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CBPP STATEMENT

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Greenstein: Budget Deal, Though Imperfect, Represents Significant Accomplishment and Merits Support

If approved by Congress, the new budget deal from the White House and congressional leaders will mark a significant achievement by an otherwise polarized Washington. Along with raising the debt limit until early 2017 and thereby avoiding a potentially catastrophic default, the package would:

- Effectively eliminate about 90 percent of the sequestration budget cuts for non-defense discretionary programs in fiscal year 2016, and about 60 percent of them in 2017, while also easing sequestration for defense by equal dollar amounts in both years — and thereby providing more substantial relief from sequestration than the Murray-Ryan deal provided for 2014 and 2015;
- Greatly reduce the potential for government shutdowns this year and next (essentially eliminating the risk of a shutdown over funding levels, though retaining the possibility of one over riders and other policy differences);
- Extend the solvency of Social Security Disability Insurance through 2022, thereby avoiding across-the-board cuts of nearly 20 percent in disability benefits starting in late 2016, which will otherwise occur; and
- Avoid, for Medicare, an estimated 52 percent increase in deductibles for physician and other outpatient services in 2016, and a 52 percent increase in Part B premiums that roughly 30 percent of Medicare beneficiaries otherwise would face.

Like any bipartisan deal, this one reflects numerous compromises and has its warts, including a disappointing health coverage provision as discussed below. But overall, the deal strongly merits support.

Easing Sequestration in 2016 and 2017

Without a budget deal, sequestration will take full effect for the first time in 2016, cutting non-defense discretionary (NDD) funding by $37 billion below the already tight funding caps that the 2011 Budget Control Act (BCA) imposed. The deal would effectively restore $33 billion of this $37 billion in 2016 and $23 billion of the $37 billion slated for 2017. It also would ease defense sequestration by equal dollar amounts. To provide those additional funds, the deal would raise the post-sequestration caps by $80 billion over the two years. It would also provide about $32 billion more in 2016 and 2017 for defense and non-defense funding through the Overseas Contingency Operations (OCO) fund, which is not subject to the BCA caps (as compared to the funding level that President Obama requested for OCO in 2016).

Nevertheless, NDD funding under this deal would still be low in historical terms. Even with the sequestration relief provided, NDD funding for 2016 would be 12 percent below the 2010 level, adjusted for inflation. By 2017, NDD spending would fall to its lowest level on record as a share of the economy, with data back to 1962.

Offsets for Sequestration Relief

The deal roughly offsets over the next ten years the $80 billion increase in the post-sequestration caps in 2016 and 2017. (The deal doesn't offset the additional OCO funds in 2016 and 2017.) Deficits would be modestly higher in 2016 and 2017 than under current law, but generally lower in years thereafter. This would improve the nation's long-term fiscal picture a little bit, because the increases in discretionary funding are limited to 2016 and 2017, while a number of the offsetting savings represent permanent changes in mandatory (i.e., entitlement) programs and tax compliance that likely would endure and continue to produce modest savings well into the future. If one looks beyond ten years, the result should be some net deficit reduction, albeit on a small scale.

The offsets do not include any measures to rein in wasteful or inefficient tax breaks, an expected though disappointing outcome. The offsets do, however, include $11 billion in new tax revenue from stronger tax compliance measures, primarily to improve compliance by large partnerships.

The single largest offset is savings from extending for one more year — to 2025 — sequestration of the limited number of mandatory programs that are subject to it. The bulk of these savings come from continuing, for 2025, a 2 percent "haircut" on Medicare provider reimbursement rates.

In perhaps the deal's most unsettling feature, one offset (saving $7.9 billion) would repeal a health reform requirement — not yet implemented — under which employers with more than 200 workers that offer employer-sponsored insurance would be required to automatically enroll their employees into one of the health plans the employer offers (with the employees having the option to opt out). This provision was designed to increase enrollment in employer-based plans. Its repeal would mean that fewer people would have employer-based coverage, with the result, according to the Congressional Budget Office, that roughly 675,000 more people would be uninsured in most years after 2018.

That the deal targets this employer requirement is not surprising. Employers have strongly opposed it, it has had little public support, and there have been questions as to whether it would be implemented successfully. For example, some have expressed concern that without strong enforceable regulations, the provision could leave some workers automatically enrolled into employer plans with skimpy benefits and high out-of-pocket costs, thereby causing some workers to be barred from obtaining federal subsidies to purchase more affordable, higher-value coverage through the health insurance marketplaces. In addition, the Labor Department ruled that employers didn't need to comply with this requirement until the Department issued regulations how to do so and, faced with knotty questions about how to implement the requirement, it has yet to issue those rules.

Social Security Disability Insurance

For Social Security, the deal would reallocate funding from the Old-Age and Survivors Insurance Trust Fund to the Disability Insurance (DI) Trust Fund, which will keep DI solvent through 2022. Accompanying the reallocation is a long overdue mechanism to provide more funding to the Social Security

Administration to conduct periodic redeterminations on a timely basis (to assess whether DI beneficiaries remain disabled), as well as other program integrity measures, along with a modification of the disability determination process in about 20 states. The deal does not contain any changes in the DI eligibility criteria or benefit structure.

The DI savings come mainly from ending a 16-year-old pilot project under which disability determination units in 20 states have been authorized to make disability determinations without involving a medical expert. Under the deal, DI will return in these states to the procedures used in all other states, under which medical experts must review the evidence. Data from the pilot project suggests that ending the pilot in the 20 states will slightly reduce the share of DI applicants who are found eligible in those states. As a whole, the DI package would produce small savings, amounting to about 0.3 percent of projected DI benefit outlays over the next decade.

Medicare Premiums

Due to recent data showing scant inflation, Social Security recipients will receive no cost-of-living adjustment (COLA) in 2016. And with no COLA, Medicare Part B premiums — which are deducted from Social Security checks — will be frozen for 70 percent of Medicare beneficiaries, rather than rising in tandem with increases in Medicare costs, as they normally do.

Under the law that freezes Part B premiums for most beneficiaries when there is no Social Security COLA, Medicare premiums must rise enough for the *other 30 percent* of beneficiaries — and the Medicare Part B *deductible* must rise for all beneficiaries as well — so that Medicare's trust fund receives the same total revenue as it would if premiums weren't frozen. Consequently, these 30 percent of beneficiaries are slated to face a whopping 52 percent premium spike in 2016. And all beneficiaries are slated to face a 52 percent jump in the Medicare Part B deductible.

The deal limits the premium increase faced by the 30 percent of beneficiaries who would otherwise face a huge premium jump — and the increase in the deductible — to the normal amounts by which the premiums and the deductible would rise in 2016 if there were no premium freeze for other beneficiaries. The deal would then replenish Medicare's Part B trust fund by raising the premium by an extra $3 a month for about six years for the 30 percent of beneficiaries who would otherwise face steep premium hikes in 2016. In essence, the deal smooths out, over a number of years, the premium increase that the 30 percent of beneficiaries would otherwise face in 2016, while keeping Medicare's trust fund from facing a financial loss in the process.

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This deal is a major, multi-faceted package that addresses a number of contentious issues. Policymakers and analysts can debate various provisions. But, overall, the deal is a significant achievement that includes an array of sound policies and policy reforms and accomplishes important goals. The deal also shows that the policy process can yield productive results even at a time of bitter partisanship.

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