THE PATH TO PROSPERITY

A RESPONSIBLE, BALANCED BUDGET

FISCAL YEAR 2014 BUDGET RESOLUTION

House Budget Committee

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RETIREMENT SECURED

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In the 20th century, the federal government forged a social contract with working families. At the end of their careers, the government would provide health and income security in their retirement. In the 21st century, that contract is in jeopardy. Rising health-care costs and an aging population threaten to bankrupt two crucial programs: Medicare and Social Security.

The failure of politicians in Washington to be honest about Medicare and Social Security is putting the health and retirement security of all Americans at risk. The fact is that Medicare and Social Security are in dire need of reform. With both programs weighed down by tens of trillions of dollars of unfunded liabilities, the federal government is making promises to current workers about their health and retirement security for which it has no means to pay. Without reform, these empty promises will soon become broken promises.

Washington's policy response to the demographic and economic pressures threatening Medicare and Social Security has been a disappointing failure. For too long, politicians of both parties have lacked the political will to deal with the underlying structural issues that are weakening these programs. Instead, they have denied the problem or made the problem worse.

In Medicare, the federal government has tried to address cost pressures by cutting provider payments in ways that hurt quality and restrict access for seniors. Absent reform, current seniors will experience diminished care, while the next generation will inherit a bankrupt Medicare program.

In Social Security, government's refusal to deal with demographic realities has endangered the solvency of this critical program. Absent reform, seniors, those with disabilities, and their families will experience sharp benefit cuts when the trust fund is exhausted, while the next generation will inherit a Social Security program too unstable to permit them to plan for their own retirement with confidence.

Unfortunately, years of neglect by policymakers who were unwilling to confront the structural challenges posed by these programs are pushing Medicare and Social Security into a state of peril. Left unaddressed, the spending pressures in these programs don't just put the solvency of the federal government at risk and future economic growth in doubt—they also threaten the government's ability to protect the promise of health and retirement security for millions of seniors and those with disabilities today, as well as for generations to come.

This budget protects and strengthens Medicare for current and future generations. It also requires the President and Congress to work together to forge a solution for Social Security. This budget recognizes that the federal government must keep its word to current and future seniors. And to do that, it must reform these programs.

Medicare in brief

- **Preserve Medicare for those in or near retirement.**
- **Reform Medicare for younger generations.**
- **Repeal the health-care rationing board.**

- **Reform the medical-liability system.**
- **End the raid on the Medicare Trust Fund.**
- **Means-test premiums for high-income seniors.**

Social Security in brief

- **Require the President to submit a plan to shore up the Social Security Trust Fund.**
- **Require Congress to submit a plan of its own.**

Federal-workforce retirement in brief

- **Reform civil-service pensions.**
- **Reform the Pension Benefit Guaranty Corporation.**

Medicare

Challenge

In 1965, our country made a commitment to seniors: Government would help them pay for health care so they wouldn't have to exhaust their life savings—or their children's—to survive a costly illness. Medicare was created to fulfill that commitment, but now this program is at risk. If we don't fix the program's structural flaws, it will exacerbate the problem it was meant to solve: millions of seniors without adequate health care and millions of young workers saddled with a crushing debt burden.

The current Medicare program attempts to do two things to make sure that all seniors have secure, affordable health insurance that works. First, recognizing that seniors need extra protection when it comes to health coverage, it pools risk among all seniors to ensure that they enjoy secure access to care.

Second, Medicare subsidizes coverage for seniors to ensure that coverage is affordable. Affordability is a critical goal, but the subsidy structure of Medicare is fundamentally broken and drives costs in the wrong direction. The open-ended, blank-check nature of the Medicare subsidy drives health-care inflation at an astonishing pace, threatens the solvency of this critical program, and creates inexcusable levels of waste in the system.

Politicians' repeated failures to solve this problem underscore the critical need for structural reform to ensure lasting solvency. Time and again, Congress has applied band-aids to control costs by reducing the rate at which doctors, hospitals, and other providers are reimbursed for treating Medicare patients. These repeated fee reductions create backwards incentives for those providing care, resulting in the volume of services provided for each condition being increased, costs being shifted onto private health-insurance plans, or Medicare patients simply losing access to care. The incentive to increase volume results in waste, fraud, and abuse. The incentive to shift costs results in higher costs for all patients. And the incentive to turn Medicare patients away results in restricted access to critical care for seniors.

According to CBO's 2012 Long-Term Outlook Alternative Fiscal Scenario, Medicare is projected to rise from 3.7 percent of GDP today to 13 percent by 2085.[45] The unchecked growth of the Medicare program cannot be sustained, and the government's continued reliance on price controls will only make matters worse. Washington's failure to advance structural reforms threatens not just the affordability of coverage for seniors, but also the security that comes with knowing that coverage can be obtained at any price.

Solutions

- **Preserve Medicare for those in or near retirement.**
- **Reform Medicare for younger generations.**

Beginning in 2024, for those workers born in 1959 or later, Medicare would offer them a choice of private plans competing alongside the traditional fee-for-service option on a new Medicare Exchange. Medicare would provide a premium-support payment either to pay for or to offset the premium of the plan chosen by the senior.

The Medicare Exchange would provide seniors a competitive marketplace in which they could choose a plan the same way members of Congress and federal employees do. Every plan, including the traditional fee-for-service option, would participate in an annual bidding process to determine the federal contribution seniors would receive to purchase coverage. Health-care plans would compete for the right to serve Medicare beneficiaries.

The benchmark plan would be either the second-least-expensive private plan *or* fee-for-service Medicare, whichever cost less. If a senior chose a more expensive plan than the benchmark, he or she would pay the difference between the subsidy and the monthly premium. And if a senior chose a plan less expensive than the benchmark, he or she would receive a rebate for the difference. Medicare would offer higher payments depending on the patient's health history and the cost of living. And it would require private plans to cover at least the actuarial equivalent of the benefit package offered by the fee-for-service option.

Instead of pegging the growth rate to a predetermined formula, Medicare would increase premium subsidies according to a competitive-bidding process. As a backup, the per-capita cost once the program has begun could not exceed nominal GDP growth plus 0.5 percent. The President has proposed to empower the Independent Payment Advisory Board to hold Medicare growth to the same rate. Unlike IPAB, this proposal would use competition—not bureaucratic fiat—to control costs.

This budget will make sure low-income Americans don't fall through the cracks. If costs rose faster than the established limit, the federal government would pay the out-of-pocket expenses of those patients who qualified for both programs. Meanwhile, those seniors who didn't qualify for Medicaid but were still under an income threshold would receive fully funded accounts to offset out-of-pocket costs. This

[45] CBO. "Long-Term Outlook Alternative Fiscal Scenario." June 2012.

budget would also apply means-testing thresholds like those in place for Medicare Parts B and D to the new Medicare program, so high-income seniors would pay a higher share of their premiums.

This budget requires every plan in the Exchange to offer guaranteed issue and community rating. Insurers would be unable to deny coverage based on pre-existing conditions. And they would be unable to impose prohibitively high costs on patients with chronic health problems. Every senior would have access to a plan that offered at least as much value as fee-for-service Medicare. So every senior would be able to choose a plan that works for them—without fear of denial or discrimination.

In addition, the federal contribution would be risk-adjusted so the sickest seniors would receive more help with their higher premiums. The Centers for Medicare and Medicaid Services would also conduct an annual risk-review audit of all insurance plans participating in the Exchange. Insurance plans covering a higher-than-average number of low-risk seniors would pay a fee. Meanwhile, insurance plans covering a higher-than-average number of high-risk seniors would receive an incentive payment. The fees and incentive payments would flow through the same fund, so one would pay for the other.

- **End the raid on the Medicare Trust Fund.**

Supporters of the 2010 government takeover of health care insisted the law would both shore up the Medicare Trust Fund and pay for a new health-care entitlement program. In testimony before the committee, Medicare's chief actuary stated the truism that the same dollar could not be used twice.[46] This budget calls for directing any potential Medicare savings in current law toward shoring up Medicare, not paying for new entitlements.

- **Repeal the health-care rationing board**.

This budget repeals the President's misguided health-care law, including the IPAB—the panel of 15 unelected bureaucrats empowered to cut Medicare in ways that would deny care for seniors. Competition—not bureaucratic rationing—is the best way to contain costs while improving quality of care.

- **Reform the medical-liability system.**

This budget also advances common-sense curbs on abusive and frivolous lawsuits. Medical lawsuits and excessive verdicts increase health-care costs and result in reduced access to care. When mistakes happen, patients have a right to fair representation and fair compensation. But the current tort-litigation system too often serves the interests of lawyers while driving up costs. The budget supports several changes to laws governing medical liability, including limits on noneconomic and punitive damages.

- **Means-test premiums for high-income seniors.**

This budget also advances a bipartisan proposal to further means-test premiums in Medicare Parts B and D for high-income seniors, similar to the President's proposal in his fiscal year 2013 budget.

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[46] Foster, Richard. Testimony to the House Budget Committee. 26 January 2011.

Table 1

The Simple Truth about Medicare's Future

	Bureaucrat Control	Patient Control
Proposal	The President's partisan health-care law creates an unaccountable board of 15 unelected bureaucrats—the Independent Payment Advisory Board—empowered to cut Medicare in ways that will result in denied care and restricted access for seniors. The bureaucrat-imposed cuts threaten critical care for current seniors and fail to strengthen Medicare for future generations.	Bipartisan solutions to preserve the Medicare guarantee, offering guaranteed coverage options to future seniors, regardless of pre-existing conditions or health history, financed by a premium-support payment adjusted to provide additional financial assistance to low-income and less-healthy seniors and less to the wealthy. The Medicare health plans, including a traditional Medicare option, would compete against each other to offer higher quality care at lower costs.
Ration care?	Yes. IPAB's unelected and unaccountable bureaucrats have the power to determine what "rationing health care" means, allowing them to cut Medicare in ways that harm seniors' access to providers and lead to the denial of critical care.	No. Strips unaccountable Washington bureaucrats of their rationing power; puts patients in control of their health care decisions instead of government, and forces providers to compete for the right to serve seniors. All Medicare health plans are required to meet high standards of care.
Control costs?	No. Cutting reimbursements only reduces access, while the true costs of care continue to grow.	Yes. Harnessing the power of choice and competition helps tackle the root drivers of health inflation that are bankrupting the current system.
Who is in control?	An unaccountable board of 15 unelected bureaucrats.	Patients and their doctors.
Protect benefits?	No. The President's latest budget proposes to give IPAB "additional tools" that would give it the power to change benefits in ways that restrict access for seniors. Seniors are prohibited from legal appeals to IPAB's decisions.	Yes. Making no changes for current seniors, ensuring that traditional Medicare remains an option, and strengthening the program for future seniors protects the Medicare guarantee.
Current seniors	Exposed to the harmful consequences of IPAB.	No changes.
Solvent future?	No. Medicare's trust funds are exhausted, and the program collapses into bankruptcy.	Yes. Medicare will be able to deliver on its critical mission to seniors today and future generations.

HOUSE OF REPRESENTATIVES
COMMITTEE ON THE BUDGET
Paul Ryan, Chairman

Medicare Questions

Q: I've heard people say that this plan "ends" Medicare. Is that true?

A: No. This budget protects and strengthens Medicare. The non-partisan Congressional Budget Office says that without reforms, Medicare will go bankrupt just as current seniors are in the heart of their retirements. Our plan contains bipartisan solutions to strengthen Medicare by offering guaranteed-coverage options to future seniors, regardless of pre-existing conditions or health history.

Q: You've put forward your solution. How would others solve this problem?

A: The President's health-care law makes drastic changes to Medicare, but those changes make matters worse. The President's health-care overhaul created an unaccountable board of 15 unelected bureaucrats to cut Medicare in ways that would deny care to current seniors.

See here for a complete contrast between the President's approach and our approach when it comes to Medicare.

Q: Didn't the President's health-care law improve Medicare's solvency?

A: No. The President's health-care law raided Medicare to fund an open-ended health-care entitlement. Advocates of the President's health-care law claimed that the law both improved Medicare's solvency *and* paid for the new entitlement at the same time. This claim is contradictory. Medicare's chief actuary testified before the House Budget Committee that the Medicare savings had been double-counted.

The House Republican budget stops the raid on Medicare and ensures that any current-law Medicare savings are devoted to saving Medicare. It is crucial that policymakers ensure Medicare's solvency into the next decade if we want to protect the current arrangements of those in or near retirement.

Q: What does your budget do to address the 2023 insolvency of the Medicare Hospital Insurance (Part A) trust fund?

A: The House Republican budget produces near-term savings over the next ten years by proposing curbs on abusive and frivolous lawsuits. Medical lawsuits and excessive verdicts increase health-care costs and result in reduced access to care. When mistakes happen, patients have a right to fair representation and fair compensation. But the current tort-litigation system too often serves the interests of lawyers while driving up

costs.

This budget also advances a bipartisan proposal to further means-test premiums in Medicare Parts B and D for high-income seniors, similar to the President's proposal in his fiscal year 2013 budget. This reform does not go into effect until 2020. These common-sense reforms to subsidize the wealthy less will not cause disruptions to seniors' current arrangements.

Q: Will I lose my guaranteed health care through Medicare, and instead have to rely on a voucher?

A: No. The changes in the House Republican budget will not affect those in or near retirement in any way. When younger workers become eligible for the Medicare program, they will be able to choose the kind of coverage that best suits their needs from a list of plans—including traditional Medicare. These plans will be guaranteed to offer coverage to all beneficiaries regardless of pre-existing conditions. Medicare would then provide a payment to subsidize the cost of the plan. This is not a voucher. It is a payment that goes to whatever plan recipients choose. The program would operate in a similar manner as the health insurance that Members of Congress receive and Medicare's prescription drug benefit program, which are also not "vouchers." Former Clinton Budget Director Alice Rivlin has made it clear that premium support would not be vouchers with the following statement in testimony before the House Ways and Means Committee: "premium support as we define it is definitely not a voucher."

Q: Does this budget reinstate the so-called Medicare "donut hole"?

A: This budget repeals the Democrats' health-care law, including provisions that increase prescription-drug prices for everyone. In fact, the CBO confirmed that the law's new requirements will drive up health-care costs, at odds with claims made by its proponents. In a letter to Chairman Ryan last fall, CBO stated that "[the] increase in prices would make federal costs for Medicare's drug benefit and the costs faced by some beneficiaries higher than they would be in the absence of those provisions," and that "the premiums of drug plans will increase along with the increase in net drug prices, so the premiums paid by beneficiaries will increase slightly." Like the rest of this costly new entitlement, provisions that increase prescription-drug prices should be repealed.

The real threat to seniors' health care is the fact that Medicare is going bankrupt. The current trajectory of government spending on health care is unsustainable. As noted above, without changes, according to CBO, the Medicare program collapses in 2023. Comparing any plan to save Medicare with the status quo means comparing real solutions to a false reality. This budget protects Medicare for current seniors by averting any disruptions and saves the program for future generations by providing a personalized Medicare program—like the one members of Congress now enjoy—with more support for low-income beneficiaries and those with higher health costs and reduced subsidies for high-income beneficiaries.

Q: What about the Medicare "Doc Fix" that our nation's physicians have been promised will be implemented so they can continue serving seniors?

A: The House Republican budget recommends a ten-year "Doc Fix" in the form of a deficit-neutral reserve fund. Washington must stop spending money it doesn't have, and this proposal will ensure Medicare physicians do not experience sharp reductions in their reimbursement rates—protecting seniors' access to critical care—without adding to the nation's debt.

Q: Will your proposed changes affect those older than 55 in the years ahead?

A: Our budget ensures no changes for those in or near retirement. The reforms begin in the year 2024, which today means no changes for those 55 and above. It is critical that we come together now with a real solution to protect and strengthen Medicare. Remember: Obamacare broke the Medicare promise for seniors. It cuts benefits for current seniors and ensures a bankrupt program for the next generation.