UNITED STATES SENATE
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POLICY COMMITTEE

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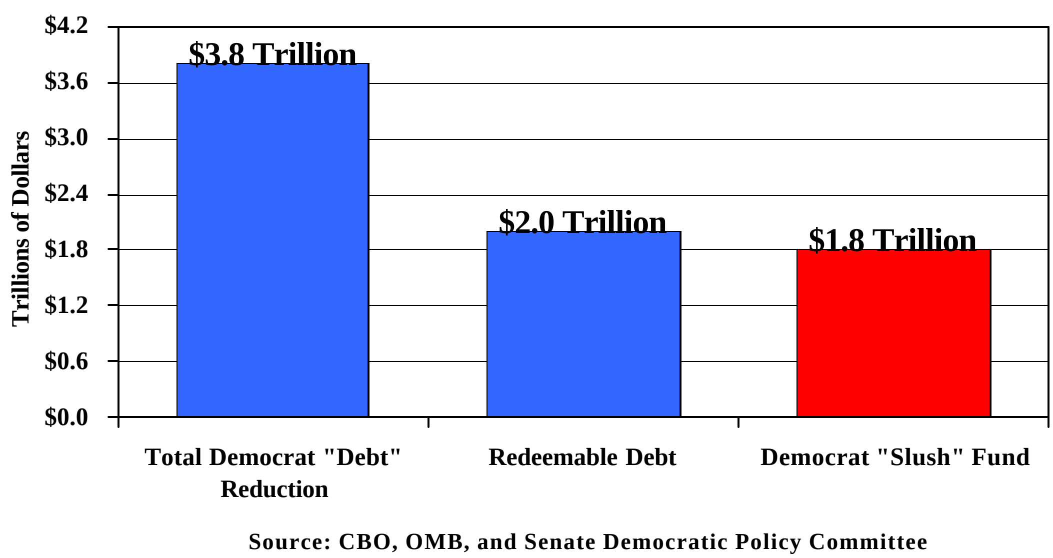
The Conrad "Lockbox" — Badly Flawed

This week the Senate struck down the flawed Conrad Medicare "lockbox" amendment to the bankruptcy reform bill on a Budget Act point of order. The vote reversed a position taken by the Senate last summer when it adopted a similar amendment on a vote of 60-37. The Senate was correct to take another, more critical look at this issue at this point in time. Much has changed in the past nine months — the budget surpluses are larger, the chances of enacting comprehensive Medicare reforms are greater, and our understanding of the pitfalls facing Medicare if taken off-budget is deeper.

These new realities have exposed several serious flaws in the Conrad amendment. It provides no contingency for when the Treasury has redeemed all available debt. Nor does it allow room for efforts to reform Medicare. Finally, by taking only a portion of Medicare — Medicare Part A — off-budget, the Conrad amendment literally divides the program in two, encouraging budget gimmicks that could postpone much needed Medicare reform.

CONRAD AMENDMENT – MORE SURPLUS THAN DEBT



Follow the Money

The Conrad amendment would take the Medicare Part A trust fund off-budget and create a 60-vote point of order against any legislation that causes (or increases) an on-budget deficit or reduces the balances in Medicare Part A. Under the Conrad amendment, both the Social Security and Medicare Part A surpluses could be used only for debt reduction — the Conrad amendment creates a new barrier for any reforms to either program. In addition, Senator Conrad and the Democratic leadership have offered a budget plan that sets an additional $900 billion aside for debt reduction.

Total Democrat Debt Reduction

Social Security Surplus	$2.5 Trillion
Medicare Part A Surplus	$0.4 Trillion
Additional Debt Reduction	$0.9 Trillion
Total Democrat Debt Reduction	**$3.8 Trillion**

The Democrat plan totals $3.8 trillion in proposed debt reduction. But the Office of Management and Budget (OMB) contends that only $2 trillion of debt can be redeemed over the next 10 years. That leaves $1.8 trillion in excess surplus over the next 10 years under the Conrad proposal. Before the Senate adopts any proposal that locks in more debt reduction than we have debt, Senator Conrad and the Democratic leadership should explain exactly what they propose to do with this surplus money.

Absent additional tax cuts or new spending, the only option is for the Treasury Department to use the cash to purchase private securities. But just two years ago the Senate voted 99-0 to reject the notion of direct federal investment in private industries. That leaves more spending and tax cuts as the only options. Senate Democrats are opposed to additional tax cuts. That leaves more spending. Exactly where do Senate Democrats propose to spend $1.8 trillion?

(There is some debate between the Congressional Budget Office (CBO), OMB, and others regarding exactly how much debt can be redeemed over the next 10 years. OMB says $2 trillion. CBO says $2.4 trillion. Others say more. Regardless of which number is more accurate, the Democrat debt reduction plan *exceeds all* publicly-held debt – $3.2 trillion. Their plan simply doesn't add up.)

Conrad Amendment Hinders Entitlement Reform

Congress must act to protect Medicare's long-term solvency. Such reforms will work to ensure Medicare benefits are around for today's workers while offering seniors Medicare coverage that fits them best, including a prescription drug benefit to those who need it. The Conrad amendment creates a possible 60-vote point of order against provisions to enact these reforms. Unlike the House-passed bill, it provides no exceptions for legislation or resolutions that address Medicare's long-term problems.

Moreover, the Conrad amendment has no termination point. If the CBO and OMB are correct, the Treasury will redeem all available publicly-held debt at some point in time in the next 10 years. At that time, the Conrad amendment would continue to require on-budget surpluses equal to the Social Security and Medicare Part A surpluses. Under current rules, these surpluses can be used to reform both Social Security and Medicare. The Conrad amendment, however, would impose a possible 60-vote point of order against such reforms.

Part A vs. Part B: Moving Us Farther From Reform

By taking Medicare Part A off-budget, the Conrad amendment literally divides the Medicare program in two. This is an arbitrary division.

When Medicare first was offered to seniors in 1966, the program had one benefit system — Hospital Insurance (HI) — and one source of funds — a payroll tax. At the time, the Medicare HI trust fund was useful in measuring the growth of Medicare benefits against the revenues raised since all the outlays under Medicare counted against the trust fund.

In 1967, however, Congress expanded Medicare to include Part B physician services. Instead of counting the new benefits against the HI trust fund, Congress created a new trust fund, the Supplementary Medical Insurance (SMI) trust fund. This "trust fund" was financed through Medicare Part B premiums, co-pays from physician visits, and general revenues. Since the revenues going into the SMI trust fund were, by definition, targeted to equal the trust fund's outlays, the SMI trust fund is not really a trust fund at all. Rather, it more closely resembles general mandatory spending.

Today, whatever connection Medicare's Hospital Insurance trust fund had to the system's finances is wholly gone. In 1966, 100 percent of Medicare benefit payments counted against the trust fund's balances. Today, only 62 percent are levied against the trust fund.

Moreover, the fastest growing components of Medicare — including home health — do not count against the HI trust fund. As these benefits continue to grow at a rate faster than those benefits counted against the HI trust fund, the percentage of Medicare spending counting against the HI trust fund will continue to drop, making the concept of a "Medicare trust fund" increasingly meaningless.

By taking just Medicare Part A off-budget, the Conrad amendment literally ignores the fastest growing – and soon to be largest – parts of Medicare spending. Those are the portions of Medicare that need to be addressed by the Congress. The Conrad amendment does nothing to promote their reform.

Conrad Amendment Promotes Budget Gimmicks

Recent "reforms" to Medicare have undermined the meaning of the Medicare HI trust fund. The Conrad amendment would promote more of the same.

For example, the 1997 Balanced Budget Act included a Clinton Administration proposal to remove home health benefits from Medicare Part A. The Clinton Administration proposed this transfer because home health benefits were one of the fastest growing spending items in Medicare and were accelerating the insolvency of the trust fund. Home health benefit payments had increased from $3.5 billion in 1990 to $16.9 billion in 1996.

Now most home health benefits exist in a Medicare limbo — they aren't counted as Part A expenditures that apply against the HI trust fund and they aren't subject to the Part B co-pays. Needless to say, the transfer of home health spending out of the HI trust fund makes the so-called Medicare surplus look bigger.

By taking Medicare Part A off-budget, the Conrad amendment encourages Congress to engage in additional budget games.

The Conrad Amendment Deserved Defeat

The Conrad amendment to take Medicare Part A off-budget is not good policy. It hinders needed reforms to Social Security and Medicare, it encourages Congress to play games with Medicare funding to make the program appear more solvent than it is, and it literally forces Congress to set aside more surplus than there is debt. None of those results is desirable.

Republicans are committed to strengthening and reforming Medicare while continuing to pay down the debt. The Conrad amendment does nothing to promote those goals and, in many cases, could act to block us from achieving them. Yesterday, the Senate got a rare second chance to reconsider a past position. This time, it made the right choice.

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