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Options to Pay for Health Care Reform
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One of President Obama's central campaign promises was to reform the national health care system. As lawmakers work to develop proposals to both expand coverage and control long-term costs, one of the central challenges is paying for any bill – an endeavor that is critically important both because of the fiscal challenges facing the country and because of the President's promise that health care reform will not add to the deficit.

The bills currently being considered by Congress are likely to cost \$1 trillion or more over the first ten years. The Committee for a Responsible Federal Budget has compiled over 60 policy options - from voucher programs to new bidding processes to targeted tax increases - with cost estimates, that could be used to offset the costs of health care reform.

CRFB has divided these choices into three categories: Options to Reduce Public Health Care Benefits; Options to Reduce Health Care Spending; and Options to Increase Revenue. Given the importance of fully paying for health care reform, these options should prove useful to lawmakers contemplating the options and weighing the trade-offs between different ways to pay for reform.

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About U.S. Budget Watch

U.S. BUDGET WATCH IS AN
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US Budget Watch is a project designed to increase awareness of the important fiscal issues facing the country by tracking major policy initiatives and their fiscal effects. The project is supported by the Pew Charitable Trusts.



Options to Reduce Public Health Care Benefits

Policy	5-year Savings (Billions)	10-year Savings (Billions)	Description
Change Programs to Vouchers			
Adopt Voucher Plan for Federal Employee Health Benefits	\$7	\$37	Under a voucher plan or "premium support system," enrollees are provided with cash subsidies to purchase either public or private health insurance.
Convert Medicare to Premium Support System	\$44	\$161	
Medicare Eligibility Age			
Raise Age of Eligibility for Medicare from 65 to 67	\$3	\$86	Currently, seniors are eligible for Medicare at 65. Raising the eligibility age would decrease the number of people covered by Medicare and incentivize later retirement.
Federal Matching Rates (FMAP) for Medicaid			
Reduce Floor on Matching Rates from 50% to 45%	\$53	\$131	In order to help finance Medicaid, the federal government pays state governments between 50% and 83% of their costs, depending on a formula which yields the federal medical assistance percentage (FMAP). Payments to states could be reduced to save money at the Federal level.
Remove Floor on Matching Rates	\$88	\$228	
Convert Federal Payments to Medicaid for Acute Care Services into Fixed Allotments for each State (index to CPI)	\$167	\$625	
Convert Federal Payments to Medicaid for Acute Care Services into Fixed Allotments for each State (index to health expenditure growth)	\$51	\$189	
Medicare Advantage			
Establish Competitive Bidding for Medicare Advantage	\$35	\$159	Medicare Advantage Plans allow beneficiaries to receive their Medicare benefits through private insurers. Since these plans currently cost the government more than traditional Medicare, a number of proposals could reduce Medicare advantage spending by bringing "benchmark" payments closer to those in the traditional program.
Set Benchmark for Private Plans in Medicare Equal to Local Per Capita Fee-for-Service Spending	\$55	\$157	
Eliminate One-Sided Rebasement Process for Establishing Benchmarks for Medicare Advantage Plans	\$21	\$61	
Medicare Cost Sharing			
Replace Medicare's Cost-Sharing Requirements with Unified Deductible, Uniform Coinsurance, and Catastrophic Limit	\$7	\$26	Although Medicare requires considerable cost-sharing, many enrollees pay for part of it through supplemental coverage known as Medigap. By restricting Medigap and/or increasing cost-sharing requirements, the government can make Medicare beneficiaries more cost-conscious and reduce the federal burden.
Restrict Medigap Coverage of Medicare's Cost Sharing	\$14	\$41	
Impose Surcharge on Medicare Cost Sharing in High-Cost Areas; Prohibit Medigap Plans from Covering the Surcharge	\$6	\$21	
Medicare Premiums			
Increase Part B Premium to 35 Percent of Program's Costs	\$64	\$217	Medicare Parts B and D currently require enrollees to pay monthly premiums equal to roughly 25 percent of costs. Certain wealthier individuals pay higher premiums for Part B. A number of proposals would increase premiums for some or all enrollees.
Increase Part D Premium for Higher-Income Enrollees	\$2	\$10	
Increase Fraction of Part B Beneficiaries Who Pay Higher Income-Related Premiums	\$5	\$21	
Military and Veterans' Benefits			
Increase Medical Cost Sharing for Military Retirees	\$1	\$5	Currently, the federal government offers health benefits to active duty military personnel, their family, and certain classes of veterans. Some policies would modify eligibility rules or change benefit structures.
Introduce Minimum Out-of-Pocket Requirements in TRICARE	\$14	\$40	
End Enrollment in VA Medical Care for Veterans in Priority Groups 7 and 8	\$12	\$26	

Sources: Congressional Budget Office and U.S. Budget Watch Calculations

Options to Reduce Health Care Spending

Policy	5-year Savings (Billions)	10-year Savings (Billions)	Description
Provider Payments in Medicare			
Reduce Annual Updates in Medicare Fee-for-Service Payments to Reflect Expected Productivity Gains	\$38	\$201	The Medicare system bases its payment structure on a base payment system, which is updated every year to account for changing prices of various inputs. This system is used to calculate payments for physicians, nurses, hospitals, and other providers for various procedures and therapies. Many proposals would slow the rate at which payments are updated.
Reduce Update Factor for Hospitals' Inpatient Operating Payments Under Medicare by 1 Percentage Point	\$17	\$93	
Reduce the Update Factor for Payments to Providers of Post-Acute Care Under Medicare by 1 Percentage Point	\$9	\$54	
Reduce the Update Factor for Medicare's Payments for Skilled Nursing Facilities by 1 Percentage Point	\$4	\$24	
Eliminate Inflation-Related Updates to Medicare's Payment Rates for Home Health Care for Five Years	\$12	\$50	
Medicare Payment System			
Reduce Medicare's Payment Rates for Hospitals in Areas with High Volume of Elective Admissions	*	\$3	Many options exist that would reduce health care spending through reforming payment systems for Medicare. Some of these reforms provide incentives for hospitals to reduce the number and cost of services provided. Other reforms target hospitals in high-spending areas or those with high elective admissions, in order to reduce the geographic variation in Medicare's outlays for hospital services.
Reduce Medicare's Payment Rates Across the Board in High-Spending Areas	\$12	\$51	
Bundle Payments for Hospital Care and Post-Acute Care	\$7	\$19	
Better Align Home Health Payments with Costs	\$17	\$51	
Reduce Medicare Payments to Hospitals with Above Average Readmission Rates	\$3	\$10	
Pay Primary Care Physicians in Medicare Using a Partial-Capitation System, with Bonuses and Penalties	\$1	\$5	
Disproportionate Share Hospital (DSH) Payments			
Convert DSH Payments into Block Grant Equal to 90% of Current Payments	\$25	\$85	Medicare and Medicaid DSH payments provide financial compensation to hospitals serving many low-income and uninsured patients. Policies to reduce payments would be enacted along with expanding medical coverage; theoretically there would be less need to compensate these hospitals because more people would be insured.
Gradually Reduce DSH Payment to 25% of 2013 Levels (beginning in 2013)	\$0	\$106	
Immediately Reduce DSH Payments to 25% of Projected Levels (beginning in 2010)	\$58	\$176	
Other Reforms to Reduce Health Care Costs			
Help Fund and Promote Comparative Effectiveness Research	\$2	\$10	A number of other reforms exist to reduce health care costs and promote greater efficiency. These range from promoting comparative effective research to loosening regulations on purchasing non-group health insurance, to limiting the awards plaintiffs can receive from medical malpractice lawsuits.
Allow Individuals to Purchase Non-Group Health Insurance Coverage in Any State	\$2	\$7	
Limit Awards from Medical Malpractice Torts	\$2	\$6	
Require States to Use Community Rating for Small-Group Health Insurance Premiums	\$2	\$5	
Establish Abbreviated Approval Pathway for Follow-On Biologics	*	\$13	

* = less than \$500 million

Sources: Congressional Budget Office, Office of Management & Budget, and U.S. Budget Watch Calculations

Options to Increase Revenue

Policy	5-year Savings (Billions)	10-year Savings (Billions)	Description
Employer-Sponsored Insurance Tax Exclusion			
Eliminate ESI Exclusion	\$1,440	\$3,553	Under current law, compensation received in the form of health insurance is untaxed, and this Employer-Sponsored Insurance (ESI) exclusion costs the government roughly \$250 billion a year in lost revenue. Altering the ESI tax exclusion could generate considerable revenue. Options include eliminating the exclusion altogether, replacing it with a credit or deduction, or capping it in some way.
Replace ESI Exclusion with Credit Indexed by CPI	\$143	\$957	
Replace ESI Exclusion with Credit Indexed by GDP	\$79	\$470	
Replace ESI Exclusion with Credit Indexed by Net Personal Healthcare Spending Growth	\$0	\$66	
Phase-out ESI Exclusion for Income over \$250,000 a Year	\$41	\$131	
Cap ESI Exclusion at Average Cost of Health Insurance	\$183	\$584	
Sin Taxes			
Raise Cigarette Tax by \$1 per Pack	\$48	\$95	Sin taxes aim to tax undesirable behavior. A number of revenue proposals for health care reform would use such taxes to discourage unhealthy behavior, raising revenue and theoretically reducing long term health care costs.
Raise Alcohol Tax by \$2.50 per Proof-Gallon	\$28	\$60	
Impose 3 Cent Tax on Sugar-Sweetened Beverages	\$24	\$50	
Changes to the Payroll Tax			
Increase Medicare Payroll Tax by 1%	\$210	\$592	Currently, employers and employees pay a combined 2.9% of payroll to finance Medicare Part A. This tax could be increased or expanded in a number of ways.
Impose 1% Payroll Surtax on Income Above \$150,000	\$27	\$77	
Expand Medicare Payroll Tax to Cover Non-wage Income	\$200	\$500	
Coverage Mandates			
Impose \$750 Tax on Employers Per Uninsured Worker (\$325 per part-time worker)	\$10	\$52	Several types of mandates would encourage health insurance coverage by imposing penalties. Play-or-pay options tax employers who do not offer health insurance, while individual mandates impose a penalty on individuals who do not carry health insurance.
Impose 6% Payroll Tax on Employers Per Uninsured Worker	\$102	\$226	
Penalize Uninsured Individuals Making over 150% of Poverty Line (accompanied by a 30% increase in coverage)	\$4	\$36	
Health Care Tax Benefits			
Eliminate Health Savings Accounts	\$5	\$11	The tax code includes many health care-related benefits. Some allow people to save tax free for health expenses; others allow special deductions for some insurance agencies. Curbing or eliminating these benefits may raise revenue.
Eliminate Flex Savings Accounts for Uncovered Health Care	\$27	\$60	
Eliminate Blue Cross/Blue Shield Tax Deduction	\$5	\$11	
Itemized Deductions			
Limit the Itemized Deduction Rate to 28%	\$92	\$269	In the FY 2010 budget, the administration proposed paying for part of health reform by limiting the extent to which high earners can deduct certain items such as mortgage interest and charitable giving. Numerous options exist to make existing deductions cheaper and more progressive.
Replace Itemized Deductions with 15% Non-Refundable Credit	\$582	\$1,487	
Replace Itemized Deductions with 15% Refundable Credit	\$497	\$1,263	
Value Added Tax (VAT)			
Establish 2% Value Added Tax	\$623	\$1,530	Some experts support a Value Added Tax (VAT) to help pay for health care reform. A consumption tax levied at each stage of production, a VAT is considered a relatively low distortion tax which can raise significant revenue.
Phase-in 8% Value Added Tax (From 6.7%)	\$2,173	\$4,968	

Sources: Congressional Budget Office, Lewin Group, Tax Policy Center, Citizens for Tax Justice, and U.S. Budget Watch Calculations