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December 15, 2009

Entitlement Reform Should Precede Health Care Expansion

by [James C. Capretta](#)

WebMemo #2734

The Treasury Department expects the U.S. government to bump up against the statutory limit on federal borrowing sometime near the end of this month. [1] Consequently, the Obama Administration is now urging Congress to quickly pass a debt limit increase of almost \$2 trillion.

But while a short-term increase is needed to avoid a financial crisis, debt-ceiling legislation should be accompanied by a commission to tackle long-term entitlements and to amend any new health benefits to comply with a long-term fiscal plan.

Unprecedented Deficits and Debt

The push for a debt limit increase comes at a time of rising public concern about the pace and scale of government deficits and borrowing. In 2009, the federal government ran a budget deficit of \$1.4 trillion, or 9.9 percent of GDP--the largest budget deficit relative to the size of the U.S. economy since World War II. [2] And the Obama Administration is proposing to add trillions of dollars more in debt over the coming decade. As shown in chart 1, the Administration's 2010 budget contemplates deficits exceeding \$630 billion each and every year through 2019.



At the end of 2008, the federal government debt stood at \$5.8 trillion. As shown in chart 2, by the end of 2019, the Congressional Budget Office (CBO) projects that the Obama budget plan would push the debt burden above \$17 trillion--an increase in the nation's debt burden of \$11.3 trillion over the period 2009-19. [3]

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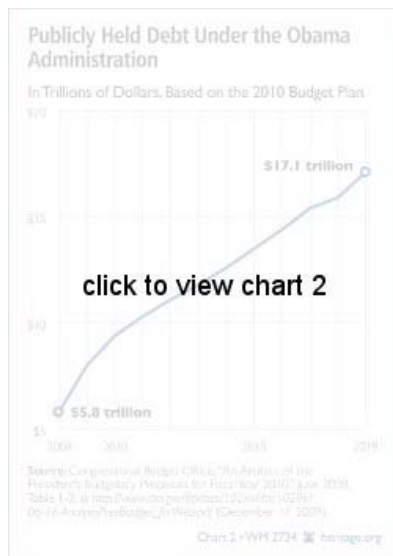
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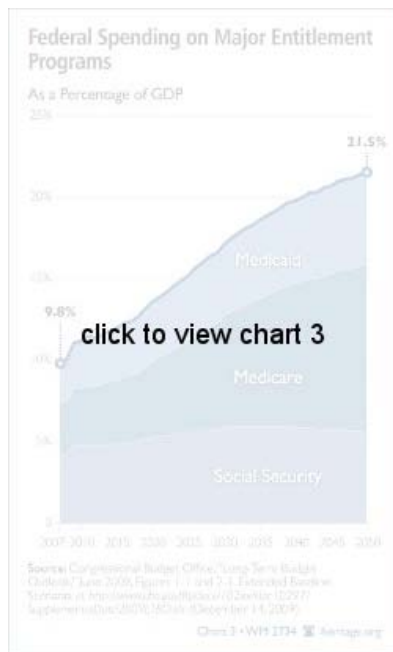
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Moreover, the nation is on the verge of an unprecedented demographic shift, with the baby boom generation set to enter their retirement years. Without significant reform, the aging of the U.S. population and rapidly rising health care costs will dramatically increase federal entitlement spending in coming years, putting substantial additional pressure on government finances.

As shown in chart 3, CBO currently projects that federal spending on Social Security, Medicare, and Medicaid alone will increase from 11.2 percent of GDP in 2010 to 17.1 percent in 2030. That jump in spending--5.9 percent of GDP over two decades--is larger than the current size of the Social Security program and will be added to the nation's budgetary obligations without any additional funding to pay for it.



The Health Plan's Additional Entitlement Commitments

In both the House-passed health care bill and the proposal offered by Senate Majority Leader Harry Reid (D-NV), Medicaid would be expanded well up the income scale to at least 133 percent of the federal poverty level (FPL).

In addition, both measures promise workers in households with incomes below 400 percent of the FPL that their premiums will be capped at a percentage of their income. In 2008, the Census Bureau estimated that there were 127 million people under the age of 65

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MEDIA INFORMATION LINE:

Phone: 202.675.1761
 Fax: 202.544.6979

Print Interview Requests:

Jim Weidman
 Director, Editorial Services
 202.608.6145
Jim.Weidman@heritage.org

Opinion Editorial Requests:

Paul Gallagher
 Manager, Editorial Services
 202.608.6151
Paul.Gallagher@heritage.org

Radio/TV Interview Requests:

Matt Streit
 Director
 202.608.6156
Matt.Streit@heritage.org

Elizabeth F. Lincicome
 Senior Media Associate
 202.608.6157
Elizabeth.Lincicome@heritage.org

Israel Ortega
 Senior Media Associate
 202.608.6176
Israel.Ortega@heritage.org

Audrey Jones
 Media Associate
 202.608.6159
Audrey.Jones@heritage.org

Asia-Pacific Media Requests:

Nick Zahn
 Asia Communications Associate
 202.608.6150
Nick.Zahn@heritage.org

living in households with incomes between 100 and 400 percent of the FPL. [4]

According to CBO, these entitlement commitments, as well as proposed tax credits for small businesses offering coverage, would be very expensive--and more so with each passing year. CBO estimates that these coverage expansion promises would cost about \$200 billion annually by 2019 and increase every year thereafter at a rate of about 8 percent. [5]

Sponsors of this legislation argue that the bills actually reduce the deficit in coming years, despite the high cost of the entitlement expansion. But this contention is entirely dependent upon a series of very dubious assumptions.

For starters, both bills assume that Medicare physician fees will be cut by some 20 percent on a continuous basis, even though there is strong bipartisan opposition to such cuts being implemented. Fixing that problem alone would push these bills into the red.

Moreover, the "pay fors" in both bills are heavily weighted toward across-the-board payment rate reductions in the Medicare program for hospitals, nursing homes, home health agencies, and insurers. There is no effort to measure and reward quality care. Consequently, pressure is certain to build against them over time, and Congress has a long history of reversing such payment cuts at the first sign that access and quality are being compromised.

An Entitlement and Budget Commission

A growing number of House and Senate Members are looking to use the need to address the debt limit as an opportunity to force the nation's political leadership to confront the brewing fiscal and entitlement crisis. In the House, Representatives Jim Cooper (D-TN) and Frank Wolf (R-VA) have introduced a bill that would empower an independent panel of experts to educate the public on the nature of the problem and come up with a solution that would get an up or down vote in Congress. [6] Senators Kent Conrad (D-ND) and Judd Gregg (R-NH) have worked together on a commission concept as well, one that focused strictly on addressing the entitlement challenge. [7]

Such a commission must not be a back-room process that results in real tax increases combined with spending "controls" that are illusory. The House version of the commission proposal has important safeguards to prevent this from happening. [8]

Ironically, Congress might simultaneously set in motion an independent commission charged with fixing the entitlement problem and pass health care legislation that makes the entitlement burden much larger in coming years. For months, President Obama and his top officials have argued that "health reform" is "entitlement reform" because the health care plan was supposed to "bend the cost curve."

But it is now abundantly clear from independent analyses of the House and Senate bills that, if a bill emerges and becomes law, it will not solve the nation's health entitlement problem but instead create substantial new pressure for cost growth.

Giving a Commission the Power to Get the Job Done

By necessity, any credible plan looking at long-run sustainability must address the rapidly rising costs of the nation's large health entitlement programs--Medicare and Medicaid. But that job could be made impossible if a health care bill locks in legislative changes aimed almost entirely at financing insurance expansion.

Moreover, the health care bills now being considered in Congress include scores of provisions that would alter various aspects of how Medicare and Medicaid operate. If these changes are set in stone, the freedom of a commission to put together a rational and viable plan would be heavily compromised.

Commission Plan Must Precede New Health Benefits

What is needed now, therefore, is a coherent and comprehensive plan that puts the nation's fiscal house in order and specifically accommodates rational reorganization of health care both to control costs and expand coverage. That means that adoption of a comprehensive fiscal plan should *precede* adoption of health care legislation and, at a minimum, must precede implementation of any health care expansion.

The commission's scope must be expansive and include the ability to make recommendations that address the health care challenge, even if that means undoing or reworking provisions in a previously enacted bill. If a budget commission does not have authority to make sensible, sustainable changes in health care arrangements as necessary, there is little reason for it to be created in the first place.

No Strings Attached

The U.S. is rushing headlong toward a fiscal crisis. It is time to take serious steps to reduce the risks associated with escalating government debt. If Congress and the President choose to empower an independent commission to tackle this immense problem, they must give it the authority to do it right. That means addressing health care with no preconditions, even if a "health care plan" has just passed Congress.

James C. Capretta served in the Office of Management and Budget (OMB) during the Bush Administration, and is a Fellow in the Economics and Ethics Program of the Ethics and Public Policy Center.

[1]Associated Press, "Treasury: Debt Limit Will Be Hit in December," Newsmax.com, November 4, 2009, at http://moneynews.newsmax.com/financenews/treasury_debt_limit/2009/11/04/281504.html (December 11, 2009).

[2]Congressional Budget Office, "Monthly Budget Review," November 2009, at <http://www.cbo.gov/ftpdocs/107xx/doc10708/11-9-09MBR.pdf> (December 11, 2009).

[3]Congressional Budget Office, "An Analysis of the President's Budgetary Proposals for Fiscal Year 2010," June 2009, at http://www.cbo.gov/ftpdocs/102xx/doc10296/06-16-AnalysisPresBudget_forWeb.pdf (December 11, 2009).

[4]See U.S. Department of Commerce, U.S. Census Bureau, "Current Population Survey: POV01. Age and Sex of All People, Family Members and Unrelated Individuals Iterated by Income-to-Poverty Ratio and Race," at http://www.census.gov/hhes/www/cpstables/032009/pov/new01_000.htm (December 11, 2009).

[5]See Congressional Budget Office, "Patient Protection and Affordable Care Act," November 18, 2009, at http://www.cbo.gov/ftpdocs/107xx/doc10731/Reid_letter_11_18_09.pdf (December 10, 2009); Congressional Budget Office, "H.R. 3962, Affordable Health Care for America Act," November 20, 2009, at <http://www.cbo.gov/ftpdocs/107xx/doc10741/hr3962Revised.pdf> (December 11, 2009).

[6]The SAFE Commission Act, H.R. 1557.

[7]Press release, "Senators Conrad and Gregg Introduce New Bipartisan Fiscal Task Force Legislation to Confront Nation's Budget Crisis," U.S. Senate, December 9, 2009, at <http://budget.senate.gov/republican/pressarchive/BipartisanTF.pdf> (December 14, 2009).

[8]See Stuart M. Butler, "Bipartisan Entitlement Commission Needed to Control Spending and Debt," Heritage Foundation *WebMemo* No. 2698, November 16, 2009, at http://www.heritage.org/Research/Budget/upload/wm_2698.pdf.

