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THE DUBIOUS PRIORITIES OF THE PRESIDENT'S BUDGET

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The President's budget would provide more tax cuts heavily skewed to the most well-off while cutting vital services for low- and moderate-income Americans, generating large deficits, and increasing the strain on states already confronting budget problems as a result of the economic downturn. The budget reflects misguided priorities that would leave the American people more vulnerable in a number of ways.

Budget Lacks Fiscal Discipline Because of Costly Tax Cuts

Despite substantial cuts in areas ranging from health care, disease control, and environmental protection to emergency responders, low-income heating assistance, and other important domestic needs, the budget would *enlarge* deficits by a total of $547 billion in fiscal years 2008-2013, or $397 billion not counting the economic stimulus package. This is because the budget proposes extending virtually all of the tax cuts enacted in 2001 and 2003 and adding other tax cuts on top.

- The cuts in domestic programs would reduce expenditures for domestic appropriations and entitlements by $23 billion in 2009 and $474 billion over five years.

- The tax cuts, however, would cost more than $900 billion over five years — and an additional $1.5 trillion in the five years after that, for a total cost of $2.4 trillion over the next decade.

- The Administration claims its plan would balance the budget in 2012 and 2013, but no sensible analyst takes that claim seriously, as it relies on the omission of large costs. For example, the budget numbers for 2012 assume that relief from the Alternative Minimum Tax will be allowed to expire. If that were to happen, the AMT would explode in size, hitting 38 million households that year (compared to about 4 million households today). Similarly, the budget numbers for 2012 and 2013 assume no cost whatsoever for operations in Iraq and Afghanistan and other overseas activities related to the global war on terror.

- Moreover, the Administration's own budget numbers show that its proposals (other than the economic stimulus package) would enlarge budget deficits by $397 billion over 2008 and the ensuing five years — even without counting the costs of continued operations in Iraq or continuation of AMT relief.

- If AMT relief is continued and costs for operations in Iraq and Afghanistan in coming years follow CBO's most optimistic (and least costly) scenario for a phase-down of those costs, deficits under the Administration's budget plan would equal $118 billion in 2012 and $153 billion in 2013. For the 2008-2013 period, deficits would total $1.5 trillion under this more realistic set of assumptions. (These figures exclude the cost of the stimulus package.)

Program Cuts Would Affect Millions of Ordinary Families

For 2009, the Administration's budget would cut funding for domestic discretionary programs outside of homeland security — the part of the budget that funds everything from education to environmental protection to veterans' health care and Head Start — by $2.4 billion in nominal terms (i.e., before adjusting for inflation) — and by about $15 billion or 4 percent after adjusting for inflation. These cuts would hit nearly every area of the domestic budget.

The Administration claims that its funding for these programs is *up* by 0.3 percent for 2009 in nominal terms. But this claim is misleading, as it is based on a 2008 funding level that omits $3.7 billion provided for veterans' medical care this year. (The $3.7 billion was designated as emergency funding but was provided to meet ongoing needs in veterans' health care; these needs will not somehow vanish in 2009 and succeeding years.) When that $3.7 billion is included in the 2008 base, the amount proposed by the President for domestic discretionary programs for 2009 is $2.4 *below* the amount enacted in 2008, in nominal terms, and even further below when inflation is accounted for.

- In the poverty area, funding for the Low Income Home Energy Assistance Program (LIHEAP) would be cut $570 million or 22 percent, even before adjusting for changes in energy prices. This would require cutting more than 1 million low-income families and elderly people off the program entirely, shrinking the average amount of assistance provided to poor families by 22 percent, or some combination of the two. The funding level the President proposes for LIHEAP in 2009 — $2.0 billion — is identical to the program's funding level in 2001, even though home energy prices are now 65 percent higher than in 2001.

- The budget would freeze funding for child care assistance for low-income families for the seventh consecutive year. After adjusting for inflation, child care funding has already fallen by almost 17 percent since 2002. (Between 2002 and 2006, the last year for which data are available, the number of low-income children *grew* by more than 8 percent.) According to the Administration's own data, 200,000 fewer children in low-income families would receive federal child care assistance in 2009 than in 2007, under the President's budget.

- The budget reduces or freezes funding for a number of other low-income assistance programs, as well. For example, because of cuts in the Section 8 housing voucher program, the nation's largest low-income rental assistance program, at least 100,000 fewer low-income households would receive voucher assistance.

- The budget would cut funding for the Centers for Disease Control and Prevention by $433 million, even before adjusting for inflation. These reductions include sharp cuts in funding for detection and control of infectious diseases and preventive health services.

- The budget would reduce funding for the Environmental Protection Agency by $330 million, before adjusting for inflation. EPA funding in 2009 would fall more than $1 billion below the 2004 level (and $700 million below the 2001 level) before any adjustment for inflation.

- While the budget would expand some education programs, it would cut others, and its total funding for K-12 education is less than is needed simply to keep pace with inflation.

Pushing States Deeper Into Fiscal Crisis

The budget is replete with cuts aimed at state and local governments.

- It would cut discretionary grants to states and local governments in 2009 by $15.1 billion, or 9 percent, even before adjusting for inflation. These cuts total $19.1 billion, or 11 percent, once inflation is taken into account. For example, grants to states and cities for homeland security, law enforcement, and firefighters and other first responders would be cut by $1.5 billion, or 45 percent, even before adjusting for inflation.

- In addition, the budget would cut federal Medicaid expenditures by $18.2 billion over five years (with $17.4 billion in reductions from legislative changes and another $800 million from regulatory changes). These "savings" would primarily be achieved *not* by lowering health care costs, but rather by shifting costs to the states.

Cuts such as these would force states to institute even bigger program cuts or tax increases than will otherwise be needed to close the budget gaps now emerging across the country as a result of weakening revenues. Unlike the federal government, states must balance their budgets, even during economic downturns.

Large Medicare Reductions

In addition to the Medicaid cuts, the budget includes $556 billion in Medicare reductions over ten years. Many of the proposed cuts go well beyond the reductions that MedPAC, Congress' expert advisory commission on Medicare payments, recommended and considers safe. These reductions could drive some health care providers to limit the number of Medicare patients they see or drop out of the program entirely. That, in turn, would jeopardize health care for significant numbers of people who are elderly or have serious disabilities.

At the same time, the Administration rejected MedPAC's call to curb the tens of billions of dollars of overpayments being made to private insurance companies that serve some Medicare beneficiaries through the Medicare Advantage program. MedPAC has recently reported that the private insurers are being paid *13 percent more*, on average, than it would cost to treat the same beneficiaries under traditional Medicare, and has called for the elimination of these overpayments in order to "level the playing field." The overpayments will cost taxpayers about $150 billion over ten years, according to the Congressional Budget Office.

The President's budget, however, leaves these overpayments untouched. The Administration's refusal even to modestly scale back the overpayments led it to propose deeper cuts in other parts of Medicare in order to secure the overall level of Medicare savings that its budget contains. (See the appendix for further discussion of the Medicare proposals.)

Children's Health Funding May Not be Adequate to Maintain Current SCHIP Programs

The budget includes what it describes as a $19.7 billion increase in funding for the State Children's Health Insurance Program (SCHIP). This would *not*, however, allow states to cover many more uninsured children, millions of whom are eligible for SCHIP and Medicaid but unenrolled.

The $19.7 billion increase is an increase *not* over current SCHIP funding levels, but over the budget baseline. And the budget "baseline" for SCHIP assumes a *reduction* in annual SCHIP funding for 2009 and succeeding years, and no adjustment for health care inflation or other factors (such as child population growth or increases in the number of uninsured children as employer-based coverage continues to erode). We estimate that states will need an SCHIP funding increase of approximately $21.5 billion over the budget baseline for the next five years simply to sustain their current SCHIP programs.

Under the Administration's funding level, states thus would tread water at best and, more likely, be required to scale back their SCHIP programs, unless they were able to increase their own SCHIP funding.[1]

Most Well-Off Americans Would Receive Large Tax Windfalls

Alongside its sizeable, widespread reductions in most parts of the domestic budget, the Administration proposes $2.4 trillion in tax cuts over the next ten years, including the extension of the 2001 and 2003 tax cuts. This figure, moreover, excludes the cost of AMT relief. Continuing AMT relief would reduce revenues by an additional $1.3 trillion over the next decade, according to Congressional Budget Office estimates.

The tax cuts would provide windfalls for the most affluent Americans, even as many vulnerable Americans living on modest budgets would face the loss of needed benefits and services.

- The top 1 percent of households — those with incomes exceeding $450,000 a year — would receive more than *$1 trillion* in tax cuts over the next ten years. (This figure assumes the extension of AMT relief.) Each year these households would receive more than $60,000 apiece in tax cuts, on average.

- Households with annual incomes over $1 million would get an even larger tax cut: more than $150,000 a year, on average. This group makes up just 0.3 percent (three one-thousandths) of the nation's households, yet its combined tax cuts would exceed the *entire amount* that the federal government spends on elementary and secondary education, as well as the entire amount that it devotes to medical care for the nation's veterans.

Repealing Estate Tax Would Use Up Budget Savings From Medicare Cuts

As noted, the budget's Medicare proposals would cut projected Medicare expenditures by $556 billion over ten years. Its proposal to make estate-tax repeal permanent would cost $522 billion, or almost as much.

The Medicare cuts would adversely affect tens of millions of Americans who are elderly or have serious disabilities. Repealing the estate tax, in contrast, would benefit only the wealthiest 1 to 2 percent of Americans — and would be worth the most by far to fabulously wealthy individuals, whose estates would receive up to tens or even hundreds of millions of dollars *apiece* in tax cuts.

[1] See Edwin Park, "President's Budget May Provide States with Inadequate Funding to Maintain Current SCHIP Programs," Center on Budget and Policy Priorities, February 7, 2008.

Appendix

Unbalanced Medicare Proposals Pose Risks[2]

The Medicare Payment Advisory Commission (MedPAC), Congress' expert advisory body on Medicare payment policy, makes annual recommendations to Congress about various Medicare reimbursement rates to health care providers. In crafting these recommendations, MedPAC carefully weighs various factors including the adequacy of existing payment rates, overall operating margins of providers and the impact on beneficiary access to care. These recommendations can include both rate reductions and increases.

The Administration's fiscal year 2009 budget would cut Medicare spending by $178.2 billion over the next five years and $556.4 billion over 10 years. Some of these cuts are consistent with MedPAC recommendations, at least for fiscal year 2009. But in many cases, the cuts to providers in the regular Medicare program go well beyond those that MedPAC has recommended and could threaten the financial viability of some providers and adversely restrict beneficiaries' ability to obtain needed health care. For example, while MedPAC has recommended that Congress reduce some special payments to teaching hospitals (with the savings going to reward hospitals with higher quality of care), the Administration proposes a cut that is three times larger, without any reinvestment of those savings.

In addition, the Administration budget fails to include the payment *increases* for certain providers that MedPAC has recommended. For example, MedPAC recommends that Congress avert an expected 5 percent cut in physician payments and increase such payments by more than 1 percent. It has also recommended an increase in dialysis payments. Neither recommendation is in the President's budget.

Although the President's budget proposes large cuts to providers in the regular Medicare program, it ignores all of the recommendations that MedPAC has made to curb the billions of dollars in excessive payments being made to private insurance companies that participate in the Medicare Advantage program (the "privatized" part of Medicare). Private insurance companies were originally brought into Medicare for the purpose of *lowering* Medicare costs, but MedPAC estimates that the private plans now are paid *13 percent more* than it costs traditional Medicare to cover the same beneficiaries, or about $1,000 more per beneficiary. CBO has estimated that these overpayments to the private insurance companies total $54 billion over five years and $149 billion over 10 years.

These overpayments also accelerate by two years the point at which the Medicare Trust Fund will become insolvent and increase the monthly premiums that beneficiaries in regular Medicare must pay. For many years, MedPAC has strongly recommended that Congress "level the playing field" and eliminate these overpayments.

Due, however, to its ideological desire to promote private insurance over public health insurance programs, and its close relationship with the private insurers, the Administration chose to shield the private plans and to reject all of MedPAC's recommendations to reduce these overpayments — even as it proposed deep cuts in payments to hospitals, nursing homes and other providers in traditional Medicare.[3] Private insurance companies in Medicare Advantage would continue to be paid 13 percent more, on

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[2] The appendix was written by Edwin Park.

[3] The sole exception regards the double payments that go to both Medicare Advantage plans and teaching hospitals for the treatment of private-plan enrollees by these hospitals. MedPAC has recommended eliminating the duplicative payment that the private insurers receive for these patients. The Administration also proposes to address this double-payment problem, but it would do so by leaving untouched the payments that the private plans receive for these patients — and ending instead the payments that the teaching hospitals get for these patients — despite the lack of any assurance that the private insurers will pass the payments on to the teaching hospitals.

average, than it costs to treat the same beneficiaries under regular Medicare. The decision to discard MedPAC's recommendations to "level the playing field" between the private insurers and the regular Medicare program required the Administration to seek deeper cuts from other Medicare providers to achieve the overall level of Medicare savings the budget contains. (Note: the payments made to private insurance companies in Medicare Advantage are set by a formula, under which these companies are paid based on how much it costs to treat comparable patients in the regular Medicare program in the same geographic area. As a result, the provider cuts that the Administration is proposing in the regular Medicare program would result in some reduction in aggregate payments to private insurers in Medicare Advantage, as well. But the 13 percent average differential between what the private insurers are paid and what it costs to treat the same beneficiaries under regular Medicare would not be narrowed at all.)

The large cuts proposed in payments to providers in regular Medicare could cause some Medicare beneficiaries to lose access to various health care providers who limit participation in the program. For example, some physicians may restrict the number of new Medicare patients they will see. That, in turn, could help private insurance companies entice more beneficiaries to leave regular Medicare and switch to the private plans by offering greater access to providers. (By using a portion of the overpayments they receive to pay some providers more than regular Medicare would, the private plans could attract a larger array of providers, further tilting the playing field toward those plans.[4])

In this way, the proposals in the President's budget would weaken regular Medicare and likely induce more seniors to switch to Medicare Advantage. That would make the total amount of overpayments going to the private companies even greater, enlarge the private insurers' profits, and accelerate the privatization of Medicare.

[4] While private insurance companies use the overpayments to offer additional benefits to attract enrollment, many private plans like HMOs require beneficiaries to see only in-network providers. In comparison, regular Medicare remains attractive because it allows beneficiaries to obtain care from any provider participating in Medicare. That advantage, however, could be significantly reduced if fee-for-service payment rates are slashed as the Administration's budget proposes.