U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON ENERGY AND COMMERCE

February 22, 2016

TO: Members, Subcommittee on Health

FROM: Committee Majority Staff

RE: Hearing: "The Fiscal Year 2017 HHS Budget"

I. INTRODUCTION

On Wednesday, February 24, at 10:00 a.m. in 2123 Rayburn House Office Building, the Subcommittee on Health will hold a hearing entitled "The Fiscal Year 2017 HHS Budget."

II. WITNESS

- The Honorable Sylvia M. Burwell, Secretary, U.S. Department of Health and Human Services.

III. BACKGROUND

Current Health Care Spending

In 2015, Federal spending for the major health care programs – Medicare, Medicaid, the Children's Health Insurance Program, and subsidies offered through health insurance exchanges and related spending – exceeded Social Security outlays for the first time. According to the Congressional Budget Office (CBO), such spending equaled $936 billion last year, an increase of $105 billion (or about 13 percent). Medicaid spending, which grew by $48 billion (or 16 percent) last year – after increasing by $36 billion (or 14 percent) in 2014 – represented the largest increase.[1]

The sharp rise over the past 2 years occurred mainly because of new enrollees added by the 30 States that had adopted the Medicaid expansion in the Patient Protection and Affordable Care Act (PPACA). CBO estimates that the average monthly enrollment of newly eligible Medicaid beneficiaries was 55 percent higher in 2015 than in the previous year. Similarly, subsidies for health insurance purchased through the exchanges that were established under the PPACA, as well as related spending, increased by $23 billion in 2015, to a total of $38 billion.[2]

[1] https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51129/51129-Chapter1.pdf
[2] https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51129/51129-Chapter1.pdf

An Unsustainable Budget Trajectory

According to the CBO and nonpartisan economic experts, the Federal budget is on an unsustainable path. The largest structural drivers of the Federal deficit and debt are the growth in mandatory entitlement programs, especially health care programs.

The aging of the population and the rising costs of health care are projected to boost substantially Federal spending on Social Security and the government's major health care programs over the next 10 years and beyond. As CBO explains, "unless spending for large benefit programs is reduced, revenues are allowed to rise more than they would under current law, or some combination of those approaches is adopted, debt will rise sharply relative to GDP after 2026."[3]

Outlays for the major health care programs – Medicare, Medicaid, the Children's Health Insurance Program, and subsidies offered through health insurance exchanges and related spending – are estimated to total 5.5 percent of GDP in 2016 and to grow rapidly in ensuing years, reaching 6.6 percent of GDP in 2026 (Medicare accounts for roughly 3 quarters of that growth; these estimates are adjusted for shifts in the timing of certain payments.).[4]

The scope of the growth of program outlays anticipated for Medicare and Medicaid in the coming decade is very significant. Broadly speaking, both Medicare and Medicaid expenditures are roughly expected to double in the coming decade. For example, this year, Medicaid expenditures are expected to total about $545 billion.[5] However, according to National Health Expenditure projections, by 2026, Medicaid will consume nearly $1 trillion each year. This year, Medicare expenditures (net of receipts) are expected to be about $567 billion.[6] According to CBO's most recent projections, the Medicare Hospital Insurance Trust Fund will be insolvent in 2026.[7] CBO has warned that "beyond the coming decade, the fiscal outlook is significantly more worrisome."[8]

Under the assumptions that govern CBO's baseline, the Federal government is projected to borrow $9.8 trillion from the end of 2016 through 2026. As CBO warns, "by historical standards, debt that high – and heading higher – would have significant negative consequences for the budget and the economy."[9]

Unless Federal law is modified, the Federal budget deficit will total $544 billion in fiscal year (FY) 2016.[10] Increasing deficits over the next 10 years will cause debt held by the public to rise steadily – to 86 percent at the end of 2026. At that point, Federal debt would be the highest as a percentage of GDP since just after World War II.

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[3] https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51129/51129-Chapter1.pdf
[4] https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51129/51129-Chapter1.pdf
[5] https://www.cbo.gov/publication/44204
[6] https://www.cbo.gov/sites/default/files/cbofiles/attachments/44205-2015-03-Medicare.pdf
[7] https://www.cbo.gov/about/products/budget_economic_data#5
[8] https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51129/51129-Chapter1.pdf
[9] https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51129/51129-Chapter1.pdf
[10] https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51129/51129-Chapter1.pdf

CBO explains that "projected deficits and debt for the coming decade reflect the significant long-term budgetary challenges facing the nation" and goes on to state that:

> Such high and rising debt would have significant consequences, both for the economy and for the federal budget, including these:
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> - When interest rates returned to more typical, higher levels, federal spending on interest payments would increase substantially;
> - Because federal borrowing reduces national saving over time, the nation's capital stock ultimately would be smaller, and productivity and total wages would be lower, than would be the case if the debt was smaller;
> - Lawmakers would have less flexibility than otherwise to use tax and spending policies to respond to unexpected challenges; and
> - The likelihood of a fiscal crisis in the United States would increase.[11]

Unless these budgetary challenges are confronted, the status quo will lead to these negative consequences for the country.

The President's FY 2017 Budget

The President's FY 2017 budget proposal was submitted to Congress on February 9, 2016. According to the Center for a Responsible Federal Budget, "under the President's budget, debt would remain the highest it has been in American history other than around World War II at nearly twice the historic average over the past 50 years."[12]

With respect to Department of Health and Human Services (HHS), total outlays for FY 2017 are estimated to be $1.145 trillion. The President's budget requests approximately $83 billion in discretionary budget authority for FY 2017,[13] including:

- Food and Drug Administration: In his budget proposal, President Obama calls for a total of $2.82 billion for the Food and Drug Administration.[14]

- Health Care Law Implementation: The PPACA, as amended, contains several sections that provide mandatory funding for implementation of the law. In addition to this funding, the President's FY 2017 budget includes several proposals that would further implement of the health care law.

- Centers for Medicare and Medicaid Services: The HHS FY 2017 budget request for the Centers for Medicare and Medicaid Services is more than $1 trillion in budget authority.

[11] https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51129/51129-Chapter1.pdf
[12] http://crfb.org/blogs/five-takeaways-presidents-final-budget
[13] http://www.hhs.gov/about/budget/fy2017/budget-in-brief/cms/private-insurance-programs/index.html
[14] http://www.hhs.gov/about/budget/fy2017/budget-factsheet/index.html

This request would finance Medicare, Medicaid, the Children's Health Insurance Program (CHIP), health insurance programs under PPACA, program integrity efforts, and operating costs. Taken as a whole, the budget would reduce health care outlays by roughly $375 billion over the next decade. However, about $175 billion of this savings comes from requiring drug companies to offer Medicare Part D's discounted prices through "drug rebates." The budget saves about $100 billion adjusting payments to post-acute care facilities, and makes modest changes to Medicare's income-related premiums and cost-sharing (saving about $50 billion combined). The budget also cuts the Medicare Advantage program by about $75 billion. According to MACPAC, average Medicare Advantage plan bids are currently at 98 percent of fee-for-service. The budget includes about $30 billion in new spending for Puerto Rico. Additionally, the budget proposes a 3-year, 100-percent matching rate to State Medicaid programs that have not already expanded the program.

- Public Health: The President's FY 2017 budget proposal requests approximately $125 billion for Federal public health agencies that include the National Institutes of Health, the Centers for Disease Control and Prevention, the Health Resources and Services Administration, the Substance Abuse and Mental Health Services Administration, the Agency for Healthcare Research and Quality, the Administration for Community Living, and the Indian Health Service. Specifically, the budget envisions funding to expand mental health treatment, curb opioid drug abuse, and combat antibiotic drug resistant bacteria.[15]

IV. STAFF CONTACTS

If you have any questions regarding this hearing, please contact Paul Edattel of the Committee staff at (202) 225-2927.

[15] http://www.hhs.gov/about/budget/fy2017/budget-factsheet/index.html