



COMMITTEE ON THE BUDGET

Majority Caucus
U.S. House of Representatives
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SUMMARY

HOUSE-SENATE AGREEMENT THE DEFICIT REDUCTION ACT OF 2005

1 February 2006

- This House-Senate agreement provides \$39.523 billion of savings over 5 years in the government's automatic-pilot mandatory spending programs. ("Mandatory spending" refers to programs that are not subject to the annual appropriations process.)
- These savings – pursuant to the budget resolution for fiscal year 2006 (H.Con.Res. 95), and adjusted following Hurricanes Katrina and Rita – have three principal goals:
 - To provide a downpayment toward hurricane recovery and reconstruction costs. Congress already has provided nearly \$85 billion in recovery funding, and more funding is expected in the near future.
 - To begin a longer-term effort at slowing the growth of entitlement spending, which now consumes about 54 percent of the total budget, and will rise to 62 percent in 10 years if no action is taken.
 - To stimulate reform of entitlement programs, many of which are outdated, inefficient, and excessively costly.
- Preliminary estimates of savings in this measure are as follows:

Deficit Reduction Act Budgetary Effects, by Major Category^a (outlays in millions of dollars)

Category	Net Savings 2006-10
Agriculture Provisions	-2,709
Housing and Deposit Insurance Provisions	-520
Digital Television Transition and Public Safety	-7,383
Transportation Provisions	-156
Medicare	-6,412
Medicaid and SCHIP	-4,743
Human Resources and Other Provisions	-1,547
Education and Pension Benefit Provisions	-16,136 ^b
LIHEAP Provisions	625
Judiciary-Related Provisions	-542 ^c
Total Savings	-39,523

Note: Savings are expressed in negative numbers to reflect their effect on the deficit.

^a Based on Congressional Budget Office estimate of 27 January 2006.

^b Assumes technical correction increases savings by \$645 million.

^c Assumes technical correction increases savings by \$68 million.

Authorized by Jim Nussle, Budget Committee Chairman

AGRICULTURE PROVISIONS

Total Net Savings (from provisions in this category)

(outlays in millions of dollars)

	2006	2006-10
Agriculture Provisions	419	-2,709

Based on Congressional Budget Office estimate of 27 January 2006.

- **Commodity Programs.** Extends the Milk Income Loss Contract [MILC] Program through September 2007, and reduces the payment rate to 0 percent in August 2007; reduces – to 40 percent in 2006 and 22 percent in 2007 – the share of direct payments that farmers can receive as advances; eliminates the Cotton Competitiveness “Step 2” provisions beginning 1 August 2006. Net spending of \$419 million in 2006, and net savings of \$736 million over 2006-10.
- **Conservation.** Terminates and rescinds unobligated balances for one conservation program; places limits on budget authority for two other conservation programs, while also reauthorizing them through 2011. Net savings of \$0 in 2006 and \$934 million over 2006-10.
- **Agriculture Research Extension and Education Grants.** Cancels funds for a competitive grant research program for the Department of Agriculture. Net savings of \$0 in 2006 and \$620 million over 2006-10.
- **Rural Development.** Terminates fiscal year 2007 funding, and cancels prior-year funds not obligated as of 1 October 2006, for five programs, and cancels all future funding for two of the five. Net savings of \$0 in 2006 and \$399 million over 2006-10.
- **Energy.** Reduces funds for a renewable energy systems grant program in fiscal year 2007. Net savings of \$0 in 2006 and \$20 million over 2006-10.

HOUSING AND DEPOSIT INSURANCE PROVISIONS

Total Net Savings (from provisions in this category)

(outlays in millions of dollars)

	2006	2006-10
Housing and Deposit Insurance Provisions	-30	-520

Based on Congressional Budget Office estimate of 27 January 2006.

- **Deposit Insurance.** Increases – from \$100,000 to \$250,000 – the limit on retirement account deposits insured by the Federal Deposit Insurance Corporation and the National Credit Union Administration, and indexes the limit for all accounts for inflation after

2010; merges the Bank Insurance Fund and the Savings Association Insurance Fund into a single Federal entity. Savings of \$0 in 2006 and \$250 million over 2006-10.

- **FHA Activities.** Subjects to annual appropriations the Federal Housing Administration's authority to renovate or sell below market certain foreclosed multifamily properties. Savings of \$30 million in 2006 and \$270 million over 2006-10.

DIGITAL TELEVISION TRANSITION AND PUBLIC SAFETY

Total Net Savings (from provisions in this category)

(outlays in millions of dollars)

	2006	2006-10
Digital Television Transition and Public Safety	-10	-7,383

Based on Congressional Budget Office estimate of 27 January 2006.

- **Spectrum Auction.** Sets 28 January 2008 as the deadline for the auction of 60 megahertz of analog spectrum returned by television broadcasters, and further sets 17 February 2009 as the date for ceasing analog broadcasts by full-power stations. Savings of \$0 in 2006 and \$10.0 billion over 2006-10.
- **Spending Proceeds.** Provides funding for a subsidy program for set-top converter boxes, interoperability grants for first responders, three minor digital transition projects, a national alert and tsunami warning system, an enhanced 911 program, and the Essential Air Service Program. Costs of \$0 in 2006 and \$2.627 billion over 2006-10.
- **Federal Communications License Fees.** Directs the Federal Communications Commission [FCC] to assess fees on existing spectrum users. Savings of \$10 million in 2006 and over 2006-10.

TRANSPORTATION PROVISIONS

Total Net Savings (from provisions in this category)

(outlays in millions of dollars)

	2006	2006-10
Transportation Provisions	-30	-156

Based on Congressional Budget Office estimate of 27 January 2006.

- **Vessel Tonnage Fees.** Increases vessel tonnage fees, from 2 cents to 4.5 cents. Savings of \$30 million in 2006 and \$156 million over 2006-10.

MEDICARE

Total Net Savings (from provisions in this category)

(outlays in millions of dollars)

	2006	2006-10
Medicare	-3,431	-6,412

Based on Congressional Budget Office estimate of 27 January 2006.

- **Physician Payment Update.** Provides for a 1-year, 0-percent update in payments for physicians' services for calendar year 2006, instead of a scheduled 4.4-percent reduction. Costs of \$1.5 billion in 2006 and \$7.3 billion over 2006-10.

- **Hospital Issues.** Allows the moratorium on therapy caps to lapse, but requires the Secretary of Health and Human Services an exception process for 2006 expenses, and extends for 1 year a hold-harmless provision for rural hospitals; extends a 50-percent provision applying to inpatient rehabilitation facilities, moving the level to 60 percent during the 12-month period beginning on 1 July 2006 and rising in subsequent years; continues certain restrictions on speciality hospitals; addresses eligible Medicaid days for disproportionate share hospital payments. Savings of \$100 million in 2006 and \$1.4 billion over 2006-10.

- **Other Provisions.** Requires durable medical equipment and oxygen equipment be converted to beneficiary ownership after 36 months' rental; achieves savings through provisions addressing income-related Part B premiums and payment for imaging services; achieves savings from risk adjustment of payments to Medicare Advantage plans. Savings of \$4.8 billion in 2006 and \$12.3 billion over 2006-10.

MEDICAID and SCHIP

Total Net Costs and Savings (from provisions in this category)

(outlays in millions of dollars)

	2006	2006-10
Medicaid	2,247	-4,743

Based on Congressional Budget Office estimate of 27 January 2006.

- **Prescription Drugs.** Establishes an upper payment limit for multiple-source drugs of 250 percent of the average manufacturer price; requires States to collect Medicaid rebates on drugs administered by physicians; includes authorized generics in the calculation of average manufacturer's price as a determinant of Medicaid drug rebates. Cost of \$5 million in 2006 and savings of \$3.855 billion over 2006-10.

- **Asset Transfers.** Revises the look-back and penalty periods for improper asset transfers by persons seeking to qualify for Medicaid long-term care coverage; requires individuals applying for Medicaid long-term care to disclose large annuities; requires States to use

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- the “income first” rule when computing the community spouse’s income allowance; establishes that individuals with home equity above \$500,000 (or \$750,000 at State option) are ineligible for Medicaid long-term care; considers certain entrance fees for Continuing Care Retirement Communities [CCRC] or life care communities to be countable resources, and hence available to the applicant for purposes of Medicaid eligibility determination; allows States, effective 1 January 2007, to cover a range of home and community-based services as an optional benefit under State Medicaid plans without requiring waivers, and provides an option for States to operate cash and counseling programs; and repeals the moratorium on Medicaid partnership programs. Savings of \$178 million in 2006 and \$2.364 billion over 2006-10.
- **Waste, Fraud, and Abuse.** Requires States to comply with restriction on the use of contingency fees in contracts; encourages States to enact false claims acts; prohibits States from double billing the Federal Government for prescription drugs; mandates that certain employers conduct education campaigns for employees about false claims acts; appropriates funds for the Secretary of Health and Human Services to improve payment integrity in the Medicaid program and clarifies the legal responsibility of third parties to pay for health care provided to Medicaid beneficiaries. Cost of \$10 million in 2006, and savings of \$294 million over 2006-10.
 - **Cost Sharing and Benefits.** Increases State flexibility in setting Medicaid cost sharing and premiums; gives States the option to provide alternative Medicaid benefit packages to certain groups of beneficiaries, to impose higher cost-sharing for nonpreferred drugs, and to increase cost-sharing by individual for nonemergency services in hospital emergency departments. Savings of \$55 million in 2006 and \$3.16 billion over 2006-10.
 - **State Financing.** Requires managed care organizations to be treated the same as other classes of health care providers with respect to Medicaid provider taxes, and specifies that certain activities are not reimbursable as targeted case management services; increases Medicaid funding for Alaska and the territories and disproportionate share hospital payments for the District of Columbia. Cost of \$80 million in 2006, and savings of \$830 million over 2006-10.
 - **Other Provisions.** Gives States the option to cover certain disabled children in families with incomes up to 300 percent of poverty; provides funds for a Money-Follows-the-Person demonstration and for Medicaid transformation grants; provides for an extension of transitional medical assistance, for abstinence education for calendar year 2006, and for health information centers; requires documentary evidence of citizenship for Medicaid eligibility. Cost of \$155 million in 2006 and \$3.6 billion over 2006-10.
 - **SCHIP.** State Children’s Health Insurance Program provisions are included. The agreement provides \$283 million for the purpose of providing additional SCHIP allotment to shortfall States in fiscal year 2006. Costs of \$170 million in 2006 and \$20 million over 2006-10.
 - **Katrina Relief.** Provides funds for Katrina-related Medicaid waivers, including \$2 billion for use by the Secretary of Health and Human Services to pay eligible States for
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the non-Federal share of expenditures for health care; and provides funding for high-risk pools that States operate for individuals who cannot otherwise obtain health insurance. Costs of \$2.07 billion in 2006 and \$2.14 billion over 2006-10.

**HUMAN RESOURCES
AND OTHER PROVISIONS**

Total Net Savings (from provisions in this category)
(outlays in millions of dollars)

	2006	2006-10
Human Resources and Other Provisions	-20	-1,547

Based on Congressional Budget Office estimate of 27 January 2006.

- **Child Support.** Eliminates Federal matching payments to States for spending Federal child support incentive payments. Cost of \$9 million in 2006, and savings of \$1.519 billion over 2006-10.
- **Foster Care (Child Welfare).** Repeals the Rosales Decision, which restores in the Ninth Judicial Circuit the requirement that Federal foster care maintenance funding be based on the income of the home from which a child is removed; limits the Federal match on State administrative costs for “candidate” foster care children; and provides \$100 million for strengthening courts involved in child welfare proceedings, and \$200 million in additional funding for the Safe and Stable Families Program. Savings of \$51 million in 2006 and \$320 million over 2006-10.
- **Supplemental Security Income.** Requires the Commissioner of the Social Security Administration to conduct pre-effectuation reviews on cases of persons turning 18 who are seeking to continue benefits based on disability or blindness; and lowers, from \$7,200 to \$1,800, the threshold at which a current law requirement to pay Supplemental Security Income lump sum awards in three equal installments over 6-month intervals is applied. Savings of \$238 million in 2006 and \$712 million over 2006-10.
- **TANF.** Reauthorizes Temporary Assistance for Needy Families [TANF] for 5 years and adds new funding for contingency funds, supplemental grants, research and demonstration projects, healthy marriage promotion, and fatherhood programs. Costs of \$116 million in 2006 and \$374 million over 2006-10.
- **Child Care.** Authorizes an additional \$1 billion in mandatory budget authority for child care assistance to States during the period 2006-10. Costs of \$144 million in 2006 and \$930 million over 2006-10.
- **Repeal Continued Dumping and Subsidy Offset.** Eliminates a current-law requirement that duties collected under antidumping and countervailing duty orders must be distributed to eligible domestic producers that supported the petition that resulted in the imposition of the duties – thereby bringing the United States into compliance with the

World Trade Organization’s ruling that the payments to domestic producers are illegal subsidies – effective for duties on imports entering the country after 30 September 2007. Savings of \$0 in 2006 and \$300 million over 2006-10.

EDUCATION AND PENSION PROVISIONS

Total Net Savings (from provisions in this category)

(outlays in millions of dollars)

	2006	2006-10
Education and Pension Benefit Provisions	-3,997	-16,136 ^a

Based on Congressional Budget Office estimate of 27 January 2006.
^a Assumes technical correction increases savings by \$645 million.

- **Higher Education and Lender Savings.** Retains scheduled move to 6.8-percent fixed borrower interest rate; rebates excess lender subsidies above agreed upon rate; increases fixed rate to parents and graduate students; ends recycling of 9.5-percent bonds while protecting student benefits by providing a phase-out period for small, non-profit student aid providers; changes consolidation eligibility; reduces the amount guaranty agencies keep when they collect on defaulted loans that are later consolidated and paid; converts student aid administrative expenses to discretionary; and reduces lender insurance general reimbursement rate from 98 percent to 97 percent, and lowers exceptional lender rate to 99 percent. Savings of \$4.122 billion in 2006 and \$22.382 billion over 2006-10.

- **Student Loan Benefits.** Increases loan limits – from \$2,625 to \$3,500 for first-year students, and from \$3,500 to \$4,500 for second-year students – beginning in 2007; increases yearly graduate school limit from \$10,000 to \$12,000; reduces student origination fees to 0 percent, and collects guaranty agency fee of 1 percent on guaranteed loans; reduces origination fees from 3 percent to 1 percent on direct loans; provides loan cancellation for teachers of math, science, and special education; provides for deferment for those serving in military; and aligns guaranteed and direct loan repayment plans. Costs of \$352 million in 2006 and \$6.067 billion over 2006-10.

- **New Higher Education Grants.** Authorizes mandatory grants for low-income, high-achieving students in the first and second years, and low-income, high-achieving students majoring in physical, life or computer sciences, mathematics, technology, engineering, and foreign languages critical to national security in the third and fourth years. Costs of \$190 million in 2006 and \$3.743 billion over 2006-10.

- **PBGC.** Raises the Pension Benefit Guaranty Corporation [PBGC] flat rate premium for single employer plans from \$19 to \$30 per participant; raises the PBGC flat rate premium for multi-employer plans from \$2.60 to \$8 per participant; creates a new termination premium of \$1,250 per participant to be levied on companies reorganizing under Federal bankruptcy laws, payable for the first 3 years after coming out of bankruptcy. Savings of \$417 million in 2006 and \$3.564 billion over 2006-10.

LIHEAP PROVISIONS

Total Net Costs (from provisions in this category)

(outlays in millions of dollars)

	2006	2006-10
LIHEAP	0	625

Based on Congressional Budget Office estimate of 27 January 2006.

- **LIHEAP.** Authorizes a one-time appropriation of \$1 billion in budget authority in 2007 for the Low Income Home Energy Assistance Program [LIHEAP], providing \$250 million through LIHEAP formula grants, and \$750 million through the LIHEAP contingency fund. Costs of \$0 million in 2006 and \$625 million over 2006-10.

JUDICIARY-RELATED PROVISIONS

Total Net Savings (from provisions in this category)

(outlays in millions of dollars)

	2006	2006-10
Judiciary-Related Provisions	-58	-542 ^a

Based on Congressional Budget Office estimate of 27 January 2006.

^a Assumes technical correction increases savings by \$68 million.

- **Civil Case Filing Fees.** Increases civil case filing fees in district and appellate courts. Savings of \$19 million in 2006 and \$167 million over 2006-10.
- **Bankruptcy Filing Fees.** Increases the filing fees for cases under chapters 7, 11, and 13. Savings of \$39 million in 2006 and \$375 million over 2006-10.