Primer: Healthcare and the Federal Budget

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Introduction

The federal government is being confronted with many fiscal challenges. The current deficit is a result of several forces, including the United States financial crisis and the recent recession, as well as financial uncertainty overseas. The slow pace of the U.S. economic recovery is generally consistent with similar experiences faced throughout the world following financial crisis. The future of the national deficit and debt will depend on the strength of the economic recovery, in addition to policy changes implemented by the federal government. Many of those changes will be based on reforming the structure of and payments for the healthcare system, as federal costs related to health and the Department of Health and Human Services (HHS) exceed all other departments.

Current Trajectory

Presently, the Congressional Budget Office (CBO) estimates that the United States has a $1.3 trillion budget shortfall. This 2011 deficit is at 8.5 percent of the national gross domestic product (GDP). The CBO estimation is based on available economic data from July 2011, and indicates that the real GDP will increase by 2.3 percent this year and 2.7 percent next year.

Health reform has been a major topic in recent years as the federal government has taken drastic steps through the Patient Protection and Affordable Care Act (PPACA) to attempt to slow health-related costs while expanding coverage and maintaining quality. In the U.S., costs associated with healthcare currently exceed 17% of the GDP, which exceeds almost all other industrialized countries. In 2008 national health expenditures (NHE) exceeded $2.3 trillion, which is more than eight times the NHE in 1980. Experts on both sides of the isle agree unanimously that without vast improvements, health-related costs will be a major perpetrator of further financial crisis.

The CBO forecast of GDP compared to total debt held by the public is staggering. Forward looking data indicate that without significant changes to the current trajectory, publicly held debt could exceed the GDP within the next 50 years. Much of this increased spending is from unrestrained federal spending on programs such as Medicare and Medicaid, not shrinking revenues as the current Administration often says. As can clearly be seen in Figure 1 a

Key Takeaways

**Current Trajectory**
- The United States is projected to have a national debt that surpasses the GDP if not altered soon.
- The rise in US debt is from increased federal spending, not diminishing revenues.

**President Obama’s Budget**
- Medicare: Reduces payments to Medicare Advantage plans, increases preventative services benefits and creates IPAB to determine recommendations.
- Medicaid: Increases federal funding, expands coverage and increases states requirements and accountability to federal government.

**House of Representative’s Budget Resolution**
- Medicare: Raises the age of eligibility for recipients, pays federal funds directly to private health plans and reduces growth of spending.
- Medicaid: Converts funding to a block grant system and gives greater flexibility to states to design, implement and regulate their own plans.

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greater percentage of the US budget is spent on these programs under the Department of Health and Human Services than any other government agency.

**Figure 1: 2012 U.S. Budget Breakdown by Agency**

President Obama’s Budget

The Administration’s budget plan includes some changes for the Medicare system that will significantly impact aging seniors, while creating more regulation and an unelected, unaccountable agency. First, the President’s plan increases drug benefit coverage for Medicare Part D and preventative services. Both the increase in drug benefits and preventative services will lead to large costs for the government, with the preventive services initiative being allocated $1 billion for 2012. Secondly, the President’s FY 2012 budget reduces payments to Medicare Advantage plans. This reduction in payments means that out-of-pocket premiums are going to increase for seniors, which could significantly impact the number of seniors who choose plans with flexibility, but higher fees, decreasing individual autonomy.

The third, and most disturbing considerable change to the 2012 Medicare budget, is the creation of the Independent Payment Advisory Board (IPAB). IPAB is an agency that will consist of 15 presidential appointees who are empowered to reduce Medicare spending. However, a lot isn’t known about IPAB and what is known is concerning. For example, IPAB will be exempt from both administrative and judicial review. Additionally, the 15 members of IPAB are to be “health experts” appointed by the president, meaning that they will be bureaucrats, not practicing medical staff. Furthermore, although IPAB is allowed to take comments from the public before it makes recommendations, it is not required to. Ultimately, it is only accountable to the president and will control costs through price controls targeting provider reimbursement rates. And, as we’ve learned from Medicaid, this limiting of reimbursement rates to doctors will lead to less access to physicians, fewer treatments provided and a decrease in quality health care. Moreover, the price-setting power of IPAB will override any decisions made by physician and patient.

www.OperationHealthcareChoice.org
As for the Administration’s budget impact on Medicaid, the far-reaching expansion requirements and federal regulation under PPACA will undoubtedly cost the country billions of dollars. Not only does the federal reform bill increase the accountability of states to the federal government, reducing autonomy and flexibility, but requires states to fund health insurance for millions of new Americans. PPACA mandatory expansion regulations in 2014 will require that everyone below 138% of the Federal Poverty Level (FPL) be added, totaling 16-20 million more Americans on Medicaid by 2020. Moreover, the matched funding method the federal government uses to pay states for Medicaid services creates a perverse incentive for states to continue expanding Medicaid coverage so that the federal government funnels even more money into states.

**House of Representative’s Budget Resolution**

In stark contrast to the current Administrations budget proposal, the US House Committee on Budget’s “Path to Prosperity” lays out a plan for both Medicare and Medicaid that reduces federal spending (Figure 2). For Medicare, the House plan specifically shrinks Medicare spending by having the federal funds put directly into private health plans and introduces a great free market mentality. Most importantly, the House plan raises the age of Medicare eligibility from 65 to 67 allowing great savings, as seniors use more healthcare resources and for a longer amount of time than the Medicare system was created to deal with and they make up the largest portion of the US population. For example, the amount of money paid into by each person eligible for Medicare does not equal the amount each uses. For example, a couple who together earns $89,000 a year and retires in 2011 will pay about $114,000 into Medicare over their careers. However, this same couple is estimated to use, on average, about $335,000 in Medicare services.

**Figure 2: Cost Comparison of PPACA and Ryan Healthcare Plan**

![Figure 2: Cost Comparison of PPACA and Ryan Healthcare Plan](https://www.OperationHealthcareChoice.org)
The House budget proposal also makes drastic cost-saving changes to Medicaid. Instead of the large expansion funded by the federal government with strict regulation the President has proposed, the House plan converts Medicaid funding to a block grant system, where states are given lump sums of money from the federal government and allowed to create Medicaid plans that are autonomous and reflect their particular cultures and population needs. This block grant system fundamentally dismantles the perverse incentives used in the current system to continually expand Medicaid. Most importantly, the House plan gives flexibility back to states, who know what is best for their citizens, as well as encourages creativity and cost-saving tactics. The block grant system has demonstrated success in several states over the last few years, and appears to be the most fiscally responsible solution available until the constitutionality of PPACA is determined.

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Operation Healthcare Choice is the Forum’s public policy center focused on promoting high-value healthcare and higher quality health insurance that expands consumer choice. Operation Healthcare Choice experts conduct research, offer commentary, and develop policies aimed at eliminating healthcare’s burden on the economy.
References


3 Ibid.


