RSC
Republican Study Committee

Rep. Jeb Hensarling (R-TX), Chairman
Russ Vought, Executive Director

132 Cannon House Office Building
Washington, DC 20515

www.house.gov/hensarling/rsc
ph (202) 226-9717 / fax (202) 226-1633

RSC Policy Brief:
Medicare Funding Warning

January 22, 2008

In anticipation of Presidential and Congressional proposals to remedy a Medicare funding warning issued by the Medicare trustees, the RSC has prepared the following policy brief providing background on the history and implications of the warning mechanism incorporated into the Medicare Modernization Act.

Background: Enactment of a prescription drug benefit as part of Medicare proved controversial to certain segments of the conservative community. While President Bush and a Republican Congress campaigned in 2000 and 2002 on a promise to extend prescription drug coverage to American seniors, some conservatives retained concerns about a significant expansion of government-financed entitlement spending, even though the benefit itself would be delivered through the private sector. While conservatives generally admired proposals such as Health Savings Accounts (HSAs) and other similar innovations designed to control the growth of health care spending, the size of the prescription drug benefit ultimately enacted—$400 billion in spending over ten years, and nearly $8 trillion in unfunded liabilities over 75 years—prompted calls for more comprehensive reforms to Medicare than those included in the Medicare Modernization Act (MMA).

At the behest of the Republican Study Committee, the funding warning mechanism was included as one device to help alleviate conservatives' concerns about Medicare's long-term solvency and ensure that Medicare's claims on general budgetary revenues would not overwhelm either other federal budgetary priorities or the national debt. By providing "fast-track" procedures for considering bills to improve the program's solvency, the Medicare trigger also provides conservatives with another opportunity to examine more fundamental reforms to the way seniors' health care is financed and delivered.

Funding Warning Defined: Section 801 of the Medicare Modernization Act provides that a funding warning will be issued if two consecutive annual reports by the Medicare trustees determine that general revenue Medicare spending—that is, Medicare spending not financed by payroll taxes, or by beneficiary premiums and co-payments—will exceed 45% of total Medicare outlays for the current fiscal year, or any of the following six fiscal years. The April 2006 trustees report noted that Medicare outlays minus dedicated revenues were expected to exceed 45% of total outlays in 2012, and the April 2007 report concluded that Medicare outlays minus dedicated revenues are expected to exceed 45% of total outlays in 2013. Thus, two consecutive trustees reports have indicated that Medicare will be deriving excess revenues from the general fund within the next seven years—triggering the expedited procedures provided as part of MMA.

Democrats have argued that the 45% measure for excess general revenue Medicare spending is "an artificial and misleading measure of Medicare's fiscal health," and Section 902 of the Children's Health and Medicare Protection Act (H.R. 3162)—considered and passed by the House in July—would have repealed the excess funding warning mechanism entirely.[1] However, the Medicare trustees report indicates that the percentage of Medicare spending taken from general revenues—which to date has never exceeded 45%—"is projected to continue growing throughout the 75-year period, reaching 63% of total outlays in 2031 and 73% in 2081."[2] With trustees noting that the Medicare trust funds require an additional $40.9 *trillion* in funding over the next 75 years to meet current obligations, most conservatives would argue that repealing the trigger provisions—which all Republicans on the House Ways and Means Committee opposed in mark-up last year—would not represent sound fiscal policy.[3]

Expedited Procedures: Sections 802 through 804 of MMA describe the expedited procedures by which the President and Congress will address the Medicare funding warning triggered by the April 2007 trustees report. The process outlined in the statute includes the following steps:

- Within 15 days of submitting his next budget to Congress, the President will also propose legislation to respond to the warning. As the President's Fiscal Year 2009 budget is expected to be released on February 4, 2008, the Medicare legislation should be received by the end of February.
- Party leaders in both the House and Senate will introduce the President's legislation within three legislative days of its submission, and the legislation shall be referred to the relevant Committees (Ways and Means and Energy and Commerce in the House, Finance in the Senate).
- Committees in both the House and Senate shall report Medicare funding legislation to the floor of each chamber by June 30; if they do not, the relevant Committees may be discharged from consideration under special procedures.
- In the House, one-fifth of the membership (87 Members) can move to discharge the President's Medicare funding legislation, or any other legislation that remedies the Medicare funding warning, after July 30. In the event that the motion to discharge is successful, the Medicare funding legislation shall be considered by the full House within three legislative days under procedures established in statute.
- In the Senate, any Senator may move to discharge Medicare funding legislation after June 30, and such a motion will be considered under strict time limits precluding a filibuster.

[1] House Report 110-284, p. 249.
[2] "2007 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplemental Medical Insurance Trust Funds," available at http://www.cms.hhs.gov/ReportsTrustFunds/downloads/tr2007.pdf (accessed January 20, 2008), p. 37.
[3] Ibid., pp. 190-91; House Report 110-284, p 278.

In general, these special procedures seek to ensure that Members in both chambers have the opportunity for an up-or-down vote on whether or not Congress should consider legislation to remedy Medicare's funding deficiencies.

Conclusion: The Medicare funding warning issued by the trustees last year provides an opportunity to re-assess the program's structure and finance. While competition among drug companies has ensured that expenditures for the MMA's prescription drug benefit remain below the bill's original estimates, introduction of pharmaceutical coverage has dramatically increased the overall growth of health care costs within the Medicare program, leading to the trustees' funding warning. The confluence of these two events should prompt Congress to consider the ways in which competition could be used to reduce the growth of overall Medicare costs, similar to the way in which the market for pharmaceutical coverage reduced the estimated cost of the Part D prescription drug benefit.

It remains to be seen whether the Administration will propose legislation that would constitute fundamental reform—either a mechanism to adjust benefits automatically in the case of funding shortfalls, or to inject greater competition into Medicare through a premium support program that would level the playing field between traditional Medicare and private insurance coverage. Regardless, the Medicare funding warning being triggered this year affords Congress an opportunity to re-think and re-consider some of the drawbacks of the original MMA and put forth constructive alternatives to ensure Medicare's long-term fiscal stability.

For further information on this issue see:

- *Medicare Trustee Reports*

RSC Staff Contact: Chris Jacobs, christopher.jacobs@mail.house.gov, (202) 226-8585

###