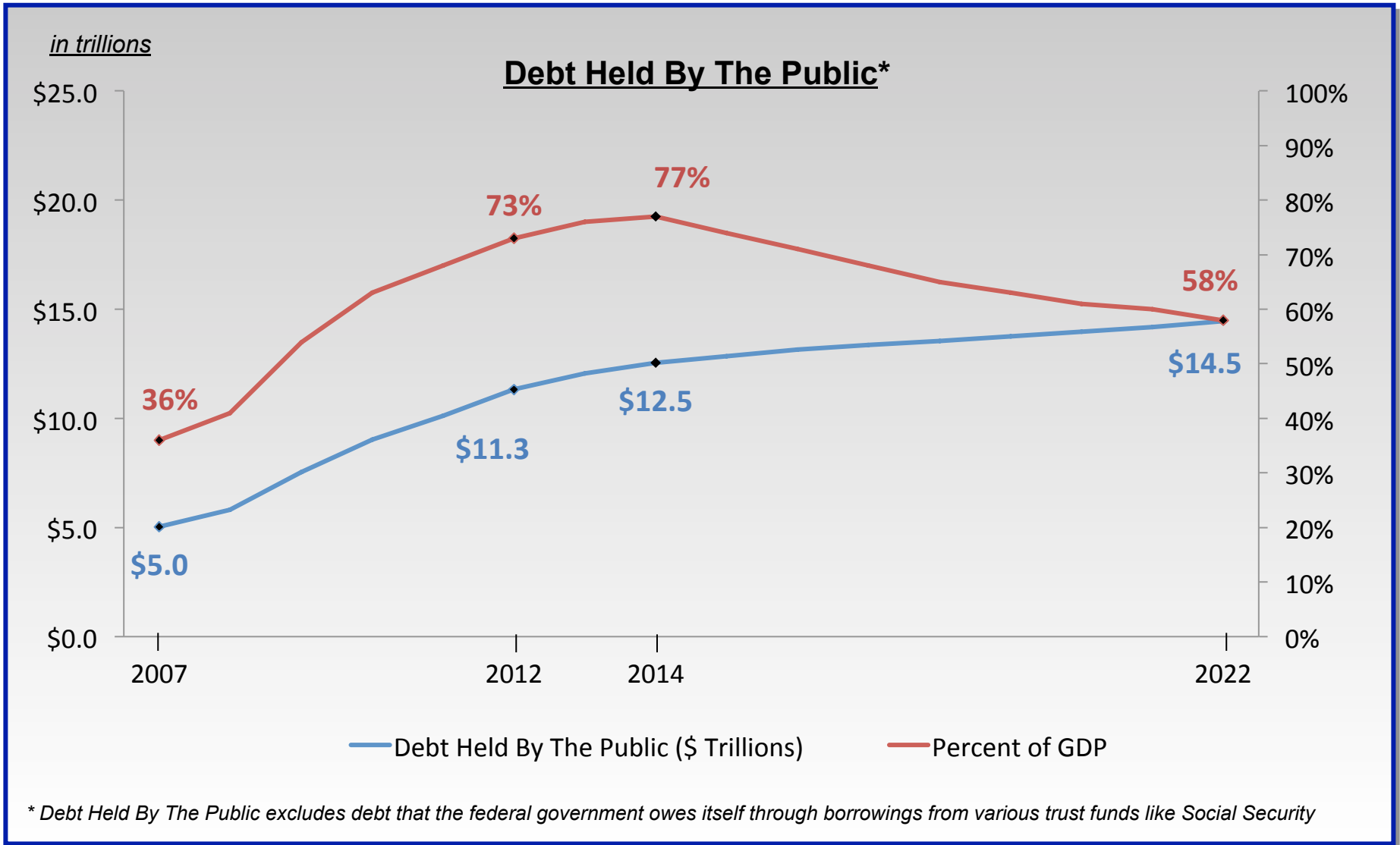


The Debt Challenge



CBO's Current Law Projections



***Bad As It Is... Looks Manageable... Until...
You Look At The Assumptions!***

Assumptions In CBO Current Law Forecast

Fiscal Cliff

Related

	<u>2013-2022</u>
<input checked="" type="checkbox"/> 2001/2003/2010 Tax Cuts <u>NOT</u> Extended	\$2.7 trillion
<input checked="" type="checkbox"/> AMT <u>NOT</u> Patched*	\$1.8 trillion
<input checked="" type="checkbox"/> Sequestration <u>HAPPENS</u>	\$1.0 trillion
<input checked="" type="checkbox"/> Other Expiring Tax Provisions <u>NOT</u> Extended	\$0.9 trillion
<input checked="" type="checkbox"/> <u>NO</u> Doc Fix For Medicare (Payments To Physicians Cut by 27%)	\$0.2 trillion
Interest Payments on Above Costs	\$1.1 trillion
Additional Incremental Debt by 2022	\$7.7 trillion

Note: Data from the Congressional Budget Office

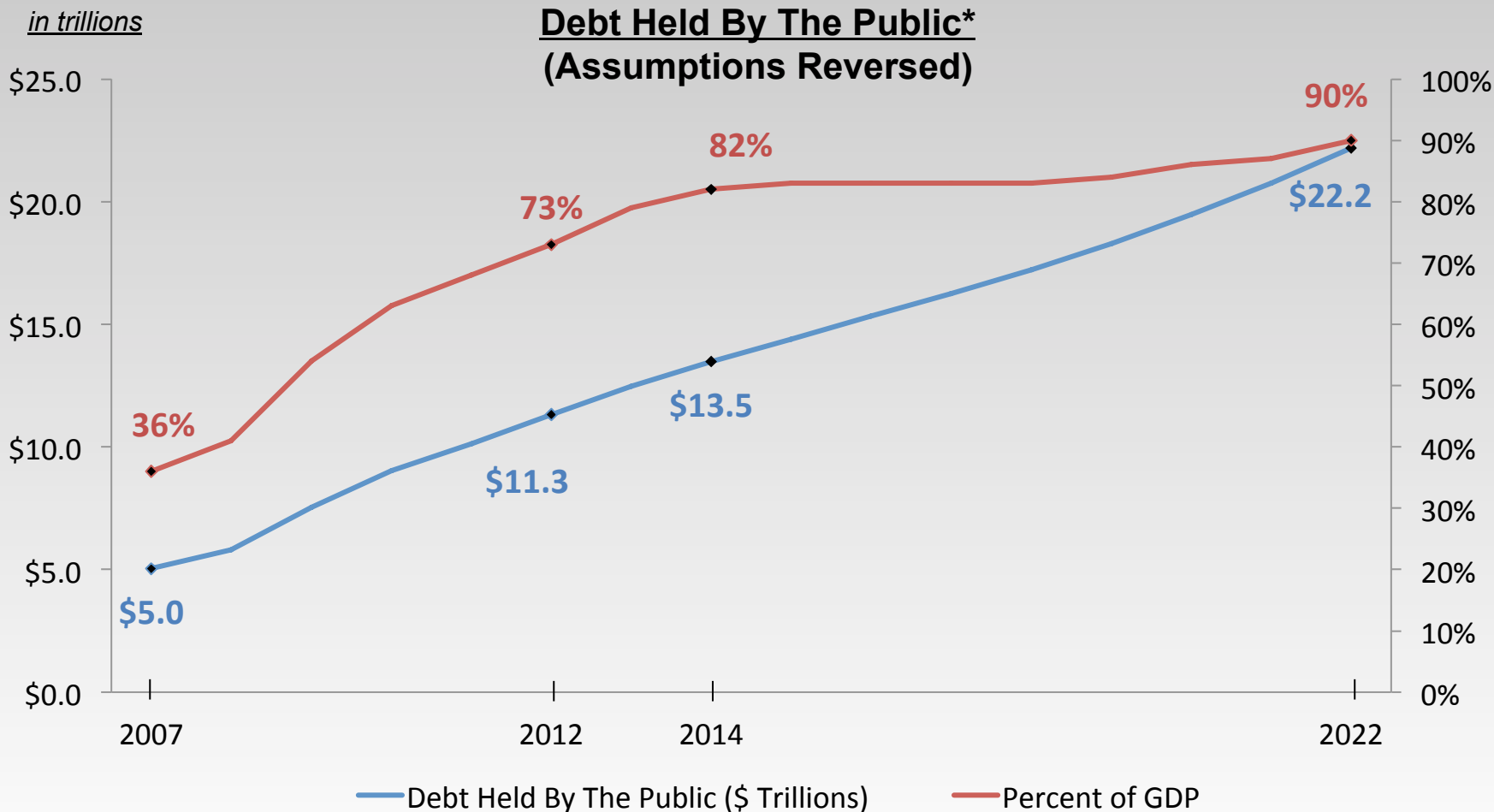
* Extending the 01/03/10 tax cuts, by themselves, costs \$2.7 trillion through 2022. Patching the AMT through 2022, by itself, costs ~\$0.9 trillion. There is an additional ~\$0.9 trillion in interaction costs between the two, presented on the AMT line.

**\$7.7 Trillion 10-Yr Effect +
Debt Ceiling Likely 1Q13**

Fiscal Cliff

**Opportunity... OR...
Potential Disaster**

CBO's Alternative Scenario

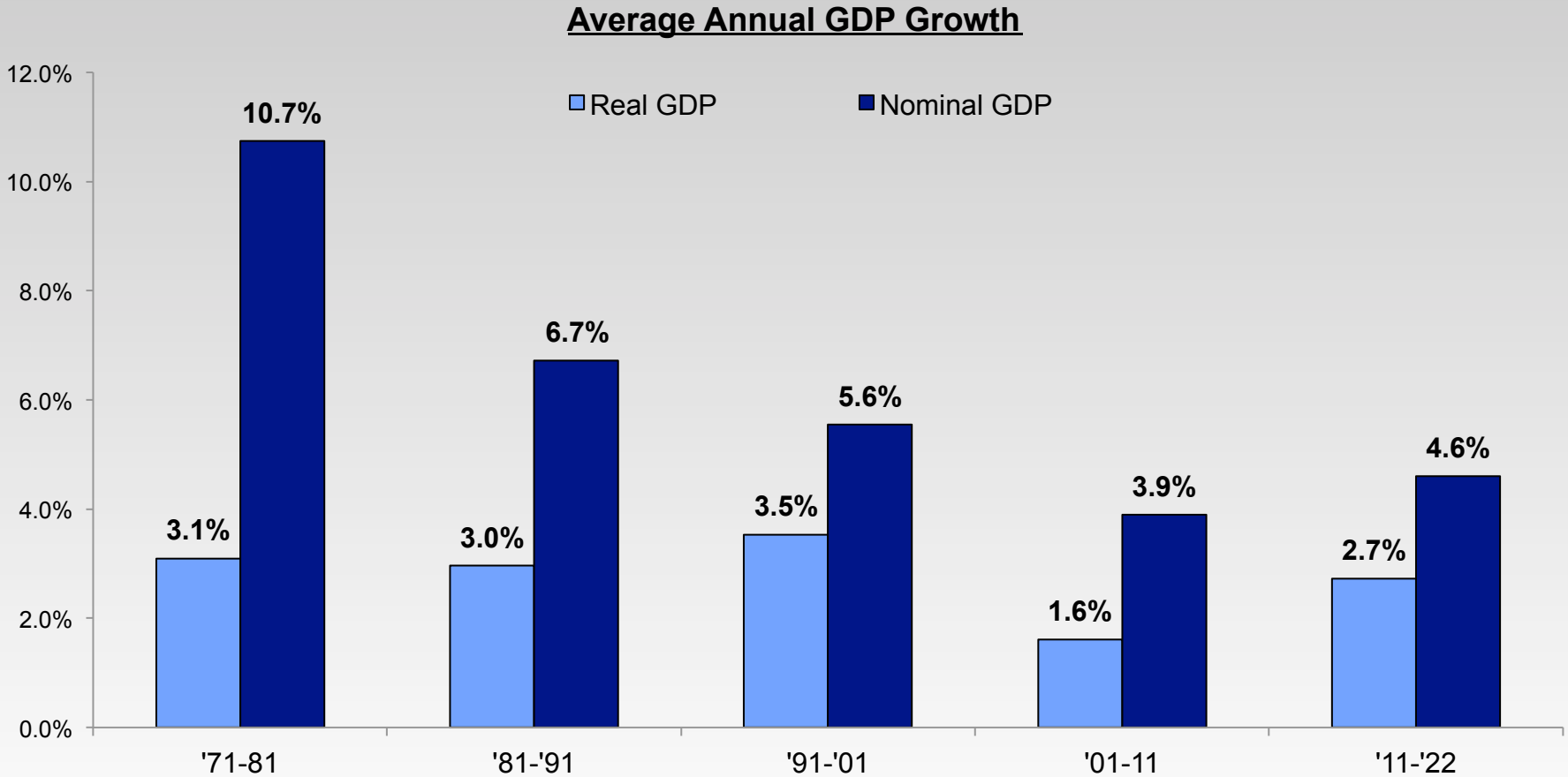


Alternative Scenario uses same GDP growth assumptions as the Current Law – which includes the effects of the “fiscal cliff” – as this is the standard scoring convention.

* Debt Held By The Public excludes debt that the federal government owes itself through borrowings from various trust funds like Social Security

More Likely Scenario... More Frightening!

GDP Assumptions In CBO



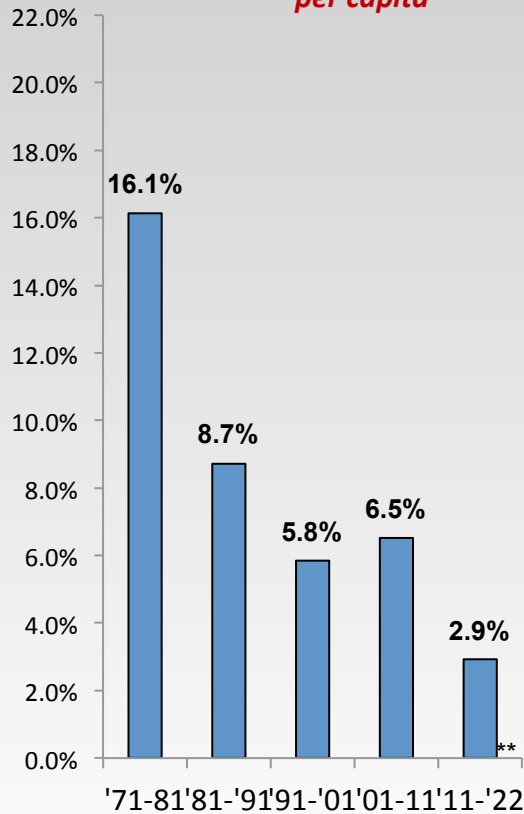
Note: Data from the Congressional Budget Office

Alternative Scenario uses same GDP growth assumptions as the Current Law – which includes the effects of the “fiscal cliff” – as this is the standard scoring convention

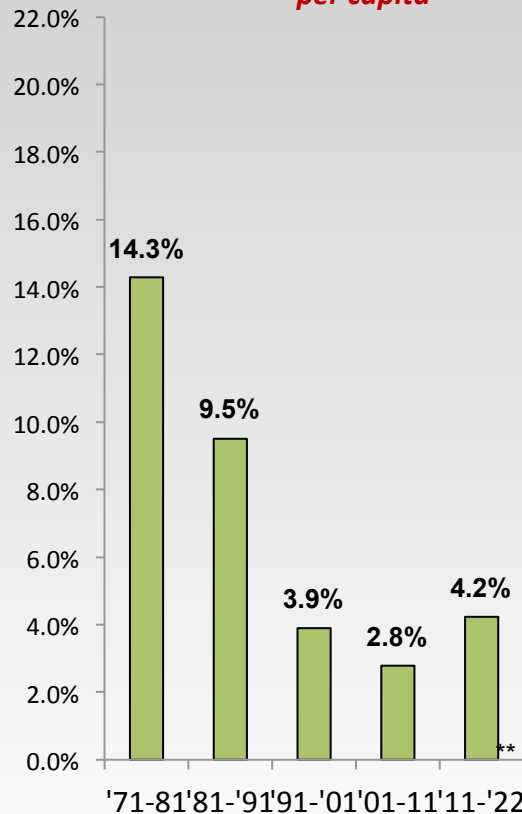
GDP Assumption Could Be Reasonable... What If It's Not?

Medicare / Medicaid Assumptions In CBO

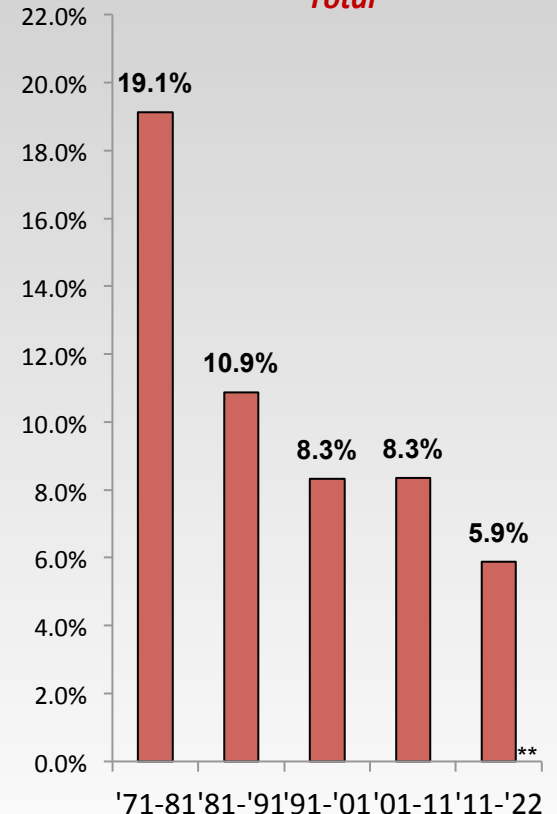
**Average Annual Increase
Medicare
*per capita***



**Average Annual Increase
Medicaid
*per capita***



**Average Annual Increase
Medicare / Medicaid
*Total***



Note: Data from the Congressional Budget Office

* Growth rates of base Medicare / Medicaid spending only (not including additional spending attributable to the Affordable Care Act)

** 2011 – 2022 Rates of Increase Based on CBO Projections

Boomers Retiring... And Assumes Lowest Total Spend Increase Ever... What If It's Not?

Debt Could Turn Out To Be Even Worse

Debt in 2022

	Dollars	% GDP
CBO Current Law Projections	\$14.5 trillion	58%
<i>Fiscal Cliff</i>	+\$7.7 trillion	32%
CBO Alternative Fiscal Scenario	\$22.2 trillion	90%
<i>Nominal GDP Grows at Same Rate as 2001 – 2011</i>	+\$2.0 trillion	14%
<i>Base Medicare/Medicaid Spending Grows at Same Rate as 2001 - 2011*</i>	+\$1.7 trillion	8%
Possible Debt	\$25.9 trillion	112%

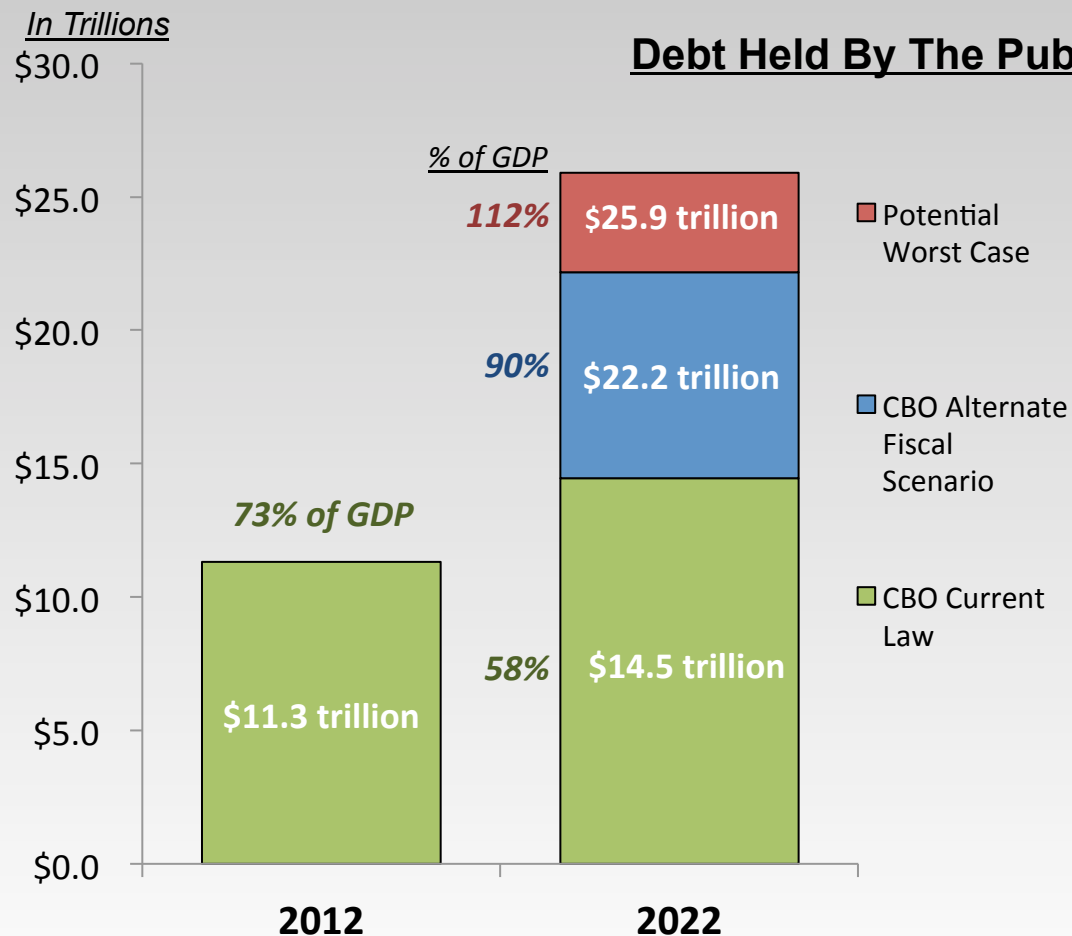
Figures based on CBO and CRFB calculations

* Increased growth rates of base Medicare / Medicaid spending only (not including additional spending attributable to the Affordable Care Act (ACA). The costs of the additional ACA coverage provisions are, however, included in the overall debt level in all scenarios.

Fiscal Cliff Can Be An Opportunity... Or a Disaster

Debt Scenarios

Debt Held By The Public*

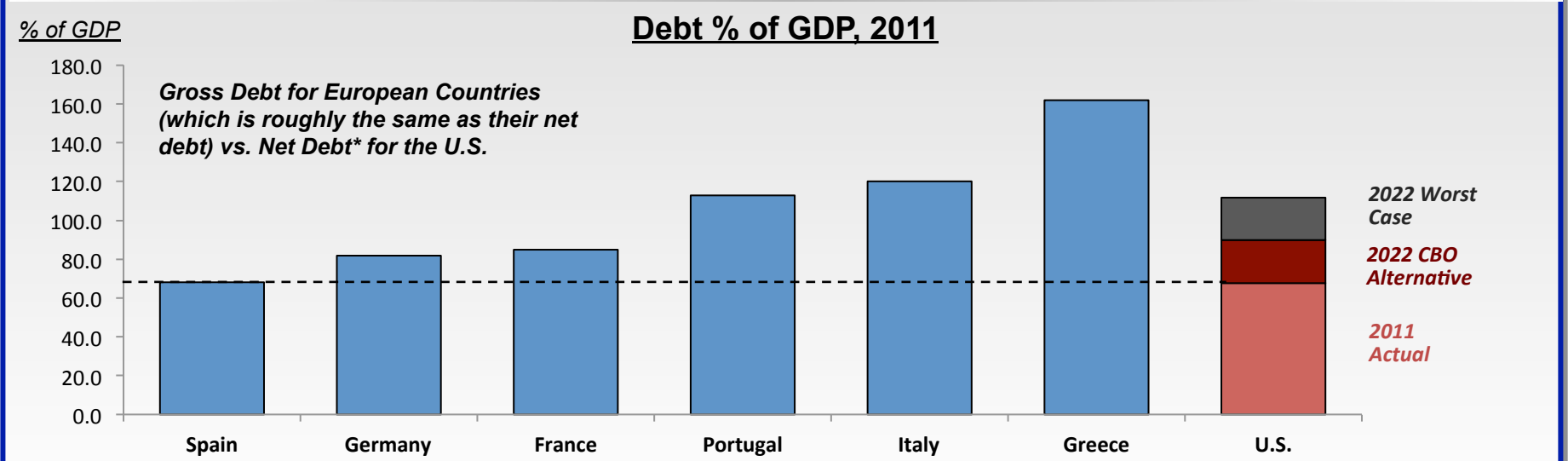
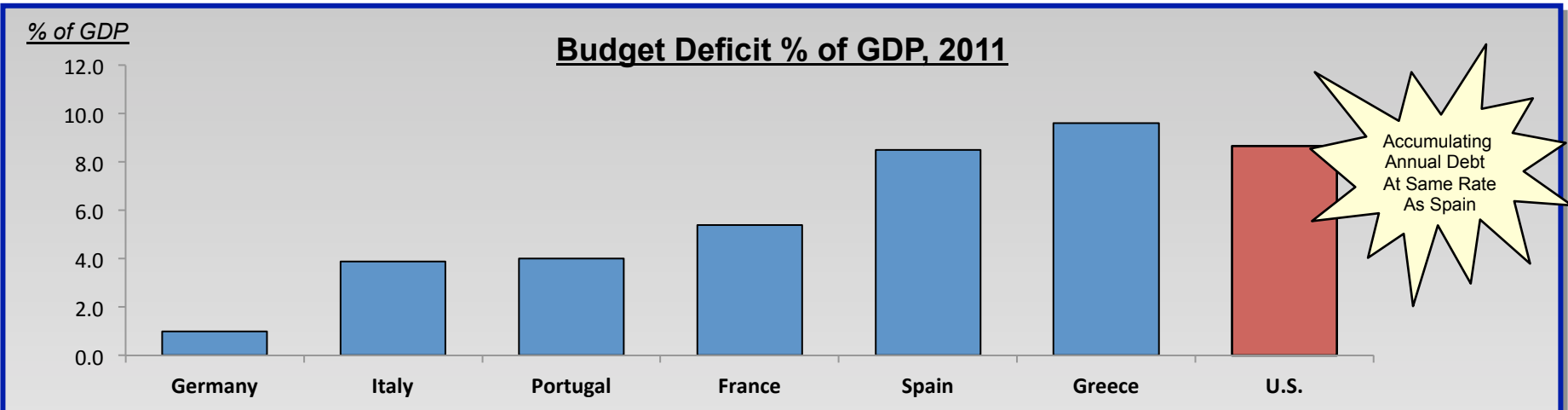


Historical Comparisons	Year	Net Debt % GDP*
Revolutionary War	1790	38%
Civil War	1866	31%
World War I	1919	31%
World War II	1946	109%
Reagan Budgets	1993	49%
Present	2012	73%

* Debt Held By The Public excludes debt that the federal government owes itself through borrowings from various trust funds like Social Security

**Debt Scenarios Truly Frightening...
Worst Debt Position Today Since WW II**

Comparison With Europe



Source: CIA World Fact Book

* Debt Held By The Public, which excludes debt that the federal government owes itself through borrowings from various trust funds like Social Security

Comparison With Europe Not Encouraging

Where Are We?

- **Problem Is Real... And It Is Structural**
- **Something Will Happen... Question Is:**
 - Do We Do It Proactively And Thoughtfully
 - Or Does The Bond Market Do It For Us When “The Herd Turns”
 - If Forced, Expect Recession, High Unemployment, Higher Interest Rates
- **There Are No Easy Choices**
 - Neither Higher Taxes Nor Spending Cuts Appealing To Voters or Congress
- **A Time For Pulling Together...Not Pulling Apart**

Do We Still Have The Political Will To Be A Great Country?

What Can We Do?

- **Use The Fiscal Cliff As An Opportunity**
 - Debt Ceiling Discussion Was Playing With Fire
 - Fiscal Cliff Is Playing With Nitroglycerin
- **Support the Campaign to Fix the Debt**
 - Financially, Employee Letters, Every Discussion With Lawmakers And Media
- **Budget Basics That Need to Be Addressed:**
 1. Simplified Tax System That Is Territorial And Collects More Revenue
 2. Simplified Medicare / Medicaid System That Delivers Better Outcomes And Spends Considerably Less
 3. Discretionary Spending Cuts Similar To Simpson Bowles
 4. Protect Important Investments – National Security, Math And Science Education, Infrastructure

***Voters And Business Leaders Need To
Stand Up And Be Heard!***

Potential Outcomes

Do Nothing

- *Possible Bad Recession Like Greece*
- *Businesses Cautious On Investment*
- *Japanese Decade...2% Growth, 8% Unemployment*
- *Interest Rates Rise Significantly... Home Loans 7%, Car Loans 10%*
- *America's Position In The World Declines*
- *Kids and Grandkids Don't Have The Opportunity To Live Like We Did*

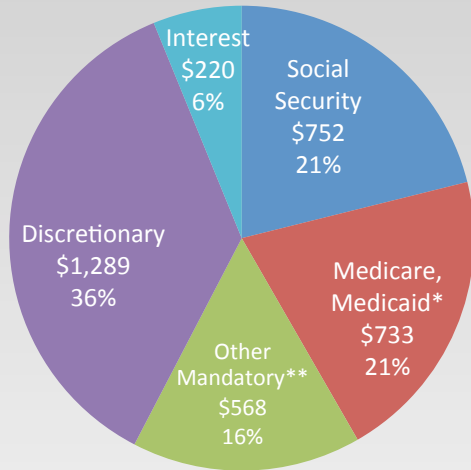
Do Something (\$5-7 Trillion)

- *Everyone Contributes To Success Of Country*
- *Businesses Invest Because Future Is Good*
- *Growth Accelerates Helping Solve The Debt Problem And Raising Standard Of Living*
- *Interest Rates Stay Low And Stable*
- *America's Position In The World Continues Growing*
- *Opportunity For Kids And Grandkids To Live The American dream*

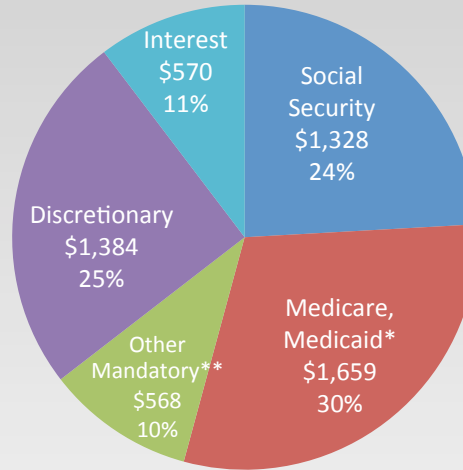
Do We Have The Political Will...The Ability To Make Difficult Decisions... To Continue Being A Great Nation?

Budget Basics – Appendix 1: Federal Spending

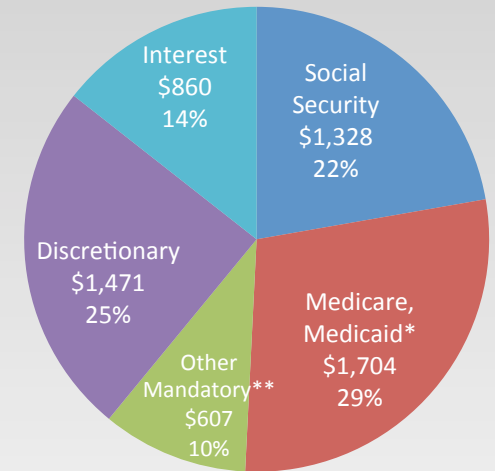
FY 2012
\$3,563 billion



FY 2022
CBO Current Law
\$5,509 billion



FY 2022
CBO Alternate Scenario
\$5,970 billion



- 64% of the Budget is on Autopilot (Health Care, Social Security, Other Mandatory, and Interest)
 - Growing to 75% in 2022
- Medicare/Medicaid and Social Security Spending Alone Make Up 42% of the Budget and are on Track to Account for Half of the Budget By 2020
- The Remaining 36% Goes Toward Discretionary Programs Like Defense, Homeland Security, Infrastructure, and Education

Note: Data from the Congressional Budget Office

* Medicare, Medicaid also Includes other health care costs for federal and military retirees, and subsidies and spending related to the Affordable Care Act

** Other mandatory spending includes a number of automatic spending programs, including those for low-income individuals such as food stamps, various subsidies such as agriculture, and federal civilian and military pension spending:

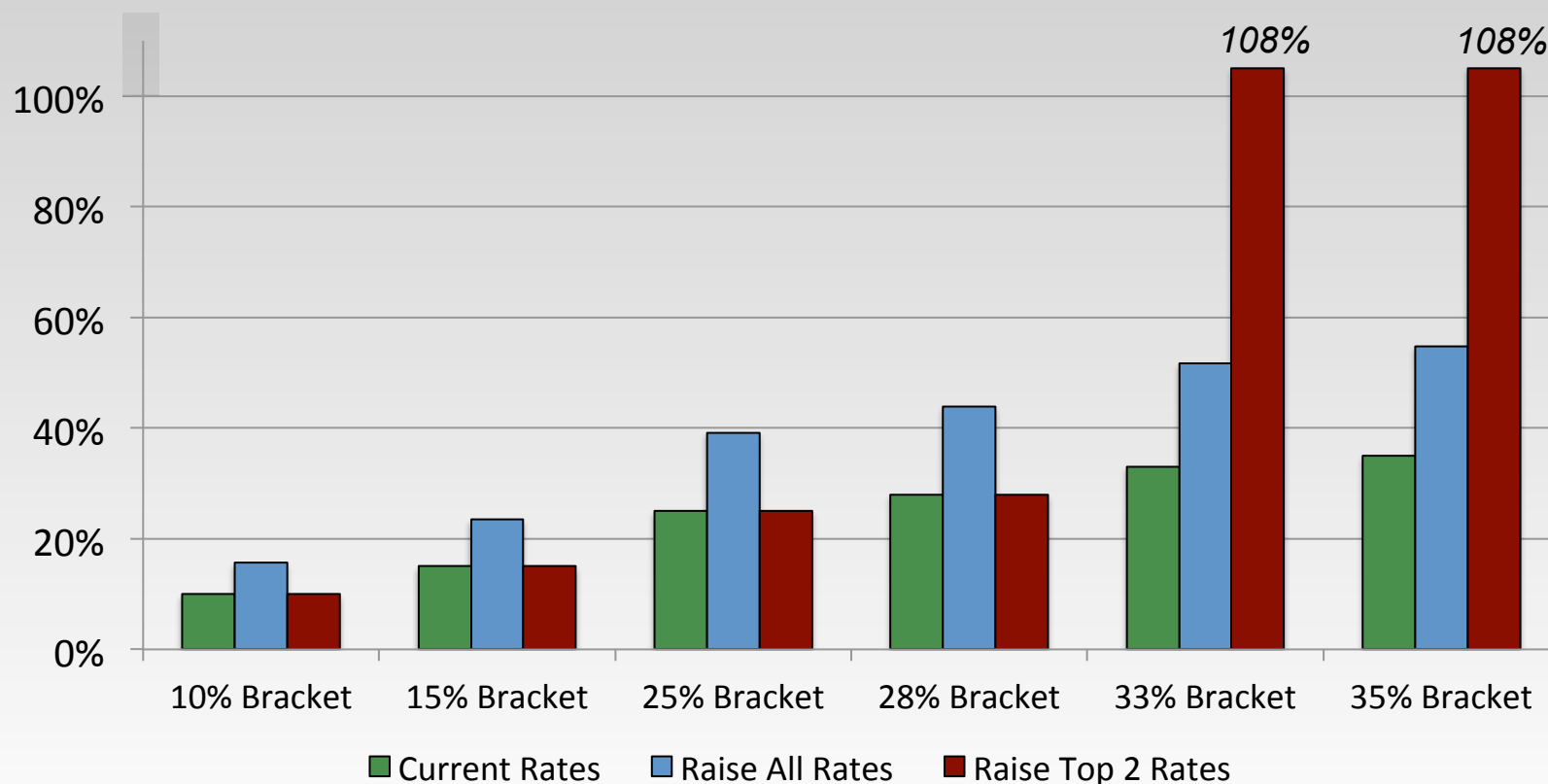
Budget Basics – Appendix 2: Economic Data

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	<i>Averages*</i>	
													'01-'11	'11-'22
Gross Domestic Product (GDP, in Billions)	\$14,953	\$15,538	\$15,855	\$16,386	\$17,435	\$18,571	\$19,695	\$20,774	\$21,760	\$22,737	\$23,719	\$24,730	—	—
Nominal GDP Growth	4.1%	3.9%	2.0%	3.3%	6.4%	6.5%	6.1%	5.5%	4.7%	4.5%	4.3%	4.3%	4.0%	4.7%
Real GDP Growth	2.1%	2.0%	0.4%	1.9%	4.7%	4.6%	4.0%	3.4%	2.6%	2.4%	2.3%	2.2%	2.0%	2.8%
Consumer Price Index	2.6%	2.3%	1.4%	1.7%	2.0%	2.1%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.4%	2.1%
GDP Deflator	2.0%	1.9%	1.7%	1.4%	1.6%	1.8%	2.0%	2.0%	2.1%	2.0%	2.0%	2.0%	2.0%	1.9%
10-Year Bond	3.0%	1.9%	1.7%	2.3%	2.9%	3.6%	4.3%	4.8%	5.0%	5.0%	5.0%	5.0%	4.1%	3.7%
3-Month Note	0.1%	0.0%	0.1%	0.2%	0.2%	1.3%	2.9%	3.6%	3.8%	3.8%	3.8%	3.8%	2.0%	1.9%
Unemployment Rate	9.2%	8.3%	8.5%	8.9%	8.0%	6.9%	6.1%	5.6%	5.5%	5.4%	5.4%	5.3%	6.3%	6.9%

** Average Annual Growth Rate For GDP. Straight mathematical average annual rate for CPI, interest rates, and unemployment rate.*

Note: Data from the Congressional Budget Office
Alternative Scenario uses same GDP growth assumptions as the Current Law – which includes the effects of the “fiscal cliff” – as this is the standard scoring convention

What It Would Take to Reduce the Debt to 60% of GDP by 2025



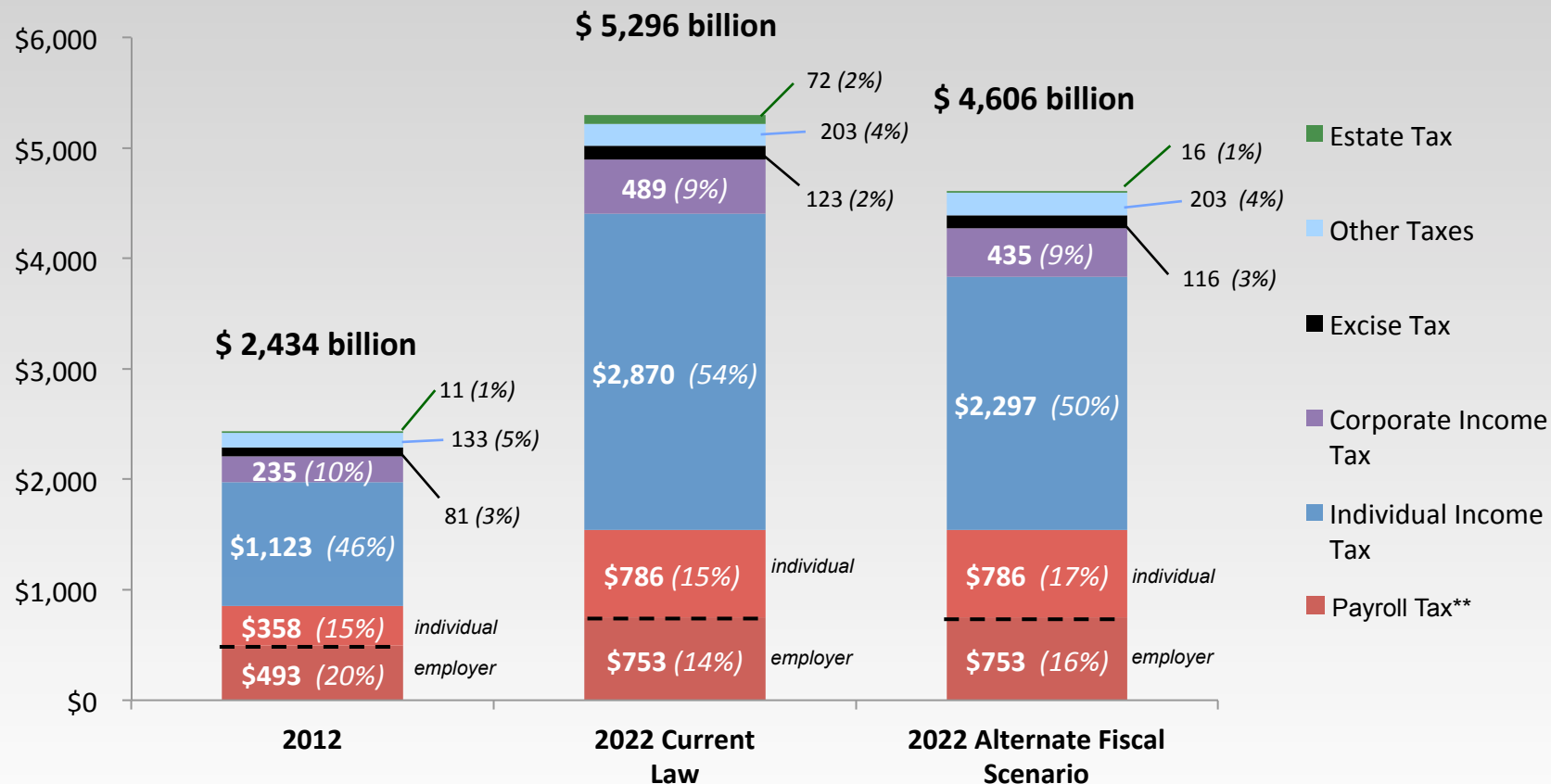
Source: Tax Policy Center

- Raising Only Top 2 Rates Requires Taking 108% Of Income... Obviously Not Possible
- Raising All Rates Requires Increase Of 5 Points At Lowest Bracket, 20 Points At Highest

Budget Basics – Appendix 4: Tax Receipts Composition

Tax Receipts*

Billions of dollars



* 2012 and 2022 Current Law Tax Receipts per CBO; 2022 based on CBO Alternate Fiscal Scenario, with author's assumptions on tax cuts extended to individuals vs. corporations

** The CBO provides payroll tax receipts in aggregate. The split between individual vs. employer-paid portions is estimated per author's calculations

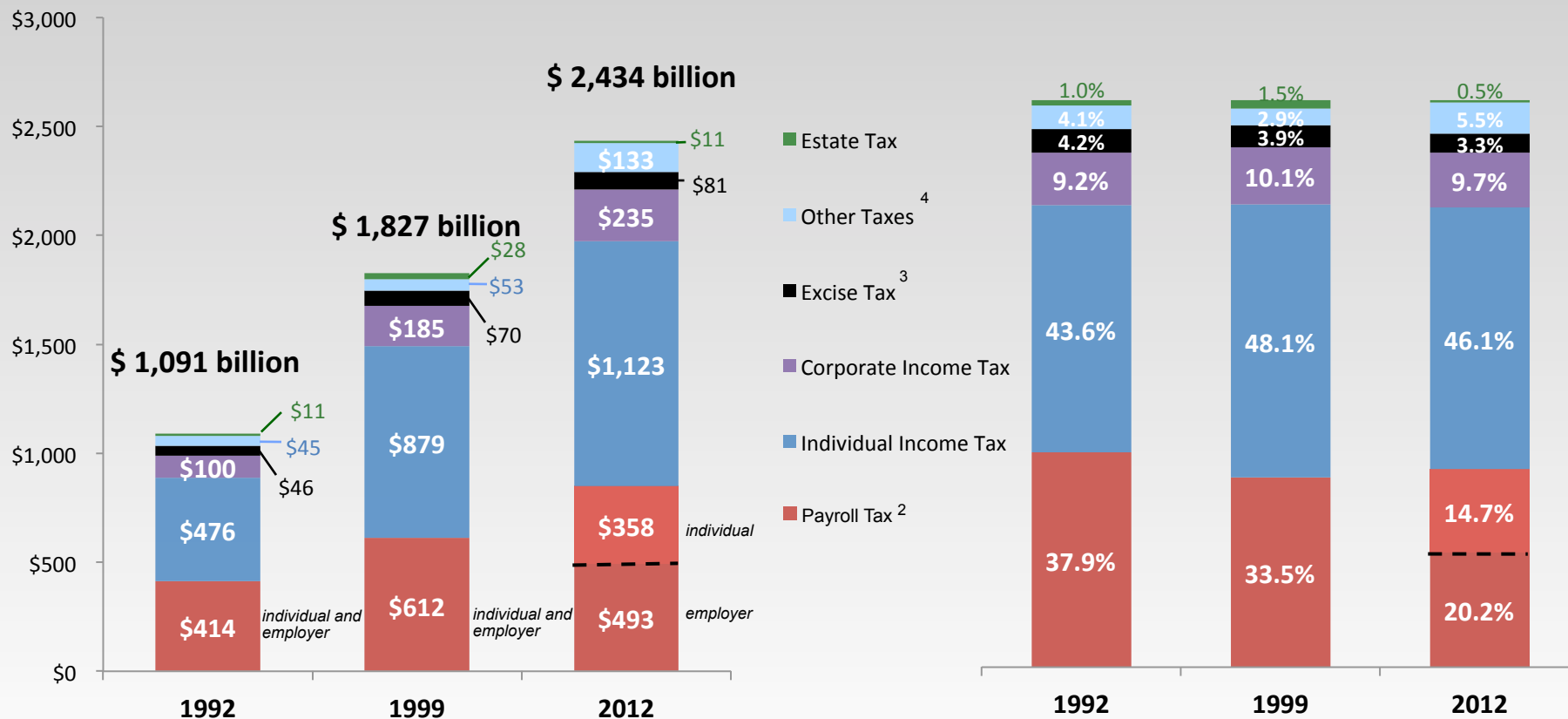
*** Excise tax includes gas tax, alcohol tax, tobacco tax, aviation tax, tax on health insurers, and various other taxes

**** Other taxes include customs duties, federal reserve earnings passed back to the U.S. Treasury, and various fines and fees

Budget Basics – Appendix 4a: Tax Receipts – 1992 vs. 2012

In Billions

Tax Receipts¹



¹ 1992, 1999, and 2012 Tax Receipts per CBO

² The CBO provides payroll tax receipts in aggregate. The 2012 split between individual vs. employer-paid portions is estimated per author's calculations

³ Excise tax includes gas tax, alcohol tax, tobacco tax, aviation tax, tax on health insurers, and various other taxes

⁴ Other taxes include customs duties, federal reserve earnings passed back to the U.S. Treasury, and various fines and fees

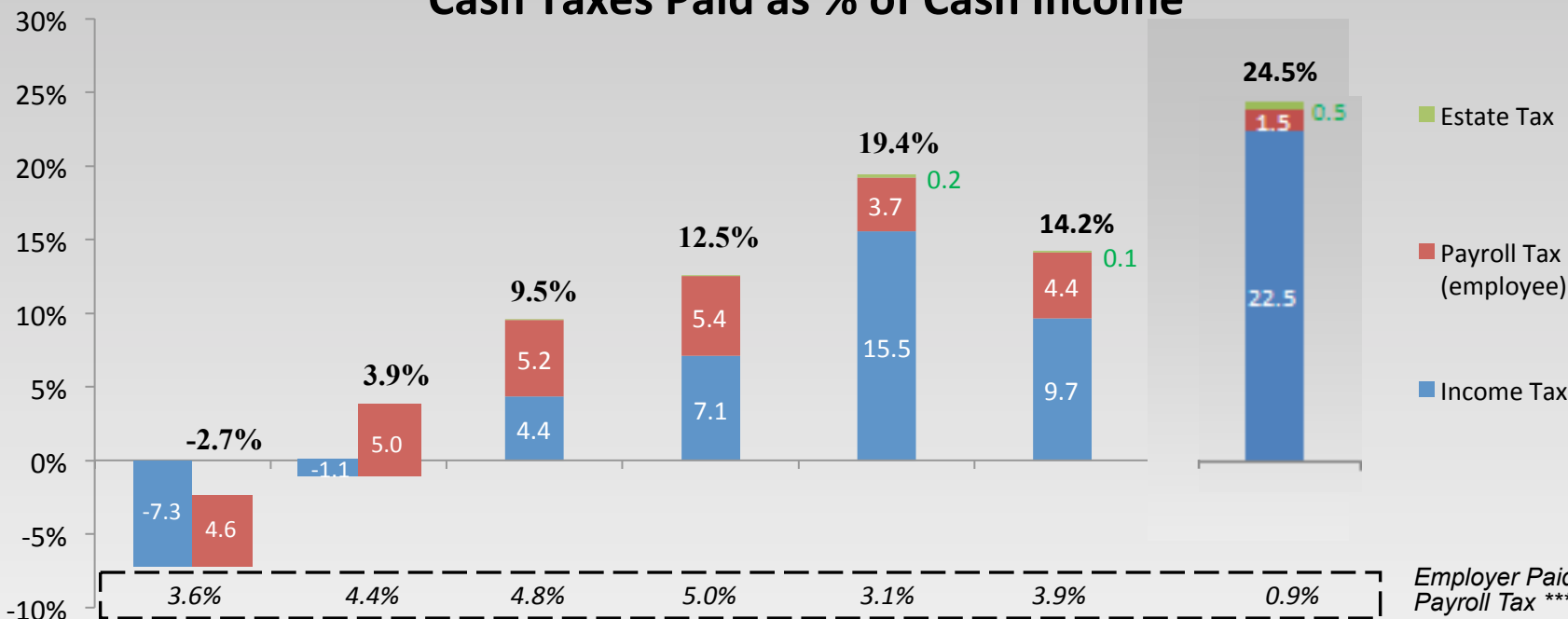
Number of Returns (in millions)				
	<u>1992</u>	<u>1999</u>	<u>2008</u>	<u>'08 vs. '92</u>
C-Corps	2.1	2.2	1.8	(14)%
Pass-through	18.8	22.2	29.8	59%
Individuals	95.8	104.8	112.6	18%

Share of Returns				
	<u>1992</u>	<u>1999</u>	<u>2008</u>	<u>'08 vs. '92</u>
C-Corps	1.8%	1.7%	1.2%	(0.6)%
Pass-through	16.1%	17.2%	20.7%	4.6%
Individuals	82.1%	81.1%	78.1%	(4.0)%

33% Shift From C-Corps To Pass-through Entities

Budget Basics – Appendix 5: Individual Tax Payments

Cash Taxes Paid as % of Cash Income*



Employer Paid Payroll Tax ***

	Lowest Quintile**	Second Quintile**	Middle Quintile	Fourth Quintile	Top Quintile	All	memo: Top 1 Percent
Income Level	\$0-20,133	\$20,134-39,790	\$39,791-64,484	\$64,484-108,266	\$108,267+	--	\$506,211+
% of Total Cash Income	4.1%	9.8%	14.8%	19.9%	51.4%	100.0%	17.4%
% of Total Taxes Paid	(0.8%)	2.7%	10.0%	17.6%	70.5%	100.0%	30.0%

Source: Tax Policy Center and author's calculations

* Based on Calendar Year 2013 projections for tax rate, payments, and income per CBO. Tax Rates are consistent with CBO Alternative Fiscal Scenario, which assumes '10-'12 payroll tax reduction expires, but other tax cuts extended. Cash Income based on TPC's measure, which includes income reported on tax returns, plus employee contributions to retirement plans (401k), and nontaxable cash transfers such as social security, welfare, child support, and unemployment benefits; also includes the employer portion of payroll taxes and imputed corporate tax liability. Cash income does not include employer-provided health care benefits.

19 ** The first two quintiles have a negative income tax rate (due to refundable tax credits) and positive payroll taxes.

*** While employer pays this, economists consider it a cost borne by the employee

Budget Basics – Appendix 6: Corp Tax Rates History

	2010 Rates		2000 Rates	1990 Rates
	Marginal Rate	Average Effective	Marginal Rate	Marginal Rate
Ireland**	12.5%	10.9%	24.0%	43.0%
Chile**	17.0%	13.9%	15.0%	n/a
Iceland	18.0%	n/a	30.0%	n/a
Czech Republic	19.0%	18.4%	31.0%	n/a
Hungary	19.0%	15.7%	18.0%	40.0%
Poland	19.0%	16.2%	30.0%	n.a.
Slovak Republic	19.0%	19.2%	29.0%	n/a
Turkey	20.0%	13.1%	33.0%	n.a.
Switzerland	21.2%	15.4%	24.9%	30.6%
Greece**	24.0%	17.9%	40.0%	46.0%
Korea**	24.2%	18.1%	30.8%	n/a
Austria	25.0%	20.8%	34.0%	30.0%
Denmark	25.0%	19.9%	32.0%	40.0%
Netherlands	25.5%	19.4%	35.0%	35.0%
Finland	26.0%	20.7%	29.0%	44.5%
Sweden	26.3%	18.5%	28.0%	53.0%

	2010 Rates		2000 Rates	1990 Rates
	Marginal Rate	Average Effective	Marginal Rate	Marginal Rate
Portugal	26.5%	18.3%	35.2%	40.2%
Italy	27.5%	24.3%	37.0%	46.4%
Norway	28.0%	24.2%	28.0%	50.8%
United Kingdom	28.0%	22.3%	30.0%	34.0%
Luxembourg	28.6%	20.1%	37.5%	n.a.
Canada	29.5%	25.5%	42.4%	41.5%
Australia	30.0%	22.2%	34.0%	39.0%
Mexico**	30.0%	28.4%	35.0%	36.0%
New Zealand	30.0%	n/a	33.0%	33.0%
Spain	30.0%	27.5%	35.0%	35.0%
Germany	30.2%	24.2%	52.0%	54.5%
Belgium	34.0%	22.3%	40.2%	41.0%
France	34.4%	27.5%	37.8%	42.0%
United States**	39.2%	29.0%	39.3%	38.7%
Japan	39.5%	33.0%	40.9%	50.0%
Average (excl U.S.)	25.6%	20.6%	32.7%	41.2%

Source: OECD Tax Database (accessed September 11, 2012). 2010 Average Effective rates from AEI based on OECD and World Bank data.

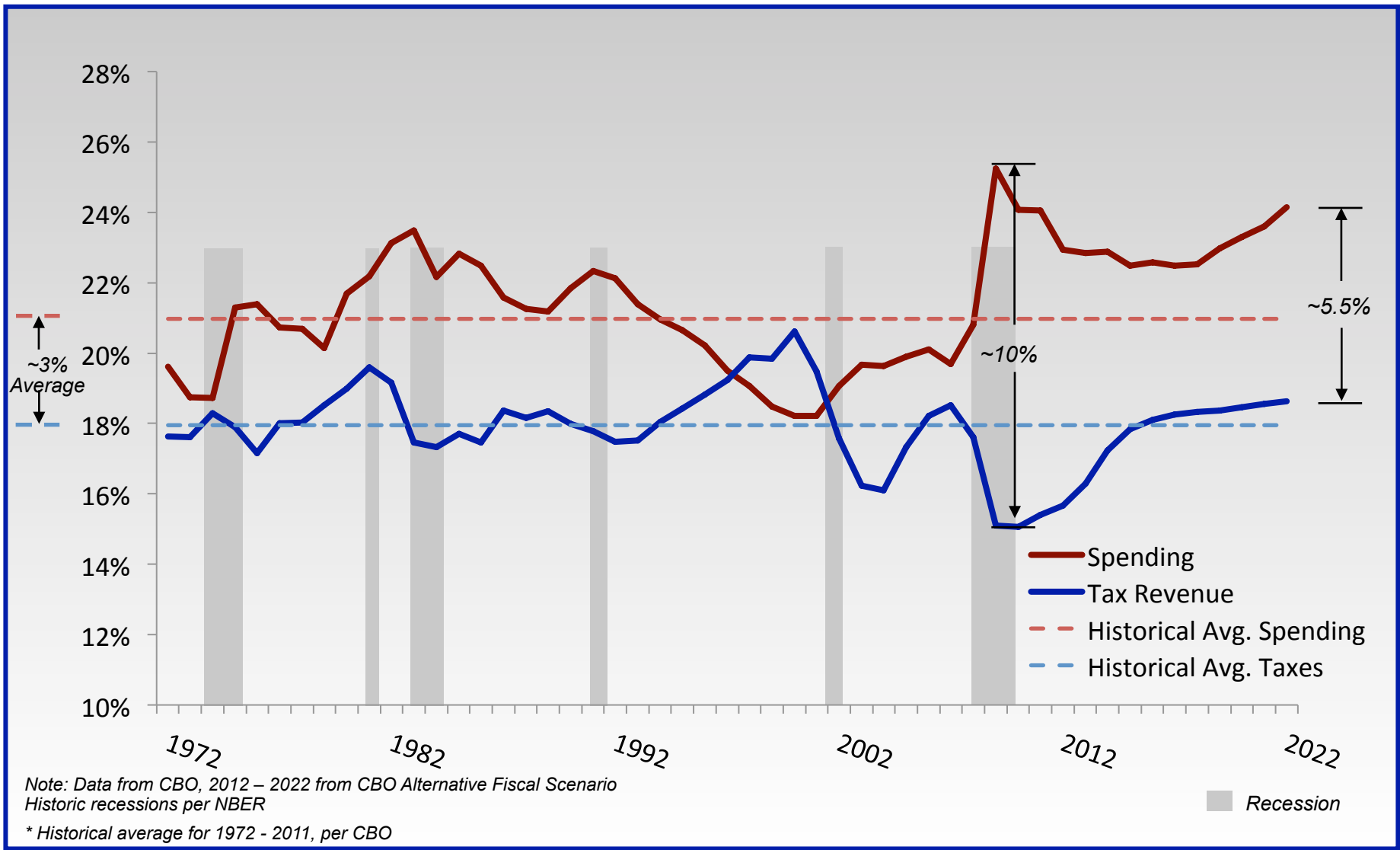
* Excludes pass through entities like s-corps (data not reported)

** Countries that do not have a territorial tax system

Note: For corporations, capital gains are taxed at the statutory corporate tax rate (versus individuals, which are generally taxed at long-term capital gains tax rates of 15%)

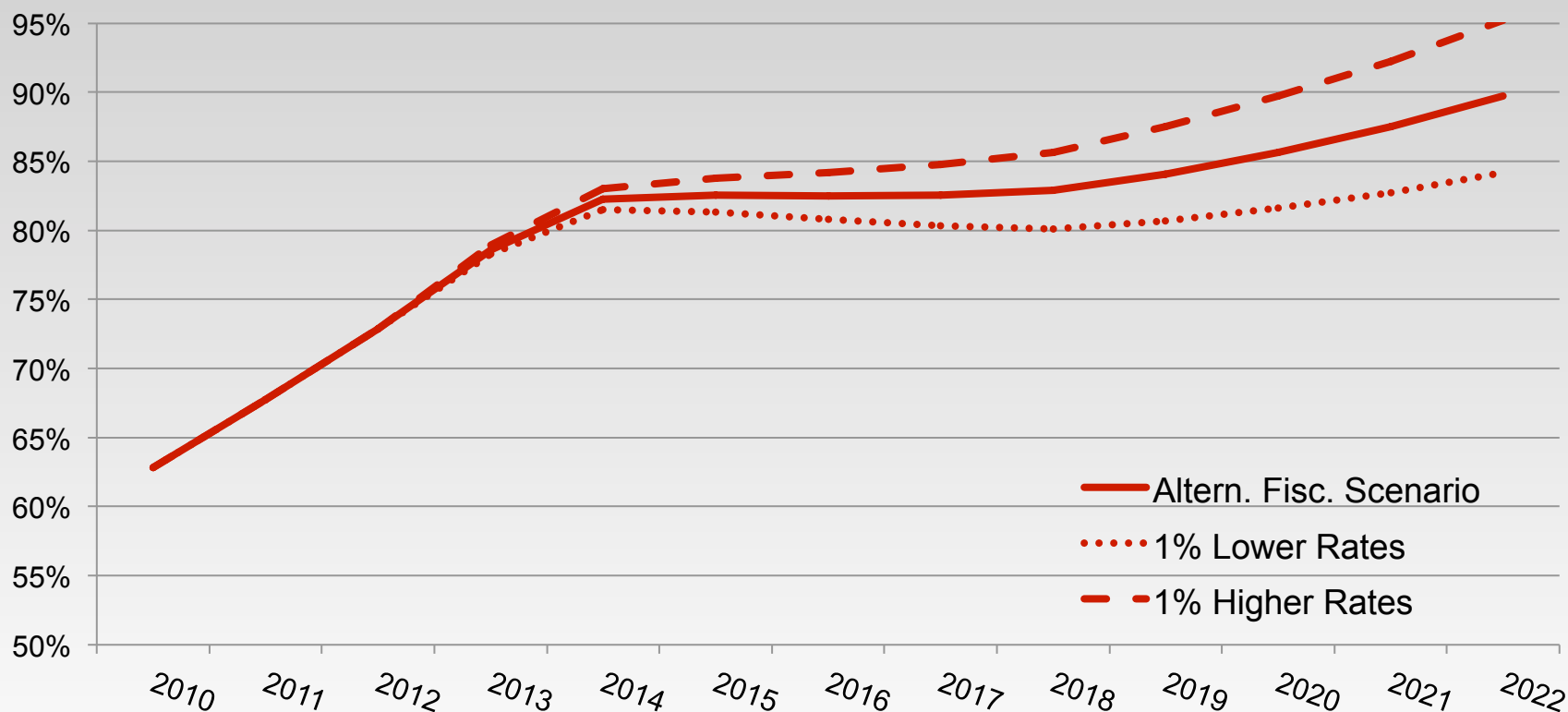
U.S. Has One Of The Highest Rates In The World And Is The Only Country That Has Increased Since 1990

Budget Basics – Appendix 7: Revenue and Spending, % of GDP



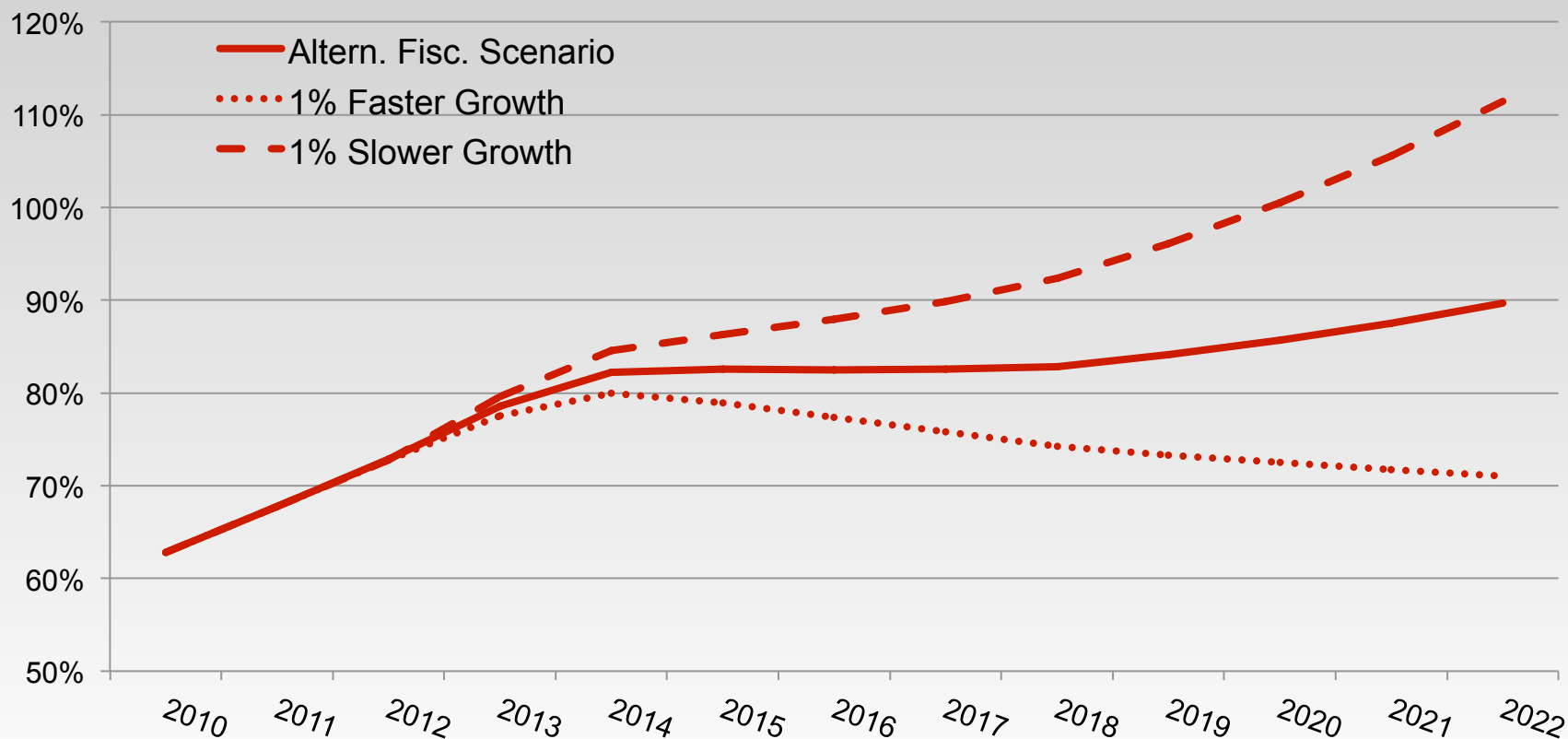
Historically Spend 21% Of GDP And Receive Taxes Of 18% of GDP

Debt Under Different Interest Rate Scenarios (% GDP)



Estimates calculated by taking CBO's "rules of thumb" from their January current law baseline, which states that the impact of a 1 percent increase in the interest rate through 2022 is nearly \$1 trillion, then applying it to debt levels in the CBO's August Alternative Fiscal Scenario.

Debt Under Different Growth Scenarios (% GDP)



Estimates calculated by taking CBO's "rules of thumb" from their January current law baseline, which states that the impact of a 0.1 percent annual slowdown in GDP growth is approximately \$0.3 trillion; then adjusting to account for the revenue levels in CBO's August Alternative Fiscal Scenario. % of GDP impact also includes impact of gross domestic product itself growing slower each year, reducing the debt-to-GDP ratio due to the lower GDP denominator.

Top Holders Of U.S. Debt

(as of end of June, 2012)

	(In billions) <u>Holdings</u>	<u>% of Total</u>	<u>% of Public</u>	<u>% of Foreign</u>
Total Gross Debt	\$ 15,856			
Trust Fund Borrowings	4,812	30.3%		
Debt Held By The Public	11,044	69.7%	100.0%	
Held in U.S.	5,752		52.1%	
Public Investors	1,653		15.0%	
Federal Reserve	4,099		37.1%	
Held in Foreign Countries	5,292		47.9%	100.0%
China	1,164		10.5%	2.0%
Japan	1,119		10.1%	21.1%
Oil Exporters*	261		2.4%	4.9%
Brazil	243		2.2%	4.6%
Caribbean Banking Ctrs**	240		2.2%	4.5%
Taiwan	192		1.7%	3.6%
Switzerland	166		1.5%	3.1%
Russia	158		1.4%	3.0%
United Kingdom	139		1.3%	2.6%
Hong Kong	136		1.2%	2.6%
All Other	1,474		13.3%	27.9%

* Oil Exporters: Ecuador, Venezuela, Indonesia, Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates, Algeria, Gabon, Libya, and Nigeria.

** Caribbean Banking Centers: Bahamas, Bermuda, Cayman Islands, Netherlands Antilles, Panama and British Virgin Islands.

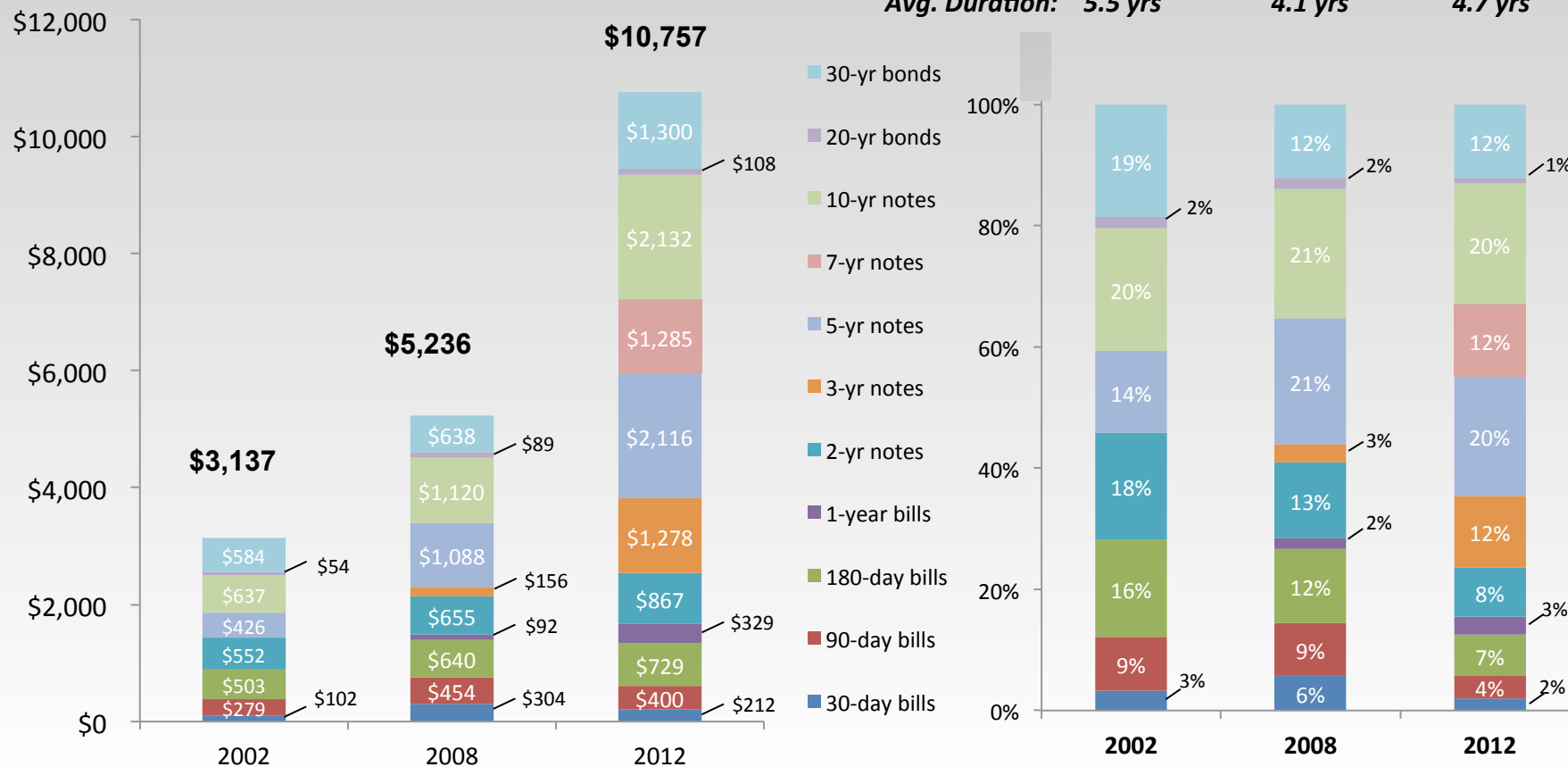
Budget Basics – Appendix 11a: Debt Held By The Public: Maturities



U.S. Treasury Marketable Securities Outstanding*

Value Of Treasuries
(in billions)

Percent of Total

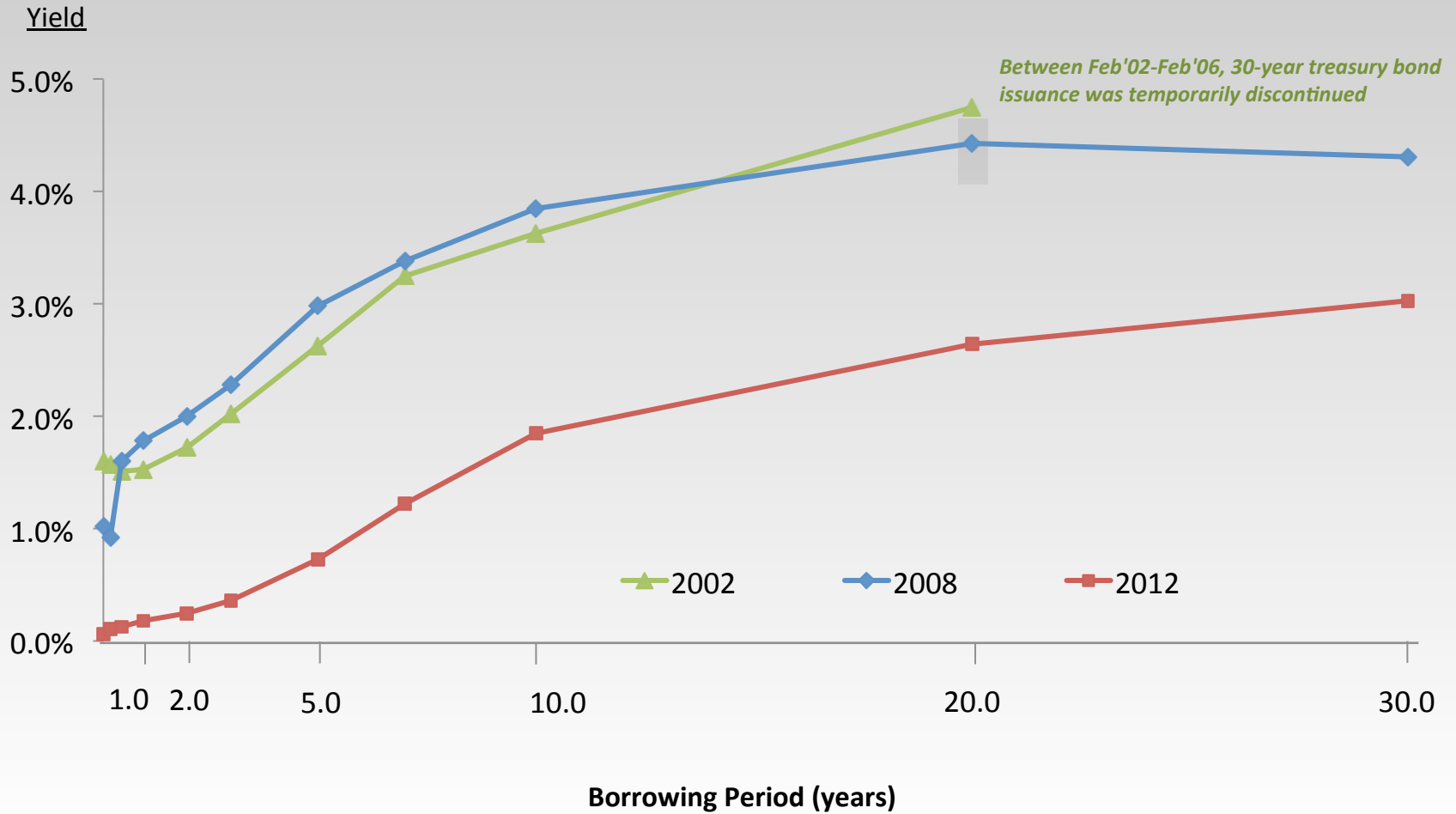


Source: U.S. Treasury

For 2002, 2008 data as of fiscal year-end. For 2012, data as of August 31st

* Excludes non-marketable securities such as U.S. Savings Bonds and Debt issued to state and local governments. Includes TIPS, Treasury Bills, Notes, and Bonds.

Budget Basics – Appendix 11b: Treasury Yield Curve



Source: U.S. Treasury

Budget Basics – Appendix 12: Our Country’s Fiscal 2012 Income Statement

	<i>(in billions)</i>	<i>% of Total Spend</i>
Revenue (i.e. Taxes)	\$2,435	
<i><u>Mandatory Spending</u></i>		
Social Security	752	21%
Medicare	466	13%
Medicaid	253	7%
Interest on Debt	220	6%
Unemployment Insurance	94	3%
Refundable Tax Credits	84	2%
Food Stamps	80	2%
Civilian and Other Retirement	66	2%
Veterans' Income Benefits	55	2%
Supplemental Security Income	47	1%
Other	<u>156</u>	<u>4%</u>
Total Mandatory	\$2,273	64%
<i><u>Discretionary Spending</u></i>		
National Defense	673	19%
Education, Training, Employment, and Social Services	99	3%
Transportation	90	3%
Income Security	66	2%
Health	62	2%
Veterans Benefits and Services	59	2%
Administration of Justice	54	2%
International Affairs	52	1%
Natural Resources and Environment	40	1%
General Science, Space, and Technology	30	1%
Community and Regional Development	25	1%
General Government	20	1%
Other	<u>20</u>	<u>1%</u>
Total Discretionary	\$1,289	36%
Total Spending	\$3,563	100%
Net Loss (i.e. Deficit)	<u>(\$1,128)</u>	