



## Stark Choices: The Health Care Budget Proposals from the President and the House of Representatives

By Karen Davis



The President and the House of Representatives have advanced starkly different paths for the nation with recent budget proposals to address the federal budget deficit. The President characterizes his plan as a balanced approach with tax increases for higher-income families, as well as savings in defense and domestic spending

and provisions to control health care costs and improve efficiency in Medicare and Medicaid. Together, these changes would reduce the federal budget deficit by \$1.35 trillion over 12 years relative to current law.<sup>1</sup>

The budget resolution passed by the House of Representatives is based on a House Budget Committee proposal that would cut the top rate on taxes for individuals and corporations, exempt military spending from cuts, and make deeper cuts in domestic spending. It would also repeal the health insurance expansion provisions of health reform and cap federal budget outlays for Medicare and Medicaid. The plan is estimated to reduce federal spending by \$5.8 trillion over 10 years, \$4.2 trillion of which would be used to finance tax cuts, leaving \$1.65 trillion for deficit reduction.

With these proposals, the nation is beginning a serious debate on addressing the imbalance in projected federal budget revenues and expenditures. Health care is at the heart of this debate. The analysis that follows shows that while both

approaches constrain federal spending under Medicare and Medicaid, they differ sharply in how steep the cuts would be, how they would be achieved, and what effect they would have.

### Contrasting Health Care Budget Proposals

The President's and House of Representatives' proposals have fundamentally different strategies for health insurance coverage for elderly and disabled Medicare beneficiaries, low-income families, and middle-class working families without employer health insurance. The President's proposal would preserve Medicare and Medicaid, along with the expansions contained in the health reform legislation to cover more low-income individuals under Medicaid, subsidize health insurance premiums for working families, and fill in the current coverage gap (or "doughnut hole") in Medicare prescription drug coverage. A summary of the President's Health Budget Framework is included in [Table 1](#).

The House proposal would repeal the health reform provisions expanding Medicaid and providing new premium assistance for middle-income working families, restore the doughnut hole in Medicare prescription drug coverage, convert Medicare to a voucher for private health insurance when those now under age 55 qualify for Medicare, replace Medicaid with a block grant to states, and sharply restrict the growth in the federal budgetary commitment to Medicare and Medicaid over time. A summary of the health provisions in the House Budget Resolution is available in [Table 2](#).

While both budget proposals achieve comparable levels of deficit reduction, the President's framework raises taxes on high-income individuals, while the House of Representatives budget resolution cuts taxes. As a result,

<sup>1</sup> The President's proposal is estimated to reduce the deficit by \$4 trillion over 12 years relative to the Office of Management and Budget's adjusted baseline, which is higher than current law baseline due to certain assumptions about future federal outlays and receipts. Estimated deficit reduction is reported here relative to current law baseline to facilitate comparison with the House budget plan.

much of the Medicare and Medicaid savings in the House budget resolution would go to finance tax cuts.

The House resolution also misses the opportunity to use the federal government's leverage as a major purchaser of health care to lower the rising health care costs that are at the center of our budget deficit problem. Rather than addressing the underlying drivers of U.S. health care costs, the House resolution relies on market forces to lower costs. But as discussed in an [August 2010 blog post](#), the health care market is not like the market for other goods and services. Without effective measures to control these costs, such as incentives to reduce hospitalizations, the cuts in Medicare and Medicaid will translate into considerably higher costs for vulnerable low-income, elderly, and disabled individuals as well as working families.

Some specific consequences of the House budget resolution include:

- **Tight limits on growth in federal budget outlays for Medicare and Medicaid**

The House resolution would index the Medicare voucher and Medicaid per capita outlays with the Consumer Price Index, which is projected to grow at 2.5 percent annually. Health spending per capita, by contrast, is projected by the Centers for Medicare and Medicaid Services (CMS) to grow 3 percentage points faster—5.4 percent annually—over the coming decade. As a result, Medicare and Medicaid would cover a lower portion of health care spending over time under the House resolution. According to the Congressional Budget Office (CBO), federal spending on Medicare, Medicaid, the Children's Health Insurance Program, and subsidies for health insurance premiums would be reduced by 63 to 66 percent in 2050 relative to current baseline projections. By contrast, the President's budget framework would charge the Independent Payment Advisory Board with developing recommendations for holding Medicare spending per capita to the rate of growth of GDP per capita plus 0.5 percent, or approximately 4.6 percent annually.

- **Higher cost of private coverage for Medicare beneficiaries**

The CBO estimates that privatizing Medicare would cost, rather than save, money. Initially, private coverage for similar benefits as currently covered by Medicare would be 12 percent more expensive than Medicare because of higher administrative costs and higher provider payment rates. Thus initial vouchers would need to be higher than average Medicare spending per person—if the goal at the outset were to maintain benefits. By 2030, private coverage would be about 40 percent more expensive than Medicare for the same benefits.<sup>2</sup> Simply put, at the outset federal costs could go up and less federal dollars would go to providing benefits and more would go to insurance profits and higher payments to providers.

- **Higher costs for Medicare beneficiaries**

Since the federal government would tie future vouchers to the Consumer Price Index rather than the rising costs of health insurance or medical care, the federal government would spend less over time as beneficiaries spend more. By replacing Medicare with a voucher or defined contribution for private insurance that buys less for the premium dollar, the value of the voucher would erode over time, resulting in higher premiums for beneficiaries and/or reductions in benefits. CBO estimates that by 2022, new enrollees would have to pay at least \$6,400 more out of pocket to buy coverage comparable to traditional Medicare. By 2030, out-of-pocket costs would triple, and the portion of a typical 65-year-old's health care expenses paid for by the beneficiary would increase from 30 percent to 68 percent under the House of Representatives budget resolution. High-income beneficiaries would pay nearly all of their own health care costs. By contrast, the President's budget framework would have Medicare use its leverage to buy coverage at lower cost and share in financing a defined set of benefits for all beneficiaries.

---

<sup>2</sup> Commonwealth Fund calculation based on Figure 1, Page 22 in CBO letter to the Honorable Paul Ryan, April 5, 2011, available at [http://www.cbo.gov/ftpdocs/121xx/doc12128/04-05-Ryan\\_Letter.pdf](http://www.cbo.gov/ftpdocs/121xx/doc12128/04-05-Ryan_Letter.pdf).

- **50 million more uninsured**

By repealing the health insurance expansion provisions in the Affordable Care Act, the House budget resolution would eliminate coverage for an estimated 33 million people by 2019. Cutting federal Medicaid spending by one-third by the end of the decade would potentially leave an additional 15 million people without coverage, including seniors in nursing homes, people with disabilities, children, and pregnant women. Replacing Medicare with a voucher with a limited dollar value would make private insurance premiums unaffordable for some elderly and disabled people. CBO notes that unspecified numbers of Medicare beneficiaries would become uninsured. Eliminating the subsidies for small business and the repeal of the Independent Payment Advisory Board and its powers to control health care costs would likely raise health insurance premiums for middle class and small businesses, further eroding health insurance coverage. The White House estimates that, in all, more than 50 million people would become uninsured.

## **Putting the U.S. on the Path to a High Performance Health System**

The budget proposals offered by the President and House present the nation with divergent paths for lowering health care costs and reducing the federal budget deficit as the post–World War II generation reaches retirement. In short, the large reductions in federal health expenditures in the House budget resolution would shift costs onto consumers and other payers, forcing future Medicare beneficiaries to pay more of their own expenses directly out of pocket, requiring states to absorb rising Medicaid costs, and leading to dramatic increases in the number of uninsured. By contrast, the President’s proposal would maintain a federal commitment to affordable coverage for all and attempt to keep spending increases reasonable by creating incentives for physicians and hospitals to be accountable for both patient outcomes and the use of health care resources.

The challenge for all leaders—in government, health care, and the private sector—is to move beyond shifting responsibility for unaffordable care toward developing effective strategies for putting the U.S. on the path to a high-performance health system that yields real value for the monies invested.

The U.S. has the resources and innovative spirit to cope with the challenges ahead, as it has in the past. The health care experiences of other countries and high-performing areas within the U.S. should be carefully examined to identify policies and practices that hold the promise of achieving the triple aims of better health, better patient care experiences, and lower costs.

## Table 1. President's Health Budget Framework

- **Saving \$480 billion over 12 years in Medicare and Medicaid and \$1 trillion in the subsequent decade while ensuring adequate payment to physicians and hospitals and reducing the deficit.**

These savings are to be achieved by building on and strengthening the health reform legislation, especially the creation of an Independent Payment Advisory Board (IPAB). Under the health reform law, IPAB is charged with developing recommendations that would hold Medicare spending to the rate of growth in the gross domestic product (GDP) per capita plus 1 percent. Congress must consider IPAB's recommendations or, if it disagrees, enact policies that achieve equivalent savings. Under the President's Health Budget Framework, this goal would be tightened to GDP per capita plus 0.5 percentage points. It would give IPAB additional tools to improve the quality of care while reducing costs, including allowing it to promote value-based benefit designs that promote proven services such as prevention and primary care.

The health reform legislation also tests innovative payment methods for hospitals and physicians. The President has indicated his support for spreading successful innovations by changing the way Medicare pays for health care. Health care professionals and hospitals will no longer be paid by procedure or number of days in the hospital, but have new payment models that offer incentives to enhance patient safety, reduce avoidable complications, and improve results.

- **Saving \$50 billion in Medicare over the next 10 years by improving patient safety**

The Administration has launched a new public-private partnership with employers, states, hospitals, physicians, and nurses called Partnership for Patients that will help improve the quality, safety, and affordability of health care for all Americans. The initiative focuses on reducing hospital patients' injuries and infections while allowing them to recover without preventable complications.

- **Saving \$100 billion in Medicaid over 10 years**

The President proposes to create a single matching rate for coverage under Medicaid and the Children's Health Insurance Program (CHIP). The rate would vary across states as it does now with greater federal matching rates for low-income states, but the federal matching rate would be the same, for example, for children covered under Medicaid and CHIP. The federal matching rate would reward states for achieving efficiency and automatically increase if a recession forces enrollment and state costs to rise. It would incentivize states to make more efficient, higher-quality care available to high-cost beneficiaries, including those eligible for both Medicare and Medicaid (known as dual eligibles). Governors are asked to develop additional recommendations to reform and strengthen Medicaid.

- **Saving \$200 billion in Medicare prescription drugs over 10 years**

The health budget framework would limit excessive payments for prescription drugs by leveraging Medicaid's purchasing power, similar to recommendations made by the bipartisan Fiscal Commission. It would speed up availability of generic biologics and prohibit brand-name companies from entering into "pay-for-delay" agreements. It would implement Medicaid management of high prescribers and users of prescription drugs.

- **Saving money by clamping down on fraud and abuse**

The framework would clamp down on states' use of provider taxes to lower state spending and recover erroneous payments from Medicare Advantage. It would establish upper limits on Medicaid payments for durable medical equipment.

- **Adjusting Physician Payment**

The President's health budget framework would use a portion of the savings from the provisions described above to adjust payment rates for physicians' services under Medicare. Without action, under current law physician fees would decline by 29 percent in January 2012 and by additional amounts in later years. In the FY2012 budget outline released in February, the President proposed freezing payment rates at their 2011 levels for the next 10 years. The Congressional Budget Office (CBO) estimated this "doc fix" would increase federal outlays by \$298 billion. The cost of the freeze for the first two years would be offset by several measures included in the proposed budget that were projected to reduce mandatory spending by a total of \$48 billion over the coming decade. The remainder of the cost of the physician payment changes could be offset with the savings identified in the President's new deficit reduction framework.

## Table 2. House of Representatives Health Budget Proposal

- **Overview**

The budget resolution passed by the House of Representatives would make cuts in Medicare, Medicaid, and other health provisions. Specifically, it would achieve \$1.4 trillion in savings by repealing the health insurance provisions of health reform, \$771 billion by converting Medicaid to a fixed block grant to the states, and \$30 billion from Medicare through 2022 through various short-term measures. After 2022, Medicare would be replaced by a voucher program to purchase private insurance. Federal costs for the voucher in future years would be held to general inflation, not the rise in health care costs.

- **Medicare voucher starting in 2022**

For those now under 55, the House budget resolution would replace Medicare benefits with a voucher toward the purchase of private health insurance. Starting in 2022, the voucher would be capped and rise each year with the Consumer Price Index, which is estimated by CBO to increase 3 percentage points less than the rise in health care costs each year. The voucher would vary with health status. It would also vary with the income of the beneficiary: people in the top 2 percent of the income distribution would receive 30 percent of the voucher, and the next 6 percent would receive 50 percent of the voucher.

- **Raise age of Medicare eligibility to 67, producing savings of \$125 billion over 10 years starting in 2022**

Beginning in 2022, the age of eligibility for Medicare would increase by two months per year until it reached 67 in 2033.

- **Convert Medicaid to block grant to states in 2013, producing savings of \$771 billion over next decade**

Rather than matching state Medicaid outlays, the federal government would give a fixed amount of money to the states for care for low-income people beginning in 2013. This allowance would be indexed with the Consumer Price Index and population growth. States would be given flexibility to design and administer their Medicaid programs; the federal government would no longer set standards on who or what should be covered. The acute care benefit supplemental coverage of low-income Medicare beneficiaries would be replaced with a fixed-dollar contribution toward a medical savings account.

- **Repeal most health insurance provisions in health reform**

Most of the key health insurance provisions of health reform would be repealed, including the requirement that most legal U.S. residents obtain health insurance; the establishment of health insurance exchanges; the provision of premium and cost-sharing subsidies for working individuals and families who purchase coverage through the exchanges; expansion of Medicaid coverage to most nonelderly people with incomes below 138 percent of the federal poverty level; tax credits for small employers that offer health insurance; and the Community Living Assistance Services and Supports (CLASS) program for long-term care insurance. It would repeal expanded subsidies for the “doughnut hole” in Part D of the Medicare program, restoring the requirement that many Medicare beneficiaries would have to pay all of their drug costs in a given range of spending. It would also repeal the provisions creating the Independent Payment Advisory Board.

- **Medical malpractice with limits on noneconomic and punitive damages**

Several changes would be made to laws governing medical malpractice, including putting in place limits on noneconomic and punitive damages.