HOUSE BUDGET COMMITTEE

Democratic Caucus

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Mandatory Spending Cuts in the President's 2007 Budget: Budget in Brief #8

Spending levels for mandatory programs are determined by the laws authorizing the programs rather than by annual appropriations decisions. Mandatory spending currently makes up about 60 percent of the budget and includes major programs such as Social Security, Medicare, and Medicaid. Total mandatory spending in 2006 is estimated at $1.4 trillion.

The President's 2007 budget cuts mandatory spending relative to current-law projections by $51.7 billion over five years (2007-2011) and by $184.0 billion over ten years (2007-2016) through a combination of service reductions and fee increases. (These figures exclude the President's Social Security private accounts plan and the spending effects of the President's tax proposals.) Within this total, the President's budget cuts spending in some areas and increases spending in others. Consequently, the gross cuts in the budget exceed $51.7 billion. The largest spending cuts affect Medicare and the Pension Benefit Guaranty Corporation (PBGC). Other programs cut include Medicaid, farm programs, Social Security benefits, Unemployment Insurance, and food stamps. Some of these cuts are partially offset by spending increases within the same or different programs, such as Medicaid, the State Children's Health Insurance Program (SCHIP), Temporary Assistance for Needy Families (TANF), and food stamps.

Health Care

Cuts Medicare by $138 Billion Over Ten Years — The budget cuts Medicare by $37 billion over five years and by $138 billion over ten years by reducing payments for providers in traditional Medicare and by 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. Included in the overall $138 billion cut is an

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 (at *www.house.gov/budget_democrats/*) analyzed the budget using the estimates submitted by the Office of Management and Budget. The Congressional Budget Office (CBO) has since re-estimated the President's budget, and this report uses CBO's estimates of spending and revenue.

automatic across-the-board cut. Current law requires the Medicare trustees to estimate each year the point at which general revenues will finance at least 45 percent of Medicare costs. Once the trustees estimate in two successive years that this 45-percent level will be reached within the next six years, the President must 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 Congress acts. CBO estimates this provision will result in across-the-board cuts of $1.8 billion over five years and $26 billion over ten years.

Cuts Medicaid by $11.4 Billion — The budget makes legislative cuts to Medicaid of $4.5 billion over five years and $11.4 billion over ten years. The ten-year amount consists of $15.3 billion in cuts to payments for prescription drugs, Medicaid administrative costs, and targeted care case management for disabled children, adults, and others. The spending cuts are partially 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.

Changes 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, increases SCHIP spending by $483 million over five years and by $96 million over ten years.

Income Security

Reduces Unemployment Insurance (UI) Overpayments — The budget increases states' ability to detect and recover erroneous UI payments, reducing spending by $1.1 billion and by $2.6 billion over five and ten years, respectively.

Changes Eligibility Rules for Food Stamps — The budget cuts food stamp spending by $782 million over five years and by $1.7 billion over ten years by making it more difficult for low-income families receiving TANF non-cash assistance to qualify for food stamps. A similar provision passed the House last year in the Republican spending cut reconciliation bill, but it was rejected by the Senate and ultimately dropped. Another budget provision increases food stamp spending by $599 million over five years and by $1.4 billion over ten years by exempting tax-favored retirement savings from eligibility calculations.

Increases PBGC Insurance Premiums — The budget includes changes to strengthen the PBGC's financial position by changing variable rate premiums to reflect new funding targets, which will be determined based on expected claims. The income from these changes is classified as an offset to spending and therefore reduces total mandatory spending by $14.5 billion over five years and by $35.1 billion over ten years.

Increases Spending for TANF — The budget increases TANF spending by $1.4 billion over five years and by $4.2 billion over ten years. Over five years, most of the increase – $841 million – results from extending supplemental grants beyond their current expiration date of 2008. Another $349 million goes for marriage promotion activities, adding to the new funding provided in the recent reconciliation spending bill for such activities. Changes to the contingency fund account for the remaining increase.

Social Security

Worsens Deficits and Debt by Diverting Resources to Private Accounts **—** The budget includes the President's plan to divert up to one-third of workers' Social Security payroll contributions into private accounts and impose steep cuts to traditional Social Security benefits. The President announced his plan in 2005 and traveled around the country to promote it, but the plan failed to win the support of the American public or Congress. Private accounts, by themselves, do nothing to reduce the long-term budget challenges associated with the aging of the American population. They simply make the budget situation worse. CBO estimates that the diversion of payroll taxes into private accounts adds $311.6 billion to the deficit over the next ten years. CBO's estimate is substantially below OMB's estimate of $712.1 billion, because CBO assumes that two-thirds of workers would not want the accounts and would elect to remain in the current system. The ten-year figure understates the annual fiscal effect of the plan because the budget assumes implementation of the plan will not begin until 2010. The plan's drain on the budget continues long after the next ten years.

Includes Other Cuts to Social Security **—** The budget includes four policy changes that together reduce spending on Social Security benefits by $2.4 billion over five years and by $6.5 billion over ten years. The budget: eliminates the $255 lump-sum death benefit paid to surviving dependents of a deceased worker; tightens enforcement of the Windfall Elimination Provision and Government Pension Offset provisions, thereby reducing the Social Security benefits paid to retirees with pensions from public sector employment outside the Social Security system; requires full-time school attendance at age 16 for child beneficiaries; and changes the offset formula for integrating disability insurance and worker's compensation benefits.

Agriculture

Cuts Farm Bill Agriculture Programs — The Administration's budget cuts agriculture programs by $5.2 billion over five years and by $9.4 billion over ten years. The budget reduces all commodity payments to farmers by five percent, cuts the crop insurance program, and reduces the payment limitation for commodity payments, among other proposals. The Administration claims that net cash farm income is close to record levels, and exports are strong and showing solid growth. But the rural economy is still struggling, commodity prices have been declining, and production in many areas has suffered from natural disasters and soaring energy costs. Farm Bill programs were trimmed by $2.7 billion over five years under the Republican reconciliation spending bill, and the President's budget creates additional uncertainty for America's ranchers and farmers.