

## **Middle Class Economics: The President's Fiscal Year 2016 Budget**

The President's 2016 Budget is designed to bring middle class economics into the 21st Century. This Budget shows what we can do if we invest in America's future and commit to an economy that rewards hard work, generates rising incomes, and allows everyone to share in the prosperity of a growing America. It lays out a strategy to strengthen our middle class and help America's hard-working families get ahead in a time of relentless economic and technological change. And it makes the critical investments needed to accelerate and sustain economic growth in the long run, including in research, education, training, and infrastructure.

These proposals will help working families feel more secure with paychecks that go further, help American workers upgrade their skills so they can compete for higher-paying jobs, and help create the conditions for our businesses to keep generating good new jobs for our workers to fill, while also fulfilling our most basic responsibility to keep Americans safe. We will make these investments, and end the harmful spending cuts known as sequestration, by cutting inefficient spending and reforming our broken tax code to make sure everyone pays their fair share. We can do all this while also putting our Nation on a more sustainable fiscal path. The Budget achieves about \$1.8 trillion in deficit reduction, primarily from reforms to health programs, our tax code, and immigration.

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### **WHAT THE PRESIDENT'S BUDGET DOES: MIDDLE CLASS ECONOMICS FOR THE 21<sup>ST</sup> CENTURY**

In last month's State of the Union, the President laid out his vision for middle class economics: restoring the link between hard work and opportunity, and ensuring that every American has the chance to share in the benefits of economic growth. To achieve this, the Budget invests in helping working families make their paychecks go further, preparing hardworking Americans to earn higher wages, and creating the infrastructure that allows businesses to thrive and create good, high-paying jobs.

#### **Helping Middle-Class Families Get Ahead**

Middle class economics means ensuring that all Americans have the opportunity to succeed in our global economy and all working families can afford the cornerstones of economic security: child care, college, health care, a home, and retirement. The Budget supports working families by reforming the tax code to help middle-class families get ahead, tripling the child care tax

credit, expanding child care assistance, encouraging state paid leave initiatives, ensuring access to quality, affordable health care, making two years of community college tuition-free for responsible students, bolstering job training so it leads to careers, expanding access to child care and early education, supporting and rewarding work, and helping families save for retirement.

***Improving Access to High-Quality Child Care and Early Education*** – High-quality child care and early education for young children serves the important functions of supporting parents in the workforce and helping support healthy child development and school readiness. The Budget aims to ensure that children have access to high quality learning starting at birth, making several key investments:

- **Expands access to quality, affordable child care.** The Budget proposes a historic investment in child care to ensure that quality, affordable care is available to all eligible low- and moderate-income working families with young children, as opposed to the small share of children who receive this help today. This proposal will expand access to high-quality care for more than 1.1 million additional children under age four by 2025 and help States build a supply of quality care that families can access.
- **Cuts taxes for families paying for child care with a credit of up to \$3,000 per child.** The Budget triples the maximum Child and Dependent Care Tax Credit (CDCTC) for families with children under age five and makes the full CDCTC available to families with incomes of up to \$120,000, benefiting families with young children, older children, and dependents who are elderly or have disabilities. The child care tax reforms would benefit 5.1 million families, helping them cover costs for 6.7 million children.
- **Increases the duration of Head Start programs and invests in high quality infant and toddler care.** The Budget expands access to high-quality care for tens of thousands of additional infants and toddlers through Early Head Start-Child Care Partnerships, and provides over \$1 billion in additional funding for Head Start to make sure children are served in full-day, full-year programs that research shows lead to better outcomes for children.
- **Supports universal preschool.** The Preschool for All initiative, in partnership with the States, provides all four-year-olds from low- and moderate-income families with access to high-quality preschool, while encouraging States to expand those programs to reach additional children from middle-class families and establish full-day kindergarten policies.
- **Lays the groundwork for Preschool for All.** The Budget provides \$750 million for the Department of Education's Preschool Development Grants, a substantial increase of \$500 million over the 2015 level. Preschool Development Grants are currently helping 18 States develop and expand high-quality preschool programs in targeted communities; the Budget will increase that number to over 40 States.

- **Invests in voluntary, evidence-based home visiting.** The Budget extends and expands evidence-based, voluntary home visiting programs, which enable nurses, social workers, and other professionals to connect families to services to support the child's health, development, and ability to learn.

***Improving Opportunity for All Students*** – Title I is the Department of Education's largest K-12 grant program and the cornerstone of its commitment to supporting low-income schools with the funding necessary to provide high-need students with access to an excellent education. The Budget increases Title I funding by \$1 billion and proposes additional funding to support districts that are using their Federal formula funds for evidence-based interventions. The Budget also makes other important investments in improving K-12 education, increasing. For example, it:

- **Increases funding for special education and efforts to assist English language learners.** The Budget provides additional funding to help students who face academic hurdles meet rigorous academic standards so that all students can succeed.
- **Provides broad support for educators at every phase of their careers.** The Budget invests in developing strong teachers before they reach the classroom and supporting their growth and success throughout their careers.
- **Invests more than \$3 billion on science, technology, engineering, and math (STEM) education.** The Budget provides strong support for STEM education, including a new \$125 million competitive program to promote the re-design of America's high schools by integrating deeper learning and student-centered instruction, with a particular focus on STEM-themed high schools that expand opportunities for girls and other groups underrepresented in STEM fields.

***Reforming the Tax Code to Reward and Support Work*** – When both spouses work, a family incurs additional costs in the form of commuting costs, professional expenses, child care, and, increasingly, elder care. To address these challenges, the Budget proposes a new \$500 “second earner” tax credit, which will benefit 24 million dual-earner couples. It also proposes to expand the Earned Income Tax Credit (EITC) for workers without children and non-custodial parents, promoting employment while reducing poverty and hardship for 13.2 million low-income workers struggling to make ends meet. In addition, the Budget continues to propose making permanent improvements to the EITC and Child Tax Credit that augment wages for 16 million families with 29 million children each year but are scheduled to expire at the end of 2017. Allowing these benefits to expire would result in a roughly \$1,700 tax increase for a full-time minimum wage worker with two children.

***Encouraging State Paid Leave Initiatives*** – Too many American workers must make the painful choice between caring for their families and a paycheck they desperately need. A handful of States have enacted policies to offer paid leave. The Budget encourages additional States to develop paid family leave programs by providing funding for the initial set-up and half of the

benefit costs for as many as five States through the Paid Leave Partnership Initiative. It also provides support and technical assistance to those States that are still building the infrastructure they need to launch programs in the future through the State Paid Leave Fund.

***Ensuring Access to Quality, Affordable Health Care*** – The Budget supports the Affordable Care Act, which is already providing coverage for millions of Americans through the Health Insurance Marketplaces, the delivery of tax credits to make coverage affordable, and the expansion of Medicaid.

***Helping All Workers Save for Retirement*** – Millions of working Americans lack access to a retirement savings plan at work. Fewer than 10 percent of those without plans at work save in a retirement account on their own. In 2015, retirement security will be one of the key topics of the White House Conference on Aging. The Budget would make it easy and automatic for workers to save for retirement through their employer – giving 30 million more workers access to a workplace savings opportunity. The Budget also ensures that long-term part-time employees can participate in their employers' retirement plans and provides tax incentives to offset administrative expenses for small businesses that adopt retirement plans.

***Partnering With Communities to Expand Opportunity*** – The Budget improves the coordination of resources to meet unique community needs and growth opportunities, including through the Administration's Promise Zones initiative, which is creating partnerships between the Federal Government, local communities, and businesses to create jobs, increase economic security, expand educational opportunities, increase access to quality, affordable housing, and improve public safety. The President named the first five Promise Zones in 2014 and will designate an additional 15 Zones by the end of calendar year 2016. In support of Promise Zones, the Budget requests \$250 million for the Department of Housing and Urban Development's Choice Neighborhoods program and \$150 million for the Department of Education's Promise Neighborhoods program. The Budget also includes Promise Zone tax incentives to stimulate growth and investments in targeted communities.

***Supporting Innovative Projects to Improve Upward Mobility*** – Building on Promise Zones, the budget also includes a new initiative, the Upward Mobility Project, that will allow up to ten communities, States or consortia of States and communities to combine funds from four existing block grant programs designed to promote opportunity and economic development and reduce poverty to test and validate promising approaches to help families become more self-sufficient, improve children's outcomes, and revitalize communities so they can provide more opportunities for their residents. Projects must utilize evidence-based strategies, track program performance, and evaluate intervention effectiveness. The funding streams that States and communities can apply to use – including the Department of Health and Human Services' Social Services Block Grant and Community Services Block Grant, and the Department of Housing and Urban Development's Community Development Block Grant, and HOME Investment Partnerships Program – share a common goal of promoting opportunity and reducing poverty. In addition to these funds, participating communities will be eligible to receive a total of \$1.5 billion in new funding over five years, to combine with the added flexibility with currently provided resources.

## Helping Americans Upgrade Their Skills

America's education system led the world in the 20th Century, when we sent generations to college and cultivated the most educated workforce in the world, supporting an unparalleled period of economic growth and rising middle-class incomes. Since then, other countries have followed our lead to develop globally competitive education systems. As our economy changes, we need to ensure that Americans are prepared with the skills and knowledge necessary to compete in the 21st Century economy. The Administration invests in affordable post-secondary education and builds on the bipartisan Workforce Innovation and Opportunity Act (WIOA) with investments that connect workers with good jobs and prepare them with skills employers need.

### *Making a High-Quality College Education More Affordable*

An estimated two-thirds of job openings will require some postsecondary education and training by 2020. The Budget:

- **Provides Tuition-Free Community College for Responsible Students.** The President's America's College Promise proposal creates new federal-state partnerships to provide two years of free community college to responsible students, while promoting key reforms to improve the quality of community college offerings to ensure that they are a gateway to a career or four-year degree. If all states participate, an estimated 9 million students could benefit from this proposal.
- **Ensures that Pell Grants Keep Pace with Inflation.** Pell Grants are central to our efforts to help low and moderate income students afford college. Since 2013, Pell Grants have been adjusted for inflation annually, but unless Congress acts, this will end in 2017 and the value of Pell Grants will start to erode. The Budget continues the President's commitment to college affordability by ensuring that Pell Grants keep pace with inflation.
- **Keeps Student Loans Manageable.** The Administration is helping student borrowers with existing debt manage their obligations through income-driven repayment plans, such as the Pay-As-You-Earn (PAYE) plan, which caps student loan payments at 10 percent of monthly discretionary income. The Budget proposes to extend PAYE to all student borrowers and reform the PAYE terms to ensure that the program is well-targeted and to safeguard the program for the future.
- **Simplifies and Expands Education Tax Benefits.** While the creation of the American Opportunity Tax Credit (AOTC) in 2009 made college more affordable for millions of students and their families, our system of tax incentives for higher education is complex, and families are sometimes unable to take full advantage of the benefits. Building on bipartisan reform proposals, the Budget would simplify, consolidate, and expand higher education tax credits. It would cut taxes for 8.5 million families and students, simplify taxes for the more than 25 million families and students that claim education tax benefits,

and would provide students working toward a college degree with up to \$2,500 of assistance each year for five years. Building on recent bipartisan legislation, the Budget also includes a proposal to significantly simplify the Free Application for Federal Student Aid (FAFSA).

- **Drives Performance and Innovation in Higher Education.** The Budget invests in evidence-based efforts at colleges and universities to dramatically improve educational outcomes for all students through the First in the World Fund, which recognizes that leading the world in education requires higher college graduation rates, not just attendance.

***Expanding Technical Training Programs for Middle Class Jobs.*** Community colleges, like those in Tennessee and Texas, that build strong employer partnerships and offer training in in-demand fields are creating career pathways to the middle class. The Budget requests \$200 million for a new American Technical Training Fund to create or expand innovative, evidence-based job training programs in high-demand fields that provide a path to the middle class for hard-working, low-wage Americans. Projects would emphasize strong employer partnerships, work-based learning opportunities, accelerated training, and flexible scheduling for students to accommodate part-time work. Programs could be created within current community colleges, other innovative, non-traditional training providers, or these entities in partnership with secondary programs. This initiative would be housed in the Career and Technical Education Innovation Fund, jointly administered by the Department of Education and the Department of Labor and builds on the Trade Adjustment Assistance Community College and Career Training Grants (for which 2014 was the final year of funding).

***Creating Pathways to High-Growth Jobs*** – Building on the important improvements to the Nation’s job training system through the WIOA, the Budget proposes to support more in-person career counseling and employment services that help unemployed workers find a career-path job or the training they need to prepare for one. It will double the number of workers receiving training through the workforce development system, with a focus on training partnerships for skills needed in industries and occupations experiencing significant growth in the years ahead.

***Expanding Apprenticeships and Employer-Validated Credentials*** – The Budget makes investments to achieve the goal of doubling Registered Apprenticeships across the United States over the next five years to allow workers to learn skills while they are earning a paycheck, and ensures that training leads to high-quality jobs by investing in projects that feature strong industry partnerships and incent additional employer investment in worker training.

***Helping Americans Launch and Sustain Their Own Businesses*** – The Budget funds training to launch and sustain businesses, including the business practices entrepreneurs need to translate a good idea into a growing business. The Small Business Administration's Boots to Business initiative that provides veterans transitioning to civilian life with the training and tools they need to start their own businesses and the Entrepreneurship Education initiative helps small business owners gain the skills and networks they need to grow their business and create new jobs.

## **Creating a 21<sup>st</sup> Century Economy**

Creating jobs that pay good wages is the best way to grow our economy and the middle class. To compete in the 21<sup>st</sup> Century economy and make America a magnet for job creation and opportunity, we need to invest in American innovation, strengthening our manufacturing base, keeping our Nation at the forefront of technological advancement, and leading in the development of clean energy alternatives and the promotion of energy efficiency while moving toward energy security through safe and responsible domestic energy production. Because a 21<sup>st</sup> Century economy requires 21<sup>st</sup> Century infrastructure, the Budget proposes to modernize our ports and build stronger bridges, better roads, faster trains, and better broadband, creating jobs for thousands of construction workers and engineers, strengthening our communities, and making it easier to do business.

***Expanding the National Network of Manufacturing Institutes*** – To create jobs, continue growth in the industry, and strengthen America’s leadership in advanced manufacturing technology, the Budget provides the resources to launch seven more institutes in 2016, building on the nine institutes already funded through 2015, and calls for the full investment required to complete a national network of 45 manufacturing institutes.

***Investing in Home Grown Products and Ideas*** – The Budget launches a public-private investment fund for advanced manufacturing start-ups, known as the American Made Scale-Up Fund, to help ensure that if a technology is invented in the United States, it can be made in the United States. The Scale-Up Fund will help emerging American-made advanced manufacturing technologies reach commercial scale production in the United States, creating manufacturing jobs for the future and helping to ensure that America keeps making things the rest of the world wants to buy.

***Rebuilding Our Infrastructure with Transition Revenue from Business Tax Reform*** – To create jobs, spur economic growth and provide States and localities the certainty they need to plan for the future, the Budget includes a \$478 billion, six-year surface transportation reauthorization proposal paid for with transition revenue from pro-growth business tax reform. This transition tax would mean that companies have to pay U.S. tax right now on the \$2 trillion they already have overseas, rather than being able to delay paying any U.S. tax indefinitely. The proposal would allow us to repair existing roads and bridges and modernize our infrastructure with new investments in highways, freight networks, and bus, subway, rapid transit, light rail, and passenger rail systems in our cities, fast-growing metropolitan areas, small towns and rural communities across the country.

***Boosting Private Investment through a Rebuild America Partnership*** – The Budget boosts private investment in infrastructure through a Rebuild America Partnership by establishing an independent National Infrastructure Bank to leverage private and public capital to support infrastructure projects of national and regional significance. The Budget creates America Fast Forward Bonds, which build on the successful Build America Bonds program of taxable bonds.

It also creates the new tax-exempt Qualified Public Infrastructure Bonds, which will help states and local communities to attract new sources of capital for infrastructure investment projects.

***Cutting Red Tape in the Infrastructure Permitting Process*** – The Administration continues to modernize and improve the Federal permitting process for major infrastructure projects, cutting through red tape and getting more timely decisions on Federal permits and reviews while ensuring that projects lead to better outcomes for communities and the environment.

***Investing in Innovative Research and Development*** – Our long-term economic competitiveness depends upon continued robust investment in R&D. The Budget provides a 6 percent increase for R&D, including significant investments in basic research and advanced manufacturing technology. The Budget invests in biomedical research—like the BRAIN initiative, which is developing tools and technologies to offer new insight into diseases like Alzheimer’s, and Precision Medicine, which can improve health outcomes and better treat diseases. It also emphasizes agricultural research, looking at climate resilience and sustainability.

***Investing in Homegrown Clean Energy*** – In order to secure America's energy future and protect our children from the impacts of climate change, the Budget invests in clean energy, improving energy security, and enhancing preparedness and resilience to climate change. These investments support the President's Climate Action Plan, helping to expand American leadership in the clean energy economy with new businesses, jobs, and opportunities for American workers.

### **Keeping Americans Safe at Home and Abroad**

Economic growth and opportunity can only be achieved if America is safe and secure. The Budget provides \$561 billion in base discretionary funding for national defense—\$38 billion above sequestration levels—and \$58 billion for Overseas Contingency Operations to provide the resources needed to sustain the President’s national security strategy, protecting the country’s security and well-being both at home and abroad.

***Degrading and Defeating the Islamic State of Iraq and the Levant (ISIL)*** – The Budget provides the necessary resources to degrade and ultimately defeat ISIL, address the ongoing humanitarian crisis in the region, continue efforts to train and equip the Iraqi security forces, support regional partners, and bring stability and promote the conditions for a negotiated settlement to end the conflict in Syria.

***Countering Russian Pressure and Aggressive Action Together with our European Allies*** – In response to the Russian Federation’s aggressive acts, the Budget includes proposals for political, economic, and military support to NATO allies and partner states in Europe, including the governments most targeted by Russian pressure. This includes funding to support efforts to bolster democracy and good governance, increase the capabilities of security forces, strengthen the rule of law and anti-corruption measures, and promote European Union integration, trade, and energy security.

***Promoting Prosperity, Security and Good Governance in Central America*** – The Budget provides \$1 billion to support a long-term, comprehensive strategy for Central America designed to contribute to the evolution of an economically-integrated Central America that is fully democratic, provides greater economic opportunities to its people, promotes more accountable, transparent, and effective public institutions and ensures the safety of its citizens, addressing the challenges that have resulted in an influx of migration from the region.

***Protecting our Nation Against Cyber-Attacks*** – No system is immune to infiltration by those seeking to steal commercial or Government information and property or perpetrate malicious and disruptive activity. The Budget provides \$14 billion to support cybersecurity efforts across the Government to strengthen U.S. cybersecurity defenses and make cyberspace more secure, allowing the Government to more rapidly protect American citizens, systems, and information from cyber threats.

***Confronting the Threat Posed by Infectious Diseases*** – The Budget provides resources to support the Global Health Security Agenda, increases funding to eradicate polio and other global health challenges, and creates a new Impact Fund for targeted global HIV/AIDS efforts. In addition, the Budget increases funding for domestic preparedness efforts to more effectively and efficiently respond to potential future outbreaks here at home. The Budget also makes investments to address the domestic HIV epidemic to help States develop HIV implementation plans to support the goals of the National HIV/AIDS Strategy.

***Combatting Prescription Drug and Heroin Abuse*** – The Budget includes more than \$100 million in new investments across HHS to reduce abuse of prescription opioids and heroin, which together take the lives of 20,000 Americans per year. These new resources will increase funding for every state to expand existing Prescription Drug Monitoring Programs; expand and improve the treatment for people who abuse heroin and prescription opioids; and support dissemination of naloxone, an opioid antagonist that reverses the effects of opioid overdose, by first responders in an effort to prevent overdose deaths in high risk communities.

***Honoring Our Commitment to Veterans*** – The Budget invests in the five pillars the President has outlined to support our Nation’s veterans: providing the resources and funding they deserve, ensuring high-quality and timely health care, getting veterans their earned benefits quickly and efficiently, ending veteran homelessness, and helping veterans and their families get good jobs, education, and access to affordable housing.

### **Creating a Government for the Future**

The President is committed to creating a Government that makes a significant, tangible, and positive difference in the economy and the lives of the American people, and to driving lasting change in how Government works. This Administration has launched successful efforts to eliminate wasteful IT spending, reduce the Federal real property footprint, modernize and

improve citizen-facing services, and open tens of thousands of Federal data sets to spur innovation in the private sector.

***Supporting the President's Management Agenda*** – The Budget includes initiatives to improve the service we provide to the American public; to leverage the Federal Government's buying power to bring more value and efficiency to how we use taxpayer dollars; to open Government data and research to the private sector to drive innovation and economic growth; to promote smarter information technology; create new Idea Labs to support employees with promising ideas, and, to attract and retain the best talent in the Federal workforce.

***Supporting Digital Service Delivery for Citizens*** – In 2014 the Administration piloted the U.S. Digital Service, a unit of innovators, entrepreneurs, and engineers. This team of America's best digital experts has worked in collaboration with Federal agencies on their high impact, citizen-facing programs to improve how citizens and businesses experience government services. The Budget includes \$105 million to scale and institutionalize this approach and create digital services teams in 25 key agencies. It also includes increased funding to scale up the central USDS team to aid in building the agency teams, increase oversight and accountability for IT spending, improve IT procurement, and improve agency cybersecurity and cyber readiness.

***Building Evidence and Encouraging Innovation*** – The Budget invests in developing and testing effective practices, recruiting social and behavioral sciences experts, and providing better information on what works in key areas ranging from improving college completion to creating greater accountability for job training programs to improving the data available on Indian Country.

***Reforming the Government to Win in the Global Economy*** – The Budget also includes proposals to consolidate and reorganize Government agencies to make them leaner and more efficient, and it increases the use of evidence and evaluation to ensure that taxpayer dollars are spent wisely on programs that work.

### **Achieving Fiscal Sustainability and Promoting Sustainable Growth**

This year's Budget supports the President's ambitious vision for supporting growth and opportunity, and does so while meeting a key test of fiscal stability: reducing deficits to below 3 percent of GDP, stabilizing debt as a share of the economy, and putting it on a declining path. It achieves these goals by replacing mindless austerity with smart reforms, paying for all new investments, and obtaining \$1.8 trillion in deficit reduction primarily from health, tax, and immigration reforms.

***Reversing Mindless Austerity*** – Returning to the mindless austerity of sequestration in 2016 would bring discretionary funding to its lowest level, adjusted for inflation, since 2006. The Budget proposes to end sequestration, fully reversing it for domestic priorities in 2016, matched by equal dollar increases for defense funding. These investments are more than paid for with smart spending cuts, program integrity measures, and commonsense loophole closers –

including, for example, targeted reforms to crop insurance programs; program integrity investments across a range of programs; and closing the “carried interest” tax loophole.

While many of the investments described above are made possible by reversing sequestration, the contrast between what can be achieved under sequestration versus under the President’s Budget is particularly stark in a few key areas:

- *Research and Development.* Under 2016 sequestration levels, assuming roughly current funding patterns, research funding adjusted for inflation would reach its lowest levels since 2002 – other than when sequestration was in full effect in 2013. By comparison, the President’s Budget would increase R&D funding by nearly 6 percent over 2015, including investments in Precision Medicine, the Brain Initiative, and other areas.
- *Early Learning.* The last time sequestration took full effect in 2013, more than 57,000 children lost access to Head Start and Early Head Start, with enrollment falling to the lowest level since 2001. Researchers have established that supporting children during this critical stage yields benefits that far outweigh the costs of the investment. The President’s Budget makes major investments in early learning (described above), including, for example, making sure children can be served in full-day, full-year Head Start programs that research shows lead to better outcomes for kids.
- *National Security.* The Joint Chiefs have made clear that a return to sequestration-level cuts would significantly reduce the military’s ability to fully implement the President’s defense strategy. The military would be unbalanced and eventually too small and insufficiently modern to meet the needs of our strategy, leading to greater risk of longer wars with higher casualties for the United States and our allies and partners. In contrast, the Budget makes the investments needed to protect the Nation’s security and well-being both at home and abroad.

***Paying for all new investments*** – Every investment in the Budget – including the new and expanded tax credits for middle-class and working families, and mandatory investments in community college and preschool – is more than fully paid for through spending or tax reforms. In particular, the Budget pays for many of its investments in helping middle class families get ahead through three important reforms to the tax system. First, it would eliminate what may be the largest single loophole in the tax code – a provision known as “stepped-up basis” that lets wealthy households avoid taxes on hundreds of billions in capital gains taxes each year. Second, it would raise the top capital gains and dividend rate for high-income households to 28 percent, the rate under President Reagan. Third, it reforms financial sector taxation to make it more costly for large, highly-leveraged financial firms to finance their activities with excessive borrowing, reducing risks to the broader economy.

***Reducing Deficits through Health, Tax, and Immigration Reform*** – While the Budget’s new investments are paid for with smart reforms across a range of programs, as well as commonsense tax loophole closers, the \$1.8 trillion in deficit reduction in the Budget is achieved primarily by

focusing on the key drivers of our Budget challenges: health care cost growth and inadequate revenue levels in the face of an aging population. Specifically, the Budget includes:

- *\$400 Billion in Health Savings.* Over the last few years, we've seen historically slow rates of health care cost growth, which are already yielding fiscal dividends. The Budget includes \$400 billion in health savings that build on the Affordable Care Act to help maintain slower cost growth while improving health care quality – complementing the Administration's other efforts on delivery system reform. Notably, the Budget's health savings grow over time – raising about \$1 trillion in the second decade, and extending the Medicare Hospital Insurance trust fund solvency by approximately 5 years.
- *\$640 Billion in Net Deficit Reduction from Tax Reforms.* The Budget raises about \$640 billion in net revenue for deficit reduction from curbing high-income tax expenditures. These savings come from limiting tax benefits that are not efficient in achieving social goals, raising revenue without raising tax rates.
- *\$160 Billion in Savings from Immigration Reform.* This year's Budget again reflects the President's support for commonsense, comprehensive immigration reform along the lines of the bipartisan Senate-passed bill. In part because it helps balance out an aging population, immigration reform helps both the Budget – by almost \$1 trillion over two decades – and the Social Security Trust Fund, closing about 8 percent of the Trust Fund shortfall and moving insolvency out two years. It also strengthens the economy by boosting GDP growth, reducing the deficit, raising average wages for U.S.-born and immigrant workers, increasing the size of the labor force, and raising productivity.

Through these policies, the President's Budget brings annual deficits well below the 40-year historical average of 3.2 percent of GDP during every year of the budget window. A key test of fiscal sustainability is whether debt is stable or declining as a share of the economy, resulting in interest payments that consume a stable or falling share of the Nation's resources over time. The Budget meets that test, showing that investments in growth and opportunity are compatible with also putting the Nation's finances on a strong and sustainable path.