

Health Care Options for Reducing the Deficit

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Background

- This year, the Congressional Budget Office published two volumes of options to reduce the deficit.
 - Volume I describes 17 options that would each reduce the deficit by more than \$300 billion from 2023 to 2032.¹
 - Volume II describes 59 options that would each reduce the deficit by \$10 billion or more from 2023 to 2032.²
- These budget options **are** a range of illustrative options for the Congress to gain understanding of the design choices, the magnitude of budgetary effects, and tradeoffs of specific policy choices.
- They **are not** recommendations, nor are they an exhaustive list.

1. Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions* (December 2022), www.cbo.gov/publication/58164.

2. Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions* (December 2022), www.cbo.gov/publication/58163.

CBO's May 2022 Baseline Projections of Outlays, Revenues, and the Deficit

Percentage of Gross Domestic Product



In CBO's projections, deficits grow steadily in the coming decades. As a share of gross domestic product, the deficit in 2052 is triple the deficit in 2023. Over the 2023–2032 period, primary deficits amount to \$7.7 trillion and total deficits are \$15.8 trillion.

Among Options for Larger Reductions, Several Relate to Health Care

Projected Savings From Options for Reducing the Deficit

Billions of Dollars

Option	Title	Savings, 2023–2032 ^a
1	Establish Caps on Federal Spending for Medicaid	501 to 871
2	Limit State Taxes on Health Care Providers	41 to 526
3	Reduce Federal Medicaid Matching Rates	68 to 667
4	Increase the Premiums Paid for Medicare Part B	57 to 448
5	Reduce Medicare Advantage Benchmarks	392
6	Reduce Tax Subsidies for Employment-Based Health Insurance	500 to 893
7	Reduce Social Security Benefits for High Earners	40 to 184
8	Set Social Security Benefits to a Flat Amount	270 to 593
9	Increase the Maximum Taxable Earnings That Are Subject to Social Security Payroll Taxes	670 to 1,204
10	Reduce Spending on Other Mandatory Programs	580
11	Reduce the Department of Defense's Annual Budget	995
12	Reduce Nondefense Discretionary Spending	332
13	Increase Individual Income Tax Rates	502 to 1,329
14	Eliminate or Limit Itemized Deductions	541 to 2,507
15	Impose a New Payroll Tax	1,136 to 2,253
16	Impose a Tax on Consumption	1,950 to 3,050
17	Impose a Tax on Emissions of Greenhouse Gases	571 to 865

Establish Caps on Federal Spending for Medicaid

Key Design Choices:

- Whether to cap overall spending or spending per enrollee
- What growth factors to apply, for example:
 - Consumer price index for all urban consumers (CPI-U)
 - CPI-U plus 1 percentage point
- Which services to include in the spending cap
- Which base year to apply growth factors to

Type of Cap	Growth Factor	Decrease (-) in the Deficit, 2023–2032 (Billions of Dollars)
Overall spending	CPI-U	-836
Overall spending	CPI-U+1	-501
Spending per enrollee	CPI-U	-871
Spending per enrollee	CPI-U+1	-539

Limit State Taxes on Health Care Providers

Some states have established hold-harmless arrangements with providers, wherein they tax providers, intending to return the collected taxes to those providers in the form of higher Medicaid payments.

Under current law, the federal government does not match any tax revenues collected under hold-harmless arrangements that exceed 6 percent of providers' revenues.

CBO analyzed three approaches that would lower or eliminate the 6 percent safe harbor for hold-harmless arrangements.

Changes to the Safe-Harbor Threshold	Decrease (-) in the Deficit, 2023–2032 (Billions of Dollars)
Lower the threshold to 5 percent	-41
Lower the threshold to 2.5 percent	-209
Eliminate the threshold	-526

Reduce Federal Medicaid Matching Rates

The federal government's share of Medicaid expenses (referred to as the match) is determined by several variables:

- State of residence (the match is lower in states with higher income per capita); and
- Type of cost (medical or administrative); and
- Eligibility category (whether the enrollee was made eligible by the Affordable Care Act, ACA).

CBO analyzed three approaches to reducing the federal match.

	Decrease (-) in the Deficit, 2023–2032 (Billions of Dollars)
Pay 50 percent of all administrative services	-68
Remove FMAP floor of 50 percent (non-ACA Medicaid expenses)	-667
Reduce matching rate for ACA-eligible enrollees	-604

Increase the Premiums Paid for Medicare Part B

Part B of Medicare covers physicians' and other outpatient services.

Everyone who chooses to enroll in Part B is charged a basic premium.

- For low-income enrollees with few assets, Medicaid may pay the premium.
- Enrollees with higher income pay the premium themselves.

CBO analyzed three approaches to increasing Part B premiums.

Premium Adjustments to Medicare Part B	Decrease (-) in the Deficit, 2023–2032 (Billions of Dollars)
Increase the basic premium	-406
Freeze income thresholds for income-related premiums	-57
Combine both alternatives	-448

Reduce Medicare Advantage Benchmarks

Payments to Medicare Advantage depend on a number of factors, including:

- Bids that the plans submit; and
- How those bids compare with predetermined benchmarks set by the federal government.

This option would reduce Medicare Advantage benchmarks by 10 percent beginning in January 2025.

	Decrease (-) in the Deficit, 2023–2032 (Billions of Dollars)
Reduce Medicare Advantage Benchmarks	-392

Reduce Tax Subsidies for Employment-Based Health Insurance

Employers' payments for their employees' health insurance premiums and most employees' premium payments are excluded from income and payroll taxes.

Key Design Choices:

- What should the exclusion apply to (premiums only or premiums plus contributions to various health accounts)?
- Should the exclusion amounts be limited or eliminated entirely?
- If exclusion is limited, what would the limit be and how would it be indexed?
- Should contributions not excluded be subject to income taxes, payroll taxes, or both?

Changes to Tax Exclusions	Decrease (-) in the Deficit, 2023–2032 (Billions of Dollars)
Limit the income and payroll tax exclusion to the 50th percentile of premiums	-893.2
Limit the income and payroll tax exclusion to the 75th percentile of premiums	-499.8
Limit only the income tax exclusion to the 50th percentile of premiums	-651.4

Options Related to Health Care with Smaller Effects

Option	Savings, 2023–2032 (Billions of Dollars)
Reduce federal contributions for FEHB	16 to 18
Introduce enrollment fees in TRICARE for Life	16
Introduce minimum out-of-pocket in TRICARE for Life	33
Increase prescription drug copayments for all veterans	27
End enrollment in VA for medical care for priority groups 7 and 8	122
Increase tax on alcoholic beverages	92 to 114
Increase excise tax on tobacco	42
Change cost sharing in Medicare and restrict Medigap insurance	27 to 122
Reduce Medicare coverage of bad debt	23 to 74
Consolidate and reduce federal payments for graduate medical education	68 to 81

Notes on Budget Options

CBO's website includes a [search tool](#) for budget options that allows users to filter options by savings amount, major budget category, budget function, topic, and date.

The two volumes are the result of work by more than 100 people at CBO, led by Molly Saunders-Scott and Sarah Sajewski, and by the staff of the Joint Committee on Taxation. Scott Laughery coordinated work on the options related to health.

There is uncertainty specific to each option in addition to general uncertainty about the ways in which revenues from various sources, spending for individual programs, and the economy will evolve under current law.

Recent CBO Health Publications

- *Policy Approaches to Reduce What Commercial Insurers Pay for Hospitals' and Physicians' Services* (September 2022), www.cbo.gov/publication/58222
- *The Opioid Crisis and Recent Federal Policy Responses* (September 2022), www.cbo.gov/publication/58221
- *Federal Subsidies for Health Insurance Coverage for People Under 65: 2022 to 2032* (June 2022), www.cbo.gov/publication/57962
- *Budgetary Effects of a Policy That Would Lower the Age of Eligibility for Medicare to 60* (May 2022), www.cbo.gov/publication/57918
- *Prescription Drugs: Spending, Use, Prices* (January 2022), www.cbo.gov/publication/57050