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Trends in Mandatory Spending: In Brief

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Contents

Figures

Tables

Contacts

Federal spending is divided into three broad categories: discretionary spending, mandatory spending, and net interest. In recent decades, mandatory spending has been the largest component of the federal budget. Entitlement programs such as Social Security, Medicare, and Medicaid make up the bulk of mandatory spending. Other mandatory spending funds various income support programs, including Supplemental Security Income (SSI), unemployment insurance, and the Supplemental Nutrition Assistance Program (SNAP), as well as federal employee and military retirement and some veterans' benefits.

Discretionary spending, by and large, funds operations of federal agencies. Net interest spending is the government's interest payments on debt held by the public, offset by interest income that the government receives. The Budget Enforcement Act of 1990 (BEA; P.L. 101-508) provided a statutory definition for those terms, which are therefore referred to as BEA categories.

What Is Mandatory Spending?

Mandatory spending is composed of budget outlays controlled by laws other than appropriations acts, including federal spending on entitlement programs. By contrast, discretionary spending is provided and controlled through appropriations acts.

Mandatory spending typically is provided in permanent or multi-year appropriations contained in an authorizing law. Authorizing legislation establishes or continues the operation of a federal program or agency, either indefinitely or for a specified period. Such funding becomes available automatically each year, without further legislative action by Congress. Some entitlement spending, such as for Medicaid, the Supplemental Nutrition Assistance Program (SNAP; formerly Food Stamps), and certain veterans' programs, is funded, but not controlled, in annual appropriations acts. Such entitlement spending is referred to as appropriated entitlements.

How mandatory programs are funded varies. Social Security is supported by payroll taxes paid by employers and employees, which are earmarked for trust funds from which benefits are paid. Medicare is funded by a combination of payroll taxes, beneficiary premiums, and general federal revenues.[1] Medicaid is a joint federal-state program, in which the federal cost share is determined by a statutory formula.[2] Retirement programs for those in federal service are supported by payroll deductions and contributions, as well as general revenues.[3] Some other mandatory programs, such as veterans' income security benefits and agricultural subsidies, are typically funded from general revenues. Administrative costs of federal benefits programs are generally supported by discretionary funding, even if the benefits are paid out of mandatory funds.

Composition of Mandatory Spending

Figure 1 shows trends in mandatory, discretionary, and net interest spending since FY1962 as a share of gross domestic product (GDP). Spending trends are often shown as a share of GDP, which provides a simple way to adjust for inflation, population growth, and rising per capita income. In FY2016, mandatory spending is estimated to equal 13.3% of gross domestic product (GDP). The estimated proportion for discretionary spending in FY2016 was 6.4%, or less than half that of mandatory spending.

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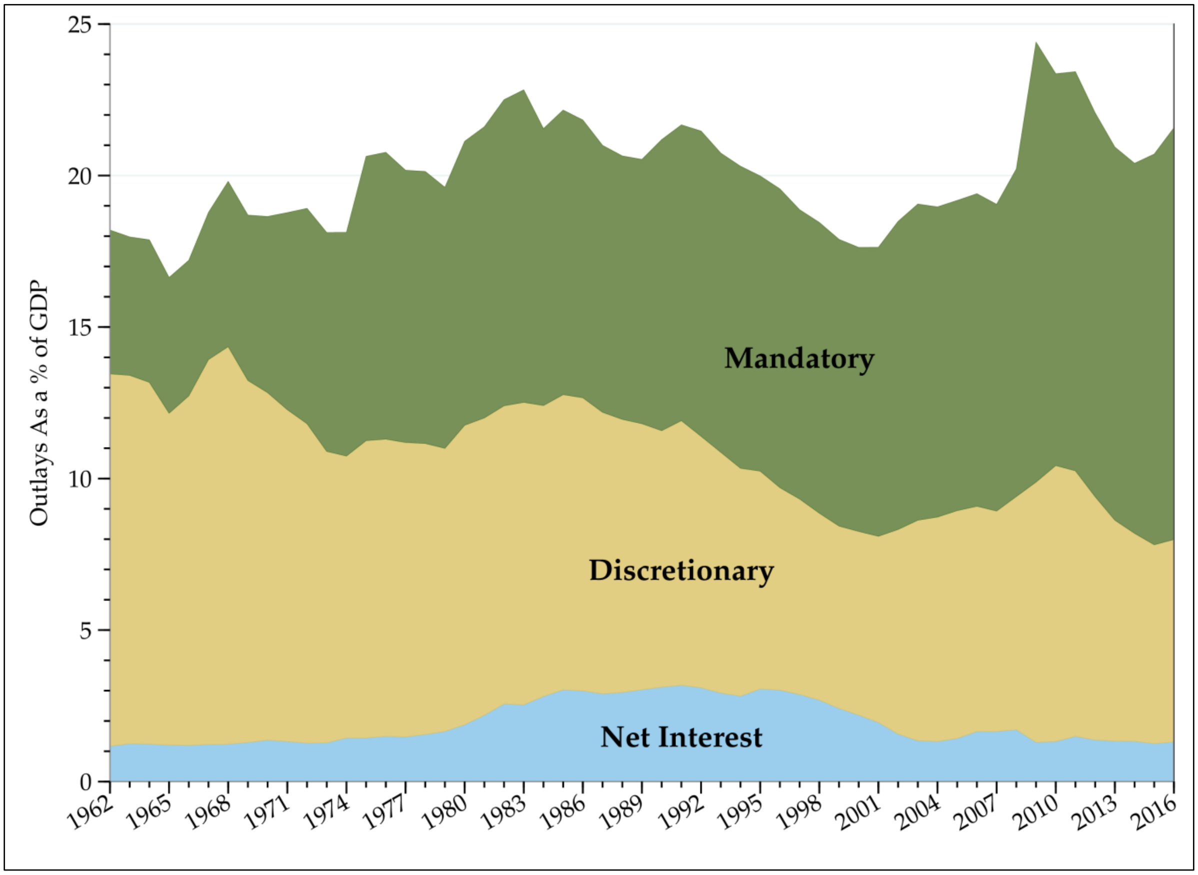
[1] See CRS Report R40425, *Medicare Primer*, coordinated by Patricia A. Davis.

[2] See CRS In Focus IF10322, *Medicaid Primer*, by Alison Mitchell.

[3] See CRS Report RL30023, *Federal Employees' Retirement System: Budget and Trust Fund Issues*, by Katelin P. Isaacs.

Figure 1. Federal Outlays by Category Since FY1962

(outlays as a percentage of GDP)



Source: CRS calculations based on OMB data from the FY2017 budget submission.

Notes: Outlays for FY2016 are estimated.

Figure 2 shows trends among major categories of mandatory spending. The growth in Social Security spending as a percentage of GDP reflects an expansion of the proportion of workers covered by the program, demographic changes, and changes in benefits. Medicare and Medicaid spending as a proportion of GDP has risen consistently since those programs were established in 1965. The Other Health category contains a variety of public health and related programs. Other mandatory spending includes costs of income security programs, such as the federal portion of unemployment insurance, along with certain veterans' programs, federal retirement, and several other smaller programs.

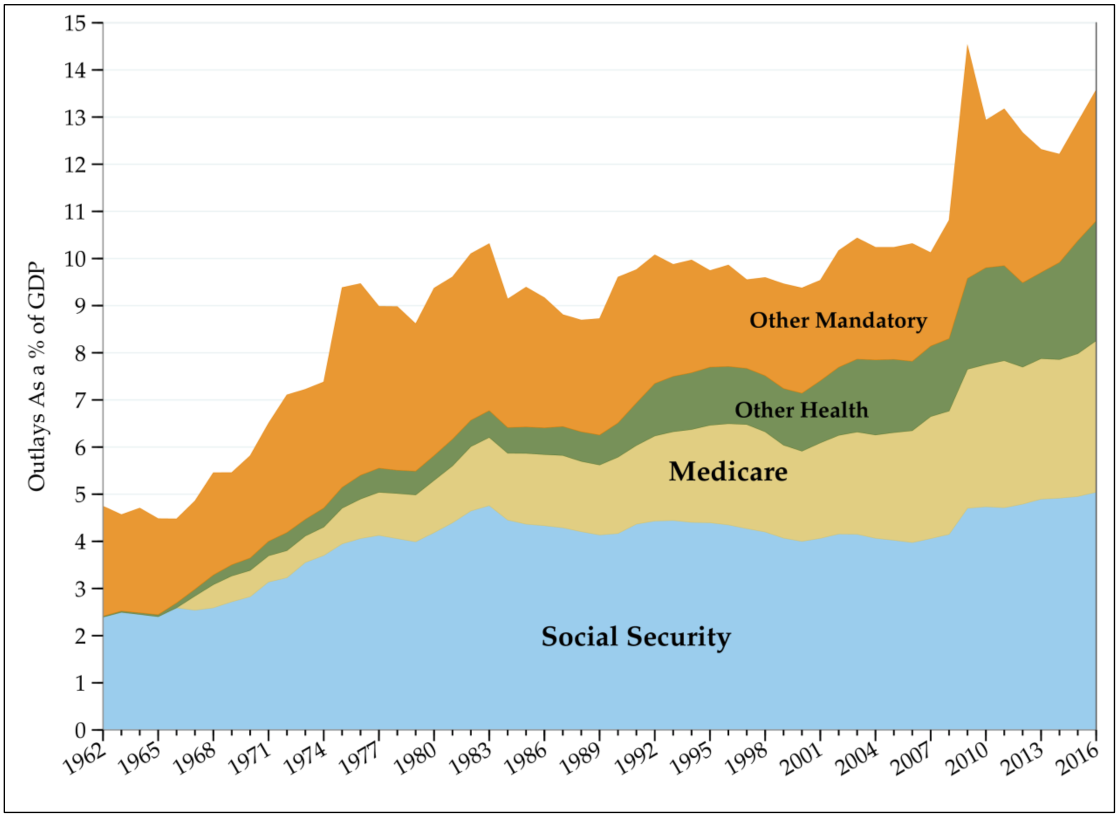
Mandatory Spending as Share of Total Federal Spending

In FY2016, mandatory spending accounts for an estimated 63% of total federal spending. Social Security alone accounted for about 24% of federal spending. Medicare and the federal share of Medicaid together accounted for another 27% of federal spending. Therefore, spending on Social Security, Medicare, and Medicaid now make up about half of total federal spending.

In previous decades, mandatory spending accounted for a smaller share of federal outlays. In 1962, before the creation of Medicare and Medicaid, mandatory spending was less than 30% of all federal spending. At that time, Social Security accounted for about 13% of total federal spending or about half of all mandatory spending.

Figure 2. Components of Mandatory Outlays Since FY1962

(outlays as percentage of GDP)



Source: CRS calculations based on OMB data from FY2017 budget submission.

Notes: Other Health includes Medicaid and other public health programs. Discretionary spending funds most Veterans' health programs. FY2016 data are estimated.

Baseline Projections of Mandatory Spending in the Next Decade

The Congressional Budget Office (CBO) calculates a current-law baseline which projects federal spending and receipts over a 10-year window. Projected mandatory spending trends reflect eligibility requirements, benefit formulas, economic trends, and changes in demographics. **Table 1** presents a breakdown of mandatory spending in recent years along with August 2016 CBO current-law baseline projections.

Over the next decade, mandatory spending is projected to continue rising. By FY2019, if current trends continue, the sum of Medicare and Medicaid outlays would exceed all discretionary outlays. Moreover, Social Security outlays would also exceed discretionary outlays by FY2023, according to CBO baseline projections.[4] By FY2026, mandatory spending is projected to reach 15% of GDP, while discretionary spending is projected to fall to 5% of GDP, its lowest level ever.

[4] CBO, *An Update to the Budget and Economic Outlook: 2016 to 2026*, Table 1-2, August 2016, https://www.cbo.gov/publication/51908.

Table 1. Mandatory Outlays, FY2013-FY2026, CBO Baseline Projections

(billions of dollars)

	2013	2014	2015	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*	*2024*	*2025*	*2026*
Social Security	**808**	**845**	**882**	***910***	***944***	***999***	***1061***	***1128***	***1199***	***1274***	***1352***	***1434***	***1520***	***1609***
Old-Age & Survivors Insurance	668	703	738	*766*	*799*	*849*	*906*	*967*	*1,030*	*1,097*	*1,167*	*1,240*	*1,317*	*1,397*
Disability Insurance	140	142	144	*144*	*145*	*150*	*155*	*161*	*169*	*177*	*185*	*194*	*202*	*212*
Major Health Programs	**861**	**925**	**1,031**	***1,118***	***1,169***	***1,210***	***1,309***	***1,394***	***1,484***	***1,619***	***1,681***	***1,740***	***1,890***	***2,019***
Medicare[a]	585	600	634	*696*	*708*	*716*	*790*	*848*	*910*	*1,017*	*1,048*	*1,076*	*1,194*	*1,289*
Medicaid	265	301	350	*365*	*393*	*415*	*437*	*459*	*483*	*508*	*534*	*562*	*591*	*621*
Health insurance subsidies & related spending	1	15	38	*43*	*54*	*67*	*76*	*81*	*86*	*89*	*93*	*97*	*100*	*103*
State Children's Health Insurance Program	9	9	9	*14*	*14*	*12*	*6*	*6*	*6*	*6*	*6*	*6*	*6*	*6*
Income Security	**340**	**311**	**300**	***304***	***300***	***301***	***314***	***321***	***327***	***339***	***342***	***345***	***359***	***368***
Earned income, child, and other tax credits[b]	84	86	85	*84*	*86*	*87*	*89*	*89*	*89*	*91*	*93*	*96*	*98*	*100*
SNAP	83	76	76	*74*	*71*	*70*	*70*	*69*	*69*	*69*	*69*	*69*	*70*	*71*
Supplemental Security Income	53	54	55	*59*	*56*	*53*	*59*	*61*	*62*	*69*	*66*	*63*	*70*	*72*
Unemployment compensation	69	44	32	*34*	*32*	*34*	*38*	*43*	*45*	*47*	*49*	*51*	*53*	*56*
Family support and foster care[c]	32	31	31	*31*	*32*	*32*	*33*	*33*	*33*	*34*	*34*	*35*	*35*	*35*
Child nutrition	20	20	22	*23*	*24*	*25*	*26*	*27*	*28*	*29*	*30*	*32*	*33*	*34*
Federal Retirement	**153**	**158**	**161**	***164***	***164***	***164***	***173***	***179***	***185***	***196***	***197***	***199***	***206***	***219***
Civilian[d]	92	94	97	*98*	*100*	*104*	*107*	*110*	*114*	*118*	*122*	*126*	*130*	*134*
Military	54	55	57	*62*	*58*	*55*	*61*	*63*	*64*	*71*	*68*	*64*	*72*	*73*
Other	7	8	7	*4*	*5*	*5*	*5*	*5*	*6*	*7*	*8*	*9*	*5*	*11*
Veterans[e]	**80**	**87**	**92**	***109***	***108***	***102***	***112***	***116***	***120***	***134***	***130***	***125***	***140***	***145***
Income security	66	71	76	*89*	*87*	*84*	*95*	*98*	*102*	*114*	*110*	*104*	*117*	*121*
Other	14	16	16	*20*	*21*	*18*	*17*	*18*	*18*	*20*	*21*	*21*	*23*	*24*
Other Programs	**95**	**57**	**88**	***67***	***86***	***90***	***89***	***89***	***87***	***86***	***85***	***84***	***84***	***87***

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Agriculture	24	19	13	*14*	*19*	*19*	*16*	*15*	*15*	*15*	*15*	*15*	*15*	*15*
MERHCF[f]	8	9	10	*10*	*10*	*11*	*11*	*12*	*13*	*13*	*14*	*14*	*15*	*16*
Deposit Insurance	4	-14	-13	*-12*	*-11*	*-13*	*-10*	*-11*	*-11*	*-11*	*-12*	*-13*	*-14*	*-15*
Fannie Mae and Freddie Mac[g]	0	0	0	*0*	*3*	*2*	*1*	*1*	*0*	*1*	*1*	*1*	*1*	*2*
Higher education	-26	-12	22	*5*	*-7*	*-4*	*-2*	*0*	*1*	*1*	*1*	*1*	*1*	*0*
Other	84	54	56	*51*	*73*	*75*	*73*	*72*	*69*	*67*	*67*	*66*	*65*	*69*
Offsetting Receipts	**-305**	**-281**	**-258**	***-235***	***-234***	***-251***	***-261***	***-266***	***-279***	***-296***	***-308***	***-323***	***-347***	***-353***
Medicare[h]	-93	-95	-94	*-104*	*-115*	*-124*	*-131*	*-142*	*-151*	*-164*	*-173*	*-182*	*-198*	*-215*
Federal share of Federal employees' retirement	-66	-65	-68	*-69*	*-69*	*-70*	*-72*	*-74*	*-76*	*-78*	*-80*	*-83*	*-85*	*-87*
Fannie Mae and Freddie Mac[g]	-97	-74	-23	*-14*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
MERHCF	-9	-8	-7	*-7*	*-7*	*-8*	*-8*	*-9*	*-9*	*-10*	*-10*	*-11*	*-11*	*-12*
Natural Resources	-15	-14	-11	*-8*	*-9*	*-12*	*-12*	*-12*	*-12*	*-12*	*-13*	*-14*	*-14*	*-15*
Other	-25	-25	-55	*-33*	*-34*	*-38*	*-38*	*-30*	*-30*	*-31*	*-32*	*-33*	*-40*	*-25*
Total Mandatory Outlays	**2,032**	**2,096**	**2,297**	***2,437***	***2,538***	***2,614***	***2,798***	***2,961***	***3,123***	***3,353***	***3,479***	***3,604***	***3,851***	***4,095***

Source: CBO, *An Update to the Budget and Economic Outlook: 2016 to 2026*, August 2016, and *Budget and Economic Outlook*, January 2014 and January 2015.

Notes: Items may not sum to totals due to rounding. Figures for FY2013-FY2015 are actual; figures for FY2016 are estimated; figures for FY2017-FY2025 are projected.

a. Excludes offsetting receipts.

b. Includes outlays for the American Opportunity credit and other tax credits.

c. Includes Temporary Assistance for Needy Families (TANF), the Child Support Enforcement program, the Child Care Entitlement program, and other programs.

d. Includes Civil Service, Foreign Service, Coast Guard, and other, smaller retirement programs as well as annuitants' health benefits.

e. Income security includes veterans' compensation, pensions, and life insurance programs. Other benefits are primarily education subsidies.

f. MERHCF is the Department of Defense Medicare-Eligible Retiree Health Care Fund, including TRICARE For Life.

g. The Administration records cash payments from Fannie Mae and Freddie Mac to the Treasury as offsetting receipts, while Treasury's payments to those entities are recorded as outlays (if any). CBO, however, treats the operations of these entities similar to other federal credit agencies and estimates their net lifetime cost (i.e., a subsidy cost adjusted for market risk) and records that as outlays for the program. The above table reflects the Administration's methodology for FY2014 and FY2015. Beginning in 2016, the table reflects CBO's estimate of net lifetime costs of the guarantees that those entities will issue and of the loans that they will hold.

h. Includes Medicare premiums and amounts paid by states from savings on Medicaid prescription drug costs.

Much of the projected increase in mandatory spending stems from rising per capita health care costs and the demographic effects of an aging population. Baby Boomers—those born after World War II and before the early 1960s—will continue to retire in large numbers over the coming decade. In addition, the proportion of retirees over age 85—whose health care needs are typically greater than younger retirees—has been rising steadily, thus increasing the expected flow of federal benefits.

Health care costs per beneficiary have moderated in recent years. In both the public and private sectors, health care costs rose more slowly in the past decade relative to prior projections and average historical trends.[5] While the moderation in growth of health care costs per beneficiary has improved the federal government's fiscal situation, concerns remain that health care cost growth could rebound.[6]

Mandatory Spending in Coming Decades

Mandatory spending is projected to continue rising over the next decades. Mandatory spending is projected to reach 15% of GDP in FY2026. Mandatory spending as a share of total federal spending is also projected to rise. Discretionary spending in FY2026, however, is projected to fall to 5% of GDP, its lowest level ever.

Over the long term, projections suggest that if current policies remain unchanged, the United States could face major fiscal imbalances. According to CBO's extended baseline projections, Social Security would grow from 4.9% of GDP in FY2016 to 5.9% of GDP by FY2026 and 6.4% by FY2036. Federal mandatory spending on health care is projected to expand from about 5.5% of GDP in FY2016 to 6.5% in FY2026 and to 7.9% by FY2036.[7] CBO's extended baseline projections imply that the fiscal adjustment needed to stabilize the level of federal debt held by the public as a percentage of GDP at its current level (75%) would be about 1.7% of GDP for each future year. That adjustment would be equivalent to a 9% increase in federal revenues or an 8% cut in outlays, but could be made by a combination of revenue and spending policies.

Some federal trust funds, according to trustees' projections, would be exhausted in the next two decades. The Social Security Disability Insurance (DI) trust fund will be exhausted by 2023 under current policies according to those projections.[8] The Medicare Health Insurance (HI) trust fund, which supports Part A benefits, is projected to be exhausted in 2028, and the Social Security Old Age and Survivors Insurance (OASI) trust fund would be exhausted in 2035.[9] After trust funds were exhausted, programs would pay reduced levels of benefits supported by current revenues.[10] The Medicare Supplemental Medical Insurance (SMI; Part B) trust fund is not vulnerable to

[5] Sean P. Keehan et al., "National Health Expenditure Projections, 2015–25: Economy, Prices, And Aging Expected To Shape Spending And Enrollment," *Health Affairs*, July 2013.

[6] PricewaterhouseCoopers Health Research Institute, *Medical Cost Trend: Behind the Numbers 2016*, June 2015, https://commissiononcare.sites.usa.gov/files/2016/01/20151116-05-Medical_Cost_Trend-Behind_the_Numbers_2016_PWC.pdf.

[7] CBO, *The 2016 Long-Term Budget Outlook*, July 2016, p. 12, https://www.cbo.gov/publication/51580.

[8] Social Security Administration, *A Summary of the 2016 Annual Reports*, website, updated July 12, 2016, https://www.ssa.gov/OACT/TRSUM/index.html.

[9] *Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*, June 22, 2016, p. 4, https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/downloads/tr2016.pdf.

[10] CBO's long-term extended baseline projections presume that full Social Security and Medicare benefits would be paid after trust funds were exhausted. See CBO, *The 2016 Long-Term Budget Outlook*, July 2016, p. 45.

exhaustion because of the structure of its funding, although rising Part B premiums and costs to the general fund could present other challenges.

Policy Options

Because discretionary spending is a smaller proportion of total federal outlays compared to mandatory spending, some budget experts contend that significant reductions in federal spending would have to include cuts in mandatory spending programs. Some contend that further reductions in discretionary spending—now at historically low levels as a share of the economy—would hinder federal agencies' ability to meet national priorities. In addition, some policymakers argue that higher taxes needed to finance projected future mandatory spending trajectories would slow economic growth.

Other budget and social policy experts contend that changes in social insurance programs should be considered on their own merits, and should not bear the burden of larger budgetary adjustments. In particular, Social Security's finances were designed so that benefits are paid from federal trust funds derived from payroll taxes rather than general revenues. More generally, in that view, curtailing entitlement program eligibility or benefits would compromise program goals: the economic security of the elderly and the poor.

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