RSC
Republican Study Committee

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Medicare Trustees Report & Cost Containment

On Tuesday, March 23, the Medicare and Social Security Trustees released their annual report on the financial status of the Social Security and Medicare trust funds. The Medicare report shows the fund approaching a deficit and insolvency quickly, with a deficit in the Hospital Insurance Trust Fund by 2010 and bankruptcy in 2019, seven years earlier than the 2003 report predicted. The report also shows a significant unfunded liability for the Medicare system. The media and Democrats will likely attempt to link the downturn in the outlook for Medicare to the recently enacted Medicare Prescription Drug and Modernization Act. According to the Trustees, the bill contributed to moving up the date of insolvency by two of the seven years.

In response to questions about what they are prepared to do to address the Medicare funding problem, it may be useful for Members to point out that the Medicare Drug Bill did include a mechanism to help evaluate the financial stability of the overall program (including the new drug benefit) and to require Presidential and Congressional action to correct any funding problems. Known as "cost containment," this provision was advocated by House conservatives, and while the version of the proposal contained in the final bill was not as strong as what proponents originally advocated, it does provide the basis for future action on preserving Medicare and correcting any funding problems.

The cost containment proposal included in the bill will be formally implemented beginning with next year's Trustees Report. However, this year's Trustees report did include an analysis of the portion of total Medicare spending predicted to come from general revenue, as the proposal requires. The Trustees estimate that general revenues will grow from 32 percent of total Medicare spending in 2003 to 43 percent in 2006 and 45 percent in 2012. If these estimates hold, action under cost containment would take place in 2007.

Below is a description of the cost-containment provision included in the Medicare Prescription Drug and Modernization Act.

Evaluation, Report, and Presidential Action:

- The portion of Medicare spending coming from the general fund of the Treasury (i.e. from non-Medicare dedicated sources) is not supposed to exceed 45% of total Medicare spending. This "cap" is permanent and would cover new benefits or expansions to existing benefits added by future Congresses.
- The Medicare Trustees will issue a report each year beginning in 2005 indicating whether or not during any of the next seven years the cap will be exceeded. If in

two consecutive reports, the Trustees predict excess spending (i.e. above the cap), a "Medicare Funding Warning" would be issued.

- In the event of a Medicare funding warning, the President is required to submit legislation to reduce the general fund portion of Medicare spending below the cap (i.e. reduce benefits or increase dedicated Medicare revenue – includes premiums and payroll taxes). The legislation would have to be submitted within 15 days of the next budget submission to Congress.

House Process:

- The proposal submitted by the President would have to be introduced within three legislative days by the Majority Leader (or his designee) and the Minority Leader (or his designee) in the House. The committees to which the bill is referred must report it to the full House by June 30. The Budget Committee must certify that the bill would eliminate the Medicare funding problem.
- If the House fails to vote on final passage of a bill by July 30, then 1/5 (88 Members) of the House can move to discharge a bill that fixes the Medicare funding problem. The motion would be privileged and must be offered by someone supporting the bill.
- If the House votes (218 majority) to discharge the bill, the bill moves to the floor and there is an open rule (up to 10 hours for amendments) that waives all points of order against amendments (provided that if adopted the problem is still fixed).

Senate Process:

- The proposal submitted by the President would have to be introduced within three legislative days by the Majority Leader and Minority Leader in the Senate (or their designees).
- Special procedures would apply to a bill that has passed the House or is within the jurisdiction of the Finance Committee. Under these procedures, if the Committee on Finance has not reported the bill by June 30, any Senator may move to discharge it.
- If the bill has been reported by the Finance Committee or discharged, any Senator may move to proceed to the consideration of the legislation.

Key Talking Points:

- Rather than squabbling over whose cost estimate for the Medicare Drug bill is right, when in reality both will probably be wrong, it is important to focus on solutions to any future funding problems that Medicare may face. The cost containment procedures included in the Medicare Drug bill have set the stage for just this type of reform-minded approach.
- The cost containment provision will provide the President and Congress with the information necessary to evaluate the overall financial well-being of Medicare and require Presidential and Congressional action to address any funding problems.