

VIEWPOINT

How the New Senate Budget Bill Jeopardizes Social Security and Medicare

http://www.ncpssm.org/news/archive/vp_gregg/

Over the years, the American people have shown strong and abiding support for Social Security and Medicare, despite repeated efforts to undermine these programs. Most recently, the President's failed effort to dismantle Social Security through privatization showed the depths of support among both retirees and workers for this critical system of social insurance. Because the American people overwhelmingly opposed privatizing any part of Social Security, many believe the battle to preserve this treasured institution has been won.

It is becoming increasingly clear, however, that proponents of privatization have not abandoned their goal – they have merely shifted tactics. Instead of attacking Social Security and Medicare directly, they have opted to undermine them in the name of fiscal discipline. The President and key Congressional leaders have made it clear in recent statements that dramatic cuts in Social Security, Medicare, and other programs critical to older Americans continue to be among their top priorities.

On June 20, 2006, the Senate Budget Committee approved S. 3521, a bill by Senator Judd Gregg (R-NH), on a party line vote. S. 3521 represents the first salvo of this new war against America's network of social insurance. Under the guise of deficit reduction, this bill lays the foundation for dramatic cuts in Social Security, Medicare, Medicaid, and other critical programs such as those authorized under the Older Americans Act. Senate Majority Leader Senator Bill Frist (R-TN), one of the chief cosponsors of the bill, has said that he wants the full Senate to pass the bill before the end of 2006 and the Administration's spokesman has expressed the President's support for the legislation.

The National Committee to Preserve Social Security and Medicare strongly opposes Sen. Gregg's bill because it:

- Lays the groundwork for the privatization of Social Security;
- Will inevitably result in dramatic cuts to Medicare and Medicaid;
- Uses Social Security surpluses to mask the true size of the deficit;
- Allows the President to unravel Congressional compromises by selectively subjecting improvements to Social Security and Medicare to a line-item veto
- Undermines our country's ability to keep up with the expanding needs of an aging population.

The Ongoing Effort to Privatize Social Security

The Gregg bill creates two new commissions whose design paves the way for privatizing Social Security and requires deep cuts in Medicare and Medicaid.

The first commission, the so-called "National Commission on Entitlement Solvency" will only have until May 1, 2007 to redesign Social Security, Medicare and Medicaid – three programs that are critical lifelines to millions of seniors. The structure of this commission contains numerous critical design flaws:

- A majority of the 15-member commission would be appointed by the President and leaders of his party in Congress, many of whom have already made clear their support for privatizing Social Security. Although the Commission members will be drawn from both parties, nearly two-thirds will be appointed by proponents of privatization. The commission report can include a recommendation to privatize Social Security as long as ten commission members agree.

- The bill requires that the commission's recommendations be rushed through Congress in legislative form with limited debate. Upon issuance of a report, Congress has very little time to act upon the recommendations of the commission. The fast-track procedures in the bill give Congressional committees little time to review the bill and allow Members of Congress only 50 hours to debate the bill and 20 hours to debate the conference report. These provisions severely limit the ability of Members of Congress to fully consider and amend the commission's recommendations. Because Social Security, Medicare and Medicaid touch the lives of all Americans, Congress should develop a bipartisan proposal and fully engage all Members to find long-term solutions. Rushing to judgment on recommendations could have dire consequences for some of our nation's most vulnerable people.

The commission must make recommendations based on flawed solvency measures designed to undermine Medicare and Medicaid. The Gregg bill establishes new definitions of solvency that must be used by the commission as it attempts to achieve its goal of redesigning our key entitlement programs. These definitions are arbitrary and ideological, and seriously constrain the options that can be considered by the commission in redesigning these programs.

In the case of Medicare, insolvency is triggered when an arbitrary funding cap is reached, regardless of how much money is in the trust fund at the time. This cap is defined as any time the Medicare Trustees project that general revenues will finance more than 45 percent of Medicare benefits within the next seven years in two consecutive reports. This definition of insolvency ignores Medicare's time-tested financing structure which requires a combination of general revenues and premiums to fund Medicare. Ultimately, it effectively prevents the commissioners from considering the use of increased revenues, which are inherently more progressive than payroll taxes, as they attempt to ensure Medicare's solvency. According to an analysis by the Center on Budget and Policy Priorities, this measure of insolvency would require either massive increases in premiums, deductibles, and co-pays; large benefit cuts; or cuts in provider payments that could exceed 30 percent by 2050.

In the case of Medicaid, the Gregg bill defines insolvency as any year after 2012 in which total Medicaid spending exceeds the growth of the Gross Domestic Product (GDP). The combination of our aging population and continuing increases in health care costs make it highly probable that Medicaid would be viewed as insolvent in 2012 and beyond. Limiting Medicaid's growth in such a restrictive manner will force dramatic cuts in federal funding precisely at the time when baby boomers are beginning to rely more heavily on Medicaid for hospitalization, physician services, long-term care, and other important services. According to a recent analysis, to meet this measure of insolvency the commission would have to cut federal funding for Medicaid by 22 percent in 2020, 36 percent in 2030, and 50 percent in 2042. Cuts of this magnitude would most likely end coverage for millions of beneficiaries and would shift rising health care costs on to state governments that are already struggling to meet the needs of an aging population.

- Social Security, Medicare, and Medicaid provide very different types of benefits and will require unique approaches to ensure long-term solvency. Combining these programs will make it even more difficult for the commission to find meaningful solutions in such a short period of time—especially since the commission report is due less than one year from today. These programs should be thoroughly reviewed on an individual basis, rather than quickly by a commission required to produce a report on a rushed deadline.

The second commission established by the Gregg bill, the so-called "Commission on Accountability and Review of Federal Agencies", poses a serious threat not only to Social Security, Medicare and Medicaid, but to all spending programs. The Commission is given extraordinarily broad authority to make recommendations to Congress to consolidate and terminate virtually every federal agency and program over the next four years. The recommendations are then presented to a Congress which is under severe time constraints to evaluate the recommendations, and is limited to an up-or-down vote on the final report.

- The spending commission could be used as a vehicle to pass legislation that privatizes Social Security. Sen. Gregg's bill gives the spending commission broad authority to review federal programs that are viewed as duplicative, wasteful, inefficient, mismanaged, outdated, irrelevant, or failed. However, the bill does not clearly define these terms, leaving their application open to the personal interpretation of the commission's members. "Modernizing" Social Security and Medicare have become buzzwords for privatizing these critical programs. As this commission may be heavily stacked with proponents of privatization, it is not unreasonable to expect the

commission's report to reach the conclusion that Social Security is outdated and can only be brought into the 21st Century through privatization.

- The spending commission is heavily weighted toward the party in power, making it difficult to reach bipartisan decisions regarding our country's spending priorities. Like the previous commission, the President and Congressional leaders appoint the members of this commission, leaving it stacked with 9 Republicans and 6 Democrats. Unlike the previous commission, however, this commission can approve its recommendations without a single Democratic vote, leaving the minority party effectively shut out of the process.
- Recommendations of the spending commission are pushed through Congress using mechanisms that limit debate, prevent amendments, and discourage bipartisan solutions. Senator Gregg's bill contains a number of fast-track procedures designed to stifle the normal Congressional process. For example, the bill takes the highly unusual step of prohibiting Congressional committees from making any changes to the commission's proposals. In addition, the bill allows for only 10 hours of debate on the House and Senate floors—an extremely small amount of time for proposals that could have far-reaching ramifications. It also prohibits Members of Congress from offering amendments that change or strike provisions in the commission's proposal. And finally, the commission's proposal can be passed with a simple majority vote in the Senate. Usually votes of this magnitude require 60 votes for passage in the Senate. Taken together, these provisions serve to undermine the normal Congressional process, opening the door to huge cuts in programs that benefit Americans from all walks of life.

Using Social Security Surpluses to Mask the True Size of the Deficit

For the past twenty-one years, the Social Security trust fund has been considered off-budget. This means that Social Security surpluses are separated from other activities in the rest of the federal budget. The deficit targets created by Senator Gregg's bill place Social Security surpluses on-budget. His bill requires that Social Security surpluses be used to calculate the federal deficit for purposes of determining whether or not deficit targets have been breached. Ultimately, his bill leaves the Social Security program unprotected by using the surpluses to mask the true size of the federal deficit. In fiscal year 2007, for example, the Gregg bill would require that the entire Social Security surplus—an estimated \$195 billion—be used to give the false impression that the deficit is much smaller than actually projected. This leads greater fiscal irresponsibility by allowing the President and Congress to increase spending and cut taxes while creating the illusion of artificially low deficits.

Additional Threats to Medicare and Medicaid

The Senate budget bill establishes two different mechanisms for cutting Medicare and Medicaid while protecting all future tax cuts.

First, Senator Gregg's bill creates deficit targets for the next five years—a tool with a proven track record of failing to reduce deficits. In FY 2007, the deficit would be capped at 2.75% of gross domestic product (GDP) and by 2012 and thereafter the deficit would be capped at 0.5% of GDP. These deficit targets are unrealistically low and do not appear to account for ongoing war costs and repairing the Alternative Minimum Tax (AMT), which is hitting an increasing number of middle-income Americans. Establishing goals that do not take into account expenditures most experts believe are inevitable will make it virtually impossible for the targets to be reached.

When this occurs, Congress will be faced with the politically unpalatable requirement of cutting a wide range of entitlement programs, including Medicare, Medicaid, and veterans' pensions, to reach the required goals. If Congress fails to make these highly controversial cuts, then every entitlement program except Social Security would be subject to automatic across-the-board reductions. Many of these programs have been exempted from previous across-the-board cuts because they are critical safety nets for our most vulnerable citizens.

The use of automatic cuts to address growing deficits can wreck havoc with the nation's economy at a time of economic instability. If the economy is slowing, deficits increase and demand for programs such as food stamps and Medicaid grows. The budget mechanism in the Senate bill will cut these critical programs when they are most needed.

While subjecting the programs relied on by millions of poor and elderly people to potentially devastating cuts, the Senate budget bill protects tax cuts from similar treatment. In fact, the one-sided nature of the provision has the perverse effect of cutting Medicare, Medicaid and other programs to pay for tax cuts. Once this mechanism is in place, if the President and Congressional majority continue to cut taxes without offsetting the lost revenue, the deficit targets will be breached, thus triggering cuts in the entitlement programs to pay for them. This occurs even if the costs of Medicare, Medicaid and the other programs have been brought under control and are not contributing at all to a continuing deficit problem.

In addition to the above deficit mechanism, the Senate bill exacerbates the problems that will be created when the Medicare funding cap created by the Medicare Modernization Act of 2003 (MMA) is reached. This is the same cap that the new entitlement commission will be required to use as its measure of Medicare's solvency.

The Senate budget bill builds upon this arbitrary and flawed cap by creating a point of order that would prevent increases in entitlement spending once the cap is reached. The only way Congress could increase entitlement spending is to cut spending to another entitlement program or raise taxes. This provision could threaten the financial stability of all entitlement programs, including Social Security, Medicare, Medicaid, and veterans' pensions. It also could impose cuts in these programs just as they are most needed. As mentioned earlier, when the economy slows, demand for programs such as Medicaid increases. A similar enforcement mechanism in the past was successful, but it applied equally to any proposal that increased the deficit – whether in the form of spending increases or tax cuts. The current proposal, on the other hand, does not apply to tax cuts, thus sending the message that tax cuts are more worthy of budget protection than the programs protecting the health and economic security of our nation's seniors.

Cuts in Older Americans Act Services

Under the Senate budget bill, domestic discretionary spending would be subject to two types of budget cutting mechanisms. The domestic discretionary budget funds a variety of programs that are important to seniors, such as medical research and veterans' hospitals. Also included in this part of the budget are the increasingly critical programs authorized by Older Americans Act such as funding for meals-on-wheels, congregate meals, caregiver support programs, senior housing assistance, senior transportation programs, and senior centers. As our population ages, the need for these programs increases and funding to date has not kept pace with growing demand. At a time when these programs should be expanded to reflect the increasing numbers of seniors as the baby boom generation retires, the Senate bill will subject these programs to cuts instead.

The first threat of cuts arises because the bill imposes caps on the amount of money that can be used to fund this spending over the next three years. The caps in Senator Gregg's bill are based on spending levels proposed in the President's FY 2007 budget, and would produce \$66 billion in budget cuts by the end of FY 2009.

The second layer of cuts to discretionary spending occurs when these inadequate funding caps are breached, which they almost inevitably will be. When this occurs, automatic across-the-board cuts, much like those applied to the mandatory side of the budget, will be triggered, adversely impacting seniors.

Allowing the President to Subject Improvements to Social Security and Medicare to a Line-Item Veto

The Senate budget bill gives the President line-item veto authority which would begin on September 1, 2006 and expire in four years. Although promoted as a way of eliminating special interest earmarks, the line-item veto in the Senate bill is considerably broader. It gives the President authority to request that Congress eliminate any discretionary spending or new mandatory spending that has been enacted within the previous year, regardless of how many people are affected. This expansive authority allows the line-item veto to apply to programs such as Social Security, Medicare, Medicaid and veterans' health in addition to the traditional appropriations projects. As in the case of the deficit targets, the authority provided by this portion of the bill is one-sided. While it gives the President expansive authority to control spending, it provides rather limited authority to veto tax provisions. In fact, the President may only veto tax provisions that are identified by the Joint Committee on Taxation as being targeted to benefit a small number of beneficiaries. On the spending side any program, no matter how large, can be eliminated.

Under Senator Gregg's bill, the President can submit up to four packages a year containing many different proposals he intends to veto. In addition, the President has the power to suspend funding for programs included in his list for up to 45 days from the time Congress receives the package. This short timeline effectively allows the President to unilaterally eliminate programs even if Congress disagrees. Once his proposals have been introduced in Congress, they must be considered within eight days of the President's submission. In addition to the rushed consideration, Senators would be limited in their ability to debate the President's proposals—a change from current Senate rules which allow for extended debate on any legislation making changes to the Social Security program. Furthermore, Congress can only vote up or down on the President's proposals; there is no ability to offer amendments.

The line-item veto—as outlined in Senator Gregg's bill—serves to undermine the rules that Congress has built into the budgetary and legislative process to protect Social Security and Medicare from reckless and hasty changes. Moreover, the line-item veto could prove disastrous for the future well-being of these programs. In the past, successful efforts to extend Social Security's solvency involved a number of carefully crafted compromises to garner broad political support for reform. As one example, the Social Security Amendments of 1983 increased the retirement age but also included new benefit protections for divorced spouses and disabled widows and widowers. Giving the President the power to unravel such compromises by later vetoing only the new benefits and leaving the cuts intact would make concessions virtually impossible, and would poison the bipartisan atmosphere that is essential to enact meaningful reforms.

Conclusion

The Senate budget bill attempts to reduce the federal deficit by focusing primarily on spending and largely ignoring taxes. In the past, successful deficit reduction has only occurred when Congress has been willing to look at both sides of the budget equation and make balanced choices about how to reduce our deficit. Furthermore, the bill relies on fast-track legislative procedures and a variety of budget-cutting mechanisms to set in motion dramatic cuts in funding for the programs serving our nation's seniors, including Social Security, Medicare, Medicaid, veterans' benefits, and Older Americans Act programs. This unbalanced approach to deficit reduction holds hostage the programs benefiting senior citizens, allows tax cuts to go unchecked and swings open the door to the privatization of Social Security.

NCPSSM Policy & Research, July 2006

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