



# HOUSE BUDGET COMMITTEE

## Democratic Caucus

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March 17, 2006

### Health Spending Cuts in The President's 2007 Budget: Budget in Brief #3

In the State of the Union address, the President touted the government's responsibility to provide health care for the poor and elderly, and set forth a goal of confronting rising health costs for all Americans. Despite these claims, the President's 2007 budget includes cuts to Medicare, Medicaid, and public health programs. As for affordability, the Administration focuses almost exclusively on health savings accounts and high-deductible health plans – forms of health insurance that serve to shift more health care costs onto consumers.

#### Medicare

**Legislative Cuts to Medicare of \$138 Billion** — The budget cuts Medicare \$37 billion over five years and \$138 billion over ten years by reducing payments for providers in traditional Medicare and increasing premiums for certain upper-middle income beneficiaries. Providers facing payment cuts include hospitals (for both inpatient and outpatient services), skilled nursing facilities, home health, inpatient rehabilitation facilities, ambulances, laboratories, and durable medical equipment.

**Creates Automatic Across-the-Board Cut in Medicare** — The Medicare Prescription Drug, Improvement, and Modernization Act requires the Medicare trustees to estimate in each of their annual reports the point at which Medicare general revenues – not

#### OMB v. CBO: Different Estimates of the President's Budget

On February 9, the Budget Committee Democratic staff issued its detailed "Summary and Analysis of the President's Fiscal Year 2007 Budget." That report analyzed the budget using the estimates submitted by the Office of Management and Budget. The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) have since re-estimated the President's budget, and this report uses CBO's estimates of spending and revenue.

premiums and payroll taxes – will finance at least 45 percent of Medicare costs. Once the trustees estimate in two successive reports that this 45-percent level will be reached within the next six years, the President is required to include a proposal in his next budget to cut Medicare spending. The budget builds on this provision, imposing an across-the-board cut to all Medicare providers of 0.4 percent in the year the threshold is exceeded if Congress does not enact spending cuts before then. The across-the-board cut will become deeper in each subsequent year until legislation is enacted to cut spending. According to the Congressional Budget Office, this provision will result in \$1.8 billion in automatic across-the-board cuts over 5 years, and \$26 billion in cuts over ten years. This cut is included in the \$138 billion in overall Medicare cuts.

**Medicare Administrative Funding** — The budget provides \$5.0 billion in 2007 to administer Medicare, consisting of an appropriation to the Centers for Medicare and Medicaid Services (CMS) and transfers from the Medicare Trust Funds to other agencies for Medicare-related administrative activities. The overall administrative budget is a \$56 million increase above the 2006 level.

## Medicaid and the State Children’s Health Insurance Program (SCHIP)

**Legislative Cuts to Medicaid of \$11.4 Billion** — The budget makes legislative cuts to Medicaid of \$4.5 billion over five years and \$11.4 billion over ten years.

This amount consists of \$15.3 billion in cuts over ten years to payments for prescription drugs, Medicaid administrative costs, and targeted care case management for disabled children, adults, and others. The spending cuts are

offset by \$3.9 billion in new spending over ten years to extend Transitional Medicaid Assistance through fiscal year 2007, cover any enrollment increases from a proposed outreach initiative dubbed “Cover the Kids,” and to make changes to the Vaccines for Children program.

	Cuts to Medicaid (billions of dollars)	
	2007 to 2011	2007 to 2016
Legislative Cuts	-\$6.0	-\$15.3
New Spending	\$1.5	\$3.9

**Regulatory Cuts for Medicaid** — The budget also includes extensive cuts to Medicaid via regulatory actions. CBO does not estimate costs of regulatory actions until they are closer to final promulgation.

**Changes to SCHIP** — The budget shortens the time that states have to spend SCHIP funds from three to two years. This change, along with the SCHIP effects of the Cover the Kids initiative and the extension of Transitional Medicaid Assistance, result in additional SCHIP spending of \$96 million over ten years.

## Health Tax Policy

***Provides \$107.9 Billion to Promote Health Savings Accounts (HSAs)*** — The President’s budget includes \$35.6 billion over five years and \$107.9 billion over ten years for a package of policies that promote HSAs and high-deductible health plans (HDHPs). These proposals include an increase in the amount an individual and/or employer can put tax-free into an HSA, tax deductibility for premiums for HDHPs for individuals who purchase them separately from an employer, tax credits for payroll taxes paid on earnings used to make HSA contributions and pay for HDHP premiums, and tax credits to low-income families to assist with the purchase of HDHPs. Unfortunately, this agenda will undermine the existing employer-sponsored insurance system, push additional costs onto consumers, do little to decrease the ranks of the uninsured, and favor the healthy and wealthy.

## Appropriated Public Health Programs

***Cuts to Public Health Programs*** — The President’s budget provides \$53.0 billion for appropriated public health programs in 2007, including \$2.3 billion for pandemic influenza. Excluding the allowance for pandemic flu, the budget provides \$50.7 billion for public health programs. This is a cut of \$57 million below the 2006 level excluding supplemental appropriations.

<b>Funding for Public Health Appropriated Programs</b> (Dollars in Billions)			
	2006	2007 Budget	Dollar Cut
Public Health Total Appropriations	\$54.152	\$53.000	-\$1.152
Emergency Supplementals and Pandemic Influenza Allowance	\$3.395	\$2.300	NA
Public Health, excluding emergency supplementals and pandemic influenza	\$50.757	\$50.700	-\$0.057