JOINT ECONOMIC COMMITTEE

Senator Sam Brownback
Ranking Republican Member

Representative Kevin Brady
Senior House Republican Member

July 29, 2009

Memorandum

To: Senator Sam Brownback
Ranking Member

Representative Kevin Brady
Senior House Republican

From: Republican Staff

Subject: Preliminary Staff Analysis of Pending Health Care Legislation

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At your request, the committee's Republican staff has performed an analysis of the long range impact of utilizing Medicare savings to pay for new health care spending. More specifically, you asked that we analyze the potential impact of directing any Medicare "savings" toward reducing the Medicare HI trust fund's unfunded liability.

Further, you asked the staff to prepare an analysis of the long range fiscal viability of legislation under consideration in the House with particular focus on whether contemplated funding sources could be counted on to pay for the program over an extended period or whether new broad based taxes, extending well below top income earners, would be necessary. We will provide the results of that analysis separately.

The analysis presented in this memorandum was conducted using data from the Congressional Budget Office, Joint Committee on Taxation, and the actuaries for the Social Security and Medicare programs.

Using Medicare Savings to Pay for New Health Care Spending

Key Findings

- If all net savings from Medicare were applied to reducing the unfunded liability of the Medicare HI trust fund, the trust fund's 75-year unfunded liability would decline by 15 percent or slightly more than $2 trillion in present value terms.[1]
- Applying net Medicare savings toward reducing the HI trust fund's unfunded liability would extend the date of trust fund insolvency by two years from 2017 to 2019.

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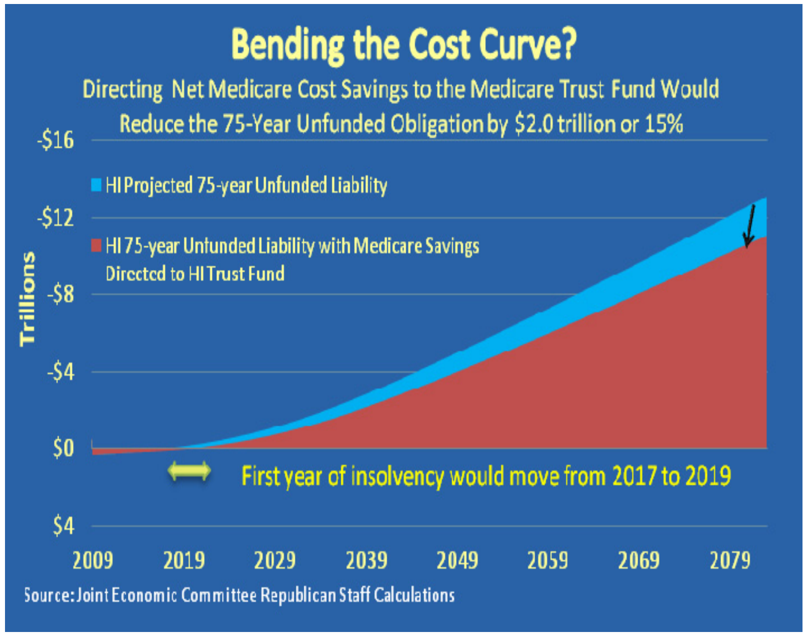
[1] Present value was calculated using discount rates applied by the Social Security and Medicare actuaries in preparing the 2009 Trustees' reports.

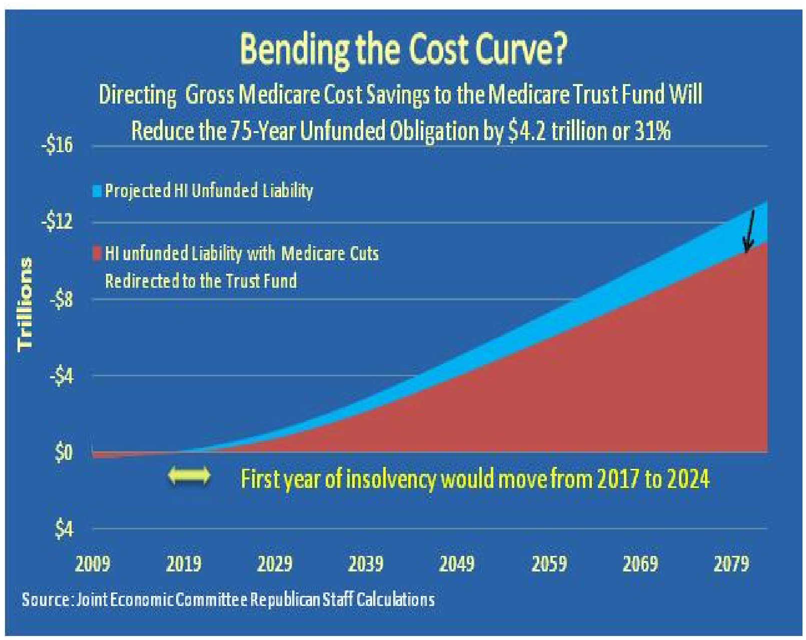
- Expressed in constant 2010 dollars, over a 75 year period, the accumulated Medicare shortfall could be reduced by $7.3 trillion.

Discussion

According to the 2009 Medicare Trustees' Report, the Medicare HI trust fund faces a 75-year present value deficit of $13.4 trillion. Over the infinite time horizon the report pegs the present value unfunded liability at $36.4 trillion. The infinite time horizon unfunded present value liability of Medicare Part B is $50.1 trillion and of Part D is $20.3 trillion.



H.R. 3200 would reduce ***net*** Medicare related spending[2] by $214 billion over the 2010-2019 window. ***Gross*** reductions would total $499 billion over the same period, but are offset by $285 billion in additional Medicare related spending. The ***net*** reductions amount to 8.48 percent of projected trust fund costs over the 2014-2019 time period[3]. ***Gross*** reductions amount to 17.41 percent of projected trust fund costs over the same time period.



The JEC staff adjusted trustees' future cost estimates for the period 2014-2083 by the 2014-2019 average savings rate of 8.48 percent. The net cost reductions for the entire 2009-2083 period would amount to $7.3 trillion (2009 dollars).

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[2] Not all Medicare savings contemplated by the legislation are related to the HI trust fund. For illustrative purposes this analysis looks at the impact on the trust fund of applying ALL Medicare related savings toward reducing the unfunded liability of the HI trust fund.

[3] In projecting future cost reductions, staff utilized a "savings rate" of 8.48% -- the 2014 -2019 period average – because that period represents the time frame during which the program is fully in effect.

Expressed in present value terms, the savings would be just over $2 trillion, or 15.2 percent of the HI trust fund's present value deficit. The staff also calculated that the date of trust fund insolvency would move from 2017 to 2019 if all net reductions were applied to the HI trust fund.

If new spending was eliminated and the <u>gross</u> savings applied to the HI trust fund, the gross savings over the 75-year window would amount to approximately $15 trillion (2009 dollars). Expressed in present value terms, the reductions would amount to $4.2 trillion or 31 percent of the HI trust fund's present value deficit. Applying gross reductions without spending increases for new programs would move the date of trust fund insolvency from 2017 to 2024 – seven years.

<u>Comments</u>

Using savings from Medicare to pay for new "non-Medicare" spending is akin to paying one's bills with checks from an already overdrawn account.

Members of Congress and the Administration would be wise to avoid using this type of budget gimmick to pay for new health care spending. Not only does this approach hide the cost of the new spending, but it imperils the future ability of Congress and the Administration to address the future financial problems facing Medicare. Eliminating the availability of $2 trillion in present value from future efforts to correct Medicare's imbalance will make the task even more daunting.

Please let us know if you need any additional information.