

# **The Federal Budget Debate: High Stakes for Health Care**

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# **I. Federal Budget Overview**

# Main Areas of Federal Budget

## 1) Revenues

- *Who* pays how much and *what* does the tax system subsidize
- Low-income provisions: EITC, refundable CTC, ACA premium tax credits

## 2) Entitlements

- Medicare, Medicaid, Social Security, SNAP, SSI etc
- Civil Service Retirement

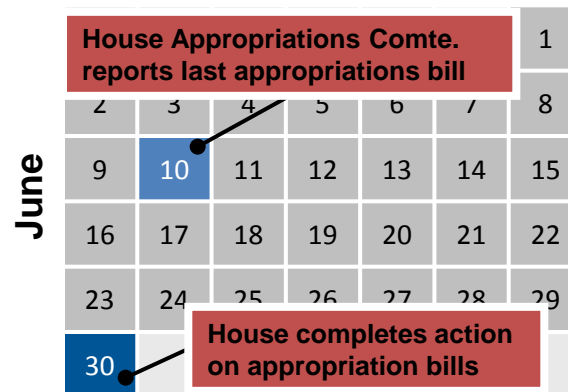
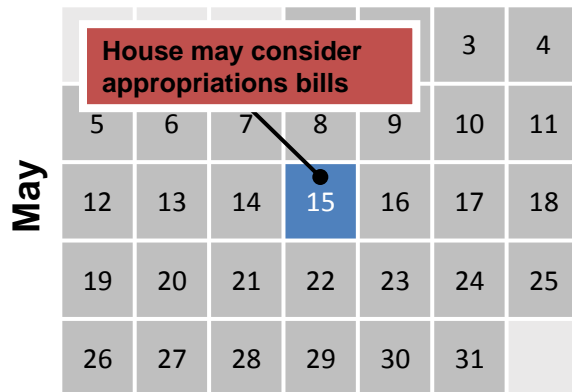
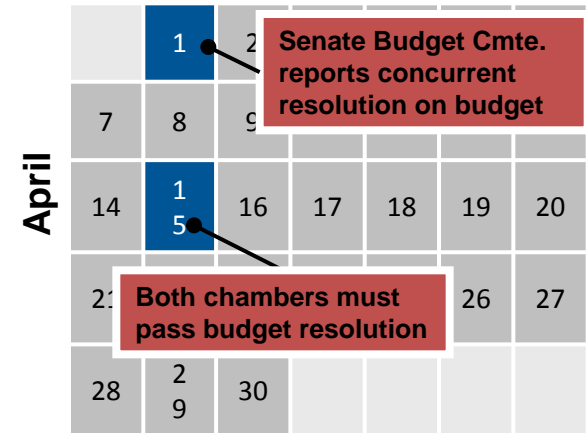
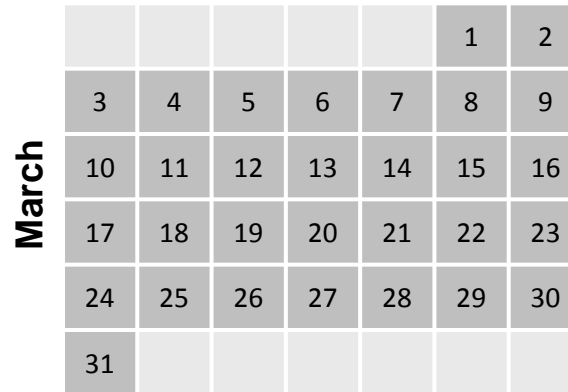
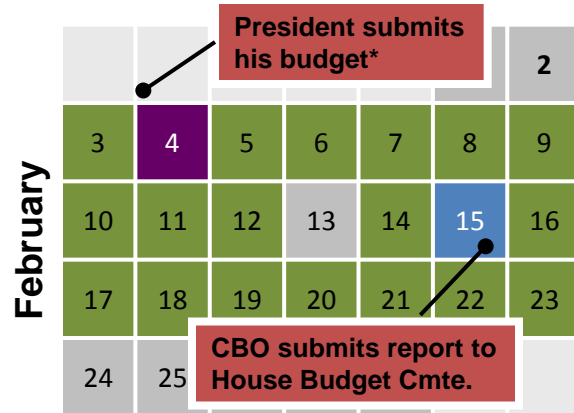
## 3) Appropriations

- Defense and Non-Defense agency funding
- NDD funds basic government services
  - Food safety, medical research, low-income programs (child care, WIC, housing), Homeland, veterans benefits, ACA implementation



# Congressional Budget Process: Key Dates

■ Key date in the past ■ Key date in the future



## Analysis

- Delay and inaction is the norm
- Obama will deliver his budget late
- Senate hasn't passed a budget since 2009 arguing the BCA already sets budget levels
- House continues to pass extremely partisan budgets

\* The CBA requires the President to submit his budget on the first Monday of February; an administration official says Obama plans to submit his budget in mid-March

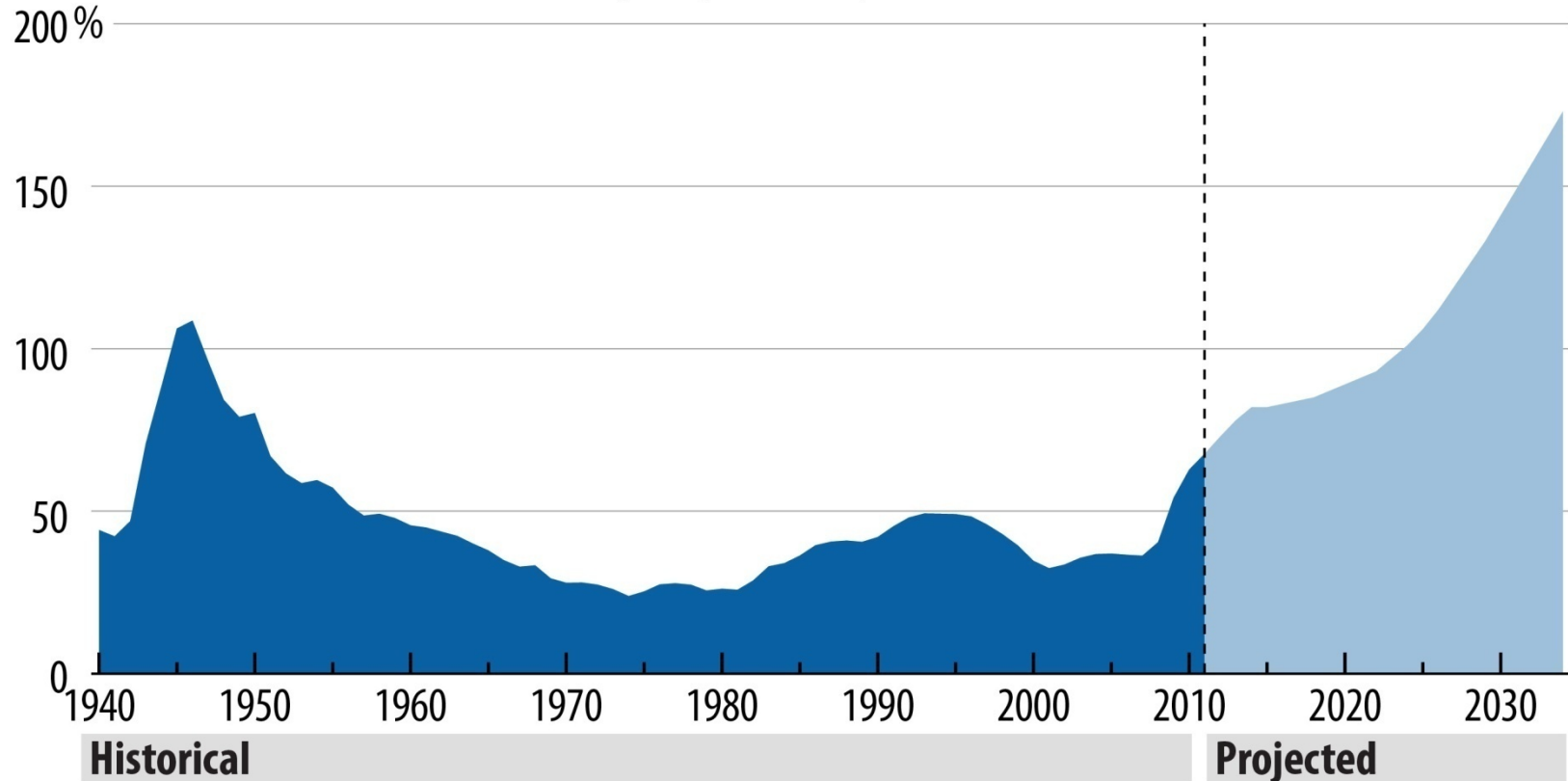


## **II. Deficits & Debt**



# Projected Growth in Federal Debt is Unsustainable

CBO alternative fiscal scenario debt held by the public as a percent of GDP, 1940-2035



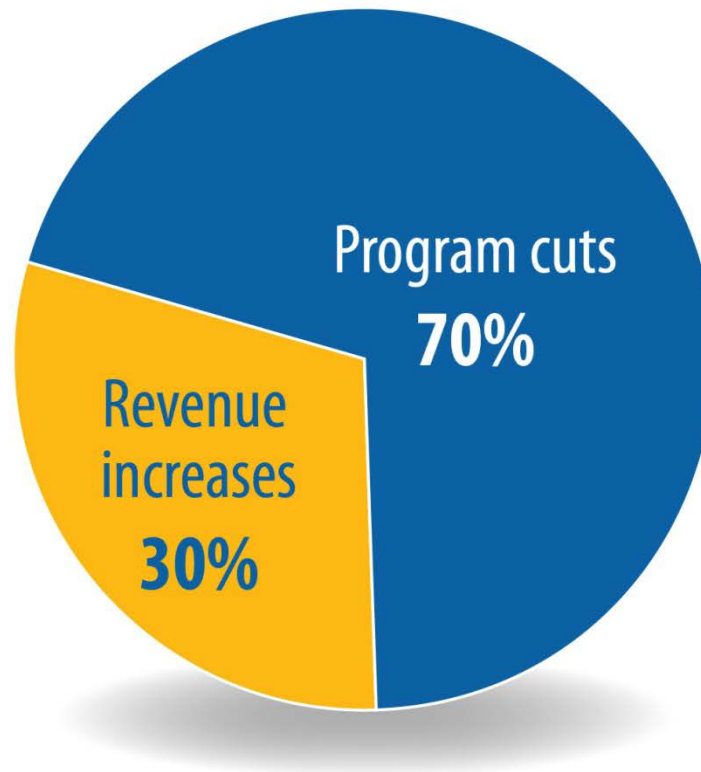
Source: Office of Management and Budget and Congressional Budget Office, *CBO's 2012 Long-Term Budget Outlook*. Projections depict CBO's Alternative Fiscal Scenario.

## Deficit Reduction Achieved So Far

- \$2.3 trillion in deficit reduction since 2010, excluding sequestration, for the years from 2013-2022. Includes:
  - ✓ \$1.5 trillion largely from discretionary spending
  - ✓ \$0.6 trillion in revenues\*
  - ✓ \$0.3 trillion in interest
- \$1.5 trillion more needed over 2014-2023 period to stabilize debt.
- Some stakeholders want more deficit reduction with little or no revenues.



# 70% of Recent Policy Savings to Reduce Deficits Have Come From Program Cuts

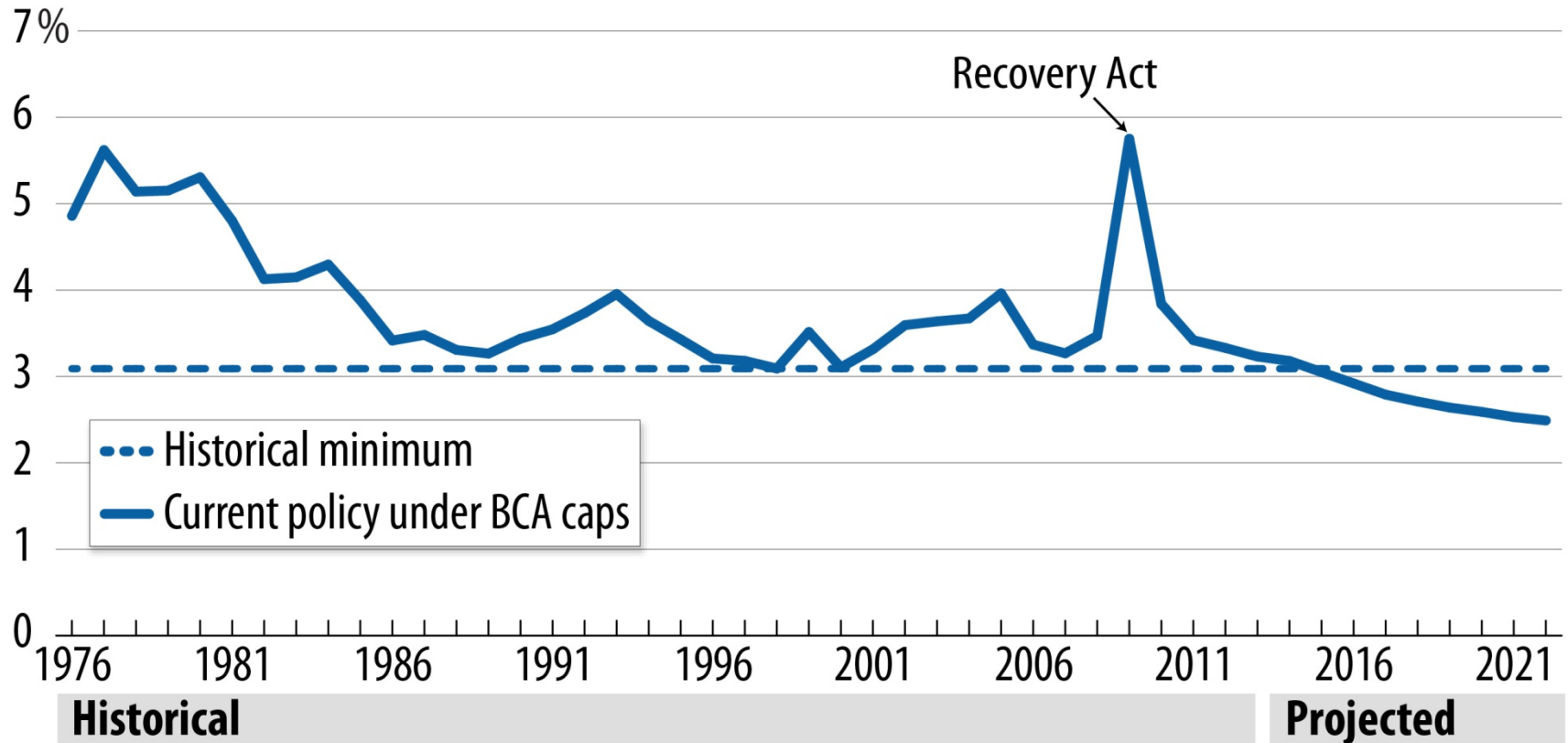


Note: Recent policy savings come from cuts in 2011 funding, Budget Control Act of August 2011, and American Taxpayer Relief Act of January 2013. Estimates are for 2014-2023.

Source: Center on Budget and Policy Priorities based on Congressional Budget Office and Joint Committee on Taxation data.



# Non-defense discretionary funding as a percent of GDP, 1976-2022



Source: Center on Budget and Policy Priorities based on Office of Management and Budget and Congressional Budget Office data.

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# Key Dates

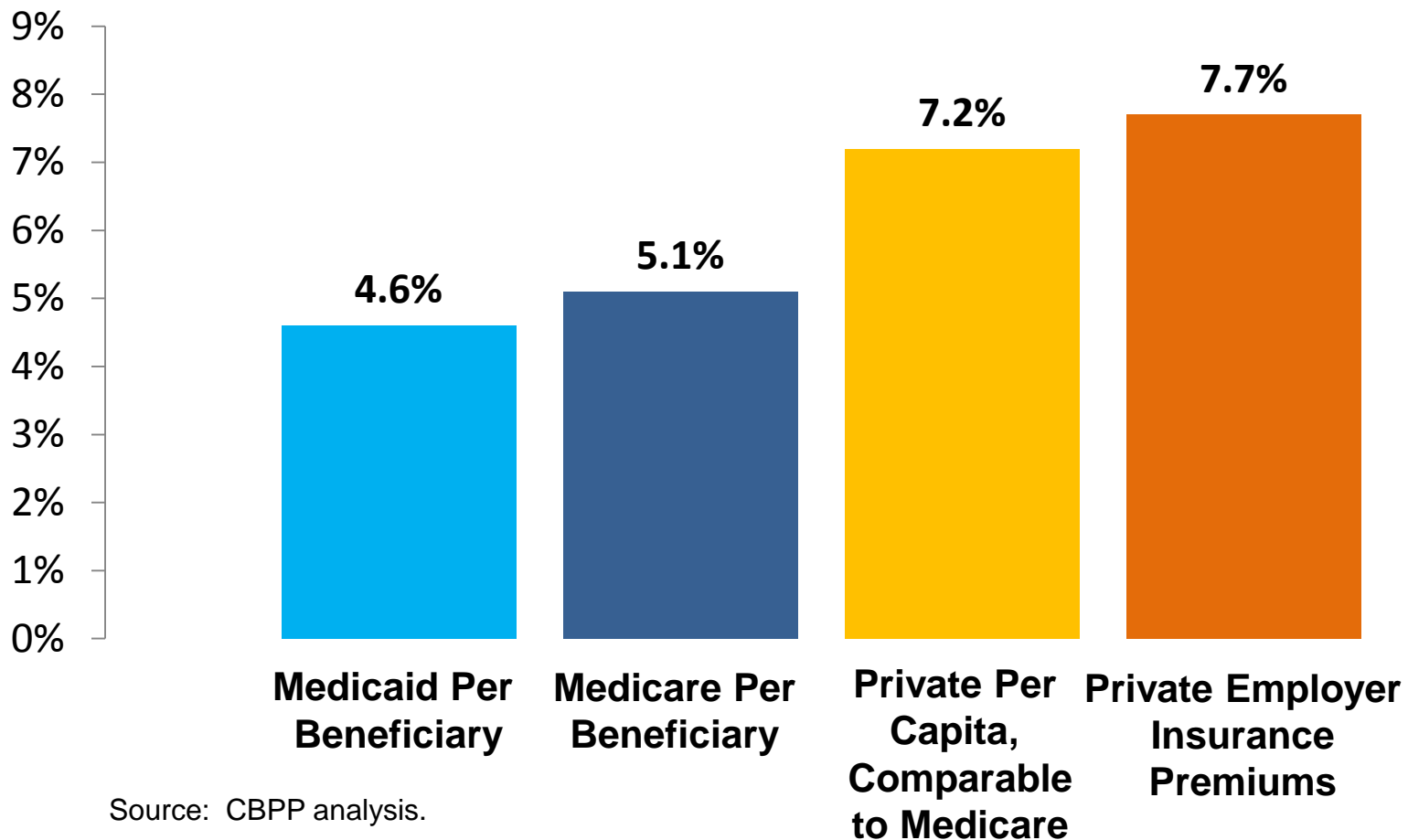
- **Sequestration:** March 1\*
- **CR expires:** March 27
- **President's Budget:** April 8<sup>th</sup> (approximately)
- **House/Senate budget resolutions:** “Due” April 15 but passage by March 22
- **Debt limit:**
  - House bill suspends debt limit through May 18
  - Treasury can avoid default through at least end of July



## II. Entitlements

# Medicare and Medicaid Controlled Costs Better than Private Insurance Over the Last Decade

## Average Annual Growth Rate, 2000-2009

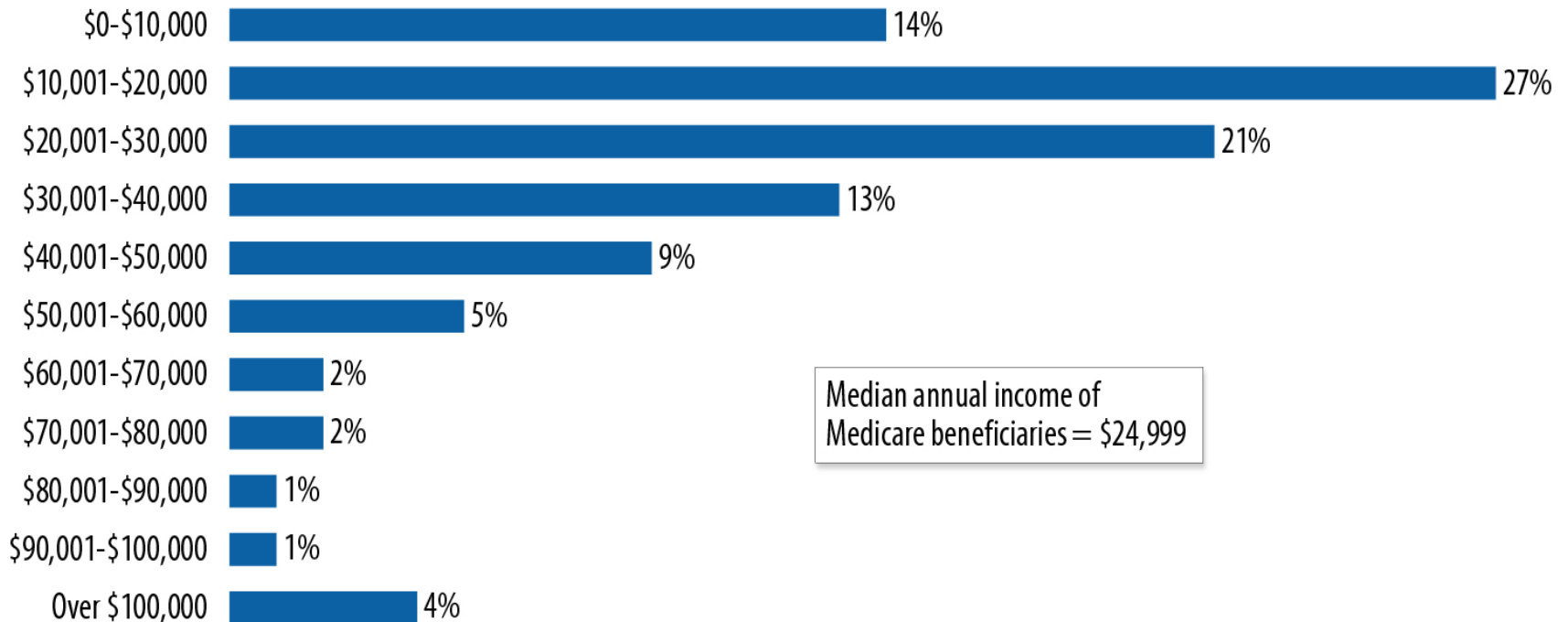


Source: CBPP analysis.



## Most Medicare Beneficiaries Have Modest Incomes

Share of beneficiaries by income group, 2008



Notes: Annual income includes that of individual respondents and their spouses, if applicable. Estimates do not sum to 100 percent due to rounding.

Source: Kaiser Family Foundation analysis of the CMS Medicare Current Beneficiary Survey 2008 Cost and Use File.

# Problematic Health Proposals

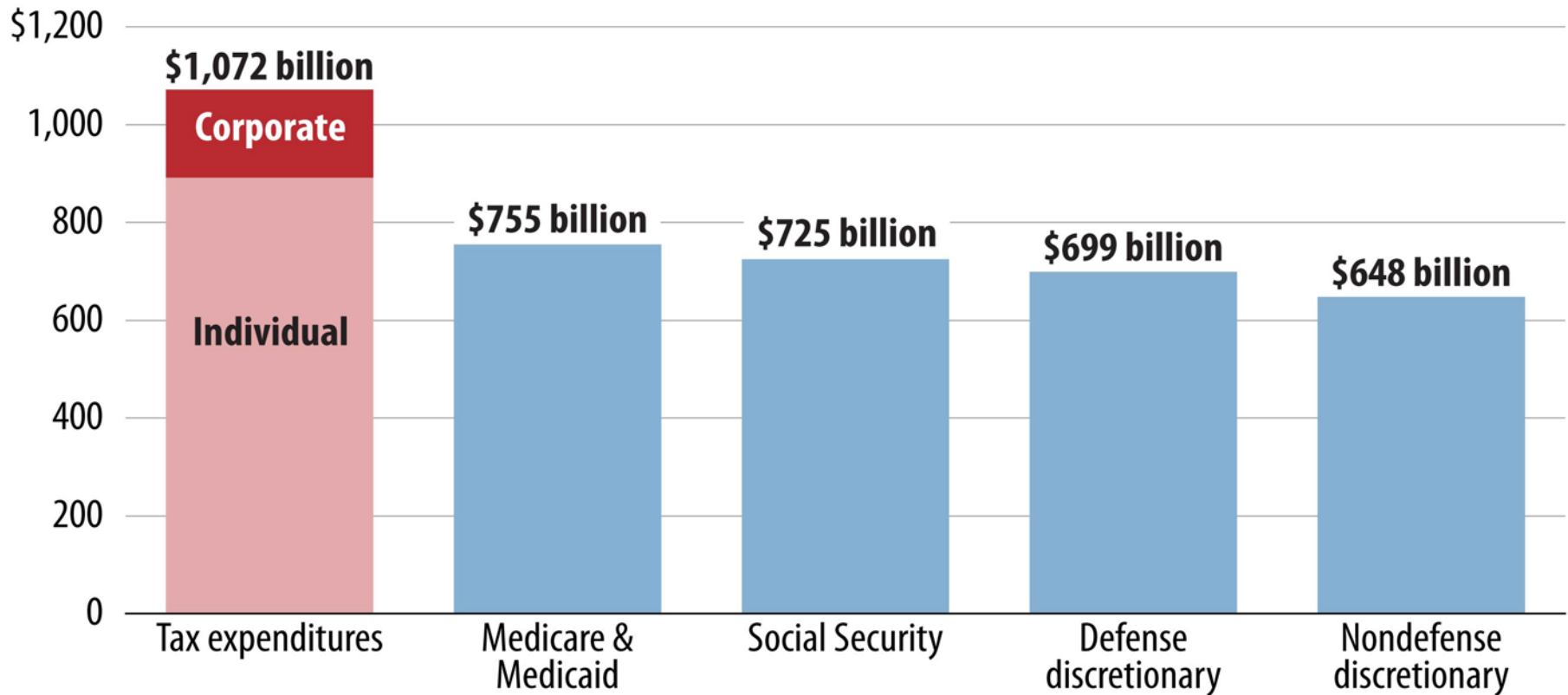
- **Medicaid cost-shifts to states**
  - Blended matching rate (~~Administration~~)
  - Limits on provider taxes (~~Administration~~/Congress)
  - Block grants/Per capita cap limits (House and Senate)
  - Raises new issues in light of Supreme Court decision
- **Medicare proposals**
  - Increase eligibility age (Administration/Congressional Repub.)
  - Premium support/vouchers (House/~~Senator Wyden~~)
- **Proposals that affect low-income beneficiaries**
  - Medicare/Medicaid dual eligibles (states)
  - Expanded income-tested premiums (Administration/House)



## **III. Revenues**

## Tax Expenditures are Substantial

Tax expenditures and outlays for other major spending categories in 2011, in billions



Note: Tax expenditure estimates do not account for interaction effects.

Source: Office of Management and Budget, Historical Tables 8.5 and 8.7 and Analytical Perspectives Table 17-2.

Note: Tax expenditure estimates do not account for interaction effects.





## **IV. Current Budget Debates**

## Continuing Resolution (FY 2013)

- **House bill would finalize appropriations for the remaining fiscal year. The bill:**
  - *does not* replace sequestration;
  - *extends* most domestic program funding at the previous continuing resolution levels;
  - *includes* detailed bills for the Dept. of Defense and Military Const.-Veterans Affairs, which provides added flexibility to deal with sequestration.
- **Senate passed bill would finalize appropriations for the remaining fiscal year. The bill:**
  - *does not* replace sequestration;
  - *includes* detailed bills for the Depart. of Defense, Military Const.-Veterans Affairs, Homeland, Commerce-Science-Justice and Agriculture.
  - *allows* changes to most bills except State-Foreign Operations; and

## House (“Ryan”) Budget

- Ryan balances the budget by 2023. But, he does so with no revenues and 100% spending cuts, largely on the health and domestic side.
- Ryan cuts NDD \$700B *below* post-sequestration levels; protects defense from sequestration and shifts those cuts to domestic appropriations.
- Deep cuts in health entitlements
  - Repeals federal health reform coverage expansions
  - \$356 billion in Medicare (vouchers, eligibility age, repeal “improvements”)
  - \$810 billion in Medicaid (block grant)
- Deep cuts in non-health entitlements
- Top tax rate of 25%; \$6T offsetting tax expenditures necessary

## Senate (“Murray”) Budget

- Committed to balanced approach to deficit reduction, replaces full 9-years of sequestration, and stabilizes debt.
- Achieves \$1.85T in deficit reduction, building on the \$2.4T in recently enacted deficit reduction.
  - \$975B in new revenues by closing loopholes and tax expenditures.
  - \$975B in domestic spending cuts, which includes \$275 billion in Medicare savings and interest.
- Includes a \$100B investment in jobs and infrastructure.

## President's Plan

- The President's budget for FY 2014 is expected to be released on April 8<sup>th</sup>.
- The budget is expect to take balanced approach to deficit reduction, replace sequestration, and stabilize debt.
- Obama has stated that his previous budget offer of \$1.5 trillion in deficit reduction still stands.
  - 1) Main areas of deficit reduction include:
    - ✓ Reducing discretionary by \$200B below BCA.
    - ✓ Reducing health mandatory by \$400B, largely Medicare
    - ✓ Reducing non-health mandatory by \$200B.
    - ✓ Raising \$680B in revenues, i.e. limiting tax deductions and other loopholes.
  - 2) Includes a \$50 billion jobs and infrastructure package.



## **V. Next Steps...**

## What's Next?

- Sequestration likely to stay in effect – at least for now. The only way to undo the 2013 cuts is to get a “big” deal.
- The House and Senate are not expected to reach a conference agreement on a budget resolution.
- Real action is going to be around the Obama budget – which may include an offer to Boehner – and negotiations which he wants to start in April and conclude before the debt-ceiling fight later this summer.

## Core Principles

- Further deficit reduction—including cancellation of sequestration—must include additional revenues.
- Don't increase poverty or increase the ranks of the uninsured.
- Keep the size of health care cuts down.
- Factor in the \$1.5 trillion spending cuts already made when considering deficit reduction target.
- Avoid Medicare and Medicaid cost shifts.