

Federal Mandatory Spending and Gen Z: Hey Boomer, We're Paying



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Introduction

Imagine a household that earns \$50,000 a year, spends \$70,000, carries \$370,000 in debt, and still plans to borrow \$50,000 more.¹ This is how New York University professor Scott Galloway characterizes the current U.S. government's fiscal path, one that is increasingly unsustainable but has been left for Generation Z to clean up. We in Gen Z are poised to become the nation's ATM, entering the workforce just as mandatory spending and interest payments consume a growing share of the federal budget.² The spending and interest payments for many of these government programs, created decades ago, now place disproportionate burdens on younger Americans who had no voice in designing them. We will not only help fund these obligations but also face reduced public investment, higher taxes, and limited economic flexibility, as growing debt and tightening budgetary space threaten to crowd out future investments in infrastructure, education, housing, and climate resilience.³ What was once a protective safety net has become a growing threat to our and future generations' financial security.

This crisis is not theoretical. The United States faces a growing fiscal imbalance, driven by

federal mandatory spending, primarily entitlement programs and interest on the debt. Entitlements such as Social Security, Medicare, and Medicaid operate somewhat on autopilot, with costs that increase automatically based on eligibility and demographic trends.⁴ Although interest on the national debt is not technically categorized as mandatory spending, it functions that way, backed by the full faith and credit of the United States.⁵

This imbalance is already visible, and current trends make the urgency impossible to ignore. Mandatory programs are projected to account for 60% of federal spending in 2025.⁶ And the gap will widen: the Government Accountability Office (GAO) projects public debt will double the pace of economic growth, hitting 200% of gross domestic product (GDP) by 2047.⁷ For Gen Z, these figures signal a future with less policy flexibility and opportunity. JPMorgan Chase CEO Jamie Dimon warns that rising debt and deficits "hurt the people raising money. That includes small businesses, that includes loans to small businesses, includes high-yield debt, includes leveraged lending, includes real estate loans."⁸ His concern emphasizes how public debt can spill into private markets, disrupting economic growth and access to capital for future generations. In effect, past promises are locking away a growing

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share of public resources, leaving fewer options to meet future needs.

“This, in Galloway’s words, is a moment of “massive intergenerational theft.”

Long-term U.S. spending goes beyond balancing a checkbook; it reflects national credibility, democratic health, and global competitiveness. The Congressional Budget Office warns that declining population growth and rising mandatory spending could suppress U.S. economic output over the next 30 years, undermining productivity and the nation’s ability to service debt and sustain essential programs.⁹ What appears to be a budget debate is really about whether future generations inherit a strong democracy and economy. If Gen Z fails to act, we risk eroded trust in government and the collapse of the American promise, the belief that each generation will do better than the last.

This, Galloway says, is a moment of “massive intergenerational theft.”¹⁰ The crisis is not merely a budgetary issue; it is a call to preserve our generation’s opportunity to thrive.

This paper does more than simply highlight the scale of the fiscal challenge. Our purpose is twofold: first, to explain the structural drivers of mandatory spending and debt that are shaping the future we will inherit, and second, to explore potential reforms that could ease the burden on Gen Z and restore long-term fiscal sustainability. Although we do not claim to provide a single definitive solution, we outline a range of options. They range from revenue increases to spending adjustments that can help ensure that our generation does not carry an unsustainable burden. In short, the pages ahead aim to move beyond diagnosing the problem and toward proposing a road map for action, pointing to what it will take to secure a fairer, more sustainable future for our generation.

Defining Mandatory Spending

Mandatory spending is the money the federal

government must spend, no matter who’s in office or what’s going on in the world. It is nonnegotiable. Just like a car bill or phone bill you must pay as an individual, the government has nonnegotiable bills, too. According to the Congressional Budget Office (CBO), “mandatory spending” refers to programs that are permanently authorized. This budgeting isn’t decided through the appropriations process; instead, it’s built into the law.¹¹ That means that programs like Social Security, Medicare, and Medicaid are funded automatically regardless of the annual budget negotiations—unless Congress amends the legislation that initiated these programs (more on that later.) In the fiscal year 2025, the U.S. government is projected to spend \$6.1 trillion, and over \$4 trillion of that is mandatory spending.¹² You have read that correctly: More than half of government spending is allocated before we have the chance to influence what our government spends.

“The Big Three” of federal mandatory spending are Social Security, Medicare, and Medicaid, commonly referred to as “entitlement programs.” Through federal law, people are “entitled” to receive the benefits once they meet specific criteria. To break down “The Big Three” projected spending in 2025: Social Security is approximately \$1.6 trillion; Medicare, \$1.1 trillion; and Medicaid, \$656 billion.¹³

Are We Entitled to Entitlements?

Our guess is that most people do not associate the word “entitlement” with federal mandatory spending. Think of things to which you are “entitled” as a benefit by law or contract. As college students, we may be entitled to receive financial aid depending on our parents’ income. The Big Three entitlement programs are the foundation of the social contract between the US government and its citizens; entitlements are also the drivers of federal mandatory spending. These programs, particularly Social Security, have been deeply embedded in our society. Since its enactment in 1935, Social Security has essentially eliminated poverty among the elderly by providing basic retirement income for seniors.¹⁵ Trying to reform the program has led to the early demise of any politician who dares to touch this metaphorical “third rail” of American politics.

With 41 million members of Gen Z having become eligible to vote in 2024, we have both the numbers and the urgency to shape the conversation about entitlements.¹⁶ This opinion snapshot does not focus on Social Security, Medicare, and Medicaid—they are extremely complex, and experts with viewpoints across the spectrum have written extensively about them. But you can't advocate for Gen Z to engage on the subject of federal mandatory spending without a high-level examination of these three programs, including what they seek to accomplish, how they work, what they cost, and what the future holds. We address these subjects here.

A Basic Understanding of The Big Three: Social Security, Medicare and Medicaid

Social Security. Social Security is a federal program that provides financial support—retirement, disability, and survivor benefits to U.S. citizens. It is often said that Social Security lifts more people out of poverty than any other program, given that it allowed over 22 million people in 2024 alone to achieve financial stability through benefits provided by the program.¹⁷ Social Security is funded primarily through payroll taxes, with workers and employers each contributing 6.2% of each employee's income into the Social Security Trust Funds.¹⁸ The payroll tax ends at an income cap—in 2025 the cap is \$176,100. So, above this level of earnings, neither employees nor their employers contribute any more to Social Security. This “cap” makes the payroll tax “regressive” – as employees with lower income pay a greater portion of that income into Social Security. The payroll tax (seen on your paycheck as FICA), is paid into the Social Security Trust Funds.

Upon reaching retirement age or qualifying for disability insurance, eligible recipients receive monthly benefits based on their earnings history.¹⁹ Benefits are “progressive”—lower earners receive a greater share of their income in benefits than higher earners.

Medicare. An entitlement established in 1965, Medicare provides health insurance to all seniors over age 65. Its stated purpose was to provide health insurance and to increase financial security for older Americans who faced significant challenges in accessing affordable

health coverage.²⁰ A very complex program, Medicare is divided into multiple parts: Part A covers hospitalization; Part B covers doctors' visits and some other outpatient medical services; and Part D, which was added in 2006, provides drug coverage. Medicare has approached Social Security's status as an untouchable “third rail” of American politics given its broad scope (covering all people over 65) and popularity, with politicians reluctant to touch any of its benefits.²¹

Medicare's funding is also complex. Medicare Part A is funded by a 1.45% uncapped payroll tax on employers and employees, whereas Parts B and D rely on general revenues, beneficiary premiums, and copays.²² These funds are paid into the two Medicare trust funds used to pay for beneficiaries' health care expenses.

Pay as You Go. Importantly, both Social Security and Medicare operate effectively as pay-as-you-go systems: today's workers fund the benefits of current retirees and beneficiaries, rather than funding individuals' own accounts for future withdrawals. However, as large numbers of baby boomers have turned 65 and retired, and fewer workers are contributing payroll taxes, the amounts being withdrawn from the Social Security Trust Funds have increased significantly in comparison to contributions made by workers.

The Social Security Trust Funds are projected to be depleted by 2034.²³ At that point, retirees will face an automatic, across-the-board benefit cut of 23%—so only 77% of scheduled benefits will be paid. A typical retiree receives about \$2,000 per month in Social Security benefits, and a 23% cut would lead to a decrease of about \$500 every single month. Without action, an estimated 74 million Americans will have their benefits reduced by almost a quarter.²⁴ But most experts say that will never happen—that the political cost will be too high. There have been many pieces of legislation proposed to restore solvency to Social Security – almost all on one of side or the other – raise additional revenue or cut benefits. The most recent was proposed by Congressman Randy Feenstra of Iowa in July 2025. He says his fix will protect current benefit levels, at least for current beneficiaries.²⁵ And, as President Donald Trump has stated, “We're not touching Social Security.”²⁶

Medicare faces similar structural challenges. The Hospital Insurance (HI) Trust Fund for Medicare Part A is projected to run dry by 2033, at which point revenues would cover just 89% of scheduled hospital benefits.²⁷ Rising health care costs and an aging population—exacerbated by the fact that there are fewer people in the workforce—have strained Medicare, with worker-per-beneficiary ratios dropping from 4 workers per beneficiary in 2000 to 2.5 in 2025.²⁸

Maintaining Full Social Security Benefits Comes at a Steep Cost. Over the next decade, if current Social Security benefit levels are maintained, the program is projected to spend roughly \$21 trillion.²⁹ Social Security would face cash deficits totaling \$3.6 trillion over the next decade.³⁰ The Social Security Administration annually forecasts the program’s financial health over the next 75 years, with a current estimate that the value of the funding gap (between what Social Security takes in and what it pays out) likely to accumulate by 2099 is about \$26 trillion. We must therefore set aside an additional \$26 trillion to fully fund future obligations. If this set-aside is ever authorized, the United States will incur additional debt of \$26 trillion. If policymakers want to avoid benefit cuts, they need either to raise payroll taxes or to modify the current tax cap. To eliminate the 75-year deficit solely through payroll taxes, the current combined rate for employees and their employers would need to increase 34% from 12.4% to approximately 16%, assuming no change to the taxable wage base.³¹ Alternatively, lifting or eliminating the taxable maximum could raise enough revenue to significantly improve the solvency of Social Security. Both of these changes will hit Gen Z hard – as we will be paying more during our entire working lives. These trade-offs highlight the urgent need for a generational dialogue on entitlement reform and fiscal sustainability.

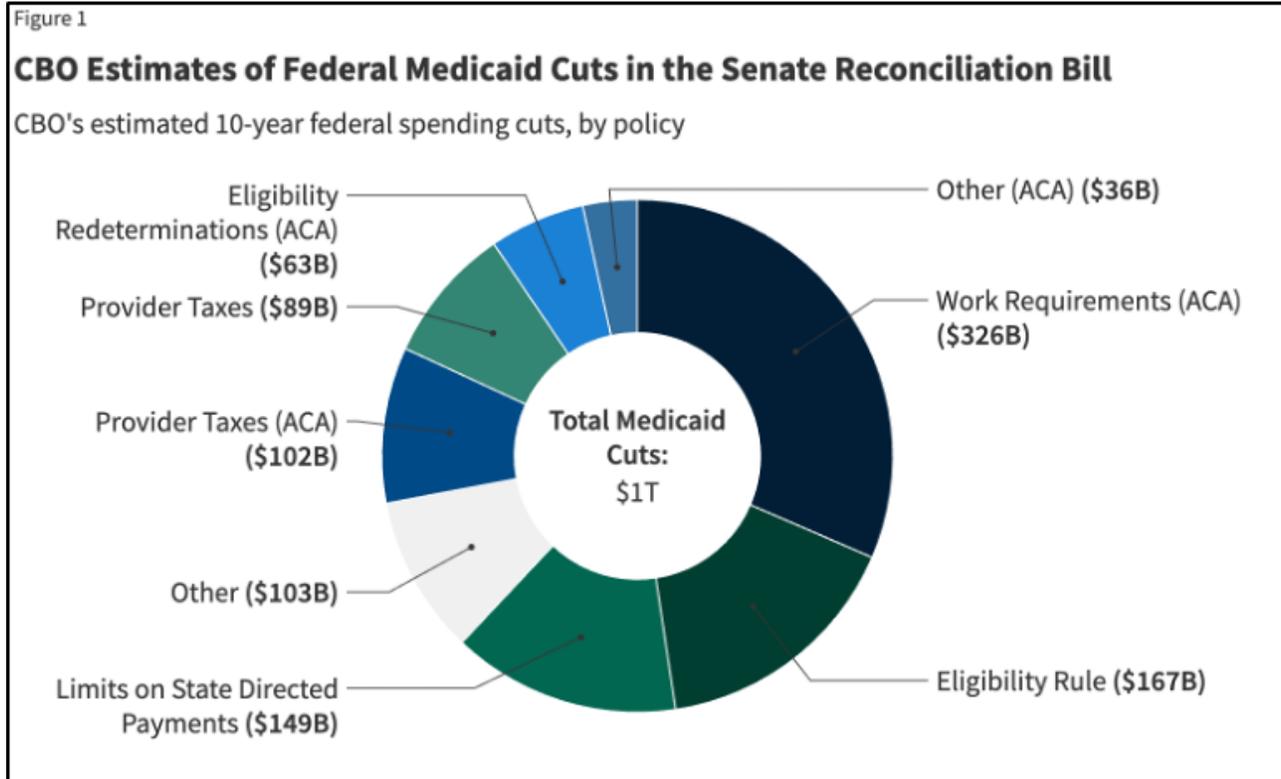
Maintaining Medicare Benefits Also Comes at a Steep Cost. According to the 2025 Medicare Trustees Report, the combined Medicare payroll tax paid by each employee and their employer would need to increase by 33%—an increase that would have to be made immediately and permanently.³²

Medicaid offers comprehensive health coverage to qualifying low-income individuals and families; it also pays for long-term care (nursing home) services.³³ Unlike Social Security and Medicare, Medicaid is jointly funded by federal and state governments, but it faces similar long-term sustainability concerns. As of April 2025, Medicaid provided taxpayer-funded health coverage to over 78 million low-income and disabled Americans, making it the nation’s largest source of funding for medical and health-related services for vulnerable populations.³⁴ Approximately 47% of Medicaid recipients are children.³⁵

As complex as the two “third rail” entitlements (Social Security and Medicare) are, they are far simpler than Medicaid. Medicaid is means tested, in that anyone who meets the eligibility criteria is legally entitled to receive benefits. Medicaid spending automatically grows with enrollment, utilization, and medical inflation—without the need for Congressional action.³⁶ Medicaid is not funded with a specific payroll tax, but rather with general tax revenues. In fiscal year 2025, Medicaid spending is projected to total approximately \$656 billion.³⁷ Of this amount, approximately 80% will be funded through the federal budget.⁴⁹ Medicaid spending has increased dramatically over the last ten years due to the passage of the Affordable Care Act in 2010.⁴⁹ In fiscal year 2013, the last fiscal year before full implementation of the Affordable Care Act, total Medicaid spending was less than half of current spending in 2025.

Prior to the passage of the One Big Beautiful Bill Act (OBBBA) in July 2025, the Congressional Budget Office projected that federal Medicaid spending for FY 2034 would be approximately \$986 billion, increasing from the current FY2025 spending of approximately \$656 billion.³⁸ Recent legislation, the OBBBA reconciliation bill, contains several federal Medicaid reduction provisions, however a majority of savings stem from: targeting work requirements, state financing mechanisms, and eligibility standards — measures expected to reduce enrollment. The OBBBA would reduce federal Medicaid spending by \$1 trillion over ten years and increase the number of uninsured people by 11.8 million.³⁹ With state budgets under stress and long-term care needs rising, Medicaid’s

Exhibit 1. CBO Estimates of Federal Medicaid Cuts in the Senate Reconciliation Bill



future remains uncertain, placing another pillar of the American social safety net in fiscal jeopardy.

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costs for these programs are expected to grow significantly due to the aging population, rising health care costs, and longer life expectancies.

Bottom Line: Why Should You Care?:

Entitlements are the cornerstone of the U.S. social contract—but without reform, they risk becoming unsustainable. Understanding their structure and financial trajectory is essential for Gen Z to meaningfully participate in the national conversation about America’s fiscal future. This issue is also salient for wealth and investment management professionals, since the long-term trajectory of entitlement spending informs understanding of long-term investment risk, tax planning, and the future of public benefit programs their clients may rely on.

So yes—these are mandatory programs in every practical sense. But if Gen Z is to have a real say in the fiscal future of our country, we must understand how these entitlements work, what they cost, and what trade-offs they entail. Generation Z, as a mobilized voting bloc, can drive significant change. A political road map

for Gen Z revolves around understanding these entitlements, recognizing the trade-offs they require, and incorporating our grievances about entitlement and federal mandatory spending into the larger activist zeitgeist. Mobilizing ourselves and putting pressure on elected representatives is key. With 41 million members of Gen Z having become eligible to vote in 2024, we have both the numbers and the urgency to shape the conversation.⁴¹

Other Required Government Outlays

In addition to these large entitlement programs, the government provides a retirement plan for its own workers, including military, postal, and other government employees.⁴² In 2025, the government spent about \$300 billion on retirement and retirement benefits.⁴³ While this is a smaller piece of the budget than Medicare or Social Security, it is a significant part of the growing total of mandatory obligations.

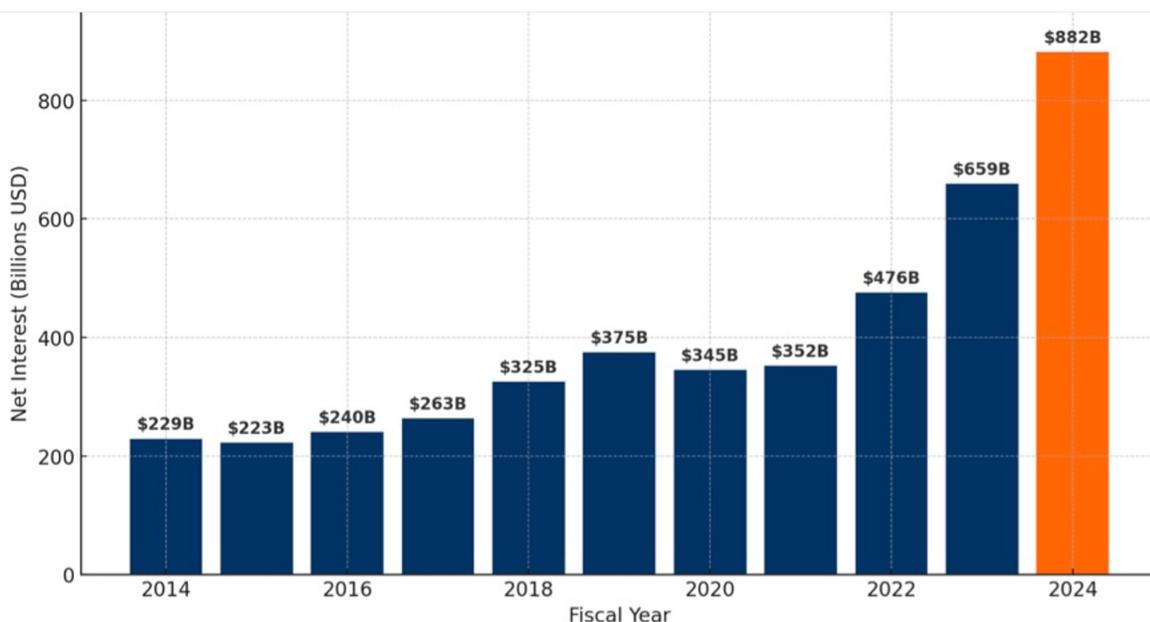
As a result of high entitlement costs and other mandatory government outlays, the government spends much more than it brings in, requiring the United States to issue debt. The interest on this debt, although itself not legally considered “mandatory,” historically has been treated that way. The alternative—if the United States were to default

on that debt—would undermine domestic and international faith in the country and therefore its ability to get credit. This is simply not an option. So, although Congress doesn’t officially designate net interest payments on the debt as “mandatory,” for the purposes of this opinion snapshot, we will. As Exhibit 2 shows, the interest due on U.S. debt has rapidly accelerated since 2014, reaching \$882 billion by 2024. As of October 2025, total U.S. debt is approximately \$38 trillion⁴⁴ —representing about \$109,250 in debt for each of 347.8 million Americans, including children—and the federal government will have to spend approximately \$950 billion just to cover interest payments on that debt.⁴⁵ These interest payments are higher than spending on Medicare, Medicaid, and even the military, making it the second-largest category of federal spending. Why do these numbers matter to our generation? Because, with the increase in interest payments, resources are not being allocated to our own priorities, such as education, health care, and climate risk; they merely pay off past borrowing by older generations.

Unlimited Debt?

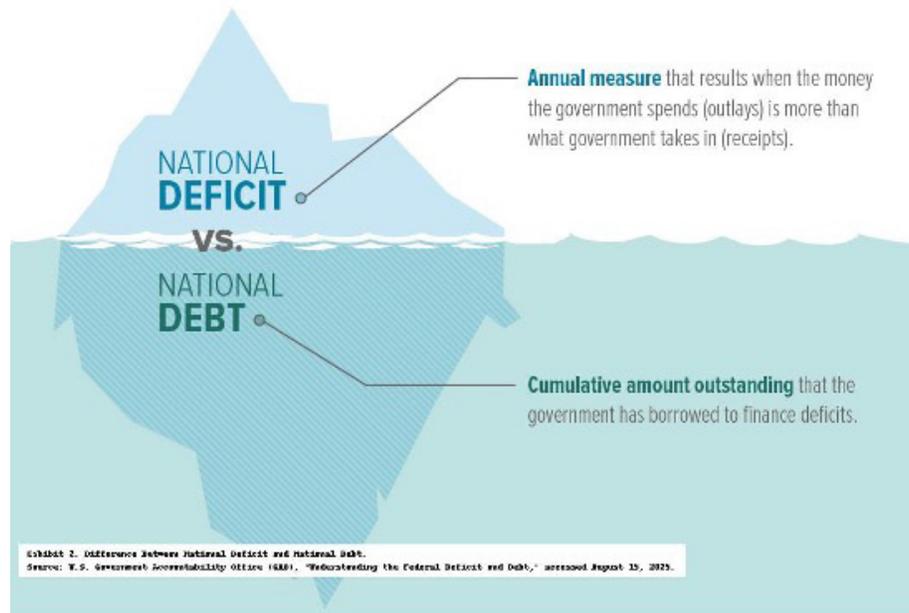
Can any of us spend as much as we want to on whatever we want, no matter how much we earn?

Exhibit 2. Net Interest on U.S. Debt, FY 2014–2024



Source: U.S. Department of the Treasury; Committee for a Responsible Federal Budget (CRFB.org)

Exhibit 3. Difference between National Deficit and National Debt



We could simply go to a bank and ask for an unlimited credit line to fund all our purchases. Even easier, we could simply get an unlimited credit balance on our credit card. And we could just carry those balances, including interest, into the future without really worrying about paying them back in full. Of course not. Yet we have just described how the U.S. government spends its money.

This portion of our opinion snapshot focuses on two questions. How did we get to this point? Where is the national debt heading over the next 10 years? As with our discussion of entitlements, this is not an in-depth examination of the federal debt; rather, it is a high-level overview intended to motivate Gen Z to recognize the urgency of the crisis and to encourage their direct engagement.

Deficit vs. Debt

The terms “deficit” and “debt” are sometimes used interchangeably when describing the US fiscal situation. In the introduction, we imagined a family that earns \$50,000 a year but spends \$70,000. Their \$20,000 annual deficit has accumulated over time into a total of \$370,000 in debt. It’s very similar to the practice of the U.S. government. In 2024, the United States had revenues of \$4.919 trillion and expenditures of \$6.752 trillion. That means we had a deficit of approximately \$1.833 trillion, which turned the accumulated debt into the \$38 trillion in debt we see today.⁴⁷ As Exhibit

3 shows, the deficit is the annual amount that the government spends beyond what it takes in...and years of annual deficits add to the national debt—the amount of money the government had to borrow to pay for these deficits.

But debt doesn’t just sit there. The government must pay interest on it—just as someone with a credit card or mortgage must. While not legally defined as “mandatory spending,” as noted above, interest costs are treated as unavoidable—since failing to pay them would risk placing the United States in default. Each year, the Treasury Department looks at how much debt is maturing (and thus must be paid off immediately) and how much new borrowing is needed to cover the deficit. It then issues new Treasury securities at market interest rates to keep the government running. So as the United States keeps rolling over its debt, higher interest rates can make that borrowing more expensive. That’s why the bigger the debt gets, the more we owe in interest—and the more space those obligations take up in the federal budget.

This is where federal mandatory spending comes in. “Structural deficit” is a technical term economists use to represent an annual budget shortfall that persists even in a good economy. In 2024, of the approximately \$1.833 trillion total deficit, approximately \$1.5 trillion has been estimated to be structural.⁴⁸ Importantly, you cannot calculate this figure simply by

subtracting total mandatory spending from total revenue. Instead, the structural deficit equals “permanent spending” minus “sustainable revenue.” Permanent spending includes baseline mandatory programs, debt interest, and recurring discretionary outlays. Sustainable revenue refers to what the government would collect in a non-recessionary economy. In short, even when economic conditions are normal, the United States spends far more than it takes in. And it is this structural deficit that has led the country to rapidly climbing debt of over \$38 trillion.

The same principles apply to government debt as to personal finances. If you run a deficit every year and fund it with a credit card—making only minimum payments—your debt will keep growing. And just as compounding helps savings grow over time, it also works in reverse: compounding interest on debt makes it grow faster, since interest accrues.⁴⁹ **This year is a great example of this negative compounding – the federal debt passed \$37 trillion in August 2025 and \$38 trillion just two months later in October 2025.**

The pace of negative compounding will keep accelerating and every dollar spent on interest is a dollar that is unavailable for education, infrastructure, and tax relief.

It’s a vicious cycle:

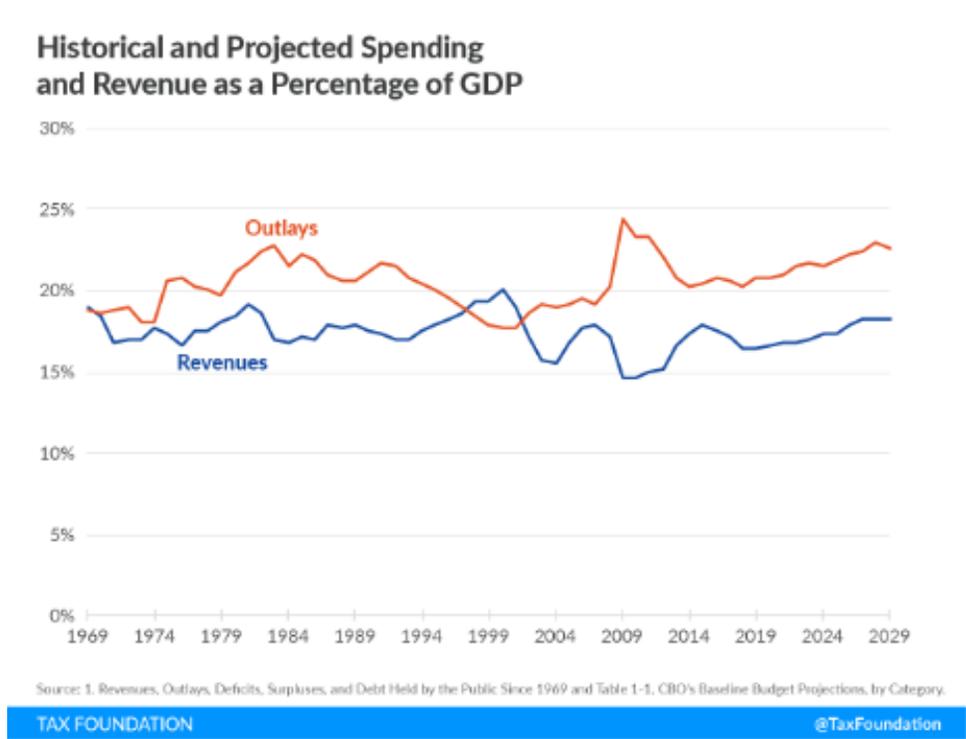
Over time, this cycle makes it harder to stabilize the budget because more money is tied up in paying for past spending rather than toward investing in the future.

Trends Over the Last Thirty Years

The U.S. government last ran a budget surplus in fiscal year 2001. Since then, deficits have been the norm. In the late 1990s, strong economic growth, tax increases, and restrained spending led to those surpluses,⁵⁰ but in the early 2000s, deficits returned due to large tax cuts, increased military spending, and new entitlement programs. The 2008 financial crisis caused deficits to spike, and even as the economy recovered, spending on Social Security, Medicare, and debt interest continued climbing despite relatively flat revenue as a share of GDP.⁵¹ Furthermore, the COVID-19 pandemic triggered record-breaking deficits in 2020 and 2021, and although emergency spending has tapered off, the structural imbalance remains.⁵²



Exhibit 4: Historical and Projected Spending and Revenue as a Percentage of GDP



The One Big Beautiful Bill—What It Means for the Next Ten Years

Annual deficits could exceed \$3 trillion by the early 2030s. Debt **held by the public** is projected to rise from ~\$29 trillion in 2025 to \$55 trillion. The debt-to-GDP ratio will near levels last seen during World War II, at 129%. And last, net interest costs will reach \$1.8 trillion per year by 2035.

As of the first quarter of 2025, debt held by the public has approached 97% of GDP.⁵³ (This refers to the portion of the national debt held by outside investors; comparing it to GDP helps measure how sustainable that debt is relative to the size of the economy.) Without changes to taxes or spending, we risk continued high deficits and growing debt—even in strong economic times. The persistent cycle highlights that borrowing today often funds yesterday’s obligations, not tomorrow’s investments.

“Borrowing today often funds yesterday’s obligations, not tomorrow’s investments.”

Over the next decade, federal finances are expected to enter a period of sustained strain. With slower revenue growth and permanent higher spending locked in by the One Big Beautiful Bill, annual borrowing will become a normal feature of the budget rather than an occasional response to emergencies. Rising debt will leave policymakers with less flexibility to respond to recessions, natural disasters, and national security threats without adding even more to the total. Higher interest costs will steadily squeeze the rest of the federal budget, forcing difficult trade-offs among core priorities. As more resources are devoted to paying past obligations, less will be available to invest in long-term growth. The next ten years could therefore be defined by mounting pressure on lawmakers to choose between increasing taxes, cutting spending, or allowing debt to climb even further.⁵⁴

How Can This Continue?

So, how can the U.S. government keep borrowing, whereas families or businesses would eventually get cut off? Unlike regular households, the United

States can borrow on a massive scale, because investors around the world expect America to meet its obligations.⁵⁵ Another reason for investor confidence is that the U.S. dollar is the world’s primary reserve currency. That means that foreign governments, banks, and investors retain large amounts of U.S. dollars and buy U.S. Treasury bonds. This global demand keeps U.S. borrowing costs lower than they otherwise would be. However, this status is not guaranteed. Some experts have raised concerns that the dollar’s reserve role could weaken over time amid rising debt. Also, the federal government doesn’t need to “pay off” the debt in full as with a personal loan. Instead, it keeps rolling over U.S. debt, as long as market participants continue to purchase it.⁵⁶ If demand softens, interest rates on those bonds will need to rise to attract buyers. We’ve already seen hints of this: major foreign holders like China and Japan have scaled back their purchases of U.S. debt.⁵⁷ Credit rating agencies have responded. For example, in May 2025, Moody’s downgraded its U.S. credit rating from Aaa to Aa1, citing rising fiscal risks and political brinkmanship. This follows similar downgrades from Fitch and S&P in previous years.⁵⁸

Why should we care? Think of it like a credit card: if you make only the minimum payment, you never really pay off the balance—you just keep rolling it over and paying more in interest each month. For Gen Z, that means more of our future tax dollars will go toward paying interest on today’s debt instead of priorities like education, climate policy, and infrastructure.

Add It Up: The Gen Z definition of “Mandatory” Spending

So how much does all of this “mandatory” spending add up to? Let’s do the math: In 2025, entitlement programs like Social Security, Medicare, and Medicaid amounted to about \$3 trillion.

Federal retirement benefits added another \$300 billion, and interest payments on the debt tacked on an additional \$950 billion. Altogether, that's approximately \$4.3 trillion.⁵⁹ More than 60% of the entire federal budget!

What About the Rest? (Discretionary Spending)

If over 60% of the budget is already allocated, what is left? That's where discretionary spending comes in. It's called "discretionary" because lawmakers decide how and where to spend it. This is the part of the budget that Congress debates over every year. Discretionary spending also includes the areas that are very likely most relevant to us as a generation—things like education and environmental initiatives. It also includes the military, which at \$860 billion is the largest category of discretionary spending. In fiscal year 2025, discretionary spending will total about \$1.76 trillion.⁶⁰

“And the scary part? As mandatory spending keeps growing, the discretionary slice keeps shrinking – the very programs that will have the greatest impact on our generation.”

And the scary part? As mandatory spending keeps growing, the discretionary slice—the very programs that will have the greatest impact on our generation—keeps shrinking.

The Ramifications of Mandatory Spending on Gen-Z

The expansive growth of federal mandatory spending is not a new issue; it's just one we've avoided for years. As discussed earlier, entitlement programs and the rapidly increasing national debt have long been the driving forces behind our fiscal imbalance. The United States must finally confront

the long-ignored issue of unsustainable mandatory spending, which demands politically difficult choices on entitlements, taxes, and debt. The CBO projects that the deficit will increase further over the next ten years, leading the federal government to borrow as if tomorrow does not exist—because to them, it doesn't.

We college students need to assume the status quo—that the feds will continue to kick the can down the road for at least another ten years—will continue until we're at least thirty. What are the ramifications for us? What can be done to protect the long-term interests of our generation?

Economic Effects: Slower Growth, Higher Costs

Rising mandatory spending could soon affect everyday living costs through higher inflation, interest rates, and taxes. Although the Federal Reserve and CBO project stable inflation, mounting fiscal pressures make this prediction uncertain. The International Monetary Fund (IMF) attributes today's debt burden to pandemic-era spending and high interest rates, warning that aging populations and expanding entitlements make these challenges structural.⁶¹ The Committee for a Responsible Federal Budget similarly cautions that persistent deficits and borrowing costs heighten long-term inflation risks—especially for Gen Z, who may face higher-than-expected prices in the future.⁶²

We are also very likely to face higher taxes. To keep up with the rising costs of entitlement programs, the government needs to raise more revenue; one of the most straightforward though politically challenging ways to do this is through raising a variety of taxes. As a result, Gen Z is increasingly likely to face higher payroll taxes to help shore up programs like Social Security and Medicare. According to a financial report from the Bureau of the Fiscal Service (a part of the Treasury), individual income taxes as a share of wages are projected to rise roughly 21% in 2025 to nearly 30% by the end of the century.⁶³ Much of the increase comes from inflation gradually pushing incomes into higher tax brackets—even when people's real purchasing power hasn't grown. In practice, a larger share of our income will go toward funding programs for

older generations—programs that many in Gen Z may never fully benefit from.

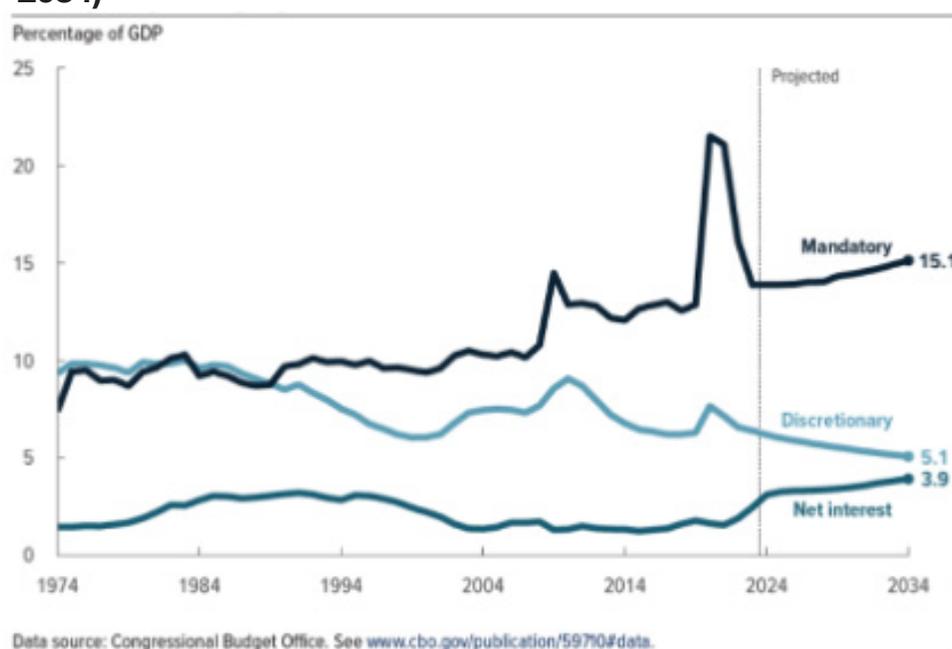
Interest rates are very likely to remain elevated, currently ranging between 4.25% and 4.50%. High federal debt puts pressure on borrowing costs, and the government must keep loans and bonds attractive to investors. One key benchmark is the 10-year Treasury bond yield, which directly influences borrowing costs for mortgages, car loans, student loans, and credit cards. This yield also serves as a barometer of the economy's health and the effectiveness of monetary policy. Rising debt levels, credit rating downgrades, and geopolitical tensions can all push this rate higher, making borrowing more expensive across the board.⁶⁴ For Gen Z, that means major life milestones become harder to reach—homeownership becomes less attainable as monthly payments rise, although high interest rates can also slow economic growth, limiting job opportunities and wage gains. If these conditions persist, our generation risks being trapped in a cycle where financial independence becomes harder to achieve.

Social Impacts: Fewer Public Resources, Less Flexibility

When most of the federal budget is already committed to mandatory spending and interest

payments, decisions about funding for areas like defense, climate change initiatives, and social programs are increasingly determined by how much money remains—not by national priorities voiced by the people. As a result, we are gradually losing the ability to shape policies around the needs and values of the public. The slow but consistent erosion of discretionary resources limits the government's capacity to address emerging challenges or invest in long-term goals. Additionally, this leaves the government with far less flexibility to respond effectively to unexpected crises like pandemics, wars, and economic downturns. This lack of flexibility could result in slower, less effective responses that can put lives at risk. According to the Congressional Budget Office, by the end of fiscal year 2025, mandatory spending will account for approximately 14.0% of GDP, net interest for 3.2%, and discretionary spending for just 6.1%—a clear indication of how little flexibility remains in the federal budget.⁶⁵ Exhibit 5 illustrates trends in discretionary and mandatory spending since 1974, along with the Congressional Budget Office's projections through 2034, showing that mandatory spending will continue to rise to occupy a significantly larger share of GDP. When so much of the budget is already spoken for, the ability to invest in infrastructure, expand education, and strengthen community resilience shrinks dramatically.

Exhibit 5. Trends in Federal Mandatory Spending: Mandatory, Discretionary, and Net Interest (1974–2034)⁶⁶



Wealth Effects: A Harder Path to Financial Security

Looking ahead, the status quo, the federal government's mounting debt, and persistent budget deficits pose serious risks to Gen Z's ability to build long-term wealth. These macroeconomic forces are shaped by the federal budget and policy. They place pressure on interest rates and warp capital markets, which can suppress long-term equity returns.

Over the long term, U.S. equities have historically delivered average annual nominal returns of about 10% to 10.5%. After adjusting for inflation, this translates to a real return of 6.5 to 7%.⁶⁷ Financial experts often cite this range when modeling investment growth over long periods. Whether the market can sustain these high levels or will revert

to lower returns remains uncertain. This uncertainty matters for Gen Z, whose retirement and wealth accumulation plans rely heavily on consistent investment returns. Even a modest decline in annual returns, as projected by leading investment firms, can drastically reduce the wealth accumulated over a working lifetime.

Exhibit 6 shows that even major firms' most optimistic forecasts for 10-year returns fall short of the historical U.S. equity average of around 10% in nominal returns. This gap suggests a much lower return environment ahead, meaning that Gen Z investors will navigate a fundamentally different landscape for building wealth and achieving economic mobility compared to previous generations.

Exhibit 6. 10-Year U.S Equity Return Forecasts by Firm (2025 to ~2035)⁶⁸

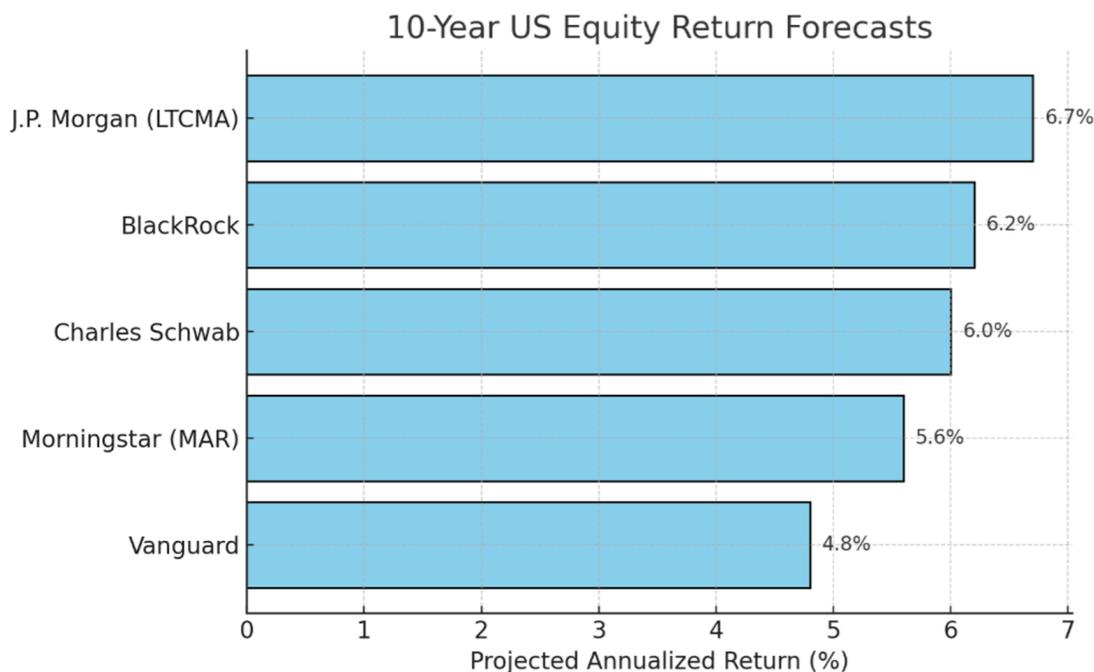


Figure generated by ChatGPT.

In addition, researchers such as Yale University's Budget Lab find that rising federal debt has a direct and measurable impact on expected equity returns. Using a dynamic economic model, they estimate that when public debt exceeds 100% of GDP, the equity risk premium increases by about 1.2 percentage points. This means that investors require much more compensation for taking on risk, therefore lowering

projected equity returns. This, in addition to the poor environment that the federal government creates through increased borrowing, limits corporate earnings, which then suppresses long-term stock performance.⁶⁹ Building on this, the Penn Wharton Budget Model warns that investor confidence may decrease, and financial conditions could sharpen tightly, if borrowing costs across the economy increase, all of which could

Choices Are Being Made as We Speak (Or as You Read!)

The Congressional Budget Office estimates that the One Big Beautiful Bill Act would increase the national debt by approximately \$2.8 trillion over the next decade, leading to over \$550 billion in additional interest costs. This growing debt burden would reduce the government's fiscal flexibility, limiting its ability to fund critical programs like health care, education, and infrastructure. The CBO also projects that millions could lose access to Medicaid and other social safety net programs due to new eligibility rules and spending cuts. These changes would disproportionately affect low- and middle-income families, while higher-income households might see relative financial benefits. Overall, the bill's fiscal impact could constrain government responses to future economic crises and worsen long-term challenges to programs like Social Security and Medicare.

create a challenging environment for wealth building and long-term investing.⁷⁰

This issue will affect everyone, from everyday citizens, including Gen Z, to individuals working directly in the financial sector. It's especially challenging for first-generation students, who don't have the advantage of inherited wealth or financial safety nets. For many of us, the journey to build wealth starts from very little. Considering these conditions, investors may need to adjust their strategies by focusing on managing risk or extending their investment horizons to better align with the projected investment and economic environments.

A recent CNBC analysis highlights how significantly lower investment returns can impact long-term savings goals.⁷¹ The article compares multiple return-rate scenarios and shows that someone starting at age 21 would need to save approximately \$1,100 per month at a 9% average annual rate of return to reach \$2 million by age 65. But if the average annual return falls to 3%, that monthly contribution would have to sky rocket to over \$4,300. That gap of \$3,200 per month—or over \$38,000 in extra contributions per year—would present an almost impossible burden for most young adults, especially first-generation students or those without inherited wealth. The analysis illustrates how declining equity returns in a changed investment climate could radically reshape what is required to achieve financial independence.

It doesn't take an expert to see how deeply this situation harms the future of Gen Z. NYU professor and entrepreneur Galloway considers this scenario an instance of intergenerational theft, an economic burden placed on younger generations because policies favor the well-being of older generations at

the expense of younger generations.⁷³ The question is, will we in Gen Z have the same opportunities our parents did? The answer is no, because our nation failed to act decisively when the problem first became clear in the early 1990s. Now we face a far more difficult situation that demands tougher solutions. Maintaining the status quo is unacceptable; it threatens to block younger generations from building wealth the way previous generations did.

So, What Do We Do?

To begin addressing the scale of this challenge, we must confront a difficult question: What do we do? As Galloway says concerning this crisis, "[Do we] raise taxes or cut spending? The answer is . . . yes."⁷⁴ Meaningful reform will mean both unpopular revenue increases and difficult spending cuts. This conundrum is not just a financial debate but also a moral one. As stated earlier, our generation is poised to bear the burden of decades of political inaction, resulting in our inheriting the consequences of a system that failed to plan sustainably. The result is not just a fiscal threat but also an existential one, eroding public trust, limiting economic opportunity, and putting our national strength at risk. For over 30 years, leaders have avoided making these tough choices because doing so would be politically inconvenient. However, this avoidance has only let the problem grow, compounding like interest on a huge credit card balance. We must now ask ourselves, Do we wait for a crisis, or do we act now to prevent one? Perhaps most important we should ask, Is it acceptable to us, as future taxpayers, investors, and professionals, that politics have prevented real change? To answer these questions and understand the scale of what responsible leadership would require, we turn to

someone with real-world experience in both markets and policy: Paul Tudor Jones.

Jones illustrates the full scope of what meaningful reform could look like. As a billionaire hedge fund manager and former advisor to both the Federal Reserve and the Treasury, Jones is known for his apolitical, numbers-based approach to economic policy.⁷⁵ In an interview with Bloomberg Television, he offers a proposal, stating that it is not meant to be politically feasible and is purposefully unsparing. In his hypothetical solution, branded “The Big Beastly Bill,” Jones suggests cutting interest rates by appointing the most dovish Federal Reserve chair possible. He estimates that doing so would save approximately \$175 billion in annual interest costs. His approach draws from historical models that mirror strategies used in postwar America and currently in Japan. The idea is to keep real interest rates below inflation and gradually reduce debt burdens. Jones also proposes a 6% across-the-board cut to all federal programs, including politically sensitive ones like Social Security and defense. Additionally, Jones would raise new revenue by increasing the top marginal tax rate, adding a 1% annual wealth tax, and increasing capital gains rates. In total, these measures would cover the roughly \$900 billion gap that Jones has identified.⁷⁶ His argument makes clear that any genuine solution will involve trade-offs that may feel uncomfortable and unpopular but are increasingly unavoidable.

After decades of warnings and inaction, we in Gen Z will be left holding this bill. Experts and policymakers have raised concerns as far back as the 1980s, including the late investment banker Peter Peterson and certain bipartisan efforts such as the 2010 Moment of Truth report, which called for structural reform while debt levels were manageable.⁷⁷ In 2010 the national debt was a fraction of what it is today, and the necessary fixes would have been far less painful if executed at least a decade ago, ideally earlier. Rather than confronting this issue, our leaders have consistently chosen to delay, deflect, and defer, essentially kicking the can down the road until no more road is left. This has resulted in our generation inheriting not just the debt, but also the compound interest and trade-offs that come with it. We must pay for the promises our forbears made through our own higher taxes, lower public investment, and shrinking economic activity. These burdens already affect

us: housing remains out of reach, education costs are soaring, and climate funding is stalling, all while entitlement spending is crowding out investments in our future. We must be willing to ask ourselves, Are we willing to become the generation that pays for programs we may not even receive? And, more important, are we okay with continuing to do nothing, knowing the cost will only grow?

Our Curated Menu of Solutions

Now we have shown you the problem—that mandatory spending is on autopilot and takes up nearly all of our budget—it’s time to talk about solutions. Rather than endorsing a specific policy, our goal is to outline a menu of potential solutions for current and future leaders to consider. These options fall into two broad categories: 1) revenue-increasing actions and 2) cost-reduction strategies.

Revenue-Increasing Actions

First, there is removing the payroll tax cap. Right now, only the first \$176,100 of an individual’s income is taxed for Social Security. If we taxed income above that threshold, too—meaning higher earners would pay in on income above that threshold—we could raise about \$3.2 trillion over the next 10 years, according to the Peter G. Peterson Foundation.⁷⁸ That is a huge step toward keeping Social Security solvent well into the future and carrying into Gen Z’s retirement. Second, we could raise the payroll tax rate (the FICA tax) we all pay out of each paycheck. If we increased the FICA tax from 6.2% to anywhere around 7%, that would mean slightly smaller paychecks now but would go a long way toward ensuring we actually get the benefits for which we are paying. Last, we could raise income and corporate taxes from wealthy individuals and companies as well as close tax loopholes. Doing both spreads responsibility and could reduce the burden on younger generations. These revenue-increasing actions would have modest impacts on Gen Z but would move us toward intergenerational fairness.

Cost-Reducing Strategies

So far we have talked about how to bring in more revenue, but now we will discuss cutting government spending to reduce the national debt. First, we should raise the retirement age. This means pushing the full Social Security retirement age to 70, which could

save the United States about \$150 billion over a 10-year fiscal period.⁷⁹ In the likely trade-off, Gen Z will have to work and wait longer before they can receive full benefits. Second, we should slow cost-of-living (COLA) increases for Social Security recipients. This would tie Social Security to a slower inflation formula, reducing yearly benefit increases. This slowdown would in theory save \$260 billion, but would mean that Gen Z would get a smaller paycheck, and inflation could further shrink its value.⁸⁰ Last, we could cut non-mandatory spending, including annual spending on education, housing, infrastructure, and climate initiatives. The impact of each cut will vary, but cutting these budgets could directly hurt Gen Z's priorities, like Pell grants and affordable housing.

“We are not just future taxpayers, professionals, or voters. We are the generation that will live with the consequences of what gets decided (or avoided) right now.”

To effectively evaluate and implement these reforms, many experts—including Maya MacGuineas, president of the Committee for a Responsible Federal Budget—recommend forming a bipartisan fiscal commission. Such commissions have a track record of success by providing a safe space for negotiation, encouraging cross-party cooperation, and developing fiscally responsible solutions that are politically viable.⁸¹

This crisis is not just a policy challenge. This is a generational test. The decisions outlined in this paper are hard and likely to be unpopular, but are long overdue. Failing to act is a decision in itself, one that passes even greater costs onto us and those who come after. We are not just future taxpayers, professionals, and voters. We are also the generation that will live with the consequences of what gets decided (or avoided) right now. So, the real question is not what solutions exist, but whether we're willing to keep letting politics delay them. If we don't step up, who will? We are the ones paying the credit card bill. The only way to fix the problem is together, a solution that begins with acknowledging that silence is not neutral—it's permission to keep up what Professor Galloway has courageously labeled “intergenerational theft.”⁸²

Authors' Note

In completing our Opinion Snapshot, we sought to address the lack of awareness on the growing implications of federal mandatory spending and its potential long-term impact on Generation Z. Particularly on programs like Social Security, Medicare, Medicaid, and interest payments on national debt. Our goal was to shed light on how the increasing share of mandatory spending in the federal budget constrains fiscal policy and limits flexibility in discretionary spending. This growing imbalance affects the government's capacity to invest in education, workforce development, and infrastructure. It also raises concerns about rising interest rates and reduced economic opportunities for future generations.

We are deeply grateful to the Sapere Aude Consortium for providing us with the opportunity to explore this critical issue at the intersection of fiscal policy and generational equity. This Opinion Snapshot reflects our team's commitment to understanding federal mandatory spending but also the invaluable guidance and mentorship we received from Joe Craven, Kate Fulton, Abby Mongeon, whose expertise greatly informed our work. We would also like to acknowledge the many individuals whose insights helped inform our work and who are referenced in our endnotes. These include Professor Scott Galloway of NYU Stern School of Business; Mike Aguilar, a professor at Duke University and director of the nonprofit The Fiscal Challenge (<https://fiscalchallenge.org>); and Maya MacGuineas, President of the Committee for a Responsible Federal Budget (<https://www.crfb.org>), who generously dedicated her time to speak with us.

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