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Revised March 25, 2005

WITH BUNNING AMENDMENT, SENATE BUDGET WOULD MOVE UP MEDICARE INSOLVENCY BY FOUR YEARS AND INCREASE DEFICITS BY MORE THAN $200 BILLION

by Robert Greenstein

An amendment to the budget that the Senate adopted March 17 would move up by four years — to 2016 — the point at which the Medicare Hospital Insurance program becomes insolvent. With passage of the amendment, the final budget plan the Senate approved would *increase* deficits by $217 billion over five years.

The amendment, offered by Senator Jim Bunning (R-KY), nearly doubled the tax cuts in the Senate plan in order to provide a new tax cut to the quarter of Social Security beneficiaries with the highest incomes. The Bunning provision increased the tax cuts in the Senate budget plan by $64 billion over five years, from $71 billion to $135 billion. (An amendment offered by Senator Edward Kennedy (D-MA) was adopted that reduced the tax cut to $129 billion, the final amount of the tax cuts in the Senate plan.)[1]

Amendment Would Increase Medicare Shortfall by $1.1 Trillion Over 75 Years

The revenue losses that the Bunning proposal would cause Medicare to bear would mount over time. Over the next 75 years, the customary period for measuring Medicare and Social Security solvency, the proposal would cause the Medicare Hospital Insurance Program to lose $1.1 trillion in revenue (measured in present value terms), according to the Medicare Trustees report.* This would increase the shortfall in the program by 13 percent, or more than one-eighth.

Looked at another way, the loss from the Bunning proposal would be equivalent to more than one-quarter of the 75-year shortfall in Social Security.

* Source: 2005 Medicare Trustees Report, Table III.B9, p. 60.

The Bunning amendment would repeal a provision of current tax law under which a portion of the Social Security benefits paid to beneficiaries above certain income levels are included in taxable income and the revenues collected are deposited into the Medicare Hospital Insurance Trust Fund. The loss of those revenues would weaken Medicare financing. In new projections issued on March 23, the Social Security and Medicare Trustees project that, under current law, the Medicare HI Trust Fund will become insolvent in 2020. Based on these new projections, the Medicare actuaries estimate that the Bunning amendment would accelerate the insolvency date to 2016.[2]

[1] The Kennedy amendment modestly increased funding for education and offset the costs by modestly reducing the size of the tax cuts.

[2] Estimate provided to Congressional staff by the Medicare Office of the Actuary, March 24, 2005.

How the Senate Budget Increases the Deficit by More Than $200 Billion

A comparison of Congressional Budget Office estimates of the deficits that are projected under current law to the deficits reflected in the Senate budget plan, as passed by the Senate, shows the plan will increase deficits by $217 billion over the next five years. The plan has this effect because its tax cuts and defense spending increases substantially exceed its domestic program cuts.

- The plan contains $129 billion in tax cuts. It also contains $208 billion in spending increases for defense and international affairs.

- The plan contains $157 billion in domestic program cuts, consisting of $135 billion in cuts in domestic discretionary programs and $23 billion in reductions in entitlement programs. (The plan cuts *funding* for domestic discretionary programs by a larger amount, $203 billion over five years. But because expenditures for discretionary programs can occur one or more years after appropriations are provided for those programs, the reduction in expenditures over the next five years would be smaller than the $203 billion amount. The remaining expenditure reductions that would result from the funding cut would occur after the end of the five-year period.)

- When the $38 billion in added interest costs are taken into account, the bottom line is an increase in deficits of $217 billion.

Where Was the Senate Leadership?

The adoption of the Bunning amendment on the Senate floor was striking; the Senate Republican leadership and the Chairman of the Senate Budget Committee, Senator Judd Gregg (R-NH) — who has portrayed himself as a deficit hawk — voted for it. Earlier in the day, Senator Gregg fought vigorously against an amendment by Senators Gordon Smith (R-OR) and Jeff Bingaman (D-NM) to remove $15 billion in Medicaid cuts from the budget; Gregg insisted these savings were needed to help address the nation's fiscal problems. Senator Gregg (and most other Senators who opposed the Medicaid amendment) then supported the Bunning amendment, even though its cost was more than four times greater than that of the Smith amendment. (It also should be noted that unlike the Smith amendment, which sought to protect low-income children, families, seniors, and people with disabilities, the Bunning amendment would only benefit more affluent individuals.)

Current Law and How the Bunning Amendment Would Change It

Under the 1983 Social Security rescue legislation that was fashioned by the Greenspan Commission and enacted that year, up to 50 percent of Social Security benefits are included in adjusted gross income for Social Security beneficiaries with incomes above $25,000 for individuals and $32,000 for married filers.[3] The revenue collected is dedicated to the Social Security Trust Fund.

An additional provision was enacted as part of the 1993 deficit-reduction legislation. The 1993 provision was designed to count as adjusted gross income the Social Security benefits

[3] In determining whether a beneficiary's income is above these thresholds, taxable income, tax exempt interest, and 50 percent of Social Security benefits are counted.

received by beneficiaries at somewhat higher income levels, to the extent that such benefits exceed the Social Security payroll tax contributions these individuals have made. This is the same approach as is used in determining the portion of private pension payments that is taxable.

The provision enacted in 1993 made up to 85 percent of Social Security benefits taxable for these beneficiaries, since it was estimated that, on average, approximately 85 percent of the Social Security benefits that these beneficiaries receive exceeded the payroll tax contributions they had made.[4] Those affected are beneficiaries with incomes above $34,000 for individuals and $44,000 for couples.

This provision does *not* mean that up to 85 percent of benefits are repaid to the government as income taxes. Rather, it means that up to 85 percent of benefits are considered ordinary income and subject to federal income taxes at a rate of 15 percent or higher, depending on a retiree's taxable income. The revenue raised by the 1993 measure is dedicated to the Medicare Hospital Insurance Trust Fund.

The Bunning amendment envisions repeal of the 1993 provision. The Joint Committee on Taxation estimates that doing so would cause a revenue loss of $64 billion over five years. The Bunning amendment accorded this $64 billion in added tax cuts special "reconciliation" protection, making the measure easier to pass and protecting it from filibuster. The $64 billion in lost revenues would result in $7 billion in added interest payments on the debt, bringing the amendment's total cost to $71 over five years.

Over the next ten years, JCT estimates that the Bunning amendment would result in revenue loss totaling $180 billion. Including additional interest costs of $42 billion, the total cost over this period would amount to $222 billion.

Who Would Gain from This Tax Cut

The provision of current law, under which up to 85 percent of Social Security benefits are included in adjusted gross income for filers with incomes of over $34,000 for individuals and $44,000 for couples, affects 27 percent of Social Security beneficiaries. Some may think this means that those who would be affected by the Bunning amendment are primarily seniors of modest means. That turns out not to be the case.

First, $34,000 and $44,000 are the levels at which the 85-percent taxation provision begins to phase in, not the levels at which it takes full effect. Second and more important, large numbers of the retirees subject to this provision possess very substantial assets and simply have *current* incomes that do not look especially high. To determine whether those who would be affected by repealing the 1993 provision are retirees struggling to make ends meet or people with much more substantial means entails examining both the incomes *and the assets* of this group.

The best source of information on the assets of these households is the Survey of Consumer Finances, conducted by the Federal Reserve Board. These survey data include information on Social Security benefits and adjusted gross income, as well as on assets.

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[4] The calculation compares Social Security benefits to the employee share of payroll taxes, without interest.

Asset Holdings of Social Security Beneficiaries Who Would Receive a Tax Cut Under Amendment Related To Taxation of Social Security Benefits

	Net Worth		Financial Assets		Income	
	Average	Median	Average	Median	Average	Median
Beneficiary Households that Will Receive a Tax Cut Under Amendment	$1,066,300	$420,200	$607,100	$187,000	$96,300	$66,000
Source: 1998 Survey of Consumer Finances. Figures in 1997 dollars.						

Economist Diane Whitmore conducted an analysis a few years ago of the 1998 Survey of Consumer Finances to determine the assets of those who would benefit from the Bunning amendment. (Senator Bunning has been offering this amendment for several years.) Whitmore found:

- The beneficiaries who would receive a tax cut if the 1993 provision were repealed had average net worth of nearly $1.1 million in 1997. Their median net worth was $420,000.

- If one looks at *financial* assets (which excludes housing and debt)[5] rather than total net worth, those who would benefit from repealing this provision had average financial assets of $607,000 in 1997 and median financial assets of $187,000.

- The average current income of those who would get a tax cut was $96,300. The median income was $66,000.

Low- and Middle-income Medicare Beneficiaries May Be Made Worse Off by Bunning Amendment

In short, this is a relatively affluent group. Of particular note, every dollar in tax cuts going to this group as a result of repeal of the 1993 provision would be a dollar less going to finance Medicare, and thus would increase Medicare's long-term financing hole. The resulting revenue loss could ultimately lead to reductions in Medicare benefits or increases in Medicare premiums and co-payments in order to make up for the lost revenue. To the extent that this eventually occurs, the Bunning measure would result in a tax cut for relatively well-off seniors (many of whom also would benefit handsomely from the extensions of the capital gains and dividend tax cuts that the budget assumes) being financed by reducing health care coverage or increasing Medicare premiums or co-payments for seniors and people with disabilities of more modest means.

[5] Financial assets include liquid assets (checking, savings, money market accounts and call accounts), CDs, other mutual funds, stocks, bonds, savings bonds, quasi-liquid retirement accounts (including IRA, pension and thrift plans), the cash value of life insurance, other managed accounts, and other financial assets such as cash, royalties, non-public stock and deferred compensation. For more information, see the Federal Reserve Board home page.