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The CHAMP Act Fully Complies with PAYGO

The CHAMP Act Fully Complies with the Pay-As-You-Go Rule (PAYGO) — The Children’s Health and Medicare Protection Act of 2007 (H.R. 3162, the CHAMP Act) demonstrates Democrats’ strong commitment to fiscal responsibility while also providing important health coverage to needy children and seniors. Balancing budgets is never easy and there are always trade-offs, but this bill illustrates those choices were made. The bill brought to the House floor complies with the principle that all direct spending increases and tax cuts must be fully paid for. The non-partisan Congressional Budget Office (CBO) score of the bill shows that it does not increase the deficit over either the next five or ten years.

CHIP was Created and Will Continue to Be Funded in a Fiscally Responsible Manner — The Children’s Health Insurance Program (CHIP) was created as part of the Balanced Budget Act of 1997. In the same manner, the CHAMP Act illustrates how it is possible to expand coverage to millions of uninsured children while also being fiscally responsible. The bill reauthorizes and strengthens the program by providing incentives for states to enroll eligible children. According to CBO, this bill will provide coverage to an additional five million children who would otherwise be uninsured.

The CHAMP Act Makes the Hard Choices Necessary to Move the Country Forward — Adhering to PAYGO means making hard choices, and this bill makes those choices. Over the last few days, the authors of this legislation reduced the amount they had planned to spend on CHIP, reforms to the physician payment system, and Medicare benefit improvements by \$73 billion over ten years in order to comply with PAYGO. Making these decisions was not easy, because these were not gimmicks. There simply was not enough money to fund all of the worthy policies right now.

CHIP — The committee-reported bill spent \$169 billion on CHIP and Medicaid over ten years, but the bill on the floor spends \$138 billion – \$31 billion less – in part because it adjusts bonus payments in the outyears (and provides for a study to determine their effectiveness). These payments are incentives for states to establish outreach efforts to enroll eligible children who are not enrolled. If the study determines they are effective, then Congress has the option to reinstate them. The bill also assumes states will be successful in facilitating aggressive outreach programs and will continue them. The changes do not sunset the CHIP allotments or include “budget gimmicks” as opponents of the bill may suggest. In fact, the bill provides more funding in the outyears than it does in the first five years, for states to continue covering millions more children after 2012 than would be the case under current law.

Physician Payments — The committee-reported bill spent \$101 billion to begin reforming the Sustainable Growth Rate (SGR) formula used to set Medicare physician payments and take steps toward filling the outyear hole created by the SGR, and to make other changes. The floor bill scales total spending back to \$65 billion. This figure reflects \$67 billion for SGR reform, plus other policies that bring net spending to \$65 billion. Under current law, doctors will experience a payment rate cut of 10 percent in 2008 and additional cuts in the following years. The \$67 billion investment in SGR reform is far more than Republicans have been willing to spend to address

longstanding problems in the Medicare physician payment system. The last two Congresses spent only \$3 billion over ten years to address SGR formula problems, and the President's 2008 budget included no resources for this issue. The CHAMP Act takes solid steps toward real reform and filling the hole.

The CHAMP Act: Changes Made to Comply with PAYGO				
<i>(billions of dollars, 2008-2017)</i>				
<u>Spending</u>	<u>Ways and Means Reported</u>	<u>House Floor Bill</u>	<u>Change</u>	
CHIP and Medicaid	169	138	-31	
Medicare Beneficiary Improvements	55	50	-5	
Physicians	101	65	-36	
Rural Access Protections	2	2	0	
Misc. and Interactions	4	2	-2	
Total*	331	258	-73	
<u>Offsets</u>				
Medicare Advantage	-157	-157	0	
Revenue	-60	-58	2	
Other Providers	-38	-38	0	
Drug Rebate	-4	-5	-2	
Total*	-258	-258	0	
Deficit Effect	73	0**	-73	

* Differences due to rounding.

**\$500 million or less in savings.

The CHAMP Act Reduces Wasteful Medicare Spending and Strengthens the Program for the Future — This bill strengthens the Medicare program for all beneficiaries and saves \$157 billion over ten years by phasing out unjustified overpayments to Medicare Advantage private plans. These plans right now are paid 12 percent more than fee-for-service Medicare, without any clear benefit to seniors in relation to the extra money we are spending. What's worse, these overpayments shorten the solvency of the Medicare hospital trust fund by two years. Efficient, well-run private plans can compete on a level playing field with traditional Medicare and attract customers. To continue to subsidize plans that are of dubious additional benefit to seniors is inefficient and weakens Medicare for all seniors over the long run. By phasing out Medicare Advantage overpayments, the CHAMP Act makes great strides in reducing waste in the Medicare program.

Republican Criticism of this Bill on Budgetary Grounds Is Not Credible, Given Their Fiscal Track Record — It was a Republican president and Congress that created a \$400 billion Medicare prescription drug benefit in 2003, while offsetting only a small portion of that total cost. That same year, they passed \$330 billion in tax cuts that also failed to follow the PAYGO principle. Increasing spending while cutting taxes is not a recipe for long-term fiscal sustainability. This week, the Administration requested another increase to the debt limit due to the fiscal mismanagement of prior Congresses and this Administration. Since 2001, the limit has been increased by \$3 trillion. Democrats have committed themselves to paying for all new mandatory spending and tax cuts, and this legislation today illustrates just how seriously we take that commitment.