TESTIMONY OF PAUL N. VAN DE WATER
Senior Fellow, Center on Budget and Policy Priorities

Before the
Committee on the Budget
U.S. House of Representatives

Mr. Chairman, Mr. Van Hollen, and members of the committee, I appreciate the invitation to appear before you today.

When Congress was about to enact health reform last March, the Congressional Budget Office (CBO) estimated that the legislation would reduce the deficit — modestly in its first ten years, but substantially in the following decade.[1] CBO has reiterated that finding several times, most recently in a letter to Speaker Boehner three weeks ago.[2]

Heretofore, both supporters and opponents of a law have accepted, if only begrudgingly, the CBO cost estimate as the best unbiased analysis available of that law's effects on the federal budget. In this case, however, critics have attempted to discredit the CBO estimate by charging that the health reform law relies on several budgetary gimmicks. The Center on Budget and Policy Priorities and other analysts have explained time and again why these charges are groundless.[3]

In these remarks I will focus on dispelling the misconceptions that have arisen in one particular area — health reform's budgetary effects on Medicare.

First, critics have claimed that CBO's cost estimate double-counts the Medicare savings. This assertion is readily disproved. Let's be very clear. CBO counts everything once and only once. It counts the Medicare savings once. CBO doesn't count anything twice. Just read the cost estimate.

The effect of health reform on the financial status of the Medicare trust funds is distinct from the law's effect on the federal budget. The Medicare actuary has affirmed more than once, most recently just last week, that health reform will extend the solvency of the Hospital Insurance trust fund by about 12 years.[4] There's no double-counting involved in

---

[1] Douglas W. Elmendorf, Director, Congressional Budget Office, Letter to the Honorable Nancy Pelosi, March 20, 2010.

[2] Elmendorf, Letter to the Honorable John Boehner, January 6, 2011.

[3] James R. Horney and Paul N. Van de Water, *House-Passed and Senate Health Bills Reduce Deficit, Slow Health Care Costs, and Include Realistic Medicare Savings*, Center on Budget and Policy Priorities, December 4, 2009; Paul N. Van de Water and James R. Horney, *Health Reform Will Reduce the Deficit,* Center on Budget and Policy Priorities, March 25, 2010; Paul N. Van de Water, *Debunking False Claims About Health Reform, Jobs, and the Deficit,* Center on Budget and Policy Priorities, January 7, 2011.

[4] Richard S. Foster, Chief Actuary, Centers for Medicare & Medicaid Services, Memorandum to the Honorable Pete Stark, January 18, 2011.

recognizing that Medicare savings improve the status of both the federal budget and the Medicare trust funds. In the same way, when a baseball player hits a homer, it both adds one run to his team's score and also improves his batting average. Neither situation involves double-counting.

By the way, CBO accounted for deficit reduction in exactly this way in previous Congresses, under both political parties. For example, the Balanced Budget Act of 1997 and the Deficit Reduction Act of 2005 (both of which were passed by Republican Congresses) included Medicare savings that were counted as both reducing the deficit and also improving the outlook for the Hospital Insurance trust fund. No one raised claims of double-counting when these bills were enacted.

Second, critics sometimes contend that the Medicare savings in health reform should not be taken seriously because they will not be allowed to go into effect. This claim is wrong for several reasons.

In part, this charge reflects a misreading of history. The record demonstrates that Congress has repeatedly adopted measures to produce considerable savings in Medicare and *has let them take effect*. My colleague Jim Horney and I carefully examined every piece of major Medicare legislation enacted in the past 20 years; we found that virtually all of the Medicare savings in this legislation were successfully implemented. The oft-cited sustainable growth rate formula for physician payments is the exception rather than the rule. Even so, Congress has cut physician payment rates more than CBO estimated for the original provision.

The Medicare actuary has raised questions about the sustainability of one particular category of Medicare savings in health reform — the reductions in payment updates for most providers to reflect economy-wide gains in productivity. Although these concerns deserve a serious hearing, other experts see more room to extract efficiencies and improve productivity in the health care sector. Notably, the Medicare Payment Advisory Commission (MedPAC), Congress's expert advisory body on Medicare payment policies, generally expects that Medicare should benefit from productivity gains in the economy at large. MedPAC finds that hospitals with low Medicare profit margins often have inadequate cost controls, not inadequate Medicare payments.[5]

Because the productivity adjustments are now law, Congress would have to pass a new law to stop them from taking effect. Under the statutory pay-as-you-go rules, that future legislation would have to be paid for, so that it didn't increase the deficit.

In any event, both CBO and the Medicare actuary have *always* assumed in their projections that the laws of the land will be implemented, rather than hazard guesses about how future Congresses might change those laws. Surely no one would want estimates to be based on such speculation. Dr. Gail Wilensky, who ran Medicare under

---

[5] Medicare Payment Advisory Commission, *Report to the Congress: Medicare Payment Policy*, March 2010, pp. 6-7, 36.

President George H.W. Bush, has expressed it this way: “It would be very hard to know what you would use if you didn’t use current law — whose view you would use.”[6]

Finally, these issues must be viewed in the context of reducing projected long-run federal budget deficits. Bringing deficits under control will require making difficult trade-offs and tough political decisions on both taxes and spending, especially for health care. If we can’t count any provision that is controversial and might later be changed, we would have to conclude that neither the Bowles-Simpson proposals, the Rivlin-Domenici plan, nor Congressman Ryan’s Roadmap would really reduce the deficit. In fact, if we can’t count any provision that a later Congress might reverse, we can’t do serious deficit reduction.

[6] Remarks at a forum sponsored by the American Enterprise Institute, August 6, 2010.