BUDGET COMMITTEE
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Budget Perspective: The Real Deficit Effect of the Health Bill

- What do Democrats say about their health bill? **They say that, according to CBO, their bill reduces the deficit by $131 billion in the first ten years (and by $869 billion from 2020-2029, although CBO does not actually estimate that exact figure; instead, CBO estimates the net change in the deficit would be from 0.25-0.5 percent of GDP over those 10 years).**

- CBO says a lot of other things in its 38-page cost estimate. Boiling down the budgetary effect of this massive bill into just one number is a misleading exercise.

- For example, CBO indicates that $52 billion of the "lower" deficit over the next 10 years comes from an increase in Social Security payroll tax revenues that result from the increase in wages that employers will offer employees instead of health insurance.

- But when Social Security revenues increase, it is only because future Social Security benefits are also going to increase. Social Security is already promising to pay benefits that the program cannot afford – there is a large unfunded liability. So the increased Social Security revenues resulting from this bill are already spoken for – they will be collected to pay for increased future benefits. They cannot be available for both paying for the related future increases in Social Security benefits and for offsetting the increases in other spending in this bill.

- **Therefore, we should not count $52 billion of the "lower" deficit due to increased Social Security payroll tax revenues.**

- A similar situation applies in the case of the new voluntary federal program of long-term care insurance – the CLASS Act. Because it would work like an insurance program – premiums would be collected in the near term from all who purchase a policy, and insurance benefits would be paid out only to those who end up needing long term care later.

- As a result, CBO estimates net premium income of $72 billion over the next 10 years. This premium income is not available to offset other spending in the bill – it would be collected to pay for future long-term care insurance benefits. So the deficit effect of the spending in this bill is not decreased by the amount of CLASS insurance premiums.

- **Therefore, we should not count $72 billion net premium income from the CLASS Act.**

- After adjusting for the fact that Social Security revenues and CLASS premium income are being collected not to pay for other unrelated spending in this bill but to pay for future benefits in those two programs, the deficit picture changes from ~~a~~ the deficit reduction claimed by the supporters of this bill to essentially no change in the deficit outlook at all. But even that oversimplifies the budgetary situation of this bill.

- The bill includes $467 billion in Medicare cuts over the next 10 years. Medicare has an unfunded liability of $38 trillion. The cost of Medicare is growing much faster than the rate of growth in the economy.

- What this means is that, on our current path, the federal government will not have sufficient resources to make the payments that Medicare beneficiaries might be expecting for their health care. If a liability does not have a funding source then it does not get paid. We already know this will start happening in Medicare in 2017.

- One way to reduce the unsustainability of Medicare is to plan ahead and make some reductions now in future promises so that our remaining promises are more likely to be fulfilled in an orderly way, rather than the federal government telling beneficiaries: "Sorry, we ran out of money so you're on your own."

- The Medicare reductions in this bill, by themselves, would have been an important step to extending the life of that program. But instead of using the savings to make Medicare healthier, this bill uses those savings to pay for other new spending programs in the bill.

- But savings can't be used twice – to both extend the life of Medicare and to pay for other spending. Yet the supporters of this bill have the nerve to claim they are extending Medicare's solvency past 2017 and reducing the deficit at the same time.

- **Therefore, we should not count $467 billion in Medicare cuts.**

- The real result is that the government is not reducing its exposure to future claims on its resources and the resources of the American economy at all. Instead, future Medicare claims are still out there, and we are adding a whole new set of future claims with this bill.

- If you take out the Medicare savings – since the first claim on them is from the program itself and the need to make it more sustainable for the future – then the result is that this bill increases the deficit by $460 billion over the next 10 years, a far cry from the deficit reduction claimed by the bill's supporters.

Bottom Line: What is the Real Deficit Impact of This Bill?

- **Deficit increase of $460 billion over first ten years.**
- **Deficit increase of $1.4 trillion over second ten years.**

Real Effect on the Federal Deficit of Reid II

(By fiscal year in billions of dollars)

	2010-2019	2020-2029
CBO Estimate of Reid II - Unified Deficit Impact	-131	-869
Remove Off-Budget Effect (Social Security Revs)	-52	-223
Remove CLASS ACT	-72	-31
Remove Medicare Cuts	-467	-2055
Real Increase in On-Budget Deficit	**460**	**1440**

Reid Manager's Amendment

(billions)	2010-14	2010-19	2014-23	2020-29	2010-29
Spending Increases					
Medicaid/CHIP (coverage)	20	395	827	1,361	1,757
CLASS Act Spending	1	15	43	94	109
Exchange subsidies	20	336	739	1,314	1,650
Risk Adjustment Payments	12	120	236	375	494
Other Medicare/Medicaid Spending	52	136	192	296	429
Small employer tax credits	21	38	41	63	102
Exchange Premium Credits	4	102	229	407	509
Total Spending	130	1,142	2,306	3,910	5,051
Offsets					
Medicare/Medicaid cuts	-114	-546	-1,125	-2,391	-2,936
CLASS ACT Premiums	-30	-88	-117	-125	-212
Risk Adjustment Collections	-13	-121	-243	-391	-512
Other Revenues	-2	-14	-27	-38	-53
Individual mandate penalties	0	-15	-34	-59	-74
Employer mandate penalties	-2	-28	-57	-89	-117
Other Tax increases	-95	-463	-907	-1,686	-2,150
Total Offsets	-255	-1,275	-2,508	-4,779	-6,054
GRAND TOTAL	-111	-131	-202	-869	-1,003

Reid Manager's Amendment

(billions)	2010-14	2010-19	2014-23	2020-29	2010-29
Spending	105	1,002	2,036	3,441	4,440
Spending Cuts	-114	-546	-1,125	-2,391	-2,936
Taxes/Receipts	-116	-589	-1,113	-1,919	-2,507
TOTAL	-111	-131	-202	-869	-1,003

NOTES

*Details may not add to totals due to rounding

*2014-23 - programs are fully implemented

*Spending = Medicaid/CHIP coverage, exchange subsidies and other Medicare/Medicaid spending

*Spending cuts = Medicare/Medicaid cuts

*Other Tax increases= taxes estimated by JCT and associated effects on revenues and outlays per CBO

*Repealing the implmentation of world-wide interest allocation is used as an offset in another bill

*Tax Increase = Small employer tax credits, tax impact of coverage policies, penalties and tax increases

SBC Minority Staff (12/20/09)