



# BUDGET COMMITTEE

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## Analysis of President's Budget Health and Major Entitlement Programs

### Summary

**Medicare.** The Administration projects Medicare spending will total \$420 billion in 2009, and without changes, would grow to \$553 billion by 2013. The Budget includes \$178 billion in reductions in Medicare in FY 2009-2013, compared to the \$66 billion in the FY 2008 Budget. Under the President's Budget, the average annual growth rate over 5 years is expected to be 5%, a reduction of 2.2% from how Medicare would otherwise grow over the same time period.

- Proposed Medicare changes reduce the 75-year unfunded liability of Medicare by more than \$10 trillion.
- The majority of these reductions, almost \$113 billion over 5 years, freeze provider payments for 3 years followed by 2 years of lower than inflation updates.

**Medicaid.** The Administration projects that Medicaid spending will total \$218 billion in 2009 and without changes, will grow to \$292 billion by 2013 for a total over 5 years of \$1.3 trillion (an average growth rate of 7.4%). The President's Budget includes policies that save \$17.4 billion in Medicaid over 5 years, reducing the average annual growth rate for Medicaid over the 5 year period to 7.1%.

**SCHIP.** The baseline includes \$28 billion for SCHIP over 2009-13. The President proposes \$19.7 billion in new SCHIP allotments with associated outlays of \$18.7 billion over the period, an increase of 67%. As a result, SCHIP spending will grow by 6.3% on average each year rather than decline by an average of 7.7% per year under current law.

**Social Security.** The President's Budget projects that Social Security spending will grow from \$645 billion in 2009 to \$814 billion in 2013, an annual average increase of 5.9%. In addition, the Budget proposes the creation of personal savings accounts, increasing Social Security outlays by \$30 billion in 2013, for a total in that year of \$842 billion (including \$2 billion in other offsets). At this new spending level, Social Security's average annual growth rate equals 6.7%.

**Discretionary spending.** The President's Budget requests \$68.5 billion in HHS discretionary spending, a reduction of \$2.2 billion or 3% compared to the 2008 enacted level.

**Tax Proposals.** The Budget includes tax proposals to invest in health care, totaling \$94 billion in tax relief (and \$11 billion in related outlays) over the next 5 years. The President proposes eliminating the existing exclusion for employer-based health insurance and replacing it with a deduction of \$15,000 for family coverage and \$7,500 for individual coverage. In addition, the President proposes to expand health savings accounts.

## Details of President's Budget

### Medicare

**Medicare** (outlays in billions)

	2007	2008	2009	2010	2011	2012	2013	2009-13	Growth Rate
<b>Baseline</b>	371	391	420	449	495	495	553	2,412	7.2%
Policy Changes		0.0	-12.2	-26.9	-39.8	-45.7	-53.4	-178.0	
<b>President's Budget</b>		<b>391</b>	<b>408</b>	<b>422</b>	<b>455</b>	<b>449</b>	<b>500</b>	<b>2,234</b>	5.0%

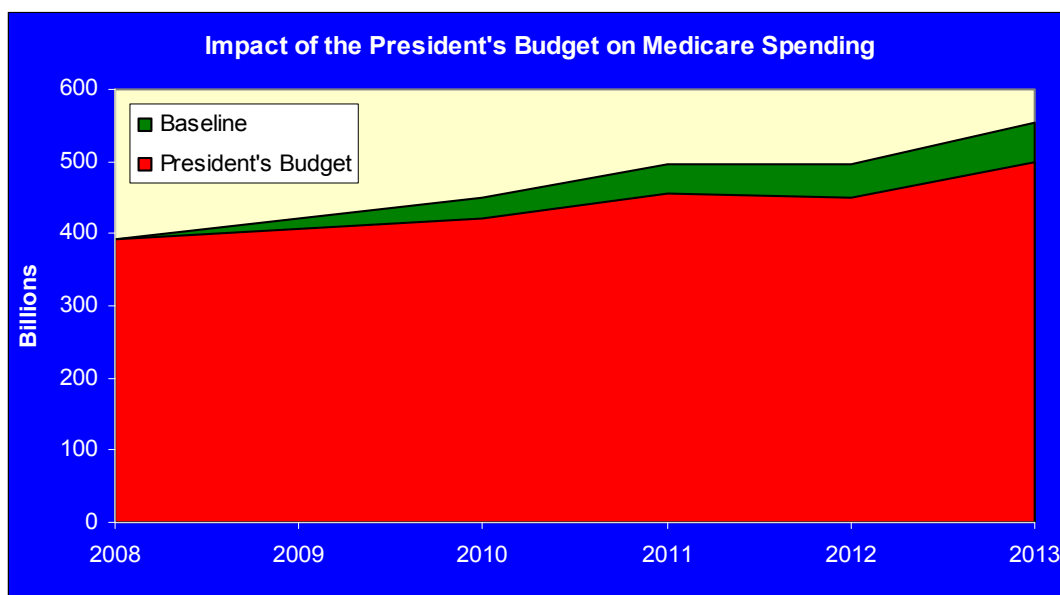
Baseline Medicare spending will total \$420 billion in 2009, an increase of \$29 billion or 7.4% over 2008. Without legislative changes, Medicare spending will grow to \$553 billion in 2013, an average annual growth rate of 7.2%.

**Part D:** According to the CMS actuaries, projected Part D spending over 2008-18 is \$117 billion lower than projected in OMB's Mid-Session Review released in July. Compared to the original Medicare Modernization Act (MMA) projections, the net cost of the drug benefit is \$243.7 billion, or 39%, lower over the original 10-year period (2004-2013) used to score the MMA.

The President's Budget includes reforms to the Medicare program that will reduce the growth in the program by \$178 billion over the next 5 years compared to the \$66 billion in savings proposed by the President in the FY 2008 Budget. Under the President's proposals, Medicare spending in 2013 would be \$500 billion, resulting in an average annual growth rate of 5%.

If all the Medicare proposals are enacted, the reductions amount to 7.4% of total Medicare spending of \$2.4 trillion over the period. As a historical comparison, the 1997 Balanced Budget Act reduced Medicare spending by 12% of total program costs.

In addition, over a 75-year time line these Medicare savings will address about \$10 trillion of the \$34 trillion in unfunded liability in the Medicare program.



## *Explanation of Key Provisions*

- **Reimbursement Reform Proposals.** The majority of the reductions, almost \$113 billion over 5 years or 63% of total Medicare savings, are derived through a combination of provider payment freezes and a reduction in inflation updates thereafter to reflect increasing productivity and to encourage further quality and efficiency gains. (Refer to attached Medicare chart for details).
- **Premium Reform Proposals.** The Medicare Modernization Act, later modified by the Deficit Reduction Act, increased Part B premiums for higher income enrollees (\$82,000 for singles/\$164,000 for couples) beginning in 2007. The President's Budget proposes to eliminate the indexing of these income thresholds for assessing higher premiums for Part B services. The Budget also extends this Part B scheme to Part D high-income beneficiaries. **Total Savings: \$5.75 billion over 2009-2013.**
- **Payment Reform Proposals.** In addition to last year's proposed elimination of duplicative IME (Indirect Medical Education) payments to hospitals for the Medicare Advantage (MA) beneficiaries (**\$8.85 billion over 5 years**), the Budget also proposes to:
  - Adjust the IME add-on payment from 5.5% to 2.2% over 3 years for hospitals (**\$12.9 billion over 5 years**);
  - Reduce hospital disproportionate share (DSH) payments by 30% over 2 years (**\$20.6 billion over 5 years**);
  - Reduce hospital capital payments by 5% in FY 2009 (**\$3 billion over 5 years**); and
  - Establish payment incentives for hospitals to improve quality of care delivered through the Hospital Value-Based Purchasing Program (**\$1.65 billion over 5 years**).
- **Quality Reform Proposals.** Along with improvements to the Quality Improvement Organizations (QIOs) through Secretarial determination of geographic scope, expanded contractor eligibility and early termination on contracts without review, the Budget also (for the first time) explicitly requests broader authority to release Medicare fee-for-service claims to improve transparency and availability of health care quality and cost data for beneficiaries.
- **Administrative Savings.** The Budget assumes regulatory savings of **\$4.7 billion over 5 years** through efforts to strengthen the Medicare payment system by reducing improper provider payments and providing adjustments for efficiency and productivity.
- **Physician Payments.** The Budget does not address the scheduled reductions in physician payments.

## Medicaid

**Medicaid** (outlays in billions)

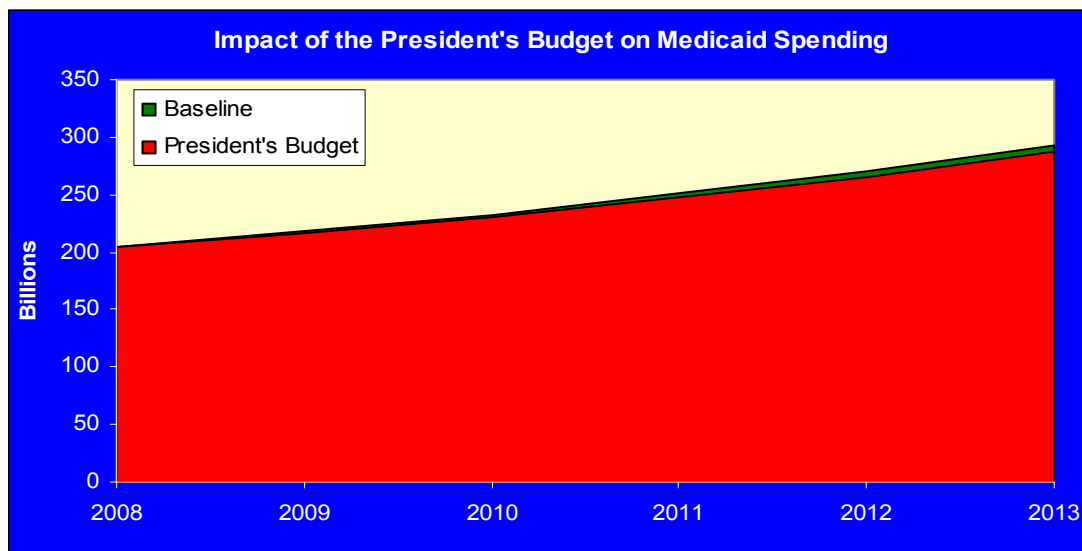
	2007	2008	2009	2010	2011	2012	2013	2009-13	Growth Rate
<b>Baseline</b>	191	204	218	233	251	270	292	1,264	7.4%
Policy Changes		0.1	-1.8	-2.9	-3.7	-4.3	-4.7	-17.4	
<b>President's Budget</b>		<b>204</b>	<b>216</b>	<b>230</b>	<b>247</b>	<b>266</b>	<b>287</b>	<b>1,247</b>	7.1%

The Administration projects that Medicaid spending will total \$218 billion in 2009 and without changes, will grow to \$292 billion by 2013 for a total over 5 years of \$1.3 trillion, with an average growth rate of 7.4%. The President's Budget includes policies that save \$17 billion in Medicaid over 5 years reducing the average annual growth rate for Medicaid over the 5 year period to 7.1%.

The Budget also includes \$450 million in outreach grants to states, localities, schools and community-based organizations to enroll low-income uninsured children eligible in Medicaid and SCHIP.

In addition to the 2009-13 legislative proposals, the Budget includes increased spending of \$140 million in 2008 for 2 programs:

- Transitional Medical Assistance (TMA) allowing for families to remain eligible for Medicaid for 12 months after they lose welfare cash benefits due to increased earnings; and
- Qualified Individuals (QI) program by extending Medicare Part B premium assistance for Medicare beneficiaries with incomes between 120 and 135% of the federal poverty level. The President proposed to extend both programs through September 30, 2009.



### *Explanation of Key Provisions*

- **Eliminate Medicaid Payments Duplicative of TANF Block Grant Funds.** The 2009 Budget proposes reducing administrative costs by discontinuing Medicaid payments that are duplicative of funds originally included in the Temporary Assistance for Needy Families (TANF) block grants.
- **Give States Flexibility in Coordinating Care.** The Administration's Budget would allow States to enroll certain special populations, currently exempted under Section 1932(a)(2) of the Social Security Act, into managed care programs under the State plan.

- **Align State Matching Rates.** While the Federal Government generally reimburses at a rate of 50% for all Medicaid administrative activities, there are some exceptions that allow for a higher reimbursement rate. The President's Budget proposes to align all administrative reimbursement rates in Medicaid, including the Targeted Case Management services rate, to 50%. In addition, the 2009 Budget proposes to align reimbursement for family planning services and supplies to a State's regular FMAP.
- **Improve Asset Verification for Medicaid Eligibility.** The President's Budget proposes to permanently extend the Social Security Administration (SSA) demonstration project which uses electronic financial records for verifying an applicant's assets.

In addition, the administration assumes that regulatory savings of \$800 million over the next 5 years will be implemented.

## SCHIP

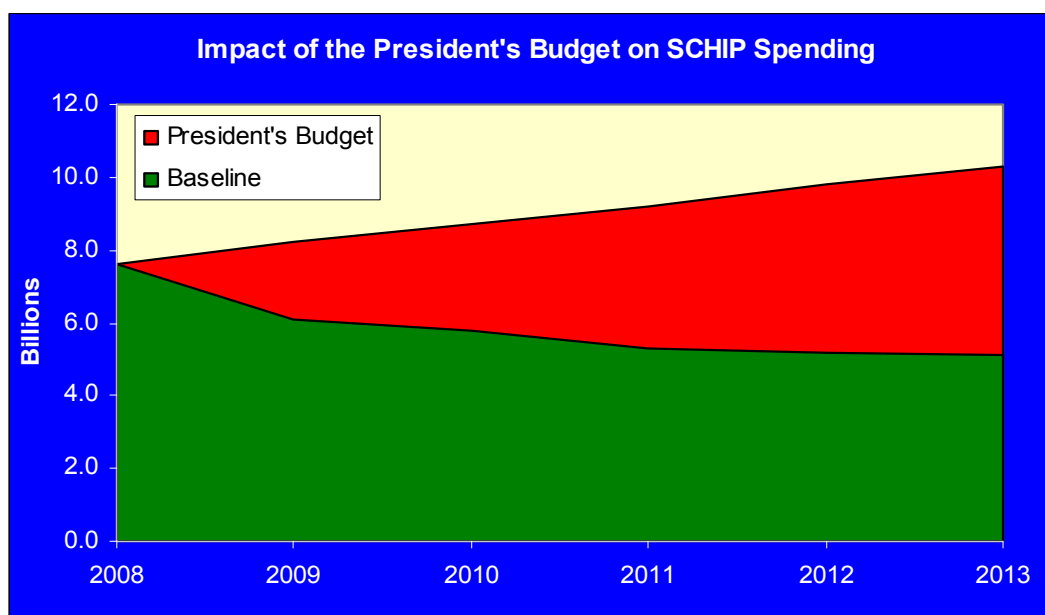
**SCHIP** (outlays in billions)

	2007	2008	2009	2010	2011	2012	2013	2009-13	Growth Rate
<b>Baseline</b>	6.0	7.6	6.1	5.8	5.3	5.2	5.1	27.5	-7.7%
Policy Changes		0.0	2.1	2.9	3.9	4.6	5.2	18.7	
<b>President's Budget</b>		<b>7.6</b>	<b>8.2</b>	<b>8.7</b>	<b>9.2</b>	<b>9.8</b>	<b>10.4</b>	<b>46.3</b>	6.3%

The baseline includes \$28 billion for SCHIP over 2009-13. The President proposes \$19.7 billion in new SCHIP allotments with associated outlays of \$18.7 billion over the period, an increase of 67%. As a result, SCHIP spending will grow by 6.3% on average each year rather than decline by an average of 7.7% per year under current law.

### *Explanation of Key Provisions*

- This proposal is intended to provide funding to cover the current SCHIP population of eligible, uninsured children as well as cover new children at or below 200% of the poverty line. This policy will allow for an average monthly total of 5.6 million children to be enrolled in SCHIP.



## Social Security

The President's Budget projects that Social Security spending will grow from \$645 billion in 2009 to \$814 billion in 2013 an annual average increase of 5.9%. In addition, the Budget proposes to increase Social Security outlays in 2013 by \$28 billion to \$842 billion. At this new spending level, Social Security's average annual growth rate equals 6.7%.

### Social Security (outlays in billions)

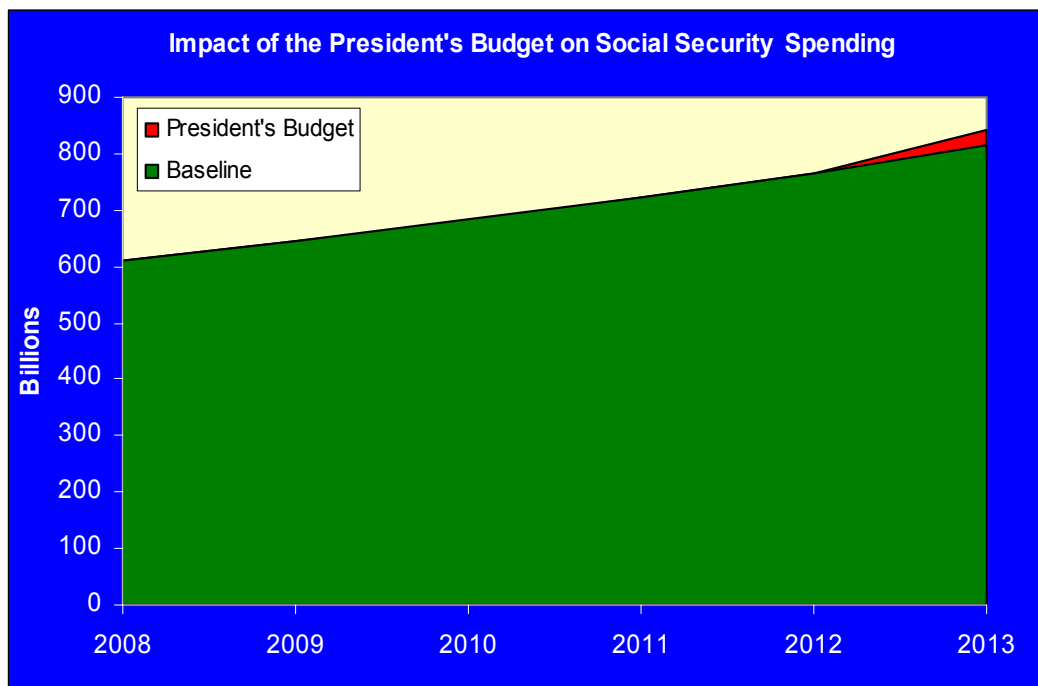
	2007	2008	2009	2010	2011	2012	2013	2009-13	Growth Rate
<b>Baseline</b>	581	610	645	682	722	765	814	3,628	5.9%
Policy Changes		0.0	-0.9	-0.7	-1.4	-1.9	27.9	23.0	
<b>President's Budget</b>		<b>610</b>	<b>644</b>	<b>681</b>	<b>721</b>	<b>763</b>	<b>842</b>	<b>3,651</b>	<b>6.7%</b>

### *Explanation of Key Provisions*

**Social Security Personal Investment Accounts.** The President's Budget includes the creation in 2013 of voluntary personal retirement accounts funded through the current payroll tax. Account contributions would be capped at 4% of taxable Social Security earnings up to \$1,400. This maximum contribution amount would be increased by \$100 more than the average wage growth each year through 2018. This proposal increases Social Security outlays by \$30 billion in 2013.

**Refugee benefits.** The Budget proposes to extend by 1 year (to 8 years) in 2009, 2010 and 2011 the number of years refugees and asylees may receive Social Security benefits.

**Other proposals.** In addition, the Budget proposes to 1) synchronize the treatment of retroactive disability and retirement by requiring that the payment of disability benefits can be no earlier than six months prior to the month of application; 2) reduce to 16 the age at which full-time school attendance is a condition of entitlement for Social Security child's benefits; and 3) create a mandatory system for collecting data on pension income from non-covered State and local employment.



## Discretionary Health Programs

**The President's FY 2009 Budget requests \$68.5 billion in discretionary budget authority for the Department of Health and Human Services (HHS), a decrease of \$2.2 billion, or 3%, from the FY 2008 enacted level.**

This includes the proposed elimination of 9 programs for a savings of \$1.7 billion in FY 2009 and major reductions in 4 programs which would save \$1.1 billion in FY 2009 .

**Pandemic Influenza:** The President's Budget requests \$820 million for pandemic influenza preparedness, which is \$517 million over the FY 2008 enacted level. Of this amount, \$507 million represents the third and final installment of the President's Pandemic Influenza Plan Funding.

**Bioterrorism:** The President's Budget highlights \$4.3 billion for bioterrorism and emergency preparedness activities, a \$206 million increase over the FY 2008 enacted level. This includes \$250 million for Biomedical Advanced Research and Development (BARDA) and \$22 million for Project BioShield\* to support medical countermeasure development and procurement. \$3.5 billion (of the total funding) is derived from the Budget of several HHS agencies:

- **NIH:** \$1.6 billion (\$2 million increase) for biodefense and countermeasure research.
- **FDA:** \$213 million (\$43 million increase) for food defense.
- **CDC:** \$609 million (\$137 million decrease) for upgrading state and local capacity, \$101 million (\$47 million increase) for biosurveillance, and \$570 million (\$19 million increase) for the Strategic National Stockpile.

\*The President's Budget also calls for the obligation of the final \$2.175 billion installment of the ten-year advance appropriation (\$5.593 billion) under The Project BioShield Act of 2004 for the procurement of medical countermeasures. Note: This does not represent new budget authority.

**NIH:** The President's Budget requests \$29.5 billion for NIH, the same level at which it was funded in 2008. Funding for each of the institutes is increased slightly, while funding for the Office of the Director receives a decrease of \$52 million. In FY 2009, approximately 83% of NIH funds will be used to support extramural research at universities, medical schools, hospitals, and other research facilities. The funding will continue progress in areas of science related to diseases, disorders, and conditions, and test new therapies, tools, technologies, and applications.

**FDA:** The President's Budget requests a 6% increase, or \$130 million (\$51 million increase in appropriated dollars), over FY 2008 enacted levels, for an agency total of \$2.4 billion (\$1.8 billion from appropriated dollars and \$628 million from current and proposed user fees). The Budget includes new proposals for an industry funded generic drug user fee and a generic animal drug user fee, which will generate \$16 million and \$5 million in FY 2009 respectively if enacted. Also included in the President's request, is a \$42 million increase in food protection activities, which includes both intentional and unintentional food contamination.

**CDC:** The Budget requests \$5.7 billion for CDC, a decrease of \$433 million, or 7%, compared to FY 2008 enacted levels. Funding would continue support the implementation of ongoing pandemic influenza preparedness activities; increased domestic HIV testing and expanded quarantine infrastructure to limit the spread of infectious diseases. The request provides slight increases for some programs within CDC, such as the Infectious Disease (+\$29 million) and Health Information and Services (+\$8 million) programs over the FY 2008 enacted level, while others, like Occupational Safety and Health, receive decreases (-\$111 million).

**Health Resources and Services Administration (HRSA):** The Administration requests \$5.9 billion for HRSA, a decrease of \$992 million, or 14%, from the FY 2008 funding level.

- **Ryan White HIV/AIDS Program:** The President's Budget requests \$2.2 billion for Ryan White activities, an increase of \$1 million over last year. The request would support a comprehensive approach to address the healthcare needs of those living with HIV/AIDS.
- **Health Centers:** The FY 2009 Budget includes \$2.05 billion for health centers, an increase of \$26 million over FY 2008. The funds will continue to support over 1,000 grants providing primary health services to an estimated 17.1 million low-income patients across the country. In FY 2009, the funds will also support the President's goal of expanding health centers in high poverty areas, and will fund up to 40 new access point grants and 25 planning grants.
- **Health Professions:** The Administration would eliminate Health Professions funding, as evaluations have found that these activities do not have a strong impact on the placement of health professionals in underserved areas. The Budget does request \$110 million for nursing education programs. The President's Budget also requests \$121 million for the recruitment and retention of clinicians to the National Health Service Corps.

### **Other Policies**

**Standard Deduction for Health Insurance (SDHI).** The SDHI would replace the existing exclusion for employer-based health insurance. Taxpayers would receive a deduction of \$15,000 for family coverage and \$7,500 for individual coverage. The SDHI would eliminate the incentive to purchase more expensive coverage currently engendered in the tax code by breaking the link between the value of the tax subsidy and the amount of health insurance an individual purchases. The Treasury Department estimates that the proposal would decrease the number of uninsured by 8 million people. The proposal provides \$94.1 billion in tax relief over 2009-2013, and an additional \$11.5 billion in related outlays.

**High Risk Insurance Pools:** The 2009 Budget provides \$75 million in both 2008 and 2009 to help high-risk populations gain access to health insurance through state-based high risk insurance pools.