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# Fact Sheet: Reducing the Deficit, Raising the Debt Limit and Avoiding Default

## *Long Term Compromise Plan Provides Certainty; Balanced Spending Cuts Protect Seniors*

**HIGHLIGHTS:**

- Extends debt limit to 2013, removing cloud of uncertainty over our economy.
- Makes a nearly $1 trillion down payment on deficit reduction.
- Expedited process for balanced deficit reduction in a longer term process for an additional $1.5 trillion in savings through both tax and entitlement reform.
- A proven enforcement mechanism that will compel painful spending cuts (50% defense/50% non-defense) that will force Congress to act.

**Details Of The Deficit Reduction Package:**

- **Stage One: Nearly $1 Trillion in Deficit Reduction; $900 Billion Debt Ceiling Increase.** The first part of the plan includes approximately $917 billion in deficit reduction through the establishment of ten-year caps (caps save $756 billion on their own, with additional savings coming from interest savings). In the first two years, there would be separate caps ("firewalls") for security and non-security spending. For the purpose of this firewall, security spending includes defense, state and foreign operations, homeland security, and military construction/veterans affairs.

  Total discretionary spending in Fiscal Year 2012 and 2013 will be limited to $1.043 trillion and $1.047 trillion, respectively, about $7 billion and $3 billion, respectively, below current levels. This is the real reduction in budget authority below current levels. **The security savings would represent roughly three-quarters of the $10 billion in reductions over this two year period.**

  In addition, CBO estimates discretionary outlays in FY12 and FY13 will result in $25 billion and $47 billion, respectively, in deficit reduction.

Because of the quickly approaching August 2nd deadline for lifting the debt ceiling, the plan gives the President the authority to immediately raise the debt ceiling by $400 billion, which the Treasury Department estimates will last through September 2011. Another $500 billion debt limit increase would be subject to resolutions of disapproval votes in both the House and Senate. The disapproval measure would be subject to Presidential Veto.

- **Stage Two: Joint Committee Tasked With Legislating $1.5 Trillion in Deficit Reduction, Paired With Additional Debt Ceiling Increase.** A joint, bipartisan committee, made up of 12 members (6 from each Chamber, equally divided between Democrats and Republicans, and appointed by the Majority and Minority Leaders in each Chamber), will be tasked with developing legislation to achieve $1.5 trillion in future deficit reduction by Thanksgiving. The committee's legislation, which can include entitlements and revenues, will be guaranteed an up-or-down Senate vote, without amendments, by December 23.

  If the Committee's recommendations achieve at least $1.5 trillion and are enacted by Congress, the debt ceiling will be raised by $1.5 trillion. If the committee's bill is enacted and produces between $1.2 trillion and $1.5 trillion, the debt limit will be raised dollar-for-dollar. If the committee fails to produce a bill, its bill is not enacted, or it produces less than $1.2 trillion, the debt limit will increase by $1.2 trillion. Regardless of the amount of the debt limit increase, it would be subject to a disapproval vote which would, in turn, be subject to a Presidential Veto.

- **If the Committee Fails to Report Legislation That Achieves $1.2 Trillion in Deficit Reduction, or Congress Fails to Enact the Committee's Recommendations, Sequestration is Triggered.** If the Joint Committee fails to come to a majority agreement on recommendations that achieve at least $1.2 trillion, or Congress fails to enact recommendations that produce at least that amount, sequestration is triggered, forcing across-the-board spending cuts. The sequestration will be similar to the 1985 Gramm-Rudman-Hollings trigger and, with interest savings, will make up the differential between the deficit reduction achieved by the joint committee and $1.2 trillion.

- **Sequestration Will Use Balanced Approach to Spending Cuts.**

  - **50% of Sequestration Will Come From Defense.** If across-the-board cuts are triggered, 50% will come from defense spending (Function 050), with the remaining 50% coming from non-defense spending. The spending cuts would apply to FYs 2013-2021, and apply to both discretionary and mandatory spending programs with important exemptions (below). **The amount of the defense spending cuts each year is estimated to be over $50 billion if sequestration is triggered.**

  - **Social Security, Medicaid, Veterans Benefits, and Other Essential Benefits Are Exempt From Cuts.** If across-the-board cuts are triggered, the following will be exempt: Social Security, Medicaid, veterans' benefits and pensions, payments to federal retirement funds, civilian and military retirement, and the child nutrition, and Supplement Security Income, among others.

- **Medicare Savings Are Capped at 2% and Are Limited to Providers Only – No Benefit Cuts.** If across-the-board cuts are triggered, any cut to Medicare would be limited to no greater than 2% of the program's cost. Any such cut would come from payments to providers and insurance plans. There will be NO Medicare benefit cuts or increases in seniors' costs.

- **Proven Mechanism:** The last time an enforcement mechanism like this was used—with 50% domestic and 50% defense cuts – the threat of defense cuts helped drive the 1990 bipartisan agreement under President George H.W. Bush that included both revenues and spending reductions.

- **Future Votes on Balanced Budget Constitutional Amendment.** As part of the compromise, both the House and Senate will vote on a balanced budget constitutional amendment before the end of the year. The plan does not make the debt limit increase contingent on *passage* of the amendment. Nor does it prevent a vote on an alternative version of the balanced budget amendment.