



Democrats' Budget Gimmicks Today Create Spending Nightmares Tomorrow

Even though Democrats claim that their health care legislation is fiscally responsible, an analysis of current law, the Senate-passed health care bill,ⁱ and the reconciliation “sidecar”ⁱⁱ reveals all the deadlines and funding cliffs that convert the legislative package into a series of budgetary tricks. These tricks will have Congress spending the next several years scrambling to undo them to keep special interests happy:

March 31, 2010: The Medicare “doc fix” amending the Sustainable Growth Rate (SGR) expires, resulting in a 21 percent cut in reimbursements to physicians.ⁱⁱⁱ The Administration’s Fiscal Year 2011 budget submission proposes to “solve” this problem through \$371 billion in new deficit spending^{iv}, and legislation has already been introduced in the House to extend the March 31 deadline, as Congress has done every time this deadline has loomed.

October 1, 2010: Because the reconciliation bill re-directs savings from higher education provisions to additional health care spending, the legislation leaves a \$5.5 billion shortfall in Pell Grant funding next year alone—a shortfall that will only grow in future years. Congress will be forced to plug this hole with new deficit spending, or else students will have their Pell Grant amounts cut.

January 1, 2013: The thresholds for the new Medicare (HI) tax on wages and investment income effective in 2013 are not indexed for inflation, making them appear to raise \$210 billion over ten years. However, the lack of indexing means more Americans will pay these “upper-income” taxes every year. Much like the Alternative Minimum Tax (AMT), the effect on the middle-class will eventually require Congress to index these for inflation or create annual patches to avoid a tax increase on the middle class. Either way, \$210 billion in revenues are not going to be generated from this tax.

January 1, 2015: Section 1202 of the reconciliation bill increases Medicaid reimbursements to primary care physicians—but only for 2013 and 2014. Congress will have to extend these provisions in 2015 and future years, or else the 16 million newly Medicaid-eligible individuals could end up with an insurance card—and no doctor who will accept it.^v

January 1, 2015: Section 3403 of the Senate-passed bill creates an Independent Payment Advisory Board of bureaucrats empowered to make binding recommendations regarding cost reductions in Medicare. The Board’s first set of reductions would take effect in 2015, and would make further reductions in Medicare on top of spending cuts included in the Senate bill itself. The Administration’s own actuaries believed those cuts “are unlikely to be sustainable” and have the effect of “jeopardizing access to care for beneficiaries.”^{vi} Future members of Congress will either stop these cuts from taking place or have to take responsibility for the Medicare cuts recommended by the Board.

January 1, 2019: Pages four and five of the reconciliation bill contain language that would, according to the Congressional Budget Office (CBO), reduce the growth rate for health insurance subsidies.^{vii} Thus in 2019 and future years, individuals may be forced to buy health insurance they cannot afford, because federal insurance subsidies will not keep up with continued growth in premium costs. Congress

will either let these health care subsidies shrink, or further run up the deficit to ensure the subsidies are generous enough for low-income Americans to comply with the mandate.

January 1, 2020: The CBO has found that “beginning in 2020, the reconciliation proposal would index the thresholds for the high-premium excise tax to the rate of general inflation rather than to inflation plus one percentage point.”^{viii} This change would result in a major and growing tax increase on middle class health benefits if actually implemented. Much like the AMT, Congress will be under pressure to patch this annually.

January 1, 2020: The reconciliation measure does not close the Medicare prescription drug “doughnut hole” until 2020—conveniently outside the bill’s 10-year budget window, therefore obscuring the legislation’s true cost. Future Congresses will have to deal with the deficit impact of this provision.

These various funding cliffs raise questions:

- Will Medicaid payments for physicians fall by 21 percent this year—and more in consecutive years—to meet the targets under the existing SGR mechanism?
- Will low-income students suffer reductions in Pell Grant awards—resulting in even more student loan indebtedness—because higher education savings were re-directed to health care?
- Will more and more middle-class Americans be affected by higher payroll and investment taxes?
- Will 16 million new Medicaid patients be unable to see a physician in 2015 due to reimbursement cuts taking effect then?
- Will a board of unelected bureaucrats follow through on efforts to impose additional cost-cutting measures that have the effect of “jeopardizing access to care for beneficiaries?”
- Will individuals be forced to buy “government-approved” health insurance without being able to afford it?
- Will struggling middle-class families be hit with a massive tax increase in the years after 2020?
- **And if the answer to any of the above questions is “No,” where and how do Democrats expect to fund the new federal spending required to meet these commitments?**

Members of Congress should not support either the health care bill or the reconciliation measure until the Democratic majority provides detailed answers to these questions. America’s rapidly rising debt has resulted in international alarm. The ratings service Moody’s recently released a report indicating the United States could soon lose its AAA rating unless it takes action to control government spending.^{ix} With federal deficits and debt skyrocketing, many may view this entire legislative package—which makes “temporary” fiscal commitments the legislation cannot keep in the longer-term—as one large budgetary gimmick. They may also question how any Democrat committed to fiscal responsibility can vote for this legislation.

ⁱ Senate-passed bill text available at <http://www.opencongress.org/bill/111-h3590/text>.

ⁱⁱ Text available at http://docs.house.gov/rules/hr4872/111_hr4872_amndsub.pdf.

ⁱⁱⁱ See for instance the CBO score of H.R. 3590, http://cbo.gov/ftpdocs/108xx/doc10868/12-19-Reid_Letter_Managers_Correction_Noted.pdf

^{iv} President’s Fiscal Year 2011 Budget, <http://www.whitehouse.gov/omb/budget/fy2011/assets/budget.pdf>, Table S-7, p. 162.

^v Congressional Budget Office score of H.R. 4872, March 18, 2010, <http://cbo.gov/ftpdocs/113xx/doc11355/hr4872.pdf>.

^{vi} CMS Office of the Actuary, Estimated Financial Effects of H.R. 3590 as passed the Senate, January 8, 2010, http://www.politico.com/static/PPM130_oact_memorandum_on_senate_bill_as_passed_01-08-09.html.

^{vii} CBO Score of H.R. 4872, p. 4.

^{viii} Ibid.

^{ix} David Jolly and Catherine Rampell, “Moody’s Warns U.S. Debt Could Test Triple-A Rating,” *New York Times* March 15, 2010, <http://www.nytimes.com/2010/03/16/business/global/16rating.html>.