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Government-Funded Health Care May Take Big Hit Under Debt Deal

By John Reichard and Dena Bunis, CQ HealthBeat

Medicare and Medicaid could be in line for big cuts under the debt deal that President Obama and congressional leaders announced on Sunday evening. Based on what was known about the details, the fate of entitlement spending will likely rest on a 12-member bicameral, bipartisan committee required in the agreement that Democratic and Republican leaders have begun briefing their caucuses on.

Democrats had been working to reduce the impact on government-funded health coverage programs in such an agreement. However, the terms of a final deal as outlined thus far do not rule out that Medicare, Medicaid or even health care overhaul law programs could be cut by hundreds of billions of dollars over the next decade.

In his remarks on the deal, Obama made it clear that entitlements will be on the table for the committee. “I think we need to make some modest adjustments in programs like Medicare to make sure they are around for future generations,” Obama said. According to a power point presentation House Speaker John Boehner sent to his caucus, if the committee cannot agree on \$1.2 trillion in cuts there would be “across-the-board” spending cuts. These reductions would be evenly split between non-defense and defense spending. Boehner says Medicare would be included in those cuts but Medicaid, Social Security, veterans and civil and military pay would be exempt.

A White House fact sheet on the deal released late Sunday night says that any Medicare cuts “would be capped and limited to the provider side.” But such reductions to providers raise questions about what would happen to access to medical care.

Republicans so far have been unable to curtail implementation of the health care law to any significant degree, either in Congress or in the courts. But among the possible outcomes of the negotiations to slash trillions, is that the health care law would cover far fewer of the uninsured than the 32 million the Congressional Budget Office says it will.

Left-leaning analysts assert that to find \$3 trillion in spending cuts, lawmakers would have to look beyond reducing discretionary spending and slice deeply into entitlements. An increase in federal revenues could shield some or much of entitlement spending from reductions, they acknowledge. But any increase in revenues is iffy at best under the agreement that has been negotiated thus far.

Rep. Raúl M. Grijalva, co-chair of the Progressive Caucus in the House, is an example of a Democrat who dismissed the deal Sunday afternoon even before its final details were announced.

“Progressives have been organizing for months to oppose any scheme that cuts Medicare, Medicaid or Social Security, and it now seems clear that even these bedrock pillars of the

American success story are on the chopping block,” Grijalva said in a statement. “Even if this deal were not as bad as it is, this would be enough for me to fight against its passage.”

Senate Minority Leader Mitch McConnell, R-Ky., made it clear during two appearances on news shows Sunday that entitlements would be on the committee’s agenda. On “Face the Nation,” McConnell said the trustees of Medicare and Social Security have said that the two programs are “simply not sustainable for the next generation. So that has to obviously be a part of what the joint committee comes back and recommends to the Congress.”

On “Meet the Press,” Missouri Democrat, Sen. Claire McCaskill, said there are changes that can be made to entitlements “without gutting them.”

“There’s a big difference between telling Warren Buffet we’re not going to buy his prescription drugs any more and converting it to a voucher program,” McCaskill said.

The debt ceiling package under discussion would increase the federal debt ceiling to accommodate borrowing through 2012 and guarantee about \$3 trillion in spending cuts to reduce budget deficits. The debt limit would be raised high enough to last through the 2012 election.

The tentative deal would impose about \$1 trillion in immediate spending cuts, according to a congressional aide. The committee that is included in the deal would be created to deal with round two of spending cuts.

The joint committee would issue recommendations in late fall. If Congress did not pass them by the end of this year, a trigger mechanism would go into effect next year cutting Medicare and defense spending to help accomplish another \$2 billion or so in cuts.

Lawmakers crafted the trigger to be so politically unpalatable that it would not be used. Instead, they envision Congress developing a plan to cut the remaining \$2 trillion or so through the joint committee mechanism.

The committee mechanism allows for the possibility of revenue increases through closing tax breaks, raising rates or revising the entire tax code to lower rates while closing loopholes. The code overhaul could be designed in a way that actually increases revenues while lowering rates.

But Republican leaders have previously said they would not appoint members to the joint committee who favor tax increases.

Without increased revenue, a program to cut \$3 trillion in two stages would force one of three things to happen, according to the left-leaning Center on Budget and Policy Priorities (see related story, CQ HealthBeat, July 26, 2011): immediate Medicare and Social Security cuts for current retirees; a repeal of the health care law’s coverage expansion; or “wholesale evisceration of basic assistance programs for vulnerable Americans.”

That third option, the center said, would “eviscerate the safety net for low-income children, parents, senior citizens and people with disabilities.”

The center's analysis was of an earlier plan developed by House Speaker John A. Boehner, R-Ohio. There are similarities between key elements of that plan and the agreement now under discussion. Both entail two stages of cuts totaling about \$3 trillion, with the first stage totaling about \$1 trillion.

That first round may leave little left to cut in discretionary spending programs. Thus a second round of cuts coming out of the joint committee could take hundreds of billions of dollars out of Medicare and Medicaid.

Chip Kahn, president of the Federation of American Hospitals, recently warned that lowering Medicare and Medicaid spending by \$300 billion to \$400 billion on top of the \$500 billion or so in the health care law (PL 111-148, PL 111-152) would make implementation of that overhaul "a lot more difficult" (see related story, CQ HealthBeat, July 20, 2011). Kahn said "no one ever envisioned when health reform was done taking more than \$500 billion out of Medicare and Medicaid."

Uninsured Americans coming into Medicaid under its 2014 expansion under the health care law would enter a program with "depressed" payment rates to providers, Kahn said, adding to doubts about how easily newly covered enrollees would be able to get access to treatment, if at all.

Independent analysts have yet to weigh in on the impact of big new Medicare and Medicaid cuts. According to the Medicare Payment Advisory Commission, hospitals are losing money now on average in treating Medicare patients. But commission analysts say that efficiently run facilities are able to turn a small profit on those patients, suggesting that other hospitals would be too if they tightened their belts.

But that's under current levels of Medicare payment. MedPAC hasn't analyzed the impact on hospital profits of any big new reductions coming out of a debt limit deal.

Centers for Medicare and Medicaid Services Chief Actuary Richard Foster has warned that the Medicare and Medicaid cuts in the health care law by themselves could block access to a significant number of hospitals and nursing homes, never mind a new round of cuts.

The distinct possibility that entitlement spending would be slashed under the tentative debt limit deal means that President Obama and congressional leaders will have a hard time winning the support of enough Democrats in the House to assure passage.

The trigger mechanism in the tentative agreement and the proposal for a joint committee with extraordinary powers to tackle deficit spending is drawing fire from groups on the opposite ends of the political spectrum.

"No one is fooled by the talk in Washington," Justin Ruben, executive director of left's MoveOn.org said in a statement Friday. "The reason that Republicans want a 'Super Congress,' especially one that triggers automatic cuts, is because it would let them force through dramatic cuts to Social Security and Medicare. Democrats, who've long defended these programs, must not go along."

“As the clock ticks toward Tuesday’s deadline, MoveOn’s 5 million members, along with the vast majority of Americans, will not stand for Social Security, Medicare and Medicaid benefit cuts — not now, and not six months from now. Congress should reject both ‘triggers,’ and a ‘Super Congress,’ and pass a clean debt ceiling bill that doesn’t force the middle class and the poor to bear the brunt of this crisis.”

A statement from the Michael A. Needham, CEO of Heritage Action for America makes it clear conservatives are not yet sold.

“We are skeptical of ‘super committees’ tasked with brokering grand bargains and we are adamantly opposed to committees that are given the authority to raise taxes on the American people and to bring about the gutting of our national defense budget,” Needham said. “This deal highlights how dysfunctional Washington has become and we will continue to oppose it as insufficient to the task at hand.”

John Reichard can be reached at jreichard@cq.com