

Understanding the Current Fiscal Environment
Leadership Day on Capitol Hill
May 21-22, 2013

Background

Where Things Stand

This year, lawmakers are particularly focused on the budget, which means all of ACP's priority issues will need to be understood in the context of how they impact the budget and the national deficit. This spring, several key dates triggered significant changes to the federal budget and consequently to key federal programs important to internal medicine.

- On March 1, a process known as sequestration was triggered and set into motion billions of dollars in automatic across-the-board reductions in virtually all federal agencies, which has devastating consequences for many federal health programs.
- On March 27, dollars that fund the federal agencies through the annual appropriations process were scheduled to run out but, at the last hour, Congress stepped in and passed legislation to extend funding through the end of this fiscal year, but at reduced levels.
- On May 18, the federal government will reach its statutory borrowing limit, although the Treasury Department will be able to extend the deadline using extraordinary measures for a few additional weeks after that.

These circumstances all conspire to create a very difficult budgetary environment on Capitol Hill, one that ACP members need to be aware of and one that poses challenges to our advocacy efforts. Members attending Leadership Day should be advised that congressional offices, particularly Republican offices, will likely question any ACP policy reforms that have a cost associated with them, regardless of whether they agree with the merits of the reforms. While this is the "fiscal reality" that we face in bringing our requests before Congress, ACP members should focus on advancing ACP's issues on the basis of their expertise as physicians/future physicians and how those issues impact their practices, patients, and local communities. That said, ACP does acknowledge the fiscal constraints of the federal government and, in the spirit of being constructive, has provided Congress with suggestions on how to find savings in the system while improving the value of care at the same time. Those suggestions can be found at the end of this document.

The information to follow is intended to provide you with a basic understanding of the federal budget, the fiscal challenges that underlie virtually every policy decision being considered by Congress, and how that influences the College's priorities.

Background

BUDGET 101

The federal government runs on a fiscal year, from October 1 to September 30. We are currently in fiscal year 2013 (FY2013). This is not to be confused with Medicare, which operates on a calendar year, from January 1 to December 31; for Medicare, we are currently in calendar year 2013 (CY2013).

By law, the President must submit a budget proposal to the legislative branch, no earlier than the first Monday in January, and no later than the first Monday in February. The budget proposal is essentially a blue-print for spending and contains specific proposed spending amounts for each federal department and agency and also usually contains legislative proposals on presidential priorities.

The House Budget Committee and the Senate Budget Committee each develop a budget resolution, which is introduced in their respective chamber and voted on by their respective members. The budget resolution lays out the framework for Congress and sets forth spending targets and broad legislative proposals. The budget resolution includes a top line number, meaning the total amount of discretionary spending (defined below) that can be allocated by the Appropriations Committees but it does not tell the Appropriations Committees how much each department gets in funding. The budget resolution includes legislative text with broad revenue and spending numbers but it does not give explicit language to the authorizing committees how to reach those numbers. The budget resolution is a non-binding resolution, meaning it does not have the force of law and the President does not sign it. The statutory deadline for having a conference budget

resolution, meaning both chambers of Congress have passed the same resolution, is April 15, but Congress routinely misses the deadline.

The spending side of the federal budget has two main components: mandatory spending and discretionary spending.

- **Mandatory spending** is not subject to the annual appropriations process and congressional approval. It includes programs funded by eligibility rules or payment rules, and includes programs such as Medicare, Medicaid, and Social Security. In FY2012, mandatory spending consumed 57 percent of the federal government's spending.
- **Discretionary spending** is subject to the annual appropriations process and congressional approval each year. In FY2012, 17.3 percent of the federal budget was spent on non-defense, non-homeland security departments, agencies, and programs (including the Department of Health and Human Services), and 18.9 percent was spent on defense and homeland security-related departments, agencies, and programs. Discretionary spending can also be called appropriated spending because the money is given out each year through the annual appropriations process, which Congress must approve. Departments, agencies and programs that receive discretionary funding are not guaranteed a specific funding amount from year-to-year.

Authorization Bill versus Appropriation Bill: Authorization bills fall under the jurisdiction of a committee other than the House and Senate Appropriations Committees. And, in the case of health care issues, those authorization committees include: Senate Finance Committee, Senate Health, Education, Labor, and Pensions Committee, House Energy and Commerce Committee, and House Ways and Means Committee. A program authorization establishes or continues the operation of a federal program or agency, either indefinitely or for a specified period (typically five years). In short, the authorizing committees provide the authority for a federal program to exist but they do not provide the dollars to fund the program or agency. The next step is for the Appropriations Committee to provide the funds for the authorized program, which is done through the annual appropriations process in Congress each year. The House and Senate Appropriations Committees write annual appropriations bills, in which money is given to each program in order for the program to operate. Typically, programs are funded at specific levels, and the committee may provide additional instructions on how the funds can be used. Although the authorizing legislation may authorize a certain amount of dollars for a given program, it is up to the Appropriations Committee to decide how much, if any, might be appropriated for the program. For example, the Affordable Care Act (ACA) authorized the National Health Care Workforce Commission at such sums as may be necessary to support the Commission's operations (including to serve as a national resource on health care workforce policy for the Congress, the President, states and localities; communicate and coordinate with federal departments; develop and commission evaluations of education and training activities; identify barriers to improve coordination at the federal, state, and local levels and recommend ways to address them; and to encourage innovations that address population needs, changing technology, and other environmental factors affecting the health care workforce), but the appropriations bills have failed to provide any funding for the Commission to convene or carry out its activities.

FY2014 BUDGET

There are three budget proposals, noted below, of which ACP members should be aware.

- House Republican FY2014 Budget Resolution
On March 12, House Budget Chairman Paul Ryan (R-WI) released *The Path to Prosperity: A Responsible, Balanced Budget*, his vision for reducing the size and scope of federal spending, in order to reach the targets laid out in H. Con. Res. 25, the Concurrent Resolution on the Budget for FY2014. In his budget resolution, Chairman Ryan proposed drastically reducing the federal budget by cutting spending, reducing taxes, and restricting the Medicare and Medicaid program. The budget resolution sets out broad policies, with numbers as targets, indicating how much the government can spend on programs, and the specific proposals on how to reach those targets are under the jurisdiction of the authorizing and appropriations committees in Congress. The *Path to Prosperity* is simply a framework proposal that is a vision for the future. While many details are still unclear, the proposal has several components that the College would like to highlight:
 - Setting non-defense, non-homeland security discretionary spending at pre-FY2008 levels (ACP has no policy on total discretionary funding levels; however, ACP recognizes that Congress and the Obama

Administration are committed to reducing funding for discretionary programs that do not achieve sufficient value, an objective we support, but studies show that investment in primary care, medical research, public health and other important health programs is essential to achieving a highly performing, efficient and effective health care system);

- Changing Medicare into a premium support system for persons age 55 and younger. ACP opposes proposals to convert Medicare into a defined contribution program, and instead recommends that a defined benefit program first be tested on a demonstration project basis before a decision is made to implement it on a national basis. The demonstration project should assess the impact of a defined benefit voucher system on adverse selection, continuity of care, fairness, access (especially for lower income beneficiaries) and administrative costs of care. Any demonstration project of premium support must include risk adjustments that both are analyzed regularly to ensure accuracy and include health-status, geographic, and other relevant demographic issues that affect Medicare beneficiary health so that beneficiaries have chronic care options in both Fee-For-Service and Medicare Advantage;
- Turning Medicaid into a block grant to states. A Medicaid block grant would fundamentally change the nature of the program. ACP policy supports the ACA's requirement that states cover all legal residents with incomes up to 133 percent of the Federal Poverty Level (FPL), while also calling for more state flexibility to design and implement innovative payment and delivery models. The Medicaid block grant proposal, as outlined in the Path to Prosperity, would be inconsistent with ACP policy, with no assurance that sufficient funds are available to meet the needs of the Medicaid population as health care costs continue to increase and the eligibility for Medicaid increases; and
- Capping non-economic damages in medical liability lawsuits. ACP supports caps on non-economic medical liability damages, as well as testing alternative mechanisms, such as use of health courts.

Chairman Ryan's budget does not address the Sustainable Growth Rate at all. On March 21, the House passed its FY2014 budget resolution.

- Senate Democrats FY2014 Budget Resolution

On March 13, Senate Budget Committee Chairman Patty Murray (D-WA) released the *Foundation for Growth: Restoring the Promise of Opportunity*, her vision for the future, as laid out in S. Con. Res. 8, the Concurrent Resolution on the Budget for FY2014. In her budget resolution, she calls for the preservation of the current Medicare, Medicaid, and private insurance coverage reforms already underway as a result of the ACA, as well as those scheduled to go in effect over the next several years. Again, while many details are unclear, the budget explanation encourages enactment of a permanent fix to the physician Sustainable Growth Rate (SGR) formula in order to ensure that Medicare beneficiaries will continue to have access to quality care. On March 30, the Senate passed their FY2014 budget resolution.

- President's FY2014 Budget Proposal

On April 10, President Barack Obama released his FY2014 budget proposal. The President has proposed a total federal budget of \$3.78 trillion in spending, \$3.0 trillion in revenue, and several legislative proposals, including, among others, reform of the Medicare physician pay rate and additional reforms to Medicare, which are offered in the context of an agreement that would include tax reform. At this point in the process, Republicans do not appear willing to consider major tax reforms, but not in a way that would result in more revenue government programs. In order to provide additional details on the President's proposal, ACP developed a separate document, in which you can find an abbreviated comparison of key elements of the President's budget proposal to ACP policy, which can be found [here](#).

The next step in the process would be to reconcile the House and Senate budget resolutions in a conference committee in order to come to one budget resolution. However, because the two resolutions are so far apart on federal government expenditures, revenue targets, and policy, there is wide-spread understanding that no consensus resolution will emerge. The two chairmen of the budget committees released a joint statement stating, "We recognized the many differences between the House and Senate budget resolutions and the challenge we face in reaching an agreement. We are committed to working to find common ground. We look forward to continuing the conversation..."

FY2014 APPROPRIATIONS

In order to fund the federal government, Congress must pass their annual appropriations bills by the beginning of the fiscal year, which is October 1. If the October 1 deadline is not reached, Congress must pass a continuing resolution—a CR—which funds the government for a set amount of time, routinely at levels equal to the past fiscal year. If an appropriations bill is not passed, then the federal government, departments and agencies do not have any funds and will shut down.

The annual appropriations process for FY2014 is currently underway, with both the House and Senate Appropriations Committees moving bills through Committee in hopes of bringing the bills to their respective floors for debate and approval. However, the House and Senate have diverging views on a top line discretionary number, meaning the total amount of discretionary spending that can be allocated by the Appropriations Committee. That top line number discrepancy will need to be worked out prior to enactment of any of the bills. Additionally, through their respective budget resolutions, the House and Senate have reached different total dollar figures for the defense bill and the other ten remaining non-defense discretionary bills. Many of the workforce training programs the College supports, such as National Health Service Corps and Title VII health professions workforce funding, are given funds through annual appropriations.

THE DEBT CEILING

In addition to the FY2014 appropriations process, the next fiscal battle confronting Congress will be over increasing the national debt limit. The debt ceiling authorizes the U.S. Treasury Department to borrow money up to a certain amount in order to meet the United States' current obligations, which includes spending authorized by Congress as well as interest on the debt; it is not authority to borrow money for new spending. On February 4, 2013, the President signed legislation suspending the debt limit until May 18, 2013; as a result, the debt limit does not apply for the period from February 4, 2013 through May 18, 2013. By May 19, the debt limit must be raised in order for the federal government to pay its bills and keep the full faith and credit of the U.S. The Treasury Department will be able to make some accounting maneuvers to not allow the U.S. to default on its international responsibilities; however, should the debt ceiling not be raised by May 19, the debt ceiling will be breached and the government will default on the financial obligations it has already incurred.

As of this writing (April 18), little is known about the next steps once the debt ceiling is reached. Republicans want to use the debt limit deadline to fight for additional spending cuts and major changes to entitlement programs – Medicare, Medicaid, and Social Security – potentially demanding that any debt cap increase be matched with commensurate budget savings. President Obama and Congressional Democrats would like an overhaul of the tax system, simplifying the code by eliminating tax “loopholes” (deductions, credits, etc) in a way that would also result in more revenue to the federal government. Republicans have also expressed an interest in reforming and simplifying the tax code, but not in a way that would result in more revenue for government programs. Congressional failure to address the debt ceiling would likely mean another down-grade in the nation's credit rating.

There continues to be speculation in Washington that the debt ceiling could result in a “Grand Bargain” among Congressional Republicans and Democrats and President Obama that would consist of: (1) tax reform that would produce more revenue, (2) reforms in Medicare, Medicaid, Social Security and other entitlement programs, and (3) replacing sequestration cuts (explained below) with more targeted savings and/or revenue. However, this would require Congressional Republicans to compromise on their opposition to raising revenue (taxes and fees), which likely would not be acceptable to many of the party's more conservative members and outside advocacy organizations, and Congressional Democrats and the White House to compromise by agreeing to cuts in entitlement programs that may not be acceptable to many of the party's more liberal members and outside advocacy organizations.

SEQUESTRATION: ACROSS-THE-BOARD CUTS

Under the Budget Control Act (BCA), which became law in 2011, automatic across-the-board cuts - called sequestration – of \$1.2 trillion went into effect in March and affects almost every single federal agency, with half the cuts on domestic

programs and the other half on defense. Under sequestration, virtually every federal program, project, and activity will generally be cut by a specific, set amount for the remainder of 2013:

- Reduce funding for discretionary defense programs by 7.8 percent; the cuts will include funding for health care for uniformed personnel and their families.
- Reduce funding for non-exempt discretionary programs by 5.0 percent; the cuts will interrupt funding for health professions training programs (HHS Title VII primary care training), medical and health services research (including the National Institutes of Health and Agency for Healthcare Research and Quality), ensuring the safety of food and drugs (Food and Drug Administration), and preventing and controlling diseases (Centers for Disease Control and Prevention). These ill-considered and arbitrary cuts will affect almost every federal program that protects the health and safety of the American people, as outlined in ACP's [2013 State of the Nation's Health Care](#) report.
- Impose a 2 percent cut in Medicare payments to physicians, hospitals, graduate medical education programs, and other providers. To better understand how this may impact your practice, please see [here](#).

Because the sequestration cuts are set by formula, they do not take into consideration the importance or effectiveness of any particular program or activity—highly effective and critically important programs are cut as much as less effective and less important ones. ACP acknowledges that the United States must make some tough budget decisions; not all worthwhile programs can be fully funded, and spending on many programs will need to be reduced to relieve the economy from the consequences of exploding deficits and debt. Yet cuts that undermine public health, safety and medical research, reduce access to needed care for vulnerable populations, or exacerbate the shortage of primary care physicians will harm health and increase future costs.

A FRAMEWORK FOR A BETTER APPROACH TO LOWERING HEALTH CARE

ACP believes that sequestration or across-the-board cuts will compromise essential programs to improve the access, quality and safety of health care in the United States and must not be allowed to stand. Instead, a fiscally and socially-responsible alternative should build on the progress being made in reducing healthcare cost increases and focus on the real cost-drivers behind unnecessary spending.

Across-the-board cuts that do not take into consideration the importance and effectiveness of different health care programs is the wrong way to reduce the deficit. The right way is to enact a balanced package of reforms that focus on changes that can be made to further restrain health care cost increases and eventually reduce per capita health care spending. Such reforms could include:

- Transition to new payment systems aligned with value;
- Establish a national, multi-stakeholder initiative to reduce marginal and ineffective care and promote high-value care;
- Provide patients and clinicians with information on the comparative effectiveness of different treatments;
- Establish patient incentives and insurance designed to encourage high-value care and reduce use of low-value treatments and tests;
- Reduce the costs of defensive medicine;
- Preserve and broaden financing for Graduate Medical Education (GME) and allocate GME funding more strategically, based on an assessment of national workforce priorities and goals;
- Authorize Medicare to negotiate prescription drug prices;
- Enact a cap on the deductibility of employer-sponsored health insurance; and
- Create a single shared cost-sharing structure for the different parts of Medicare.

More information on ACP's recommendations to reduce costs, with estimates of potential savings, is available at: http://www.acponline.org/advocacy/where_we_stand/medicare/super_comm_menu.pdf.

For more information on ACP's positions on federal budget issues, please visit the Advocacy section of ACP Online, http://www.acponline.org/advocacy/where_we_stand/federal_budget.html.