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THE PRESIDENT'S BUDGET AND THE MEDICARE "TRIGGER"

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Today, the President submitted legislation to Congress that would ostensibly keep *general revenues* from covering more than 45 percent of overall Medicare costs in each year through at least 2013. Congress is supposed to consider the President's proposal or a comparable proposal to avoid exceeding the 45-percent limit.

Some have portrayed this "45-percent trigger," mandated by the prescription drug legislation enacted in 2003, as necessary to address Medicare's serious long-term financing problems. In fact, the 45-percent limit is an ideologically driven target based on a misleading measure of Medicare's financial health; its primary effect likely will be not to strengthen Medicare's financing but to take certain options for improving Medicare financing off the table.

As a consequence, the 45-percent limit could make it harder to address Medicare's financing problems in a balanced and equitable manner.

KEY FINDINGS

- Under a requirement enacted in 2003, the President is supposed to propose this year, and Congress is supposed to consider, legislation that would keep general revenues from covering more than 45 percent of total Medicare costs through 2013.
- While Medicare faces serious long-term financing challenges, this 45-percent limit is not a legitimate measure of Medicare's financial health, since Medicare was *designed* to be financed in substantial part by general revenues (as well as by payroll taxes).
- The 45-percent limit effectively forecloses certain options for strengthening Medicare financing, such as a broad Medicare reform plan that includes measures to close part of Medicare's financing gap by curbing abusive corporate tax shelters or scaling back tax cuts for the wealthiest Americans. Under the 45 percent limit, Congress's options would be limited to raising regressive payroll taxes and beneficiary premiums and cutting benefits and payments to health care providers.
- A combination of measures — including added general revenues, as well as reforms in Medicare and the broader U.S. health care system — will likely be needed to address Medicare's financing problems. The 45-percent trigger significantly complicates that effort by taking important reform options off the table.

What Is the 45-Percent Limit? When Was the Trigger Pulled?

The 45-percent limit requires each annual report of the Medicare trustees to include an estimate of whether general-fund revenues will finance more than 45 percent of total Medicare expenditures in any of the following six years.

If trustees' reports issued in two consecutive years estimate that the 45-percent limit will be exceeded within the next six years, a "Medicare

Funding Warning" is issued, and the President must submit — and Congress must consider — proposals to prevent the limit from being exceeded.

Both the 2006 and 2007 trustees' reports contained a projection that the limit would be breached within the next six years. As a result, when the 2007 trustees' report was released, the 45-percent trigger was pulled, and a "Medicare Funding Warning" was issued.

This means that as part of his fiscal year 2009 budget or shortly afterwards, the President was required to submit legislation to make changes in Medicare that would prevent the limit from being exceeded. Congress is required to consider these or other proposals, although it is not required to enact them. (See the Appendix for a description of the procedures for submitting and considering this legislation.)

Is the 45-Percent Limit Meaningful?

Unfortunately, the 45-percent limit misdefines the basic challenge facing Medicare — which is how *much* the program is projected to cost and whether its cost fits within the overall U.S. budget, not what *share* of Medicare's costs are covered by any particular revenue source.[1]

Medicare was specifically designed to be financed in substantial part by general revenues, which are progressive, rather than dedicated payroll taxes, which are regressive. Payroll taxes fund only the hospital insurance part of Medicare (Medicare Part A); physicians' insurance and outpatient services (Part B) — and the prescription drug benefit (Part D) — are funded by general revenues (and beneficiary premiums). By itself, the fact that more than 45 percent of overall Medicare financing may come from general revenues poses no more of a problem than the fact that *100 percent* of the financing for defense, veterans' benefits, education, health research, or most other federal programs comes from general revenues.

Because the 45-percent limit says nothing meaningful about Medicare's financial condition or its relation to the overall federal budget, it should not be important whether the limit is exceeded.[2]

This does not mean that Medicare does not face serious financing challenges or pose serious issues for the federal budget as a whole; clearly, it does. Over the next decade, the federal government must begin taking major steps to address the nation's long-term budget gap, and dealing with rapidly rising Medicare costs — in part by addressing spiraling health care costs systemwide — must be a key part of that effort. But satisfying the 45-percent limit by shifting Medicare financing away from general revenues and toward payroll taxes would do nothing to address growing health-care costs or the overall federal budget problem.

Why Is Medicare's Reliance on General Revenues Rising?

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[1] For more details on this provision see Robert Greenstein *et al.*, "Trustees' Report Focuses Attention on Misguided Medicare '45-Percent Trigger,' " Center on Budget and Policy Priorities, revised May 1, 2006, http://www.cbpp.org/4-28-06health.htm.

[2] Note that if general revenues actually exceed 45 percent of Medicare's costs in some year, nothing would happen to the program: the elderly would still be fully eligible for benefits, doctors and hospitals would still be reimbursed for the care they provide, and the Medicare Part A trust fund would still able to pay bills as long as it remains solvent.

As defined in the 2003 prescription drug legislation, the general-revenue share of Medicare funding rises whenever total Medicare expenditures grow faster than dedicated revenues (i.e., payroll taxes). That is precisely what has been happening.

The reason is that Medicare costs have been growing faster than the economy for some time and are projected to continue doing so, largely because of rising costs throughout the entire U.S. health care system. For 30 years, the increase in Medicare costs per beneficiary has closely tracked the increase in private-sector health care costs. (The aging of the population is also raising Medicare costs.) Annual payroll tax collections, in contrast, tend to grow somewhat *more slowly* than the economy. As a result, the share of total Medicare spending covered by payroll taxes has been falling, while the share covered by general revenues has been increasing. This trend is expected to continue indefinitely.

In addition, Congress *deliberately increased* Medicare's reliance on general revenues when it decided in 2003 to fund the new prescription drug benefit with general revenues (and beneficiary premiums) rather than with additional payroll taxes.

For these reasons, the 45-percent limit will eventually be reached, even if Medicare costs turn out to rise much more slowly than is currently projected.

Foreclosing Important Medicare Reform Options

The biggest problem with the 45-percent limit is that it impedes action to improve Medicare's long-term outlook. The financing problems that Medicare faces are sufficiently large that a number of steps will have to be taken, and all options need to be on the table. Changes in the nation's overall health care system, reforms in Medicare itself, and additional general revenues *all* will almost certainly be needed. Marilyn Moon, a former Social Security and Medicare trustee who is widely regarded as one of the nation's leading Medicare experts, has observed that we "probably cannot . . . keep a viable Medicare program without tax increases at some point in the future."[3]

Yet as Moon has pointed out, the 45-percent trigger "limits the options you have to finding a solution" to Medicare's financing problems.[4] It would effectively rule out an increase in progressive income taxes as a part of a long-term solution for Medicare, since an increase in general revenues would conflict with keeping the general-fund share of Medicare costs below 45 percent.

Thus, for example, the 45-percent limit essentially bars Congress from closing a modest share of Medicare's financing gap by scaling back the $150,000 average annual tax cut enacted in 2001 and 2003 for people with incomes of more than $1 million a year, closing abusive corporate tax shelters, or curbing tax avoidance. But it would permit Congress to raise regressive payroll taxes, increase the monthly premiums that beneficiaries are charged, and cut the health services that Medicare covers,

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[3] Statements by Marilyn Moon come from presentations and comments in two audio-conferences sponsored by the Center on Budget and Policy Priorities on March 23, 2004. Transcriptions are available from the Center.

[4] Ibid.

as well as cut reimbursements to providers. As a result, the 45-percent limit would likely exacerbate income inequality, which already is at its highest levels in decades.

In short, the 45-percent limit represent an ideologically driven approach to Medicare financing that would effectively protect the nation's most affluent residents and corporations at the expense of Medicare beneficiaries and working families of more modest means. Efforts to shore up Medicare should focus on the real problems it faces, not on a 45-percent limit that is largely devoid of analytic merit and would take some legitimate options for strengthening Medicare financing off the table.

Appendix:
Summary of Procedures

Under the 2003 prescription drug law, the "trigger" is pulled if two successive reports of the Medicare trustees estimate that general revenues will cover more than 45 percent of Medicare costs within the following six years. As noted, the second such trustees' report was issued last spring, triggering the following procedures.

- The President is required to submit specific legislative language within 15 days of this year's budget submission. The intent of the law is that the President submit a proposal to keep general-revenue financing within the 45-percent limit for each of the next six years[5], but the law does not require that the proposal actually achieve this result.

- The President's legislative proposal must be introduced in Congress as a bill and referred to the committees of jurisdiction: the Senate Finance Committee and presumably the House Ways and Means Committee and the House Energy and Commerce Committee.

- *Whether or not* the President submits legislation,[6] the House and Senate committees are required to report Medicare legislation by June 30.

- The chair of the House Budget Committee must then estimate whether the reported bill brings general-revenue financing back within the 45-percent limit. The chair normally relies on the budget estimates supplied by the Congressional Budget Office when assessing the costs of any legislation. This is important, because last year, CBO estimated that the 45-percent limit would *not* be exceeded in any year through 2013, and it could do the same this year. In that case, the Budget Committee chair could legitimately certify that a Medicare bill that made no benefit cuts and raised no dedicated revenues still complied with the 45-percent limit through 2013, based on CBO estimates.

- If, by July 30, the House committees have not reported Medicare legislation that the Budget Committee chair says meets the 45-percent limit, or if the House has not voted on final passage of such legislation, then any member may move to have the full House vote on whether to discharge from committee a Medicare bill the Budget Committee chair certifies would meet the limit. If the House votes to discharge the bill, the House is required to vote on that bill,

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[5] The 2003 prescription drug law provides that the legislation submitted by the President should keep the general-revenue share of funding under 45 percent for the 7-fiscal-year period that begins with the year in which the legislation is submitted, which this year would be fiscal years 2008 through 2014. In contrast, that same law set a different 7-year period that the Medicare Trustees used last year in determining whether the Medicare Funding Warning was triggered and that the House Budget Committee Chairman is supposed to use this year in certifying whether legislation satisfies the 45 percent requirement. That period comprises fiscal years 2007 through 2013.

[6] Apparently the Administration has not decided whether to submit the specified legislation; some argue that the Constitution does not allow Congress to compel any specific legislation from the President. Regardless of the merits of this legal argument, it would be ironic for the President to choose not to submit legislation now that the trigger has been pulled, given that that the Administration helped design this 45-percent requirement and pushed for its enactment in 2003.

although it is not required to pass it.[7]

- The Senate procedure is somewhat different. The Senate Budget Committee chair does not issue budget estimates of proposals. If the Finance Committee reports legislation responding to the Medicare Funding Warning, it has fulfilled its responsibility, even if the bill does not adhere to the 45-percent limit. At that point, any senator can offer a motion that the full Senate vote on whether to consider the reported bill. Such a motion and the bill itself are considered under normal Senate procedures, including the right to filibuster the motion to vote on whether to consider the bill, as well as the right to filibuster or amend the bill itself.

  If the Finance Committee does not report a bill by June 30, any senator may move to discharge the President's bill (or another such Medicare bill referred to the Finance Committee) from that committee. The motion to discharge is considered on the Senate floor under a time limit and cannot be amended, but the Senate does not have to agree to the motion. If it does not, no further motions to discharge are in order.

It should be noted that even though the procedures described above were enacted into law, they are simply rules of Congress. The Constitution is clear that the House and Senate can amend or repeal any of their own rules whenever they wish, even if those rules have been enacted into law. Accordingly, Congress could change the procedures described above if it wished to do so, by amending its own rules.

[7] If the House votes against the motion to discharge, House members could choose to submit more bills and move for more votes to discharge.