



# THE COMMITTEE ON ENERGY AND COMMERCE

## MEMORANDUM

December 5, 2014

To: Health Subcommittee Members

From: Majority Committee Staff

Re: Hearing on “Setting Fiscal Priorities”

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On December 9, 2014, at 10:30 a.m. in 2123 Rayburn House Office Building, the Subcommittee on Health will hold a hearing entitled “Setting Fiscal Priorities.” The Subcommittee will hear testimony on key policy decisions the Committee may face in the 114th Congress as it seeks to adopt reforms that put the Federal budget on a more sustainable trajectory by curbing unrestrained spending in Federal health care programs. The following contains additional background on the witnesses and issues for consideration.

### **I. Witnesses**

#### *First Panel*

- Mark Miller, Ph.D, Executive Director, Medicare Payment Advisory Commission

#### *Second Panel<sup>1</sup>*

- Chris Holt, Director of Health Care Policy, American Action Forum
- Marc Goldwein, Senior Policy Director, Committee for a Responsible Federal Budget

### **II. The Long-Term Federal Budgetary Outlook**

#### *A. An Unsustainable Course*

In October of this year, the Federal Government ran a budget deficit of \$486 billion and receipts totaled \$3.013 trillion in fiscal year 2014.<sup>2</sup> At the same time, outlays for fiscal year 2014 were \$3.499 trillion—\$44 billion more than they were in fiscal year 2013.<sup>3</sup>

The nearly \$500 billion current annual budget deficit is a relative improvement over the more than one-trillion-dollar annual deficits of recent years. However, the Congressional Budget Office (CBO) estimates that annual deficits will return to approximately \$1 trillion during the ten

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<sup>1</sup> Additional witnesses may be invited.

<sup>2</sup> <http://www.cbo.gov/publication/49450>

<sup>3</sup> <http://www.cbo.gov/publication/49450>

year budget window.<sup>4</sup> Thus, the current spending trajectory of the Federal government is a threat to economic growth, discretionary spending priorities, and fiscal stability.

In 2011, the former Chairman of the Joint Chiefs of Staff under President Obama, Navy Admiral Mike Mullen, said that “the single, biggest threat to our national security is our debt.”<sup>5</sup> That year, the national debt stood at \$15 trillion.<sup>6</sup> Today, the national debt tops \$18 trillion, and this calculation does not include the unfunded liabilities of Medicare, which are roughly \$34 trillion over a 75-year period.<sup>7</sup>

The President’s Fiscal Commission of 2010 warned that “our nation is on an unsustainable fiscal path. Spending is rising and revenues are falling short, requiring the government to borrow huge sums each year to make up the difference.”<sup>8</sup> The Commission explained that “we face staggering deficits” and “even after the economy recovers, [F]ederal spending is projected to increase faster than revenues, so the government will have to continue borrowing money to spend.”<sup>9</sup>

The bipartisan Rivlin-Domenici Debt Reduction Task Force—led by former Clinton White House Office of Management and Budget (OMB) Director Alice Rivlin and Republican Senator Pete Domenici—warned that “the present debt trajectory of the United States [F]ederal [G]overnment cannot be sustained and poses grave dangers to the American economy.” They noted that lawmakers “must make difficult decisions to get our fiscal house in order,” acknowledging that “any realistic solution must include structural reforms to entitlements.”<sup>10</sup>

The CBO has warned, if current trends continue, “relative to the size of the economy, deficits [will] grow and [F]ederal debt would climb” for years to come.”<sup>11</sup> The substantial rise of the Federal debt held by the public will eventually “probably have significant negative consequences for the economy and reduce lawmakers’ ability to respond to unexpected developments,” CBO explained.<sup>12</sup>

### *B. The Cost of Inaction*

The aforementioned bipartisan groups, along with a range of other budget experts and economists have warned lawmakers about the serious consequences—economic, budgetary and human consequences—of continued inaction. These consequences include:

- *Reduced Economic Growth.* CBO and other economists have warned that runaway Federal spending, combined with the growing debt burden, places a serious drag on economic growth over the coming decades. Current Federal policies are slowing growth,

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<sup>4</sup> <http://www.cbo.gov/publication/45653>

<sup>5</sup> <http://www.defense.gov/news/newsarticle.aspx?id=65432>

<sup>6</sup> <http://abcnews.go.com/blogs/business/2011/11/u-s-debt-will-top-15-trillion-mark-today/>

<sup>7</sup> Nor does it include unfunded liabilities of Social Security. (Confirm data with CRS).

<sup>8</sup> [http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12\\_1\\_2010.pdf](http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf)

<sup>9</sup> [http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12\\_1\\_2010.pdf](http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf)

<sup>10</sup> <http://bipartisanpolicy.org/wp-content/uploads/sites/default/files/D-R%20Plan%202.0%20FINAL.pdf>

<sup>11</sup> <http://www.cbo.gov/publication/45653>

<sup>12</sup> <http://www.cbo.gov/publication/44967>

which could otherwise create jobs, spread opportunity, foster development, and raise the living standards in communities across the country.

- *Crowd-Out of Discretionary Spending.* The CBO has warned that the continued growth of mandatory spending, especially in Federal health care programs and Social Security, will continue to reduce the Federal dollars available for discretionary priorities—or force Congress to increase the deficit by spending to maintain current discretionary levels. “By 2020,” CBO notes, “if current laws generally remained in place, [Federal discretionary spending] would drop to its smallest percentage of total output in more than seventy years, and [F]ederal revenues would be a larger percentage of output than they have been, on average, during the past 40 years.”<sup>13</sup> This means that important investments in medical research and development, scientific innovation and exploration, physical infrastructure, and education will suffer if mandatory spending is not reigned in.
- *Greater Likelihood of a Fiscal Crisis.* CBO has warned that the status quo invites an eventual fiscal crisis. While CBO has said it is impossible to predict with any confidence how long the continued growth of Federal debt can continue, “at some point, investors would begin to doubt the government’s willingness or ability to pay its debt obligations, which would require the government to pay much higher interest costs to borrow money.” CBO said “such a fiscal crisis would present policymakers with extremely difficult choices and would probably have a substantial negative impact on the country.”<sup>14</sup>
- *Reduced Earning Power for Individuals and Families.* CBO has cautioned that a “large amount of [F]ederal borrowing would draw money away from private investment in productive capital in the long term, because the portion of people’s savings used to buy government securities would not be available to finance private investment. The result would be a smaller stock of capital and lower output and income than would otherwise be the case.”<sup>15</sup> To date, health care spending per person has grown faster, on average, than the nation’s economic output per person during the past few decades, even after the recent slowdown is taken in to consideration. This reduces the take-home pay of middle class workers and hampers economic opportunities for families and small businesses.

### **III. The Growth of Federal Health Care Spending**

Congress faces an array of policy choices as it confronts the prospect of large annual budget deficits and further increases in the already-large government debt that are projected to occur in coming decades under current law. One option is to take targeted steps to curb Federal health care spending—especially in our health entitlements, Medicare, Medicaid, and provisions of the Patient Protection and Affordable Care Act (PPACA).

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<sup>13</sup> Federal discretionary spending being defined as “[F]ederal spending apart from that for Social Security, major health care programs, and net interest payments.” <http://www.cbo.gov/publication/44967>

<sup>14</sup> [https://www.cbo.gov/sites/default/files/45471-Long-TermBudgetOutlook\\_7-29.pdf](https://www.cbo.gov/sites/default/files/45471-Long-TermBudgetOutlook_7-29.pdf)

<sup>15</sup> [https://www.cbo.gov/sites/default/files/45471-Long-TermBudgetOutlook\\_7-29.pdf](https://www.cbo.gov/sites/default/files/45471-Long-TermBudgetOutlook_7-29.pdf)

Today, approximately one in three Americans is covered by Medicare or Medicaid. According to CBO, both Medicaid and Medicare are set to roughly double in the next decade. Medicare outlays in fiscal year 2013 totaled \$585 billion. By 2024, total annual outlays will be well over \$1 trillion for Medicare.<sup>16</sup> For Medicaid, fiscal year 2013 Federal outlays were \$265 billion. By the end of a decade, Medicaid will spend \$576 billion in a year.<sup>17</sup> That means that together, Medicare and Medicaid will be consuming nearly \$1.6 trillion each year by the end of a decade.

As a result, the Rivlin-Domenici Task Force concluded that “the country’s largest health care payers and spending drivers, Medicare and Medicaid urgently need reform and could help transform the whole health care system.”<sup>18</sup> Both programs also are on the U.S. Government Accountability Office’s (GAO) High Risk List, based on “their vulnerabilities to fraud, waste, abuse, and mismanagement, or are most in need of transformation.”<sup>19</sup>

PPACA has increased the cost of health coverage, while also driving up Federal spending significantly. Over the coming decade, the exchange subsidies and related spending will cost Federal taxpayers about \$1.2 trillion.<sup>20</sup> The expansion of Medicaid to cover childless adults will cost taxpayers another nearly \$800 billion over the coming decade. The approximate \$2 trillion in spending on exchanges and Medicaid contained in the PPACA have been left untouched since enactment of the law in 2010. Notably, the level of Medicaid and exchange spending largely was unaffected when Congress took modest steps to reduce budget deficits through the Budget Control Act in 2011.

The importance of reducing Federal health care spending as part of reducing the long-term debt burden of the Federal government is clear. As the CBO explains:

Between 2014 and 2024, annual outlays are projected to grow, on net, by \$2.3 trillion, reflecting an average annual increase of 5.2 percent. Boosted by the aging of the population, the expansion of [F]ederal subsidies for health insurance, rising health care costs per beneficiary, and mounting interest costs on [F]ederal debt, spending for the three fastest-growing components of the budget accounts for 85 percent of the total projected increase in outlays over the next 10 years.<sup>21</sup>

As CBO explained elsewhere, “in coming decades, the aging of the population, rising health care costs, and the expansion of [F]ederal subsidies for health insurance will put increasing pressure on the [F]ederal budget.” As a result, “the rising cost of Social Security and the major health care programs would lead to widening deficits.”<sup>22</sup>

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<sup>16</sup> <http://www.cbo.gov/sites/default/files/cbofiles/attachments/44205-2014-04-Medicare.pdf>

<sup>17</sup> <http://www.cbo.gov/sites/default/files/cbofiles/attachments/44204-2014-04-Medicaid.pdf>

<sup>18</sup> <http://bipartisanpolicy.org/wp-content/uploads/sites/default/files/D-R%20Plan%202.0%20FINAL.pdf>

<sup>19</sup> <http://www.gao.gov/highrisk/overview>

<sup>20</sup> <http://www.cbo.gov/sites/default/files/cbofiles/attachments/45010-breakout-AppendixB.pdf>

<sup>21</sup> <http://www.cbo.gov/publication/45653>

<sup>22</sup> <http://www.cbo.gov/publication/44967>

The President's Fiscal Commission similarly noted that "[F]ederal health care spending represents our single largest fiscal challenge over the long-run. As the baby boomers retire and overall health care costs continue to grow faster than the economy, [F]ederal health spending threatens to balloon."<sup>23</sup>

The greatest threat to vulnerable populations depending on Medicare, Medicaid and other Federal health programs is not reform—it is the status quo. As former Democratic Vice Presidential candidate and former U.S. Senator Joe Lieberman concluded, "we can't balance our budget without dealing with mandatory spending programs like Medicare. We can't save Medicare as we know it. We can only save Medicare if we change it."<sup>24</sup>

#### **IV. Considerations for Congress**

Congress will need to make changes to Medicare, Medicaid, and other Federal health care programs—both to protect the patients depending on the programs and to put our Federal budget on a more sustainable path. Witnesses will discuss a range of health care policies, including:

- How can health care savings aid Congress as they consider ways to responsibly reform Medicare's Sustainable Growth Rate, extend funding for the Children's Health Insurance Program or prioritize research and innovation as part of the 21st Century Cures Initiative?
- What bipartisan plans from Members and former Members of Congress have been offered to curb Medicare spending? Medicaid spending?
- How can Congress use savings generated from policy changes to health care entitlement programs to strengthen and shore up those programs? What are the challenges of using non-health-entitlement (discretionary, non-health mandatory, or revenue) offsets for Federal health care programs?
- What budgetary reductions or related policy reforms in Federal health care spending have been proposed by congressional advisory entities, like MedPAC, MACPAC, GAO, or CBO?
- How should the 114th Congress examine PPACA and Medicaid entitlement spending since the program has been protected from budgetary discipline, unlike other parts of the Federal health budget in recent years?
- What are incremental reforms that may accrue substantial savings over time?
- How can Congress protect the benefits on those who need them the most and ensure the sustainability of the programs?

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<sup>23</sup> [http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12\\_1\\_2010.pdf](http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf)

<sup>24</sup> [http://www.coburn.senate.gov/public/index.cfm/pressreleases?ContentRecord\\_id=ae711529-741a-4f52-89eb-4e6ef1c861a7](http://www.coburn.senate.gov/public/index.cfm/pressreleases?ContentRecord_id=ae711529-741a-4f52-89eb-4e6ef1c861a7)

- What redundant, wasteful, or ineffective Federal health care spending could be eliminated with little material impact?

**V. Conclusion**

Should you have any questions regarding the hearing, please contact Josh Trent, Robert Horne, or Paul Edattel at 202-225-2927.