U.S. House of Representatives

Committee on the Budget

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Republican Reconciliation Proposals Reflect the Wrong Priorities

Analysis of the Reconciliation Proposals Pursuant to the Fiscal Year 2013 Budget Resolution

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This document has not been reviewed and approved by the Democratic Caucus of the House Budget Committee and may not necessarily reflect the views of all members.

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Overview

Republicans reject a balanced approach to deficit reduction. Democrats and Republicans agree on the importance of reducing the deficit. But we disagree on ***how*** to do it. The House Republican budget for fiscal year 2013 reflects the Majority's unbalanced approach to deficit reduction: they provide costly additional tax breaks for millionaires while finding savings by ending the Medicare guarantee for seniors, slashing investments that strengthen our economy, and shredding the social safety net. In contrast, House Democrats offered a budget that preserves the Medicare guarantee, helps create more jobs now, makes us stronger through investments that build long-term growth, and reduces the deficit through shared responsibility. Because Republicans reject a balanced approach and refuse to ask millionaires to contribute one cent to deficit reduction, their budget cuts vital services for millions of Americans. This unbalanced approach to deficit reduction – focused only on cutting investments rather than also closing tax loopholes – is the wrong choice for America.

Reconciliation instructions reflect Republican goal of slashing vital services. Now House Republicans are using the fast-track procedures provided under budget reconciliation to hasten passage of some of their budget resolution's priorities. Their resolution included reconciliation directives instructing six authorizing committees to cut spending by $261 billion over the 2012-2022 periods. All six committees have now completed their mark-ups. On May 7, the Budget Committee will hold a mark-up to compile these recommendations into one reconciliation bill, and also to mark up legislation replacing the sequester scheduled for 2013 with the savings from the reconciliation bill.

Recommended spending cuts. Committees recommended cuts to vital services that will affect Americans in many ways. The cuts include:

- **Eliminating the Social Services Block Grant**, which gives states and localities the flexibility to target funding for essential services. Overall, the Block Grant helps 23 million children, seniors, and disabled Americans become self-sufficient and economically independent. It provides states with flexible funds that support a range of services, such as providing Meals on Wheels, preventing child abuse and neglect for at-risk children, and helping low-income parents return to work by providing child care and related assistance.

- **Cutting the Supplemental Nutrition Assistance Program (SNAP), which helps low-income households purchase adequate nutrition**. The legislation reduces assistance to every single household receiving SNAP benefits almost immediately and cuts 1.8 million people off of food assistance entirely. In addition, nearly 300,000 children would lose free school meals, on top of losing the benefits that provide food at home.

- **Jeopardizing consumers' rights and protections** by eliminating direct spending for the Consumer Financial Protection Bureau and making it subject to appropriations, thereby further violating the discretionary spending caps in the Budget Control Act. This latest attack on the Consumer Financial Protection Bureau would likely lessen consumer protection while adding to the pressure of keeping to a low discretionary spending cap.

- **Repealing the government's authority to shut down large financial firms**. This proposal relies on a budget gimmick to generate savings. It repeals an authority that pays for itself over time; the "savings" exist on paper because Congressional Budget Office (CBO) estimates only look at the first ten years. The provision will prevent regulators from closing firms in a future crisis, making future bailouts more likely and making it more likely that taxpayers will again be stuck with the bill.

- **Increasing the number of children, senior citizens, and other Americans without health care coverage.** The proposal rolls back protections that ensure states do not cut spending on Medicaid and the Children's Health Insurance Program (CHIP) by covering fewer people, and that provide bonuses to states for enrolling additional low-income children in the program. The first provision would result in a sharp increase in the number of uninsured Americans – 100,000 children and adults in 2013 and at least 300,000 children in 2015, according to CBO. The second provision would eliminate incentives for states to increase their enrollment of children, also likely increasing the number of uninsured children. Further, the legislation eliminates funding for state insurance exchanges that will take effect in 2014 to help uninsured people find affordable coverage. States will either have to raise their own funds for these exchanges or rely on the federal government to run their exchange.

Democrats have offered better, balanced deficit reduction plans. The deep spending cuts coming through the Republican reconciliation instructions and the sequestration of spending scheduled under the Budget Control Act are neither the right nor only ways to reduce the deficit. In fact, Democrats have proposed to achieve ***greater*** deficit reduction from targeted, balanced policy choices, rather than the slash-and-burn approach taken by an across-the-board sequester or the deep cuts in spending taken by the Republican reconciliation proposals. The President provided Congress with specific policies to reduce the deficit last fall and in his 2013 budget. This spring the House Democratic budget replaced meat-ax spending cuts under sequestration with a combination of mandatory spending cuts and revenues from eliminating tax loopholes and asking millionaires to return to the same top tax rate they paid during the Clinton Administration, a time of strong economic growth and fiscal responsibility.

Reconciliation Directives in the Fiscal Year 2013 Budget Resolution

The Republican budget resolution requires six House Committees to find savings of $261 billion over fiscal years 2012 through 2022. The cuts are intended to replace $78.5 billion of the 2013 discretionary spending sequester called for in the Budget Control Act. The table below shows the amount of deficit reduction required of each committee.

Reconciliation in the House Republican Budget

	Deficit Reduction in Billions		
Committee	2012-2013	2012-2017	2012-2022
Agriculture*	7.710	19.700	33.200
Energy & Commerce	3.750	28.430	96.760
Financial Services*	3.490	16.700	29.800
Judiciary	0.100	11.200	39.700
Oversight & Government Reform	2.200	30.100	78.900
Ways & Means	1.200	23.000	53.000
Gross Reconciliation Savings	**18.450**	**129.130**	**331.360**
Remove overlap	-0.100	-12.800	-69.900
Net Total Reconciliation Savings	**18.350**	**116.330**	**261.460**

*The rule "deeming" the House-passed budget resolution as the concurrent budget resolution shifted $490 million from Agriculture to Financial Services. The 2012-2013 Agriculture target was originally $8.2 billion, while the Financial Services target was $3.0 billion. The 2012-2017 and 2012-2022 amounts, as well as the totals, were not changed.

All six committees have completed their mark-ups. Under reconciliation, the next step is for the Budget Committee to compile the recommendations into one reconciliation bill, without making any substantive changes. The Budget Committee will hold that mark-up next week, on May 7. Pursuant to instructions also included in the Republican budget resolution, the Budget Committee will then also mark up legislation replacing the sequester scheduled for 2013 with the savings from the reconciliation bill.

Agriculture Committee

On April 18, the Agriculture Committee reported legislation cutting ***$36 billion*** from Supplemental Nutrition Assistance Program (SNAP, formerly known as Food Stamps). The Committee chose to target all its cuts to food and nutrition assistance to low-income

Americans, largely families with children, the disabled, and elderly, rather than look for savings from any other programs supporting the agriculture sector.

The reported language makes several changes to the SNAP program that will reduce SNAP benefits to all 47 million people currently receiving SNAP and entirely eliminate SNAP benefits to almost 2 million people.

- **Almost immediately sunsets the Recovery Act SNAP enhancement.** The enhancement is currently due to end on October 31, 2013. This enhancement has been shortened twice already, most recently to provide an offset for the Child Nutrition Reauthorization Act in 2010. This saves ***$6.0 billion*** under the directed scoring ordered by the Committee (see below for more details), and ***$4.4 billion*** without it.

- **Makes it more difficult to apply for and receive SNAP benefits.** The bill limits categorical eligibility – a process that allows households who qualify for certain programs to automatically be eligible for SNAP – to those receiving cash assistance from Temporary Assistance for Needy Families, Supplemental Security Income, or a state general assistance program. This change not only stops households from receiving SNAP benefits, it removes nearly 300,000 children from the child nutrition program. The bill also eliminates the state option to apply a Standard Utility Allowance in determining SNAP benefits for anyone receiving LIHEAP benefits. Together these provisions reduce SNAP by ***$25 billion*** while taking an additional ***$0.5 billion*** from child nutrition.

- **Eliminates federal match for SNAP's employment and training program.** Republicans say that this is one of many job training programs funded by the federal government and is duplicative. However, many job programs are oversubscribed and this one is geared to a very vulnerable population. Total savings over the 11 years are ***$3.1 billion***.

- **Ends the state bonus program.** The program provides additional funds to states that meet certain administrative targets. Elimination saves ***$0.5 billion***.

- **Removes automatic indexing from SNAP's nutrition education and obesity prevention program.** Over time, this change gradually reduces the program's purchasing power. This saves ***$0.5 billion*** over 11 years.

The Committee had trouble reaching its deficit reduction target for the 2012-2013 period**.** The rule passed by the House on April 16 that "deemed" the budget resolution to be in effect as if it were a budget conference agreement therefore reduced the Agriculture Committee's instruction by $490 million (and increased the instruction to Financial Services by the same amount). Still, the Committee could only meet its lowered instruction for deficit reduction through directed scorekeeping that tells CBO to assume enactment of the legislation on July 1, which will result in savings being scored sooner than CBO would otherwise expect them. Without the direction, CBO would assume an enactment date of October 1, and there would not be sufficient savings in the 2012-2013 period to meet the reconciliation instruction.

With the directed scoring, the Committee saves more than is required. Total savings are $7.8 billion from 2012 through 2013, $20.4 billion from 2012 through 2017, and $35.8 billion from 2012 through 2022.

Energy and Commerce Committee

The Committee reported legislation on April 25 that cuts ***$115 billion*** from health expenditures, exceeding its instruction by nearly $19 billion. All of the reductions come from repeal of certain provisions of the Affordable Care Act (ACA), cuts to Medicaid, and medical malpractice reform, over which it shares jurisdiction with the Judiciary Committee.

Title I – Repeals and defunds parts of the ACA

The recommendation impedes implementation of the ACA that is already benefitting millions of Americans. Overall, the changes cut **$26.3 billion** over the next decade.

- **Repeals the Prevention and Public Health Fund.** Repealing this fund and rescinding unobligated funding reduces spending on prevention and public health by ***$11.9 billion***. The ACA appropriated a total of $5 billion for 2010 through 2014 and $2 billion for each subsequent year to support such programs as cancer screenings, immunizations, research on prevention, and education and outreach. The goal of the fund is to provide an expanded and sustained investment in these programs to improve overall health and help restrain the rate of growth in private- and public-sector health care costs. Some of the funding to be cut is allocated for women's health, including breast cancer and cervical cancer screening. The Middle Class Tax Relief and Job Creation Act of 2012 (the first payroll tax cut extension bill) already reduced funding for this fund by $5.0 billion.

- **Repeals funding for state health insurance exchanges.** The proposal strikes the mandatory funding for state exchanges and rescinds unobligated funds, cutting ***$13.5 billion.*** Starting in 2014, these exchanges will allow individuals and small businesses to compare health plans, determine if they are eligible for tax credits for private insurance or health programs like the Children's Health Insurance Program (CHIP), and enroll in a health plan that meets their needs. As a result of this proposal, states will either have to raise their own funds to pay for setting up an exchange or rely on the federal government to run their exchange.

- **Defunds the Consumer Operated and Oriented Plan (CO-OP) program.** The proposal reduces spending by ***$0.9 billion*** by rescinding all unobligated funds for the CO-OP program, which provides subsidized loans to qualified non-profit health insurance plans.

Title II – Cuts Medicaid

The recommendation cuts Medicaid spending and reduces the deficit by ***$22.7 billion*** over the next decade, harming hundreds of thousands of low-income Americans, including at least 300,000 children.

- **Repeals states' Medicaid and CHIP Maintenance of Effort (MOE) requirements.** The ACA requires states to maintain their current Medicaid eligibility standards until 2014 (and CHIP eligibility standards until 2019), when nationwide Medicaid eligibility standards take effect and state-based health insurance exchanges will begin operating. Repealing the MOE provision would increase the number of Americans who are uninsured, as states scale back eligibility for low-income children, parents, seniors, and people with serious disabilities. CBO estimates that the provision will increase the number of uninsured children and adults by 100,000 in 2013 and increase the number of uninsured children by at least 300,000 in 2015. Repealing the MOE reduces the deficit by ***$0.6 billion***.

- **Rebases the Disproportionate Share Hospital (DSH) allotment for uncompensated care** to maintain the 2021 level of reductions for an additional year, which reduces spending by ***$4.2 billion***. Current law includes annual aggregate DSH allotment reductions for 2014 through 2021, to reflect the expected reduction in uncompensated care that will result from the ACA.

- **Repeals increased federal Medicaid funding cap and match for territories**. The proposal replaces the ACA's increased Medicaid federal match and cap for the territories with the levels in place prior to the ACA, reducing spending by ***$6.3 billion***, or 64 percent.

- **Reduces the state provider tax threshold to 5.5 percent**, down from the current threshold of no higher than 6.0 percent of the net patient service revenues. States can use these revenues from health care provider taxes to help finance the state share of Medicaid expenditures. This proposal reduces spending by ***$11.3 billion***.

- **Repeals CHIP performance bonus payments for states that provide more low-income children with health care coverage**. The bonus payments, currently slated to end in 2013, help states with the additional coverage-related costs in Medicaid as well as CHIP;

the more children a state enrolls above the target, the larger the federal bonus payment. Eliminating the bonuses reduces spending by ***$0.4 billion.***

Title III – Medical Malpractice

Jurisdiction over medical malpractice is shared by the Energy and Commerce and the Judiciary Committees. The medical malpractice proposal approved by Energy and Commerce differs in a few respects from the version approved the same day by Judiciary. The Energy and Commerce version generates ***$66.5 billion*** in on-budget savings over ten years ($56 billion in reduced spending and $10.5 billion in increased revenues). The Judiciary version saves about $18 billion less. The Energy and Commerce version saves more because it includes a provision to allow evidence of income from collateral sources (such as life insurance payouts and health insurance) at trial. Like the Judiciary bill, it caps non-economic damages at $250,000, imposes a strict statute of limitations on filing lawsuits, places restrictions on punitive damages, replaces joint-and-several liability with a "fair-share" rule, provides a safe harbor from punitive damages for products that meet FDA applicable safety requirements, limits contingency fee payments, and applies the legislation's provisions beyond medical malpractice to "any health care liability claim." Both the Judiciary and Energy and Commerce bills override applicable state laws in all 50 states.

Financial Services Committee

On April 18, the Financial Services Committee approved a package with ***$31.1 billion*** in cuts by a vote of 31 to 26, assuming a July 1 enactment date, as the Republicans requested (CBO also noted that the proposal would increase the net income to the National Flood Insurance Program by $4.9 billion). The reconciliation instruction called for a total of $29.8 billion in net savings. Each of the five components to the proposal is controversial or raises scoring issues.

- **Repeals regulators' authority to shut down a failing large financial firm when that failure would threaten the financial stability of the U.S.** This proposal relies on a budget gimmick to generate savings. The Dodd-Frank legislation designed this authority to pay for itself over time, with any initial up-front costs being recouped by selling assets and imposing an assessment, after the resolution, on financial institutions with more than $50 billion in assets. Thus, some of the offsetting recoveries are estimated to come outside the scoring window. Repealing the authority entirely eliminates the appearance of costs in the ten-year window, and therefore shows savings of ***$22.6 billion***. But repealing the authority will prevent regulators from managing the orderly wind down of a failing firm – that inability could result in the disorderly collapse of large financial institutions – making future bailouts more likely and making it more likely that taxpayers will again be stuck with the bill.

- **Eliminates the Home Affordable Modification Program (HAMP**). Dismantling HAMP would eliminate virtually the only federal assistance that helps homeowners who are struggling with foreclosure and need loan modifications. Its elimination saves ***$2.8 billion.***

- **Jeopardize consumers' rights and protections by eliminating direct spending for the new Consumer Financial Protection Bureau** (CFPB) and making it subject to appropriations, thereby further violating the discretionary spending caps in the Budget Control Act. This latest attack on the CFPB would likely lessen consumer protection while adding to the pressure of keeping to a low discretionary spending cap. The proposal scores ***$5.4 billion*** in savings from eliminating direct spending for the CFPB, and would make the CFPB the only banking regulator to be subject to appropriations. If the Budget Committee Chairman exercises his authority to modify the discretionary caps to reflect the shift of the CFPB spending from the mandatory to the discretionary category, then there are no savings. If he does not adjust the discretionary cap, then he is effectively further lowering the discretionary cap by requiring more items to be funded under the same limit. Republicans may use that argument to further their efforts to slash spending for the CFPB.

- **Elimination of the Office of Financial Research**. This office supports the Financial Stability Oversight Council by collecting information on financial markets and conducting research on financial stability issues. It is authorized to collect fees from financial institutions with more than $50 billion in assets to offset its expenses. Eliminating the office would save slightly over ***$250 million***. Because the office's fees also support the activities of the Financial Stability Oversight Council, new appropriations of about $10 million per year would be necessary to fund those activities, putting more pressure on the discretionary spending cap.

- **Reforms the flood insurance program**. The estimate of ***$4.9 billion*** in savings relies on the provision in the budget resolution directing CBO to treat the change in the program's net income as if were deposited in the General Fund. The provisions are the same as those in H.R. 1309, which passed the House in July 2011.

Judiciary Committee

The Judiciary Committee on April 25 approved medical malpractice legislation that is substantively identical to the medical malpractice provisions in H.R. 5 that the House passed in March. CBO scores this legislation as saving a net total of ***$48.6 billion***, for total deficit reduction that exceeds the Committee's instruction to find $39.7 billion in savings. The legislation caps non-economic damages at $250,000 and makes it more difficult to recover punitive damages, replaces joint and several liability for losses with a "fair share" rule, imposes a strict statute of limitations for filing lawsuits, provides a safe harbor from punitive damages for products that meet FDA applicable safety requirements, and puts limits on contingency fee payments. The provisions of the bill apply to not only medical malpractice, but also to any "health care liability claims" – providing new protections for insurance companies, drug and device manufacturers, and nursing homes. Like the Energy and Commerce proposal on medical malpractice, the Judiciary legislation also overrides applicable state laws in all 50 states. Democrats offered numerous amendments, all of which failed. One Republican voted against the underlying bill.

Oversight and Government Reform Committee

On April 26, the Committee on Oversight and Government Reform passed on a party-line vote legislation that generates ***$83 billion*** by requiring all federal employees, including postal workers, to pay more for their retirement benefits. Consequently, each federal employee will, in effect, have their pay cut an average of more than $30,000 over the next ten years. These new cuts to federal employee pay come on top of $60 billion in cuts resulting from the two-year pay freeze and $15 billion in cuts resulting from increasing retirement contributions on new federal employee enacted in H.R. 3630, the Middle Class Tax Relief Act of 2012.

Under the bill, most existing CSRS and FERS employees will face a 5 percentage point increase in their retirement contributions, which will be phased in over five years. The increase for new FERS employees is smaller – 2.7 percentage points – because their contributions were already increased by 2.3 percentage points as part of the Middle Class Tax Relief Act of 2012, which will go into full effect starting 2013. (The table on the next page shows all changes in employee contributions.)

The proposal requires larger contributions from the paychecks of current legislative employees than from other federal employees. Current Members of Congress will have to pay an additional 8.5 percent of their salaries for their retirement benefit and current Congressional staff will have to pay an additional 7.5 percent, increases that are also phased in over five years.

After full phase-in of the increases, most FERS employees will pay 5.8 percent (6.3 percent if a law enforcement employee) of their salaries toward their retirement benefit, up from 0.8 percent (1.3 percent if law enforcement) they pay this year. Current Members of Congress will pay 9.8 percent and congressional staff will pay 8.8 percent, up from 1.3 percent.

The bill also eliminates the FERS annuity supplement for new employees, except those subject to mandatory retirement, starting in 2013. However, any significant savings resulting from this provision will not be realized until beyond the 10-year budget window.

Contribution changes by employee category			
	Contribution Rate		
Beneficiary	Current	Proposed Increase	**Proposed Final**
Existing:			
Federal Employees (CSRS)	7%	5%	**12%**
Federal LEO Employees (CSRS)	7.5%	5%	**12.5%**
Members of Congress (CSRS)	8%	8.5%	**16.5%**
Congressional Staff (CSRS)	7.5%	7.5%	**15%**
Federal Employees (FERS)	0.8%	5%	**5.8%**
Federal LEO Employees (FERS)	1.3%	5%	**6.3%**
Members of Congress (FERS)	1.3%	8.5%	**9.8%**
Congressional Staff (FERS)	1.3%	7.5%	**8.8%**
Newly Hired:			
Federal Employees (FERS+)	3.1%	2.7%	**5.8%**
Federal LEO Employees (FERS+)	3.6%	2.7%	**6.3%**
Newly Elected Members (FERS+)	3.1%	2.7%	**5.8%**
Congressional Staff (FERS+)	3.1%	2.7%	**5.8%**

Ways and Means Committee

On April 18, Ways and Means reported reconciliation savings of ***$68 billion***. Instead of cutting tax loopholes that encourage the outsourcing of jobs overseas, eliminating egregious tax breaks, or eliminating additional tax breaks for millionaires, the Committee chose instead to raise taxes on families with children, eliminate valuable social services that help to support child protection services and home-based services, including Meals on Wheels, and make it harder to purchase health insurance for those returning to work. Democrats attempted to offer the Buffett Rule as a substitute for the cuts, but were ruled out of order.

- **Eliminates the Social Services Block Grant**, which gives states and localities the flexibility to target funding for essential services. Overall, the Block Grant helps 23 million children, seniors, and disabled Americans become self-sufficient and economically independent through services funded in whole, or in part, by the program. It provides home-based services, such as Meals on Wheels, for 1.7 million seniors. It helps prevent child abuse and neglect, providing child protective services for 1.8 million at-risk children. It supports low-income parents returning to work by providing child care and related assistance for 4.4 million children. It also provides services for nearly 1 million disabled individuals, including respite care and transportation. Ending the program saves ***$16.7 billion***.

- **Attacks the Affordable Care Act so another 350,000 Americans go without health care coverage.** Under the ACA, Americans whose incomes are low but who are ineligible for Medicaid and do not have employer-sponsored coverage can receive a subsidy to help them afford private coverage. For them to receive real-time assistance, the tax credit is paid in advance (and directly to the insurer) based on prior-year income. However, if their incomes increase later in the year, they are responsible for repaying some or all of this subsidy through a process called "true up." The ACA sensibly limits true-up payments to encourage participation and avoid penalizing individuals and families whose circumstances change mid-year. Congress already raised the true-up limit twice. The Republican proposal would require these families to repay everything even if they got the subsidy they were eligible for at the time, saving ***$43.9 billion***. The Joint Committee on Taxation estimates that, as a result, 350,000 people will forgo purchasing health insurance – mostly healthier people who are willing to take the risk. That will leave these families at risk and drive up premiums for the remaining less-healthy people purchasing health coverage through insurance exchanges.

- **Denies refundable child tax credit to taxpayers filing with Individual Taxpayer Identification Numbers (ITINs).** This provision would require a taxpayer to include his or her Social Security number on tax returns to claim the refundable child tax credit, saving ***$7.6 billion***. This measure would end refundable child tax credits for more than 3 million children in 2013 alone in families with an average income of about $20,000.