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## President Biden's 2024 Budget Would Strengthen, Improve Medicare

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The President's budget for fiscal year 2024 contains several important proposals to protect and strengthen Medicare.<sup>1</sup> By modestly raising taxes on high-income people and reducing drug prices, the budget shores up Medicare's financing and lowers beneficiaries' costs. The budget also contains additional proposals to make Medicare less costly and improve benefits.

### Strengthening Medicare Financing

Foremost among the budget proposals is a plan to extend the solvency of Medicare's Hospital Insurance (HI) trust fund by at least 25 years.<sup>2</sup> The plan raises revenues in a progressive manner and deserves prompt action by Congress.

The Medicare solvency package has three major components.<sup>3</sup> First, for households with more than \$400,000 in income, the plan would close a loophole that allows some pass-through business income to avoid both the 3.8 percent Medicare tax on wages and self-employment income and a parallel 3.8 percent net investment income tax (NIIT) on most unearned income.<sup>4</sup> (The Medicare tax comprises a 2.9 percent tax on all earnings plus an additional 0.9 percent tax on earnings over \$200,000 for single taxpayers and \$250,000 for couples. Pass-through income is reported on the individual income tax returns of the business owners and is not subject to the corporate income tax.)

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<sup>1</sup> U.S. Department of Health and Human Services, *Fiscal Year 2024 Budget in Brief*, March 2023, <https://www.hhs.gov/sites/default/files/fy-2024-budget-in-brief.pdf>.

<sup>2</sup> Paul Spitalnic, Chief Actuary, Centers for Medicare & Medicaid Services, "Medicare Hospital Insurance Trust Fund Depletion in the Fiscal Year 2024 President's Budget," March 9, 2023, <https://www.cms.gov/files/document/medicare-hospital-insurance-trust-fund-depletion-fiscal-year-2024-presidents-budget.pdf>.

<sup>3</sup> White House, "Fact Sheet: The President's Budget: Extending Medicare Solvency by 25 Years or More, Strengthening Medicare, and Lowering Health Care Costs," March 7, 2023, <https://www.whitehouse.gov/briefing-room/statements-releases/2023/03/07/fact-sheet-the-presidents-budget-extending-medicare-solvency-by-25-years-or-more-strengthening-medicare-and-lowering-health-care-costs/>.

<sup>4</sup> U.S. Department of the Treasury, *General Explanations of the Administration's Fiscal Year 2024 Revenue Proposals*, March 9, 2023, pp. 72-76, <https://home.treasury.gov/system/files/131/General-Explanations-FY2024.pdf>.

Closing this loophole would limit inefficient gaming, affect only a small share of high-income business owners, and treat all pass-through business owners equally. Small businesses are not the focus of this proposal. Nearly all small business owners have less than \$400,000 in profits. Further, sole proprietorships — which constitute the vast majority of small businesses — already pay Medicare self-employment taxes on all their income.<sup>5</sup>

Who would be affected? A Tax Policy Center analysis of a similar proposal found that 85 percent of the revenue would come from millionaires who have been able to exploit the existing holes in the NIIT to avoid billions in taxes that other business owners already pay.<sup>6</sup>

The plan would also dedicate the existing and new proceeds of the NIIT to the HI trust fund. Limitations imposed by the congressional budget reconciliation process prevented this from being done when the NIIT was originally enacted.

Second, the Biden Administration’s solvency plan would raise the Medicare payroll tax, self-employment tax, and NIIT from 3.8 percent to 5 percent on incomes over \$400,000, thereby making the tax system more progressive.

Third, it would achieve additional reductions in prescription drug prices beyond those enacted in last year’s Inflation Reduction Act and would credit those savings to the HI trust fund.

## **Reducing Program Costs**

Several budget proposals would reduce Medicare costs for taxpayers and beneficiaries.

The budget strengthens provisions of the Inflation Reduction Act that allow Medicare to negotiate lower prices for certain drugs for the first time. It would allow Medicare to negotiate prices sooner after a drug comes on the market and make more drugs subject to price negotiation. The Administration estimates that this proposal would save Medicare \$160 billion over the next ten years, while reducing premiums and cost sharing for beneficiaries. (See Table 1.)

The budget would also expand the Inflation Reduction Act’s requirement that drug companies pay rebates to Medicare when their prices increase faster than inflation to commercial plans, including employer-sponsored and Affordable Care Act marketplace plans. This step would save Medicare \$40 billion and discourage drug companies from raising prices for drugs covered by commercial insurance plans.

Additionally, the budget proposes to improve Medicare program integrity by increasing mandatory funding for the Health Care Fraud and Abuse Control Account. On balance, this additional investment would save Medicare \$5.4 billion over ten years.

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<sup>5</sup> Samantha Jacoby, CBPP, July 14, 2022, 4:00 p.m., <https://twitter.com/jacsamoby/status/1547672516755275778?s=20>.

<sup>6</sup> Tax Policy Center, “Application of NIIT to Trade or Business Income of Certain High-Income Individuals,” July 14, 2022, <https://www.taxpolicycenter.org/model-estimates/net-investment-income-tax-july-2022/t22-0014-application-niit-trade-or-business>.

Another proposal in the budget would extend the Budget Control Act's 2 percent Medicare sequestration for one more year (through 2033), saving an additional \$36.8 billion.

## **Improving Medicare Benefits**

The budget contains proposals to improve Medicare benefits that would cost a total of \$7.9 billion over the 2024-2033 period.

The budget would reduce to \$2 per month the amount of cost sharing that Medicare enrollees would pay for a standard list of generic drugs used to treat chronic conditions, such as high blood pressure and high cholesterol. This step would make treatment more affordable, increase adherence to prescribed medications, and improve beneficiaries' health.

To advance the Administration's goal of transforming behavioral health, the budget includes proposals to reduce costs and expand access to behavioral health care services in Medicare. It would cover three behavioral health visits a year without cost sharing, eliminate the 190-day lifetime limit on inpatient psychiatric hospital services, and provide for equal Medicare coverage of physical and mental health needs.

As part of the Administration's strategy to end hunger, improve nutrition, and reduce diet-related diseases, the budget proposes to expand Medicare coverage of nutrition and obesity counseling. The proposal would make more Medicare beneficiaries eligible for counseling and make more providers eligible to deliver services.

The budget also proposes a multi-agency National Hepatitis C Elimination Program to increase the number of people treated for the disease. As one component of the program, Medicare beneficiaries with hepatitis C would be eligible to receive a course of anti-viral medication without cost sharing.

To reduce administrative barriers to enrollment in the Medicare Savings Programs (which help people with low incomes afford basic Medicare premiums and cost sharing) and the low-income prescription drug subsidy (which helps them afford their medications), the budget would align their eligibility methodologies to use common definitions of income and assets. This proposal would increase federal Medicaid spending by \$5.8 billion.

Finally, the budget includes several proposals to improve the quality of care in Medicare, increase value, fill gaps in data, and strengthen protections for beneficiaries. These proposals are either budget-neutral or have no budget estimates available.

TABLE 1

**Medicare Spending Proposals in the President's 2024 Budget**

Cost or Savings (-), 2024-2033, in billions of dollars

<b>Program Savings</b>	
Expand drug price negotiation	-160.0
Expand drug inflation rebates	-40.0
Extend Budget Control Act sequestration	-36.8
Increase mandatory HCFAC Account funding	-5.4
<b>Subtotal</b>	<b>-242.1</b>
<b>Benefit Improvements</b>	
Limit cost sharing for high-value generic drugs	1.3
Cover three behavioral health visits without cost sharing	1.4
Eliminate lifetime limit on IPF services	2.4
Improve coverage of nutrition and obesity counseling	1.7
Establish National Hepatitis C Elimination Program	1.0
<b>Subtotal</b>	<b>7.9</b>
<b>Medicare Total</b>	<b>-234.2</b>

Notes:

HCFAC = Health Care Fraud and Abuse Control

IPF = inpatient psychiatric facility

Details may not add to totals due to rounding.

The table does not list proposals that are budget-neutral or have no budget estimate.

Source: Office of Management and Budget