

**The National Council of Social Security Management Associations, Inc.**  
**GREYSTONE GROUP WASHINGTON REPORT**  
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**Fiscal Year (FY) 2019 President's Budget Request**

On Monday, February 12, President Donald Trump unveiled his FY 2019 budget request. Broadly, the \$4.4 trillion blueprint does not balance after 10 years, calls for a major military buildup, and assumes lower savings from economic growth than last year's \$4.1 trillion version. In addition to the military buildup, the President's spending priorities reiterate many of his FY 2018 requests: border security, veterans programs and resources to address the opioid epidemic. Another priority for President Trump is an overhaul of our nation's infrastructure, with a proposed investment of \$200 billion in new federal funds, in an effort to leverage nearly \$1.5 trillion in total spending, with the rest coming from private investors and state and local governments.

The budget request seeks to trim \$3.6 trillion from annual deficits over the next 10 years through program cuts and associated savings on debt service payments, while bringing in an additional \$813 billion in revenue. In a departure from traditional conservative budgets, this budget would not balance over the next decade. Projected deficits would rise from \$873 billion in FY 2018 to \$987 billion in FY 2020, and would then decline for the remainder of the next decade. At the close of the 10-year budget window there would be a budget deficit of \$363 billion in FY 2028, rather than a surplus.

With the transmission of the President's FY 2019 budget request on the heels of last week's Bipartisan Budget Act of 2018, the FY 2019 appropriations process is officially underway on Capitol Hill. Even though the FY 2018 appropriations process remains unresolved, FY 2019 budget oversight hearings are already cropping up on the Congressional calendar.

To recap from last week's Legislative Report, the two-year Bipartisan Budget Act extends current funding for the federal government and its programs through March 23, 2018, and increases spending caps for both defense and non-defense spending. Specifically, the agreement increases defense spending by \$80 billion in FY 2018 and by \$85 billion in FY 2019, while raising non-defense spending by \$63 billion and \$68 billion respectively.

Various documents circulated on the Hill last week related to the Bipartisan Budget Act mentioned increased funding for the Social Security Administration (SSA), but specific allocations were not determined. This commitment was not explicitly specified in the legislative text of the Bipartisan Budget Act, but rather would be implemented when appropriators receive their subcommittee allocations and draft the Omnibus for FY 2018 and the FY 2019 spending bills. As such, no details regarding SSA's FY 2018 funding are available at the current time.

With the current Continuing Resolution (CR) in place through March 23, the Appropriations Committees will now use this time to write an FY 2018 Omnibus spending bill to the new, higher spending levels for both defense and non-defense programs.

Unfortunately, and not unexpectedly, complications have already appeared on the FY 2018 and FY 2019 appropriations landscape. Following the transmission of the President's FY 2019 budget request to Congress, Office of Management and Budget (OMB) Director Mick Mulvaney sent the following "Addendum to the FY 2019 Budget." In the addendum, the Trump Administration proposes its own priorities for additional non-defense

discretionary spending, that while are \$75 billion above the FY 2019 budget request and \$10 billion above the pre-Balanced Budget Act (BBA) levels, are **\$57 billion BELOW the new cap and make no mention of SSA.**

<https://www.whitehouse.gov/wp-content/uploads/2018/02/Addendum-to-the-FY-2019-Budget.pdf>

Excerpt from the Budget Addendum document:

*After we finalized the FY 2019 Budget, the Congress reached a bipartisan agreement, as reflected in the BBA, to significantly raise the defense and non-defense discretionary spending caps in FY 2018 and FY 2019, and the President has signed these new caps into law. In light of the BBA, we are modifying the FY 2019 Budget request to account for these new cap levels. As reflected in the FY 2019 Budget, the Administration strongly supports the overall defense spending levels included in the bipartisan cap deal. However, given the current fiscal situation, the Administration is not proposing a Budget at the new non-defense caps. The Administration does not believe these non-defense spending levels comport with its vision for the proper role and size of the Federal Government. However, we believe it is prudent to lay out the Administration's roadmap for how to account for these higher non-defense spending levels in a responsible manner. This addendum includes additional funding for a limited set of Administration priorities, but notably, it also proposes to use higher spending caps as an opportunity to fix some long-time budget gimmicks that the Congress has used to circumvent the spending caps and add billions to the Nation's deficits.*

*The Administration's recommendations for additional non-defense discretionary (NDD) spending-which would supplement the spending levels included in the FY 2019 Budget - are described in further detail below.*

#### **Defense Spending**

*The Administration strongly supports a defense discretionary spending level of \$716 billion in FY 2019, which is consistent with the FY 2019 Budget request. In accordance with the BBA, this addendum shifts \$20 billion of Overseas Contingency Operations (OCO) funding to the base budget. This change results in a revised FY 2019 national defense discretionary base budget level of \$64.7 billion and a revised OCO level of \$69 billion. In FY 2020 and the outyears, the Administration proposes returning to OCO's original purpose by shifting certain costs funded in OCO to the base budget where they belong.*

#### **Non-Defense Spending**

*In this addendum, the Administration proposes \$540 billion in NDD spending, \$75 billion above the current FY 2019 Budget, \$10 billion above the pre-BBA NDD spending cap of approximately \$530 billion set in the 2019 Sequestration Preview Report, and \$57 billion below the new cap. We believe that this level responsibly accounts for the cap deal while taking into account the current fiscal situation. Spending at the levels included in the cap deal would add an additional \$680 billion to the Nation's deficit over ten years above the FY 2019 Budget.*

This Budget Addendum from the Trump Administration further complicates what was already a complex picture and process. For now, please see below for excerpts and information from the FY 2019 President's budget request **as prepared for transmission to Congress PRIOR** to last week's Bipartisan Budget Act. We have included Social Security Administration (SSA) administrative funding-specific information in addition to details

regarding the Trump Administration’s proposals related to federal employees. We will continue to provide updates as more information becomes available.

### **Social Security Administration**

The FY 2019 President’s budget request is \$12.6 billion for the agency’s “Total Budget Authority.” For comparison purposes the FY 2017 Actual/Enacted funding level was \$12.668 billion, and the FY 2018 funding level is yet to be determined.

The FY 2019 President’s budget request of \$12.6 billion, includes \$12.393 billion for SSA’s Limitation on Administrative Expenses (LAE) account, including \$1.683 billion for dedicated program integrity funding. It is important to note that the FY 2017 program integrity funding was made available for 18 months (through March 31, 2018) and the FY 2019 budget request assumes appropriations language for FYs 2018 and 2019 will provide for similar 18-month authority to obligate program integrity funds. Beginning in FY 2019, the FY 2019 budget request proposes appropriations language allowing SSA to transfer up to \$10 million from program integrity cap adjustment funds to the Office of the Inspector General (OIG) for expenses associated with OIG employees serving as cooperative disability investigations (CDI) unit team leaders. Within the LAE account, the President’s budget request also includes \$60 million for reinstating reconsiderations; \$132 million for IT modernization; \$71.5 million for a unified communications platform; and \$30 million for Office of Personnel Management (OPM) reinvestigations.

Per the FY 2019 SSA Congressional Justification (CJ), the 2019 President’s budget, “focuses on implementing organizational reforms that make us more efficient and effective; investing in modern technology and business processes that will help us serve the public better at a lower cost; and addressing our key backlogs. In addition, we will continue safeguarding taxpayer dollars by investing in efforts to reduce improper payments and combat fraud.”

In contrast to the FY 2018 President’s budget request, the FY 2019 budget request documents include the following Commissioner’s Budget:

#### **COMMISSIONER'S BUDGET**

As directed by Section 104 of Public Law 103–296, the Social Security Independence and Program Improvements Act of 1994, the Commissioner of Social Security shall prepare an annual budget for SSA, which shall be submitted by the President of the Congress without revision, together with the President's request for SSA. The Commissioner's budget includes \$12,973 million for total administrative discretionary resources in 2019. This represents \$12,788 million for SSA administrative expenses, \$73 million in research, and \$112 million for the Office of the Inspector General.

If you are interested in further details regarding SSA’s budget, the following documents/links may be of interest:

Social Security Administration – FY 2019 President’s Budget: Key Tables

<https://www.ssa.gov/budget/FY19Files/2019BST.pdf>

Social Security Administration – Limitation on Administrative Expenses

<https://www.ssa.gov/budget/FY19Files/2019LAE.pdf>

Social Security Administration – FY 2019 Budget Overview

<https://www.ssa.gov/budget/FY19Files/2019BO.pdf>

An American Budget – Fiscal Year 2019

<https://www.whitehouse.gov/wp-content/uploads/2018/02/budget-fy2019.pdf>

### **Federal Employee Issues**

Details are still emerging, and we will provide updates as they become available, but as anticipated the President’s FY 2019 budget request includes a pay freeze for all civilian employees in 2019. The budget request also includes a number of provisions that would cut retirement and other benefits for federal workers.

The President’s budget request describes the pay freeze as the first step in moving federal civil service to a pay for performance system, pairing the freeze with a \$1 billion interagency fund designated to reward high performers.

In addition to the pay freeze, President Trump’s FY 2019 budget request reintroduces a number of cuts to federal employees’ benefits and retirement programs that were proposed last year, but were not implemented by Congress. These recommendations include:

- Requiring federal workers to contribute 1 percent more toward the Federal Employees Retirement System (FERS) defined benefit annuity each year for six years. The budget request also eliminates the FERS supplement for retirees under the age of 62.
- The plan would reduce cost of living adjustments for employees and existing retirees in the Civil Service Retirement System (CSRS) by 0.5 percent, and it would eliminate COLAs for FERS employees and retirees altogether. It would also change the formula that determines future federal retirees’ defined benefit annuities to be based on the highest five years of salary, instead of the current “high three.”
- The budget request could also have a significant impact on the Thrift Savings Plan (TSP). Under the plan, the G Fund, which is made up of government securities and currently has a statutorily mandated annual interest rate of 2.25 percent, would be based on the yield of the three-month U.S. Treasury bill, which is 1.03 percent per year. TSP officials cautioned against this idea when it was floated last fall, saying it would make the portfolio “virtually worthless.”

The White House has also indicated that it plans to propose a significant shift in the federal retirement system in the future that could remove defined benefit pensions altogether.

“The TSP is a particularly attractive benefit to young, mobile workers not intended to make a career of federal service,” officials wrote. “The budget, therefore, funds a study to explore the potential benefits, including the recruitment benefit, of creating a defined-contribution only annuity benefit for new federal workers, and those desiring to transfer out of the existing hybrid system.”

The President’s budget request also includes plans to change other federal employee benefits. It would move away from the current leave system, which offers different categories of time off for regular leave, sick days and vacation, in favor of one category of Paid Time Off, which would effectively reduce the amount of leave workers receive each year.

OPM would also change how it determines the employer contribution portion of the Federal Employees Health Benefits Program (FEHBP), shifting away from the current 72 percent of the weighted average of all plan premiums with a 75 percent cap.

“Under this proposal, the government contribution would range between 65-75 percent depending on a plan’s performance,” officials wrote. “This proposal would encourage enrollment in high-performing health plans.”

According to the budget request, this change to FEHB premium contributions would save more than \$2.7 billion over the next decade.

If you are interested in further details regarding the Trump Administration’s federal workforce proposals, the following links may be of interest:

Analytical Perspectives: 7. Strengthening the Federal Workforce

[https://www.whitehouse.gov/wp-content/uploads/2018/02/ap\\_7\\_strengthening-fy2019.pdf](https://www.whitehouse.gov/wp-content/uploads/2018/02/ap_7_strengthening-fy2019.pdf)

Major Savings and Reforms

<https://www.whitehouse.gov/wp-content/uploads/2018/02/msar-fy2019.pdf>

One extremely important premise to keep in mind when reviewing any Presidential budget request: The request and accompanying proposals are “recommendations” or “suggestions” and it is the Constitutional responsibility of Congress to make spending decisions. We anticipate providing ongoing reports and updates on the President’s FY 2019 budget request as additional materials are released, analyzed and evaluated.

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