



BIPARTISAN POLICY CENTER

How SAVEGO Would Work

1. There is a growing consensus that the **public debt – which will surpass the size of the economy within a decade – must be reduced and stabilized at or below 60 percent of GDP**. Without action, our nation will face unsustainable interest payments of more than \$1 trillion per year that will crowd out needed investments, lead to rising interest rates and a possible severe debt crisis followed by recession.
2. The best way to stabilize the debt would be for Congress and the President to agree immediately on spending cuts and revenue increases to be phased in gradually. However, some fear that Congress and the Administration cannot or will not agree to all of the tough choices up front, in one giant step.
3. As an alternative first step, therefore, we propose a “SAVEGO” mechanism that would set savings goals to put the nation on a path to fiscal stability, and mandate **automatic budget cuts** if Congress fails to achieve those goals. SAVEGO is a variation of the PAYGO and spending caps that helped lead the nation to budget surpluses in the 1990s.
4. Under SAVEGO, Congress would set forth in statute the year-by-year **amount of budgetary savings required** to reach a mutually accepted debt-reduction goal. The Congress would choose its own preferred debt-reduction path. For purposes of illustration, the Bipartisan Policy Center Debt Reduction Task Force sought to reduce the debt to 60 percent of GDP by 2021.¹

Total budget savings required to stabilize the debt at 60% of GDP by 2021² **(Fiscal Years, Billions of Dollars)**

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
104	258	354	432	492	540	598	684	798	890	5,150

5. To enforce the required budget savings, SAVEGO would establish for *each year*:
 - A cap on discretionary spending (the Congress may choose to subdivide appropriations into separate categories, such as security and non-security, or defense and non-defense);
 - Savings to be achieved from Medicare, Medicaid, and other health care programs (including health care subsidies in the tax code); and
 - Budget savings to be achieved from other mandatory spending and/or reductions in tax expenditures or other revenue increases.

¹ All illustrative savings estimates show approximately how much savings, in each SAVEGO pot, would be achieved under the Bipartisan Policy Center’s Debt Reduction Task Force plan.

² The SAVEGO baseline follows the CBO’s January 2011 Current Law baseline, except that the Alternative Minimum Tax (AMT) is indexed for inflation and Medicare’s payment rates for physicians are maintained at the 2011 level.

The original PAYGO process combined health care with all other mandatory spending and taxes. We, instead, recommend a separate SAVEGO category for health care so that the Congress can meet that savings target and avoid a complex and painful sequester of health care, regardless of progress in other mandatory programs and taxes.

6. **Discretionary Spending Caps:** If the annual cap on discretionary spending (either the total, or should the Congress choose, some sub-category such as non-security spending) is breached in any fiscal year, the **Office of Management and Budget (OMB) would be required by law to make across-the-board cuts in all discretionary programs in the offending category.** In the example of implementing the Bipartisan Policy Center’s debt-reduction path, and assuming a single combined cap, the annual caps would be set at the following levels, which reflect a four-year freeze in non-defense discretionary spending and a five-year freeze in defense discretionary spending at the 2011 enacted levels:

Discretionary Cap (Budget Authority in billions of \$, Fiscal Years)³											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
CBO Baseline	1,272	1,297	1,324	1,352	1,383	1,419	1,456	1,494	1,532	1,570	
Capped Level	1,186	1,151	1,122	1,103	1,115	1,143	1,172	1,202	1,231	1,261	
BA Savings	86	146	202	249	268	276	284	292	301	309	2,413

7. **Health Care SAVEGO** would require a specified amount of total annual Medicare, Medicaid, and other health care savings (including savings from health care subsidies in the tax code) for the number of future fiscal years chosen by the Congress. The amounts that would meet the Bipartisan Policy Center’s debt-reduction target are shown below for illustration. If Congress were to fail to enact the specified amount of savings for the upcoming fiscal year, the OMB would be required to **eliminate the shortfall** by directing the relevant officials to achieve an equivalent percentage reduction in each health care budget account (including those in the tax code).⁴

Required Amounts of Health Care SAVEGO Budget Savings⁵										
(Fiscal Years, Billions of Dollars)										
2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
39	59	70	81	94	102	109	141	153	173	1,022

³ Approximately half of the discretionary budget authority savings come from the assumption that the number of troops deployed for certain types of overseas military operations declines to 45,000 by 2015.

⁴ Please contact the Economic Policy Project at the Bipartisan Policy Center for more details.

⁵ The illustrative health care budget reductions include eliminating the tax exclusion for “cafeteria plans” in CY2012.

8. **SAVEGO: Other Mandatory and Revenue Savings.** In addition to the defense and non-defense spending caps and Health Care SAVEGO provisions described above, the SAVEGO process would also require a specified amount of annual *combined* savings from all other (i.e. non-health care) mandatory spending programs *and/or* tax expenditure cuts or other revenue increases for the number of future fiscal years chosen by the Congress. However, should the Congress fail to enact the specified amount of budget savings for the upcoming fiscal year, the OMB would be required to **eliminate the shortfall** by achieving an equivalent percentage of budget savings compared to the relevant baseline for each non-health care mandatory spending account and revenue (*through a reduction in tax expenditures – not an increase of marginal tax rates or payroll tax rates*). The tax expenditure sequester would take the form of an across-the-board reduction in the value of each tax expenditure (except we recommend that benefits and allowances to armed forces personnel and some difficult-to-measure fringe benefits, such as defined-benefit pensions and parsonage allowances, *not* be subject to the sequester).⁶

- Note: Social Security shall be forevermore exempt from the SAVEGO process *if* Congress has enacted a program that achieves long-term sustainable solvency for Social Security as certified by the Social Security Actuary.

Required Amounts of Other Mandatory and Revenue Budget Savings (Fiscal Years, Billions of Dollars)										
2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
-22	32	65	69	76	82	96	110	167	190	864

⁶ Please contact the Economic Policy Project at the Bipartisan Policy Center for the full list of tax expenditures subject to the sequester.

Budget Process Illustrative Path under Domenici-Rivlin

Fiscal Years, Billions of Dollars											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Baseline Discretionary BA	1,272	1,297	1,324	1,352	1,383	1,419	1,456	1,494	1,532	1,570	
Capped Discretionary BA	1,186	1,151	1,122	1,103	1,115	1,143	1,172	1,202	1,231	1,261	
Discretionary BA Savings	86	146	202	249	268	276	284	292	301	309	2,413
Health Care SAVEGO Savings	39	59	70	81	94	102	109	141	153	173	1,022
Other SAVEGO Budget Savings	-22	32	65	69	76	82	96	110	167	190	864
Baseline Net Interest	264	328	400	469	541	611	672	729	791	841	
Post-SAVEGO Net Interest	263	321	384	436	487	531	564	589	615	624	
SAVEGO Interest Savings	1	6	16	32	54	80	108	140	176	217	830
Total SAVEGO Savings	104	243	353	431	492	539	597	683	797	889	5,129
Baseline Deficit	1,121	820	604	632	753	724	734	838	902	950	8,078
Post-SAVEGO Deficit	1,040	606	282	229	278	195	145	163	112	68	3,119
Baseline Debt as % of GDP	74%	76%	77%	76%	77%	78%	78%	79%	80%	81%	
Post-SAVEGO Debt as % of GDP	74%	75%	73%	71%	69%	68%	66%	64%	62%	60%	