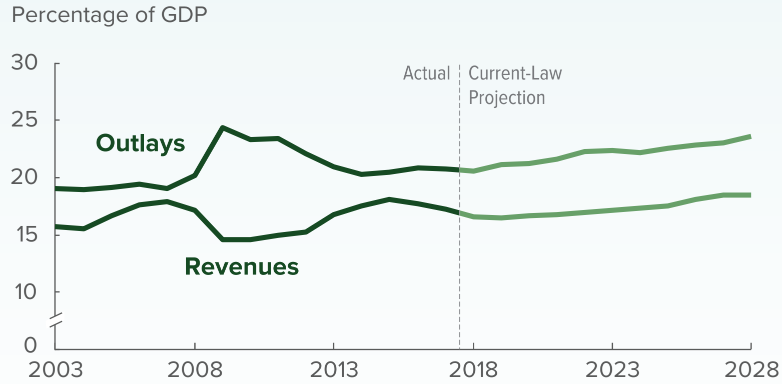
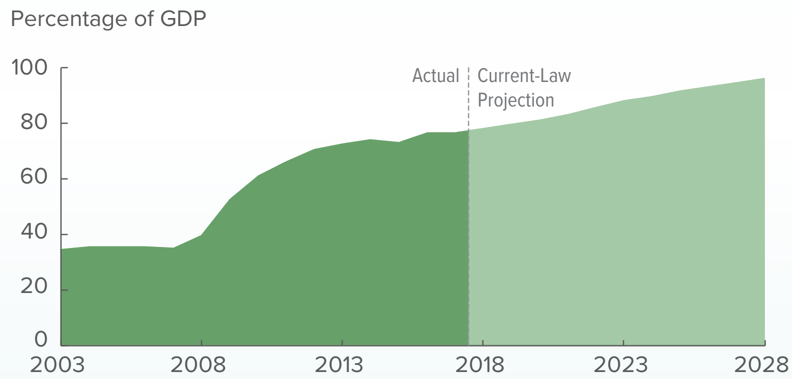
CONGRESS OF THE UNITED STATES
CONGRESSIONAL BUDGET OFFICE

CBO

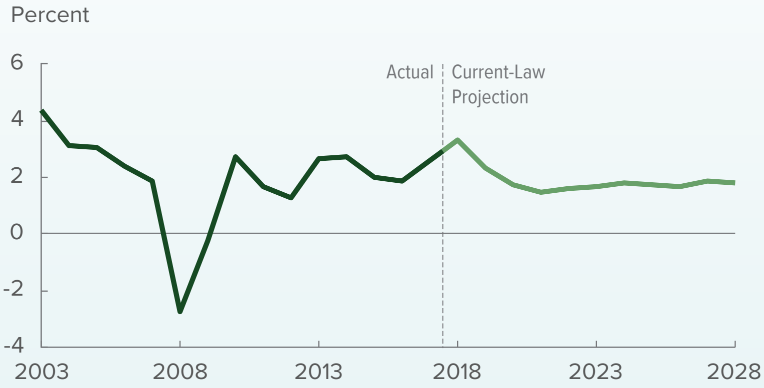
The Budget and Economic Outlook: 2018 to 2028



Over the next decade, the gap between **outlays** and **revenues** is projected to be persistently large.



That imbalance would cause **federal debt held by the public** to rise to nearly 100 percent of GDP.



The **growth of real GDP** is projected to be relatively strong this year and next and then to moderate.

APRIL 2018

Table 2-2.

Mandatory Outlays Projected in CBO's Baseline

Billions of Dollars

	Actual, 2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total 2019–2023	Total 2019–2028
Social Security														
Old-Age and Survivors Insurance	796	840	895	956	1,019	1,085	1,155	1,226	1,303	1,382	1,465	1,557	5,109	12,043
Disability Insurance	143	144	148	154	161	168	176	184	192	201	211	216	806	1,810
Subtotal	939	984	1,043	1,110	1,180	1,253	1,330	1,410	1,495	1,583	1,676	1,774	5,915	13,853
Major Health Care Programs														
Medicare[a]	702	707	776	830	893	996	1,032	1,062	1,181	1,267	1,358	1,521	4,527	10,915
Medicaid	375	383	401	417	437	465	493	524	554	587	620	655	2,213	5,152
Health insurance subsidies and related spending[b]	48	58	60	61	67	74	76	78	81	83	87	91	338	757
Children's Health Insurance Program	16	16	16	14	13	13	13	14	14	15	15	16	69	143
Subtotal[a]	1,141	1,164	1,252	1,322	1,409	1,548	1,614	1,677	1,831	1,952	2,080	2,282	7,146	16,967
Income Security Programs														
Earned income, child, and other tax credits[c]	83	87	99	99	99	100	99	100	101	102	88	88	496	975
Supplemental Nutrition Assistance Program	70	69	66	65	65	65	65	65	66	67	69	70	326	664
Supplemental Security Income	55	51	57	58	60	67	64	60	68	70	72	81	306	658
Unemployment compensation	31	30	27	30	36	43	47	50	52	55	57	59	183	456
Family support and foster care[d]	31	32	32	32	33	33	33	34	34	34	34	34	163	333
Child nutrition	23	24	26	27	28	29	30	31	33	34	36	37	139	311
Subtotal	294	294	307	311	320	336	338	341	354	363	356	370	1,613	3,397
Federal Civilian and Military Retirement														
Civilian[e]	101	102	105	109	113	118	122	126	131	135	139	143	568	1,242
Military	58	54	61	63	66	73	70	66	73	75	77	85	332	708
Other	4	3	3	4	5	6	7	8	4	10	7	7	25	61
Subtotal	163	160	169	177	184	197	198	200	207	220	223	236	925	2,011
Veterans' Programs														
Income security[f]	86	83	94	99	103	115	111	105	119	123	127	144	522	1,140
Other[g]	19	17	17	16	17	18	18	18	20	20	21	23	87	190
Subtotal	105	100	112	115	120	134	129	124	138	143	148	167	609	1,330
Other Programs														
Agriculture	13	17	14	13	15	15	15	15	15	15	15	15	71	145
Deposit Insurance	-12	-14	-9	-8	-7	-8	-8	-8	-8	-8	-9	-8	-39	-79
MERHCF	10	10	11	11	12	12	13	14	14	15	16	17	59	135
Fannie Mae and Freddie Mac[h]	0	0	3	2	*	2	2	2	2	2	2	2	8	19
Higher education	42	-4	3	7	8	8	7	6	6	6	6	6	33	63
Other	77	87	73	74	76	73	70	66	67	67	67	70	366	704
Subtotal	130	97	94	98	104	103	99	95	96	97	98	102	498	986

Continued

Table 2-2. Continued

Mandatory Outlays Projected in CBO's Baseline

Billions of Dollars

	Actual, 2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total 2019–2023	Total 2019–2028
Offsetting Receipts														
Medicare[i]	-111	-124	-135	-145	-155	-168	-180	-194	-208	-225	-242	-261	-782	-1,912
Federal share of federal employees' retirement														
Social Security	-17	-17	-18	-18	-19	-20	-20	-21	-22	-22	-23	-24	-96	-208
Military retirement	-18	-19	-21	-21	-21	-22	-22	-23	-24	-24	-25	-25	-107	-228
Civil service retirement and other	-35	-37	-38	-39	-40	-41	-42	-43	-45	-46	-47	-48	-200	-429
Subtotal	-71	-72	-76	-78	-80	-83	-85	-88	-90	-92	-95	-97	-403	-865
Receipts related to natural resources	-9	-11	-11	-11	-11	-12	-11	-12	-13	-13	-13	-13	-56	-119
MERHCF	-7	-8	-8	-8	-9	-9	-10	-10	-11	-11	-12	-12	-43	-99
Fannie Mae and Freddie Mac[h]	-29	-6	0	0	0	0	0	0	0	0	0	0	0	0
Other	-27	-31	-30	-30	-31	-33	-31	-31	-39	-33	-31	-23	-154	-311
Subtotal	-253	-252	-260	-272	-286	-305	-317	-334	-361	-374	-393	-406	-1,439	-3,306
Total Mandatory Outlays	**2,519**	**2,546**	**2,719**	**2,861**	**3,031**	**3,266**	**3,392**	**3,513**	**3,760**	**3,983**	**4,189**	**4,524**	**15,269**	**35,238**
Memorandum:														
Mandatory Spending Excluding the Effects of Offsetting Receipts	2,772	2,799	2,979	3,132	3,317	3,570	3,709	3,847	4,121	4,357	4,582	4,930	16,707	38,544
Spending for Medicare Net of Offsetting Receipts	591	583	641	685	738	828	852	868	973	1,042	1,116	1,260	3,744	9,003
Spending for Major Health Care Programs Net of Offsetting Receipts[j]	1,030	1,040	1,118	1,177	1,254	1,380	1,434	1,484	1,622	1,726	1,838	2,021	6,364	15,055
Mandatory Spending Excluding the Effects of Timing Shifts, Net of Offsetting Receipts	**2,516**	**2,587**	**2,719**	**2,861**	**3,031**	**3,208**	**3,387**	**3,575**	**3,760**	**3,983**	**4,189**	**4,440**	**15,206**	**35,154**

Source: Congressional Budget Office.

Data on spending for benefit programs in this table generally exclude administrative costs, which are discretionary.

MERHCF = Department of Defense Medicare-Eligible Retiree Health Care Fund (including TRICARE for Life); * = between zero and $500 million.

a. Gross spending, excluding the effects of Medicare premiums and other offsetting receipts. (Net Medicare spending is included in the memorandum section of the table.)

b. Spending to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and provided through the Basic Health Program and spending to stabilize premiums for health insurance purchased by individuals and small employers (preliminary estimate).

c. Includes outlays for the American Opportunity Tax Credit and other credits.

d. Includes the Temporary Assistance for Needy Families program, the Child Support Enforcement program, the Child Care Entitlement program, and other programs that benefit children.

e. Includes benefits for retirement programs in the civil service, foreign service, and Coast Guard; benefits for smaller retirement programs; and annuitants' health care benefits.

f. Includes veterans' compensation, pensions, and life insurance programs.

g. Primarily education subsidies. (The costs of veterans' health care are classified as discretionary spending and therefore are not shown in this table.)

h. Cash payments from Fannie Mae and Freddie Mac to the Treasury are recorded as offsetting receipts in 2017 and 2018. Beginning in 2019, CBO's estimates reflect the net lifetime costs—that is, the subsidy costs adjusted for market risk—of the guarantees that those entities will issue and of the loans that they will hold. CBO counts those costs as federal outlays in the year of issuance.

i. Includes premium payments, recoveries of overpayments made to providers, and amounts paid by states from savings on Medicaid's prescription drug costs.

j. Consists of spending for Medicare (net of premiums and other offsetting receipts), Medicaid, and the Children's Health Insurance Program as well as outlays to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and related spending.

in the timing of certain payments from fiscal year 2018 to fiscal year 2017.[5] Without that timing shift, mandatory spending would increase in 2018 by an additional $40 billion (or 2.8 percent), to $2.6 trillion, or 12.9 percent of GDP. (In the discussion of mandatory spending that follows, all numbers have been adjusted to exclude the effects of timing shifts.)

From 2018 to 2028, outlays for mandatory programs are projected to rise by an average of about 6 percent per year, reaching $4.4 trillion in 2028. As a share of GDP, mandatory spending is projected to increase slightly through 2020—to 13.0 percent.[6] Then, it rises steadily to 14.9 percent in 2028. By comparison, mandatory spending averaged 12.8 percent of GDP over the past 10 years and 9.8 percent over the past 50 years.

Much of the projected growth in mandatory spending over the coming decade is attributable to two factors. First, the number of people age 65 or older in the population has been growing significantly—more than doubling over the past 50 years and expected to rise by more than one-third by 2028. In CBO's baseline projections, spending for people age 65 or older in several large mandatory programs—Social Security, Medicare, Medicaid, and military and federal civilian retirement programs—increases from 38 percent of all federal noninterest spending in 2018 to 45 percent in 2028.

Second, health care costs (adjusted to account for the aging of the population) are projected to grow faster than the economy over the long term. Growth in health care spending has slowed in recent years, but the reasons for that slowdown are not clear. In CBO's projections, spending per enrollee in federal health care programs grows more rapidly over the coming decade than it has in recent years, but it does not return to the higher rates of growth that were experienced before the slowdown.

The effects on federal spending of those two long-term trends are already apparent over the 10-year horizon—especially for Social Security and Medicare—and will grow in size beyond the baseline period.

Social Security. Social Security, the largest federal spending program, provides cash benefits to the elderly, to people with disabilities, and to the dependents and survivors of people covered by the program. Last year, Social Security outlays totaled $939 billion, or 4.9 percent of GDP. Under current law, outlays for Social Security are projected to rise by $45 billion in 2018, or about 5 percent. That growth rate is higher than it has been in recent years, largely because Social Security beneficiaries received a cost-of-living adjustment (COLA) of 2.0 percent in January 2018, the largest since 2012. Growth in the number of beneficiaries is also anticipated to tick up from 1.5 percent last year to 1.9 percent in 2018.

Over the 2019–2028 period, outlays for Social Security are projected to grow at an average rate of about 6 percent per year, reaching $1.8 trillion—or 6.0 percent of GDP—by 2028. That growth reflects increases in the number of beneficiaries and in the amount of the average benefit. In CBO's projections, the number of beneficiaries grows by about 2.3 percent each year, from an average of 62.3 million beneficiaries in 2018 to 78.0 million in 2028, and average benefits grow by about 3.7 percent each year, mainly because of annual COLAs, which are projected to average 2.4 percent.

Medicare, Medicaid, and Other Major Health Care Programs. In 2017, net federal outlays for Medicare, Medicaid, and other major programs related to health care accounted for 41 percent of mandatory spending (net of offsetting receipts) and totaled $1.0 trillion, or 5.4 percent of GDP. In CBO's baseline projections (excluding the effects of shifts in the timing of certain payments), that spending increases by $35 billion, or 3.4 percent, in 2018; from 2019 to 2028, it increases at an average rate of about 6 percent per year, reaching $2.0 trillion, or 6.6 percent of GDP, by the end of that period.

Medicare. Outlays for Medicare, a program that provides subsidized medical insurance to the elderly and to some people with disabilities, account for about half of the projected increase in outlays for major health care programs in 2018 and about two-thirds of the growth in such outlays through 2028. CBO estimates that Medicare spending (net of offsetting receipts—mostly in the form of premiums paid by beneficiaries—and adjusted to exclude the effects of timing shifts) will grow

5. A timing shift with effects of a similar magnitude occurred from 2017 into 2016; the net effect of the two timing shifts on mandatory spending in 2017 was small, increasing outlays by $3 billion.

6. Mandatory spending as a share of GDP is projected to grow more slowly in the near term largely because GDP is projected to grow faster in 2019 and 2020 than later in the projection period. The growth in nominal mandatory spending is slightly slower in the first two years than later in the projection period.

by 3 percent in 2018, much more slowly than in most recent years. That slower growth is attributable to higher receipts from premiums.[7] Enrollment is projected to increase by 2.7 percent in 2018, a rate just slightly higher than the 2.6 percent rate of increase recorded last year.

Over the 2019–2028 period, Medicare outlays are projected to increase by an average of 7 percent per year, driven by the rising per-beneficiary costs of medical care. Cost growth accounts for nearly 5 percentage points of that increase, and growing enrollment accounts for the rest. By 2028, projected net outlays for Medicare grow to $1.2 trillion.

Medicaid. Spending for Medicaid, a joint federal and state program that funds medical care for certain low-income, elderly, and disabled people, is estimated to increase by 2 percent, or $9 billion, in 2018. That rate of growth is one of the slowest since 2012, when provisions in the American Recovery and Reinvestment Act of 2009 (P.L. 111-5) that increased the federal government's share of Medicaid spending expired and federal spending on the program fell. Flattening growth in enrollment (which had picked up considerably after Medicaid eligibility was expanded by the Affordable Care Act) and slow growth in per capita costs largely explain the smaller increase in spending in 2018 compared with earlier years. After 2018, outlays for the program are projected to grow at an average rate of about 5.5 percent per year (about 1 percent because of increasing enrollment and nearly 5 percent because of increasing per capita costs), closer to historical growth levels.

Health Insurance Subsidies and Related Spending. Outlays for health insurance subsidies and related spending are estimated to increase by $10 billion, or 21 percent, in 2018.[8] That jump mostly stems from an average increase of 34 percent in premiums for the second-lowest-cost "silver" plan in health insurance marketplaces established under the Affordable Care Act. (Those premiums are the benchmark for determining subsidies for plans obtained through the marketplaces.) Over the 2019–2028 period, the average growth in spending is projected to lessen considerably, to just under 5 percent per year, as per-beneficiary spending rises with the costs of providing medical care. CBO estimates that, under current law, outlays for health insurance subsidies and related spending would rise by about 60 percent over the projection period, increasing from $58 billion in 2018 to $91 billion by 2028.

Children's Health Insurance Program. CHIP is a program financed jointly by states and the federal government that provides health insurance coverage to children in families whose income, although modest, is too high for them to qualify for Medicaid. CBO estimates that outlays for CHIP will be about $500 million lower in 2018 than in 2017, primarily because of unusually high spending at the end of last year: Some states drew down additional funds for the program in 2017, probably in anticipation of the scheduled expiration of its authorization at the end of that year. (Funding for the program has since been reauthorized through 2027.)[9] Federal spending for CHIP is projected to decline through 2021 because the average federal matching rate for the program is scheduled to decrease from 93 percent in 2018 to 70 percent in 2021 and subsequent years. After 2021, spending on the program is projected to grow by about 3 percent per year, principally because of increasing costs per enrollee.

7. The jump in receipts from premiums stems largely from increases in how much many beneficiaries will actually pay for their premium for Medicare Part B, which covers physicians' services and other outpatient care. The basic Part B premium is the same in 2018 as it was in 2017 ($134 per month). However, about two-thirds of Part B enrollees did not pay the full $134 in 2017 because of a "hold-harmless" provision, which limits the increase in a beneficiary's payment for the Part B premium to the increase in that beneficiary's Social Security benefit. (Most Medicare enrollees have their Part B premium withheld from their monthly Social Security benefit.) With an increase in Social Security benefits in 2018, many Medicare beneficiaries will pay more or all of the full Part B premium; in fact, most of the total increase in Social Security benefits for those beneficiaries will go toward Part B premiums. CBO estimates that about half of the beneficiaries who paid less than the full premium in 2017 will again have their payments held down by the hold-harmless provision in 2018—that is, all of the increase in their Social Security benefits will go toward the Part B premium. The remaining beneficiaries are seeing some increase in take-home Social Security benefits even after they pay the full $134.

8. These subsidies lower the cost of health insurance purchased through marketplaces by people who meet income and other criteria for eligibility. The related spending consists of outlays for risk adjustment and reinsurance, and grants to states for establishing health insurance marketplaces.

9. The Congress extended CHIP's authorization through 2023 in the HEALTHY KIDS Act of 2017 (P.L. 115-120) and further extended it through 2027 in the Bipartisan Budget Act of 2018 (P.L. 115-123).

Income Security. Mandatory spending related to income security includes outlays for certain refundable tax credits, the Supplemental Nutrition Assistance Program (SNAP), Supplemental Security Income (SSI), unemployment compensation, and certain programs that support children and families. Excluding the effects of a shift in the timing of $4 billion in SSI payments, projected spending in this category rises by 1.5 percent, from $294 billion in 2017 to $298 billion in 2018 (or 1.5 percent of GDP). Over the 2019–2028 period, total mandatory spending for income security is projected to grow by an average of 2 percent per year, which is slower than GDP is projected to grow. As a result, by 2028, such outlays are projected to shrink to 1.2 percent of GDP.

Earned Income, Child, and Other Tax Credits. Refundable tax credits reduce a filer's overall income tax liability; if the credit exceeds the filer's income tax liability, the government pays all or some portion of that excess to the taxpayer.[10] Those payments are categorized as outlays.

Over the 2018–2028 period, projected outlays for refundable tax credits vary significantly. The refundable amounts of the credits are projected to jump from $87 billion in 2018 to $99 billion in 2019, mostly because Public Law 115-97, referred to here as the 2017 tax act, expands the child tax credit (see Appendix B). In addition, the 2017 tax act temporarily reduces tax liabilities, thereby increasing outlays for the refundable portion of certain tax credits.

After remaining close to $100 billion a year for much of the coming decade, projected outlays for the tax credits fall to $88 billion in 2027, after many provisions in the 2017 tax act will have expired under current law, decreasing the amount of the child tax credit and increasing tax liabilities for most people. (However, those outlays are lower than they would have been prior to the 2017 tax act because one provision of the act that lowers outlays—a change in the measure of inflation used to adjust tax parameters, including tax brackets—does not expire under current law.)

Supplemental Nutrition Assistance Program. SNAP provides benefits to help people in low-income households purchase food. CBO expects that outlays for SNAP will decrease slightly in 2018 because of continued declines in participation since the recent (post-recession) peak in 2013.

In CBO's projections, participation rates continue to decline through 2028 until they return to rates seen just before the 2007–2009 recession. However, because decreased outlays from lower participation are expected to be offset by projected increases in the cost of food (which SNAP benefits are linked to), projected outlays for the program remain roughly constant from 2020 through 2024. In 2025, projected spending on the program begins to rise as the decline in participation moderates but the price of food continues to grow. By 2028, CBO projects, outlays for SNAP, under current law, would equal the amount spent in 2017—$70 billion.

Supplemental Security Income. SSI provides cash benefits to people with low income who are elderly or disabled. CBO estimates that spending for SSI will fall by about $3 billion in 2018 because of the shift in the timing of $4 billion in payments from 2018 to 2017. Without that timing shift, outlays would rise by about $1 billion in 2018. In CBO's baseline projections, outlays for the program grow by 3 percent per year on average. Projected COLAs account for much of that growth. By 2028, without changes to current law, projected spending for SSI reaches $81 billion, or $75 billion if the effects of timing shifts are excluded.

Unemployment Compensation. The federal-state unemployment compensation program provides benefits to people who lose their jobs through no fault of their own, are actively seeking work, and meet other criteria established by the laws in their states. CBO expects spending on the program to decline by $1 billion in 2018 as a result of lower unemployment—the effects of which are partly offset by expected wage growth over the projection period, which increases average unemployment benefits. In CBO's projections, the unemployment rate continues to drop in 2019, then rises through 2027. Outlays for unemployment compensation follow that pattern: Such spending declines through 2019, then increases through 2028, reaching $59 billion—nearly double the $30 billion in outlays estimated for the current year.

Family Support, Foster Care, and Child Nutrition Programs. Spending for programs that support children and families, such as the Temporary Assistance for Needy

10. For more information, see Congressional Budget Office, *Refundable Tax Credits* (January 2013), www.cbo.gov/publication/43767.

Families (TANF) program and school lunch programs, grows in CBO's baseline by about 2 percent per year, on average. Funding for some programs, including TANF, is capped, whereas funding for other programs, including school lunch programs, is projected to grow with inflation and participation. In CBO's projections, outlays for all such programs increase from $56 billion in 2018 to $72 billion in 2028.

Civilian and Military Retirement. Retirement and survivors' benefits for most federal civilian employees (along with benefits provided through several smaller retirement programs for employees of various government agencies and for retired railroad workers) are estimated to cost $105 billion in 2018, the same amount as in 2017. Under current law, such outlays would grow by nearly 4 percent annually over the projection period, CBO estimates, reaching $151 billion in 2028. The projected growth in federal civil service retirement benefits is attributable primarily to COLAs for retirees and to increases in federal salaries, which boost benefits for people entering retirement.

The federal government also provides annuities to retired military personnel and their survivors. Outlays for those annuities totaled $58 billion in 2017; in 2018, they are projected to dip to $54 billion, but that estimate rises to $59 billion if the effects of timing shifts are removed. Most of the projected annual growth in those outlays over the 2019–2028 period results from COLAs and increases in military basic pay. Excluding the effects of shifts in the timing of payments of some annuities, outlays for military retirement benefits are projected to grow by an average of 3 percent per year, reaching $79 billion in 2028.

Veterans' Programs. Mandatory spending for veterans' benefits includes disability compensation, readjustment benefits, pensions, insurance, housing assistance, and burial benefits. Excluding the effects of shifts in the timing of certain payments, outlays for those benefits totaled $104 billion (of which roughly 80 percent represented disability compensation) in 2017 and are estimated to rise to $107 billion in 2018. That total does not include most federal spending for veterans' health care, which is funded through discretionary appropriations. CBO projects that under current law, mandatory spending for veterans' benefits would grow at an average rate of about 4 percent per year over the next decade, reaching $156 billion in 2028 (excluding shifts in the timing of some payments).

Other Mandatory Programs. The remainder of mandatory spending encompasses a number of other activities, including agricultural programs, net outlays for deposit insurance, health care benefits for retirees of the uniformed services and their dependents and surviving spouses, cash transfers to and from Fannie Mae and Freddie Mac, and loans and other programs related to higher education. Together, those outlays totaled $130 billion last year but are estimated to drop to $97 billion in 2018. That decrease is primarily driven by revisions to the estimated subsidy costs of outstanding loans recorded by the Department of Education.[11] In 2017, such revisions boosted outlays by $39 billion, whereas in 2018, CBO estimates, they will reduce outlays by $9 billion. The $48 billion decrease in outlays over the two years is partially offset by an estimated increase of $11 billion in mandatory outlays related to hurricane relief efforts in 2018. Altogether, over the 2018–2028 period, spending on these other mandatory programs is projected to increase by a total of about $5 billion, or about 5 percent.

Offsetting Receipts. Offsetting receipts are funds collected by federal agencies from other government accounts or from the public in businesslike or market-oriented transactions that are recorded as negative outlays (that is, as credits against direct spending). Such receipts include Medicare beneficiaries' premiums, intragovernmental payments made by federal agencies for their employees' retirement benefits, royalties and other charges for the production of oil and natural gas on federal lands, proceeds from sales of timber harvested and minerals extracted from federal lands, payments to the Treasury by Fannie Mae and Freddie Mac (for 2017

11. CBO calculates the subsidy costs for student loans following the procedures specified in the Federal Credit Reform Act of 1990 (FCRA). Under FCRA, the discounted present value of expected income from federal student loans issued during the 2018–2028 period is projected to exceed the discounted present value of the government's costs. (A present value is a single number that expresses a flow of current and future income or payments in terms of an equivalent lump sum received or paid at a specific time; the present value depends on the rate of interest—known as the discount rate—that is used to translate future cash flows into current dollars.) Credit programs that produce net income rather than net outlays are said to have negative subsidy rates, which result in negative outlays. The original subsidy calculation for a set of loans or loan guarantees may be increased or decreased in subsequent years by a credit subsidy reestimate that reflects an updated assessment of the cash flows associated with the outstanding loans or loan guarantees.

and 2018 only), and various fees paid by users of public property and services.[12]

CBO estimates that offsetting receipts will dip slightly this year, from $253 billion in 2017 to $252 billion in 2018. That decline is the result of two factors with countervailing effects. First, CBO estimates that remittances to the Treasury from Fannie Mae and Freddie Mac will decrease by $23 billion. About two-thirds of that reduction is from write-downs the entities took on their tax-deferred assets in response to the 2017 tax act; in addition, the Federal Housing Finance Agency and the Treasury Department recently directed the entities to increase their capital reserves, which means they will remit less in order to meet that goal. Second, other offsetting receipts are estimated to be about $22 billion higher in 2018 than in 2017, largely as a result of a $13 billion increase in receipts of Medicare beneficiaries' premiums.

After 2018, offsetting receipts are projected to grow by an average of about 5 percent per year, from $260 billion in 2019 to $406 billion in 2028. Growth in receipts of Medicare premiums, which is projected to average almost 8 percent per year, accounts for nearly 90 percent of that increase.

Assumptions About Expiring Programs

In keeping with the rules established by the Deficit Control Act, CBO's baseline projections incorporate the assumption that some mandatory programs will be extended when their authorization expires, although the rules provide for different treatment of programs created before and after the Balanced Budget Act of 1997 (P.L. 105-33). All direct spending programs that predate that act and have current-year outlays greater than $50 million are assumed to continue in CBO's baseline projections. Whether programs established after 1997 are assumed to continue is determined on a program-by-program basis, in consultation with the House and Senate Budget Committees.

CBO's baseline projections therefore incorporate the assumption that the following programs whose authorization expires within the current projection period will continue: SNAP, TANF, the Child Care Entitlement to States, rehabilitation services, child nutrition programs, some transporation programs, the Trade Adjustment Assistance program for workers, family preservation and support programs, CHIP, and most farm subsidy programs. In addition, the Deficit Control Act directs CBO to assume that a COLA for veterans' compensation will be granted each year. In CBO's projections, the assumption that expiring programs and veterans' COLAs will continue accounts for about $1.1 trillion in outlays between 2019 and 2028, most of which are for SNAP and TANF (see Table 2-3 on page 56). That amount represents about 3 percent of all mandatory spending.

Discretionary Spending

An array of federal activities is funded or controlled through annual appropriations. Such discretionary spending, which CBO estimates will account for about 30 percent of total outlays in 2018, includes most spending on national defense, elementary and secondary education, housing assistance, international affairs, and the administration of justice, as well as outlays for transportation and other programs.

How Caps on Discretionary Funding Affect CBO's Projections

Most discretionary funding is limited by caps on annual discretionary appropriations that were originally specified in the Budget Control Act of 2011 (P.L. 112-25) and modified by subsequent legislation. Under current law, separate caps exist for defense and nondefense spending through 2021. If the total amount of discretionary funding provided in appropriation acts for a given year exceeds the cap for either category, the President must sequester—or cancel—a sufficient amount of new budget authority (following procedures specified in the Budget Control Act) to eliminate the breach.[13]

12. Because the government placed Fannie Mae and Freddie Mac into conservatorship in 2008 and now controls their operations, CBO considers their activities governmental and includes the budgetary effects of their activities in its projections as if they were federal agencies. On that basis, for the 10-year period after the current fiscal year, CBO projects the subsidy costs of their new activities using procedures that are 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 associated market risk. The Administration, by 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. As a result, in its baseline projections, CBO treats only the current fiscal year in the same manner as the Administration in order to provide its best estimate of the amount that the Treasury ultimately will report as the federal deficit for 2018. Similarly, to match the Administration's historical budget totals, CBO also uses the Administration's treatment for past years.

13. The authority to determine whether a sequestration is required (and, if so, exactly how to make the necessary cuts in budget authority) rests with the Administration's Office of Management and Budget.