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ANALYSIS OF PRELIMINARY CBO COST ESTIMATE OF H.R. 4872 THE COSTLY CONSEQUENCES OF THE HEALTH CARE DEBACLE

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The Democratic Majority remains intent on jamming into law their massive health care overhaul in an unprecedented abuse of the legislative process. More troubling than the process is the underlying policy, with job-killing tax hikes and a breathtaking expansion of entitlement spending that will accelerate the nation's march toward bankruptcy. The Congressional Budget Office [CBO] released a preliminary cost estimate, which details the costly consequences of this health care debacle:

- *Expands entitlement spending by \$2.4 trillion.*
- *Hits the American people with more than a half-trillion in tax hikes - the largest tax increase in American history.*
- *Uses Medicare as a piggy bank with more than a half-trillion in Medicare cuts to create a new entitlement.*
- *Includes a series of egregious gimmicks that hides the true cost of the bill.*

NEW SPENDING

- Roughly \$2.4 trillion in new entitlement spending in the ten-year window once the new entitlement is implemented.
- \$466 billion for federal subsidies to purchase government-run health coverage (\$17 billion in excess spending relative to the Senate bill)
- \$434 in additional spending for Medicaid (\$48 billion in excess spending relative to the Senate bill), a program already growing at 23 percent this year, and exacerbating cash-strapped state budgets.

NEW TAX HIKES

- \$569.2 billion in new tax increases, representing the largest tax increase in history.
- The largest single tax hike in the bill – \$210 billion – results from a 0.9% increase in the Medicare payroll tax on wages for job-creators and small businesses and a *new* 3.8% surtax on net investment income.
- The threshold amounts for these surtaxes are *not* indexed for inflation, meaning that although the taxes are aimed at “wealthy” individuals today, they will hit more and more middle-income individuals over time, just like the alternative minimum tax [AMT]. For instance, an individual earning \$100,000 today would be pushed across the \$200,000 threshold within two decades, assuming a yearly inflation rate of 3.5 percent.
- These new taxes will come *on top of* the bevy of proposed tax hikes for individuals and businesses outlined in the Administration’s budget, amplifying the total drag on growth and job creation just as the economy is struggling to emerge from the worst downturn since the Great Depression.

SPENDING GIMMICKS

The CBO can only make estimates based on the way legislation is written – and what the Majority presented to the CBO is full of spending gimmicks and hidden costs. Ranking Member Ryan exposed the smoke and mirrors at the Blair House health care summit on February 25, 2010 – and a credible answer to Ryan’s concerns has yet to be provided.

The following problems remain in the latest iteration of the health care overhaul:

Timing Gimmicks

- The legislation includes ten years of tax increases and ten years of Medicare cuts to pay for six years of spending. The true ten-year cost when subsidies kick in? \$2.4 trillion.
- The CBO cost estimate of the health care overhaul is derived from the March 2009 baseline – instead of the March 2010 baseline, which has already been released. The outdated cost estimate hides the true price tag, and American taxpayers deserve to know how much they’re being asked to shoulder.

Double-Counting

- \$53 billion in “savings” from increased Social Security payroll tax revenues is used for the new entitlement. These dollars are already dedicated to future Social Security beneficiaries, and using these funds to offset the cost of this bill assumes those benefits will not be paid.

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- \$70 billion in savings is claimed from the CLASS Act – long-term care insurance. These so-called savings are not offsets, but rather premiums collected to pay for future benefits.
 - More than \$500 billion in Medicare cuts cannot be counted twice. Using Medicare as a piggy bank, the bill raids nearly a half-trillion dollars from retirees' health coverage to fund another open-ended health care entitlement.
 - ▶ The updated legislation includes \$202 billion in cuts to the Medicare Advantage Program, representing nearly \$14 billion more in cuts than the Senate-passed bill.
 - Democrats claim their Medicare cuts will be used both to extend the program's solvency and to reduce the cost of the bill – they can't have it both ways.
 - When you strip away the double-counting of Medicare cuts, the so-called savings from Social Security payroll taxes, and the CLASS Act, the deficit increases by \$433 billion over the first ten years.

Hidden Spending

- The preliminary estimate does not include at least \$70 billion in appropriations that will be required to implement the legislation. In some cases this spending is sunset. If the administrative costs were extended, they would total \$114 billion.
- All early iterations of the health care legislation in both the House and Senate included the prevention of scheduled cuts in Medicare physician payments – known as “the doc fix.”
 - ▶ The Office of Management and Budget has estimated that the cost of the doc fix would add an additional \$371 billion to the cost of the legislation. With the price tag beyond what most Americans could handle, the Majority decided to simply remove this costly provision and deal with it in separate legislation.
 - ▶ The preliminary CBO cost estimate of H.R. 4872 assumes cuts in physician reimbursement rates by 21 percent this year, and continued cuts in the years ahead.
 - ▶ Ignoring this additional cost does not remove it from the backs of taxpayers. *Hiding spending doesn't reduce spending.*

This bill does not reduce deficits. It does not control costs. According to the Administration's Centers for Medicare and Medicaid Services actuary, the legislation bends the cost curve upward, increasing national health expenditures by \$222 billion. This bill adds a new health care entitlement when we have no idea how to pay for the entitlements we already have.

It will enlarge government, increase federal spending, deficits, and debt, and create a dependence on the federal government at odds with our historic commitment to individual liberty. It is a government takeover of the health care sector and intrudes in the doctor-patient relationship. The American people cannot afford the costly consequences of this health care debacle.