BUDGET COMMITTEE

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For Immediate Release **March 23, 2010**

Budget Perspective: The Real Deficit Effect of the Democrats' Health Package

- **Deficit increase of $618 billion over first ten years.**
- **Deficit increase of $1.8 trillion over second ten years.**

- What do Democrats say about the hybrid concoction that combines the enacted health bill (H.R. 3590) and the reconciliation "fix-it" bill (H.R. 4872)? **They say that, according to CBO, their bills reduce the deficit by $143 billion in the first ten years. (The Democrats also say that CBO says the deficit will be reduced by $1.2 trillion over the 2020-2029 period, but that is false. The CBO estimate takes great pains to indicate that it cannot produce a point estimate for that far into the future; instead, CBO provides only a ballpark estimate that the change in the deficit from the combined bills would be approximately 0.5 percent of GDP over those 10 years.**

- CBO says a lot of other important things in its cost estimate. So let's look at the full picture.

- First of all, the Democrats have lumped their health reform package in with their nationalization of student loans. According to CBO scoring, the changes to education policy reduce the deficit by $19 billion over ten years.

- But education policy isn't health reform, so when Democrats claim their health proposal reduces the deficit by $143 billion, they're including $19 billion from the student loan reform, which is why CBO notes that just the health provisions of the enacted health bill and the reconciliation "fix-it" bill combined reduce the deficit by $124 billion.

- **Therefore, we should not count $19 billion of the "lower" deficit that comes from the student loan provisions.**

- CBO indicates that $29 billion of the $124 billion "lower" deficit over the next 10 years comes from Social Security payroll tax revenues that result from the increase in wages that employers will offer employees instead of high-cost 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 health spending in this bill.

- **Therefore, we should not count $29 billion of the "lower" deficit that comes from 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 $70 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 other health spending in this bill over the next 10 years is not decreased by the amount of CLASS insurance premiums.

- **Therefore, we should not count $70 billion net premium income from the CLASS Act.**

- The bill also would require increased discretionary spending that would be essential for the proper implementation of the bill's provisions. Because this new discretionary spending would be subject to future appropriations, these costs are not included in CBO's direct spending estimate and, thus, are not included in the estimate of the Democrats' health package.

- Some of this new cost would need to be appropriated to federal agencies in order to implement the bill's provisions. Over 2011-2019, CBO estimates that the major costs include $9 billion for the Internal Revenue Service (IRS) to administer the eligibility determination, documentation, and verification processes for premium and cost sharing subsidies, and $9 billion for the Department of Health and Human Services (HHS) to implement changes to existing programs and reforms to the private insurance market.

  Other discretionary spending would result from future appropriations that would fund a variety of new programs authorized in the legislation. CBO has provided an estimate only for the years for which the bill authorizes a specific funding level, which is usually only for a few years, giving the appearance those new programs are temporary. Experience suggests, however, that once a newly

authorized program receives an appropriation, it continues receiving an appropriation in subsequent years even if the authorization has expired. Accordingly, it makes sense to continue to estimate the costs of such programs beyond their explicit authorization periods to measure the true budgetary impact of these new programs (unless the new program is designed to be truly temporary). Extrapolating CBO's estimate of authorizations from 2011 through 2019 suggests additional discretionary costs would total approximately $96 billion.

- **Therefore, we should count $114 billion in new discretionary spending over the next ten years as part of the cost of the legislation.**

- The bill includes $529 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. We already know this will start happening in Medicare in 2016.

- 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 the Democrats' health package, 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, these health bills use those savings to pay for other new spending programs.

- The real result is that the government is not reducing its exposure to future claims on taxpayers and on 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 other new spending in these bills.

- 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 2016 and reducing the deficit at the same time.

- **Therefore, we should not count $529 billion in Medicare cuts.**

Bottom Line: What is the Real Deficit Impact?

- **Deficit increase of $618 billion over first ten years.**
- **Deficit increase of $1.8 trillion over second ten years.**

Real Effect on the Federal Deficit of Hybrid Health Reform?
(by fiscal year, in billions of dollars)

	2010-2019	2020-2029
CBO Estimate of H.R. 3590 and H.R. 4872 Unified Deficit Impact	-143	N.A.
Remove Savings from Student Loan Provisions	-19	N.A.
Unified Deficit Impact of Health Provisions	-124	-917
Remove Off-Budget Effect of Social Security	-29	-157
Remove CLASS ACT	-70	-29
Add discretionary spending	114	151
Remove Medicare Cuts	-529	-2372
Total	**618**	**1792**

Note: (- = reduction in the deficit/ + = increase in the deficit)