APPENDIX

A

Changes in CBO's Baseline Since May 2013

The Congressional Budget Office (CBO) anticipates that in the absence of further legislation affecting spending and revenues, the budget deficit for fiscal year 2014 will total $514 billion—$46 billion less than CBO projected in May 2013, when it released its previous set of baseline projections (see Table A-1).[1] The decrease in the projected deficit for 2014 mostly reflects the Administration's accounting for large payments to the Treasury from the mortgage finance institutions Fannie Mae and Freddie Mac; that revision is partially offset by other changes that, on net, increased this year's projected deficit.

By contrast, CBO now estimates that the cumulative deficit for the 2014–2023 period under current law would be about $1.0 trillion greater than it projected in May, $7.3 trillion rather than $6.3 trillion.[2] The increase for the 2014–2023 period as a whole stems mainly from lower projections of revenues, mostly because CBO has reduced its projections of the growth of the nation's economic output, or gross domestic product (GDP).

For 2014, CBO currently estimates that revenues will be $13 billion (or 0.4 percent) less than it previously projected, and outlays will be $59 billion (or 1.6 percent) less. For the 2014–2023 period, CBO estimates that under current law, revenues would be $1.6 trillion (or 4.0 percent) less, and outlays $600 billion (or 1.3 percent) less, than it projected in May.

Changes to Projections of Revenues

The reduction in estimated revenues for the current fiscal year is the net result of two types of revisions to the baseline. Technical factors (those not related to legislative activity or changes in the economic forecast) have caused CBO to decrease its estimate of 2014 revenues by $91 billion. Mostly offsetting that reduction, changes to CBO's economic forecast have increased the 2014 revenue estimate by $77 billion. For the 2014–2023 period, economic factors—particularly lower projections of GDP—account for $1.4 trillion of the $1.6 trillion reduction in projected revenues.

Economic Changes

CBO's current economic forecast incorporates updated projections of GDP, the unemployment rate, interest rates, inflation, and other variables that affect federal spending and revenues (see Chapter 2 for details). Those revisions have caused the agency to increase its revenue

1. Those projections were published in Congressional Budget Office, *Updated Budget Projections: Fiscal Years 2013 to 2023* (May 2013), www.cbo.gov/publication/44172. CBO constructs its baseline projections in accordance with provisions of the Balanced Budget and Emergency Deficit Control Act of 1985 and the Congressional Budget and Impoundment Control Act of 1974. To project revenues and mandatory spending, CBO assumes that current laws, with only a few exceptions, will remain unchanged throughout the 10-year projection period. To project discretionary spending, CBO assumes that annual appropriations through 2021 will adhere to the caps and automatic spending reductions originally established in the Budget Control Act of 2011 (Public Law 112-25) and that appropriations for 2022 through 2024 will grow from the 2021 amount at the rate of inflation. The resulting baseline projections are not intended to be a prediction of future budgetary outcomes; rather, they serve as a current-law benchmark against which to measure the potential effects of tax or spending proposals.

2. This appendix focuses on the 2014–2023 period, rather than the 2015–2024 period emphasized in the rest of the report, because the earlier 10-year span was the one covered by the May 2013 baseline.

Table A-1.

Changes in CBO's Baseline Projections of the Deficit Since May 2013

(Billions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2018	2014-2023
Deficit in CBO's May 2013 Baseline	-560	-378	-432	-482	-542	-648	-733	-782	-889	-895	-2,394	-6,340
Changes to Revenue Projections												
Legislative Changes	*	*	*	*	1	1	1	1	1	1	2	7
Economic Changes												
Individual income taxes	45	23	-14	-58	-83	-100	-117	-135	-150	-162	-87	-749
Corporate income taxes	16	-10	-26	-43	-49	-44	-39	-36	-34	-31	-111	-297
Social insurance taxes	14	3	-13	-29	-38	-44	-52	-59	-64	-67	-63	-349
Other	2	*	-13	-6	2	1	*	-1	-2	-2	-16	-20
Subtotal	77	16	-66	-136	-168	-187	-209	-231	-249	-262	-276	-1,415
Technical Changes												
Individual income taxes	-44	-39	-30	-16	-7	-3	*	5	6	4	-137	-125
Corporate income taxes	-45	-43	-24	-10	-6	-3	-2	-1	-1	*	-128	-135
Social insurance taxes	-1	1	1	1	*	*	2	3	3	*	2	10
Other	-1	-29	-7	13	8	22	32	19	-1	-2	-15	55
Subtotal	-91	-110	-59	-13	-6	16	32	25	7	3	-278	-196
Total Revenue Changes	**-13**	**-94**	**-125**	**-148**	**-173**	**-171**	**-176**	**-205**	**-242**	**-257**	**-553**	**-1,604**
Changes to Outlay Projections												
Legislative Changes												
Mandatory outlays												
Medicare	4	3	1	*	*	*	*	*	-8	-15	8	-16
Student loans	10	8	2	-3	-5	-6	-6	-5	-5	-5	13	-14
Transportation	-1	-1	-1	-1	-1	-1	-1	-2	-2	-2	-6	-13
Other	-1	-3	-3	-2	2	-2	-2	-3	-10	-15	-7	-39
Subtotal	13	7	-1	-6	-5	-10	-10	-10	-24	-37	7	-83
Discretionary outlays												
Defense	14	12	5	2	2	1	1	1	*	*	34	37
Nondefense	18	2	-13	-29	-37	-42	-45	-47	-49	-51	-60	-294
Subtotal	31	13	-8	-27	-35	-41	-44	-47	-49	-51	-25	-258
Net interest outlays (Debt service)	*	1	1	1	-1	-2	-4	-7	-10	-14	2	-35
All Legislative Changes	45	21	-8	-33	-41	-53	-59	-63	-84	-101	-16	-376
Economic Changes												
Mandatory outlays												
Medicare	-1	-7	-14	-18	-12	-16	-18	-20	-24	-24	-53	-154
Medicaid	-2	-5	-6	-6	-7	-7	-8	-8	-9	-10	-26	-67
Other	-5	-7	-8	-4	-3	-2	-1	1	2	3	-26	-22
Subtotal	-8	-19	-27	-29	-22	-25	-26	-27	-30	-30	-104	-243
Discretionary outlays	*	-1	-1	-1	-2	-2	-2	-2	-2	-2	-5	-14
Net interest outlays												
Debt service	-1	-1	-1	1	6	12	18	26	34	44	3	136
Effect of rates and inflation	-1	4	11	5	-8	-14	-20	-25	-29	-31	10	-109
Subtotal	-2	2	9	6	-2	-3	-2	1	5	13	14	28
All Economic Changes	-10	-17	-19	-24	-25	-29	-30	-28	-27	-19	-95	-229

Continued

Table A-1. **Continued**

Changes in CBO's Baseline Projections of the Deficit Since May 2013

(Billions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2018	2014-2023
						Changes to Outlay Projections (Continued)						
Technical Changes												
Mandatory outlays												
Fannie Mae and Freddie Mac	-88	-1	-1	*	*	-1	*	*	-1	*	-90	-92
Earned income tax credit	3	4	5	5	5	4	4	4	3	3	21	39
Veterans' benefits and services	2	3	3	4	4	4	4	4	5	5	15	37
Social Security	-2	-7	-9	-8	-6	-4	-3	-1	1	3	-32	-36
Medicaid	2	5	5	4	2	4	3	3	3	3	18	34
Civil Service Retirement	1	2	2	2	2	2	3	3	3	4	10	24
SNAP	2	2	2	2	2	2	3	3	3	2	10	23
Other	-5	1	4	7	3	7	9	8	5	4	10	44
Subtotal	-85	9	12	16	12	19	22	24	22	23	-37	73
Discretionary outlays	-6	-8	-4	-7	-5	-4	-4	-6	-6	-6	-29	-55
Net interest outlays												
Debt service	*	*	1	2	2	2	2	1	1	1	6	13
Other	-3	1	1	-3	-4	-2	-4	-3	-5	-4	-8	-26
Subtotal	-3	1	2	-1	-1	*	-2	-2	-4	-3	-2	-13
All Technical Changes	-94	2	10	8	6	15	16	16	12	14	-69	5
Total Outlay Changes	**-59**	**7**	**-18**	**-49**	**-60**	**-67**	**-73**	**-75**	**-99**	**-106**	**-180**	**-600**
						All Changes						
Total Effect on the Deficit[a]	**46**	**-100**	**-107**	**-99**	**-113**	**-104**	**-103**	**-130**	**-143**	**-151**	**-373**	**-1,004**
Deficit in CBO's February 2014 Baseline	-514	-478	-539	-581	-655	-752	-836	-912	-1,031	-1,047	-2,767	-7,344
Memorandum:												
Total Legislative Changes[a]	-45	-21	9	33	41	54	60	64	85	102	18	382
Total Economic Changes[a]	87	33	-47	-111	-143	-158	-179	-203	-222	-242	-181	-1,186
Total Technical Changes[a]	3	-112	-69	-21	-11	1	17	8	-5	-11	-210	-200

Source: Congressional Budget Office.
Sources: Congressional Budget Office; Office of Management and Budget.

Note: * = between -$500 million and $500 million; SNAP = Supplemental Nutrition Assistance Program.

a. Positive numbers represent a decrease in the deficit; negative numbers indicate an increase in the deficit.

estimates for 2014 and 2015 but to decrease them for each year thereafter through 2023. CBO raised its revenue projections for the first two years of the 10-year period because it now anticipates higher individual income (including wages, salaries, and proprietors' income) from 2013 through 2015, and higher domestic corporate profits in 2013 and 2014, than it did last year.[3] (Those revisions were more than offset by technical changes, as described in the section below.)

The main reason for the decrease in projected revenues over the 2016–2023 period is that CBO now expects slower growth in nominal GDP through 2023 than

3. Wages and salaries are now estimated to be a smaller share of GDP in 2013 and 2014, and domestic economic profits a smaller share of GDP in 2014, than CBO previously forecast (see Table 2-3 on page 45). Nevertheless, the agency's projections of GDP have increased, and its estimates of the total amount of wages and salaries and domestic economic profits have risen.

previously forecast.[4] That change reflects lower projections for the growth of real (inflation-adjusted) GDP and for inflation. As a result, CBO now projects smaller amounts of wages, salaries, and corporate profits throughout that period.

Most significantly, CBO has reduced its projections of the total amount of wages and salaries over the 2015–2023 period by about $3.2 trillion (or 3.6 percent) since last year. That decrease is the key factor that caused CBO to lower its projections of receipts from individual income taxes by about $820 billion—and its projections of receipts from social insurance taxes by about $370 billion—for the period from 2016 through 2023.

In addition, corporations' domestic economic profits are now projected to be about $650 billion (or 3.9 percent) lower over the 2015–2023 period than previously estimated. The effective decrease in such profits—the decrease for the purpose of projecting tax revenues—is greater than that because the Bureau of Economic Analysis revised the definition of profits in the national income and product accounts to include some types of income that had been excluded. (By itself, that change would have increased domestic economic profits relative to CBO's previous projections without altering CBO's projections of corporate tax revenues because it did not affect how companies report taxable profits to the Internal Revenue Service.) To reflect changes to the outlook for profits, CBO has lowered its projections of receipts from corporate income taxes over the 2015–2023 period by about $310 billion.

Technical Changes

CBO has reduced its projections of revenues by $91 billion (or 3 percent) for 2014 and by $196 billion (or 0.5 percent) for the 2014–2023 period for reasons unrelated to new legislation or changes to the economic outlook. The largest of those technical changes involve projected receipts from corporate income taxes (reduced by $135 billion over 10 years) and individual income taxes (reduced by $125 billion), although technical changes have boosted projected receipts from other sources.

The technical revisions to revenue projections are greatest for the years 2014 to 2016. They reflect the fact that collections of both corporate and individual income taxes were lower in 2013 than CBO had projected, although the main types of income on which those taxes are levied (wages and salaries, proprietors' income, and corporate profits) were higher than expected. Consequently, the average tax rates on those types of income—taxes as a percentage of income—were lower than previously projected. CBO has decreased its near-term projections of revenues from those taxes accordingly, but by a smaller amount for each successive year. The agency continues to expect, as it did in May, that the average corporate tax rate will rise to a percentage more in keeping with the long-term historical average. CBO also expects that after 2014, the average individual income tax rate will return almost to the percentage projected in May.

Technical factors affecting other sources of revenues largely derive from revisions to CBO's projections of the earnings of the Federal Reserve System, which are remitted to the Treasury as revenues. CBO has reduced its estimate of Federal Reserve remittances over the next few years to reflect a lower projected average yield on the central bank's portfolio of assets. That lower projection results from recent information from the Federal Reserve about how much its purchases of securities at amounts above their face value are expected to reduce the central bank's earnings. In contrast, CBO has increased its projections of remittances from 2017 to 2021 to reflect fewer projected asset sales by the Federal Reserve—sales that would generate capital losses as interest rates rise. CBO made that change to reflect statements made last year by the Chairman of the Federal Reserve that the central bank is unlikely to sell mortgage-backed securities issued by Fannie Mae, Freddie Mac, and the Government National Mortgage Association during the process of normalizing monetary policy.

Legislative Changes

Legislation enacted since May has prompted CBO to raise its revenue projections by $54 million for 2014

4. Since CBO issued its previous forecast, the Bureau of Economic Analysis (BEA) has made several conceptual changes to the national income and product accounts that have boosted the nominal amount of GDP in past years (see Box 2-1 on page 29). The higher historical amount of GDP does not stem primarily from higher taxable income but from higher amounts of depreciation of capital assets. To compare its current and previous economic forecasts on a consistent basis, CBO adjusted its previous forecast for nominal GDP in 2023 upward by 3.2 percent, which is roughly equal to BEA's average revision to nominal GDP for the 1950–2012 period. With that historical revision accounted for, CBO's current projection of GDP in 2023 is 3.6 percent less than its previous projection.

and by about $7 billion (or less than 0.02 percent) for the 2014–2023 period. Most of those changes result from provisions in the Bipartisan Budget Act of 2013 (Public Law 113-67) that increase the rate at which federal employees hired after December 31, 2013, will contribute to their future retirement benefits. (Such contributions are considered revenues to the Treasury.)

Changes to Projections of Outlays

CBO has trimmed its estimate of outlays in 2014 by $59 billion (or 1.6 percent), mainly because of technical updates—notably, higher reported receipts to the Treasury from Fannie Mae and Freddie Mac. For the 2014–2023 period, CBO has reduced its projections of outlays by $600 billion, primarily because appropriations to date for 2014 are lower than total appropriations for 2013 and because of revisions to the agency's economic forecast.

Legislative Changes

Laws enacted since May have increased projected outlays in 2014 by $45 billion (or 1.3 percent) but reduced projected outlays over the 2014–2023 period by $376 billion (or 0.8 percent). Changes to estimates of discretionary spending are responsible for most of those increases. Two changes account for the bulk of the difference: the removal from CBO's baseline of projected spending for disaster relief that was based on 2013 funding for recovery from Hurricane Sandy, and adjustments to discretionary spending caps for 2014 and 2015 made by the Bipartisan Budget Act.

Discretionary Spending. On net, legislative changes to discretionary programs have added $31 billion to estimated outlays in the current year but cut $258 billion from projected outlays over the 2014–2023 period.

The substantial reduction over the 10-year period is related to the $48 billion that was appropriated in 2013 for relief and recovery efforts after Hurricane Sandy. (That amount includes the reduction resulting from the sequestration of discretionary resources in 2013.) In accordance with the statutory rules that govern its projections of discretionary spending, CBO assumed for its May 2013 baseline that similar amounts (adjusted for inflation) would be appropriated in future years. However, no additional funding has been provided in 2014. Hence, in accordance with those rules, CBO's new baseline includes no projection of future funding for such disaster relief. That change has reduced baseline projections of discretionary outlays over the 2014–2023 period by about $365 billion.

Other legislative changes have increased projected discretionary outlays through 2023 by $107 billion. Most of that increase stems from changes to the caps on discretionary spending for 2014 and 2015 that were enacted in the Bipartisan Budget Act; that law raised the caps for 2014 by a total of $45 billion and the caps for 2015 by a total of $18 billion (see Box 1-1 on page 20 for details).

Mandatory Spending. Legislative activity since May has raised CBO's estimate of mandatory outlays in 2014 by $13 billion, mostly because of changes to the student loan program. For the 2014–2023 period, however, recent legislation has reduced CBO's projections of mandatory outlays by $83 billion; almost 40 percent of that decrease comes from extending the automatic spending cuts set to expire after 2021 for two more years.[5]

Medicare. On net, legislative changes to Medicare have raised estimated outlays for the program this year by $4 billion but have reduced projected outlays over the 2014–2023 period by $16 billion. The Pathway for SGR Reform Act of 2013 (part of P.L. 113-67) increased Medicare's payment rates for physicians' services by 0.5 percent for three months (rather than allowing them to drop by nearly 24 percent, as scheduled, at the end of December 2013). That change will increase outlays for Medicare by $4 billion in 2014 and by $3 billion in 2015, CBO estimates. The two-year extension of the automatic spending reductions will decrease Medicare outlays by a total of $21 billion in 2022 and 2023, according to CBO's estimates. P.L. 113-67 made several other, smaller changes to the Medicare program that together trim $2 billion from projected outlays through 2023.

Student Loans. As a result of two new laws, CBO has reduced its projections of outlays for federal student loans

5. Under the Bipartisan Budget Act, automatic spending reductions will apply to certain mandatory spending accounts in 2022 and 2023. The law requires that the sequestration percentage applied to those accounts in 2021 be continued and applied in the same manner in 2022 and 2023. (However, the Pathway for SGR Reform Act revised the sequestration percentage that will be applied to Medicare accounts in 2023.) CBO estimates that extending those spending reductions for two additional years will decrease mandatory spending in 2022 and 2023 by a total of $31 billion.

over the 2014–2023 period by $14 billion. The Bipartisan Student Loan Certainty Act of 2013 (P.L. 113-28) changed the interest rates on all new subsidized, unsubsidized, and PLUS loans made to students or parents beginning on July 1, 2013. Those rates, which had been fixed by statute, are now based on the interest rate on 10-year Treasury notes in the academic year in which a loan is made. Relative to the May 2013 baseline projections, CBO estimates that the law will increase federal outlays for student loans by $24 billion between 2014 and 2016 but decrease outlays in later years, for a net reduction of $9 billion over the 2014–2023 period.

The Bipartisan Budget Act also reduced estimated outlays for student loans, by $5 billion over the 10-year period. That law decreased the amount of funds that loan guaranty agencies can keep on loans that were in default but were later restructured and sold back to lenders; as a result, the government will receive a larger share of the funds obtained from selling those loans. The law also eliminated some mandatory loan-servicing payments—although CBO expects that most of those payments will have to be covered through discretionary appropriations instead.

Transportation. The Bipartisan Budget Act increased security-related fees paid by airline passengers (while eliminating other fees paid by air carriers) and repealed a requirement that the Department of Transportation supplement federal payments to shippers of food aid. Together, those provisions will reduce mandatory spending (net of offsetting receipts) by $13 billion over the 2014–2023 period, CBO estimates.

Net Interest. All told, the changes that CBO made to its projections of revenues and outlays because of recently enacted legislation reduce the cumulative deficit projected for the 2014–2023 period by $347 billion (excluding interest costs). The resulting decrease in federal borrowing reduces projected outlays for interest payments on federal debt by $35 billion through 2023.

Economic Changes

Updates to CBO's economic projections led the agency to lower its estimates of outlays by $10 billion for 2014 and by $229 billion for the 2014–2023 period. That 10-year change reflects the following reductions: $243 billion to projected spending for mandatory programs (mainly Medicare and Medicaid), $109 billion to projected net interest outlays (because of the effects of changes in projections for interest rates and inflation), and $14 billion to projected discretionary outlays (to account for revised measures of inflation).[6] Those changes are partly offset by an increase of $136 billion in projected debt-service costs because of all of the other changes to CBO's revenue and spending projections resulting from the revised economic forecast.

Medicare and Medicaid. The government's two largest health care programs account for a decrease of $221 billion in projected outlays through 2023. Under current law, payment rates for most services in the fee-for-service sector of Medicare (such as hospital care and services provided by physicians, home health agencies, and skilled nursing facilities) are subject to automatic, inflation-based updates. Those updates are tied to changes in the prices of the labor, goods, and services that health care providers offer, coupled with an adjustment for gains in productivity throughout the economy (the ability to produce the same output using fewer inputs, such as hours of labor, than before). CBO's current projections of productivity are slightly higher than those in the agency's previous forecast, and its projected prices for goods and services (including the cost of both labor and nonlabor inputs) are lower. Consequently, CBO now anticipates lower payment rates for Medicare services than it did in May—a change that reduces projected outlays over the 2014–2023 period by $154 billion (or about 2 percent). In the Medicaid program, lower projected prices for medical services and for labor are also expected to reduce spending—by a total of $67 billion between 2014 and 2023.

Net Interest. Economic revisions to CBO's projections of spending for net interest have two components: the effects of changes in the agency's forecast for interest rates and inflation, and the effects of changes in the government's borrowing that result from the impact on projected revenues and outlays of changes in the economic outlook.

Updates to CBO's projections of interest rates and inflation have raised estimates of net interest costs by a total of

6. CBO assumes that certain discretionary appropriations not constrained by the caps, such as those for overseas contingency operations (military operations and related activities in Afghanistan and other countries), will grow in future years at the rate of inflation. Also, CBO assumes that total discretionary spending will grow at the rate of inflation after the caps expire in 2021.

$19 billion from 2015 through 2017 but lowered them by $127 billion from 2018 through 2023. CBO now projects that interest rates on most securities will be higher in 2015 and 2016 than previously projected (by between 2 basis points and 56 basis points) but lower starting in 2017 (by 5 basis points to 45 basis points).[7] Overall, those and other changes to CBO's economic forecast since last year have reduced projected outlays for net interest over the 2014–2023 period by $109 billion.

All told, changes to CBO's economic projections have increased deficit projections for the 2014–2023 period by $1,050 billion, mostly because of the decrease in projected revenues. As a result of the added borrowing, CBO has increased its projections of debt-service costs between 2014 and 2023 by $136 billion.

Technical Changes

As a result of technical updates to the outlook for various mandatory and discretionary programs, CBO has lowered its estimate of outlays in 2014 by $94 billion. That change stems almost entirely from a reduction of $88 billion in estimated net outlays for Fannie Mae and Freddie Mac related to the budgetary treatment of transactions by the two entities. For the 2014–2023 period, technical changes to spending projections largely offset each other; on net, those changes raise total projected outlays over the 10-year period by $5 billion.

Mandatory Spending. Technical revisions related to mandatory programs have reduced the amount of spending projected for the current year by $85 billion, mostly because of receipts from the Treasury's transactions with Fannie Mae and Freddie Mac. For the 2014–2023 period, technical updates to projections for a number of programs have increased the total amount of projected mandatory spending by $73 billion.

Fannie Mae and Freddie Mac. Because the government placed these two entities into conservatorship in 2008 and now controls their operations, CBO considers the activities of Fannie Mae and Freddie Mac to be governmental. Therefore, for the 10-year period that follows the current fiscal year, CBO projects the subsidy costs of the entities' new activities using procedures similar to those specified in the Federal Credit Reform Act of 1990 for determining the costs of federal credit programs, but with adjustments to reflect the market risk associated those activities. The Administration, in contrast, considers Fannie Mae and Freddie Mac to be outside the federal government for budgetary purposes and records cash transactions between them and the Treasury as federal outlays or receipts. (In CBO's view, those transactions are intragovernmental.)

Nevertheless, to provide CBO's best estimate of what the Treasury will ultimately report as the federal deficit for 2014, CBO's current baseline includes an estimate of the cash receipts from the two entities to the Treasury for this year (while retaining its risk-adjusted projections of subsidy costs for later years). CBO estimates that payments from Fannie Mae and Freddie Mac to the Treasury will total $81 billion in 2014 (on the basis of the entities' most recent quarterly financial releases); those payments are recorded in the budget as offsets to outlays (offsetting receipts). By comparison, CBO's May 2013 baseline showed an estimated subsidy cost—that is, outlays—of about $7 billion for the entities' activities in 2014. In all, that swing reduces CBO's estimate of outlays by $88 billion for 2014.

For 2015 through 2023, CBO's baseline follows its customary approach of showing the estimated subsidy costs of mortgage guarantees provided, and loans purchased, by Fannie Mae and Freddie Mac. Those estimates are calculated on a fair-value basis, reflecting the market risk associated with the activities of the two institutions. For the 2015–2023 period, CBO now estimates that those subsidy costs will total $18 billion—about $4 billion less than it projected in May, mostly because Fannie Mae and Freddie Mac are now charging higher fees to guarantee mortgages.

Earned Income Tax Credit. CBO has increased its estimate of outlays resulting from the refundable earned income tax credit (EITC) over the 2014–2023 period by $39 billion. That change largely results from a revised assessment of the effects that provisions of the Affordable Care Act (ACA) will have on the wages of recipients of the credit. Relative to the previous baseline, CBO now estimates that the wages earned by recipients of the EITC will be lower, which will raise both the total amount of the tax credit and the portion that is refundable.

Veterans' Benefits and Services. CBO has raised its baseline projections of spending for veterans' benefits and services

7. A basis point is one one-hundredth of a percentage point. (For example, the difference between interest rates of 5.5 percent and 5.0 percent is 50 basis points.)

over the 2014–2023 period by $37 billion, mainly to reflect continued growth in spending for education benefits under the Post-9/11 Veterans Educational Assistance Act of 2008 (commonly referred to as the Post-9/11 GI Bill) and growth in disability compensation payments. In 2013, the number of people receiving payments from the Post-9/11 GI Bill program rose by 17 percent, far exceeding the number of beneficiaries projected in the previous baseline. Reflecting that increase, CBO raised its spending projections for that program by about $21 billion through 2023. CBO also increased its spending projections for disability compensation over that period by almost $14 billion. That rise reflects the fact that in 2013, average benefit payments grew by almost 5 percent and the number of new beneficiaries rose by 12 percent, following an initiative by the Department of Veterans Affairs to reduce its backlog of applications.

Social Security. CBO has reduced its projections of outlays for Social Security over the 2014–2023 period by $36 billion (or 0.3 percent). Those reductions reflect updated information about participation and average benefits in the Old-Age and Survivors Insurance (OASI) program and the Disability Insurance (DI) program, as well as new population projections from the Social Security Administration. CBO now estimates that the number of people who will receive benefits from the OASI and DI programs will be slightly smaller than it projected in May.

Medicaid. CBO's current projections of spending for Medicaid between 2014 and 2023 are $34 billion (or about 1 percent) higher than its May 2013 estimates. That increase mostly reflects newly available information about Medicaid spending in 2013: Spending was higher for some faster-growing categories of Medicaid benefits (such as payments for hospital services) and lower for some slower-growing categories (such as payments for physicians' services) than CBO previously projected.

CBO has also made a small offsetting reduction to its estimate of Medicaid spending in 2014 to reflect challenges that the Department of Health and Human Services and states have been facing in enrolling newly eligible people in Medicaid through health insurance exchanges. CBO has reduced its projection of new Medicaid enrollment resulting from the ACA's expansion of Medicaid coverage by about 1 million people for 2014 (see Appendix B for details). As a result, CBO has lowered its estimate of Medicaid spending for 2014 and 2015 by about $2 billion. (CBO has not revised its projections of enrollment in Medicaid under the ACA for subsequent years.)

Civil Service Retirement. CBO's current projections of outlays for the Civil Service Retirement System and the Federal Employees Retirement System are $24 billion higher through 2023 than its previous projections, mainly because of a significant reduction in the backlog of outstanding applications for retirement. That reduction caused the number of applications processed in 2013 to be significantly higher than expected, which led CBO to increase its estimate of the number of retirees in the system and thus its estimate of benefit payments during the projection period.

Supplemental Nutrition Assistance Program. Technical revisions have increased projected outlays for SNAP over the 2014–2023 period by about $23 billion. (That increase is largely offset, however, by a $20 billion decrease in projected SNAP outlays because of changes to CBO's economic forecast.) The technical updates primarily involve an increase to CBO's estimate of the average monthly SNAP benefit per person.

Other Mandatory Programs. Other technical changes to estimates of mandatory spending include a $6 billion decrease in CBO's projections of outlays for premium and cost-sharing subsidies provided through health insurance exchanges over the 2014–2023 period. That decrease largely reflects lower expected enrollment in 2014 in plans sold through the exchanges, and lower premiums for those plans, than previously projected. In addition, CBO's current projections include newly estimated payments (and collections) for the risk corridor program, a system of profit and loss sharing to limit the risks that insurers will face during their first few years of operating under the ACA. The government's outlays for that program are estimated to total $8 billion between 2015 and 2017, and its revenue collections from the program are expected to total $16 billion during that period. (See Appendix B for a more extensive discussion of the changes in CBO's estimates of the effects of the ACA's insurance coverage provisions.)

Discretionary Spending. Technical adjustments to CBO's projections for a variety of discretionary programs have the net effect of reducing estimated discretionary outlays by $6 billion for 2014 and by $55 billion for the 2014–2023 period. The largest reductions to projections of discretionary spending over the 10-year period are for the Disaster Relief Fund ($26 billion, because CBO expects such spending to occur more slowly than it previously projected) and for certain categories of military spending (mainly military personnel and operations and maintenance).

Net Interest. As a result of technical updates to its spending and revenue projections, CBO's estimate of net interest outlays has declined by $3 billion for 2014 and by $13 billion for the 2014–2023 period. Those decreases are mainly attributable to new information about the Treasury's auctions of securities: Interest rates at recent auctions of the Treasury's inflation-protected securities were lower than CBO had projected, and future auctions will include a new type of Treasury security, floating-rate notes.[8] In addition to those changes, CBO is now projecting lower receipts from the financing accounts associated with the government's credit programs than it estimated in May. Together, those changes reduce projected outlays for net interest over the 2014–2023 period by $26 billion. In the opposite direction, CBO projects that higher debt-service costs related to technical changes in other areas of the budget will add $13 billion to net interest outlays over the same period.

8. The Treasury held the first auction of floating-rate notes on January 29, 2014. Interest payments on those notes will rise and fall according to the interest rates generated in auctions of three-month Treasury bills. For more information about the new securities, see Department of the Treasury, "Floating Rate Notes (FRNs)" (January 6, 2014), www.treasurydirect.gov/indiv/products/prod_frns_glance.htm.