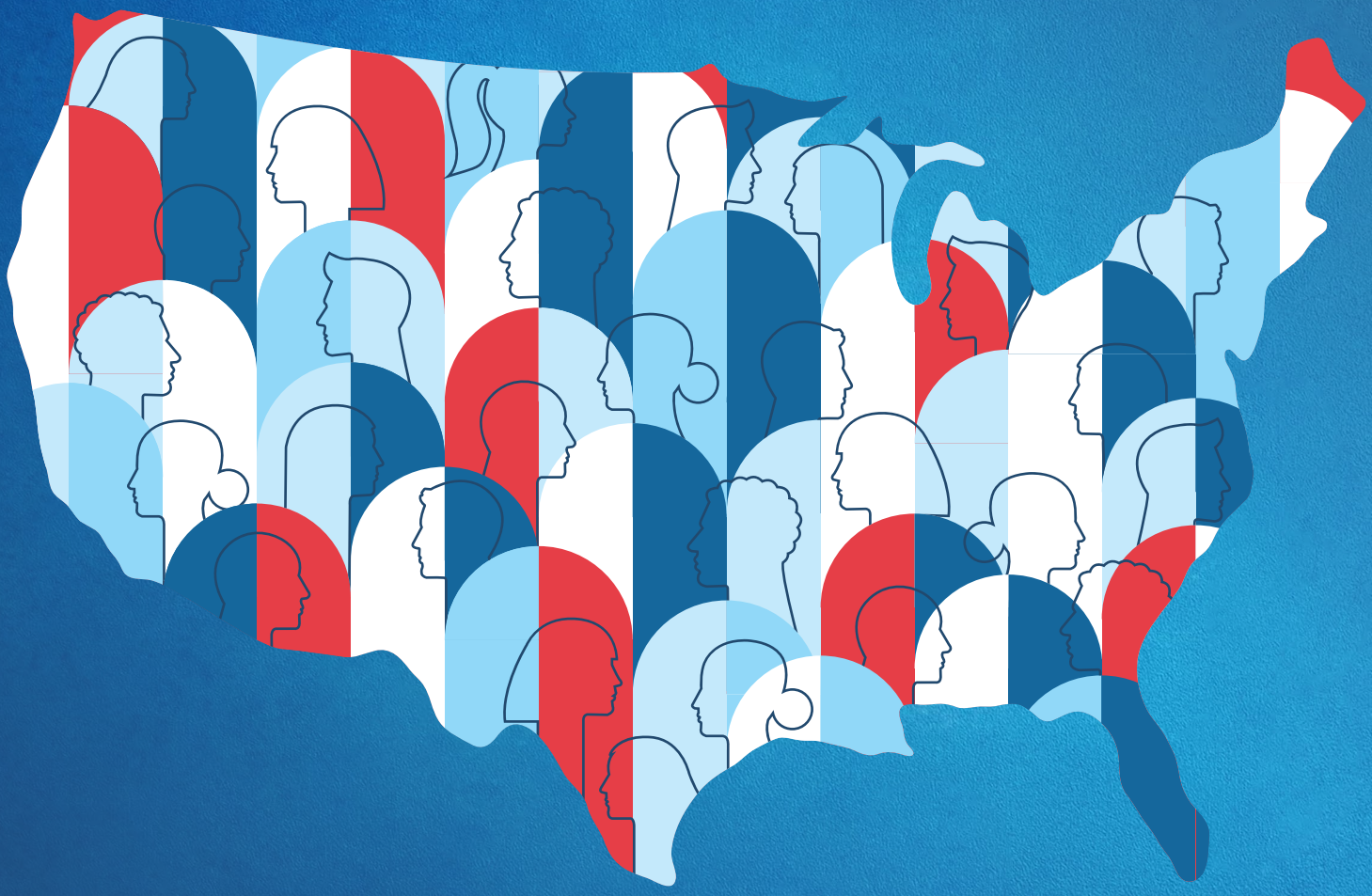
AMERICAN OPPORTUNITY PROJECT

Racing Toward the Cliff: Debt, Demographics, and Divided Responsibilities



Bipartisan Policy Center

NATIONAL GOVERNORS ASSOCIATION

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OCTOBER 2026

Americans want the same basic things: a good job, an affordable home in a community where their family can thrive, the chance to start a business, quality health care, savings for retirement—and the confidence that their children and grandchildren will have the opportunity to achieve the American Dream. Those expectations are commonly shared, but less certain than they were a generation ago. On the country's current fiscal course, they may become unattainable for millions of hardworking Americans.

The math is no longer abstract for families. Social Security does not have sufficient funds to fulfill the promise of benefits after 2032, with a 22% across-the-board benefit cut now projected. Medicare's Hospital Insurance trust fund follows in 2033, when it could cover only 89% of costs. Demographic trends are changing, along with the role of the federal government and compact between states, which is altering the nation's path to fiscal viability. Federal debt held by the public now equals 100% of gross domestic product and is projected to reach 120% by 2036, with net interest doubling and outpacing every other line in the federal budget. The bond markets are showing signs of cracks in the stable economic foundation we have relied on for decades, and higher interest rates are also squeezing state and local government budgets. Perhaps most importantly for households, the rising national debt is driving up the cost of everyday expenses like groceries and pushing the cost of borrowing to buy a house or pay for college out of reach.

These challenges are why we launched the American Opportunity Project, a partnership of the Bipartisan Policy Center and National Governors Association. The project will put the facts, real options, and honest tradeoffs in front of the public and the incoming leaders who will have to confront these urgent deadlines. Many groups have been ringing the alarm bells for years, and the American Opportunity Project will build on that momentum, bringing together BPC's nearly 20 years of bipartisan policy work with the governors' experience as the country's frontline problem solvers and budget balancers. This effort is built to deliver options to policymakers in 2028 and to a new administration and Congress in 2029 while manageable solutions are still possible.

This publication gathers some of the most relevant work of our two organizations about the fiscal outlook, America's changing demography, and the division of responsibilities among federal, state, and local governments. Consider it a down payment on the evidence base for the work ahead and a demonstration of the capabilities and insights these two organizations bring to such significant and interconnected challenges.

The time to solve these problems is short and accelerating rapidly, but we can solve them if we work together.



MARGARET SPELLINGS

President and CEO | Bipartisan Policy Center



DR. BRANDON TATUM

CEO | National Governors Association

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The Fiscal Cliff

EXPLAINER | FEBRUARY 11, 2026 | CALEB QUAKENBUSH | BIPARTISAN POLICY CENTER

The Fiscal Outlook in CBO's Latest 10-Year Baseline

In Brief

- Debt is projected to reach 120% of GDP by 2036, up from 100% today, continuing an unsustainable fiscal trajectory under current law.
- Net interest payments will double to $2.1 trillion by 2036, surpassing $1 trillion in FY2026 and becoming the fastest-growing category of federal spending.
- The continued expansion of the national debt in the face of historically high peacetime deficits creates economic risks and higher costs for families, workers, and businesses.

Overview

Following a 2025 full of significant policy changes and economic disruption, the nation's fiscal path remains on an unsustainable course, according to the latest Budget and Economic Outlook from the Congressional Budget Office.

Debt held by the public as a share of the economy is currently 100% of gross domestic product and projected to rise to 120% of GDP by fiscal year 2036 under current laws. Net interest payments on that debt are projected to surpass $1 trillion in FY2026 and double to $2.1 trillion by FY2036. The continued expansion of the national debt in the face of historically high peacetime deficits creates economic risks and higher costs for families, workers, and businesses.

Below we highlight key changes since CBO's last baseline, current fiscal trends featured in the new projections, and important considerations for policymakers going forward.

National Debt Continues to Climb

Debt held by the public as a percentage of gross domestic product

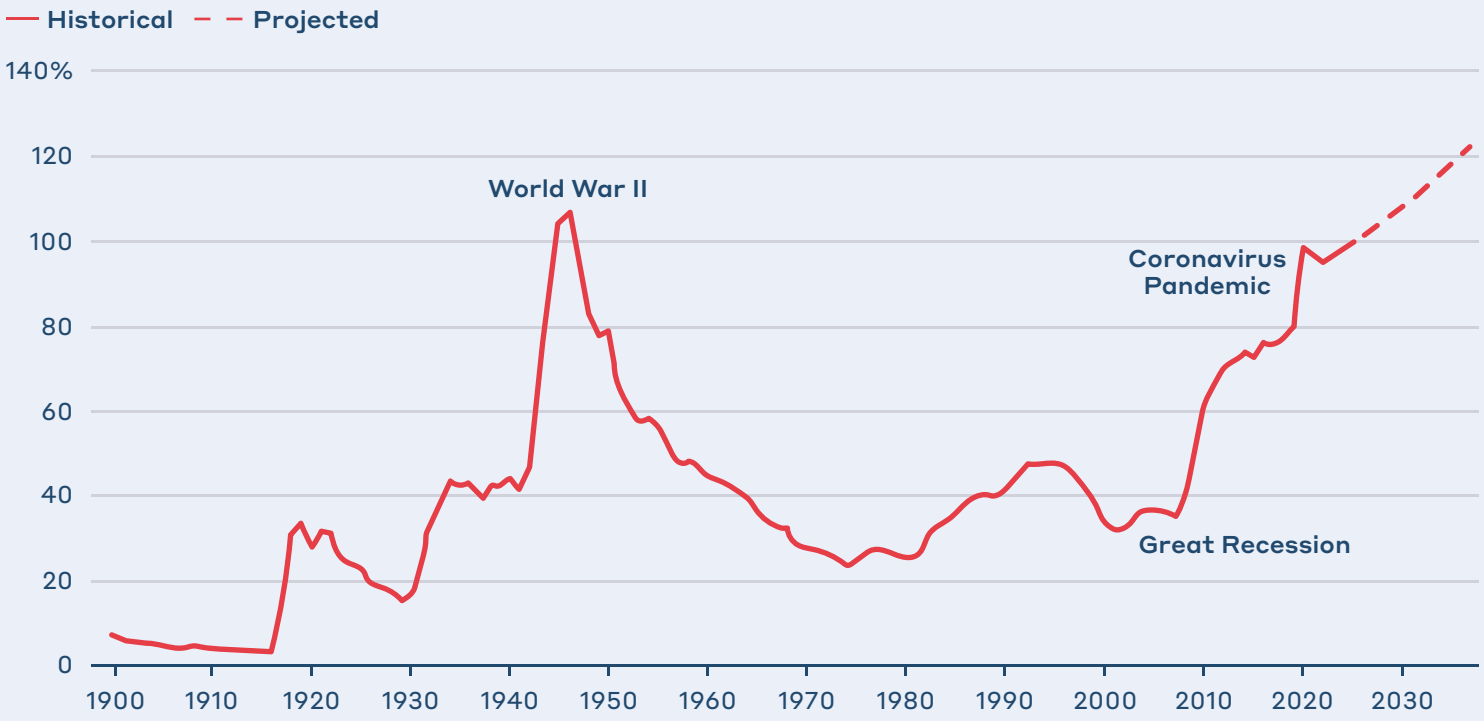


Chart: Bipartisan Policy Center • Source: Congressional Budget Office

Major Changes Since the 2025 Baseline

Much has changed since CBO's January 2025 baseline. The One Big Beautiful Bill Act became law in July 2025, which made permanent many tax cuts that were previously scheduled to expire and created new tax cuts. It also included spending increases for defense and homeland security. These provisions were partially offset by rescinding clean energy tax credits, limiting certain student loans, and introducing new work requirements and other restrictions to Medicaid and the Supplemental Nutrition Assistance Program. CBO and the Joint Committee on Taxation estimate that on net, OBBB will increase deficits by $4.2 trillion through FY2034, including estimated macroeconomic and net interest effects.

The executive branch significantly increased tariffs on imported goods beginning in January 2025, netting $264 billion in revenues in calendar year 2025—more than twice the level of tariff receipts in recent years. The average effective tariff rate is 16.8%, and CBO projects that current tariff policies could gross up to $4 trillion in customs duties revenues if continued over 10 years (before applying income and payroll tax offsets).

The economy in 2025 grew at a strong pace, contributing to revenue growth last year. CBO's latest economic baseline estimates that fourth quarter nominal GDP growth exceeded its previously projected 4.1%, increasing instead by 5%. Personal consumption expenditure inflation was higher than projected, too, at 2.8% instead of 2.2%.

Where are things now?

The fundamental budget picture remains as ominous as ever. CBO projects that deficits will average 6.1% of GDP over the next decade, and the debt-to-GDP ratio will increase from 100% of GDP today to 120% in FY2036. The major drivers of spending growth—mandatory spending on health care and retirement programs and interest on the national debt—are projected to continue climbing. Meanwhile, projected revenues remain well below levels of the early 2000s, when the federal budget last ran a surplus.

SPENDING PROJECTIONS

By FY2036, federal outlays will rise to $11.4 trillion, compared to $7 trillion in FY2025. Of this $4.4 trillion increase:

- Major health programs, including Medicare (net of offsetting receipts), Medicaid, and Affordable Care Act subsidies, comprise $1.3 trillion (29%)
- Social Security comprises $1.2 trillion (27%)
- Net interest on the debt comprises $1.2 trillion (27%)—the fastest-growing spending category
- Other mandatory programs comprise $393 billion (9%)
- Discretionary programs comprise $372 billion (8%)

Spending as a share of GDP will increase from 23.1% to 24.4%.

Projected Deficits Will Add To The Debt

Federal deficits as a percentage of GDP, FY2016-2036

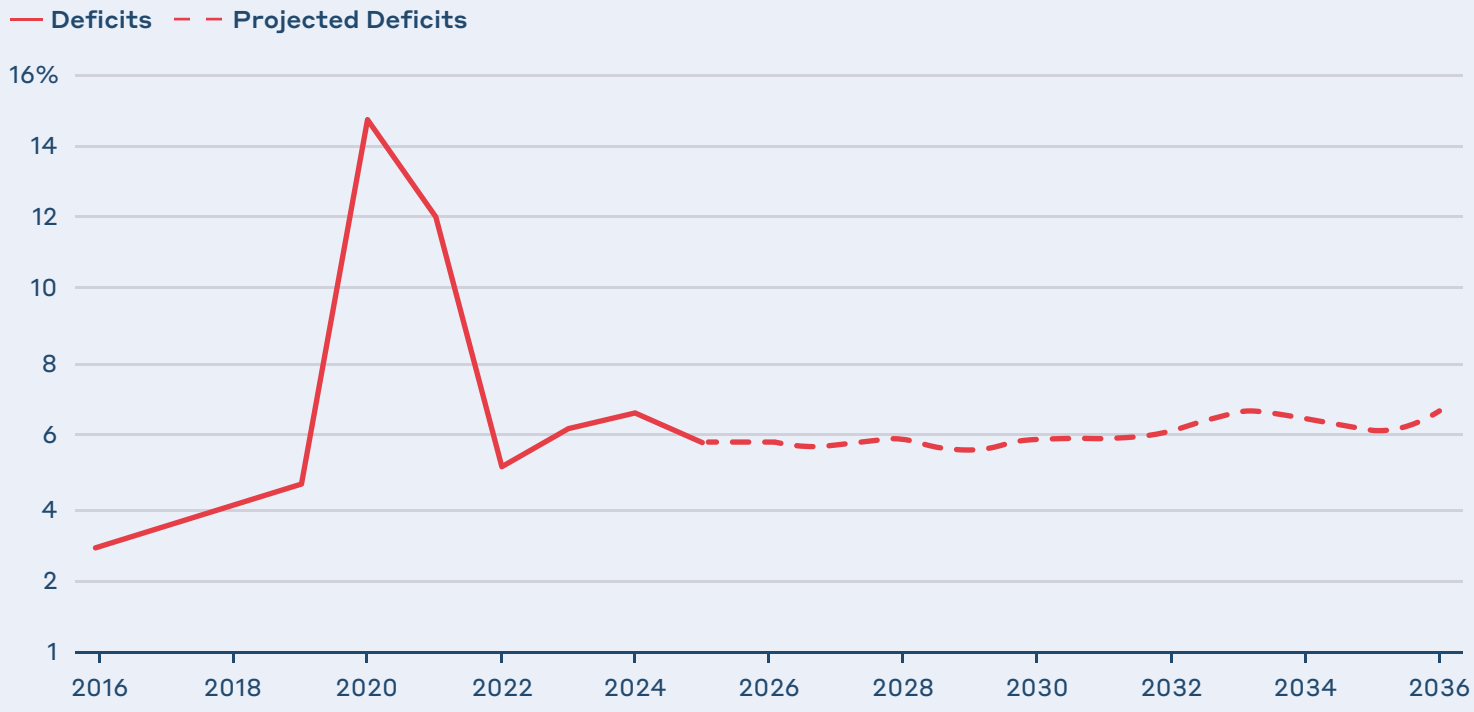


Chart: Bipartisan Policy Center • Source: Congressional Budget Office

REVENUE PROJECTIONS

Even though revenues continue to grow, they remain far short of spending. Under current law, revenues are projected to grow from $5.2 trillion in FY2025 to $8.3 trillion in FY2036. Individual income and payroll taxes will continue to comprise between 82% and 84% of receipts. Corporate taxes are projected to decline from 8.6% of receipts to 7% of receipts. Tariffs are projected to comprise 7.5% of receipts in FY2026 but gradually fall to 4.8% of receipts in FY2036—still above their modern historical average of 1.4% over the 25-year period FY2001-FY2025.

As a share of the economy, revenues will rise only slightly to 17.8% of GDP, and even that projected level relies on the scheduled expiration of some of OBBB's tax cuts later this decade.

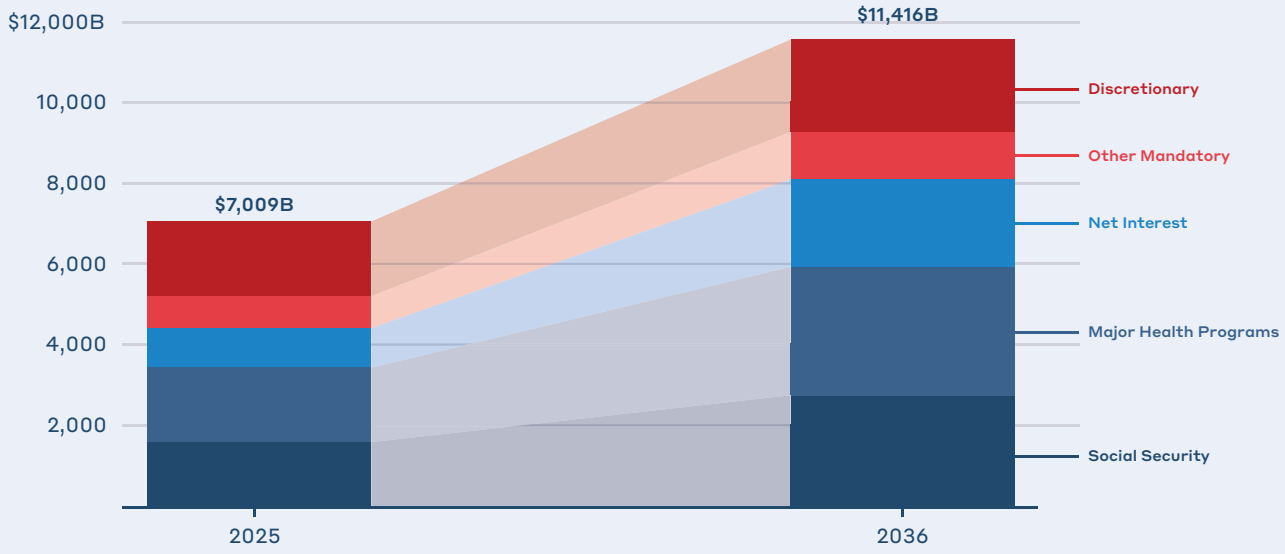
What's ahead?

As with any projection, CBO makes important assumptions to produce its baseline each year—some of which are required by law. The outlook is intended as a yardstick against which policymakers can measure potential legislative changes, not a prediction of what will happen. In the coming years, important policy deadlines and other developments will influence the path of the national debt.

Long-term tariff revenues are uncertain. The Supreme Court is expected to rule soon on challenges to the Trump administration's tariff policies. A ruling that constrains executive branch authorities could reduce the amount of tariff revenue collected over the next decade (although the administration may attempt to reinstate similar tariffs using different legal authorities). Even if

Social Security, Health Care, and Interest Drive Spending Growth

FY2025 and Projected FY2036 Outlays by Major Program Category (Billions)



Note: figures are in billions of nominal dollars. Major health care programs include Medicare (net of offsetting receipts), Medicaid, the Children's Health Insurance Program, and Affordable Care Act subsidies.

a decision allowed current policies to remain in effect, the current or a future administration could decide to change course on tariff rates. Indeed, CBO reduced its 11-year projections of tariff revenues down from $3.3 trillion in August 2025 to $2.5 trillion in November 2025, partly due to new duty exemptions and negotiated trade deals. CBO now estimates that tariffs will raise $4 trillion between FY2026 and FY2036, though this figure does not adjust for offsetting income and payroll tax effects, unlike previous estimates.

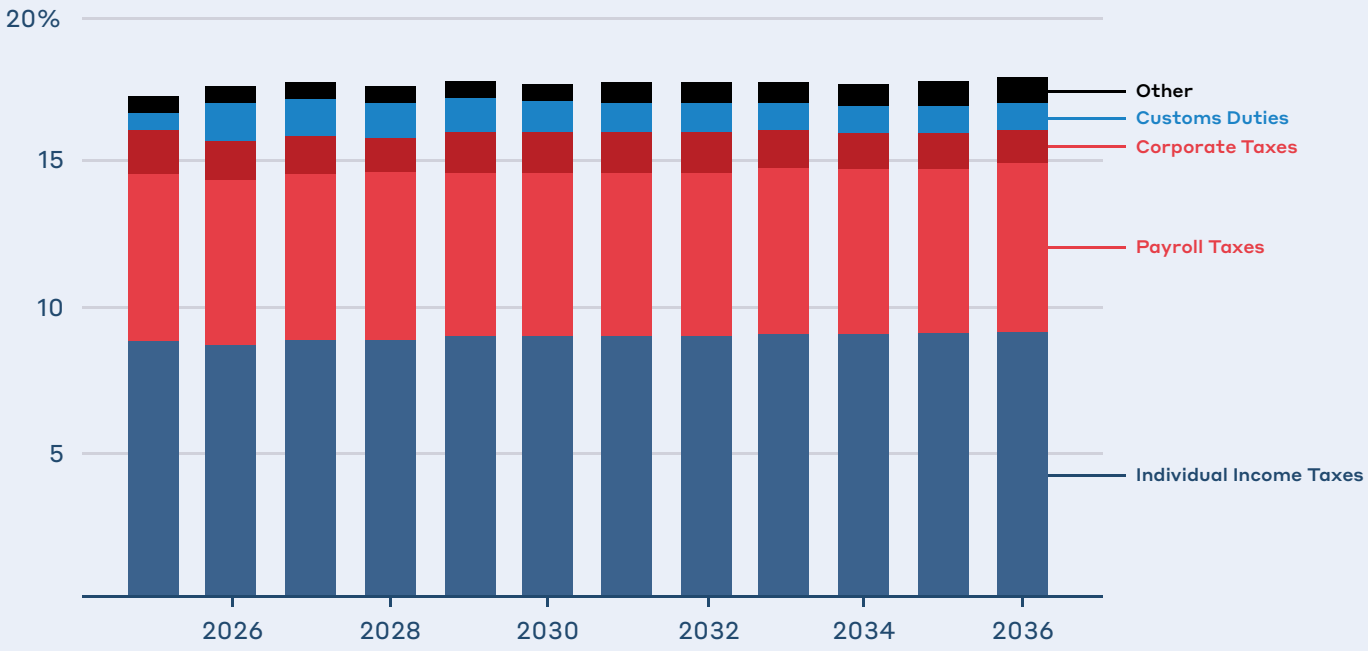
OBBBA included many "sunset" and "sunrise" provisions in the coming years. Certain cost savings, including terminating wind and solar production investment credits and certain health care reductions, only begin in 2027 or later. Meanwhile, tax cuts for tipped and overtime wages, auto loan interest, and seniors (among others) expire starting in 2029. If lawmakers were to further delay cost savings or extend tax cuts—as has often happened with "temporary" policies—the debt could increase more than projected under current law.

CBO projects that Social Security's Old Age and Survivors Insurance trust fund will deplete its reserves in 2032. CBO's debt and deficit projections by law assume that the government will continue to pay full benefits (instead of the 23% benefit cut that would be required if only legally payable benefits were made). The OASI trust fund already faces a $245 billion per year cash shortfall (excluding interest credited from the general fund), which will grow to more than $500 billion per year after trust fund depletion. Shoring up Social Security's finances would make considerable headway toward reversing the nation's long-term budget imbalances.

Rising federal debt heightens the government's exposure to interest rate risk. From 2010 to 2021, the 10-year Treasury yield averaged about 2.2%. After the post-

Income and Payroll Taxes Comprise the Bulk of Receipts

Federal receipts by source as a percentage of gross domestic product



The unshaded area represents historical data, the shaded area represents projected data.
Chart: Bipartisan Policy Center • Source: Congressional Budget Office

pandemic surge in inflation, rates rose sharply, with 10-year yields averaging above 4% since 2023. CBO projects 10-year yields will average about 4.3% through 2036. New borrowing—and the refinancing of trillions of dollars in maturing debt—must now occur at these higher prevailing rates. If long-term rates remain elevated, net interest costs could climb even faster than current projections assume.

Future economic conditions will also shape America's fiscal course for better and worse. New business investments and technologies, like artificial intelligence, could increase productivity and economic growth, which would ease deficits, though this effect is uncertain and would be insufficient to completely reverse deficits. Slowing population growth and an aging population will continue to drive up government spending while depressing economic and revenue growth. The ballooning debt supply will continue to put upward pressure on federal net interest costs. An economic recession and any policy to counteract it would further increase spending, reduce revenues, and increase debt.

EXPLAINER | JUNE 9, 2026 | SANYA BAHAL, EMERSON SPRICK | BIPARTISAN POLICY CENTER

2026 Social Security Trustees Report, Explained

In Brief

- Social Security's primary trust fund is now projected to be depleted in 2032—one year earlier than last year's estimate—largely due to changes enacted in the "One Big Beautiful Bill Act." Unless Congress acts, current and future beneficiaries alike will see their benefits cut by 22%.
- The program's long-run outlook worsened significantly this year: The Social Security Administration (SSA) revised its fertility and immigration projections downward, driving the 75-year shortfall to approximately $30 trillion—up from $26 trillion last year.
- An aging population is a major contributor to the problem: the ratio of workers to beneficiaries has dropped from more than 5-to-1 in 1960 to 2.9-to-1 today and is projected to fall to just 2.2-to-1 by the 2070s.
- The payroll taxes that fund benefits are levied on a shrinking share of earnings—just 83% of covered wages today, compared to 90% in 1983—as higher-income Americans' wages have grown faster than the taxable maximum.
- The longer Congress waits to act, the harder solving Social Security's financial challenge becomes—and the greater the burden on retirees and taxpayers.

The 2026 report on Social Security's financial health underscores the precarity of the nation's biggest and most valued federal program. Social Security's trustees now project that its primary trust fund[1] (for Old-Age and Survivors Insurance, or OASI) will be depleted in 2032. Unless Congress acts, current and future beneficiaries alike will see their benefits cut by 22%.

The projected depletion date has moved one year earlier since last year's report. This is largely due to the 2025 "One Big Beautiful Bill Act," which included multiple provisions that, together, lower tax liability for Social Security beneficiaries. As a result, the trustees project less trust fund revenue from income taxes on Social Security benefits going forward.

Policymakers from both parties have known for decades that Social Security's finances are unsustainable but have consistently failed to act, leaving the program an estimated $30.3 trillion short over the next 75 years—reflecting a growing gap between projected inflows and benefit payments. This inaction threatens the financial security of millions of Americans who rely on Social Security payments and causes significant uncertainty for millions more who are trying to plan for retirement.

[1] Social Security has two trust funds: the primary Old-Age and Survivors Insurance (OASI) Trust Fund and the much smaller Disability Insurance (DI) Trust Fund. All data in this piece relate to the OASI Trust Fund alone. On its own, the DI Trust Fund is projected to remain solvent throughout the 75-year window. Combining the two trust funds would delay the OASI Trust Fund's depletion by two years (to 2034), but doing so would require an act of Congress.

Social Security Outlays Exceed Revenues—and a Big Benefit Cliff in 2032 Will Be the Result

Percentage of taxable payroll

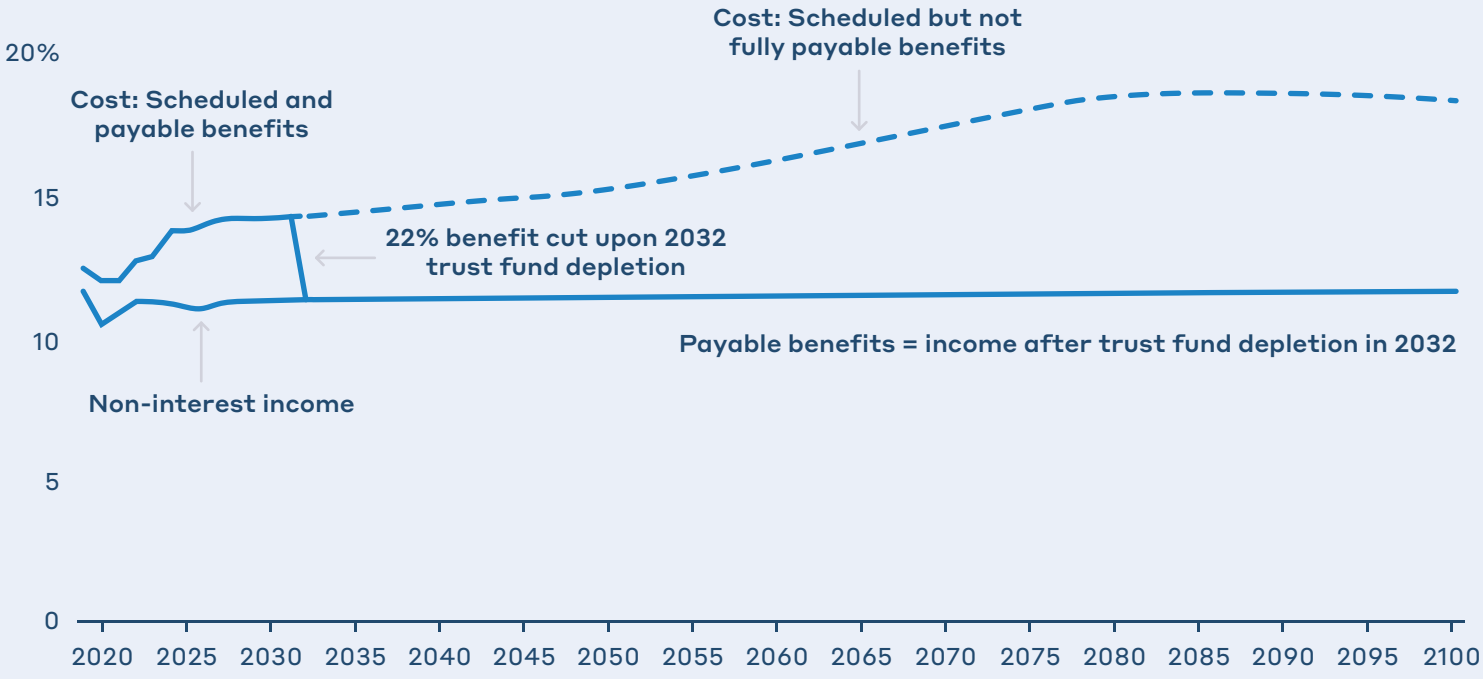


Chart: Bipartisan Policy Center • Source: SSA

What does trust fund depletion mean for Americans?

Social Security is mainly funded via a 12.4% payroll tax on annual wages up to the so-called taxable maximum ($184,500 in 2026). Even after 2032, the Social Security program will generate revenue to pay benefits. But payroll tax revenue has not kept pace with annual expenses since 2009. As a result, the trust fund's reserves are being drained.

When those reserves are depleted, Social Security will no longer be able to pay the full amount of scheduled benefits—only what current payroll tax revenue can cover.

A 22% benefit cut upon insolvency would translate to meaningful losses for every beneficiary, with the amount varying significantly by earnings history. The table below shows the range of impact.

Married beneficiaries would see even steeper benefit reductions, with a couple made up of two average beneficiaries, for example, receiving around $10,600 less per year. The average non-disabled widow(er), who receives only around $1,800 a month (an amount equal to the greater of their individual benefit and their deceased spouse's benefit), would receive approximately $4,800 less per year.

What's driving Social Security's financial challenges?

Demographics, combined with policy choices made decades in the past, have put the program in this position.

Social Security relies on payroll taxes from current workers to pay out benefits, but the aging U.S. population has placed an unprecedented burden on a workforce that is growing more slowly. In 1960, there were five workers paying Social Security taxes per OASI beneficiary, but that ratio has dropped precipitously to 2.9-to-1 in 2026 and is projected to decline further to just 2.2-to-1 by the 2070s.

The sheer number of Americans entering retirement is not the only stressor on the system. Compounding the financial shortfall is how long those retirees are living.

Insolvency Would Cause a Meaningful Loss of Income Across the Board

All amounts approximate

Beneficiary	Lifetime Average Annual Income	Current Monthly Benefit	Monthly Cut	Annual Cut
Low or inconsistent earner (25th-percentile benefit)	$20,000	$1,250	$275	$3,300
Average beneficiary	$48,000	$2,000	$440	$5,280
Above-average earner (75th-percentile benefit)	$75,000	$2,700	$594	$7,128

Table: Bipartisan Policy Center • Source: SSA

The life expectancy of a 65-year-old has increased by over 50% since 1940, and SSA projects that trend will continue unabated. With historic numbers of retirees spending record lengths of time in retirement—and population growth failing to keep up—Social Security can no longer sustain itself using policy parameters set decades in the past.

For example, when Congress last reformed Social Security in 1983, 90% of all wages in covered employment were subject to the payroll tax. Now, the tax base is only 83% of covered earnings, as Americans earning more than the taxable maximum have seen their incomes increase much faster than those earning less. And as the tax base has shrunk as a proportion of total earnings, the tax rate has stayed at 12.4% for more than 40 years.

Compounding the revenue challenges, since 1978, initial Social Security benefits (i.e., the amount received when someone first claims benefits) have been indexed to average national wages, which have consistently grown faster than prices. As a result, the current average monthly benefit of $2,017 is 60% higher in real terms than the comparable figure in 1978 ($1,260 in today's dollars).

Has anything changed since last year's financial report?

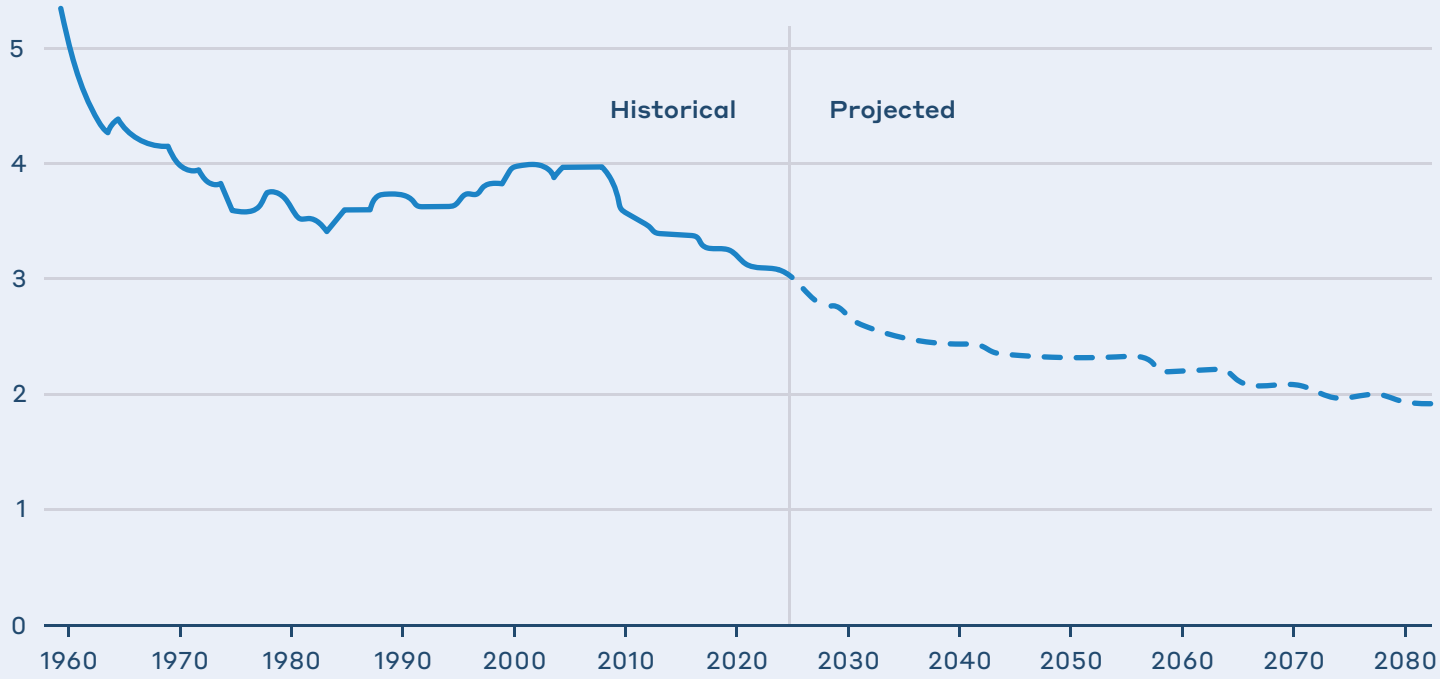
This year's report is very similar to those of recent years, with two major changes to assumptions that affect the program's long-term outlook. Independent experts have long believed that SSA's fertility projections were overly optimistic, with last year's report projecting the total fertility rate (how many children the average woman will have in her life) to rise to 1.9—well above the projections of the Congressional Budget Office (CBO) and Census Bureau. SSA has adjusted those projections, aligning them much more closely with CBO and Census, and it now expects the total fertility rate to settle at 1.75 in the long run.

Second, this year's report significantly revises the trustees' immigration assumptions, largely reflecting more restrictive policies. Compared to last year's projections, the report now projects markedly fewer temporary or unlawfully present immigrants, particularly in the short run.

Together, these revisions in fertility and immigration assumptions worsen Social Security's long-run finances, as reflected in the 75-year shortfall of $30.3 trillion, which represents a major jump from $26.1 trillion last year.

An Aging Nation, Part I

Workers per Social Security retirement/survivors beneficiary



Underlying data relates to the OASI Trust Fund.
Chart: BipartisanPolicy Center • Source: SSA

An Aging Nation, Part II

Period life expectancy at age 65 (additional years)

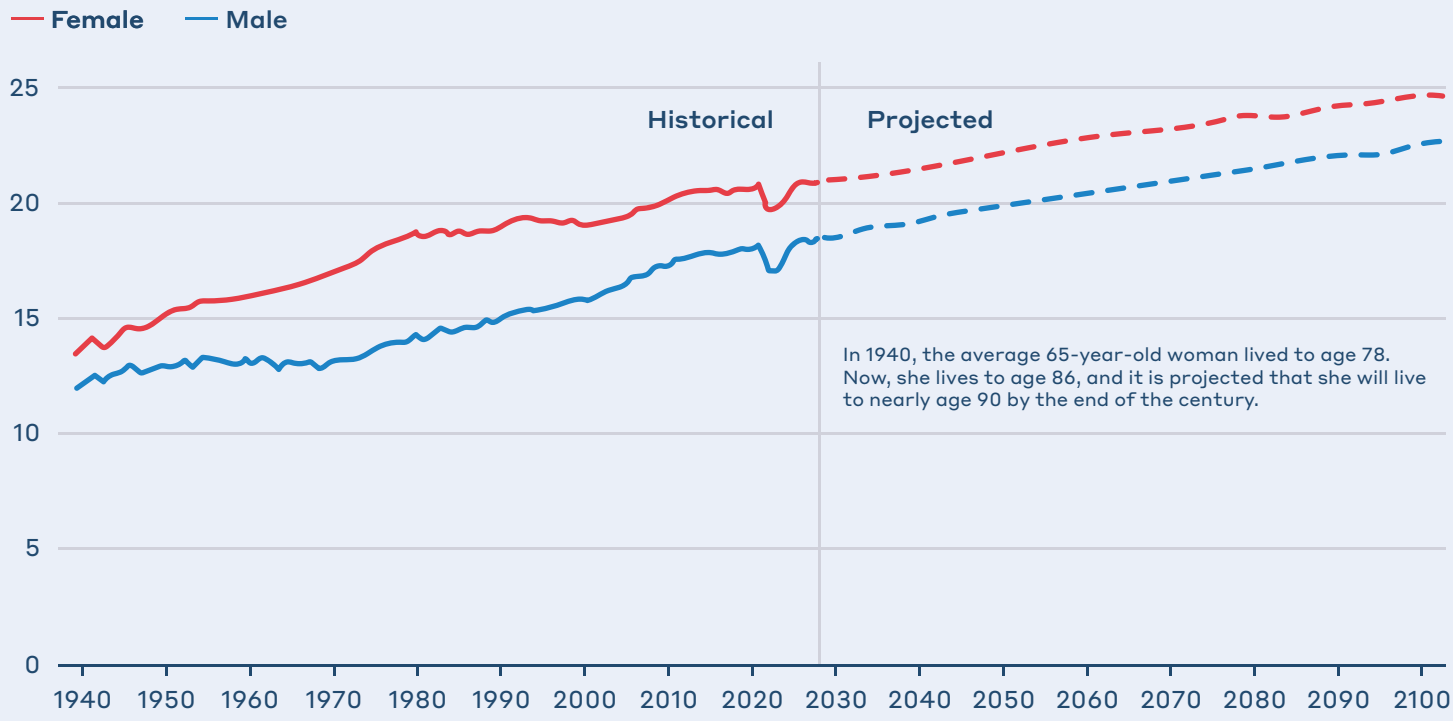
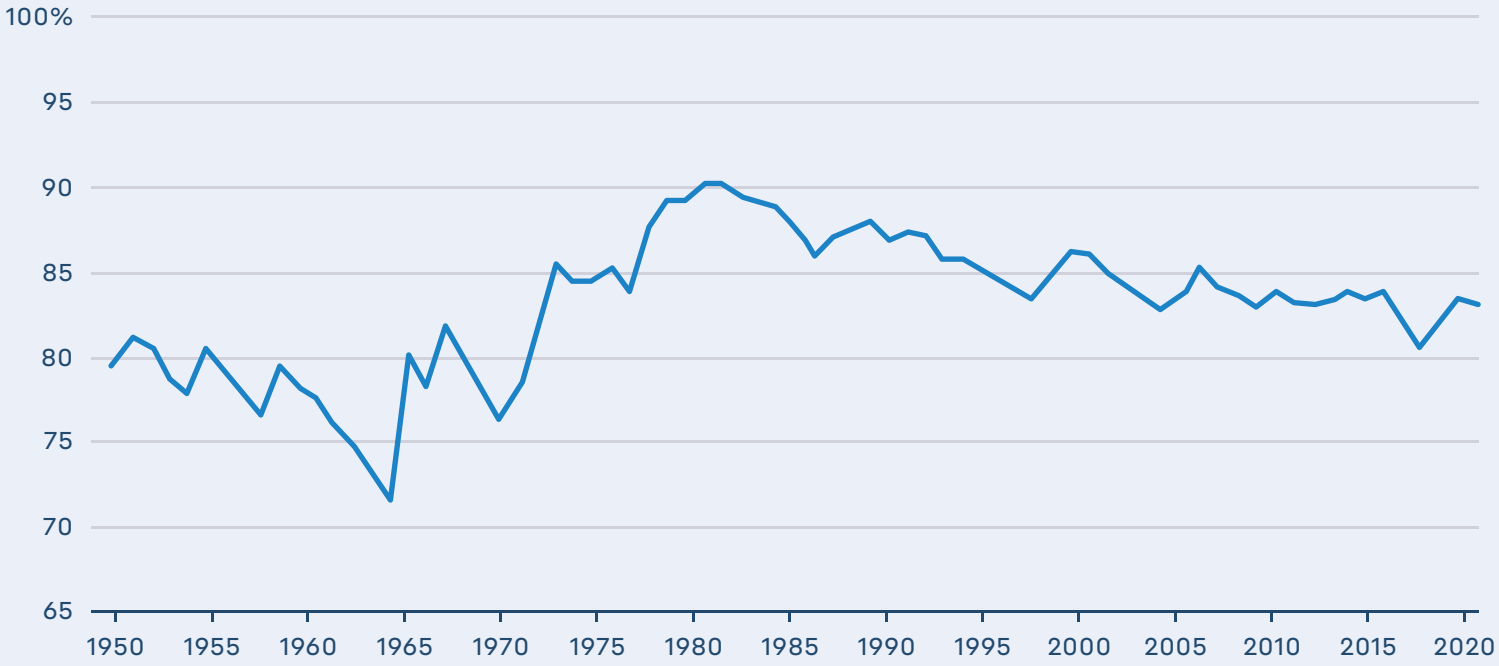


Chart: BipartisanPolicy Center • Source: SSA

Shrinking Share of Earnings Subject to Social Security Taxes

Ratio of taxable payroll to total earnings



Note: Y-axis does not start at 0.
Chart: Bipartisan Policy Center • Source: Congressional Budget Office

SSA's New Fertility Projections Align with Consensus— and Make the Long-Range Deficit Much Worse

All amounts approximate

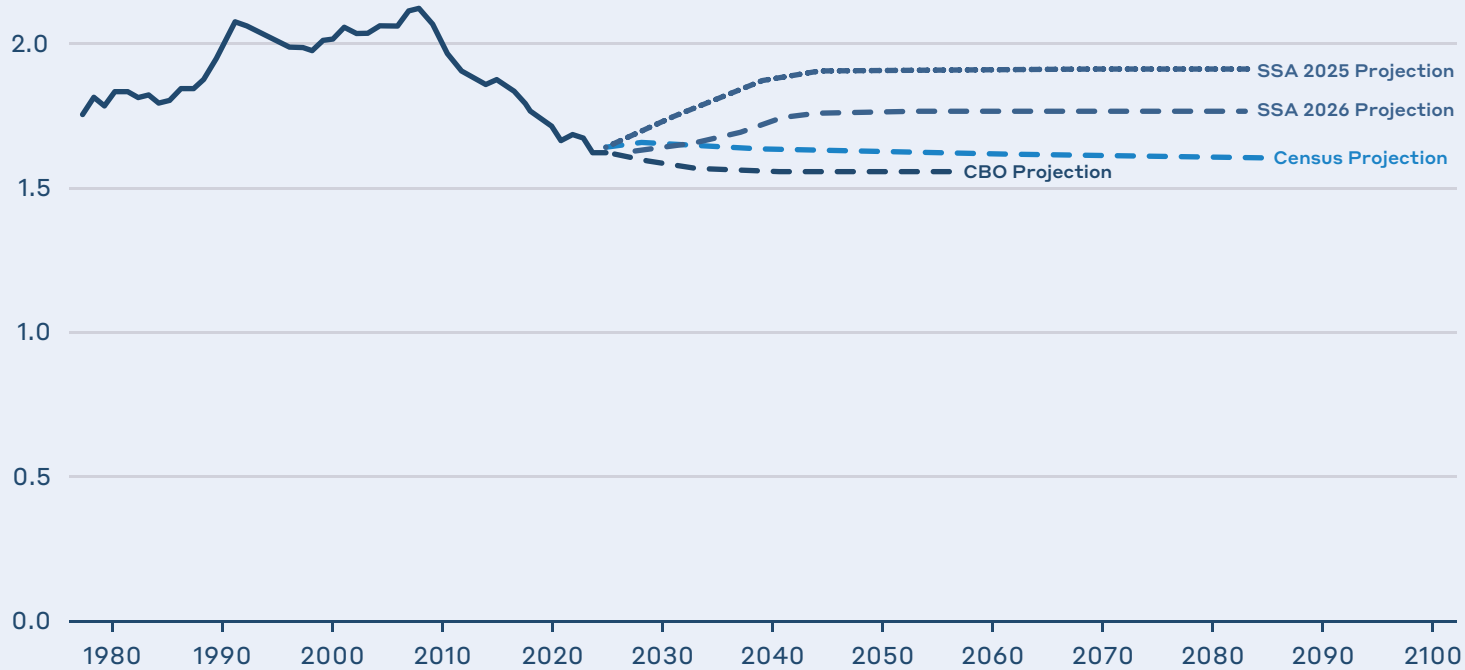


Chart: Bipartisan Policy Center • Source: CBO, Census, SSA

Bipartisan Policy Center

Bipartisan leadership is urgently needed

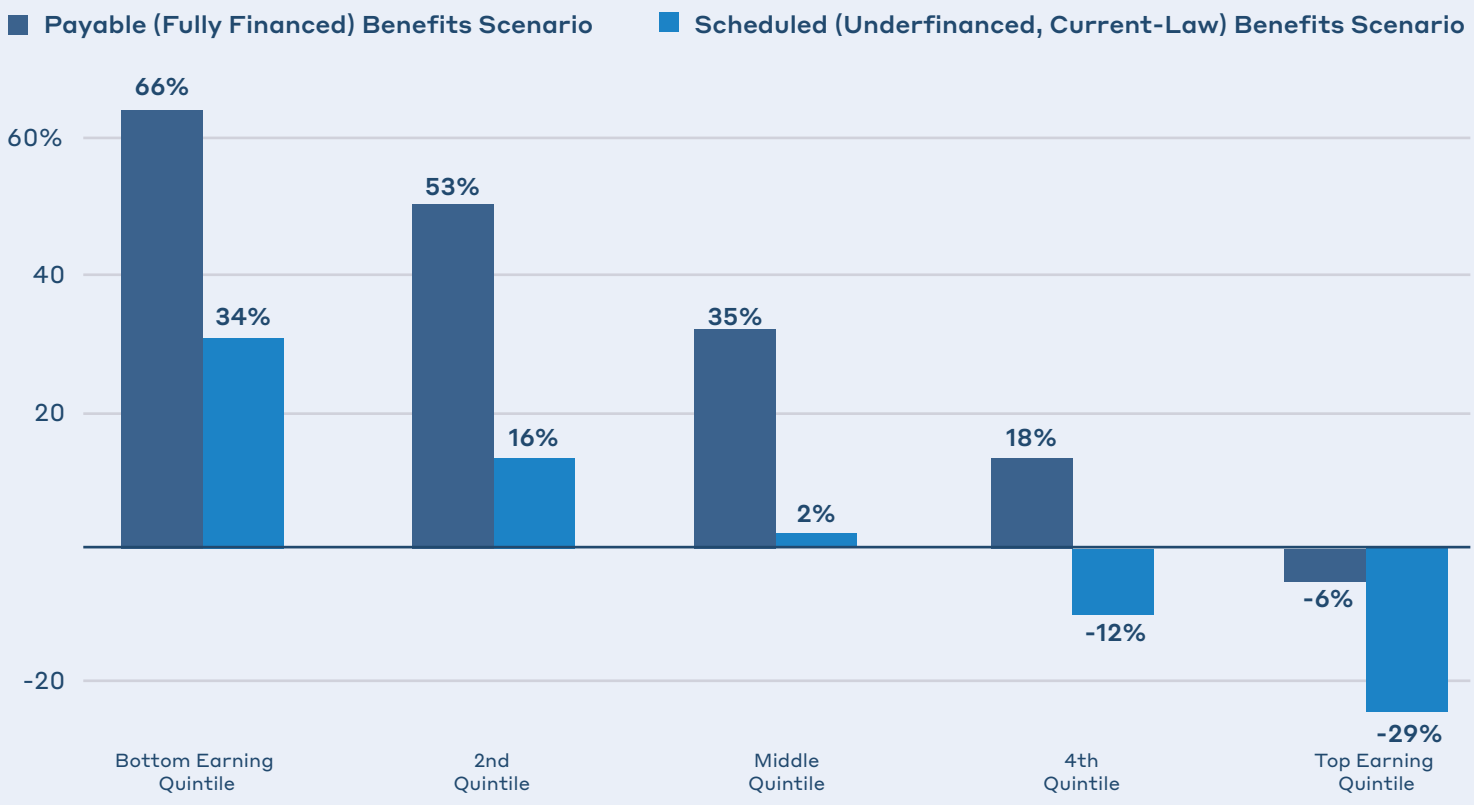
The longer Congress waits to act, the harder the fix becomes, and the greater the burden on retirees and taxpayers. Yet the path forward is not uncharted. A decade ago, BPC's Commission on Retirement Security and Personal Savings showed that a bipartisan fix for Social Security is achievable. That commission's balanced package of benefit adjustments and tax increases would have made the program fiscally sustainable and boosted income in retirement for the lowest-earning workers—and it would have made nearly everyone better off than under current law's projected insolvency, maintaining the nearly universal constituency that undergirds Social Security's public support.

Addressing the problem today will require larger adjustments than would have been needed a decade ago, but waiting until closer to 2032 will only make the eventual fix more painful. Too many members in both parties are content to advocate either no changes or partisan proposals that cannot pass, both of which hasten the across-the-board cut that no one claims to want.

Policymakers across both parties, from the rank-and-file membership to leadership, must set aside political positioning and negotiate in good faith—before the window for a manageable solution closes.

BPC's Commission Plan Would Significantly Increase Benefits for Many, Curb Already High Benefits at the Top

Projected lifetime combined Social Security and SSI benefits for a hypothetical single beneficiary with 35 years of earnings born in 1993 (age 67 in 2060), relative to two reference Social Security scenarios: benefits payable under current law and currently scheduled (but underfinanced) benefits.



X-axis reflects lifetime earnings distribution.
Chart: Bipartisan Policy Center • Source: DYNASIM3, Urban Institute, 2016

ARTICLE | JUNE 10, 2026 | ZACH GAUMER, LISA HAROOTUNIAN | BIPARTISAN POLICY CENTER

What's in the 2026 Medicare Trustees Report?

In Brief

- The 2026 Medicare Trustees report describing the financial health of the Medicare program concludes that Medicare remains on an unsustainable fiscal course, increasing the urgency for policymakers to act.
- The report projects that the Medicare Hospital Insurance (HI) Part A Trust Fund will be depleted in 2033. Absent action from policymakers, this could force program changes that reduce expenditures significantly. Reductions could come in the form of cuts to benefits, provider payments, or plan payments.
- The report projects that Medicare expenditures will nearly double as a share of the U.S. economy in the next 25 years—rising from 3.9% of gross domestic product in 2025 to 6.5% by 2050.
- Within the HI Part A Trust Fund, expenditure growth is projected to be most rapid for services commonly associated with frail and elderly beneficiaries, such as skilled nursing facilities, home health, and hospice services.
- Within the Supplemental Medical Insurance (SMI) Trust Fund, expenditure growth is projected to be most rapid for services such as hospital outpatient and laboratory services conducted in physicians' offices.

Overview

Released on June 9, 2026, the 2026 Medicare Trustees report concludes that Medicare remains on an unsustainable course given rising per beneficiary spending and the advancing age of the largest segment of our population, the baby boomer generation.

In addition, the trustees project that Medicare expenditures will nearly double as a share of the U.S. economy in the next 25 years—rising from 3.9% of GDP in 2025 to 6.5% by 2050 under current law.

The Medicare Trustees now predict that the Medicare Hospital Insurance (HI) Part A Trust Fund will be depleted in the second quarter of 2033, which is one quarter earlier than projected in last year's report. The Part A Trust Fund—which pays for Medicare fee-for-service (FFS) and Medicare Advantage (MA) hospital inpatient, hospice, skilled nursing facility, and several other post-acute care services—is largely financed through a dedicated payroll tax.

Key Financial Indicators — 2026 vs. 2025 Medicare Trustees Report

Indicator	2026 report	Change	NOTES
HI depletion date	Q2 2033	1 quarter earlier	2025 report: also 2033, later in year
HI actuarial deficit	0.56%	↑ from 0.42%	% of taxable payroll; illus. alt. 1.38% vs. 1.28%
75-year unfunded obligation	$4.2T	Part A only	0.2% of GDP over 75-year window
Medicare / GDP (base year)	3.9%	vs. 3.8% (2025 rpt, 2024)	2026 report base year: 2025
Medicare / GDP (end of period)	7.5%	↑ from 6.7% by 2099	2026 rpt: by 2100; 2025 rpt: by 2099
Medicare Advantage enrollment	51%	↑ from 50% in 2024	Projected 56% by 2035; was 12.8% in 2004

Source: 2026 Annual Report of the Boards of Trustees of the Federal HI and SMI Trust Funds (June 9, 2026); 2025 Annual Report (June 18, 2025). HI key results from Table II.A1. Medicare Advantage enrollment from Section II.A Highlights. BPC Health Policy Program analysis.

In 2033, the reserves of the Part A Trust Fund ($255.7 billion in 2026) will erode to zero and the program will then be able to pay only 89% of its costs. The trustees report that expenditures will begin to exceed trust fund income beginning in 2027. The reserves of the trust fund, built up over many years, will slowly erode over the next seven years and result in a financing gap beginning in the second quarter of 2033.

As an illustration of the magnitude of the Part A Trust Fund solvency gap, the trustees report that, to achieve fiscal balance of the trust fund over the 75-year window, policymakers would have needed to reduce scheduled benefits starting in January 2026 by 12% or increase the Medicare payroll tax from 2.90% to 3.46%, a 19% increase in the Medicare payroll tax. If substantial actions are deferred until Part A Trust Fund reserves are depleted, then significantly larger changes will have to be concentrated into a shorter window of time.

An Aging Population Underlies the Steepest Cost Growth

The report projects that Part A Trust Fund expenditure growth over the next 10 years will be highest for services typically associated with an aging beneficiary population, such as skilled nursing facility (SNF), home health, and hospice services. While the trustees project that the cost for inpatient hospital services will grow at a rate of 4.8% annually over the next decade, expenditures for SNF, home health, and hospice are projected to grow 7.0%, 7.3%, and 8.9% respectively. This higher expenditure growth may suggest areas of need for policymaking to ensure access and affordability for beneficiaries and efficiency in the use of a limited pool of Medicare funds.

Shifts from Fee-For-Service to Medicare Advantage

Another important aspect of expenditure growth within the Part A trust fund is the continued but slowing shift of beneficiaries from the Medicare fee-for-service (FFS) program to the Medicare Advantage (MA) program. Over the last 10 years, there has been an annual shift in beneficiaries from FFS to MA ranging from 1% to 5%. However, the trustees project a dramatic slowing of this shift down to less than 1% per year from 2026 to 2035. Despite this slowing, the trustees also project MA-related expenditures within the Part A Trust Fund will exceed FFS expenditures by 2028.

Cost Rate Pressures

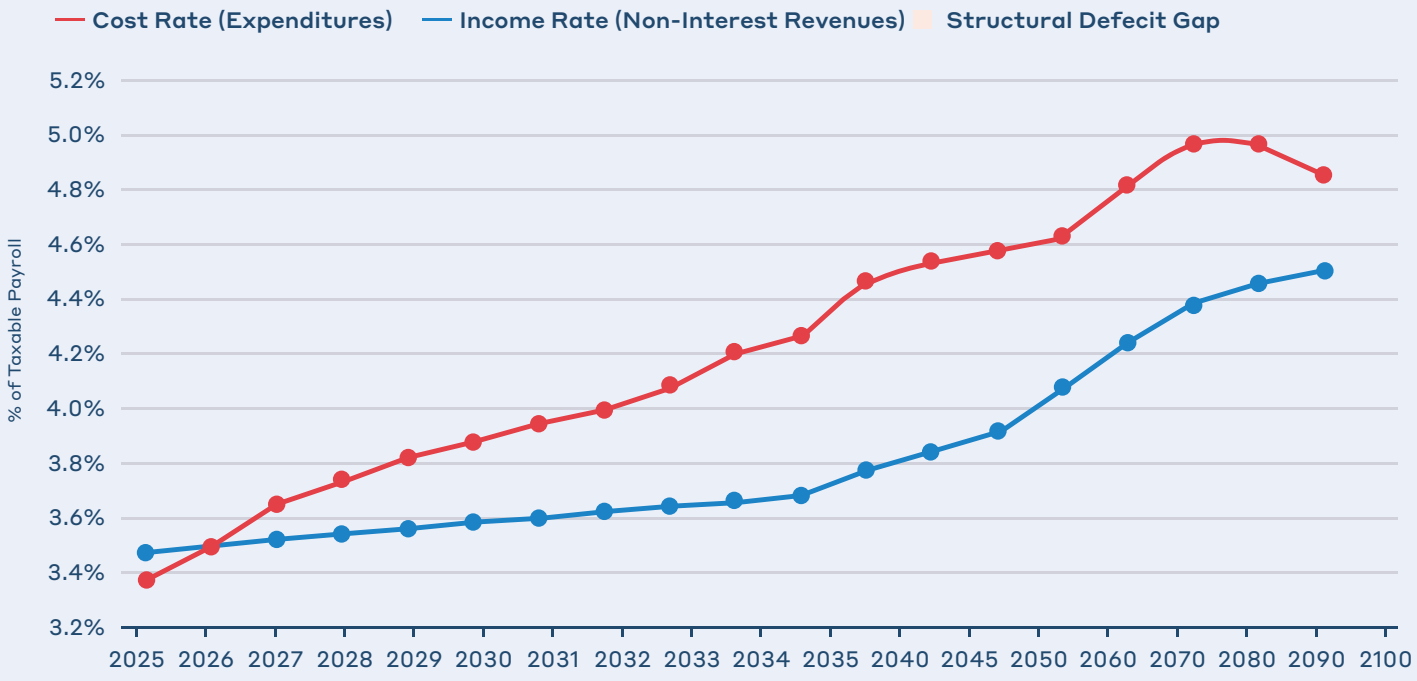
In addition to expenditure growth within the Medicare Part A Trust Fund, a critical variable driving Part A trust fund insolvency is the widening of the gap between expenditures and payroll taxes (referred to as the "cost rate").

The trustees report that the 2025 cost rate is 3.37%, and it will grow to 3.49% by the end of 2026 and to 4.58% by 2050. This projected increase in the ratio of expenditures to payroll tax income is driven by key changes to demographic assumptions between the 2025 and 2026 reports and other policy changes. Specifically, the 2026 report reflects recent demographic and policy changes by assuming lower fertility and fewer temporary or unlawfully present immigrants, reducing both near-term tax revenues and the number of potential taxpayers over the long term.

Additionally, the 2025 reconciliation law, H.R. 1, permanently extends lower income tax rates and expands the standard deduction, including a new temporary deduction for taxpayers over age 65—a population experiencing significant growth over the next 10 years. This is projected to reduce income taxes paid on Social Security benefits, which are a dedicated revenue source for the Part A Trust Fund.

SSA's New Fertility Projections Align with Consensus—and Make the Long-Range Deficit Much Worse

All amounts approximate



Source: Table III.B7, 2026 Annual Report of the Boards of Trustess of the Federal HI and SMI Trust Funds (June 9, 2026). Income rate = HI non-interest income as % of taxable payroll. Cost rate = HI incurred expenditures as % of taxable payroll. Intermediate assumptions. BPC Health Policy Program analysis.

SMI Trust Fund

The financial outlook for the Medicare SMI Trust Fund—which pays for physician services, hospital outpatient services, Part B drugs, Part D prescription drugs, and several other types of services—is not at risk of insolvency because it is financed through general federal tax revenues.

The trustees project overall SMI expenditures growth to increase rapidly over the next 10 years, with Part B expenditures growing 52% as a share of GDP and Part D prescription drug expenditures growing nearly 12% as a share of GDP. Within Part B expenditures, the trustees project more than 8% annual growth over the next 10 years for services such as hospital outpatient services and laboratory services conducted in physicians' offices. The increase in hospital outpatient service expenditures may be due in part to the shift of services from the inpatient hospital setting to the outpatient hospital setting.

What Occurs if the Part A Trust Fund Becomes Insolvent?

If the Medicare Part A Trust Fund were to become insolvent in 2033, federal statute does not mandate how the trustees, CMS, HHS, or Congress should specifically resolve the imbalance between revenues and spending. To reduce expenditures, policymakers could choose to reduce payments uniformly across all providers or make more targeted reductions to certain providers. If provider payments were to be reduced, provider revenues would decline and could differentially impact providers serving higher shares of Medicare beneficiaries.

Policymakers could also elect to make other policy changes that would lower Medicare Part A expenditures, such as altering the benefit structure of Medicare FFS and Medicare Advantage, moving services financed under Part A to the SMI trust fund, altering the financing structure of the Part A Trust Fund, or other policy alternatives. Each of these policy changes would have important and variable consequences—including the potential to limit access to care through forced program changes impacting payments to providers and plans or benefits for enrollees.

What Bipartisan Reforms Could Strengthen Medicare?

The Bipartisan Policy Center has taken a leadership role in offering recommendations for bipartisan improvements to the Medicare program's sustainability and effectiveness.

BPC Senior Vice President Bill Hoagland co-authored an article in Health Affairs Forefront with scholars at the American Enterprise Institute and the Brookings Institution discussing several pragmatic and potentially bipartisan Medicare reforms that could produce significant federal savings. This includes Medicare site neutrality policy, competitive bidding under the Medicare Advantage program, and restraining hospital consolidation. Going deeper, BPC experts undertook a comprehensive examination of Medicare's fiscal and operational challenges in a 2023 report, Sustaining and Improving Medicare: The Path Forward.

BPC's Health Agenda for 2026

For 2026, BPC's Health Policy Program is committed to three interrelated pillars of work: affordability, aging, and innovation. The policies BPC will generate and advance in 2026 will:

- Address rising health care costs and affordability challenges facing consumers and taxpayers, including in the Medicare program.
- Support caregivers, strengthen financial security for older adults, and expand access to long-term care and other health-related social needs, including housing, to ensure that Americans can age with dignity.
- Improve outcomes and reduce low-value spending through effective use of technology.

Together, these policies will help to slow the forces driving the Medicare Part A Trust Fund toward insolvency—delivering care in the most appropriate and cost-effective setting, building the aging infrastructure we need, and harnessing technology in service of a more affordable and effective health system.

This piece has been updated to reflect that a 12% reduction in expenditures would need to begin in 2026 to bring Part A Trust Fund revenues and expenditures into alignment.

ISSUE BRIEF | DECEMBER 2, 2025 | FREDRICK HERNANDEZ, ANDREW LAUTZ |
BIPARTISAN POLICY CENTER

U.S. Tax Reform Timeline, 1945-Present

Since the creation of the federal income tax in 1913, Congress has regularly adjusted the tax code as the economy and national priorities have changed.

In this paper, the Bipartisan Policy Center presents a comprehensive timeline of major U.S. tax reform efforts from the end of World War II to the present, most recently passage of the One Big Beautiful Bill Act (OBBB). Our analysis includes the political dynamics, major policy details, and the budgetary effects of signature tax legislation throughout modern history. For this analysis, we define legislation as enacted on a bipartisan basis if its passage received at least one vote from a member of the opposite party. Our review also examines the trajectory and composition of federal revenue since the 1940s.

A few broad themes emerge from this review:

- **Increasing Partisanship:** Tax laws were broadly bipartisan in the postwar era through the 1990s. At the turn of the century, each party started using the reconciliation process more frequently to advance partisan legislation—often including major tax revisions. Partly as a result, tax laws have become much more partisan in the 21st century than they were in the 20th.
- **Rising Spending and Deficits:** Although this paper focuses on revenue changes, an unmistakable trend in the past quarter century has seen government spending rising as a share of gross domestic product (GDP) while revenue declined slightly. As a result, debt has been rising as a share of GDP—in good economic times and bad, in war and in peace. Major tax cuts this century have contributed to declining revenue, but significant increases in spending complete the picture.
- **Inflation Adjustments, then Extenders:** From the 1940s through the 1970s, Congress frequently revisited the tax code because dollar amounts and thresholds were not automatically adjusted for inflation. This became a particular issue in the 1970s, as the country confronted high and persistent inflation. In 1981, Congress began automatically indexing various portions of the tax code for inflation, including income tax brackets. Since that change, lawmakers have needed to update the tax code for inflation less often. The inflation adjustments process was replaced through the 2010s with "tax extenders," in which Congress would make temporary tax policies with an expiration date and extend them for only one or a few years at a time.

Bipartisan vs. Partisan Bills by Era

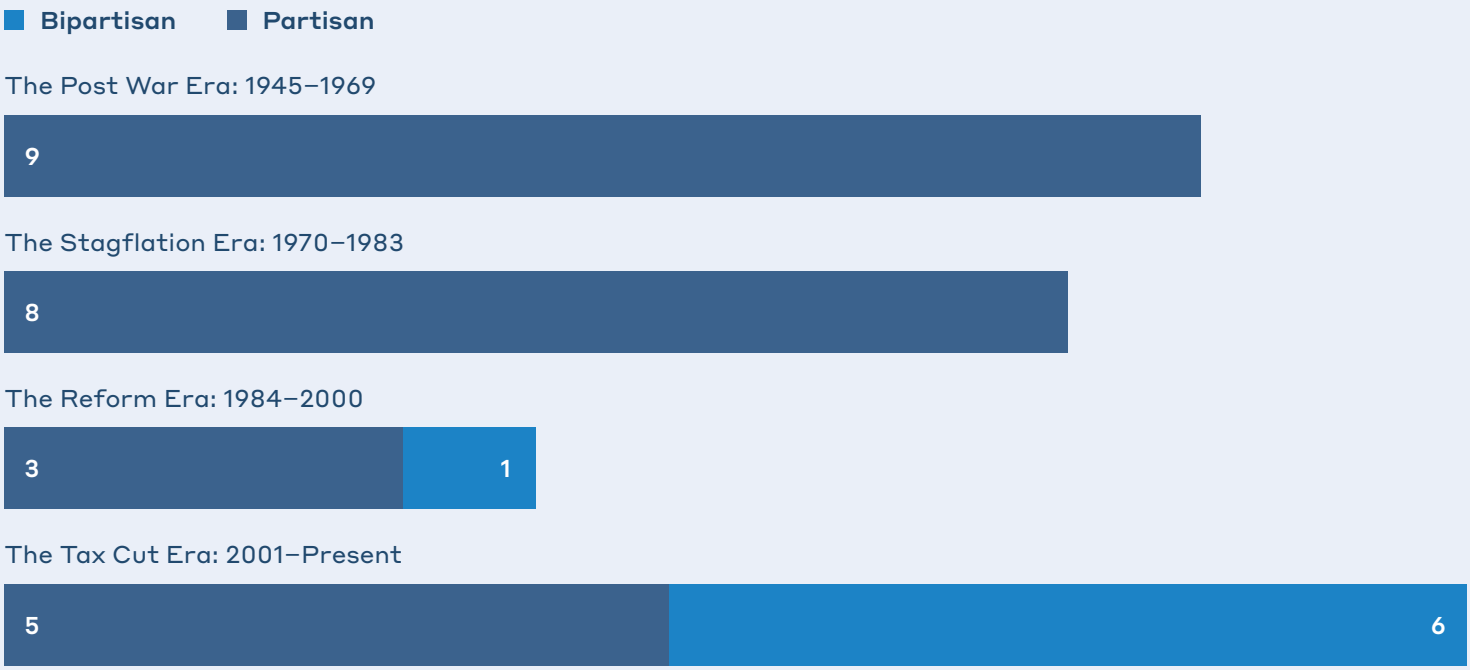


Chart: Fredrick Hernandez, Bipartisan Policy Center • Source: GovTrack and Congress.gov

The Postwar Era: 1945-1969

In the immediate aftermath of World War II, the U.S. national debt rose to the highest levels in history. Federal expenditures then fell precipitously due to the war's end, but tax rates stayed high well into the early 1960s. It wasn't until the end of the 1960s that Congress significantly lowered tax rates.

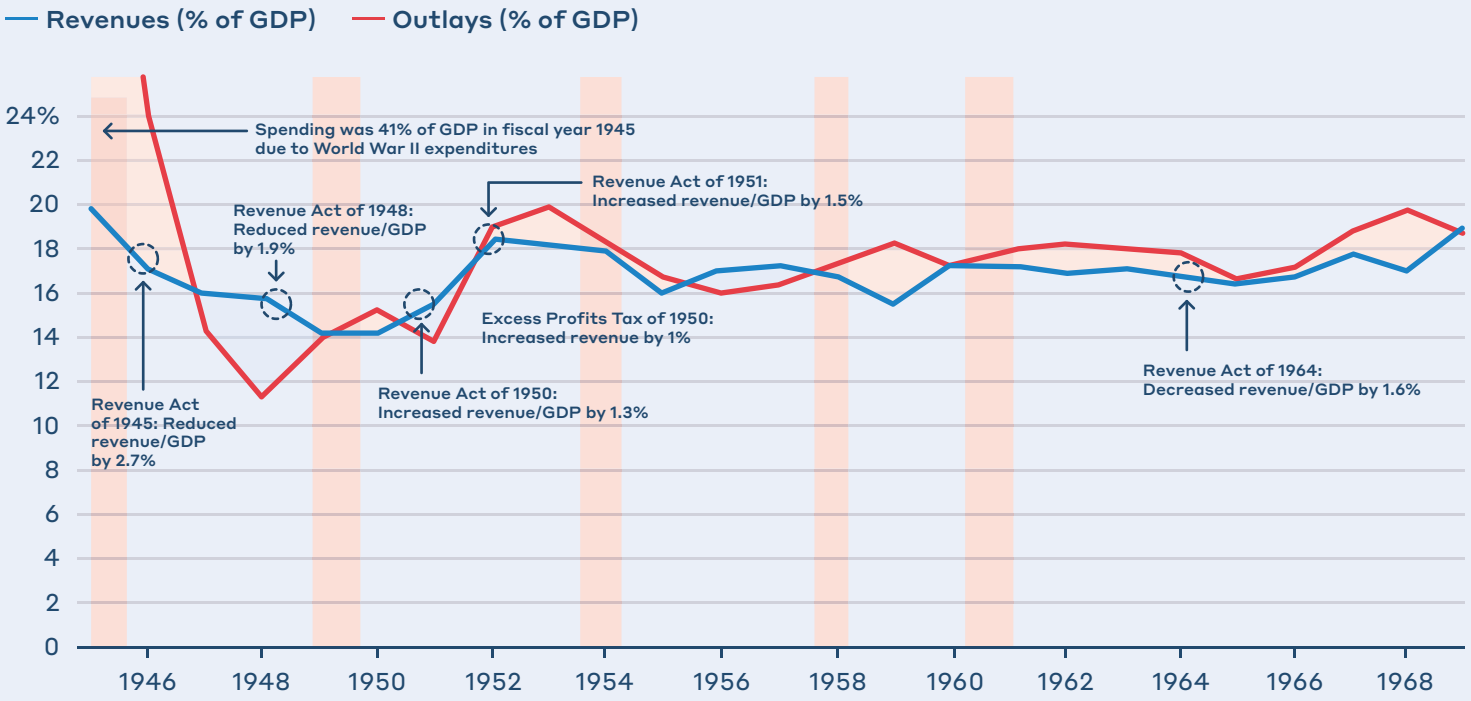
REVENUE ACT OF 1945

- *Partisan or Bipartisan:* Bipartisan.
- *Context:* The federal government's need for revenue declined quickly as WWII ended. Although the national debt was high, Congress sought to provide economic relief from higher wartime tax rates.
- *Notable Tax Provisions:* The law had three main components. It 1) lowered all individual tax rates, with the top rate falling from 94% to 86.45%; 2) repealed the excess profits tax on companies; and 3) reduced the top corporate tax rate to 38%.
- *Budgetary Projection:* The Joint Committee on Internal Revenue Taxation (JCIRT, predecessor to the Joint Committee on Taxation, or JCT) projected that the Revenue Act of 1945 would decrease revenue by $5.9 billion over the fiscal year (which ran from July-June before 1974).

REVENUE ACT OF 1948

- *Partisan or Bipartisan:* Bipartisan.
- *Context:* Policymakers expressed a growing concern over the tax treatment of married couples in two different types of states—"community property" states and "common law" states.
- *Notable Tax Provisions:* The law eased marriage penalties in the tax code by, for example, making it easier for two spouses in a couple to split income and allowing marital deductions for estate and gift taxes. It also increased personal exemptions and established the additional exemption for the elderly and the blind (later the additional standard deduction).
- *Budgetary Projection:* The JCIRT projected that the Revenue Act of 1948 would decrease revenue by $5 billion over the full year after enactment.

The U.S. Rapidly Decreased Spending Post-WWII and Ran Small Deficits Through the 1960s



X axis = fiscal year. Y axis = % of GDP. Red vertical bars indicate recessions.
Chart: Andrew Lautz, Bipartisan Policy Center • Source: Office of Management and Budget

REVENUE ACT OF 1950

- *Partisan or Bipartisan*: Bipartisan.
- *Context:* The Korean War began in June 1950. The United States needed to again raise military expenditures, which slowed down efforts to provide tax relief.
- *Notable Tax Provisions:* The law raised individual tax rates across the board, with the lowest rate increasing from 16.6% to 20%, and the top rate increasing from 82.1% to 91%. Congress raised the top corporate tax rate from 38% to 45%.
- *Budgetary Projection:* The JCIRT projected that the Revenue Act of 1950 would increase revenue by $4.5 billion over the full year.

EXCESS PROFITS TAX OF 1950

- *Partisan or Bipartisan:* Bipartisan.
- *Context*: With government spending increasing in the face of the prolonged Korean War, Congress reinstated the excess profits tax.
- *Notable Tax Provisions:* The law placed a 30% surcharge on excess business profits, meaning that some corporations faced a marginal rate of 77% (inclusive of surtaxes and excess profits taxes).
- *Budgetary Projection:* The JCIRT projected that the Excess Profits Tax of 1950 would increase revenue by $3.3 billion over the full year.

REVENUE ACT OF 1951

- *Partisan or Bipartisan:* Bipartisan.
- *Context:* As the federal government faced additional financing needs for national defense, the Truman administration asked Congress for nearly $11 billion in tax increases that would close a budget deficit of around $10 billion. Congress managed to approve $5 billion in this 1951 tax law, which one economist noted ended a long period of relative harmony between Congress and the president on tax reform.
- *Notable Tax Provisions:* The law increased individual income tax rates, corporate income tax rates (basic

rate from 47% to 52%); capital gains tax rates (top rate from 25% to 26%); cigarette taxes (from $0.07 per pack to $0.08); gas taxes (from $0.015 per gallon to $0.02); and a variety of other excise taxes.

- *Budgetary Projection:* The JCIRT projected that the Revenue Act of 1951 would increase revenue by $5.4 billion over the full year.

INTERNAL REVENUE CODE OF 1954

- *Partisan or Bipartisan:* Bipartisan.
- *Context:* Congress engaged in the first wholesale revision of the U.S. tax code since 1876, "renumbering every section" and "making over 3,000 technical changes in the law."
- *Notable Tax Provisions:* The law reorganized the tax code into seven subtitles, including for income taxes, estate and gift taxes, employment taxes, and two subtitles for excise taxes. The law also reduced some tax rates. The lowest individual income tax rate fell from 22.2% to 20%. The highest rate fell from 92% to 91%. The top corporate tax rate was extended at 52% through March 1955 and was set to fall to 47% thereafter, although the 52% was subsequently extended through 1963.
- *Budgetary Projection:* The JCIRT projected that the Internal Revenue Code of 1954 would decrease revenue by $0.2 billion over the full year after enactment.

REVENUE ACT OF 1964 ("KENNEDY TAX CUTS")

- *Partisan or Bipartisan:* Bipartisan.
- *Context:* Continuing to seek relief from the high tax rates of the 1940s and 1950s, Congress prioritized lowering taxes. The law inspired plenty of debate in Congress around "the wisdom of reducing taxes in a period of prosperity when the government was already running a sizable deficit."
- *Notable Tax Provisions:* The law reduced the top individual tax rate from 91% to 70%, and the bottom rate from 20% to 14%. The law also reduced the top corporate tax rate from 52% to 48%.
- *Budgetary Projection:* The JCIRT projected that the Revenue Act of 1964 would decrease revenue by $11.5 billion over the full year.

MEDICARE AND MEDICAID ACT OF 1965

- *Partisan or Bipartisan:* Bipartisan.
- *Context:* As part of President Lyndon Johnson's "War on Poverty," Congress created Medicare and Medicaid. These mandatory entitlement programs altered the tax code and contributed to the elevated status of payroll taxes as the second-largest revenue generator after income taxes.
- *Notable Tax Provisions:* The law implemented a new federal payroll tax to finance the cost of Medicare, at a 0.70% rate (0.35% each for employees and employers) in 1966. Congress set the rate to increase in subsequent years, and then accelerated those rate increases in future years.
- *Budgetary Projection:* Estimates for what the 1965 law's payroll tax increases would have raised are difficult to come by, but Medicare costs quickly outstripped early projections. In 1965, the House Ways and Means Committee projected that annual Medicare expenditures would be $238 million; instead, Medicare cost $4.6 billion in 1967, its first full year.

TAX REFORM ACT OF 1969

- *Partisan or Bipartisan:* Bipartisan.
- *Context:* President Richard Nixon had asked Congress for a new set of tax reductions earlier that year, but the Tax Reform Act of 1969 was the product of years of discussions between Congress and the Treasury Department (across several administrations) to reform the nation's tax code.
- *Notable Tax Provisions:* This law introduced new distinctions between single and married filers and differential rates. It also introduced a low-income allowance, functionally raising the minimum standard deduction for taxpayers to $1,000 (at this time, the standard deduction was a percentage of income rather than a fixed dollar amount). The

law also set the maximum standard deduction to increase to $2,000 by 1973, and increased the charitable deduction amount to 50% of a person's contributable base in that year. On the revenue-raising side, the 1969 law increased capital gains taxes, repealed the investment tax credit, and created a minimum tax for individuals.

- *Budgetary Projection:* The JCIRT projected that the Tax Reform Act of 1969 would increase revenue by $6.2 billion over a two-year period.

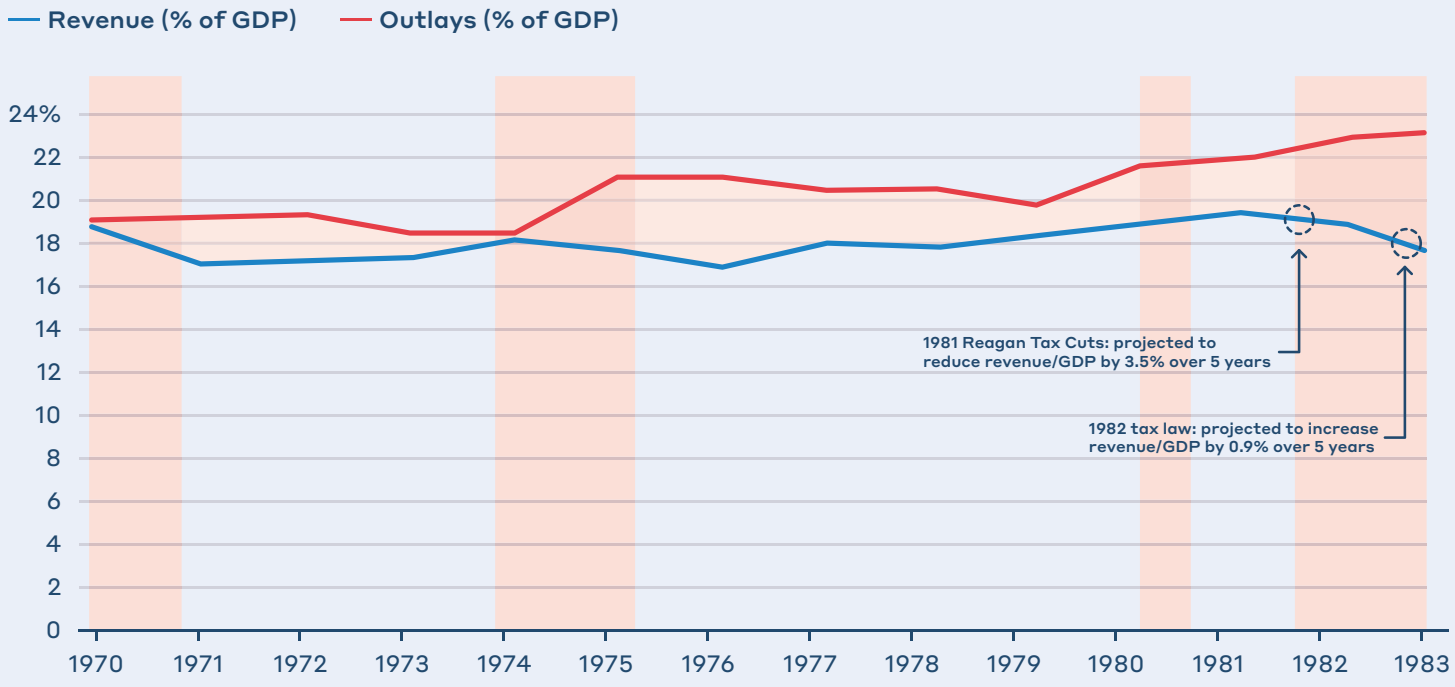
The Stagflation Era: 1970-1983

The 1970s saw the end of the Vietnam War and the start of stagflation in which high inflation and weak growth gripped the U.S. economy. Tax policy sought to spur the economy and minimize the effects of persistent inflation. America experienced several recessions from the mid-1970s through the early 1980s, in part due to the Fed's aggressive efforts to curb inflation.

REVENUE ACT OF 1971

- *Partisan or Bipartisan:* Bipartisan.
- *Context:* Beginning in the early 1970s, the U.S. economy began to slow. Concerned by the growing economic pressures on Americans, Congress sought ways to lower tax burdens.
- *Notable Tax Provisions:* The law increased the personal exemption from $650 to $675 in 1971 (and to $750 in subsequent years), and the minimum standard deduction from $1,000 to $1,300. The law also provided a 7% tax credit for businesses investing in expansions to their facilities and equipment, and repealed a 7% excise tax on passenger vehicles.
- *Budgetary Projection:* The JCIRT projected that the Revenue Act of 1971 would decrease revenue by $11.3 billion over a two-year period.

The U.S. Ran Small But Persistent Deficits in the 1970s, with Those Deficits Growing in the Early 1980s



X axis = fiscal year. Y axis = % of GDP. Red vertical bars indicate recessions.
Chart: Andrew Lautz, Bipartisan Policy Center • Source: Office of Management and Budget

TAX REDUCTION ACT OF 1975

- *Partisan or Bipartisan:* Bipartisan.
- *Context:* Amid high inflation and a sagging economy, President Gerald Ford and members of Congress expressed interest in stimulating the economy and adjusting several parts of the tax code for inflation. Lawmakers also wanted to address a sense of unfairness in the code due to the regressive nature of tax deductions, which provided a larger benefit to high-income taxpayers than to lower-income ones, by shifting policy from providing deductions to providing credits.
- *Notable Tax Provisions:* The law provided refunds to those filers who had a tax liability in 1974, up to $200 for taxpayers making under $30,000. It also increased the low-income allowance, provided a $30 tax credit per person (including dependents), and created the Earned Income Tax Credit (EITC). The law increased the investment tax credit from 7% to 10% for two years (1975-1976), with a scheduled decline back to 7% from 1977 onwards. It also reduced the rate of the corporate surtax and amount of income subject to the tax for 1975 only, and the lowest corporate tax rate from 22% to 20%.
- *Budgetary Projection:* The JCIRT projected that the Tax Reduction Act of 1975 would decrease revenue by $9.4 billion over a two-year period.

TAX REFORM ACT OF 1976

- *Partisan or Bipartisan:* Bipartisan.
- *Context:* The 1973 Organization of the Petroleum Exporting Countries (OPEC) oil embargo placed economic strain on American households that lingered for years after the resumption of normal trade relations. Congress also had a general interest in simplifying an increasingly complicated tax code, improving tax administration, and improving equity in the tax system without negatively impacting economic growth.
- *Notable Tax Provisions:* The law increased alternative minimum taxes for individuals and corporations, with the individual minimum tax rate rising from 10% to 15%. The law also extended the holding period for long-term capital gains and phased in an increase for maximum capital loss deductions from $1,000 to $3,000. It expanded tax advantages for individual retirement accounts (IRAs); converted the child care deduction into a child care credit; increased the minimum standard deduction from $1,300 to $1,700 ($2,100 for joint returns) and the maximum deduction from $2,000 to $2,400 ($2,800 for joint returns); extended the EITC that was enacted in the year prior; provided estate tax relief; and extended the investment credit.
- *Budgetary Projection:* JCT projected that the Tax Reform Act of 1976 would decrease revenue by $50 billion over five years (FY1977-1981).

TAX REDUCTION AND SIMPLIFICATION ACT OF 1977

- *Partisan or Bipartisan:* Bipartisan.
- *Context:* President Jimmy Carter had campaigned in 1976 on simplifying the tax code and stimulating a sagging economy. Congress and the president negotiated in the early months of 1977 on a tax law to fulfill those promises.
- *Notable Tax Provisions:* The law changed the standard deduction from 16% of income to a flat $2,200 for single filers ($3,200 for joint), referred to as the "zero bracket amount." It revised and simplified tax tables for filers. The law also extended the EITC for families with children through 1978. Finally, it extended through 1978 the corporate tax rate cuts for lower-income brackets that began in 1975 and created a new jobs credit for employers.
- *Budgetary Projection:* JCT projected that the Tax Reduction and Simplification Act of 1977 would decrease revenue by $34 billion over three years (FY1977-1979).

REVENUE ACT OF 1978

- *Partisan or Bipartisan:* Bipartisan.
- *Context:* As stagflation continued to plague the U.S. economy, Congress sought to further cut taxes to minimize the economic burden on households and businesses and boost the economy.
- *Notable Tax Provisions:* The law increased the amount of income exempt from taxes in the "zero bracket," which temporarily replaced the standard deduction, and increased personal exemptions from $750 to $1,000. The zero bracket rose for both single and married filers ($2,220 to $2,300 and $3,200 to $3,400, respectively). The law also lowered the top corporate income tax rate from 48% to 46%, reformed the alternative minimum tax, expanded and made permanent the EITC, and made permanent a 10% investment tax credit.
- *Budgetary Projection:* JCT projected that the Revenue Act of 1978 would decrease revenue by $117 billion over five years (FY1979-1983).

ECONOMIC RECOVERY TAX ACT OF 1981 ("REAGAN TAX CUTS")

- *Partisan or Bipartisan:* Bipartisan.
- *Context:* The United States was in a recession in 1981, triggered in part by Federal Reserve interest-rate hikes to combat high inflation. Congress lowered tax burdens to stimulate economic activity, a top priority of the newly elected President Ronald Reagan.
- *Notable Tax Provisions:* The law cut tax rates across the board, including the top individual rate from 70% to 50%. The law also indexed tax brackets and the personal exemption to inflation for the first time and created a deduction for married couples filing jointly. Allowable IRA contributions were increased from a maximum of $1,500 to $2,000. Congress also introduced the Accelerated Cost Recovery System (ACRS), which changed the depreciation schedule for business investments. And the law reduced estate tax rates and increased the credit against estate taxes.
- *Budgetary Projection:* JCT projected that the 1981 Economic Recovery Tax Act would decrease revenue by $482 billion over five years (FY1981-1985).

TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982

- *Partisan or Bipartisan:* Bipartisan (reconciliation).
- *Context:* The 1981 tax cuts contributed to a spike in deficits and spurred concern about the long-term sustainability of the law. Seeking to reverse or moderate the largest tax cuts, the 1982 law rolled back a number of reforms from 1981.
- *Notable Tax Provisions:* The law pulled back on some of the 1981 accelerations in business deductions and put new limits on claiming the investment tax credit. The law also increased tax withholding on certain dividends and interest; required employers of tipped workers to report receipts and tips to the IRS; included new tax enforcement measures; and increased airport, cigarette, and telephone excise taxes.
- *Budgetary Projection:* JCT projected that the Tax Equity and Fiscal Responsibility Act of 1982 would increase revenue by $215 billion over five years (FY1983-1987).

SOCIAL SECURITY AMENDMENTS OF 1983

- *Partisan or Bipartisan:* Bipartisan.
- *Context:* Warnings that Social Security insolvency was imminent triggered congressional bipartisan action to extend the program's solvency. The recessions of the early 1980s likely contributed to the accelerated depletion of the trust fund. This was due to rapidly rising unemployment, which peaked at 10.8% by the end of 1982.
- *Notable Tax Provisions:* Federal government and nonprofit workers hired after 1984 became eligible for Social Security. The law thus broadened the payroll tax base to these workers. More broadly, the law increased payroll tax rates from 5.4% on Social Security taxes and 1.3% on Medicare taxes (each

paid by employee and employer) to 6.2% and 1.45%, respectively, by 1990. The law also taxed Social Security benefits for high-income beneficiaries for the first time. Congress has changed payroll tax rates and rules several times since World War II. In this overview of major tax laws, BPC generally only covers the 1965 law that created Medicare and Medicaid and the 1983 law that extended Social Security solvency.

- *Budgetary Projection:* JCT projected that the Social Security Amendments of 1983 would **increase revenue by $57 billion** over a five-year period.

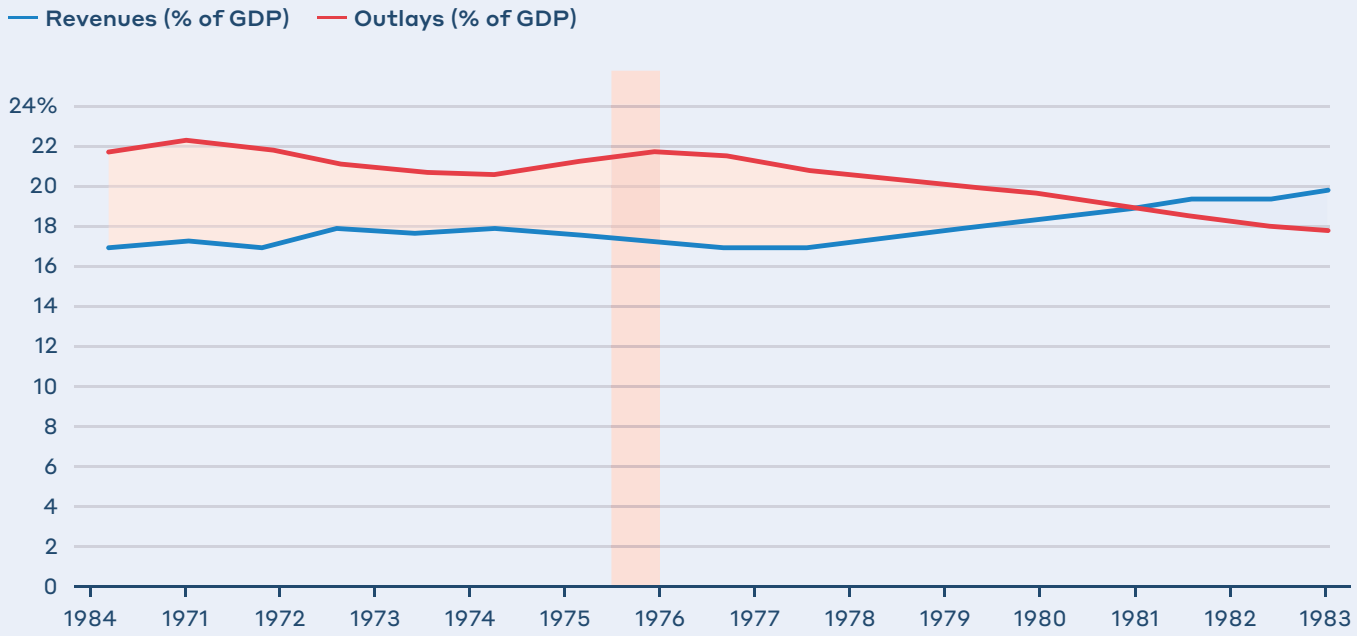
The Reform Era: 1984-2000

Over the next 15 years, Congress focused on simplifying the tax code, broadening the tax base, and eventually balancing the budget. Three of the four major tax bills were bipartisan, and some were wrapped into broader budget negotiations.

TAX REFORM ACT OF 1986

- *Partisan or Bipartisan:* Bipartisan.
- *Context:* The Tax Reform Act of 1986 (TRA) was the second of President Reagan's major tax reform efforts. The 1986 law sought to revamp the entire tax code, driven primarily by a desire for simplification. Today's tax code still reflects many of the reforms from 1986, and TRA still stands out as one of U.S. history's most bipartisan, comprehensive federal tax reform laws.
- *Notable Tax Provisions:* The law reduced the top individual tax rate from 50% to 28%, and it collapsed more than a dozen tax brackets into just two—15% and 28%. The law also eliminated the preferential tax treatment of capital gains, taxing gains at a top 28% rate as well. The law phased out the ability to deduct several kinds of personal interest expenses, other than mortgage interest. The law also cut the top corporate tax rate from 46% to 34%, but overall it increased corporate tax liabilities by repealing the investment tax credit, changing corporate deduction rules, and expanding the corporate alternative minimum tax (AMT).

Deficits Remained High Through the 1980s, but Bipartisan Budget Deals and a Strong Economy Produced Surpluses in the Late 1990s



X axis = fiscal year. Y axis = % of GDP. Red vertical bars indicate recessions.
Chart: Andrew Lautz, Bipartisan Policy Center • Source: Office of Management and Budget

- *Budgetary Projection:* JCT projected that the 1986 Tax Reform Act would **decrease revenue by $300 million** over five years (FY1987-1991).

OMNIBUS BUDGET RECONCILIATION ACT OF 1990 (OBRA 1990)

- *Partisan or Bipartisan:* Bipartisan (reconciliation).
- *Context:* President George H.W. Bush and Democrats in Congress—who controlled the House and the Senate—negotiated for months over a bipartisan budget agreement that would reduce deficits. The final package cut mandatory spending, increased taxes, and placed caps on discretionary spending.
- *Notable Tax Provisions:* The law increased individual income taxes by raising rates (including the top rate from 28% to 31%), phasing out personal exemptions, and limiting itemized deductions for high-income taxpayers. The law also increased and/or extended several excise taxes, including on gas, alcohol, aviation, telecommunications, and tobacco. It also increased the amount of wages subject to Medicare payroll taxes.
- *Budgetary Projection:* The Congressional Budget Office (CBO) and JCT projected that OBRA 1990 would increase revenue by $158 billion over five years (FY1991-1995).

OMNIBUS BUDGET RECONCILIATION ACT OF 1993 (OBRA 1993)

- *Partisan or Bipartisan:* Partisan (reconciliation).
- *Context:* A newly elected President Bill Clinton and Democrats in Congress—who controlled both the House and the Senate, although they did not have a filibuster-proof majority in the Senate—negotiated for months on a budget deal to reduce deficits in the years ahead. CBO ultimately projected that the deal would reduce deficits by $433 billion over five years, with a roughly even mix of tax increases and spending cuts.
- *Notable Tax Provisions:* The law added a 36% individual income tax bracket and a surtax on income above $250,000, bringing the top rate from 31% to 39.6%. The 1993 OBRA also increased gas taxes, the amount of wages subject to Medicare payroll taxes, and the top corporate tax rate from 34% to 35%.
- *Budgetary Projection:* CBO and JCT projected that OBRA 1993 would increase revenue by $241 billion over five years (FY1994-1998).

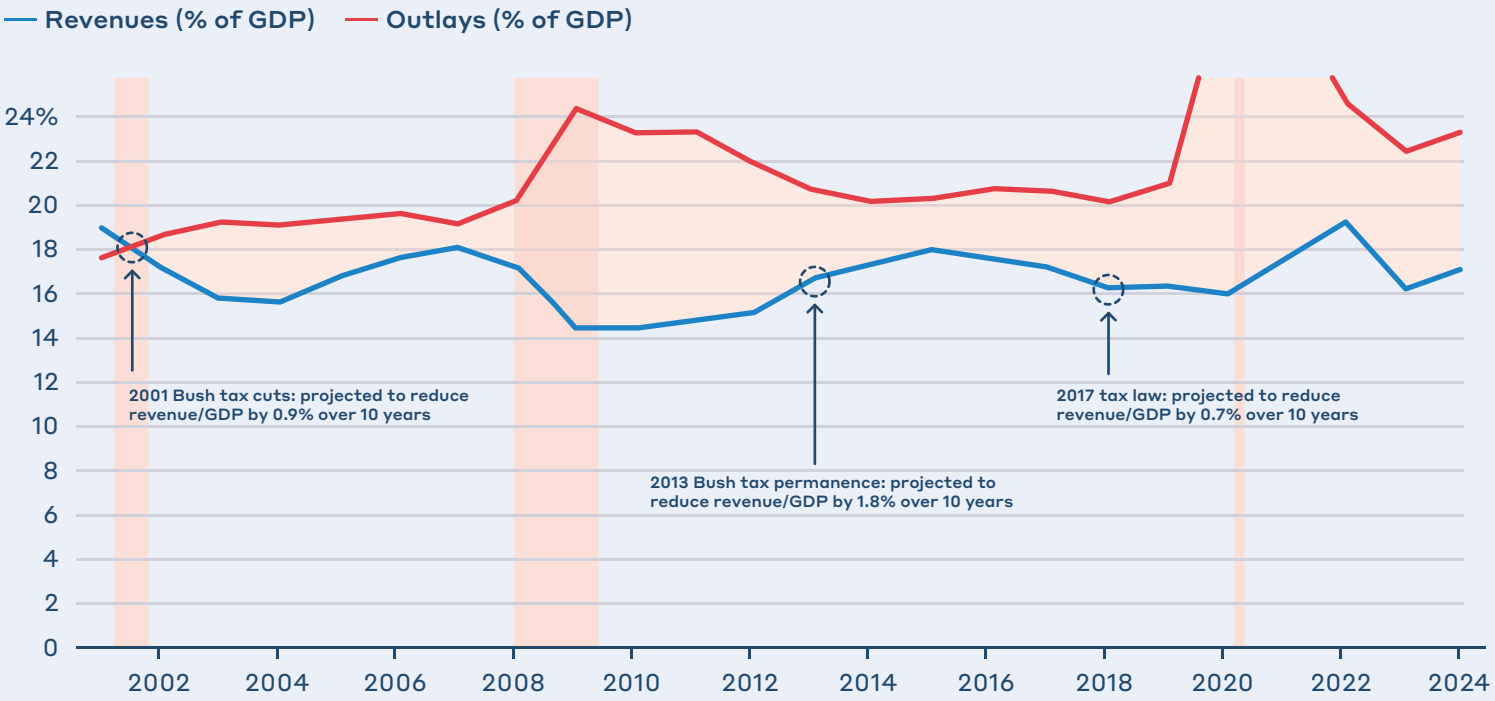
TAXPAYER RELIEF ACT OF 1997

- *Partisan or Bipartisan:* Bipartisan (reconciliation).
- *Context:* The Taxpayer Relief Act was one of two bills signed into law by President Clinton that together enacted a bipartisan budget agreement between the Democratic president and the Republican-controlled Congress. After months of negotiations, policymakers agreed on a package that reduced spending but also cut taxes.
- *Notable Tax Provisions:* The law created the Child Tax Credit (CTC), allowing families to receive a credit of up to $500 per child. It also created tax credits for higher-education expenses, a deduction for student loan interest (up to $2,500 per year from 2001 onwards), and Roth IRA accounts that allowed people to contribute to tax-advantaged retirement accounts with after-tax dollars. The law reduced capital gains taxes (the maximum rate decreased from 28% to 20%) and increased the credit against estate taxes.
- *Budgetary Projection:* CBO and JCT projected that the Taxpayer Relief Act of 1997 would decrease revenue by $68 billion over five years (FY1997-2001).

The Tax Cut Era: 2001-Present

At the turn of the century, the combination of a strong economy and bipartisan action to reduce deficits created the first budget surpluses in decades. Those surpluses would not last. Both parties have passed major tax cuts in the 21st century, albeit Republicans have done so more often than Democrats. These tax cuts have contributed to a decline in revenue as a share of GDP over the 21st century.

Tax Cuts, Spending Increases, Recessions, Pandemics, and Wars Have Produced Large Deficits in the 21st Century



X axis = fiscal year. Y axis = % of GDP. Red vertical bars indicate recessions.
Chart: Andrew Lautz, Bipartisan Policy Center • Source: Office of Management and Budget

ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF 2001 ("2001 BUSH TAX CUTS")

- *Partisan or Bipartisan:* Bipartisan (reconciliation).
- *Context:* President George W. Bush had campaigned in 2000 on tax reform, and Republican policymakers advocated using the federal government's newfound surpluses to finance tax cuts. Although Congress used reconciliation to pass the 2001 tax law to avoid the Senate's 60-vote filibuster, several Democrats in both chambers of Congress joined nearly all Republicans in supporting the bill.
- *Notable Tax Provisions:* The law created a 10% individual income tax bracket (the previous lowest bracket was 15%); reduced individual income tax rates across the board; provided $300 stimulus payments; increased the CTC from $500 per child to $1,000 per child over several years; reduced marriage penalties in the tax code; phased down and scheduled a repeal of the estate, gift, and generation-skipping transfer (GST) taxes; and increased contribution limits for tax-advantaged retirement accounts.
- *Budgetary Projection:* JCT projected that the 2001 Bush tax cuts would decrease revenue by $1.2 trillion over 10 years (FY2001-2010).

JOBS AND GROWTH TAX RELIEF RECONCILIATION ACT OF 2003 ("2003 BUSH TAX CUTS")

- *Partisan or Bipartisan:* Partisan (reconciliation).
- *Context:* President Bush and congressional Republicans pursued a second major round of tax cuts to spur economic growth amid a slow economic recovery from the 2001 recession.
- *Notable Tax Provisions:* The law reduced tax rates on capital gains and dividends; accelerated individual income tax rate reductions; accelerated the increase in the CTC to $1,000 per child; and provided additional relief from the AMT.
- *Budgetary Projection:* JCT projected that the 2003 Bush tax cuts would decrease revenue by $351 billion over 10 years (FY2003-2012).

PATIENT PROTECTION AND AFFORDABLE CARE ACT (2010)

- *Partisan or Bipartisan:* Partisan (reconciliation).
- *Context:* After the 2009 stimulus package in the wake of the Great Recession, President Barack Obama and congressional Democrats made expanding health insurance coverage and reducing health care costs a top priority. Their efforts culminated in the Affordable Care Act (ACA).
- *Notable Tax Provisions:* Although the bulk of the law was focused on health spending provisions, it included several changes to the nation's tax code. The ACA created premium tax credits to subsidize the purchase of health insurance on new state-based exchanges. To help pay for the premium tax credits and Medicaid expansions in the law, the ACA created several new taxes and fees, including the net investment income tax (NIIT); the Additional Medicare Tax; the Cadillac tax; individual and employer penalties for failure to obtain or provide health insurance; the medical device tax; and fees on brand drugs and insurers. Congress later repealed the Cadillac tax, medical device tax, and insurers fee.
- *Budgetary Projection:* CBO and JCT projected that the ACA would increase revenue by $525 billion over 10 years (FY2010-2019).

TAX RELIEF, UNEMPLOYMENT INSURANCE REAUTHORIZATION, AND JOB CREATION ACT OF 2010

- *Partisan or Bipartisan:* Bipartisan.
- *Context:* Congress and President Obama faced a December 31, 2010, expiration of trillions of dollars in 2001 and 2003 Bush tax cuts. After the midterm elections in which Republicans regained the House, policymakers settled on a temporary extension of the expiring Bush tax cuts through the end of 2012.
- *Notable Tax Provisions:* The law extended the 2001 and 2003 Bush tax cuts through 2012, reinstated the estate tax after a one-year repeal, and extended more-generous business expensing allowances through 2012. It also introduced a temporary 2-percentage-point payroll tax cut for 2011 that was a key ask of the Obama administration as it sought to stimulate the economic recovery from the Great Recession.
- *Budgetary Projection:* JCT projected that the 2010 tax law would decrease revenue by $858 billion over 10 years (FY2011-2020).

AMERICAN TAXPAYER RELIEF ACT (ATRA) OF 2012

- *Partisan or Bipartisan:* Bipartisan.
- *Context:* After the bipartisan 2010 tax law extended the expiring Bush tax cuts for two years, Congress faced another tax cliff on December 31, 2012. Weeks of negotiations between the Republican-led House, Democratic-led Senate, and President Obama produced a bipartisan deal that made permanent the majority of the expiring 2001 and 2003 Bush tax cuts.
- *Notable Tax Provisions:* The law made most of the Bush tax cuts permanent, including lower individual income tax rates, lower capital gains tax rates, AMT relief, a larger CTC (then $1,000 per child), and an expanded EITC. The law raised the top individual income tax rate from 35% to 39.6% and the top estate tax rate from 35% to 40%. It also extended dozens of individual, business, and energy tax provisions through 2013.
- *Budgetary Projection:* JCT projected that ATRA would decrease revenue by $3.9 trillion over 10 years (FY2013-2022).

2015 PROTECTING AMERICANS FROM TAX HIKES (PATH) ACT

- *Partisan or Bipartisan:* Bipartisan.
- *Context:* Dozens of tax provisions expired at the end of 2014, with more expirations scheduled for the end of 2016 and 2017. Both parties in Congress and President Obama sought to address several of these expiring policies once and for all through permanent extensions, rather than treating them as "extenders" to be revisited every few years.

- *Notable Tax Provisions:* The law permanently extended a more generous CTC, the American Opportunity Tax Credit (AOTC) for higher-education expenses, the state and local sales tax deduction, the R&D credit, Section 179 expensing for small businesses, and exceptions to taxes on foreign income, among dozens of other provisions. Congress extended many additional provisions for a shorter period, through 2016 or 2019.
- *Budgetary Projection:* JCT projected that the PATH Act would decrease revenue by $622 billion over 10 years (FY2016-2025).

2017 TAX CUTS AND JOBS ACT (TCJA)

- *Partisan or Bipartisan:* Partisan (reconciliation).
- *Context:* During the 2016 campaign, several Republican presidential candidates and policymakers expressed an interest in comprehensive tax reform. President Donald Trump and congressional Republicans turned their attention in summer 2017 to the law that became TCJA.
- *Notable Tax Provisions:* TCJA significantly overhauled both the individual and business sides of the tax code. The law lowered individual income tax rates across the board; suspended personal exemptions; doubled the standard deduction; limited itemized deductions like the state and local tax (SALT) deduction; doubled the CTC; and provided relief from the AMT and estate tax. TCJA also lowered the corporate tax rate from 35% to 21% (and eliminated the graduated corporate income tax schedule, leaving just one 21% rate); created a 20% deduction for pass-through business income; enacted a temporary expensing allowance for business machinery and equipment; and overhauled the tax treatment of U.S. multinational companies' income earned abroad.
- *Budgetary Projection:* JCT projected that TCJA would decrease revenue by $1.5 trillion over 10 years (FY2018-2027).

2020 COVID RELIEF LEGISLATION

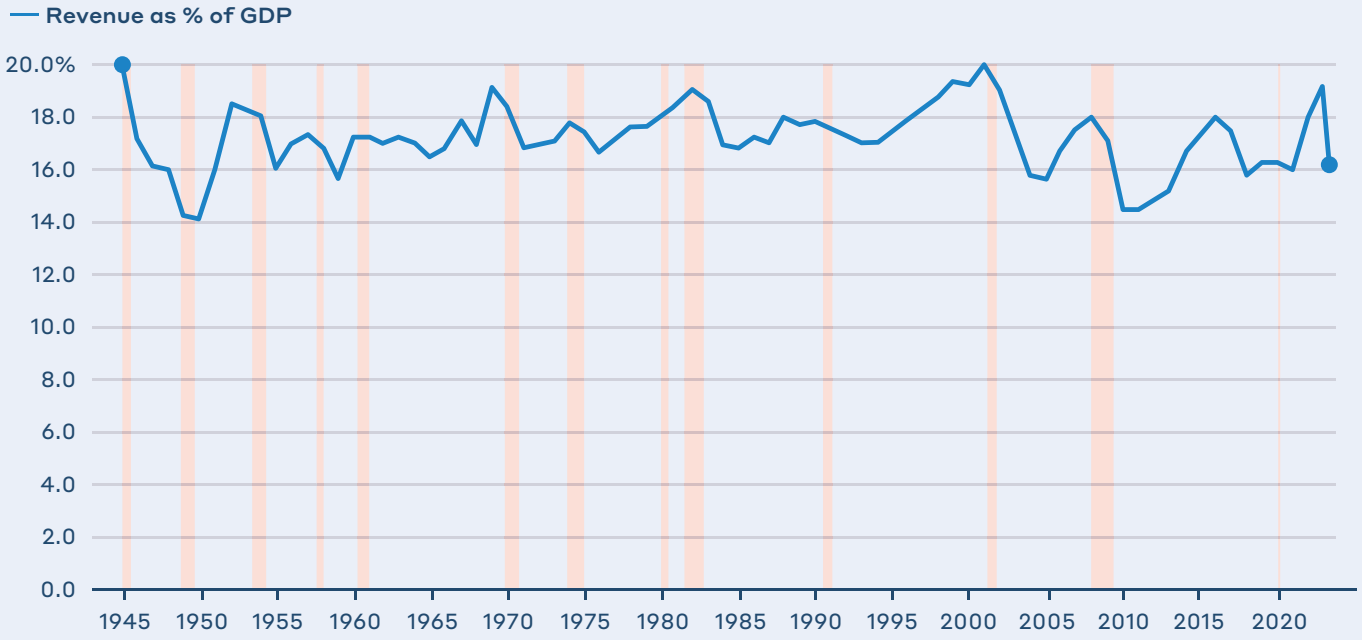
- *Partisan or Bipartisan:* Bipartisan.
- *Context:* The COVID-19 pandemic led to unprecedented economic and social disruptions. Congress and President Trump enacted four laws on a bipartisan basis in 2020 to address those disruptions and provide tax relief, the largest of which was the Coronavirus Aid, Relief, and Economic Security (CARES) Act.
- *Notable Tax Provisions:* The CARES Act included $1,200 stimulus checks to tens of millions of Americans, delivered as refundable, advanceable tax credits through the IRS. The CARES Act also created the Employee Retention Tax Credit (ERTC) for businesses that kept employees on payroll during the pandemic and provided businesses with increased flexibility to carry back tax losses. The CARES Act was followed by a December 2020 COVID relief law that provided an additional $600 stimulus check to tens of millions of Americans.
- *Budgetary Projection:* CBO and JCT projected that the 2020 COVID relief laws would decrease revenue by $809 billion over 10 years.

AMERICAN RESCUE PLAN ACT (ARPA) OF 2021

- *Partisan or Bipartisan:* Partisan (reconciliation).
- *Context:* President Joe Biden and congressional Democrats were motivated in early 2021 to pass additional tax relief and stimulus to address the ongoing economic and public health effects of the COVID pandemic.
- *Notable Tax Provisions:* The law included $1,400 stimulus checks to tens of millions of Americans, delivered once again through the IRS. The law also expanded the CTC from $2,000 per child to $3,000 per child (and $3,600 for children under six) for 2021 only, expanded the EITC for childless workers for 2021 only, and expanded ACA subsidies for 2021 and 2022.
- *Budgetary Projection:* JCT projected that ARPA would decrease revenue by $590 billion over 10 years (FY2021-2030).

Overall Trends: 1945-Present

Revenue Has Hovered Between 16% and 20% of GDP for Most of the Past 80 Years



Red shading = recession.
Chart: Andrew Lautz, Bipartisan Policy Center • Source: Office of Management and Budget

Individual Income Taxes Have Consistently Been the Main Source of U.S. Revenue since World War II

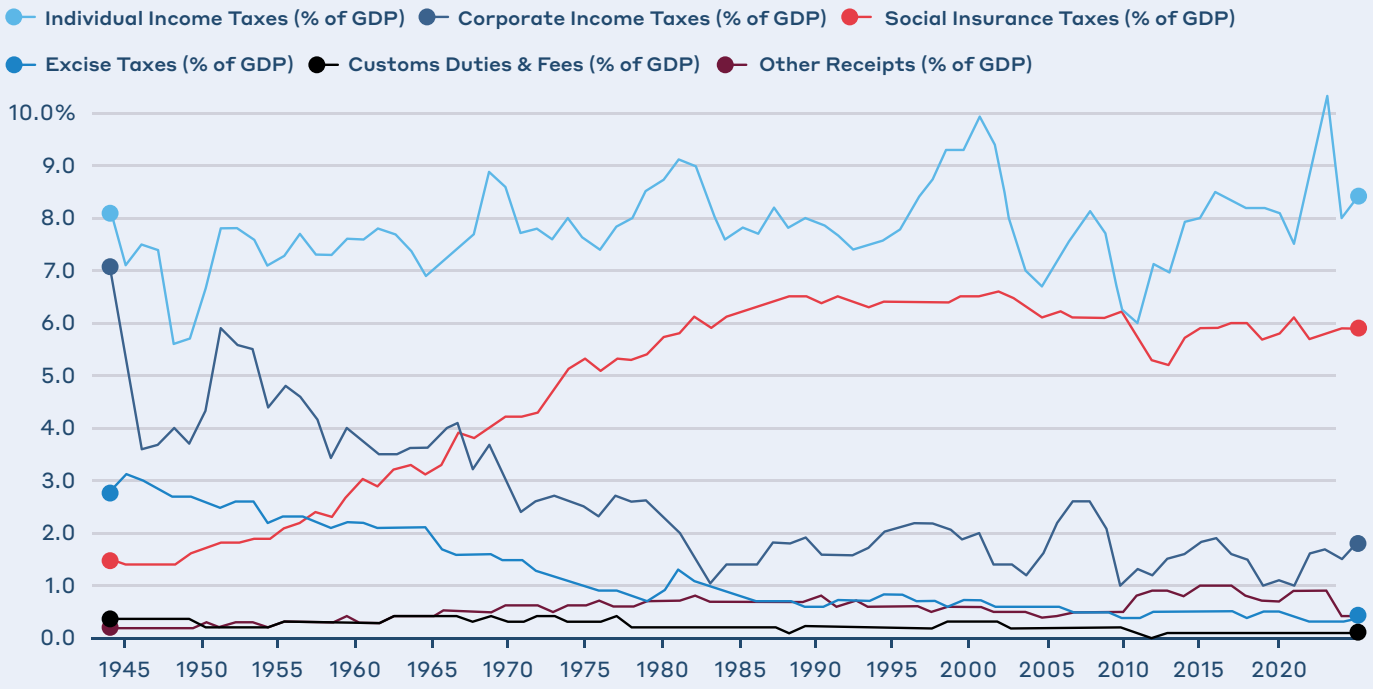


Chart: Andrew Lautz, Bipartisan Policy Center • Source: Office of Management and Budget

Bipartisan Policy Center

Lowest Federal Income Tax Rate Hasn't Exceeded 20% in Over 60 Years, and Congress Reduced the Highest Rate Significantly in the 1980s

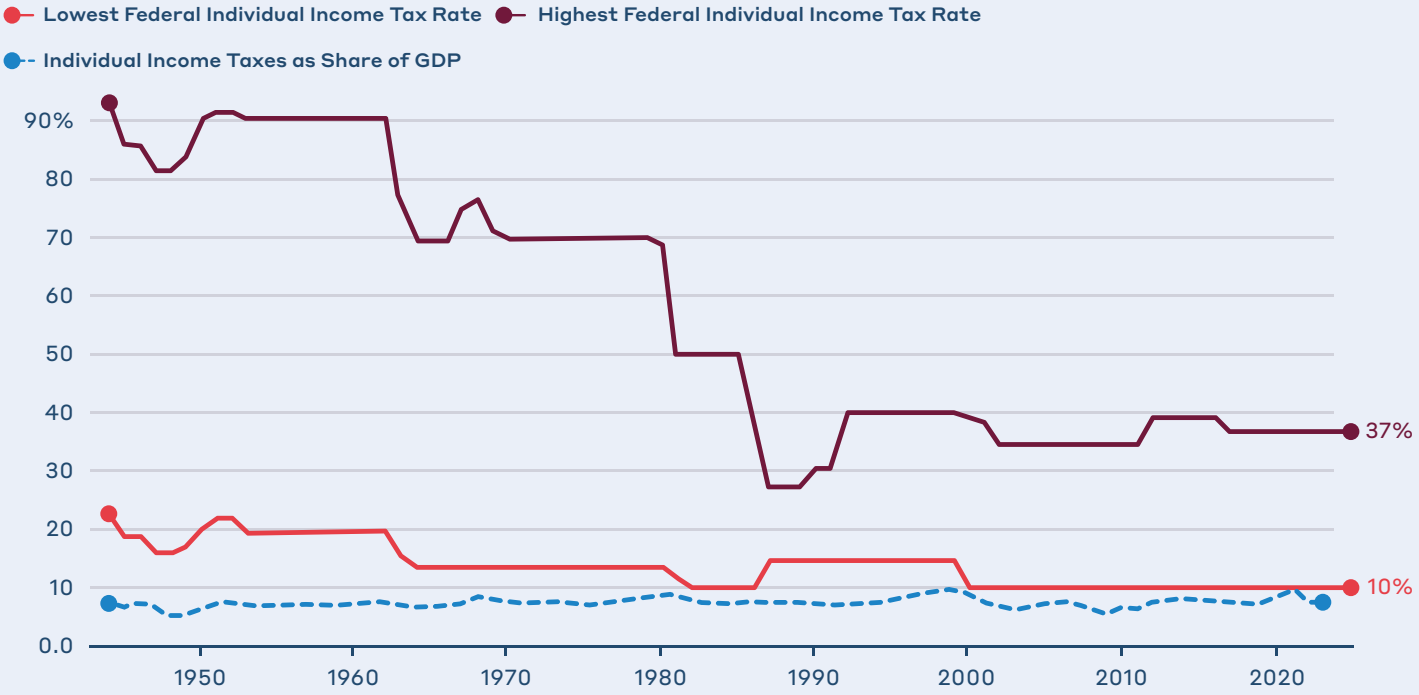
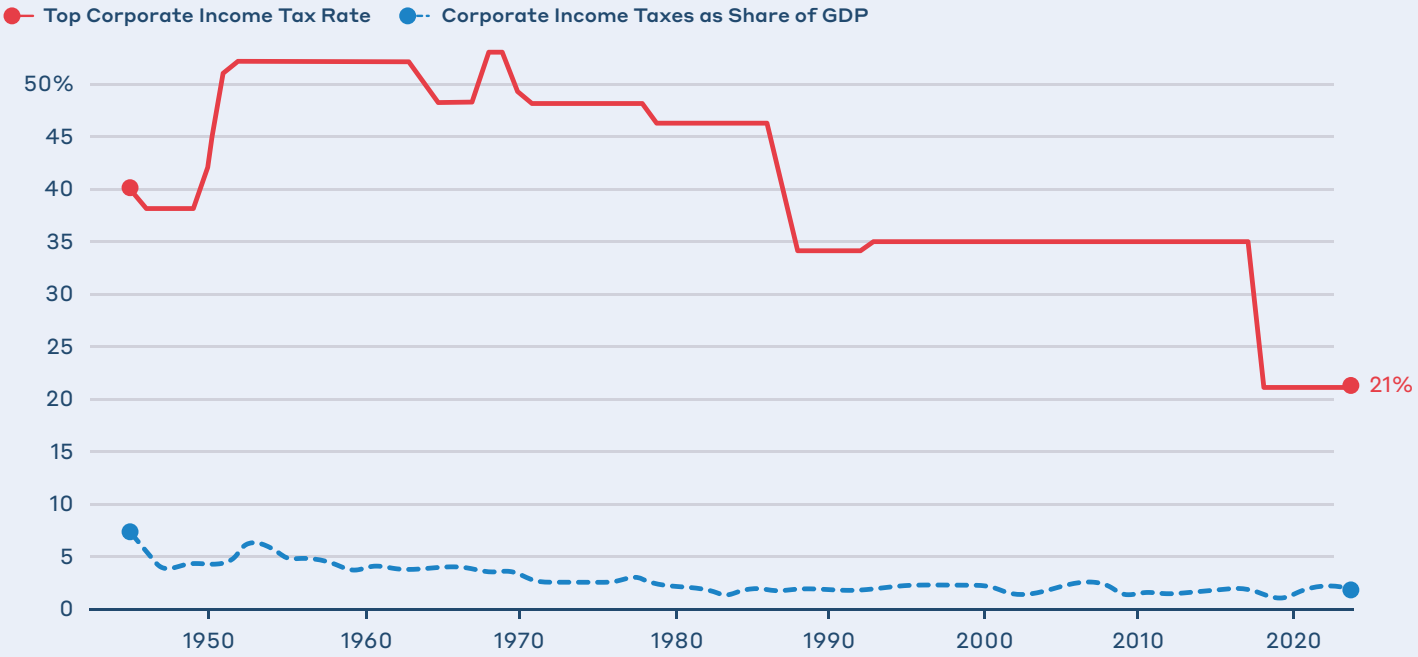


Chart: Andrew Lautz, Bipartisan Policy Center • Source: Internal Revenue Service

Congress Raised the Corporate Tax Rate in the 1950s, Then Cut it Significantly in 1986 and 2017



"Top" rate reflects the rate applied to income above a certain threshold in a given year. The above chart does not take into account excess profits taxes that Congress has levied on corporations at various points in history.
Chart: Andrew Lautz, Bipartisan Policy Center • Source: Internal Revenue Service

INFLATION REDUCTION ACT OF 2022

- *Partisan or Bipartisan:* Partisan (reconciliation).
- *Context:* After ARPA's passage, President Biden and congressional Democrats turned their attention to major domestic tax-and-spending legislation. Failure in the Senate to pass the Build Back Better (BBB) agenda led to deliberations over what became the Inflation Reduction Act in summer 2022.
- *Notable Tax Provisions:* The legislation included hundreds of billions of dollars in new or expanded tax incentives for clean energy, from electric vehicles to wind and solar projects to advanced manufacturing projects. The law also extended expiring ACA tax subsidies through 2025, restored a corporate AMT (previously repealed by TCJA), created a stock buyback tax, and appropriated $80 billion to the IRS for enhanced enforcement and modernization efforts. (The clean energy incentives and IRS funding have since been rolled back.)
- *Budgetary Projection:* JCT projected that the Inflation Reduction Act would increase revenue by $91 billion over 10 years (FY2022-2031).

ONE BIG BEAUTIFUL BILL ACT (OBBB) OF 2025

- *Partisan or Bipartisan:* Partisan (reconciliation).
- *Context:* The top priority of President Trump and congressional Republicans in 2025 was extending the expiring individual tax cuts from the 2017 TCJA. President Trump also sought to enact several new tax cuts he had promised on the campaign trail, such as "no tax on tips" and "no tax on overtime."
- *Notable Tax Provisions:* The law permanently extended the vast majority of expiring TCJA tax cuts, including lower individual income tax rates, a doubled standard deduction and CTC, and relief from the AMT and estate tax. It included several temporary tax cuts aimed at President Trump's campaign promises, including a tips income deduction, an overtime pay deduction, a manufacturing expensing allowance, and a larger senior deduction—all scheduled to expire at the end of 2028. The law cut business taxes significantly, extending TCJA's pass-through deduction, making bonus depreciation for machinery and equipment permanent, and restoring full expensing for business R&D. OBBB also rolled back most of the clean energy tax incentives enacted in the Inflation Reduction Act, mostly by ending them early.
- *Budgetary Projection:* JCT projected that OBBB would decrease revenue by $4.5 trillion over 10 years (FY2025-2034).

Research Notes

For determining whether a law was partisan or bipartisan, we rely on roll call vote data from GovTrack and from Congress.gov. For determining the budgetary effects of major tax laws, we use one methodology for laws from 1945-1975 and a different methodology for laws from 1976-2025. For the earlier years, we rely on a 2006 Treasury Department paper that succinctly summarizes the revenue effects of major tax laws in current dollars. JCT (formerly called JCIRT) used a variety of budget windows during that time period; first one year, then two, then three, and so on. For the later years, we generally rely on scores available from JCT's website (and, in some cases, supplemented by CBO reports). We use five-year effects from 1981-2000, and 10-year effects from 2001-present.

EXPLAINER | OCTOBER 16, 2024 | CALEB QUAKENBUSH | BIPARTISAN POLICY CENTER

The Risks of Our Growing Public Debt

Over the past 25 years, the national debt has grown significantly and it is projected to continue growing faster than the economy far into the future. Debt held by the public—the portion of federal debt held by investors, state and foreign governments, and the Federal Reserve—now surpasses $28 trillion, roughly equivalent to the nation's entire economic output this year. The Congressional Budget Office projects that, absent action, widening deficits and growing interest on the debt will add another $20 trillion of debt over the next decade. At that rate, by 2050 debt levels will reach 155% of gross domestic product.

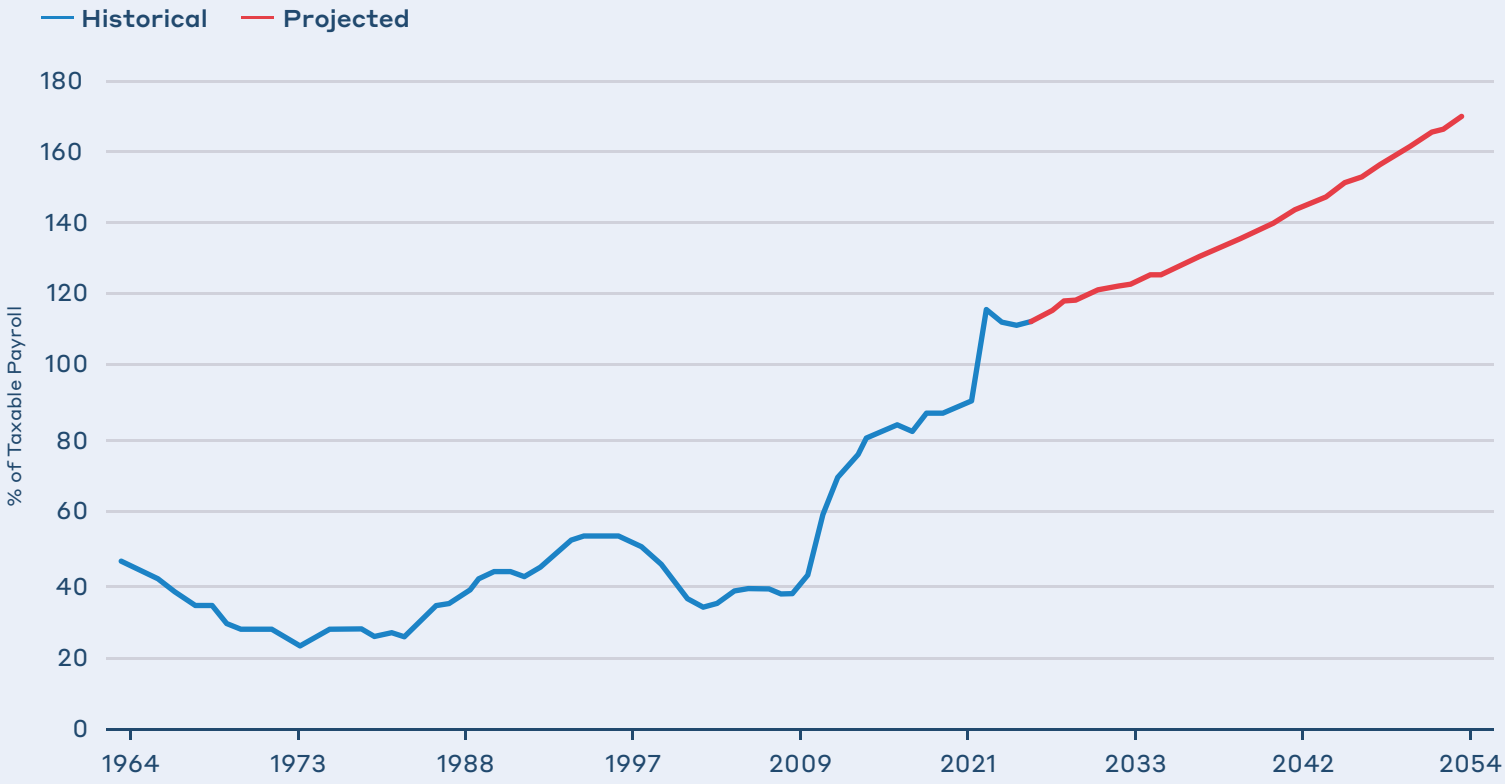
Economists have warned that this path poses long-term risks to the economy and to American taxpayers if left unaddressed:

- **Elevated interest rates** as increasing federal borrowing crowds out private investments that would otherwise support jobs, innovation, and economic growth;
- **Inflation** from high deficits, which strains budgets by driving up the costs of goods and services for families and businesses; and
- **Reduced public investment** as rising net interest costs prompt lawmakers to reduce spending on public programs.

These consequences will reach far into the U.S. economy. From housing to health care, businesses and families will feel the strain of higher costs and a less dynamic economy. Lawmakers seeking durable solutions that invest in our workforce, maintain our economic competitiveness, and keep the nation secure in an unstable world will need to act decisively to stabilize the debt and put the federal budget on a more sustainable course.

Our Growing Debt Burden

Federal Debt Held by the Public as a Percentage of GDP



Source: Congressional Budget Office

EXPLAINER | OCTOBER 21, 2024 | CALEB QUAKENBUSH, ANDREW PATZMAN |
BIPARTISAN POLICY CENTER

Why the National Debt Matters for Rising Health Care Costs

A large and growing national debt poses long-term risks to all parts of the economy, including the U.S. health care sector.

For context, the federal government now spends as much on net interest to service the national debt as it does on Medicare. Failure to restrain the national debt could undermine innovation and federal health care priorities. At the same time, rising health care costs are a major driver of federal spending. Reforms to address health care cost growth are thus critical to broader efforts to control the national debt and improve access to affordable, high-quality care.

- The nation's unsustainable fiscal path creates risks for Americans and the economy, potentially constraining economic activity and investments in the future.
- Medicare, Medicaid, and other health programs comprise an increasing share of the federal budget due to an aging population, rising prices for drugs and other health services, growing incidence of chronic disease, advances in costly medical treatments, and significant health sector consolidation.
- Unabated growth of the debt and deficits risks undermining government investment in public health services and infrastructure, research and development for new lifesaving treatments, and infectious disease response.

Health Costs and the Budget

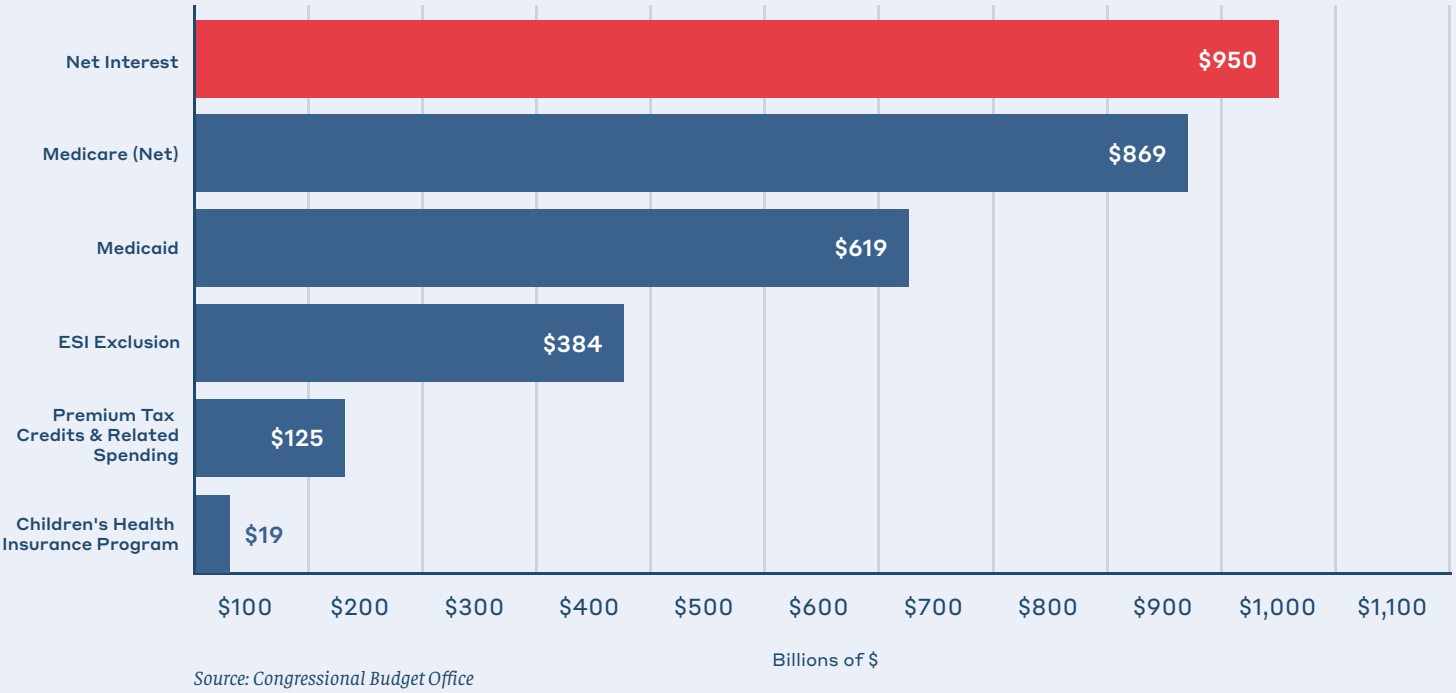
Health care comprises the largest share of the federal budget because of the enormous role the U.S. government plays in provisioning the system. The government provides or subsidizes health insurance for the vast majority of Americans: In fiscal year 2024, public health insurance programs are expected to total $1.6 trillion, while tax advantages for private employer-sponsored health plans will result in $384 billion in lost income and payroll tax receipts. These along with several smaller subsidies comprise more than $2 trillion of about $5 trillion in annual national health expenditures. The federal government also invests in medical research and development, public health, and other health-related endeavors.

Rising health care costs significantly drive federal spending as well. Major health programs' share of noninterest outlays has increased from 20% in 2000 to 28% in 2024 and is projected to increase further to 33% of noninterest outlays by 2034. Medicare and Medicaid spending alone is projected to rise by about 45% after accounting for inflation over the next decade.

Specifically, rising prices for health care goods and services account for much of the growth in U.S. health care costs. This is acutely felt in the pharmaceutical sector (three in 10 American adults report not taking medications as prescribed due to cost), but it is also underpinned by America's aging population, incidence of chronic disease, and continuing advances in costly but lifesaving treatments. Market factors such as consolidation among hospitals, health systems, insurers, clinics, and physician practices also drive up health care prices. For example, some estimates show that hospital prices can increase by as much as 65% following a merger.

Net Interest Spending Rivals Major Health Care Programs

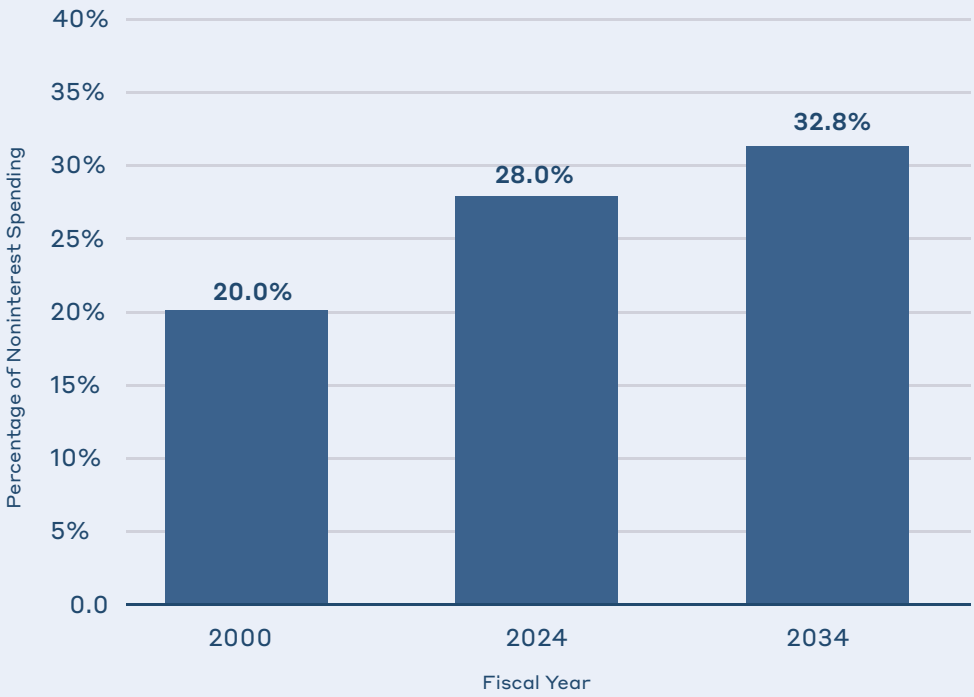
Budget Impact of Major Health Care Programs vs Net Interest Outlays, FY 2024



Source: Congressional Budget Office

Health Care is a Growing Share of the Budget

Major Health Programs' Share of Noninterest Spending



Note: Major health care programs include Medicare, Medicaid, ACA premium tax credits and related spending, and the Children's Health Insurance Program. Source: Congressional Budget Office

How the National Debt Affects Health Care

INFLATION

When the federal government runs large annual budget deficits, it can spur inflation. For example, Federal Reserve researchers estimate that fiscal stimulus in response to the COVID-19 public health emergency—when annual deficits peaked at more than $3 trillion—contributed to a 2.5 percentage point increase in inflation.

Higher overall inflation may push up the costs of health services, especially if wage inflation occurs in the health care sector. This could increase the cost of private health insurance and especially strain employers' ability to provide affordable health insurance options to their workers. Health care providers whose reimbursement streams are already under threat as health care costs rise, particularly in rural and low-income communities, may be especially burdened by rising costs.

PRIVATE INVESTMENT CROWD OUT

At high borrowing levels, the increase in government debt purchased by investors "crowds out" financing that would otherwise be available to the private sector. While medical technology and pharmaceutical developers currently benefit from access to capital, they may face higher financing costs in the future as debt rises to unsustainable levels. Crowding out could slow the pace of investment in research and development for new drugs and treatments as well as preventative interventions that could slow cost growth. Elevated interest rates can also constrain financing for new hospital and health care facility construction and public health investments. Reduced investment could also force further consolidation or otherwise restrict communities' access to quality health care.

LESS PUBLIC INVESTMENT

Federal investments in the country's broader health care infrastructure—public health, drug safety, and research and development—remain especially vulnerable as net interest on the debt will only continue to crowd out discretionary spending. This includes the budgets for the National Institutes of Health, the Centers for Disease Control and Prevention, and the Food and Drug Administration.

Declining outlays could diminish the nation's economic competitiveness as our collective hand is forced to pay bondholders over research and development for new drugs and treatments. For example, rapid development of the COVID-19 vaccines through Operation Warp Speed during the pandemic built on decades of research on RNA and medical technologies, which would not have been possible without years of steady federal scientific funding.

Similarly, reduced investments in the CDC or FDA could erode the effectiveness of the government's capabilities to prevent and respond to future disease outbreaks in the food supply or public health emergencies. Beyond the human cost of these risks, diminished public health also contributes to a less productive workforce and economy.

The Path Forward

The long-term fiscal imbalance cuts two ways for the U.S. health care system: Rising health costs are a large share of projected spending, and increasing debt will make meeting pressing public health needs more difficult. To improve health care access, affordability, and scientific progress, policymakers must take action to address the debt.

Restraining health care cost growth while maintaining access to quality care will be critical to any solution to our fiscal challenges. As BPC has recommended, lawmakers will need to pursue multiple solutions, including entitlement and tax reform (notably Medicare), ensuring affordable drug prices, and limiting the adverse effects of health industry consolidation.

EXPLAINER | AUGUST 18, 2026 | ANDREW MASTRONE, CALEB QUAKENBUSH |
BIPARTISAN POLICY CENTER

Crowding Out: How Rising Public Debt Squeezes the Economy

Federal debt held by the public has reached $32 trillion as of July 2026—about the size of the entire U.S. economy—and there are few signs that the fiscal outlook will improve in the near term. When the government borrows, it competes with private borrowers for the same pool of savings that funds new housing construction, business expansion, car loans, and student loans. Competition for those funds pushes interest rates up, as borrowers must offer higher returns to attract lenders away from virtually risk-free Treasury securities. Economists call this dynamic "crowding out." This explainer examines the mechanisms behind crowding out and how increased government borrowing raises costs for Americans.

How does crowding out occur?

Crowding out works through several channels:

- Government deficits reduce national saving. When the government borrows more, it absorbs funds that would otherwise finance private investment, and interest rates rise as private borrowers compete for what remains. Households save somewhat more in response, and foreign investors supply some of the difference, but together they replace only part of what is lost.
- Rising debt can heighten investors' concerns about future inflation and even potential default—whether by failure to pay bondholders or by printing money to cover obligations. Lenders respond by demanding higher returns on long-term debt as compensation.
- The same additional foreign capital that cushions interest rates during times of high deficits also strengthens the dollar and can make American exports less competitive.

Each of these channels pushes borrowing costs higher. The main consequence is a smaller stock of productive capital: as economy-wide borrowing costs rise, savings that would have funded productive enterprises flow into government debt instead. Over time, that means slower productivity growth than there otherwise would have been, which translates into slower wage growth.

What does crowding out look like in practical terms?

Federal borrowing puts upward pressure on interest rates across the economy. Yields on Treasury securities issued to finance government borrowing rise, especially at longer maturities. This increases interest costs for the government—and ultimately taxpayers—and it drives up rates for private debt, which investors treat as riskier than Treasuries. The increased cost of capital also reduces the expected profitability of long-term investments, so fewer of these investments are undertaken.

These effects show up in numerous ways:

- Homebuilders finance fewer projects, reducing new housing starts and raising monthly costs for buyers and renters.
- Businesses invest less in energy infrastructure and new equipment.
- Pharmaceutical and medical technology companies pay more to finance research and development.
- Universities face steeper costs to finance new labs and facilities.
- Students borrow at higher rates for college.
- Households pay more on credit cards, auto loans, and mortgages.
- Small businesses face higher rates on loans and lines of credit, making it costlier to start or expand.

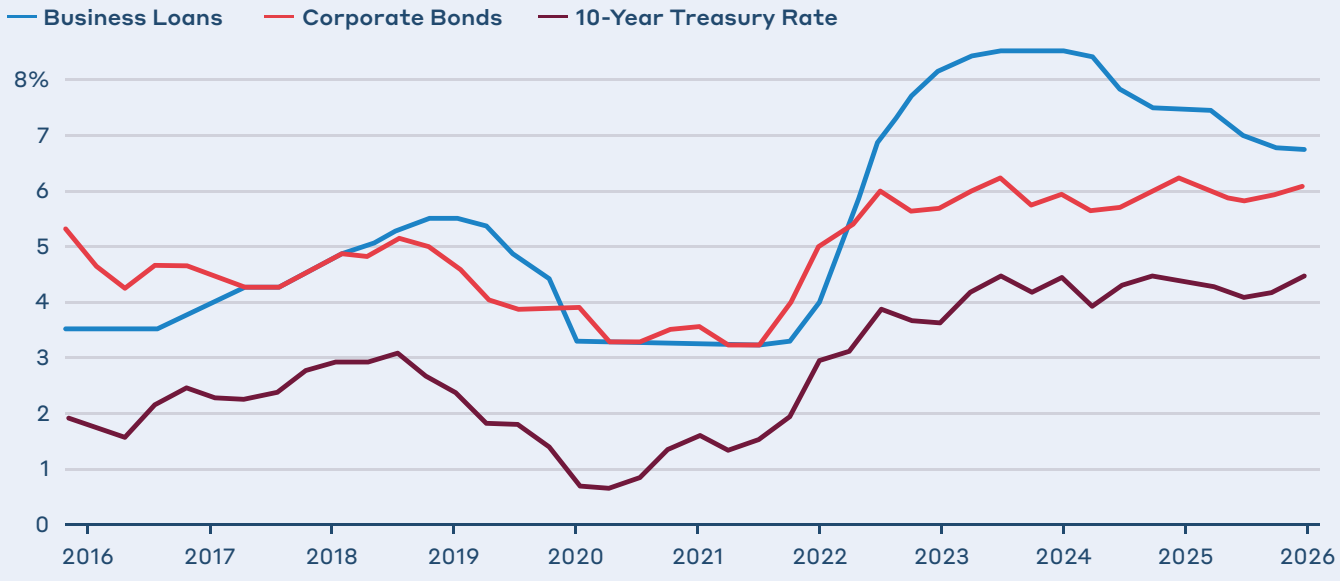
These are only a few examples, but the effects reach nearly every corner of the economy.

How large is the crowding-out effect on the U.S. economy?

The exact magnitude of the crowding-out effect is contested, but across the economic literature, the direction is consistent: higher federal debt raises economy-wide borrowing costs. The Congressional Budget Office estimates that for each percentage-point increase in the ratio of debt to gross domestic product, long-term interest rates increase by approximately two basis points (0.02 percentage points). Under CBO's current projection, debt rises by 74 percentage points of GDP by 2056, implying roughly an extra 1.5 percentage points on long-term interest rates, all else equal.

CBO's most recent analysis of this question, published in May 2025, found that holding debt at 100% of GDP rather than letting it rise along its projected path would

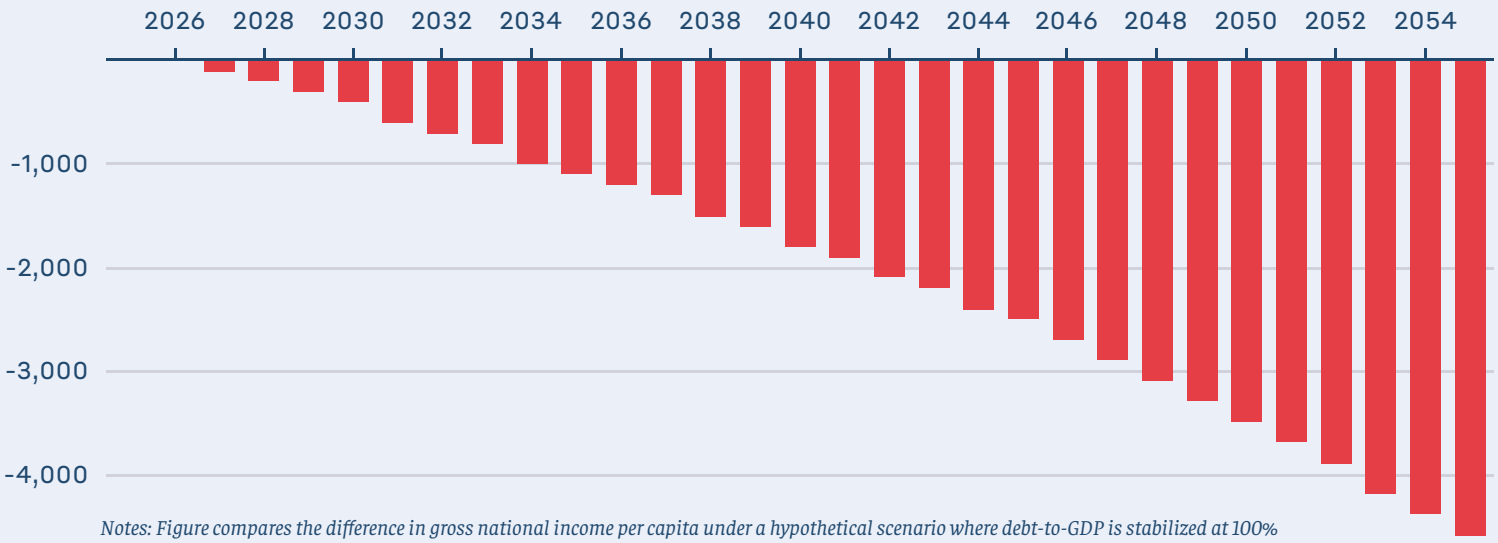
Higher Treasury Rates Raise Borrowing Costs Across the Economy



Source: Source: Federal Reserve St. Louis: Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity; Moody's Seasoned Baa Corporate Bond Yield; Bank Prime Loan Rate

Higher Debt Will Reduce Per Capita Income

Projected loss in GNP per capita under CBO's debt projections compared to stabilizing debt-to-GDP (Constant 2025 dollars)



Notes: Figure compares the difference in gross national income per capita under a hypothetical scenario where debt-to-GDP is stabilized at 100% of GDP to that under CBO's long-term projections of debt growth under current law as of May 2025. Estimates are rounded to the nearest $100.
Source: Congressional Budget Office

leave real income per person about 4% (or $4,600) higher in 2055.[1] CBO measures that income as gross national product per person rather than GDP, because rising debt reduces the income that accrues to Americans by more than it reduces domestic output. Namely, a growing share of returns flows to foreign holders of Treasury debt. A 4% difference in income compounds slowly and gradually; it shows up not as a single event but as slower growth in paychecks and higher monthly costs for mortgages, car loans, and tuition over decades.

What can be done?

Not all government debt is bad for the economy. The federal government plays an important role in investing in public infrastructure, research and development, and other public goods that private capital may underinvest in due to their risk, scale, coordination challenges, or other market barriers. Government borrowing for these types of investments can pay long-term dividends for economic growth. Deficit-financed stimulus during recessions—when the economy has idle capacity—can reduce financial hardship for unemployed workers and help the economy recover faster.

Borrowing that persistently outpaces economic growth, however, leads to crowding out—and the resulting economic drag increases the cost of living and doing business. Policymakers will need to slow the growth of debt relative to the economy by reducing the deficit. This will require looking at policies that slow spending growth on the largest government programs, raise additional revenue, and accelerate economic growth.

Beyond the specific policy choices about spending and taxation, the budget process itself shapes whether those choices stick. Durable progress will likely require structural budget process reforms alongside bipartisan agreement on spending and revenue.

The longer policymakers wait, the larger and more painful the eventual adjustment. In the coming years, restoring fiscal sustainability will be one of the nation's central challenges. Until then, the cost will keep showing up in mortgage payments, business loans, and paychecks.

[1] That estimate was built on CBO's March 2025 projection, in which debt reached 156% of GDP by 2055. CBO now projects 175% by 2056, so the gap is likely larger today.

ARTICLE | APRIL 3, 2026 | EMERSON SPRICK, CALEB QUAKENBUSH, SANYA BAHAL | BIPARTISAN POLICY CENTER

Yes, the Social Security Deficit Adds to the Federal Deficit

In Brief

- **Social Security deficits add to federal debt:** When program revenues fall short, the government must borrow more to cover benefits.
- **Trust fund accounting can obscure reality:** While Social Security's operations are sometimes treated as "off-budget," the program's surpluses and deficits affect the general fund.
- **Reform is becoming urgent:** With trust fund depletion approaching, action is needed to ensure long-term sustainability.

Social Security's Old-Age and Survivors Insurance (OASI) is the single largest component of the federal budget, costing over $1.4 trillion in 2025—approximately 20% of total federal spending. OASI pays monthly benefits to more than 60 million retired workers and other beneficiaries. Since its inception, the program has been self-sustaining, funded primarily with a dedicated payroll tax and a trust fund built up from decades of surpluses.[1]

Social Security's unique accounting mechanism can lead to confusion about its impact on the nation's fiscal outlook. The program is sometimes accounted for separately from other government activities ("off budget"). Still, when its dedicated revenues fall short of benefit payments, the federal government must still come up with additional cash—through other receipts or additional borrowing—affecting deficits and debt held by the public.

Social Security's Financial Flows

Social Security generates revenue from two sources: a payroll tax levied on employees and employers, and individual income taxes owed on some Social Security benefits. This revenue is deposited into an OASI trust fund and used to pay benefits and cover administrative expenses. During years when this net cash flow was positive, surpluses were invested in special-issue Treasury securities that generated additional interest income for the trust fund in future years. In other words, the Social Security Administration (SSA) loaned its surpluses to the Treasury Department, which used those dollars to fund contemporaneous government spending.

Following the last Social Security solvency reform in 1983, OASI had positive net cash flow for several decades, building up a large trust fund balance. Given the federal government's overall annual deficits in most of these years of Social Security's trust fund surpluses, this intragovernmental borrowing reduced the amount of public borrowing.

Social Security Accounts for Over 20% of the Federal Budget

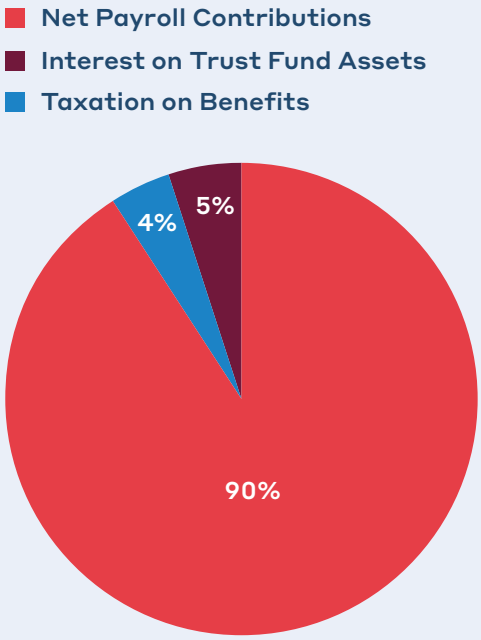
Federal Outlays, 2025

Expenditure	Amount (Billions)
Social Security (OASI)	$1,418
Medicare	$1,180
Medicaid	$668
Income Security	$397
Scoial Security (Disability Insurance)	$158
Other Mandatory Programs	$717
Defense (Discretionary)	$893
Nondefense Discretionary	$980
Net Interest	$970

Table: Bipartisan Policy Center • Source: CBO

Nine-tenths of OASI's income comes from a dedicated 10.6% payroll tax

Income sources for OASI, 2024. The payroll tax (on wages up to $184,500 in 2026) is split evenly between employers and employees.



Numbers don't sum to 100% due to rounding.
Chart: Bipartisan Policy Center • Source: SSA

In 2000, for example, the trust fund's operating surplus added $75 billion to the U.S. general fund, reducing the need for additional tax revenues or debt issuance to fund non-Social Security spending in that year. Meanwhile, this surplus, plus $58 billion of interest accumulated on past surpluses, added $132 billion to the trust fund's balance, as shown in the table below.

Cash flow turned negative in 2010, however, when OASI's spending exceeded its non-interest receipts by $16 billion. This shortfall required SSA to redeem $16 billion of its loans to the Treasury's general fund, which in turn required the Treasury to borrow an additional $16 billion from the public (since the general fund was already running a deficit at the time).[2]

Even with negative net cash flow, trust fund assets continued to grow in 2010 because interest credited to the fund exceeded the $16 billion shortfall by $92 billion. In other words, even though OASI had begun to draw resources from the Treasury, it didn't appear as a deficit for the intragovernmental accounting device of the trust fund.

In 2018, and then again starting in 2021, however, the program's operating shortfall reached levels requiring net reductions in trust fund assets. In 2021, the redemption of both principal and interest on its special issues increased financing needs for the rest of the government by $127 billion. These deficits are projected to continue and grow until trust fund depletion in 2032 (at which point Social Security, by law, must balance revenues and expenditures).

OASI Trust Fund Flows, Select Key Years (billions)

Social Security's surpluses once added to total budget surpluses. Now that trust fund assets are being redeemed, Social Security is drawing from the General Fund.

Expenditure	2000	2010	2021
Beginning-of-year Balance	$799	$2,337	$2,812
Non-interest Income	$433	$569	$875
Total Expenditures	$358	$585	$1,002
Cash Flow (Effect on General Fund)	**$75**	**-$16**	**-$127**
Net Interest Credited to Trust Fund	$58	$108	$67
Change in Trust Fund Balance (Net Sepcial Issue Investment/Redemption)	**$132**	**$92**	**-$59**
End-of-year Balance	$931	$2,429	$2,712

Figures may not sum due to rounding.
Table: Bipartisan Policy Center • Source: SSA

The Path Ahead for Social Security's Finances

The law does not permit Social Security to borrow to pay benefits. When program revenues in a given year are insufficient (as they are currently), SSA can only use accumulated trust fund assets to bridge the gap. Bringing benefit outlays in line with annual revenue would amount to an aggregate annual benefit cut of 20-25% beginning in 2033. This path would have stark financial consequences for households nationwide—but so too would breaking the link between payroll tax revenue and its benefit outlays by allowing Social Security to tap the federal government's general revenues to pay full benefits without offsets or fiscally responsible long-term reforms.

In that scenario, additional federal borrowing to support OASI would total $477 billion (1.1% of gross domestic product) in 2033 alone, increasing each year to reach $1 trillion annually by 2050, adding to the debt burden and worsening the nation's fiscal outlook. Excessive borrowing to pay for unfunded benefits risks making housing and other household living costs less affordable and can crowd out investments that lead to economic growth. In fact, inaction on reforming major mandatory programs like Social Security has been cited by credit rating agencies as a risk to the U.S. economy, and failure to act in the coming years would signal to bond markets that the government has no plan to rein in borrowing.

OASI Net Cash Flow, 1960-2024 (billions)

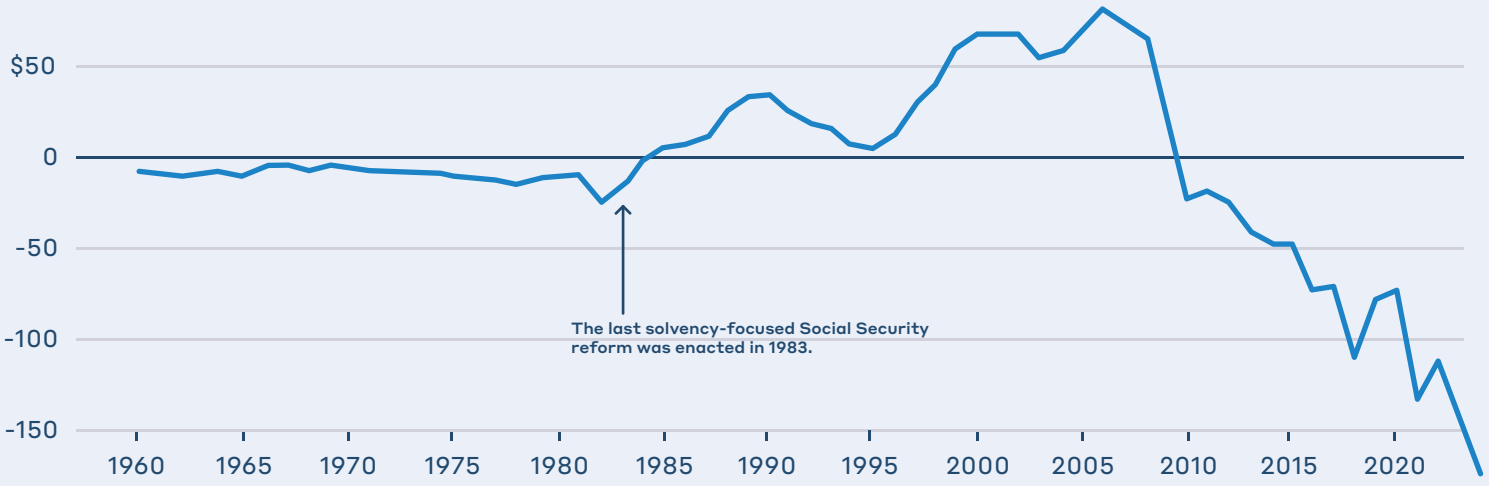
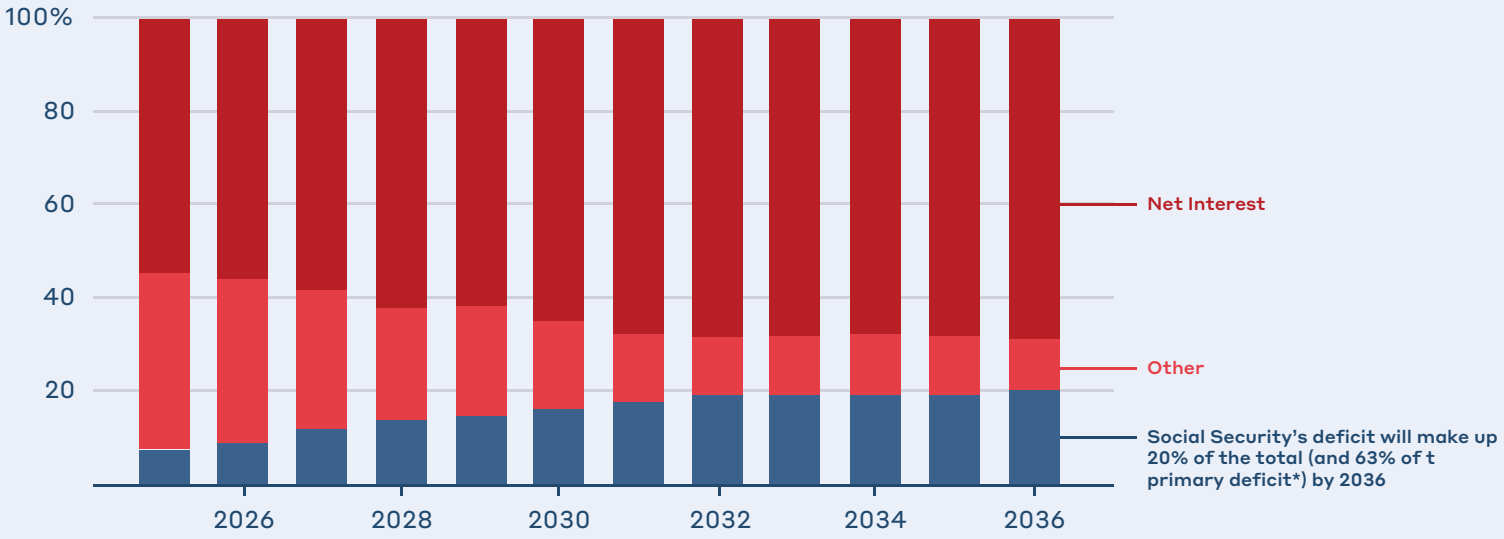


Chart: Bipartisan Policy Center • Source: SSA

Components of the Federal Deficit, 2025-2036



** The primary deficit is the difference between government revenues and spending, excluding interest payments.*
Chart: Bipartisan Policy Center • Source: CBO

The Bottom Line

Social Security is a pillar of economic security for many Americans and hugely popular, but its massive financial shortfalls are set to drive unsustainable growth in the national debt—with real impacts on the cost of living and doing business in the U.S. With just six short years before the OASI trust fund's projected depletion, policymakers on both sides of the aisle must come to the table for pragmatic discussions on how to strengthen and protect this vital program in a fiscally responsible way.

[1] Social Security also includes Disability Insurance (DI), a smaller program with a trust fund that is solvent under current projections. Lawmakers have previously diverted resources between the OASI and DI trust funds to address solvency problems, and analysts often examine the combined assets of

[2] Just like a consumer bank, which loans out deposits, leaving an "IOU" in each account until an individual makes a withdrawal, Treasury immediately credits SSA for the amount of the special issues purchased, plus interest, when SSA redeems those securities.

EXPLAINER | APRIL 16, 2025 (LAST UPDATED MAY 5, 2026) | CALEB QUAKENBUSH, JULIA PELLETIER | BIPARTISAN POLICY CENTER

Why the National Debt Matters for the U.S. Bond Market and the Economy

With more than $31.3 trillion in publicly held debt and an average of $1.3 in Treasury securities traded daily, the U.S. bond market underpins both domestic and global finance. Treasuries' reliability, combined with the dominance of the U.S. dollar in international trade, has made them a foundational component of the global economy and among the safest and most liquid investments available to lenders worldwide.

However, exploding public debt, recurring brinksmanship over the debt ceiling, and recent economic policy instability threaten to undermine confidence in the system. This uncertainty can push up Treasury yields, increase the share of taxpayer dollars paying down interest instead of paying for public programs, and increase borrowing costs across the entire economy.

Bipartisan Policy Center tracks the interaction between U.S. fiscal policy, growing public debt, and the broader economy. This explainer describes how the bond market works, how it is evolving, and why it matters for the financial system. This explainer also considers how the market could react to continued high levels of borrowing with no meaningful plan for stabilizing an exploding public debt.

What is the bond market?

The U.S. bond market is where the federal government borrows to finance its operations. Each year, the Treasury conducts hundreds of auctions for debt of different maturities backed by the full faith and credit of the U.S. government:

- Bills have terms as short as four and up to 52 weeks;
- Notes have terms between two and 10 years; and
- Bonds mature in 20 or 30 years.

Decades of federal budget deficits have created an enormous market of publicly tradeable, low-risk securities. Debt held by the public is now $31.3 trillion—roughly the size of annual U.S. economic output—and growing.

Not all federal debt is publicly traded. An additional $7.6 trillion is held by other parts of government in the form of special nonmarketable securities—primarily trust funds like those for Social Security, Medicare, and civil service retirement systems. As these funds redeem assets to pay out benefits, the government often borrows from public markets, effectively converting this intragovernmental debt into public debt.

Who buys public debt and why?

A wide range of investors buy U.S. debt:

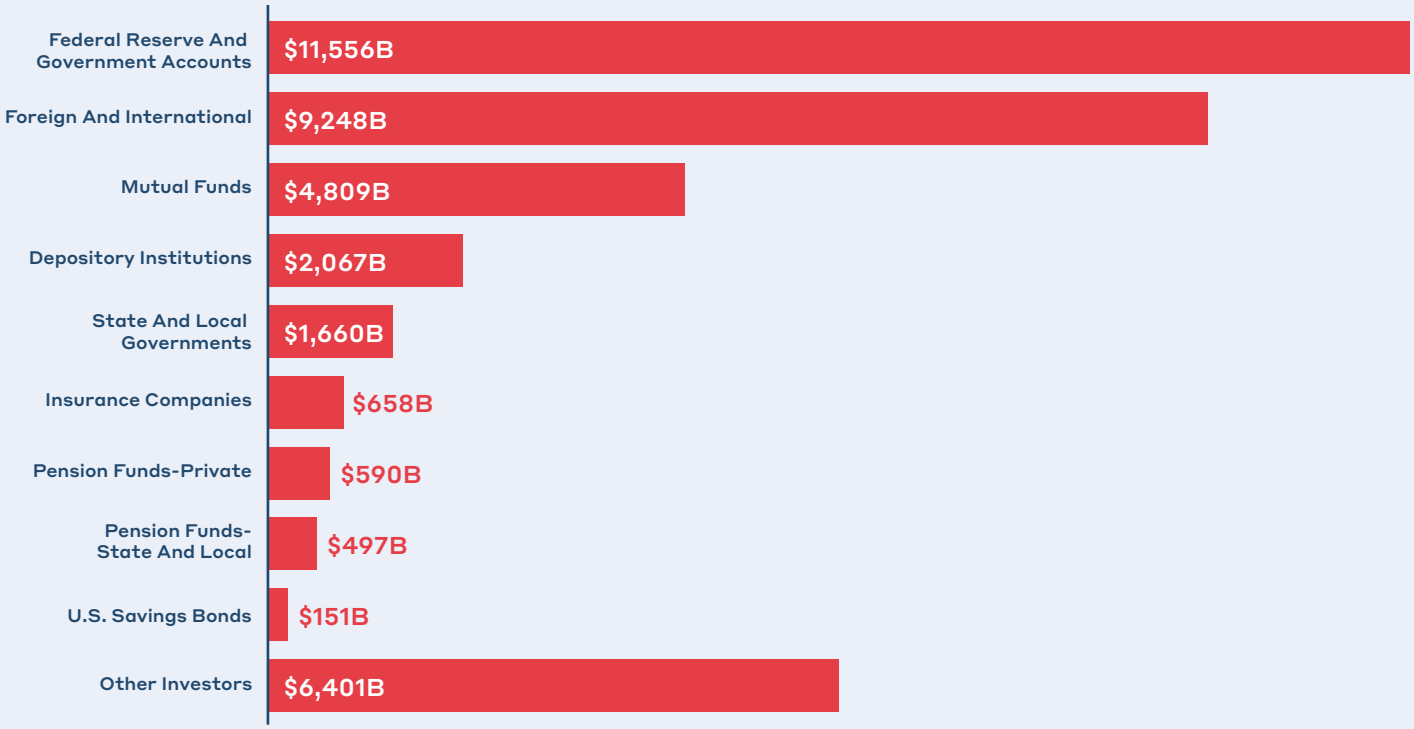
- The Federal Reserve buys and sells Treasuries for its monetary policy operations to influence interest rates, inflation, and employment.
- Foreign governments and central banks hold Treasuries to manage their dollar reserves and currency exchange rates. The U.S. dollar has long been viewed as the world's reserve currency, though that role is at risk of eroding.
- Domestic and foreign private investors seek safe—and for some bond types, inflation-protected—investment assets. Foreign investors also hold Treasuries to increase their dollar holdings, which can be used to purchase U.S. goods, services, and other dollar-denominated assets.
- Banks, state and local pensions, and private pension funds use Treasuries as a stable component of their overall capital management and investment strategies.

Nearly one-third ($9.5 trillion) of U.S. public debt is held by foreign and international investors, about evenly split between private and government holdings. Japan ($1.2 trillion), China ($693 billion), and the United Kingdom ($897 billion) comprise the top three foreign holders of Treasuries—reflective of the size of their economies and trading ties with the U.S.

What are yields, and how are they determined?

Yields are the interest rates that investors receive in return for lending to the government, reflecting supply and demand in the bond market. Supply is driven by the

Holdings of U.S. Treasury Securities



Data as of September 30, 2025
Source: Treasury Bulletin

rate of federal borrowing for both new deficits and to refinance maturing debt.

Demand for Treasuries is influenced by expectations about economic growth and inflation, and confidence in the dollar and U.S. creditworthiness. Yields usually rise with elevated concerns about inflation or concerns about U.S. fiscal sustainability, as investors demand greater inflation-adjusted returns. They have typically fallen during recessionary periods as investors flock to the safety of Treasuries compared to more volatile assets.

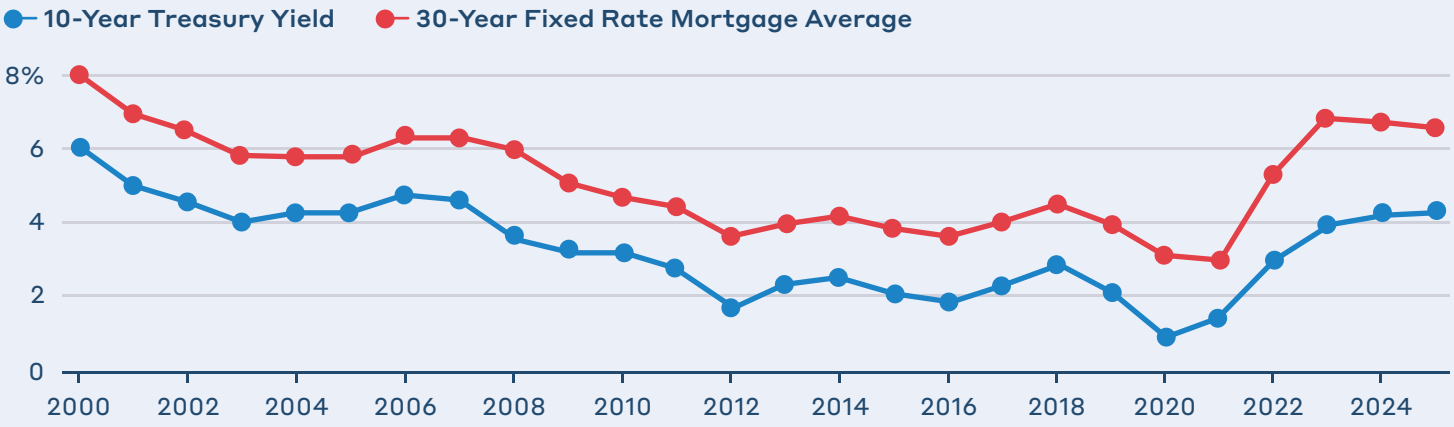
The Federal Reserve's open market operations to set the federal funds rate and manage money supply also significantly influence yields. When the Fed buys large amounts of Treasuries to inject money into the economy, it increases demand and lowers yields. When it unloads its Treasuries to reduce the money supply and curb inflation, yields rise.

How do Treasury yields relate to the broader economy?

Treasury yields serve as an important benchmark for a wide range of borrowing across the economy. The interest rates faced by households, businesses, and state and local governments often move with Treasury yields of similar maturity. For example, mortgage rates closely track the 10-year Treasury yield, while auto loan rates track the yield on 5-year notes. Some rates are explicitly benchmarked to Treasury yields, including direct student loans and certain small business loans.

Changes in interest rates shape activity across many sectors of the economy. Higher interest rates can push mortgages out of reach for potential homebuyers and make new housing developments less profitable for homebuilders. Small businesses like child care providers often rely on short-term credit to manage payroll and other operating costs, and rates can make or break

Treasury Yields and Market Interest Rates



profitability. Over time, elevated interest rates make it more difficult for businesses to expand and hire and for capital-intensive projects like new energy infrastructure, hospital systems, and research and development to procure financing.

What role does fiscal policy play?

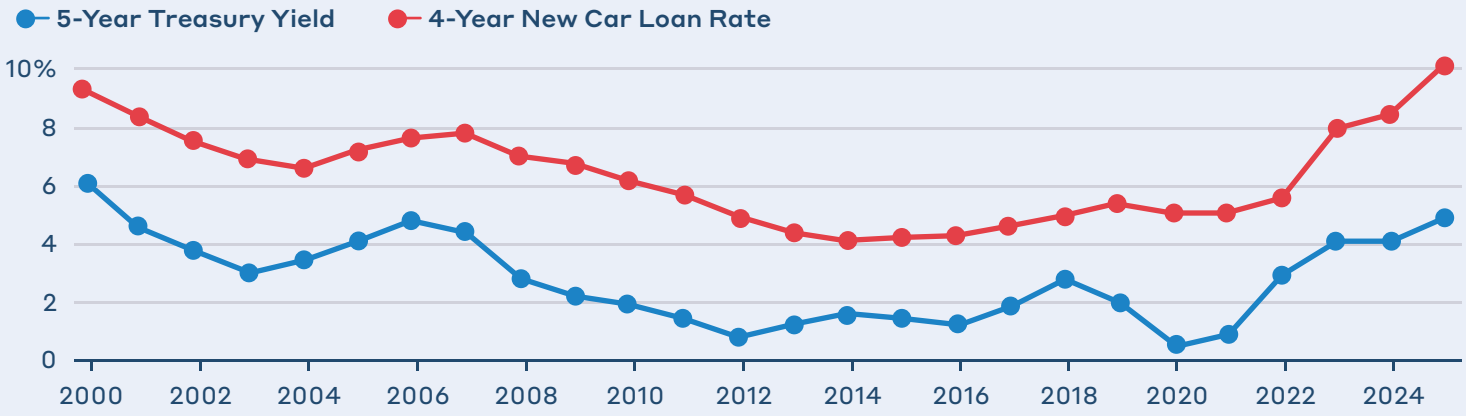
All else equal, large federal budget deficits increase the supply of Treasury debt and put upward pressure on yields as investors demand higher returns to absorb additional borrowing. Fiscal policy also shapes investor expectations about future inflation, and evidence shows that bond markets effectively price in the deficit impacts of new legislation. Similarly, the Fed factors the impacts of fiscal policy into setting the federal funds rate, which as mentioned holds enormous influence over other rates across the economy.

Investor confidence in the government's ability to faithfully repay its debts also moves yields. For example, debt limit brinksmanship leads investors to demand higher yields due to the heightened possibility of default. Such uncertainty undermines public confidence in Congress's willingness to function and the government's ability to steward its debts. The 2023 debt limit episode led to a record 5.84% yield on 4-week securities, the highest auction yield since 2000. Downgrades of the U.S. sovereign credit rating by S&P and Fitch reflect this lowered confidence and signal concerns about long-term fiscal trends.

What are the consequences of rising debt?

Since 2020, rising yields combined with ballooning deficits significantly spiked interest costs for taxpayers and the federal government. Nearly $1 of every $5 in federal revenues goes toward interest on the debt, and

Treasury Yields and Related Borrowing Rates



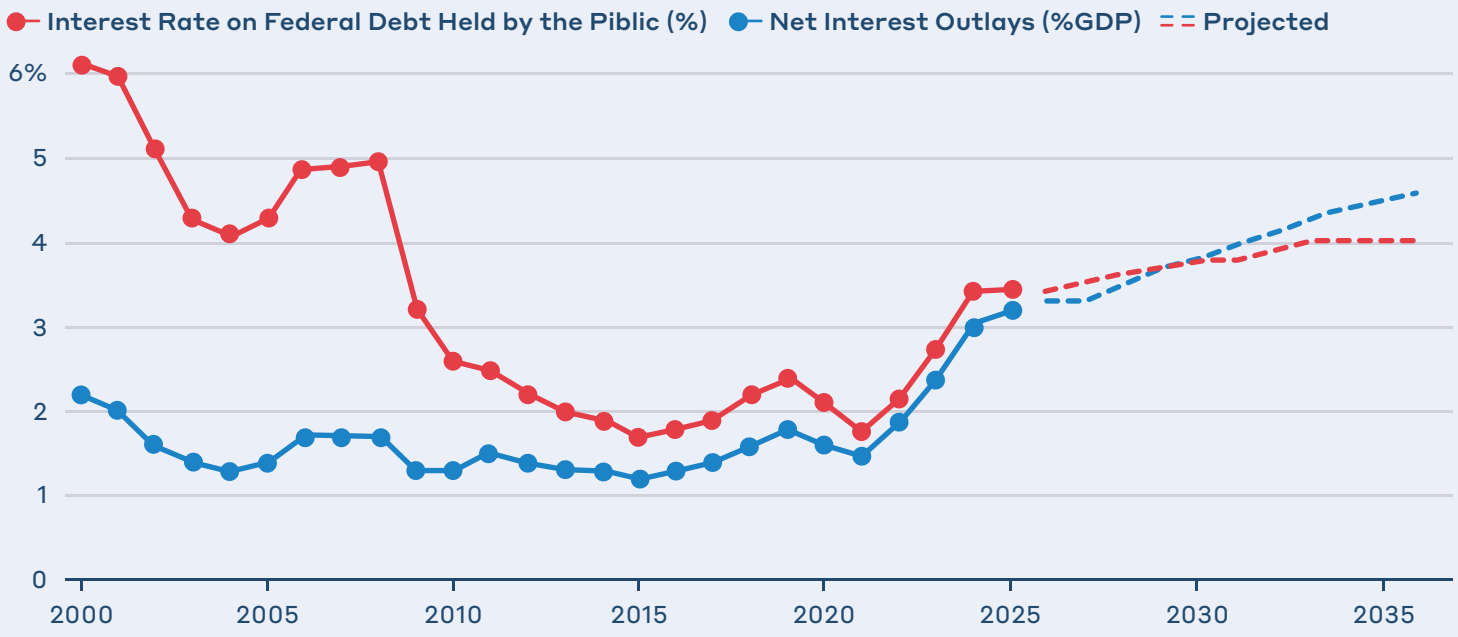
Source: Freddie Mac and U.S. Federal Reserve Board, retrieved via FRED

net interest is now the second-largest government expenditure. These payments are projected to grow by 7.5% annually from fiscal years 2026 to 2036, which would likely squeeze the government's ability to invest in other public priorities.

The path of the national debt therefore holds consequences for the real economy. The Congressional Budget Office estimates that a 1 percentage-point increase in the projected ratio of debt-to-gross domestic product raises average long-run interest rates by 2 basis points. Increased government borrowing, with rising yields, competes with private demand for capital, "crowding out" productive private investments by about 33 cents per dollar. Over time, reduced private investments erode U.S. economic competitiveness.

The reverse is true, too: credible efforts to stabilize and reduce the national debt can ease borrowing costs for families and businesses. Putting the budget on a fiscally sustainable path can bolster confidence in U.S. bonds as a stable and secure investment, ease concerns about future inflation, and strengthen the foundation for durable economic growth.

Rising Interest Rates and Net Interest Costs for Taxpayers



Source: Congressional Budget Office

EXPLAINER | OCTOBER 30, 2024 | CALEB QUAKENBUSH, TRISTAN STEIN,
BRITTANY WALSH, EMILY WIELK | BIPARTISAN POLICY CENTER

Why the National Debt Matters for the American Workforce

For most people, employment is necessary for both financial security and upward mobility. Workers are best positioned to succeed and maximize productivity when they have access to affordable child care, a secure safety net, and the education and skills required to advance in their career.

The unsustainable growth of our national debt threatens both public and private efforts to support workers. The long-term risks of reckless fiscal policy—inflation, higher borrowing costs, and reduced public investments—could erode vital workforce supports and undermine critical workforce programs.

- Unsustainable debt threatens future economic growth and essential investments in workers and families.
- Reduced financial support to help families afford high child care costs could widen care gaps and further burden working parents.
- Budget pressures may undermine government-funded income supports, weakening work incentives and financial security.
- Rising higher education and training costs could make it harder for workers to attain new skills.

Pressure on Child Care Providers

Access to affordable child care helps working caregivers participate in the workforce. Child care also serves as the earliest education platform, creating a foundation for children to grow into productive workers. But the child care sector, disproportionately made up of small business owners, is especially vulnerable to pressures from inflation and elevated interest rates:

- Child care providers often seek financing from special loan programs to cover startup and operating costs. While these loans are subsidized by the federal government, their interest rates are variable and could face upward pressure from rising federal debt. Child care programs also operate on very narrow profit margins and could find themselves struggling to cover payroll and reinvest in their business.
- Increases in inflation also harm families and child care programs because key federal child care supports, including the Child and Dependent Care Tax Credit and the Child Care and Development Block Grant, are not indexed to inflation. In response, child care providers may opt to close classrooms or serve fewer families, exacerbating the child care gap and impacting both quality and access.

Eroding Income Supports

The Earned Income Tax Credit and the Child Tax Credit have long enjoyed bipartisan support for incentivizing work and supplementing the wages of low-income workers. In recent years, policymakers have sought to expand both but face an uphill battle due to cost concerns.

These and other tax credits are foundational components of the federal government's approach to encouraging labor force participation and creating a productive workforce, but growing fiscal constraints amid the rising cost of debt servicing might thwart such efforts. Failure to keep the EITC and CTC in line with economic needs due to fiscal pressures could undermine workers' economic security and labor force attachment.

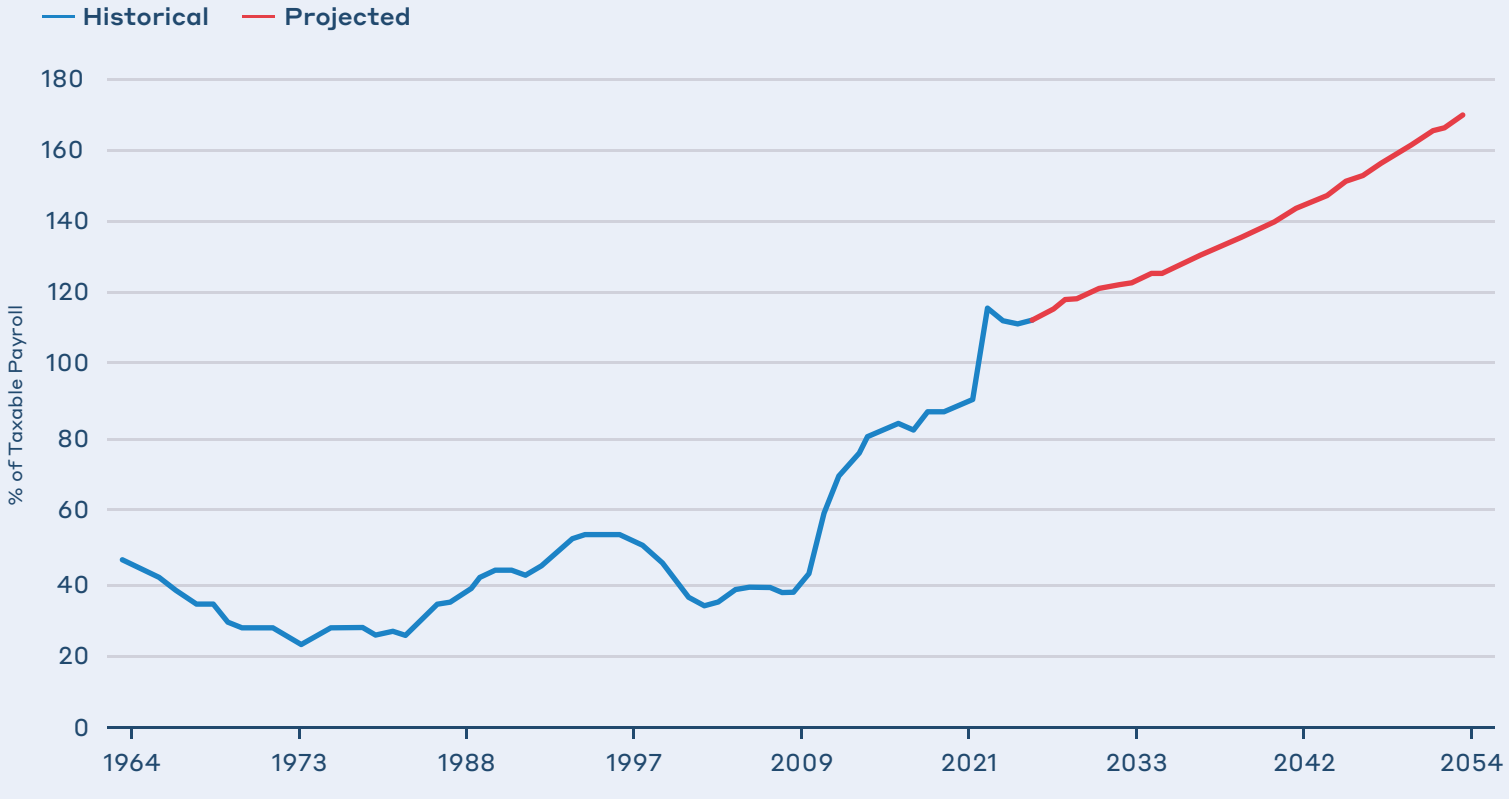
Reduced Federal Help in Times of Need

High federal debt could also limit policymakers' response during economic downturns, when hardworking families most need support. For example, unemployment insurance is vital for workers weathering job loss, especially during economic downturns, and provides a financial bridge that allows them time to find suitable employment opportunities.

Legislators who are considering emergency unemployment benefits during future downturns may feel constrained by the government's unsustainable finances, thereby deterring them from enacting the optimal level or duration of benefits. In addition, several states have reduced unemployment benefits to cover shortfalls in their unemployment insurance trust funds, and more limited federal support may reduce the level or duration of benefits at the worst possible time.

Our Growing Debt Burden

Federal Debt Held by the Public as a Percentage of GDP



Source: Congressional Budget Office

Squeezing Higher Education and Training Investments

Higher education is vital for equipping students with job-relevant skills, but it is vulnerable to inflation and rising interest rates. Higher inflation translates to higher costs in delivering education and training due to elevated prices for materials, supplies, services, and labor. During the recovery from the pandemic, the Higher Education Price Index increased 5.2% in 2022, twice the average annual increase from 2010 to 2020. Colleges may pass these rising costs onto students through higher tuition and fees, or they may cut costs by reducing staff, limiting services, or scaling down facility investments.

Higher inflation also poses a particular risk for students reliant on Pell Grants, which are not currently indexed to inflation. Although Congress has historically increased Pell Grants on a regular basis, budgetary pressures could limit future adjustments.

Federal student loan rates, tied to 10-year Treasury notes plus an interest premium, would also rise if rates on Treasury securities are driven upward by growing federal debt. This would make borrowing more expensive for students, reducing the return on their educational investment. Higher yields on bonds could make it more costly for public higher education systems to finance capital investments, including the maintenance and modernization of classrooms, labs, and other critical facilities.

Beyond higher education, federal workforce training programs—already stretched thin—are vulnerable to budget cuts. Further reductions would undermine their success in enhancing productivity and supporting workers adapting to a rapidly evolving economy by creating pathways to job mobility.

The Path Forward

The magnitude of the risks to child care, education, and workforce programs grows as America's fiscal pressures mount. Our economy is currently strong, and in recent years, policymakers have prioritized enhancements to many family- and worker-supporting programs and services. These include increasing appropriations for the Child Care Development Block Grant, expanding the CTC, increasing assistance to state and local governments, and providing relief to student loan borrowers. Rising debt threatens to undermine the economic growth required to sustain these investments and could limit these supports when families need them most. To ensure durable support for parents and workers, policymakers will need to chart a path that reduces annual deficits and stabilizes the federal debt. The earlier that policymakers act, the less drastic and more deliberate such measures can be.

America's Demographic Challenge, Near and Long Term

ARTICLE | JULY 27, 2026 | ALLISON BUFFETT, DAISY KIM, KAMRYN PERRY | BIPARTISAN POLICY CENTER

How Policy Changes Are Reshaping Aging in America

America's older adults are a growing share of the population, but the systems meant to support them haven't kept up. Older adults and their families struggle to access essential services and barriers hit hardest for select populations, such as people with disabilities, individuals with low incomes, veterans, and rural communities.

Policymakers have taken steps to strengthen the nation's aging system, which provides services to millions of older adults, people with disabilities, and family caregivers. However, progress has been slow, and the existing challenges are worsening as the baby boomer generation ages. Continued inaction will leave Americans without the supports they need to age with dignity, harming older adults and their families while driving up avoidable federal and state costs.

The Older Americans Act is a core federal law addressing aging. Congress last reauthorized the law in 2020, with funding authorized through 2024. Congress has since funded the programs at the 2024 levels through continuing resolutions. Most recently, the Senate unanimously passed its version of an extension, the Older Americans Act Reauthorization Act of 2025. The House has not yet considered the reauthorizing legislation.

Through our Aging of America Initiative: Forging a National Consensus for 2029, the Bipartisan Policy Center is identifying policy recommendations that lower everyday costs and enhance support for older adults and caregivers, strengthen retirement security, and ensure the long-term sustainability of key programs.

As policymakers work to close these persistent gaps, understanding the shifting policy landscape is essential to building durable, bipartisan solutions. This article highlights select emerging policy changes BPC is monitoring across three persisting challenges: 1) long-term care, 2) housing, and 3) nutrition.

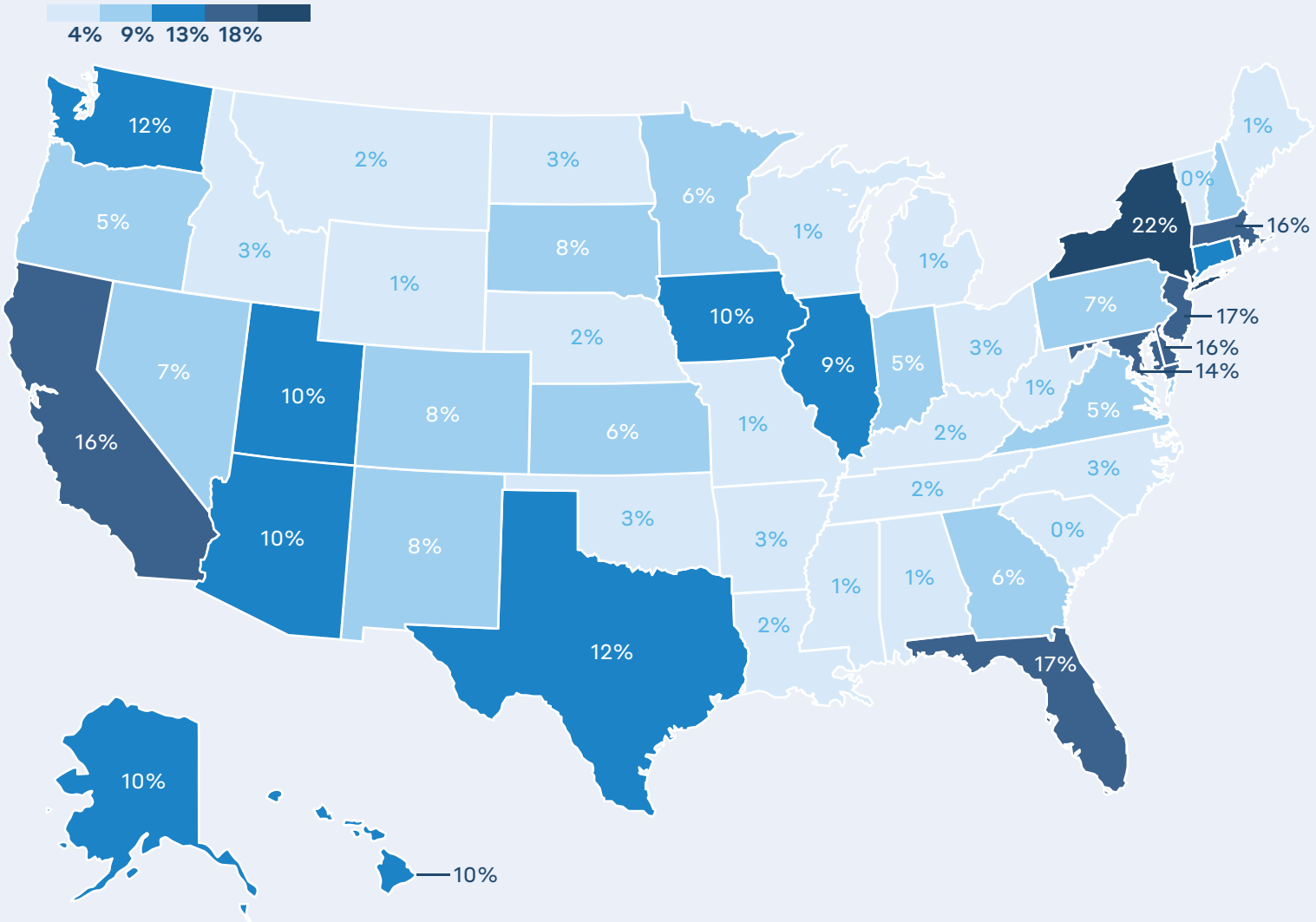
Join BPC's webinar on July 28 from 1 to 2 p.m. ET to hear from leading experts on these challenges, including the evolving policy landscape and evidence-based solutions to help Americans age with dignity.

1. How is the Long-Term Care System Not Meeting the Needs of Older Adults, People with Disabilities, and Their Families?

With the population over 85 projected to almost double from 7 million to nearly 14 million from 2025 to 2040, demand for long-term care will keep rising. When people cannot access the long-term care they need, their health and independence suffer and the strain on family caregivers grows. Medicare generally does not cover long-term care, and complex market challenges have put private insurance out of reach for many.

Millions are forced to spend down their personal net worth to become eligible for Medicaid, which covers long-term care. Many also choose to rely on unpaid family caregivers, a substantial number of whom risk their own financial security by reducing their work hours or leaving the workforce entirely. Access to these services is further limited due to a persistent shortage of direct care workers, with rural areas especially struggling to recruit and retain these workers.

Noncitizens as % of Direct Care Workforce by State



BPC's 2023 report, Addressing the Direct Care Workforce Shortage, underscored the need for a comprehensive set of reforms to recruit and retain a robust direct care workforce to address growing unmet demand for long-term care, including through domestic and immigration policy reforms.

Immigrants, including naturalized U.S. citizens and noncitizens, account for a disproportionate share of the direct care workforce. The share of noncitizen direct care workers varies by state.

BPC is monitoring the impacts of immigration policy changes on long-term care access and health outcomes: Immigration policy changes are compounding pre-existing direct care workforce shortages. Recently, the Supreme Court's Mullin v. Doe decision allowed the administration to end Temporary Protected Status (TPS) for around 350,000 Haitian and 6,000 Syrian nationals living and working legally in the United States. This precedent is likely to clear the way to remove protection for the nearly 1 million individuals from other countries with TPS status.

While disaggregated TPS data by country and occupation is limited, the Penn Wharton Budget Model estimates TPS workers make up about 3% of personal care and service occupations, and The Boston Globe found that about 13,000 Haitian TPS holders work as nursing assistants, caring for roughly 65,000 patients. Advocates, industry stakeholders, and policy experts warn that further shrinking this workforce will limit access, worsen health outcomes, and increase the burden of unpaid family caregivers.

New York, Florida, New Jersey, California, and Delaware have the highest percentage of noncitizen direct care workers. Florida also ranks last nationally in terms of the number of home health care workers relative to its older adult population. See Appendix A to view the percentage of noncitizen direct care workers by state.

2. Why are Older Adults the Fastest-Growing Group Experiencing Homelessness?

Homelessness is associated with poor health outcomes, including premature mortality, increased rates of mental health and substance use disorders, and high emergency department use. More older adults are experiencing homelessness and housing insecurity, often due to inadequate savings, chronic illness, and a national housing supply shortage. At the same time, older adults and people with disabilities are more likely to face barriers to employment that constrain their earning potential and leave many reliant on fixed incomes that struggle to keep pace with rising costs, such as housing. They also face greater barriers to temporary housing, such as accessibility challenges.

BPC is monitoring implementation of the new housing law: The 21st Century ROAD to Housing Act became law on July 11, 2026—the most significant bipartisan housing package in years. Several provisions are relevant to older adults, including a study on barriers to affordable housing for middle-income households, older adults, and people with disabilities served by the Department of Housing and Urban Development (HUD) programs.

Reflecting BPC's recommendations, the law also creates a HUD pilot program supporting home repairs and modifications, which help people age safely in their homes and communities. It will also expand financing for accessory dwelling units, or "granny flats," intended to give older adults more affordable housing options close to family. BPC will be tracking implementation of the law.

3. What Do Growing Rates of Hunger Mean for Older Americans?

Food-insecure older adults face poorer health outcomes, including chronic conditions and higher rates of injury from falls. These health consequences drive up Medicare and Medicaid costs. Older adults living with grandchildren and living with a disability are more likely to face hunger, and many are forced to choose between buying groceries and covering other essentials such as

medication, rent, or utilities. These groups, including veterans with disabilities, are also at increased risk of falling through the cracks in accessing nutrition programs such as the Supplemental Nutrition Assistance Program (SNAP).

Roughly one in 11 million Americans age 60 and older experienced food insecurity in 2023. Without action, hunger among older adults is expected to rise, with individuals with disabilities facing disproportionate risk.

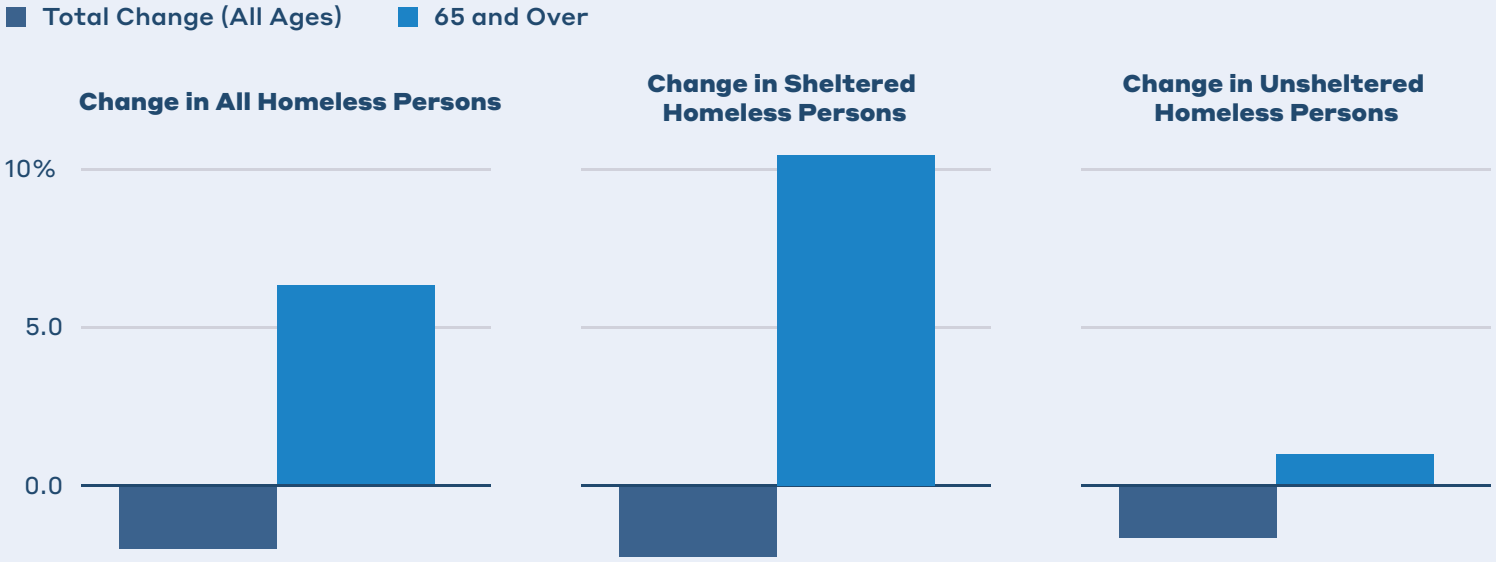
BPC is monitoring changes to food assistance programs: Nearly 8 million adults ages 60 and older relied on SNAP in 2023. The 2025 budget reconciliation law (H.R. 1) made significant changes to SNAP, including extending work requirements to adults up to age 64 and veterans without dependents under age 65. Older adults and people with disabilities are more likely to experience discrimination in hiring, making it more difficult to secure employment to meet these work requirements. Individuals experiencing homelessness or with caregiving responsibilities face additional barriers to employment. Tracking the hunger impacts of these changes will also become more difficult as the United States Department of Agriculture (USDA) is discontinuing future rounds of its Household Food Security Survey.

BPC's 2022 report, Improving the Medicaid Buy-In for Workers with Disabilities, provides policy recommendations to reduce barriers to employment for individuals with disabilities who rely on Medicaid's unique services.

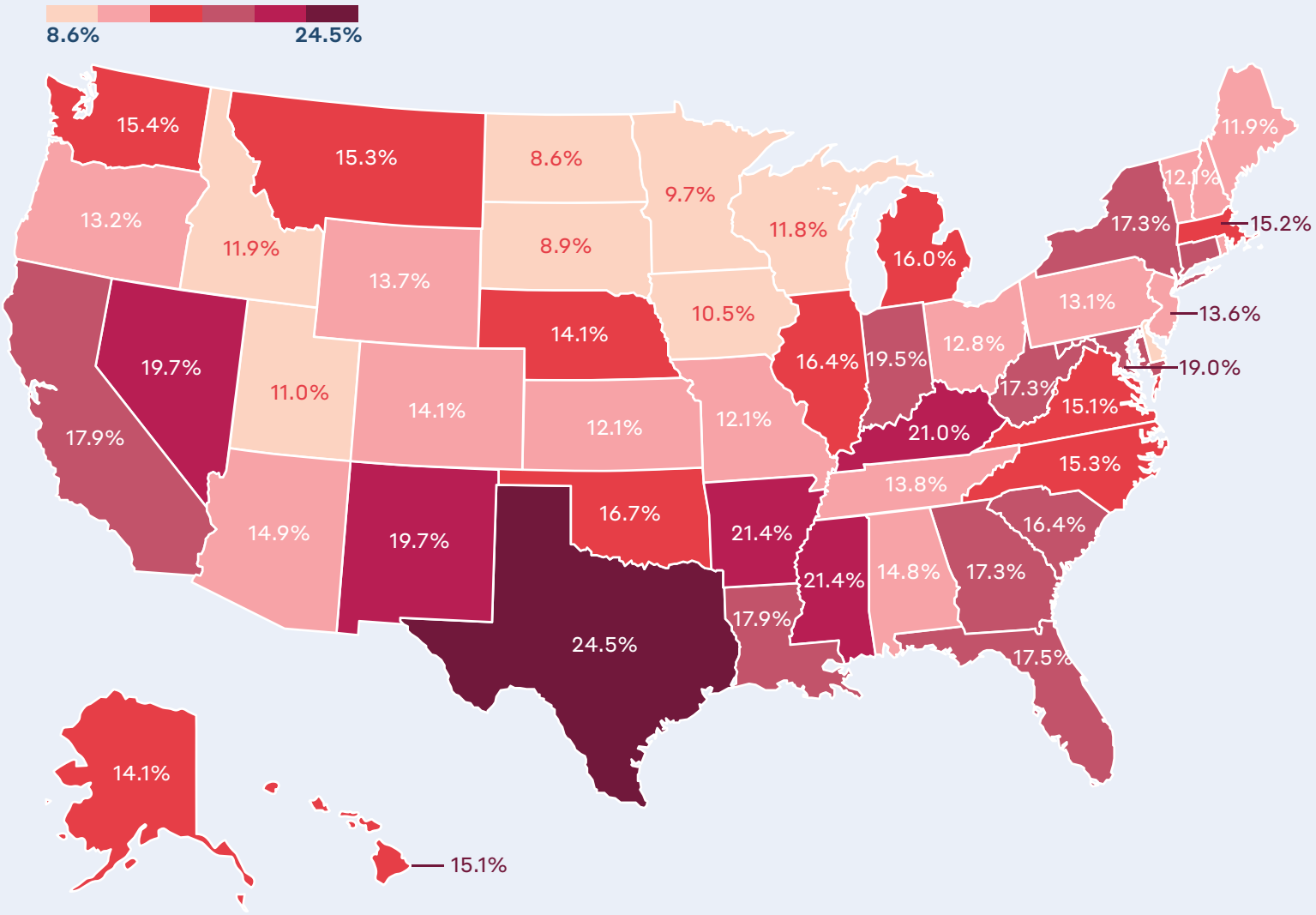
What's to Come?

Amid increasing demand and persistent inadequacies, these challenges continue to evolve. They vary across subpopulations, requiring a nuanced policy approach: Adults in their early 60s often have different needs than those in their mid-80s and beyond, including differences in workforce participation, housing preferences, transportation challenges, and care needs. As the first of a three-part webinar series, BPC's July 28 webinar will dig deeper into barriers to these essential supports and the changing landscape.

Homelessness Among People Over Age 65 Rose From 2024 to 2025, As Nationwide Homelessness Fell



% of People Ages 60 and Older Marginally Food Secure by State



Note: Values for "marginally food insecure" seniors include those who are "low food secure" and "very low food secure" in the past 12 months from 2023 to 2024. Definitions are from USDA, "Definitions of Food Security," available at: https://www.ers.usda.gov/topics/food-nutrition-assistance/food-security-in-the-u-s/definitions-of-food-security/. Estimates are for the population ages 60 and older in 2024.
Source: Meals on Wheels - By the Numbers: Aging Population by State Fact Sheets

Noncitizens as % of Direct Care Workforce by State

Expenditure	Total Noncitizen Direct Care Workforce	Total Direct Care Workforce	% of Noncitizen Direct Care Workforce
Alabama	405	44,445	1%
Alaska	882	8,655	10%
Arizona	8,348	86,832	10%
Arkansas	1,327	48,698	3%
California	103,635	654,880	16%
Colorado	4,139	54,682	8%
Connecticut	5,608	59,004	10%
Delaware	2,514	15,968	16%
District of Columbia	419	5,342	8%
Florida	37,446	222,966	17%
Georgia	5,806	95,517	6%
Hawaii	1,504	15,158	10%
Idaho	837	24,183	3%
Illinois	15,054	169,105	9%
Indiana	4,052	84,997	5%
Iowa	4,666	48,686	10%
Kansas	2,049	35,030	6%
Kentucky	1,046	58,854	2%
Louisiana	1,544	62,424	2%
Maine	258	17,517	1%
Maryland	11,472	81,455	14%
Massachusetts	16,221	102,941	16%
Michigan	1,837	128,050	1%
Minnesota	6,737	111,356	6%
Mississippi	477	35,110	1%
Missouri	1,021	89,733	1%
Montana	181	8,797	2%
Nebraska	432	24,500	2%
Nevada	1,878	26,385	7%
New Hampshire	1,131	19,359	6%
New Jersey	19,655	118,091	17%
New Mexico	3,124	39,275	8%
New York	111,971	501,202	22%
North Carolina	3,490	122,211	3%
North Dakota	365	12,409	3%
Ohio	4,435	169,515	3%
Oklahoma	1,533	47,750	3%
Oregon	3,688	76,574	5%
Pennsylvania	16,169	226,299	7%
Rhode Island	2,217	15,889	14%
South Carolina	274	57,802	0%
South Dakota	1,001	12,107	8%
Tennessee	1,433	74,105	2%
Texas	42,324	362,353	12%
Utah	2,815	28,265	10%
Vermont	0	11,632	0%
Virginia	4,551	98,197	5%
Washington	12,275	104,626	12%
West Virginia	170	27,607	1%
Wisconsin	1,328	89,183	1%
Wyoming	68	6,023	1%

Noncitizens refer to anyone who is not a U.S. citizen. This can include permanent residents, refugees and asylees, and temporary visa holders (including those with Temporary Protected Status). This count of the direct care workforce includes the following occupations: home health aides, personal care aides, nursing assistants, and orderlies and psychiatric aides. Source: U.S. Census, American Community Survey, Public Use Microdata Sample, 2024

EXPLAINER | NOVEMBER 14, 2024 | SANYA BAHAL | BIPARTISAN POLICY CENTER

The Effect of Immigration on Social Security's Finances

The primary Social Security trust fund is projected to be depleted by 2033 unless Congress acts. At that time, beneficiaries would face an automatic 21% reduction in benefits, threatening the financial security of millions of Americans.

A steadily declining worker-to-beneficiary ratio—the number of workers paying into Social Security compared to the number of beneficiaries—poses a major financial headwind for the program. In the coming years, however, immigration is expected to be the major driver of U.S. population growth and could potentially narrow Social Security's financing shortfall.

The data sources used in this explainer combine legal and illegal immigration except where noted otherwise. (Immigrants in the U.S. legally account for 77% of all immigrants.) As explained below, all immigrants who work, legally or illegally, have effects on the Social Security system, but they differ based on their status and other characteristics. BPC has long supported reforms to the immigration system that strengthen formalized legal immigration pathways while securing the border.

Demographic Trends Are Burdening Social Security's Primary Trust Fund

The aging U.S. population and slowing birth rates have driven the decline in the worker-to-beneficiary ratio, making it increasingly difficult to keep the program's payouts and revenues in balance. In 1960, more than five workers were paying into Social Security for every beneficiary, but this ratio has decreased to three workers per beneficiary in 2023 and is expected to fall below 2.5 by mid-century.

FIGURE 1: DECLINING WORKER-TO-BENEFICIARY RATIO, 1960-2100

This decline is driven by demographic trends on both sides of this ratio.

On the worker side, the fertility rate in the U.S. has been falling by 2% annually since 2014, resulting in a birth rate well below the population replacement rate of 2.1 children per woman. In 2023, the birth rate stood at 1.8 births per woman, and it is expected to decline to 1.6 by 2065. Falling birth rates lead to a slowdown (and eventual decline) in the number of native-born workers paying Social Security taxes.

On the beneficiary side, the retiree population is expected to grow significantly faster than the working-age population because of improvements in U.S. longevity and the aging of Baby Boomers. Female life expectancy at age 65, for example, is expected to increase by over four years by the end of the century, from 86.4 in 2020 to 90.5 in 2100, lengthening the period during which retirees collect benefits. Additionally, the U.S. has officially entered "Peak 65"—the four-year span from 2024 to 2027 in which more than 4.1 million Americans will turn 65 annually, the largest retirement wave in the nation's history. Figure 2 shows the effect of these changes on the demographic composition of the U.S. population.

Covered Workers per OASI Beneficiary

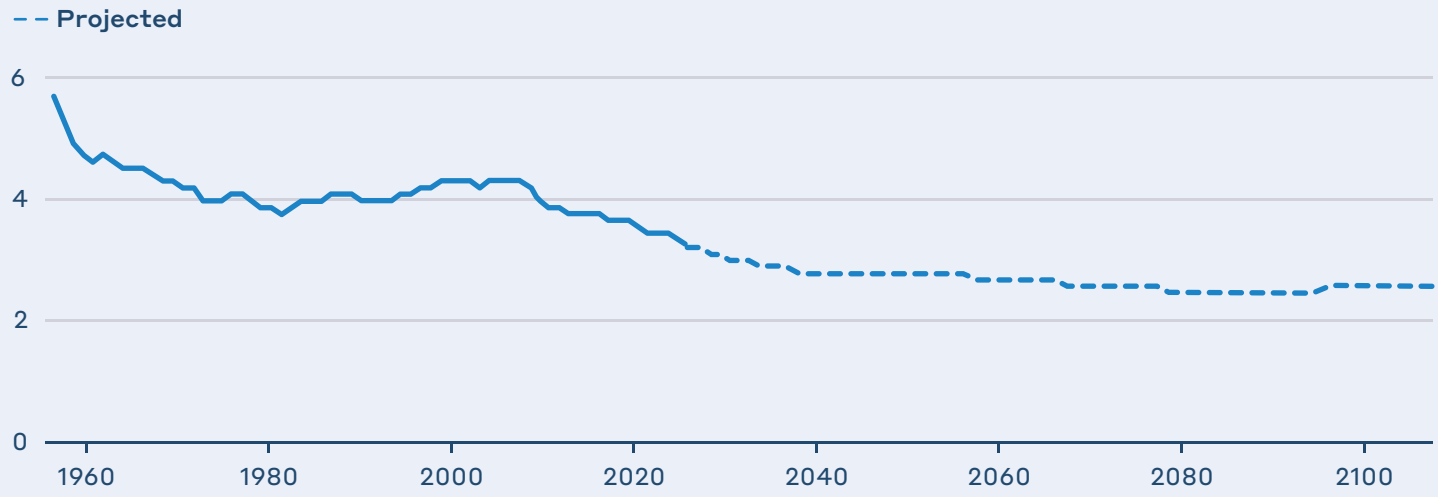
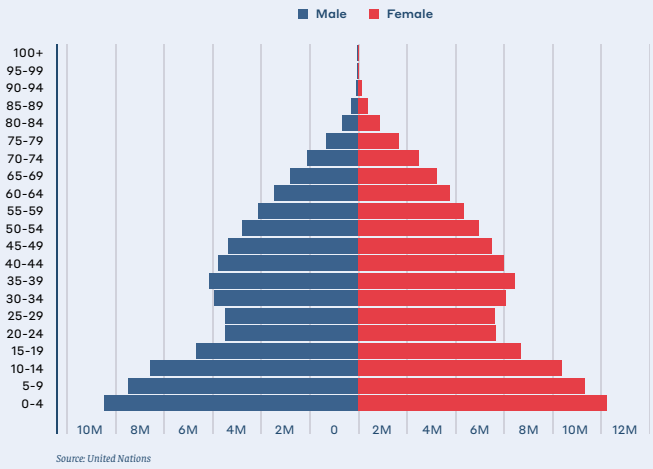


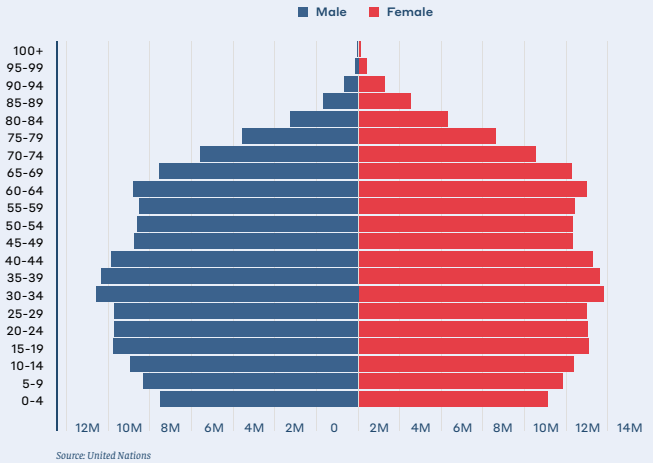
FIGURE 2: DEMOGRAPHIC SHIFT FROM A YOUTHFUL TO AGING POPULATION, 1960 TO 2060

How Could Immigration Impact Social Security's Solvency?

By 2040, immigration is expected to be the sole driver of U.S. population growth. Currently, 77% of the immigrants entering the country are working age (between 18 and 64). Evidence indicates that immigrants account for 19% of the U.S. labor force despite making up only 14.3% of the total population. This both strengthens the worker-to-beneficiary ratio and helps shore up Social Security's payroll-tax base.

The 2024 Social Security Trustees Report presents how three levels of net immigration could affect the program's long-term financial status. Over a 75-year period, the actuarial balance of the combined Old-Age, Survivors, and Disability Insurance (OASDI) trust funds varies by 0.78 percentage points, representing nearly one-quarter of the program's financial shortfall, depending on net immigration. Specifically, SSA's base estimate of annual net immigration is 1.2 million, corresponding to the baseline deficit estimate of 3.5% of taxable payroll. If annual net immigration is only 829,000—SSA's low estimate—the 75-year deficit would grow to 3.9% of taxable payroll, but SSA's high estimate of annual net immigration of 1.7 million would result in a smaller deficit of only 3.1% of taxable payroll. Alternatively, the trustees estimate that an increase in net annual immigration of 100,000 people would improve the trust funds' actuarial balance by 0.1% of taxable payroll.





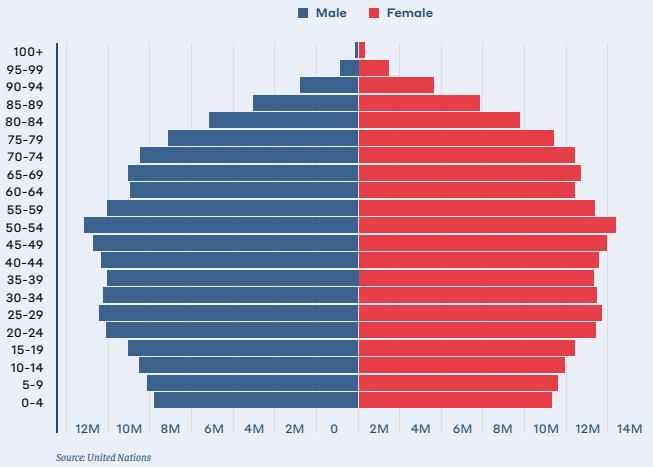


TABLE 1: OASDI TRUST FUND SENSITIVITY TO ANNUAL NET IMMIGRATION (PERCENTAGE OF TAXABLE PAYROLL)

Average Annual Net Immigration	Actuarial Balance: 2024-2048 (25-year)	Actuarial Balance: 2024-2073 (50-year)	Actuarial Balance: 2024-2098 (75-year)
829,000	-2.48	-3.37	-3.90
1,244,000	-2.28	-3.06	-3.50
1,683,000	-2.08	-2.76	-3.12

Note: The data in the table apply to the combined OASDI trust funds. Higher levels of net immigration are likely to provide greater benefits to the primary Old-Age and Survivors Insurance trust fund than the Disability Insurance trust fund.

Lower predicted benefits for foreign-born workers

Foreign-born workers contribute to Social Security at the same tax rate but have lower predicted Social Security benefits than native-born Americans because, on average, they earn lower lifetime wages and have fewer years of employment that count toward their calculated benefits. As of 2018, 65% of foreign-born workers received Social Security benefits compared to 84% of native-born Americans. Most of these individuals are earlier in their careers and begin contributing to Social Security immediately, even though they will not claim benefits for years into the future, if ever. This creates a net positive effect on the Social Security system.

Return to home country upon retirement

Recent migration trends suggest that foreign-born workers are increasingly returning to their home countries to retire. As a result, many who pay into the Social Security system during their working years may not be eligible to receive benefits, as non-residents can only do so under certain circumstances. By not fully drawing benefits, foreign-born contributors can generate net gains for the Social Security trust funds.

Unauthorized workers contribute taxes but are ineligible for benefits

In 2022, unauthorized immigrants contributed $25.7 billion in Social Security taxes, typically by working under borrowed or fraudulent Social Security numbers. Unauthorized immigrants, however, are ineligible to claim Social Security benefits.

Bottom Line

Although there is no plausible scenario under which additional net immigration would entirely resolve Social Security's impending insolvency, immigration has significant interactions with the program's financial health and plays an important role in the U.S labor market to offset the continued decline in birth rates.

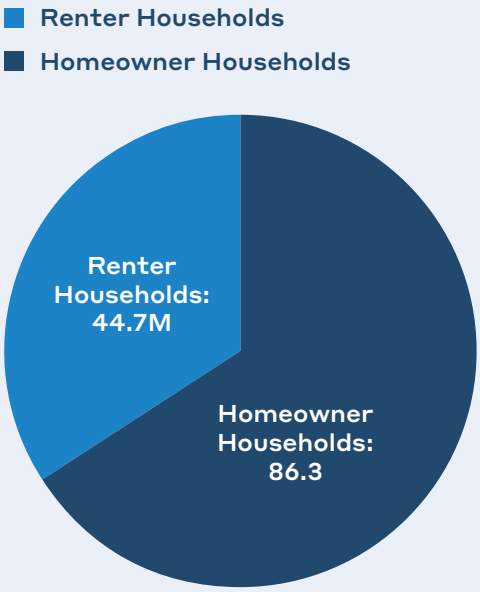
EXPLAINER | OCTOBER 4, 2023 (UPDATED DECEMBER 3, 2025)
TERWILLIGER CENTER FOR HOUSING POLICY | BIPARTISAN POLICY CENTER

Housing By The Numbers

To help inform policymakers, the media, and the public, the Terwilliger Center has compiled a series of charts that provide an up-to-date overview of the state of the U.S. housing market and housing programs. Scroll through the first section to see a breakdown of how many people rent their homes compared to those who own them, as well as information on the household income and wealth of each group. The second section illustrates the demographic breakdown of homeowners and people experiencing homelessness, as well as the number of households receiving federal housing assistance. The third section focuses on housing supply indicators, from the size of the housing supply shortage to data on home starts, home sizes, and available housing inventory. The final section highlights the high cost of housing, including the percentage of households spending more than 50% of their income on housing as well as data on rent, home values, and mortgage rates. Additional information on housing supply trends by state can be found here.

Comparison of Renters and Homeowners

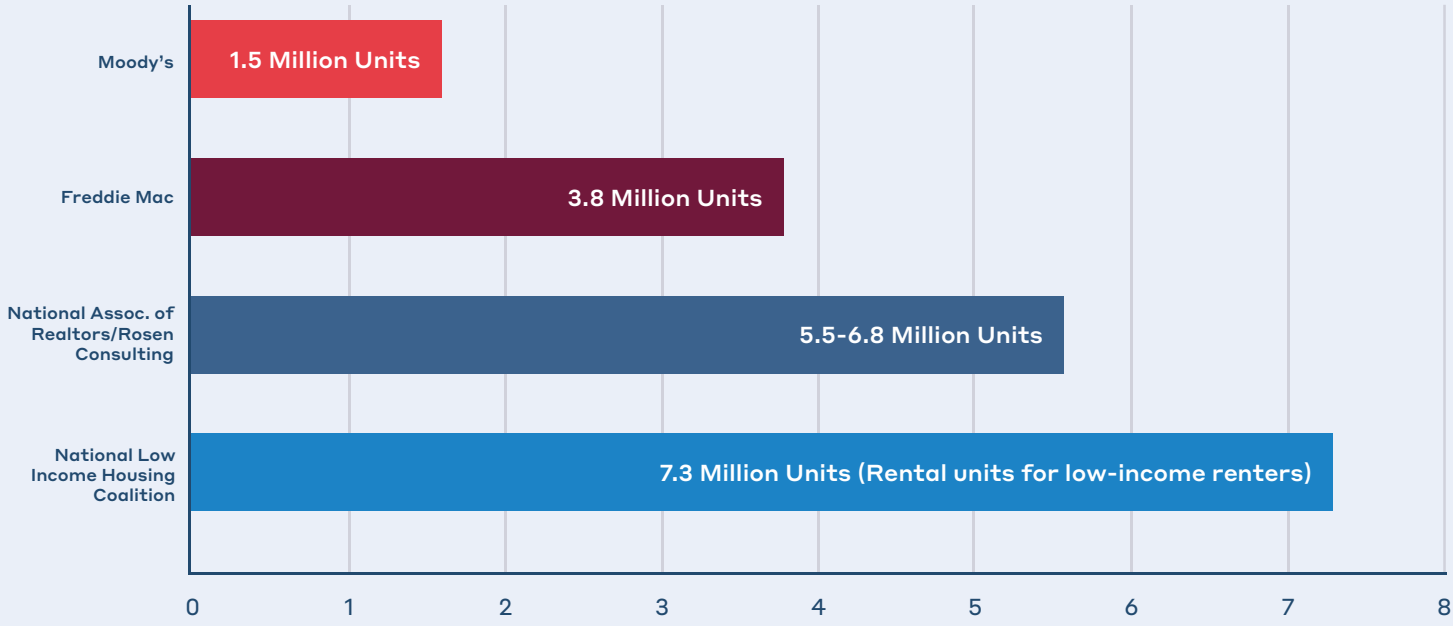
Number of U.S. Households (as of 2022): 131 Million



Bipartisan Policy Center

Housing Supply

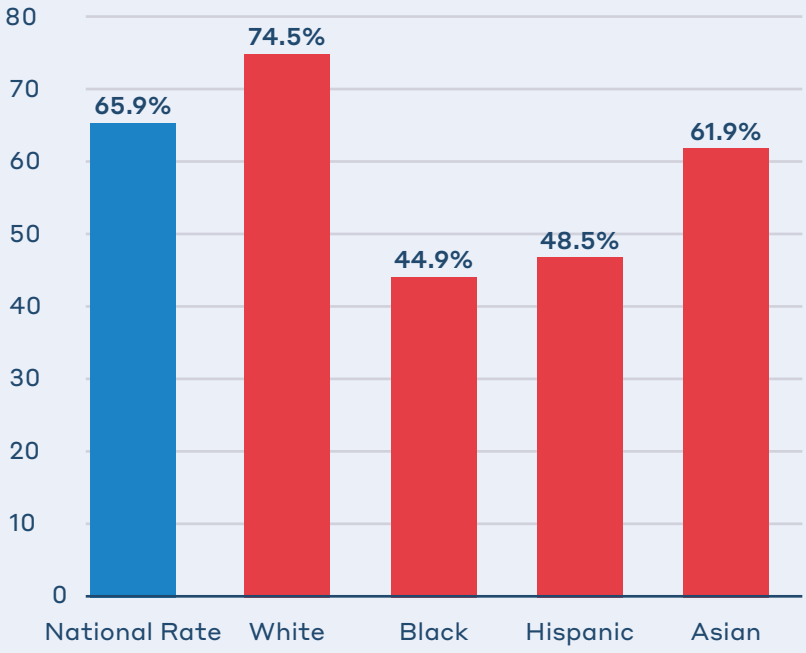
Housing Supply Shortage Estimates



Source: Moody's, Freddie Mac, NAR, NLIHC

Demographic Information

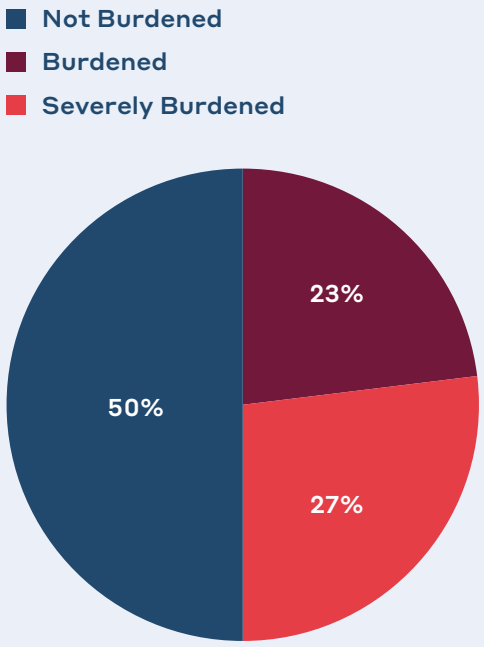
National Homeownership by Race



Source: census.gov, stlouisfed.org

Housing Costs

Rising Cost Burdens



COMMENTARY | MAY 30, 2025 | ANNA HEARD, NATIONAL GOVERNORS ASSOCIATION
CENTER FOR BEST PRACTICES | NATIONAL GOVERNORS ASSOCIATION

Governors are Supporting Older Adults and Driving Improved Population Health

The number of older adults in the U.S. is growing at a faster rate than any other age group and continues to be a population of focus for states and territories. The former Surgeon General of the United States warned of the negative health impacts of loneliness and isolation in a 2023 Advisory, and according to the Centers for Disease Control and Prevention (CDC), older adults are at higher risk of loneliness. Researchers at AARP also estimate that Medicare spends an additional $6.7 billion each year on socially isolated older adults. The CDC identifies several promising practices to increase social connection, such as intergenerational programs, health education and peer support groups, and community-based exercise and physical activity.

While older adults are at higher risk for chronic diseases and other factors impacting their health, those with greater social connection and purpose in life have better health outcomes. May is Older Americans Month, and the Administration for Community Living's theme this year is "Flip the Script on Aging." This year's theme seeks to help change the narrative that often accompanies aging, focusing on opportunities for engagement and purpose. Governors are supporting older adults by setting statewide goals through developing strategic plans on aging, directing state agencies to adopt age-friendly policies through executive orders, establishing advisory councils and offices to identify best practices for healthy aging, and celebrating and sharing the accomplishments of older adults.

Strategic plans on aging are collaborative resources focused on aligning health care, social services and other programs across states to support older adults. In Vermont, the Department of Health developed "Age Strong VT," a ten-year roadmap to better support older adults living in the state, and recently released a year one report noting the department's progress. This roadmap includes pillars of important aspects of healthy aging, like "social connection and engagement" and "optimal health and wellness." In response to the finding that 9% of Vermonters experience frequent isolation, the Vermont Agency of Human Services created a Social Connection Map to help seniors in the state identify local resources.

In Massachusetts, Governor Maura Healey signed an Executive Order to institute age-friendly practices in the state. The Executive Order directs state agencies to find ways to integrate age-friendly policies in pursuit of improved health for older adults. The Executive Order also creates a Governor's Advisory Group on Age-Friendly Policies and Practices that coincides with the recent release of the ReiMAgine Aging 2030 plan.

States are also recognizing the contributions of older adults. In Ohio, the Senior Citizens Hall of Fame highlights the role older adults play in society and in the state. The Ohioans chosen for the hall of fame are leaders in their communities and inspire others to live fuller, healthier lives. Pennsylvania supports older adults mentoring students through a law that took effect December 2024. The law established the Older Adult Mentor Volunteer Program, which fosters mentorship opportunities for older Pennsylvania residents to share wisdom, skills and experiences. A partnership between the Department of Aging, Department of Education and Board of Education supports the mentorship program. This past fall, Pennsylvania Governor Josh Shapiro also signed legislation to establish an Office of Alzheimer's, Dementia, and Related Disorders. This office will oversee implementation of a state plan on Alzheimer's, identify gaps in care and services and coordinate with state agencies to improve health outcomes.

In Tennessee, Governor Bill Lee also took steps to improve state infrastructure to support older adults by signing the Tennessee Disability and Aging Act into law. This act integrates the Department of Intellectual and Developmental Disabilities and the Commission on Aging and Disability to form the Department of Disability and Aging, effective July 2024. The merged department is structured to improve coordination of services for older adults, recognizing that adults 65 and above are the fastest growing population in Tennessee.

As Governors continue to lead the way to build healthier communities for older adults to thrive, the National Governors Association's Center for Best Practices will support states in preventing chronic disease through the Rx for a Healthier America policy initiative. This project will tailor interventions for certain populations, including older adults, to prevent chronic disease in the areas of lifestyle, nutrition, environmental health risks and health care access. For more information, please reach out to Anna Heard (AHeard@nga.org).

This publication was developed by Anna Heard with the National Governors Association Center for Best Practices.

PUBLICATION | OCTOBER 7, 2021 | NATIONAL GOVERNORS ASSOCIATION

State Strategies for Sector Growth and Retention of the Direct Care Health Workforce

This issue brief provides a series of multi-sector state and employer strategies to address recruitment and health sector retention of direct care workers while balancing workforce needs, job quality and wages.

Introduction

Entry level health care workers represent a critical component of the health care workforce. Although titles and minimum certification requirements vary by state and employer, these individuals, including Certified Nursing Assistants/Aides (CNAs), Home Health Aides (HHAs), Personal Care Aides/Assistants (PCAs), and Direct Support Professionals (DSPs), hereafter referenced as direct care workers, provide hands-on essential services for older adults, individuals with disabilities, and individuals undergoing intensive rehabilitation in facility and home-based settings.

Direct Care Workforce by the Numbers

Direct Care Workforce by the Numbers

4.6	million workers
$12.12-$13.90	average hourly wage
85-90%	female
54-62%	people of color
46-54%	high school or less education
36-54%	access public assistance programs
31-39%	lack affordable housing
25-43%	receive Medicaid, Medicare, or other public insurance coverage
25-31%	primary caregivers for children under 18

NATIONAL GOVERNORS ASSOCIATION

The health care industry has long experienced challenges in recruiting and retaining direct care workers due to low wages, high physical demands and lack of upward mobility. Before the COVID-19 pandemic, in many instances, individuals who might have considered direct care jobs could work in less physically demanding retail positions or other service industry jobs for the same or greater pay. The onset of the COVID-19 pandemic, however, brought with it a surge in demand for direct care workers while other industries experienced significant layoffs and business closures because of physical distancing restrictions and the economic downturn. This confluence of events provides an opportunity for states and employers to focus on strategies to enhance the recruitment and retention of direct care workers.

Ensuring an adequate supply of direct care workers requires multi-sectoral and multi-industry collaboration, including commitments from state and local government, employers and academic institutions. Several states and employers have made great strides in developing strategies to recruit direct care workers into jobs that have pathways toward higher earning and training, allowing for greater economic and career mobility.

This issue brief provides a series of multi-sector state and employer strategies to address recruitment and health sector retention of direct care workers while balancing workforce needs, job quality and wages. It focuses largely on jobs that pay less than or close to 200% of the federal poverty guideline for a household of three in 2021 or $43,920. The strategies have even greater relevance in the wake of the COVID-19 pandemic, but they are intended as longer-term opportunities to address the broader needs of the industry and direct care workers. Many of the considerations are drawn from strategies traditionally leveraged in broad sector-based workforce development planning, such as engaging workforce development boards and creating apprenticeship pathways.

Key Considerations Include:

1. Create a platform for cross-sector collaboration: Work across state agencies and with employers and training programs to identify priorities and coordinate direct care workforce development policy.

2. Compare, standardize and streamline roles and regulatory requirements for direct care worker positions across state agencies: Consider comparing direct care roles and streamlining requirements to increase professional progression and mobility for direct care workers to develop additional skills and advance in their careers.

3. Develop intentional recruitment and retention strategies: Consider pipeline strategies that encourage entry into the direct care workforce and identify and support pathways that will remove barriers and facilitate transition to higher skilled jobs with better wages and career growth.

4. Tackle wage issues: Examine Medicaid fee structure and the potential to use Medicaid dollars for wage pass-through (a policy where states require a portion of the Medicaid reimbursement be reserved for salaries).

PUBLICATION | JUNE 25, 2026 | NATIONAL GOVERNORS ASSOCIATION

Putting State Dollars to Work: How Governors' Signature Investments Drive Workforce Transformation

As Governors seek to grow their state economies, expand access to quality jobs, and build workforce ecosystems aligned with labor market needs, state investments represent a flexible and powerful tool at their disposal. The cases documented here offer insights about putting that tool to work.

Executive Summary

Governors occupy a distinct position in the American workforce development ecosystem, yet the decisions they make to direct state strategy and influence the way money is spent remains understudied. Under the Workforce Innovation and Opportunity Act (WIOA), Governors wield significant authority over federal workforce dollars, but that authority operates within a defined structure that may limit the way they can use these funds to address the challenges they face. Structural labor shortages, skills gaps, and the needs of workers that federal programs were not primarily devised to reach have led Governors to leverage state investments in workforce designed around state priorities.

This report examines Governors' "signature workforce investments" in five states: North Dakota, Minnesota, Idaho, Massachusetts, and Wyoming. Drawing on interviews with over 40 stakeholders across government, higher education, workforce training, and industry, we examine how each program was designed, funded, and implemented.

Governors' Signature Workforce Investments

NORTH DAKOTA

The **Regional Workforce Impact Program (RWIP)**, launched in 2022 and receiving $15 million in federal funds and $17.5 million in state funds to date, is a competitive grant program created to fund locally-defined workforce solutions, giving regional actors broad discretion to define priorities. Managed by the North Dakota Department of Commerce, RWIP's early round funded seven broad workforce priorities—including child care, talent attraction, and training—and later evolved to a targeted sector strategy model requiring employer partnerships. The program's early phases produced significant results, most notably the creation of 2,589 child care slots.

MINNESOTA

Drive for 5, established in 2023 through state appropriations totaling $32 million, provides competitive grants to develop training-to employment pipelines in five high-growth industries. Administered by the Minnesota Department of Employment and Economic Development (DEED), the program was designed to address key labor market demands while providing participants with high-quality training leading to jobs with family-sustaining wages. DEED has demonstrated an adaptive implementation approach throughout the duration of the initiative, refining wage incentives and expanding employer engagement, while serving over 1,000 trainees so far.

IDAHO

Student LAUNCH, introduced in 2023 and allocated $75 million in state appropriations annually, awards scholarships to high school seniors pursuing postsecondary education and training aligned with in-demand careers. Under the purview of Idaho's Workforce Development Council, LAUNCH was designed to address a structural misalignment between education pathways and labor market demand. Early results show increased postsecondary participation—including a 5% increase in high school-to-college go-on rate—and meaningful shifts in students' education and career decision-making.

MASSACHUSETTS

MassReconnect, launched in 2023 and receiving $54 million in state appropriations to date, provides last-dollar financial aid to make community college free for adults 25 and older who have not yet earned a college degree. Led by the Massachusetts Executive Office of Education, the initiative seeks to counter declining community college enrollment and strengthen workforce competitiveness. The program's access first philosophy, reflected in its broad eligibility requirements and open fields of study, drove strong early enrollment gains, with community college enrollment growing 39% from Fall 2022 to Fall 2025.

WYOMING

The Wyoming Innovation Partnership (WIP), set up in 2021 with $14.7 million in federal funds and $55.6 million in state funds invested over three phases, is a competitive grant program that funds public higher education institutions across a range of workforce, research, and innovation activities. WIP was designed to spur collaboration across a historically fragmented higher education system and drive economic diversification. Housed in the Governor's Office, program delivery matured substantially over time—leading to results such as 39 new programs, over 1,700 postsecondary enrollments, and 460 internships—while developing a structured metrics framework and deepening partnership across colleges. In pursuit of long-term sustainability, WIP has transitioned under the Wyoming Business Alliance.

Each initiative is unique in design and delivery, but together, they also surface key insights that reflect common challenges and enabling conditions across different state contexts.

Cross-state Insights

1. **Programs navigated tradeoffs between broad eligibility and strategic targeting (across industries, geographies, and participant populations).** States that adopted broader eligibility criteria were better positioned to scale quickly with less administrative complexity and develop locally relevant projects. States that set more definitive workforce objectives were better able to articulate labor market alignment and hold grantees accountable to specific outcomes.

2. **Programs engaged with the WIOA system while developing independent eligibility frameworks**. All five programs departed from WIOA participant eligibility criteria, enabling them to engage populations beyond the federal framework's reach. States varied considerably, however, in how much they drew on WIOA infrastructure—from integration of workforce boards and American Job Centers (AJCs) to programs built primarily through higher education and economic development agencies.

3. **Programs successfully tracked short-term metrics and are building toward longer-term outcomes tracking, despite operational challenges.** Enrollment counts and credential completions were captured consistently, while job placement and wage gains proved harder to track. This reflects the reality of fragmented data systems and limited interagency data-sharing that many states across the country grapple with. Longitudinal evidence remains a work in progress across all five states.

4. **Programs evolved after launch as states adapted to implementation realities, refining design, addressing gaps, and responding to stakeholder needs.** Grantee input drove consistent adjustments to application structures, eligibility rules, and reporting systems. Programs also created the administrative and political conditions for expanded successor investments, demonstrating the critical role of well-designed pilots.

5. **Governor-led workforce investments are building on existing systems to drive change in how stakeholders coordinate and operate.** Governance structures and performance requirements proved to be particularly powerful levers in deepening partnerships and changing organizational behavior. Coordination mandates prompted organizations that had previously competed for resources to begin operating as interdependent partners, while high performance benchmarks drove employers to restructure hiring practices and develop new training programs that extended beyond the life of the grant.

Together, these findings point to a set of policy opportunities that can help Governors and other workforce leaders shape investments in workforce development.

PROJECT | JULY 31, 2026 | NATIONAL GOVERNORS ASSOCIATION

AI and the Future of Work

As the labor market rapidly evolves with advances in artificial intelligence (AI), governors stand at the forefront of innovative, bipartisan policy solutions to prepare workers and learners for the future of work.

Governors lead state and territory efforts to harness the opportunities and manage the risks of artificial intelligence, and no question is more consequential for their residents than how AI reshapes work. Through the National Governors Association (NGA) Working Group on AI & the Future of Work, a $1 million partnership with RAISE US, and a program of convenings, briefings and publications, governors' offices are building the workforce systems, governance structures, and partnerships needed to make AI a net win for workers and the economy.

NGA Working Group on AI & the Future of Work

In January 2026, the NGA Center for Best Practices launched the Working Group on AI & the Future of Work in partnership with the Center for Civic Futures and McKinsey & Company. The working group is comprised of governors' advisors from more than 20 states who have met regularly throughout 2026 to develop A Roadmap for Governors on AI & the Future of Work.

"Artificial intelligence is already shaping the workforce in profound ways, and the leadership of governors is critical to ensuring AI is a net win for workers and the economy," said Timothy Blute, NGA Chief Policy Officer. "There are 39 gubernatorial elections this year, and navigating the impact of artificial intelligence on the labor market will be among the top challenges this class of governors will face."

The working group convenes bimonthly to share best practices and common challenges, surface practical solutions and receive briefings from leading national experts.

Roadmap for Governors on AI & the Future of Work

In November 2026, NGA will release A Roadmap for Governors on AI & the Future of Work. The roadmap will be delivered to incoming and incumbent NGA members and will feature four primary elements:

- Description of AI technologies, trends and their potential impact upon the future of work;
- Survey of the current state and federal policy landscape regarding AI and the future of work
- Policy opportunities and potential principles on AI and the future of work for governors to consider; and
- Opportunities for governors to innovate and lead by example in developing AI-enabled state government workforce and organizational models.

For more information about the NGA Working Group on AI & the Future of Work, please contact Sophia Yager, Policy Director, Workforce Development & Economic Policy.

NGA Partnership with RAISE US

In July 2026, NGA announced a $1 million partnership with RAISE US — a nonpartisan, national organization that works with governors, employers, training partners and workers to help Americans make a successful transition to an AI economy — to promote state AI policy development. The announcement came at NGA's 2026 Summer Meeting in Oklahoma City during a panel discussion moderated by Politico senior White House reporter Megan Messerly, with Maryland Gov. Wes Moore, Utah Gov. Spencer Cox, and RAISE US Co-Chairs former U.S. Commerce Secretary Gina Raimondo and former Indiana Gov. Eric Holcomb on the investments needed to reimagine America's workforce systems for an AI economy.

The partnership will identify and amplify new policy models that help states design and pilot corporate incentives to retrain and redeploy workers, support people through job transitions, and develop training models tied to real employer demand. Findings will be shared during NGA's 2027 Winter Meeting, Feb. 18–20, 2027, in Washington, D.C.

"Governors are taking the lead to ensure the United States wins the AI race — and that means investing not just in policy and infrastructure, but in people," said NGA CEO Brandon Tatum. "NGA and RAISE US are both actively working to harness AI for the benefit of workers and economic growth. Our partnership will strengthen our efforts to find the best ideas and disseminate them throughout the country, so all governors are working from the best, most timely information."

Through its AI-Ready States program, RAISE US is partnering with governors in Arkansas, Connecticut, Maryland and Utah to reorient public workforce and education infrastructure for a shifting labor market through policy solutions such as earn-and-learn apprenticeships, short-term credentials mapped to real employer demand, and incentives supporting employer programs to retrain and redeploy workers. Additional states will join in the months ahead. RAISE US has said it aims to be working with roughly a dozen states by the 2027 Summer Meeting and has invited any interested governor to bring forward a pilot.

Why AI and the Future of Work Matters

AI is changing job tasks in every sector of the economy from healthcare and education to manufacturing, agriculture, and public services. Employers report that demand is shifting fastest toward AI-related roles. Research shared with NGA through the AI Workforce Consortium, a collaboration of 11 major technology companies, finds that seven of the 10 fastest-growing information and communications technology jobs are AI-related, and that the single fastest-growing category is AI governance and ethics, with demand up more than 200%. The human skills layer—problem solving, judgment, adaptability—is in as much demand as the technical one.

The pressure is also reaching further up the credential ladder than earlier automation waves did: governors have pointed to law and accounting graduates finding fewer entry-level openings as firms automate first-year work, even as demand holds in roles built on human presence and judgment, from direct care and education to the skilled trades. That has sharpened a second question for states, which is whether the answer is only retraining

or also earlier preparation — building AI fluency into K-12 so students grow up equipped to direct these tools rather than trained on any one of them, and protecting instruction in creative and strategic thinking that AI does not replicate.

Governors are on the front lines of this shift. They oversee the workforce systems that must retrain workers whose jobs change, the community colleges and universities that supply AI talent, the K-12 systems preparing students for AI-enabled careers, and the state agencies that are among the largest employers and earliest adopters of AI in their states. Governors are working to set policy through executive orders, task forces, targeted investments and public-private partnerships.

The workforce infrastructure states are building today —including skills data, portable credentials, modernized service delivery—is the same infrastructure they will need when AI-driven labor market disruption accelerates. Waiting for labor market data to confirm the disruption before acting narrows the window for intervention.

Governors Leading on AI and the Future of Work

INVESTING IN AI WORKFORCE DEVELOPMENT AND TRAINING

Governors are making direct investments in AI skill-building, often in partnership with industry. Oregon Gov. Tina Kotek announced a $10 million investment in AI workforce development alongside a Memorandum of Understanding with NVIDIA to expand AI education and help state agencies identify responsible AI uses. Mississippi Gov. Tate Reeves launched the Mississippi AI Talent Accelerator Program, providing $9.1 million in grants to institutions of higher learning to build workforce programs supporting the expansion of AI industries in the state. Virginia launched an AI Career Launch Pad with Virginia Works and the Grow with Google program, giving working-age Virginians one place to explore, learn and connect to high-demand AI and tech-related opportunities.

Maryland Gov. Wes Moore announced a $4 million investment to prepare Maryland workers, employers and community organizations for an economy shaped by AI and emerging technologies. Administered by the Maryland Department of Labor through three grant programs, the funding includes $2.5 million for quality internships and upskilling in the state's key industries and $1.5 million for supervised training of aspiring cyber professionals who provide cybersecurity services to community organizations and small businesses.

Utah is investing $10 million through Talent Ready Utah's Targeted Workforce Accelerator to build an AI-ready workforce in three high-impact sectors — artificial intelligence, energy and deep tech — as part of Utah Gov. Spencer Cox's pro-human AI initiative. The state also launched a statewide AI Workforce Credential designed to complement students' existing technical and durable skills by adding AI credentialing within their field of study; more than 50,000 graduates from Utah's public colleges and universities in the classes of 2025, 2026 and 2027 are eligible to earn it at no cost through a statewide online learning environment. A separate partnership with NVIDIA equips universities, community colleges and adult education programs across the state to build generative AI skills, beginning with the Utah System of Higher Education. In July 2026, Utah added $5 million in "AI moonshot" grants inviting residents, institutions and companies to propose applications of AI that measurably improve life in the state.

SUPPORTING WORKERS THROUGH JOB TRANSITIONS

Preparing workers for new roles is only half the challenge; states are also building the connective tissue that carries workers between jobs. Maryland's workforce partnership with RAISE US will design and pilot new corporate incentives to retrain and redeploy workers, fresh approaches to supporting people through job transitions, and training models tied to real employer demand. The partnership expands Maryland's Service Year Option pathways into sectors such as health care and education, launches a competitive fund for innovative career transition models and creates an accelerator helping

displaced workers pursue entrepreneurship. Utah has announced a parallel RAISE US partnership bringing together employers, educators and government to test worker-first approaches to the AI economy under Gov. Spencer Cox's Pro-Human AI Initiative. Arkansas and Connecticut have since joined Maryland and Utah in the RAISE US AI-Ready States program, and NGA's $1 million partnership with RAISE US is designed to capture what those states learn and put it in front of every governor.

At the 2026 Summer Meeting, RAISE US outlined several pilot concepts it is prepared to fund with states. They include wage insurance that temporarily tops up pay when a displaced worker takes a lower-paying job; employer incentives structured to reward retraining and redeployment rather than separation; unemployment insurance rules that let claimants keep benefits while starting a business, paired with accelerators that teach AI-enabled entrepreneurship; and service year programs that create a first job for young people as AI compresses entry-level hiring. Each is framed as a state-level experiment whose results can be measured and, if they work, copied.

UNDERSTANDING THE LABOR MARKET IMPACT

States are building the evidence base for policy. The Maine Department of Labor's Center for Workforce Research and Information delivered a report to the Governor's AI Task Force on the workforce implications of generative AI, documenting potential AI use across a wide range of occupations and how likely each is to be affected, alongside current jobs, wages and educational requirements.

BUILDING SKILLS-FIRST TALENT SYSTEMS

At NGA's Skills in the States Annual Convening held in May 2026, governors' workforce and education advisors, state HR officials, national employers and federal partners worked through what it takes to move from credential-based to skills-based talent practices. Themes included Learning Employment Records — portable, individually owned digital records of credentials, skills, courses and work experience that are verified and shareable across state lines — and the state's role as a model employer when it removes degree requirements from its own job descriptions and hires on demonstrated competency.

Arkansas presented LAUNCH, an open-source talent ecosystem platform connecting job seekers, employers, high school students and supportive services, built on the Credential Transparency Description Language and National Labor Exchange job posting data, with more than 10,000 published competencies and a living skills taxonomy that uses AI and human review to detect emerging skills in near-real time. Participants also examined the National Guard as a distributed, federally trained talent pipeline in every county, and the rise of "skill phishing." AI lowers the cost of misrepresenting skills on applications, verified portable credentials become a more critical trust signal for employers.

MODERNIZING WORKFORCE SERVICE DELIVERY WITH AI

States and territories are integrating AI into workforce service delivery, with early successes in unemployment insurance processing and customer-facing career matching tools, alongside online career exploration platforms, case management systems and training provider repositories that make workforce resources easier to reach. The Workforce Development and Economic Policy program page tracks this work.

LEADING BY EXAMPLE: AI-ENABLED STATE GOVERNMENT

Governors are also treating state government as the first proving ground for AI-enabled work — the fourth element of the forthcoming roadmap. Georgia's Technology Authority mapped how AI could supplement key agency roles, from caseworkers to legal and HR. Pennsylvania piloted a program empowering public sector employees to integrate AI tools into their daily responsibilities. Washington launched an AI Community of Practice spanning state and local agencies to share best practices, develop guidelines and build accountability for responsible deployment. Many governors have designated chief AI officers or state AI leads to guide strategy, inventory current uses and build employee training.

Maryland has moved furthest on integrating AI into the state workforce itself. Gov. Moore announced a landmark AI partnership with Anthropic and Percepta to integrate

AI models into a portion of the state workforce, with engineers working directly alongside agency teams to accelerate benefits delivery and streamline housing permitting. The state has since launched an AI Innovation Lab within the Maryland Department of Information Technology, giving agencies a controlled sandbox for secure testing, ready-to-use software packages for rapid prototyping, hands-on training and pre-deployment vulnerability testing. Separately, Maryland secured two grants through the Center for Civic Futures' Public Benefit Innovation Fund: $1.2 million for a multi-state project developing AI tools to streamline work verification for SNAP and Medicaid, and $1.45 million for the Department of Labor to work with the Government Performance Lab and Computational Policy Lab on AI systems that help staff navigate complex regulations, process documents and train through simulators. On the service delivery side, Maryland is using AI to streamline eligibility processing for Summer EBT, the program that provides food benefits to school-age children over the summer.

The Policy Landscape

STATE ACTION

Over the past two years, governors in at least 14 states have issued executive orders pertaining to AI, particularly generative AI. These orders generally establish state AI task forces, outline principles for responsible use, direct agencies to inventory current AI use, develop employee training and designate AI leads. Workforce development, economic growth and education are recurring priorities. State legislatures have introduced hundreds of AI bills addressing state government AI use and oversight, private-sector governance and consumer protection, data privacy, algorithmic discrimination, deepfakes, companion chatbots, and accountability for AI developers and deployers.

States are also experimenting with new governance structures. Utah established a first-in-the-nation Office of Artificial Intelligence Policy, which consults with businesses, academic institutions, and other stakeholders on regulatory proposals and has authority to craft regulatory relief agreements that allow novel AI deployments to proceed under tailored terms. Utah has applied the mechanism to AI companion chatbots, pairing narrow regulatory relief with safeguards agreed upon with the developer and then carrying the resulting standards into legislation — an approach Gov. Cox has said other states and national governments have asked about replicating. Utah's broader pro-human AI framework evaluates policy and investment against two tests—whether a use is human-guided and whether it is human-enhancing—applied across workforce, industry, state government, learning, and public policy.

FEDERAL DEVELOPMENTS

In March 2026, the White House released a National Policy Framework for Artificial Intelligence recommending federal legislative action across seven areas: child protection, community and infrastructure impacts, intellectual property, free speech, innovation, workforce development, and preemption of certain state AI laws. On workforce, the framework recommends non-regulatory federal support for AI training through existing education, workforce development and apprenticeship systems, further study of AI's effects on job tasks and support for land-grant institutions providing technical assistance, demonstrations and youth programs. The framework signals a preference for a larger federal role while preserving some state authority over generally applicable laws, infrastructure siting, and state government uses of AI. NGA is monitoring these developments and supporting governors as they engage with Congress and the Administration. Governors of both parties have described the balance they are seeking in similar terms: a federal role on national security and baseline standards, coupled with room for states to keep running the pilots and writing the guardrails, on the grounds that states are currently the level of government moving at the speed the technology requires.

RELATED NGA AI WORK

The Working Group on AI & the Future of Work sits within a broader NGA portfolio supporting governors across the full range of AI policy challenges:

- **Signature workforce investments.** Putting State Dollars to Work: How Governors' Signature Investments Drive Workforce Transformation examines how governors are deploying state dollars to reshape workforce systems for a changing economy.
- **GenAI Frontier convenings.** NGA's Navigating the GenAI Frontier: Strategies for Governors' Offices convening brought governors' advisors together with experts from McKinsey, Harvard Business School, Google Public Sector, OpenAI, Microsoft, and NIST on enabling the workforce with generative AI tools, managing risks, selecting high-impact use cases and building governance structures.
- **Legal and policy briefings.** NGA holds monthly briefings for governors' legal counsel on legal and regulatory considerations related to AI, covering ethical governance and use, privacy, intellectual property, consumer protection, risk management and procurement.
- **AI in criminal justice and human services.** Recent briefings have examined AI use across criminal justice systems — and the due process, transparency and bias considerations that come with it — as well as how states can incorporate AI into human services by understanding impacts on workers, automating tedious tasks and designing around outcomes rather than outputs.
- **Energy infrastructure for the AI economy.** AI data center growth is driving the fastest power demand growth in decades. Governors are attracting investment while protecting ratepayers and ensuring local communities benefit. NGA has tracked the role of nuclear energy, including small modular reactors and restarted plants, in powering the AI economy.

Frequently Asked Questions

WHAT IS THE NGA WORKING GROUP ON AI & THE FUTURE OF WORK?

It is a group of governors' advisors from more than 20 states, convened by the NGA Center for Best Practices in partnership with the Center for Civic Futures and McKinsey & Company. Launched in January 2026, the group has met regularly throughout the year — sharing best practices, surfacing common challenges and receiving briefings from national experts — to develop A Roadmap for Governors on AI & the Future of Work.

WHAT WILL THE ROADMAP INCLUDE?

Four primary elements: a description of AI technologies, trends and their potential impact on the future of work; a survey of the current state and federal policy landscape; policy opportunities and potential principles for governors to consider; and opportunities for governors to innovate and lead by example in developing AI-enabled state government workforce and organizational models. The roadmap is set for release in November 2026, with an in-person convening scheduled to be held in December 2026 to unveil it.

HOW CAN A GOVERNOR'S OFFICE GET INVOLVED?

Governors' offices interested in participating in the working group, contributing state examples to the Roadmap or learning more can contact workforcedevelopment@nga.org.

WHAT IS THE NGA–RAISE US PARTNERSHIP?

In July 2026, NGA and RAISE US announced a $1 million partnership to promote state AI policy development. RAISE US is a nonpartisan national organization working with governors, employers, training partners and workers on the transition to an AI economy; through its AI-Ready States program it currently partners with Arkansas, Connecticut, Maryland and Utah. The partnership will identify and amplify policy models including corporate incentives to

retrain and redeploy workers, supports for people moving between jobs, and training tied to real employer demand, with findings shared at NGA's 2027 Winter Meeting in February 2027. Governors interested in developing a pilot with RAISE US can reach the organization through NGA.

WHAT ROLE DO GOVERNORS PLAY IN AI AND THE FUTURE OF WORK?

Governors set statewide AI strategy, direct the agencies that use and regulate AI, allocate workforce and economic development funding, oversee education and training systems, and coordinate with federal partners. They are also among their states' largest employers, which puts them in a position to model AI-enabled work practices and skills-based hiring directly. Many governors have issued executive orders and appointed chief AI officers or state AI leads to guide these efforts.

HOW ARE STATES PREPARING WORKERS FOR AI-DRIVEN CHANGE?

Governors are investing in AI training through community colleges, universities, apprenticeship programs and public-private partnerships with companies including Google, NVIDIA and OpenAI. States are expanding career navigation tools, modernizing public workforce systems, building portable credential and skills-data infrastructure, and developing skills-based hiring pathways. A growing number are also building supports specifically for workers moving between jobs, including retraining incentives, career transition funds and entrepreneurship pathways for displaced workers.

HOW ARE STATES USING AI IN THEIR OWN WORKFORCE SYSTEMS AND OPERATIONS?

States are deploying AI in unemployment insurance processing, career matching, benefits administration, case management and government communications, while building the governance structures, procurement guidelines and employee training needed for responsible use. For example, Georgia has mapped how AI could supplement key agency roles, Pennsylvania has piloted employee integration of AI tools, Washington runs an AI Community of Practice spanning state and local agencies, and Maryland has stood up an AI Innovation Lab that gives agencies a secure sandbox for testing and prototyping.

WHAT DOES THE FEDERAL AI POLICY FRAMEWORK SAY ABOUT WORKFORCE?

The White House National Policy Framework for Artificial Intelligence, released in March 2026, recommends non-regulatory federal support for AI training through existing education, workforce development, and apprenticeship systems; additional study of AI's effects on job tasks; and support for land-grant institutions providing technical assistance and youth programs. It also proposes preempting certain state AI laws while preserving state authority over generally applicable laws, siting decisions and a state's own use of AI.

WHAT OTHER AI RESOURCES DOES NGA OFFER?

NGA offers monthly legal counsel briefings on AI governance. These briefings look at issues such as the GenAI Frontier series, policy publications, a state resource list on AI, and best-practice forums. Recent analyses cover the White House AI framework, governors' signature workforce investments, nuclear energy for AI infrastructure, AI in health and human services, and legal and regulatory considerations for states.

Governors' offices interested in engaging with NGA's AI and future of work portfolio can contact Sophia Yager, Policy Director, Workforce Development & Economic Policy.

Fiscal Federalism

EXPLAINER | OCTOBER 14, 2025 | CALEB QUAKENBUSH |
BIPARTISAN POLICY CENTER

Why the National Debt Matters for State and Local Borrowing and Infrastructure Investment

State and local governments play a substantial role in funding for U.S. infrastructure. For example, as of 2023, state and local governments funded 69% of public capital investment and 87% of government spending on operation and maintenance for water and transportation infrastructure. These investments go towards projects like highways, airport improvements, and wastewater treatment that residents and businesses rely on every day.

Rising interest rates, driven in part by concerns about the growing national debt, are making these investments more expensive to finance. Although interest rates have come down from highs earlier this year, and the Federal Reserve recently lowered short-term interest rates, long-term yields remain elevated relative to pre-pandemic levels. State and local governments consequently face higher borrowing costs at a time when infrastructure maintenance costs have increased and states are expected to pay for a higher share of Medicaid and food assistance costs.

In short, rising federal deficits risk crowding out local access to capital.

How and Why State and Local Governments Borrow

Most states have balanced budget requirements that restrict their ability to borrow funds for normal operating costs. Cities face similar constraints. However, state and local governments can and do borrow for long-term capital projects. States, cities, counties, and thousands of special districts (e.g., utilities, school districts, transit authorities) issue municipal bonds ("munis") to finance the construction and maintenance of schools, hospitals, water and sewer systems, power grids, and other public infrastructure. This borrowing enables state and local governments to cover the substantial

upfront costs of capital projects and allows the costs of public infrastructure to be shared across the generations that benefit from it.

The municipal bond market underpinning these investments exceeds $4.3 trillion, about 6% of total nonfinancial sector debt in the United States. Over the past five years, annual municipal debt issuance has averaged about $452 billion, according to data compiled by the Securities Industry and Financial Markets Association.

Yields on Municipal Debt Track Benchmark Federal Rates

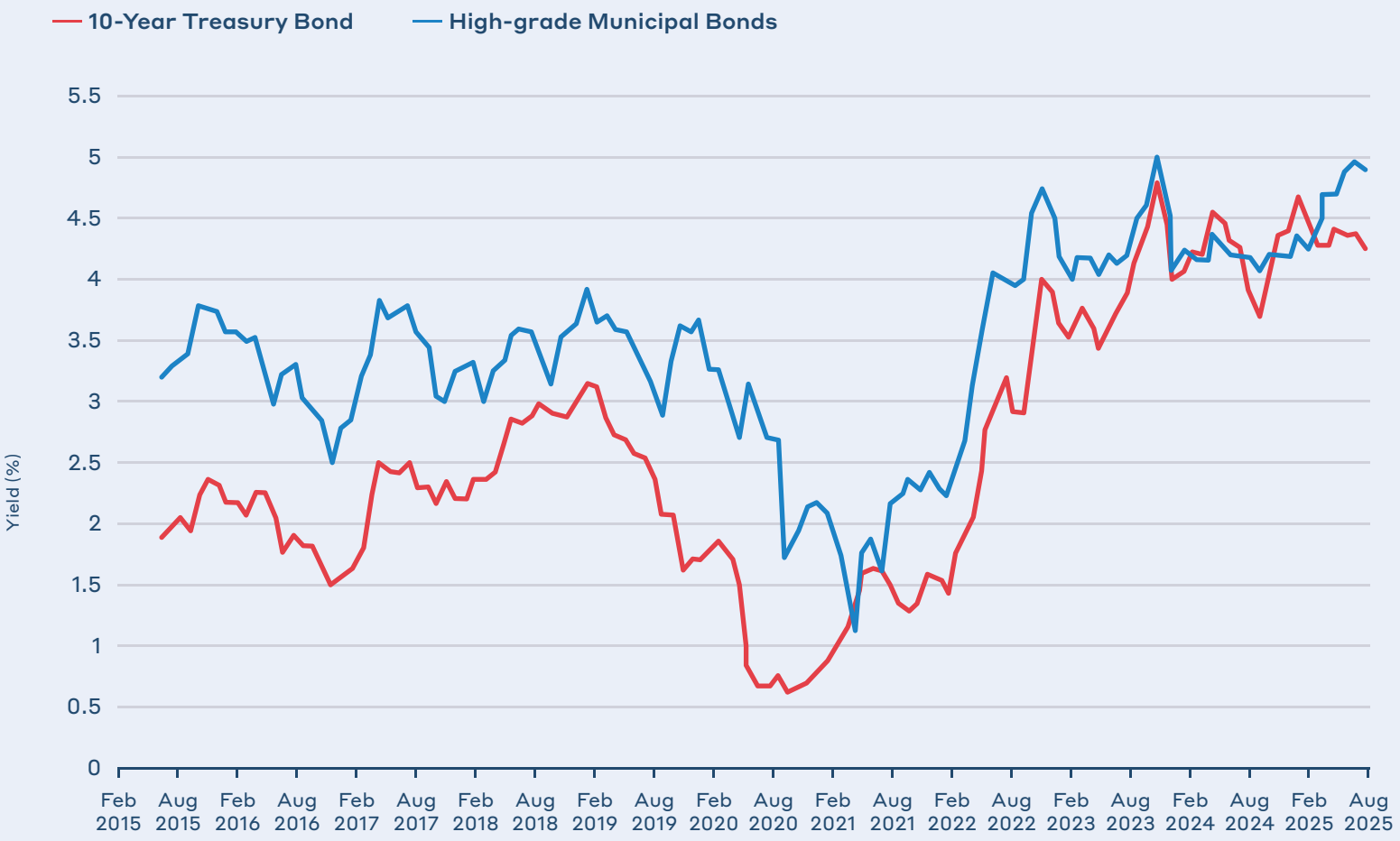
Most municipal bonds are long term, with an average maturity at issuance of 20 years. Their yields track those of other long-term debt including Treasury bonds, which are influenced by investors' expectations about future economic conditions like inflation. Yields are sometimes lower than Treasury yields because most muni interest is tax exempt at the federal level, and often at the state level when purchased in an investor's home state.

Risks of Rising Interest Rates

The growing national debt will increasingly challenge state and local governments' access to financing. Large levels of federal borrowing are exerting upward pressure on interest rates across the economy. To absorb a growing supply of federal debt, bond market investors demand higher yields in return.

Municipal Bond Yields Track Benchmark Federal Yields

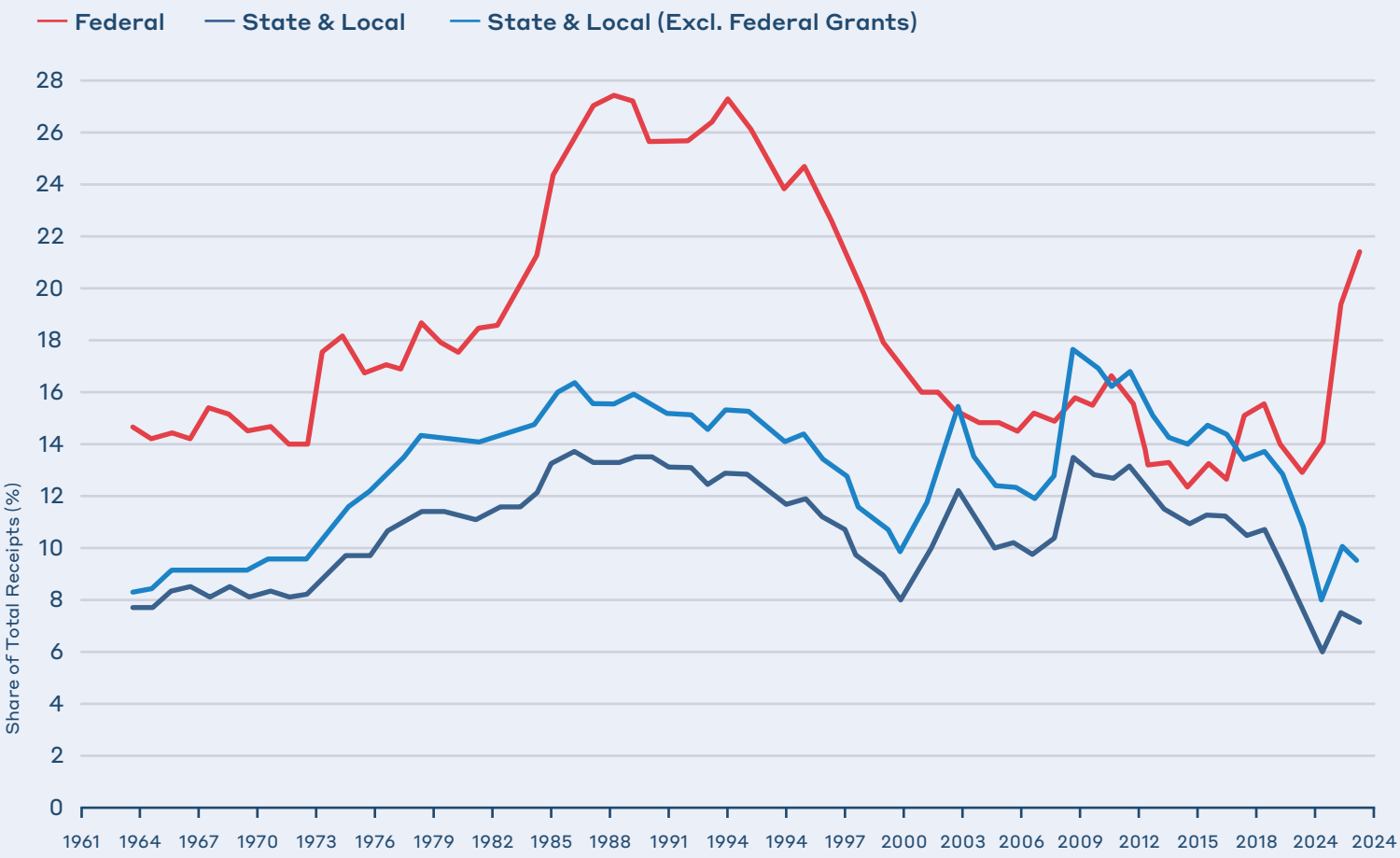
Housing Supply Shortage Estimates



Source: Council of Economic Advisers Economic Indicators series. CEA sources Treasury yield data from U.S. Treasury and municipal yield data from Standards and Poor's.

Interest Payments are a Low Share of State and Local Revenues

Interest Payments a Share of Total Receipts



Source: Author's calculatoins from Bureau of Economic Analysis, National Income and Product Accounts
Note: Federal receipt and expenditure data in the NIPA differ from Office of Management and Budget Historical data due to differences in timing and coverage. See NIPA Handbook

Concerns about the inflationary effects of deficits and the sustainability of federal borrowing especially influence the premium demanded on bonds with longer maturity. The Congressional Budget Office estimates that for each 1 percentage point rise in the federal debt-to-GDP ratio, long-run interest rates increase by 2 basis points.

Munis are caught up in this higher rate dynamic. Yields averaged 3.2% between 2015-2020, but climbed during the broader interest rate rise in the post-pandemic years. Even as the Fed began cutting short-term rates in 2024, long-term municipal yields remained above 4% for much of the year and spiked briefly amid the bond market turmoil in April 2025. Because it is smaller and more fragmented than the Treasury market, the municipal bond market is more exposed to rate swings during periods of financial system upheaval.

State and local interest expenditures total only 7% of total state and local government revenues, compared to the 20% of federal revenues spent on net interest. And unlike federal interest spending, state and local spending on interest has mostly fallen as a share of revenues since 2012. But higher borrowing costs in the future could force

local governments into harder tradeoffs between reducing investment in projects like roads, bridges, or schools, or offsetting increased borrowing costs with reduced spending or more revenues elsewhere.[i]

Additional Federal Budget Pressures on State and Local Finances

Budgetary pressures at the federal level could impact state and local finances in other ways. Fiscal reform will almost certainly require higher revenues to reduce deficits. Federal income tax rates could eventually be increased, which all else equal, would make municipal debt more attractive to investors because the value of the tax exemption on munis would increase. However, lawmakers also previously have contemplated ways to limit the tax exemption or eliminate it altogether to expand the tax base and raise revenues. About half of municipal debt is directly held by individual investors, whose demand may be especially sensitive to changes to the tax advantages of these securities.

Why This Matters

Reduced infrastructure investment can lead to slower economic growth for communities, as local governments balance how to use scarce funds between maintaining depreciating infrastructure and upgrading and expanding systems. Further, less infrastructure financing could lead to reduced employment in construction and other industries tied to public investment.

Elevated interest rates come at a time when state and local governments face other cost pressures. In the coming years, federal reductions to Medicaid and food assistance programs enacted through the recent reconciliation bill will shift more burden to states for the administrative and programmatic costs of these programs.

Some regions of the country also face growing energy infrastructure needs to accommodate rising power demand from electrification, data center construction, and manufacturing growth.

More generally, inflation has increased the cost of infrastructure construction and maintenance since 2021. Housing affordability and climate-related infrastructure challenges requiring long-term investment also plague many jurisdictions. To address this reality and meet the needs of residents, state and local governments will require access to financial markets to make the necessary long-term infrastructure investments.

The federal government partners closely with state and local governments to fund public infrastructure. In the years ahead, the federal government can strengthen its role in that partnership through bipartisan efforts to keep its deficits in check and avoid crowding out municipal financing. Accomplishing these goals will require broad reforms to entitlements and the tax code, as well as more sustainable sources of revenue to support federal infrastructure spending.

[1] A third possibility is that increased borrowing at the federal level is used to finance grants to state and local governments and reduces the need for subnational borrowing. However, jurisdictions might have less discretion over how these funds are used and would face higher financing costs for any projects not supported by federal grants. State and local government revenues cover more than two-thirds of infrastructure spending, a share that has grown since the 1970s.

ARTICLE | FEBRUARY 9, 2026 | KENDALL STRONG | BIPARTISAN POLICY CENTER

Moving Beyond Cost Shifting: A Bipartisan Framework for Health Care Affordability

A New, Bipartisan Look at Health Care Affordability

As bipartisan attention on health care affordability intensifies—amid fiscal pressures and increasing consumer frustration—Congress and the administration must act. **BPC's newly-launched Health Care Affordability Initiative is grounded in the view that any pathway toward ensuring affordable health care will require addressing the underlying cost drivers directly, rather than simply shifting costs.**

Our approach will prioritize both opportunities where consensus already exists, as well as developing policy solutions to address gaps and emerging challenges.

Through our Health Care Affordability Initiative, the Bipartisan Policy Center will identify federal policy recommendations to address high health care prices and other affordability challenges for consumers and taxpayers.

The consequences of high costs and diminishing affordability are increasingly visible.

For consumers, premiums, deductibles, and out-of-pocket costs are eroding household budgets, forcing families to delay or forgo care, and compounding general cost-of-living challenges.

For businesses, rising costs continue to put pressure on employers seeking to offer benefits and boost wages. And for taxpayers, health care cost growth is one of the main drivers of rising deficits, straining federal budgets and threatening fiscal sustainability.

In this environment, policymakers are seeking solutions that can garner bipartisan support, improve consumer experience, and increase competition within the health care system without sacrificing access, patient care, or innovation.

Prescription drug prices, hospital and physician pricing, and Medicare Advantage and broader insurance market design features that impact spending and incentives have emerged as areas where cost pressures are particularly acute. These are also areas where opportunity for bipartisan engagement exists. Administrative complexity is another such emerging area with interest in action. At the same time, recent growth in health care spending has been driven by not only prices, but by increases in the use and intensity of services, underscoring the need for affordability policy solutions that address both pricing dynamics and utilization.

Prescription Drug Prices

Retail prescription drug spending (i.e., not including physician-administered drugs) has grown from 7% to 11% of total personal health care spending. It currently accounts for about 9% of federal health care spending, almost double since the 1990s.

This spending is due to several factors, including higher prices for new and existing drugs, increased utilization, and the increased use of higher-cost specialty drugs.

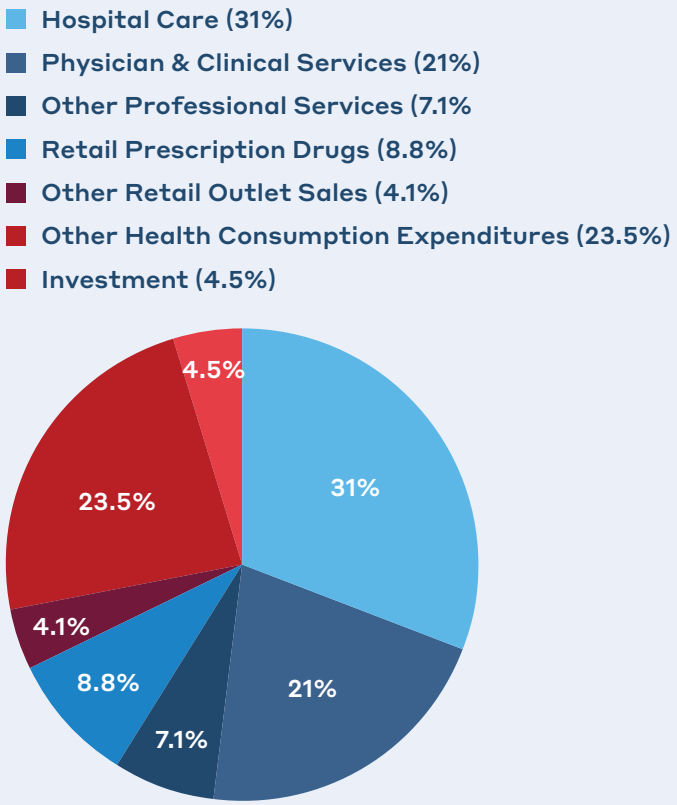
Through our Health Care Affordability Initiative, BPC will examine a range of policy approaches that Congress and the administration should advance to increase competition, better align drug pricing incentives, and reduce inefficiencies across the prescription drug supply chain.

Areas with existing bipartisan interest include pharmacy benefit manager and patent exclusivity reform, implementation of the Inflation Reduction Act's drug price negotiation authority, and targeted demonstrations to test alternative drug pricing mechanisms.

Hospital and Physician Pricing

Federal spending on hospital and physician care has also increased, from over $940 billion in 2014 to $1.6 trillion in 2024 and around $600 billion in 2014 to $1.1 trillion in 2024, respectively. Together, they represent the two single largest components of U.S. health care spending. This growth is due to several factors, including high prices, site-of-service differentials, reduced competition, and an aging population. BPC's work will examine opportunities for policy reforms that would increase transparency, reduce price variation across care settings, and better align payment incentives for value over volume. Over the long term, opportunities exist for bipartisan reforms to invest in workforce growth and distribution and adapting how medicine is practiced to reflect technological advances. In each area, improving access, efficiency, and affordability across the health care system is the goal.

National Spending on Hospital and Physician Care



Note: Other health consumptions expenditures includes government public health activities, non-medical insurance expenditures, government administration, and other personal health care expenditures.
Source: Centers for Medicare & Medicaid Services

Medicare Advantage Improvements and Insurance Market Design

Federal spending on Medicare Advantage (MA) more than doubled between 2015 and 2021, outpacing growth in enrollment, and MA now serves a majority of Medicare beneficiaries. A range of factors contributed to this spending growth, including payment and bidding dynamics and enrollment growth.

BPC will explore policy reforms that Congress and the administration could advance to improve MA and broader insurance market design, with a focus on increasing competition, enhancing benefits, reducing out-of-pocket costs, and ensuring fiscal sustainability. Other potential reforms that BPC will study include ensuring prior authorization processes better balance utilization growth and access, reforming MA's Star Ratings system to reflect more meaningful quality measures, and assessing changes to the program's bidding and payment structure.

Administrative Complexity

Lastly, BPC believes that policymakers should continue to tackle administrative complexity within the health care system, which is estimated to account for 15-30% of total U.S. health care spending. This inefficiency is driven by payer fragmentation and a lack of standardization, billing complexity and costs, and regulatory and compliance requirements, such as excessive reporting burdens.

Federal policymakers have signaled an interest in simplifying health care enrollment and eligibility processes, improving program alignment, and modernizing administrative infrastructure, including the use of innovative tools such as artificial intelligence.

Conclusion

Over the coming year, BPC's Health Care Affordability Initiative will engage policymakers, experts, and other stakeholders to develop pragmatic, bipartisan recommendations that reflect the complexity of the health care system while responding to the urgency of the moment. This work will focus on advancing policy options where bipartisan agreement already exists or is emerging, while also identifying the additional reforms necessary to achieve lasting improvements to consumer and taxpayer affordability.

We will investigate the prescription drug policy levers available to maximize competition and safeguard consumer benefit; examine approaches to ensure quality, grow value, and preserve sustainable access to hospital and physician care; analyze technically sound and politically durable improvements to MA and other insurance market reforms; and explore how administrative simplification can underpin a cross-cutting consumer and taxpayer health care affordability strategy.

The goal is not a single policy fix, but a coherent framework for lowering costs, improving affordability, and strengthening the long-term sustainability of our nation's health care system.

Learn more about the American Opportunity Project

bipartisanpolicy.org/opportunity



Bipartisan Policy Center

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