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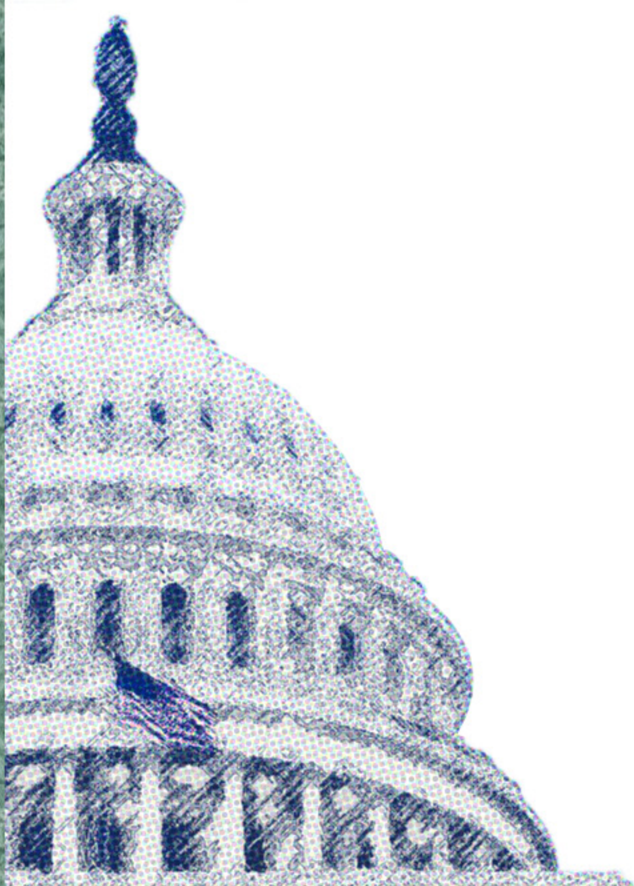
2nd Session

Easter Recess Packet



March 26, 2010
Prepared by
the Senate Budget Committee
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March 26, 2010

Dear Republican Colleague:

As we wrap up our legislative business to return home for the Easter recess, I want to share some information about the budgetary impact of the Democratic majority's new health care law, especially the plan's impact on the country's long-term fiscal outlook.

The Democratic health care law, enacted on March 23, is extremely expensive, highly unpopular, and the wrong solution to our nation's health care problems. Now both the Senate and House have passed the majority's health care reconciliation bill, which increases spending, taxes, Medicare cuts and accounting gimmicks, without insuring any more people. This $2.6 trillion health care package will exacerbate our already serious fiscal situation and put our children in more perilous economic straits than ever before.

This packet includes facts on the combined health care package, including the deficit impact and charts illustrating this massive expansion of government that will be financed by borrowing from future generations. Please contact my staff at 202-224-6011 with any questions or if you need any additional information.

Sincerely,

Judd

Judd Gregg

BUDGET COMMITTEE
Judd Gregg, Ranking Member
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For Immediate Release **March 26, 2010**

Reconciliation: It Will Make Bad Health Care Policy Worse

Democrats are Spending and Taxing More, but Not Insuring More People

- **MORE SPENDING:** When fully implemented (2014-2023), the new health care law costs more than $2.4 trillion – the reconciliation bill will add another **$200 billion in new spending over that period: bringing the combined new spending in the Democratic health proposal to $2.6 trillion.**
- **MORE ENTITLEMENTS:** Over 2009-2019, the new health care law spends $1.1 trillion on entitlements – the reconciliation bill will add another **$115 billion in new entitlement spending: bringing the combined new entitlement spending in the Democratic health proposal to $1.2 trillion.**
- **MORE TAXES:** Over 2009-2019, the new health care law contains $560 billion in tax increases – the reconciliation bill contains another **$50 billion in tax hikes: bringing the combined tax increases in the Democratic health proposal to over $610 billion**.
- **MORE MEDICARE CUTS:** Over 2009-2019, the new health care law cuts Medicare by $463 billion – the reconciliation bill cuts Medicare by another **$66 billion: bringing the combined Medicare cuts in the Democratic health proposal to $529 billion.**
- **MORE GIMMICKS:** The Democrats' reconciliation package is full of accounting gimmicks that hide the true deficit impact of the health package by counting savings in programs like Social Security ($29 billion), CLASS Act long-term care insurance ($70 billion), and Medicare ($529 billion). Taking these gimmicks out, **the health package will increase the deficit by $619 billion over the first ten years and will add $1.8 trillion to the deficit over the second ten years.**
- **A NEW PIGGY-BANK:** Under the Democrats' reconciliation bill, policy changes that nationalize student loans result in deficit reduction of $19 billion, savings entirely unrelated to health care that counts towards the combined deficit reduction of $143 billion. Further, **$9 billion in education savings will be used as a piggy-bank to pay for new health care spending.**
- **MORE COVERED? NO:** Despite a $2.6 trillion price tag that will add $618 billion to the deficit over the first ten years and add $1.8 trillion to the deficit over the second ten years, the new health care law leaves 23 million people uninsured. Even with all the new spending, taxing and gimmickry under the reconciliation bill, **23 million people will remain uninsured.**
- **JUST MORE OF THE SAME:** The newest Democrat health reform proposal explodes the size of government, implements huge tax hikes, adds trillions to the debt, interferes with the doctor-patient relationship, threatens job creation, and fails to control health care costs or extend insurance coverage to 23 million people. This reconciliation bill does not "fix" any of that…it simply makes it worse.

Budget Committee

Judd Gregg, Ranking Member
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Contact: Betsy Holahan (202)224-6011

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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 ~~e~~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?

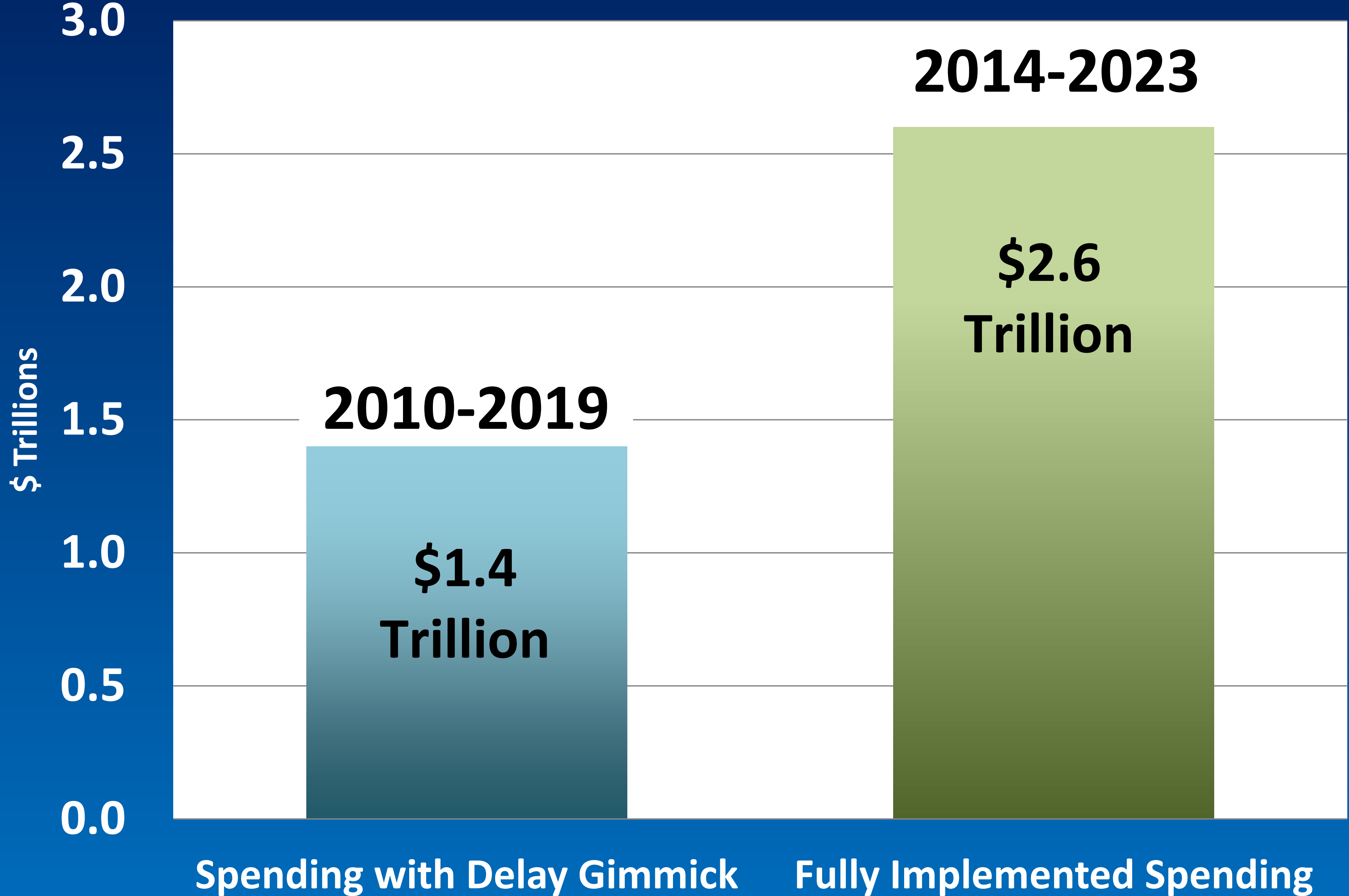
- **Deficit increase of $618 billion over first ten years.**
- **Deficit increase of $1.8 trillion over second ten years.**

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)

Total Spending in the Combined Health Bills

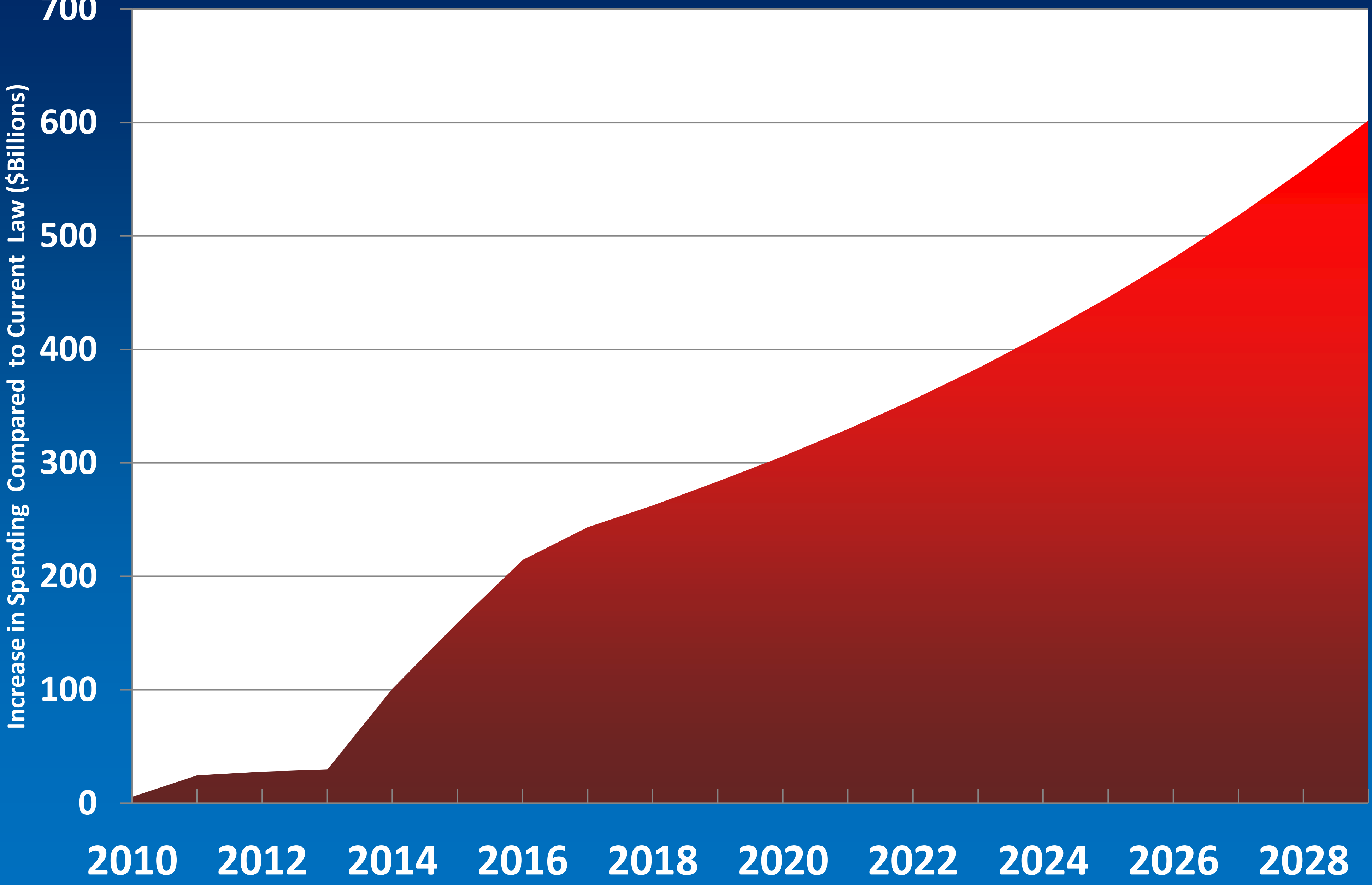


Source: SBC Republican Staff

March 23, 2010

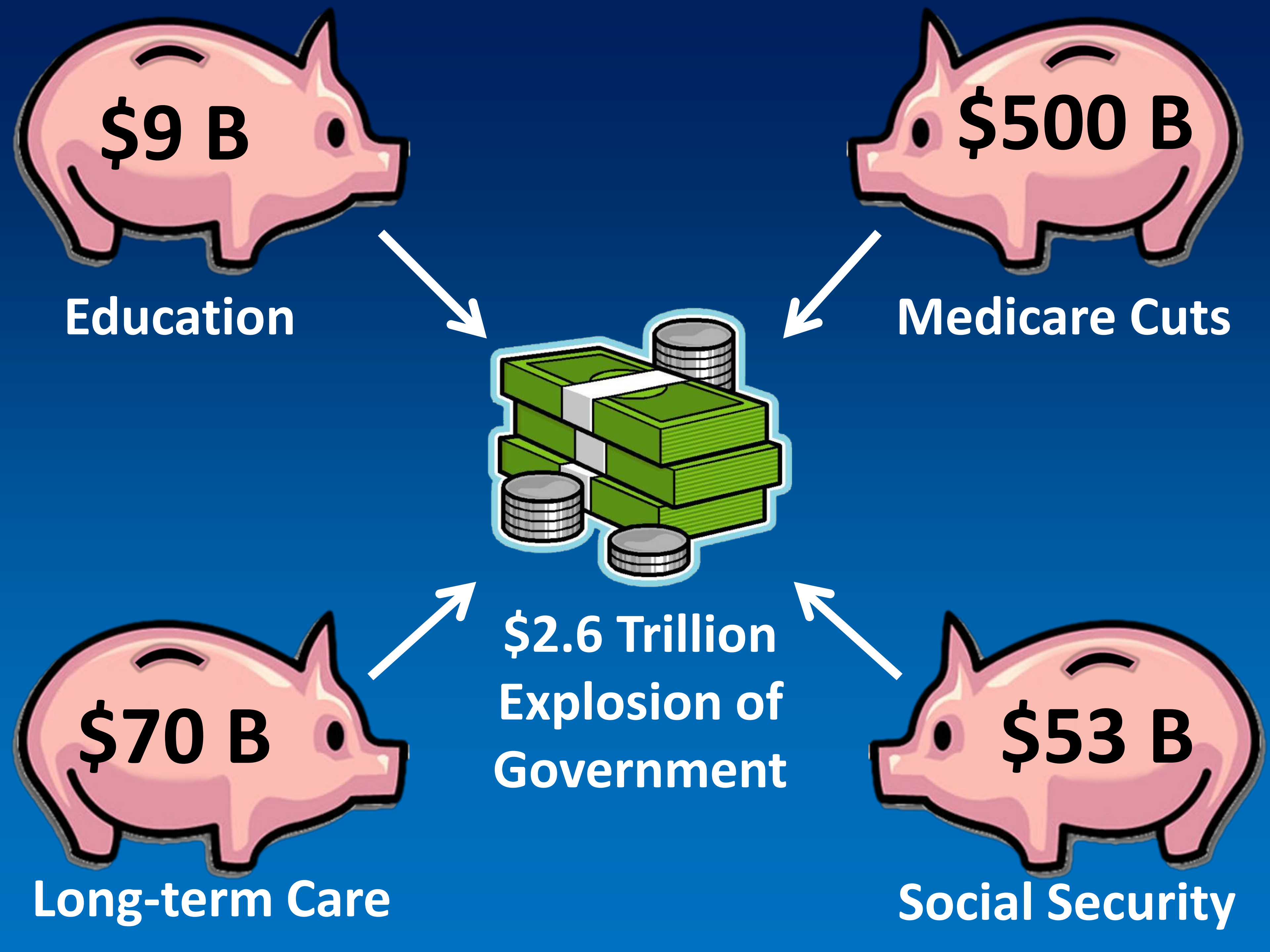
HOW BIG DOES YOUR GOVERNMENT GROW?

Spending Increases in the Combined Health Bills



Source: SBC Republican Staff

March 23, 2010


$9 B
Education
$500 B
Medicare Cuts
$2.6 Trillion
Explosion of
Government
$70 B
Long-term Care
$53 B
Social Security

Medicare Savings
Not Used to Save Medicare

"The majority of the HI trust fund savings under H.R. 3590 and the reconciliation proposal would be used to pay for other spending and therefore would not enhance the ability of the government to pay for future Medicare benefits."

CBO Director Doug Elmendorf,
letter to Honorable Paul Ryan,
March 19, 2010