ALLIANCE FOR HEALTH REFORM

Health Care on the Brink of the Fiscal Cliff

Alliance for Health Reform

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ED HOWARD: —cliff. Unless Congress and the President act a lot of potentially harmful things are going to happen in the next few months. Maybe the slope of the cliff isn't quite as steep as the picture might lead you to believe, but there definitely is a slope and today's program is designed to give you the basics of what the components of this situation are with a special emphasis of course on the impact on health programs. We are pleased to have as a partner in today's program the Kaiser Family Foundation, a leader in health policy analysis, health journalism, communication, you see tangible evidence of the analytical power of the Foundation in some of the contents of your packet and we are especially pleased to have as co-moderator today the Executive Vice President of the Foundation and Executive Director of its Commission on Medicaid and the Uninsured Diane Rowland, Diane.

DIANE ROWLAND: Thank you Ed and thank you all for coming. It's nice to have a topic that insights a little bit of interest in attendance and we're glad to have you here for both a good discussion and a box lunch. But, I wanted to really compliment Ed on always trying to have us able to provide information to you on big emerging topics that present a broad perspective on what the issue is and how it will affect health programs. And we have heard a lot about taxes in the

fiscal cliff debate, but today we want to really focus on what some of the implications are from the fiscal cliff itself for the health programs and what some of the future challenges will be as Congress and the President struggle to balance our human health priorities versus all of our budget and fiscal concerns. We have got a great panel and I think that the information today will hopefully be useful to you as you try and weigh where we are going and what should best be done in your professional positions and in your work as staff to many of the members of Congress. Thank you.

ED HOWARD: Thank you Diane, just a couple of logistical items. As I alluded to there is a lot of good background information on this topic in your kits and there are biographical sketches that will have more information on our speakers. You'll find all of these materials and a bunch of other ones on our website, allhealth.org, including the PowerPoint presentations that the panelists are going to use. There'll be a webcast and a podcast available Monday of this briefing through the courtesy of our friends at the Kaiser Family Foundation. You can see that at KFF.org. At the appropriate time, Owen will have a transcript available a few days after that on our website. There are green question cards you can use during that part of the program. There is a blue evaluation form that I beg and plead with you to fill out so

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that we can respond to what you really do need to know about the topics that you need to know things about and that's it. Let's just get to the program. We have an absolute all-star line-up of panelists today, expert at both broad budgetary aspects of the cliff and at the connection to healthcare and health programs. In short, we are about to give you to steal a phrase from NPR, your own set of cliff notes I guess.

So let's get on with the presentations by the panelists and then we'll get to your questions as well. We're going to start with Stan Collender who is the National Director of Financial Services Communications at Qorvis Communications. He writes a fiscal column for Roll Call, a top-rated economic blog and he advises major Wall Street players on fiscal policy and federal budget developments. He's worked for both the House and the Senate budget committees, for two major international accounting firms, among other major touchstones in his career and today we've asked Stan to give us an overview of what we mean when we refer to the fiscal cliff. Stan thanks for being with us.

STAN COLLENDER: Thank you, the bottom line, we're doomed. Any questions? I'm going to give you the biggest overview, the biggest 10,000 foot overview you can possibly imagine because I've seen the presentations that are coming that'll get into the details. But, there're two things before

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I get into the two slides I have. Number one, you need to know this wasn't specifically planned. It's not as if somebody or one person or one group of people sat down and said let's all do this on January 1 and January 2. There was some that was planned, but most of it was inadvertently added together or came together at the same time. Second, the most important thing about the fiscal cliff I can tell you is that it doesn't require any legislation to be enacted to happen. I can tell you the number of audiences I've spoken to in the last month or so that is assuming that Congress has to pass something like a budget for this to go on.

The fact is that all of the fiscal cliff laws, all the fiscal cliff happenings are already in law and what it takes is the mirror image, Congress and the President agreeing to do something to stop it. With that in mind just two quick slides, what is the fiscal cliff? Alright, the formal definition would be a series of tax increases and spending cuts that will go into effect January 1 and January 2. That's the formal definition. The less formal definition is this, a huge reduction in the federal deficit that'll be coming at a time when the U.S. economy can't handle it.

Has anyone thought about where the fiscal cliff, the phrase came from? It was uttered first by Ben Bernanke who was using it to avoid saying what he really wanted to say. That's

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not unusual for a Fed Chairman, alright. In fact, my guess, I don't know this, my guess is the phrase fiscal cliff was invented by the staffer at the Fed who came up with the phrase irrational exuberance a decade earlier. Fiscal cliff, what Bernanke was saying was that this series of tax increases and spending cuts will all go into effect at a time and have such a big negative impact on the economy and it'll be coming at a time when the rest of the elements of GDP can't handle it and as a result if the policies go into effect and stay in effect through the entire year the deficit will fall too far, too fast, and the economy will go into a tailspin.

That has since been verified by the Congressional Budget Office who's own analysis, I'm going to use round numbers here, shows that if the fiscal cliff happens and it goes into effect, stays in effect for the whole year, that last part is important, if it stays in effect the whole year GDP will fall by 3 percentage points. Since we're only growing at about 2, 2 – 3 is negative 1; therefore we'd be in a recession which is basically what CBO concluded. That has since been confirmed, validated by a number of Wall Street firms as well.

Several things that are important about that. It's not as if the economic damage happens immediately. That's critical. The phrase cliff gives you a visual image of a sudden drop, steep, immediate, precipitous, whichever way you

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want to call it. Analyses by the Center for Budget and Policy Priorities and a variety of others really indicate that it's more of a fiscal slope. That is, the policies will start to have an impact on January 3rd, but its real impact won't be felt unless the policies stay in place continuously through the year. That tells you a couple of different things. Number one, the immediate economic damage from not acting by December 31st will be relatively limited. It also tells you that the emotional damage could be much greater than the actual damage to the economy. That is market psychology being such, Alan Greenspan was quoted on CNBC this morning, for example, as saying that the market would drop pretty steeply and the market reaction would be pretty precipitous if the fiscal cliff went into effect. What he didn't say is what the effect would be if we go over the cliff and then come back fix it several days later, several weeks later even.

So, the most important thing about the cliff's first two things are it happens without legislation being enacted, legislation has to be enacted to stop it and while the economic damage could be substantial if it stays in effect immediately, even if it goes all the way through January, the damage would be relatively small. Third, the damage could be reversed. Working with the American Institute of Certified Public Accountants and others, I've been able to determine that the

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tax changes can all be fixed retroactively. Now, it'll be messy, businesses will be uncomfortable or unhappy having to change withholding tables and do a variety of things like that, but it can be done retroactively. The same thing is true on the spending side. In talking to folks at the Office of Management and Budget and who have been previously at the Office of Management and Budget, they tell me there are ways to limit the way the immediate impact of the spending changes on January 2nd. Not only that, they can be reversed retroactively.

Is this going to be fun? Is this going to be interesting? Yes, it'll be both interesting, but not fun. In fact, it is largely an unprecedented situation. Now on top of that, layer on the politics of this. After last Augusts' debt ceiling debacle I'll call it, the creation of the anything but super committee that subsequently failed, there's a lot of angst about whether or not this can happen, whether or not this can be dealt with before the fiscal cliff begins. Think of the timing involved here. There are now roughly, well there are less than six weeks from now until the start of the fiscal cliff. One of those weeks Congress will be away for Thanksgiving, another week they'd like not to be here for Christmas, some of the intervening time will be devoted towards activities towards next year; that is Committee Chairs, those types of things, so there's really not a whole lot of time and

you are essentially asking House and Senate Republicans and Democrats, Congress and the President, to compromise on things in roughly four weeks that they've been largely unable to compromise on in four years. In addition, you're doing this during a lame duck session when there's about 80 members of Congress who are either retired and not coming back or have lost their seats and not coming back, and to be charitable will have a little bit less incentive to participate during this lame duck session. It's one of the reasons why House Speaker Boehner said about four weeks, maybe almost five at this point, that he was uncomfortable having lame ducks make some of these decisions because they just don't have the same incentive to participate.

Think about this, you're a House member, you've lost your seat, you very shortly have to vacate your office, move to a cubicle in a House fail office building, your staff deserts you because they've got to look for a job, you've got to look for a job, and the leadership says are you going to show up and vote and the answer is well I've got to get my resume to several people. So, life is a little different and as a result 70 or 80 out of 435 members is a significant percentage of the House. If you don't know who's actually going to show up and vote and you can't actually hold their feet to the fire because

you don't have a whole lot to discipline them, this becomes an even more interesting situation.

Finally, there is emerging as I've heard over the last, well let's just say since the election, a new strategy. Now, I can't say it's universally held, but I've heard it from Democrats and Republicans, it's what I'm going to call the let's let the peasants storm the castle with pitchforks strategy. That is, we may need the fiscal cliff to go into effect even if only for a few days so that people who still don't realize it's coming or don't know what it means for them will get angry about it, will get upset enough about it to force us to make some decisions that we otherwise wouldn't make. It is a very typical Congressional strategy which is Congress often acts more often and more quickly after a crisis than before. As an example of that, I have made probably 40 different presentations over the last month about the fiscal cliff in the various parts of the country, the lack of understanding about the alternative minimum tax by people who aren't currently subject to it is astounding. They don't know the tax exists, they didn't realize they might be subject to it; they don't know where their additional tax burden would be. Those are the kind of folks that would have to get exercised enough where they'll let the peasants storm the castle with pitchforks.

To put all this together, I'm a little bit more pessimistic than I think most people on the panel here will be about our ability to get this done before the cliff hits. I think the incentives aren't necessarily there. The pressure to do something about it may be better afterwards, but I'm also relatively certain that if the cliff hits, if we go over the cliff, we'll be able to fix it in January before the serious damage to the economy goes on. So Ed.

ED HOWARD: Terrific, thank you very much Stan, very helpful. There we go, and as you might infer from the passing of the clicker, we're going to hear next from Liza Potetz. I like Thelma and Louise, why don't you just wait a second and our friend will key you up. Liza is a Principle at the respected policy analysis firm Health Policy Alternatives where her areas of specialization include Medicare, health in the federal budget, and healthcare reform so she fits very well into this discussion. She's been on the professional staffs of both the House and the Senate Finance Committee and the House Ways and Means Committee. She's been a CBO, she's been on the staff of the predecessor of MedPAC and we've asked her to look at how going over the fiscal cliff, and that's why you have that slide up there, might affect Medicare. Liza thanks very much for being with us.

LIZA POTETZ: Thanks Ed. If, in fact, Stan's right or his pessimistic side is right and no action is taken and we proceed to have a sequester starting in 2013. If Stan's right and we do start having to go under sequester starting next January what will this mean to the Medicare program? Well, unlike Medicaid and the Children's Health Insurance Program and some other mandatory spending Medicare is not exempt from this sequester. It is subject to it, but there is a special rule in effect that limits the amount of the sequester to Medicare to 2 percent. If we were to have sequester that applied evenly across all the non-defense spending programs it would probably be more like 5 percent, so this 2 percent limit will in fact take effect. Medicare will be subject to 2 percent, the other portions of non-defense spending will be subject to probably about 8 percent and Tim's going to talk about those in a minute.

This 2 percent sequester will apply to the payments that Medicare makes to hospitals and doctors and other providers of service that will apply to the monthly capitation payments to the Medicare Advantage Plans and Part D plans. There are some portions of Medicare spending, which I've indicated on this slide, that actually are exempt fully from this sequester, the subsidies, the low income subsidies for Part D, and also some of the low income subsidies that pay the

Part D premium, but for the most part Medicare spending will be subject to 2 percent. The administrative part of the program is not protected by this limit so it will be subject to the same sequester as other non-defense spending.

In September, OMB issued a report with their preliminary estimates of what the sequester numbers would look like and they will redo these if we go forward and make official estimates or official decisions about what all the sequester percentages will be, but in their preliminary estimate there would be a savings from Medicare in 2013 of 11.6 billion and that's across both the program administration and the benefit spending and that's out of a total of 110 billion, which you may know, there is 110 billion that would be saved in total, half from defense, half from non-defense programs, so it's about 55 billion from non-defense spending. In the March Baseline, CBO has projected that the sequester over the full nine years if it were in effect for the full nine years, and that is current law, so that's in the Baseline, we'll save about 99 billion in total from Medicare over that time.

All of these estimates assume other features of current law, which also includes the fact that in Medicare physician payments are scheduled to drop starting in January and I'll talk more about that in a minute, but that affects somewhat the sequester numbers as well because 2 percent of a smaller number

is a smaller number. This is a table; it just comes straight from that September OMB report that shows you how this 11 billion is broken out in Medicare. In terms of how this will be implemented, the first thing to understand is the way the law is written about the timing, the sequester for Medicare actually doesn't start until February and it's because it starts the month after the month that the sequester order is made and the Budget Control Act, the President makes that order on January 2 of 2013, and so the sequester will start in February unless somebody stops it in the interim, it would continue for 12 months. So, for Medicare the sequester would continue through January of 2014 and the important point I am trying to make here on this second bullet, which is a little long now that I'm looking at it, is that the sequester doesn't actually affect any of the payment rates in Medicare so payment rates for hospitals and doctors remain unchanged. So, moving forward any update factors and rates of increase won't take into account that the sequester has occurred and that's true also when the calculations are made for the Medicare Advantage premium rates and Part D rates as well.

That's the sequester and how it works. One of the other aspects of this end of the year things expiring situation is that we have the Medicare and this is an ongoing drama that long predates this recent budget issue. In the Medicare

program and the physician payment program there's a formula called the sustainable growth rate, which has compounded over time and led us to a point where unless there's action taken now starting for services provided beginning next January 2013 the payments made to physicians will be about 27 percent below what they are now. This is again effective for services provided starting in January so there's a little bit of wiggle room in the sense that the bills that Medicare will be paying early in January will actually be for services provided in December so if the law somehow is not amended before the end of this year there is some time early in January for the new Congress to arrive and fix this. But there is a limit, there's a point after which the Medicare program will begin to have to pay these claims with the 27 percent reduction and there are also issues and concerns about how physicians will be willing to see Medicare patients if they believe, in fact, that this 27 percent reduction will in fact take effect. So, it's in everybody's interest if it's going to be fixed to fix it as soon as possible. That's where I will end and turn it over to Tim.

ED HOWARD: Thank you Liza and Tim is Professor Tim Westmoreland. He's a visiting professor of law and senior scholar in health law at Georgetown University's Law Center where he teaches legislation and statutory interpretation,

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federal budget policy, and health law. Tim actually ran the Medicaid program at what is now CMS from 1999 to 2001 and spent the first 15 years of his career working for the house subcommittee on Health in the Environment under the chairmanship of Representative Waxman and Tim is tasked today with focusing on how the sequester might affect some of the federal health programs not exempt from these automatic cuts in addition to Medicare, Tim.

TIM WESTMORELAND: Thank you Ed and thank you Ed and Diane for the invitation to be here. I need to begin with a couple of disclaimers. The first one is the obvious one. The views I present are my own; they should not be construed to be past, present, or maybe someday future employers. The second thing is the one that is obvious and that everyone has noted; everything about this is influx and in the area in which discretionary spending there are lots of things that OMB simply hasn't interpreted yet. Then finally, in order to be able to finish by the end of this weekend I have to make my presentation on the basis of really big generalizations because in many ways each program is going to be affected slightly differently.

But, the sequester is coming and that doomsday machine that nobody wants to go off is already ticking. I would say for any practitioner or academic who works on public policy it

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represents a failure because it's not an act of policymaking; it's an act of arithmetic. It's the exact opposite of policymaking as we teach it in schools; it bypasses all research, study data, planning, and evaluation, and reaches in and substitutes a calculator on how to make spending decisions. Now, before I go through what those spending decisions necessarily will be I want to make a couple of assumptions explicit because I have to make some assumptions to be able to say these things.

To come up with my current estimates and examples, I've had to assume that the current continuing resolution is extended to the same rate from March through September. Secondly, I have to assume that spending that has already been done under the existing continuing resolution and will be done through December so for the first quarter of this year has been and will be at the appropriated rates, which actually is probably required under the Antideficiency Act and the Anti Impalement Act. But, if nothing changes then come January 2nd the percentages that OMB has calculated and published for each program, project, or activity will be turned into a fixed dollar amount to be cut. Now, I first would point out to you that the dollar amounts are based on a percentage cut to an annualized budget, but they're going to be coming in a fiscal year that's already underway when some obligations will already

have been made in the first quarter and it'll make it harder for agencies and programs to even absorb these cuts. They'll feel much bigger; essentially agencies will be making 8 percent annual cuts over nine months so it'll feel a lot bigger than just an 8 percent cut.

I also should note from the outset that in health, in addition to the special treatment that Liza described for Medicare there're few special rules for the sequester in other areas too. The first one, and the most obvious one, is that Medicaid and CHIP are altogether exempt from the sequester. Now, given the level of variability and flux that Medicaid funding and the states find normal, it's really a good thing that it's altogether exempt. Then also I would point out that by an accident of history the Vaccines for Children program, which provides free vaccines, was drafted as a part of the Medicaid program and consequently it too is exempt. I cannot imagine what we would be saying if we were facing an across the board cut in polio vaccines for the U.S. There are cuts in the CDC immunization infrastructure program and that's bad enough.

In addition to that Veterans health programs are exempt and Medicare as you've heard is generally limited to 2 percent cuts. The Indian Health Service is generally limited to 2 percent cuts and certain, but confusingly not all community health center money is limited to 2 percent cuts. The damage

is somewhat smaller in these programs. But after that, it's a stupid, deliberately; know nothing act of arithmetic of 8 percent reductions over nine months. The NIH is going to lose 2.5 billion dollars. PERSA is going to lose 600 million. The Centers for Disease Control will lose about half a billion. The Food and Drug Administration will lose about 300 million including, I would point out, portions of the user fees that manufacturers pay to accelerate the approval of their products.

Now, I assume most people in this audience know that the web is awash with estimates of what the effect of these funding cuts, these dollar cuts will be and so I'm going to give you a few rounded examples. There're going to be at least 700, maybe vastly more depending on your assumption fewer NIH grants this year. Innovation and progress is going to slow in biomedical research. There're going to be 12-15 thousand people in the Ryan White AIDS Drug Assistance Program, ADAP. I would point out that most of those people have no place else to go for the drugs that they need. For them AIDS will no longer, during the sequester, be a manageable medical condition. Thirty thousand fewer women will be screened under the CDC breast cancer program and consequently some of them won't find the lump until it's too late.

But, let me also talk about these programs in non-monetized terms because I'm afraid especially on the Hill we

spend all our time looking at dollars only. Assume for a second that we've got a steady workload at agencies that the workload doesn't go down, and assume that we're talking about an agency's activities that it is very heavily made up of staff. So, for example, the Food and Drug Administration, parts of the Centers for Disease Control, parts of CMS, 8 percent is about four weeks of a 52 week year, although coming into the middle of a year it's really going to feel much bigger and hit harder since it has to be absorbed within nine months. Therefore, the only way of meeting these cuts in a salary intensive agency is by furloughs or RIFs, reductions in force of federal employees, and so what should be an annual inspection will inevitably become a 13 month inspection.

Now, I think of nursing home inspections looking for violations of the fire code, somebody is not going to get inspected during that 13th month and there's going to be a fire. I think also of good manufacturing practices inspections for pharmaceuticals or foods, some contamination is going to be found one month too late after impure products have already been shipped across state lines. Or in turn, think about manufacturers send new products to the Food and Drug Administration for review, premarket review, so the one year review period that FDA is trying to get at for most products, the average drug approval time is going to slow for those

products and somebody out there is waiting for an approved oncology drug to come onto the market. Or most pointedly because it's so clear to think about for me, there're going to be a dozen fewer epidemic intelligence service officers at the Centers for Disease Control. Somebody's incoming call about a new outbreak is going to be put on hold. You simply can't buy for $92 what you can buy for $100. I have to believe that the authors of the budget control act knew that and created this sequester on purpose to be so stupid and so bad the people would come to the table and bargain about it. That is what happened with a similar type of sequester in 1990 and it was averted, but after some serious negotiations and consequences. As far as I can see now and as my colleagues and this panel can see now, this doomsday machine is going to go off this time. Thank you.

ED HOWARD: We need to have your clicker after you say things like that.

DIANE ROWLAND: That set off the two.

ED HOWARD: Thank you Tim. Finally we're going to turn to Bill Hoagland who recently became a Senior Vice President of the Bipartisan Policy Center after five years as Vice President of Public Policy at Cigna. Before that many of you know Bill was the Budget and Appropriations Expert for Senate Majority Leader Bill Frist, Vice Chairman of the Alliance for Health

Reform and before that Bill spent 20 years or more on the staff of the Senate Budget Committee mostly as the staff director to Senator Pete Demenici. Bill's going to give us a picture of the potential impact of the fiscal cliff on the economy and on healthcare generally. Thank you Bill.

G. WILLIAM HOAGLAND: Thank you Ed and it's good to be back here in the Senate in a room that I remember quite frankly doing a number of budget reconciliation conference agreements. I see a couple of Congressmen out here that have spent some time in this building also, in this room particularly. I was asked to speak about the economic impact of this; a lot has already been said so I may be repeating a little bit of what has been discussed. I will pick up on one quick point though that Tim just made in terms of when the initial request, an estimate came out from OMB in terms of this sequester. It is stated very clearly in that OMB. The sequester itself was never intended to be implemented. The administration strongly believes that the sequester is bad policy and that Congress can and should take action to avoid it by passing a comprehensive and balanced deficit reduction package. We would also say since probably most of you may already know this, but since you've been in here your leaders, our leaders have just finished a meeting at the White House, positive in the sense if you can believe that the market has gone from negative 20

points to up 50 points in that time since they've come out in the last hour and a half so there is a lot of attention being paid to this decision going forth, particularly in the markets and in the economy.

Five quick points here I'd like to make. I hope I can keep it to five. I have to say this up front. The fiscal cliff is serious, but I think what is even more serious is the long-term fiscal outlook of the country and the ideological divisions that exist in a Congress where power is evenly divided. I would also say, and I realize who I'm talking to, a group of people who are experts in the healthcare area, quite frankly any decision that is made on the terms of a balanced approach to addressing our fiscal long-term outlook, most budget plans on the table take more out of healthcare than is what is in the sequester over the next ten years. I have to tell you, I know I realize who I'm talking to, but the seriousness of finding a balanced approach to dealing with our fiscal outlook will require contributions made out of this sector whether it's from the sequester or not.

My second point is and what I was asked to talk about in terms of the economic impact of the sequester and more importantly and equally important the tax increases. This has been widely analyzed up this time by the Congressional Budget Office, I understand you have in your packet the economic

effects of policies contributing that was put out quite frankly right before I put out my slides up here from CBO. I would strongly recommend that you look at that study because I think that really is probably the most current and accurate that we can find. What I would like to do here is quickly summarize, what is this where are all my numbers, this is something. I'm going to put them up there I go whoa. Let me just quickly go through this so that everybody has it. I'd like to say most times you hear the estimates are put out in terms of the fiscal year impact. I try to convert these into a calendar year impact, for calendar year 2013, and now in terms of the economic impact, well if I'd had time I would've fixed this chart, but let me just if you have it in front of you I'll give you the quick impacts as we go through it.

In terms, and this is essentially building upon this CBO study from last week. In terms of the Bush tax cuts and the AMT that impact of that portion of the sequester is 221 billion dollars. Overall in terms of the fiscal cliff we're talking about here, if we were to undo that we would see the GDP grow by about 1.4 percent fourth quarter to fourth quarter and we would add back what would be subtracted, about 1.8 million jobs from that first one. In terms of the payroll tax cut combined with the unemployment insurance expirations that as you see is 95 billion dollars in terms of the takeout of the

economy along with 26 billion. If we were to remove those particular aspects and put back in the payroll tax cut as well as extend the unemployment insurance we would see an increase in the GDP by about 0.7 of a percent and 800,000 jobs according to the estimates.

In terms of the actual sequester that we're talking about here of 65 billion dollars for fiscal year 2013, this is on outlays, we're looking at that would add back about 0.4 of a percent in GDP, but 800,000 jobs approximately evenly divided between defense sector and the non-defense sector. Overall then, as you can see the total policy impact for fiscal year is about 501 billion and then if we have the feedback interactions from having this go into effect then you're looking at another 105 billion dollars for a total, I believe, there we go, 606 billion dollars is the impact. I would like to tell you that I worked on many, many budgets up here over my nearly 27 years up here, we would be happy if we got 500 billion dollars in deficit reduction over a ten year period. This is 500 billion dollars in one year. I realize we're talking about much different starting points, but the overall impact then of this sequester and Stan has already mentioned it in passing is the impact of having this take effect if it's on a four year basis, and that's a critical assumption here, four year basis, then we would be looking at a reduction in the economy and going

definitely into a recession in the first quarter by all estimates, a loss of about 2.7-3 percent of GDP and a loss of nearly 2.7-3 million jobs would be associated with this.

Just to summarize quite easily here from this particular chart. I'm not going to go through all the charts. On an annualized basis then the forecast for 2013 would be a negative 0.3 of a percent growth in the economy. Unemployment coming back close to 9 percent, ten year note rates remaining very low at 1.8 percent. Finally just let me say that I'm trespassing a little bit here into Liza's area, but I want to make two last points. Of all the budgets that are on the table today, and I just came from the Pete Peterson conference, Bo Simpson, Domenici conference down here at the News Museum, of all the budgets including the President's budget back in February, I have to tell you if the issue here is to get the GDP down to a reasonable level of 60 percent the only one that does it unfortunately ladies and gentleman is the sequester that we have on the table. If the patient can take the medicine and survive the medicine in the long run the economy would be better off, the deficits would be lower, and our economic growth would be growing. It's a tough, tough balancing act, but trespassing in Liza's area and playing the old budgeter with you for just a second, there're some real

complications with this sequester as I look at it and mind twisters that I've yet to figure out myself.

Liza mentioned it in passing and it's the Medicare baseline. All these estimates are done off the Medicare baseline and the calculation the sequester has taken, current law into consideration, and yes current law includes in terms of the baseline from which these sequesters are to be estimated include the SGR hit of 27 percent. It is my conclusion, though it is very unclear in the legislation, that should the sequester go forward it would be on top of in addition to the 27 percent reduction that the doctors would face. Similarly, just to go out a little bit further into the future, it's unclear how the target rate of growth under the iPad would be determined whether it would include or not include the impact of the sequester, something that is very unclear in the legislation, and finally it's unclear to me whether beneficiary Part B premiums how they would be determined under the sequester. We would technically have less Medicare Part B payments to providers and therefore one should conclude that premiums would be adjusted downward reflecting the savings that come from the sequester, again, not clear at all in the legislation.

One last point and probably coming back to Tim's, and that is that federal administrative expenses are subject to the

sequester regardless of whether they are connected with a program project or activity that is exempt or under special rules. So, while Medicare reductions are limited by the 2 percent here and Social Security is exempt, the federal administrative expenses to those programs are not exempt and would be subject to the full non-defense sequester that Liza spoke about, which was about 8 percent.

ED HOWARD: That is a sobering set of presentations and now we get the opportunity for you to ask questions that will allow our panelists to give you sobering answers to those questions. You have green cards on which you can write a question. There are microphones out in front that you can use to ask your question orally and if you do that we'd appreciate your being as brief as you can identifying yourself and direct it to a particular panelist if you would like to. Let me note, we have just been informed that the folks at the Kaiser Family Foundation realizing how high of a level of interest is in this topic have speeded up the process and the video for the presentation today will be available on kff.org, not on Monday, but later this afternoon so tell your colleagues who weren't able to get in because we had to close registration because of the fire marshal that they can take a look at it. Over the weekend, they can spend a little bit of time.

CAROLINE POPLIN, MD: I'm Dr. Caroline Poplin. I'm a physician. I have a quick question for Mr. Hoagland on his first chart where it shows the amount of money that he added the jobs and things. That would be restored if the Bush tax cuts and the AMT were left in place, were not part of the fiscal cliff, did you also calculate that as how many jobs and how much money would be restored if the Bush tax cuts were restored for everyone making under $250,000 and only people over $250,000 would pay the original pre-Bush tax cut rate?

G. WILLIAM HOAGLAND: That's a good question and I did not make the calculation, but the document that I spoke about that's in your packet from CBO does have the estimate and I'll just give you the employment impact. If you extend all of the Bush tax cuts and AMT if you don't go over the cliff with those then as I said that adds about 1.8 million in terms of employment. If you do it, if you do not do it, if you let the higher income of $250,000 and the number of job impact is about 1.6 so it's about a 200,000 impact from having that difference there. In terms of the impact upon the GDP growth, I think it was less than a 0.1 percent difference there.

ED HOWARD: Let me just ask while we're waiting for the questions to come forward, a couple of things Tim when you were talking about personnel rich budgets being affected in a certain way, just to give people a little skin in the game as

we say, how about congressional staff salaries, are they going to be affected by the sequester if it goes off?

TIM WESTMORELAND: I have to say I don't actually know the answer to that question. I assume there's someone in this room who knows.

STAN COLLENDER: Bill does. The answer is yes right.

ED HOWARD: Bill?

G. WILLIAM HOAGLAND: The answer unfortunately for the audience is yes, they are impacted just as every program, project, activity, Senate salary accounts, House salary accounts, committee accounts, everything is affected by this sequester.

STAN COLLENDER: But, Bill it's not that each person's salary would be cut by that amount. I mean they could do it that way right?

G. WILLIAM HOAGLAND: They could do it. It's by program, project, activity, and my recollection is it's an account the Senate account for salaries and so the Senate could determine how to distribute it, but give me a break guys, what is the expenditure up here. It's not exactly in ships and planes, it's in salaries.

STAN COLLENDER: By the way the same thing is true to a certain extent in the defense department. Just 55 percent of the defense budget is personnel, but uniformed personnel is

exempt. So, civilian personnel is not and they would be affected, and the fact that total defense sequester would be the same, but it would be from a smaller amount and the denominator would get smaller so the percentage gets higher.

ED HOWARD: We've got a protest question at the microphone right now. Can I ask you to hold for just a second Kathy because what these gentleman have been describing raises the larger question and the phrase what is it programs, accounts, and activities—

STAN COLLENDER: Program, projects—

ED HOWARD: Programs, projects, and activities, the meaning of that phrase is not immediately evident to a poor country lawyer. Who decides what the percentage is taken from? What's a program, what's an activity?

G. WILLIAM HOAGLAND: A program, project, or activity is specifically defined within the appropriation bill and defined by the Office of Management and Budget as they meet with the appropriators up here to make sure that they're defining the accounts appropriately, that they use the appropriation process to define those programs, projects, activities.

STAN COLLENDER: Bill two things though, doesn't it or Tim, doesn't it vary from department to department and agency to agency and didn't OMB say in their report, particularly with

regard to defense, but others, that for some departments they didn't yet have enough information from the departments themselves and that they reserved the right to change how the cuts would be taken.

TIM WESTMORELAND: Yes, it varies appropriation by appropriation and varies agency by agency, I have a November 2nd OMB Watch, a very good article here which says that OMB is still in the process of defining what is a program, project, and activity for some departments.

ED HOWARD: For the record, we'll post that on our website. Tim's going to get this.

G. WILLIAM HOAGLAND: I guess one point I would make, we have had a sequester a couple of sequesters under the previous, we are getting very complicated here. There are really two sequester mechanism. There's one under PAYGO that still exists and then there is this one created under the Budget Control Act of last year, but basically that first sequester, what I refer to as showing my age Gramm-Rudman-Hollings; that basically is the procedures for which we implement this sequester for our non-defense and defense accounts. All I can say is since the last time we had a sequester in the early 1990s, that's the last one so there is a lot of uncertainty between 1990 and 2012 as to how this would actually be implemented.

STAN COLLENDER: My understanding is there aren't that many people at OMB who were there 22 years ago.

G. WILLIAM HOAGLAND: And there may be a new program or activity or two that wasn't dealt with.

ED HOWARD: Yes, Kathy.

KATHY HARWOOD: Kathy Harwood with Congresswoman Jan Schakowsky, sobering but very, very important and I think a number of points that Mr. Hoagland made were particularly important is that the issue is not just the sequester and the impacts on people as Tim talked about, but jobs, but also what do we replace the sequester with. I heard two different things, one from Stan about the Bernanke, what Chairman Bernanke was trying not to say about increasing the deficit in the short term. Then the last comment you made about the only thing that gets us to 60 percent debt to GDP is the sequester. How important is reducing us to 60 percent of debt to GDP right now and can I hear from you and from Stan given what we've heard about the impacts on the health side?

STAN COLLENDER: Kathy quick question, why is he Mr. Hoagland and I'm Stan.

KATHY HARWOOD: I'm sorry. It's because I know you Stan. I won't do. We've worked together.

STAN COLLENDER: I'm sorry I couldn't resist.

ED HOWARD: Bill.

[1] The Alliance makes every effort to ensure the accuracy of written transcripts, but due to the nature of transcribing recorded material, this transcript may contain errors or incomplete content. The Alliance cannot be held responsible for the consequences of the use of the transcript. If you wish to take direct quotes from the transcript, please use the webcast of this briefing to confirm their accuracy.

G. WILLIAM HOAGLAND: Well, all cards on the table, the staff, yes I work for Republicans and I've worked for them for a long, long time up here, but I did begin my career with the House Realignment Congressional Budget Office when it was first established. My problem Kathy is, can I call you Kathy, my problem is that we are at 74 percent, about 70 percent of debt to GDP and that is historically high and if we shut off all this and let it go we're going up to 150, 120 percent, those are rates that we cannot sustain at all for long-term economic growth so yes I believe it's critical and at a minimum we stabilize that debt to GDP and get if we could get it back to at least 60 percent. Some of you in this audience will live to see it maybe. I've given up. I'll never see a balanced budget again. I like to say that I worked on the last balanced budget up here in 1997 on a bipartisan basis. We went from the largest surpluses to the largest deficits over night come September 11th and been on that downward path ever since.

All I can tell you is this is not a sustainable economic path to be running 60 percent, 70 percent, 80 percent and just getting it back to 30 or 40 percent where we were a few years ago would be good for the economic growth and also by the way be good for healthcare, a sustainable healthcare in this country and the growth of the economy, jobs and the creation of revenues at that point, but it has to be a balanced

package. I cannot do this all on the revenue side. You can't do it all on the spending side. It has to be a balanced package.

STAN COLLENDER: Kathy, the key thing I heard in your question was how important is it we do this now? The answer is in this year; that is in 2013, the answer is it shouldn't be done. If you look at Basic Econ 101, the basic GDP equation, GDP is determined by corporate spending, consumer spending, trade, and government spending, corporations are sitting on case; the biggest hoard of cash in American history. Consumers, unless they're buying an Apple product aren't spending any money at the moment. State and local governments are continuing to cutback and trade is actually hurting, not helping, Europe, China, and Japan not doing that well. The only positive input to GDP at the moment, and this is what I think Bernanke was saying, the only positive impact of the GDP right now, your word, is the Federal government. So, he was saying until the other elements of GDP are contributing positively and this is not a time for the Federal Government to be cutting back as far, as fast as it would be happening under the fiscal cliff. Most of the alternatives I hear discussed, discuss reducing the deficit in the medium to longer term rather than in the immediate short-term, right. That is a nuance that's important. Now, I can tell you from a lot of the

presentations I've made I invariably get a question, no matter where I am in the country, why don't we just do this, get it over with now and be done with it, right. That's not the prevailing opinion of the country, but there are some who believe that.

ED HOWARD: Yes, go ahead.

FRANCES CORREA: I'm Frances Correa with Family Practice News. As you're looking at potential scenarios going forward, when looking at how they could replace sequestration, do you see any funding coming out of the Affordable Care Act? Could the sustainable growth rate formula be included in some deal and if it does go through could physicians face more than just 2 percent cut going forward?

G. WILLIAM HOAGLAND: With some trepidation let me take that question on. Many of you will find out in your careers up here, once you work for a United States Senator you work for him for life. I am at the Bipartisan Policy Center now working with three former bosses, Senator Domenici, Dr. Frist, and Alice Rivlin. We are engaged in working on a project called Healthcare Cost Containment for Senator Daschle, Senator Frist, Senator Domenici, and Rivlin to try to find a middle ground between premium support and fee for service. In getting there, we're not there yet, we hope to be by January, February, clearly the Accountable Care Act, elements of the Accountable

Care Act are looked at as an area for part of an agreement to help control healthcare cost containment, but it's not in the sense of the way you may be thinking about it. It's in the sense of speeding up such things as, I'll be corrected by a number of people who know this better than I, the bundling proposals, the Accountable Care Organizations, making them mandatory as opposed to the virtual kind of participation, and also the establishment of some sort of, here I go as budgeter, a global cap overall.

I would also finally say, with again trepidation, I don't see how the subsidies up to 400 percent of poverty could remain in this environment if that's in the Accountable Care Act and that would also be a portion of this potential savings that would be coming forward. Overall though, doctors, hospitals, providers, senator Daschle feels very strong about this and I understand that there should not be a cost shift to the beneficiary so there're only a few ways that works and that's a reduction in reimbursement rates, I guess, back to the providers.

ED HOWARD: Go ahead Tim.

TIM WESTMORELAND: I just want to have one, I don't disagree with most of what Bill just said, but I want to add a footnote of something that has concerned me for some time and that actually has led us into this position, which is the

tendency in the short run for the Congress and to some extent the administration to buy the numbers without having any policies that result in those numbers; of picking numbers in the abstract and then saying well we'll retrofit a policy to get us there. That's what got us this sustainable growth rate that Liza was just outlining; that's what's getting us this sequester so we, to the extent that there are health policy proposals out there that'll save money in the long and bend the curve we're trying to experiment with those with the Affordable Care Act right now. We've got a number of them in place. If people have other ideas of how to bend the curve let's look at the ideas, but what I really worry about is picking numbers first and retrofitting a policy in healthcare back to it.

STAN COLLENDER: Bill a followup question for you. You don't expect any of those things to happen by December 31st do you?

G. WILLIAM HOAGLAND: Oh no.

STAN COLLENDER: Alright because the question was would the substitute for the sequester, my presumption is that the substitute for the sequester is just stopping the sequester, maybe just creating a new cliff a year from now, not putting in place a grand bargain or some new plan such as Bill was talking about which may have merits, but they've got four weeks so I'm

just wondering how quickly they can come up with an alternative I guess is what I'm saying.

G. WILLIAM HOAGLAND: I don't want to get in a debate up here, but we'll see how this turns out here when they come back and they have 21 days or 20 days, but I doubt you're going to be able to get an extension without some form of a down payment. Now, you're right, big fundamental changes are not going to be enacted, but let's see PI adjustment, Part B premium adjustments. There are things that can be implemented quickly, if there's the political will to do it that will generate something for a down payment. Alright, what about a—

STAN COLLENDER: Don't turn your microphone off yet. What about the process version of a down payment which is setting up a new super committee type process where we give the same targets, we give everybody six months, if you don't do it then we trigger a new sequester.

G. WILLIAM HOAGLAND: For those of you who have been through this are you sure you want another process, I guess. Listen you're not going to get, I should shut up. I don't see any way you're going to have fundamental Medicare reform. You're not going to have fundamental Social Security. You're not going to have fundamental tax reform in 21 days. You and I have been through it up here. That's not going to happen. You have to have some sort of a process, a framework, which by the

way the Bipartisan Policy Center has put out, which says that number one, we go back to my old haunt here and that is we have regular order. We set some targets in the lame duck. You have to vote on it. As you said, nothing happens here you're going to have to pass something. You put a framework together that sets targets, you get the specific aggregate numbers to what you're going to achieve then you let my old, I'm biased here, you let the budget committees put together a budget resolution, the President's budget he submits then you have reconciliation instructions, you do it the old-fashioned way up here. You do it through regular order so the committees have the jurisdiction to put their products together. I should say in fairness and if that fails then there is another across the board cut on all tax expenditures as well as all entitlements excluding Social Security.

DIANE ROWLAND: Well getting back to some of the more technical issues here, we do have a request of Stan to briefly explain the AMT issue and how the tax notes will change and a followup question from someone about what the patch would be implemented. They've heard the patch would be implemented before the end of the year and fixing it retroactively could be a huge mess for the IRS, is this true?

STAN COLLENDER: The alternative minimum tax, AMT was a system put in place, was it the `60s I think to make sure the

people paid a minimum amount of taxes. It was actually designed to hit a limited number of millionaires. The tax; however, the limit, the exemption it's called was never indexed for inflation and every year since then basically Congress and the President have agreed to what's known as a room patch to prevent more and more people from being eligible for the AMT. that hasn't yet been done, not for 2013, but for 2012 and that means that effectively on January 1, anyone filing their return would be subject to the AMT with much lower numbers without going into the exemption number itself. It would mean instead of the 9 million people who are currently eligible for the alternative minimum tax it would be almost 30 million people and as I remember it would lower the income level to something around 40,000, maybe slightly lower from 75,000. It would be one of the largest increases in taxes on people who consider themselves lower middle class essentially in American history.

We're talking about something that would be effective for 2012. Here comes the complicating factor, but also the not so complicating factor. You don't have to pay the AMT until you file your taxes, the 2012 taxes aren't due until April 15, which means if the AMT isn't patched by January 1st it technically affects everybody in the new income bracket, but you wouldn't start to have to pay additional taxes on it until you file your return, you delay filing your return, you could

at least wait and see if Congress is going to do something about it. The second question was is there a complicating factor for the IRS? Yes, they've announced that this would be a real problem for them. They'd have to update their computers, not the taxpayers, but the IRS. They'd have to update their programs and there'd be a serious delay in doing that, maybe 60 days that even if you filed your return during that period the computers would take that much longer to get a refund if you were going to get it and if you waited to file your return months after you typically do it you'd have to wait even longer to get your refund, which means the effect on the economy would be delayed. That is those people getting a refund and would spend it wouldn't spend it in the quarter they typically spend it in, they'd spend it in the next quarter. It's a mess all around. It is one of a number of administrative nightmares having to do with the tax aspects of the fiscal cliff. All of which I said could be fixed retroactively, all of which would create administrative nightmares.

DIANE ROWLAND: They could also be seeing a reduction in their staff because they'd be subject to this.

STAN COLLENDER: Oh sure, right, and the computer would not be able to work with as many whatever digits or whatever.

DIANE ROWLAND: And Liza, how would the sequester affect Medicare Part D plans? Would CMS reimburse the plans less for drugs or how would this situation work?

LIZA POTETZ: The 2 percent reduction would apply so that every month the payments that are made from Medicare to the Part D plans would be lower by 2 percent.

G. WILLIAM HOAGLAND: Pretty straightforward.

DIANE ROWLAND: A followup Medicare question; it was this individual's understanding that physician payments would be cut 2 percent due to sequestration on top of the SGR cut of 27 percent.

LIZA POTETZ: Right, so if nothing happens to change the SGR and nothing happens to change the sequester it would be 27 and then 2 percent. The 27 percent actually affects the base rate so that means it affects beneficiary copayments for example. The 2 percent, the way I think about it is, the government goes through the process that they normally go through to figure out how to pay a claim and then right before they cut the check they subtract 2 percent from that. So, the sequester doesn't affect the copayments, but the SGR does.

DIANE ROWLAND: Many healthcare extenders including rural health have already expired, in this situation how likely is it that they would be renewed or are they doomed?

STAN COLLENDER: I like the word doomed, the extenders package is one of the things that may be, Bill I would be curious about your thought on this, I think extenders, AMT, are probably two of the things that at least some of the extenders could be done separate from a package to deal with the fiscal cliff; that is there are some things that just are going to happen because of political pressures and others, but could be moved out of the fiscal cliff realm regardless whether there's a big resolution to this or not.

DIANE ROWLAND: Okay, now this one is addressed to Mr. Hoagland, but I'll call him Bill. Can you please expand on exactly what healthcare cuts are on the table in the current budget proposals that employ a balanced approach to the deficit reduction?

G. WILLIAM HOAGLAND: No, I can't because I'm sure anything I suggest would not be perceived as maybe balanced. No, I think, Stan mentioned it, others mentioned it, the goal here is to lower overall healthcare costs, not just the public expenditures. I think the proposals that are on the table really do focus primarily on those issues associated with improving the efficiency deliver the usual jargon that you all know about. I would say something that moves us further away from fee for service toward more of a competitive market-based setting is on the table. We're not going to go to a premium

support. I don't think that's going to happen, but I think there's general consensus I would assume that everybody in this room that's worked on these issues would agree that the fee for service model has to be changed and so there's got to be something. That's long-term.

Short-term, I've already mentioned it. I should pull out the little red, white, blue card I just received in the mail, I'm one of those lucky people who now qualify. I always supported it when I was up here for their means testing the Part B premium. I'm not so sure I feel that way right now, but I think that's on the table. I think those are definitely one. Then, as hard as it is because you're not going to get the scoring that I want and a lot of you want out of the Congressional Budget Office on some of the changes. You're probably still going to look at some sort of an iPad, but some sort of an aggregate spending cap at the end of the day.

DIANE ROWLAND: Thank you, Mary Agnes.

MARY AGNES CAREY: Thank you, I'm Mary Agnes Carey with Kaiser Health News. Bill, you were just talking about some of the potential changes in Medicare; I wonder if the panel could talk about Medicaid, what are some of the things that Democrats and Republicans, if they can find common group, what would be some of the changes in Medicaid that we'll be hearing possibly more about as part of the fiscal cliff talks?

DIANE ROWLAND: You can do it Tim.

LIZA POTETZ: Well, clearly the Medicaid program has a dual role. It has the services that it currently provides to the low income population that are served by it and it is a building block in the implementation of the Affordable Care Act where over half of the people that would receive coverage could potentially receive that through the Medicaid expansion. One of the challenges in Medicaid, as you know, has always been that it is not a program that provides very high payment rates for most of its provider states have over time taken as much as they can in terms of reducing spending, so it's a hard program to look at individual ways to make changes. Moreover, from the federal perspective, Medicare is run by the Federal government so Medicare policies can be tweaked and changed whereas many of the policy decisions with regard to how to contain costs in Medicaid are made at the state level and there is a lot of development going on now around delivery system reform. So, some of the talks that Bill has mentioned in terms of moving away from fee for service to more integrated and managed care settings are clearly things for the Medicaid program, but what's put on the table in the budget debates is going to be really harder to assess and for the sequestration obviously Medicaid has been exempted.

ED HOWARD: How about that?

DIANE ROWLAND: How about that?

ED HOWARD: That's very good.

STAN COLLENDER: Before you read another question I've got one that I'd like to ask almost everybody up here. I've been getting the question a lot, when are we going to get back to normal? By that they mean when are we going to have a general idea what's going to happen and get some idea that things are going to move, Bill you used the phrase regular order, what I've been telling audiences in response to that question is this is the new normal. That is, even if we get past the sequester and the fiscal cliff in general, even if we get toward talking about tax reform and Medicare reform, and Medicaid reform, and God knows what other kind of reform, that this kind of yin and yang back and forth uncertainty is likely to continue for probably the end of the decade and I'm just curious. I'm really asking this question for information, not because I'm trying to state an opinion, what do you guys think, Tim, Bill, Liza, are we in a new normal here?

TIM WESTMORELAND: Well in the very small area of discretionary spending I would point out that last year I think we had what ten CRs during the course of the year before we finally arrived at something and this year we haven't passed a single appropriations bill except a CR so I think you're right. I think we are in a new normal in which we don't know how much

discretionary spending there's going to be. Now having said that if you averaged out those CRs I assume you could come up with an eight silver-like probability of what the appropriation is going to be by the end of the year.

STAN COLLENDER: Has he become an adjective.

TIM WESTMORELAND: He has become an adjective. I think he's actually a verb and an adjective at this point.

LIZA POTETZ: I guess I would say as somebody who has followed the Medicare program for a long time now, it's always changing and so I think maybe we've had a period of years where there was less change to Medicare than usual so I think we're going to be seeing, especially we do have this demographic change, so even with all of the changes in the delivery system and so forth, we're looking at more people entering the program. It's going to be growing regardless and so I think there'll be more attention to it maybe than we've seen recent years, but I think it's a program that's always been evolving and being tweaked and changed and improved.

TIM WESTMORELAND: I guess I would add and I think I'm actually going to have to footnote Diane Rowland for this that the Medicaid program has always been under stress at all times. There has never been a period of quiet for the Medicaid program so it's always been normal in Medicaid.

G. WILLIAM HOAGLAND: The only comment I would have Stan is that we just had an election. I'll say what I said at the outset that the ideological divisions that exist today in a Congress where power is evenly divided would suggest to me that until there is some narrowing of those ideological divisions out there, you should be prepared for this going on for some time. The one thing that I remember the years that I was up here, it's a black market crash in 1987 brought this group together real quickly, September 11th brought them together. I hate to think that the only way we come together and move forward in kind of more of a regular order matter is when there's a crisis, but to the lady's question earlier that personally I feel that you cannot maintain this level of debt to GDP growing in the future or we're going to start looking like having some of the same problems that you're seeing across the big pond out there. I hope we can avoid that. I still think we can, but we've got some real divisions still even after this election that makes one not too optimistic about getting back to regular order any time soon.

DIANE ROWLAND: I guess I'd also say about the Medicaid program that it's been under stress for most of its history, but I don't think it's ever been in such a conflicted position as it is today between being counted on to be expanded and improved to be a major part of our healthcare reform strategy

and at the same time being talked about as a vehicle for cutting trillions of dollars out of the program and reducing spending on a program that's always been relatively under-resourced. I think the balancing act for Medicaid is really one that's very difficult for obviously states to even figure out what's going to happen to them and many of the choices that states are now going to make about expanding coverage under Medicaid are going to be tempered by their fears of what might be happening on the deficit reduction side.

ED HOWARD: I might point out by the way that two weeks from today our friends at the Kaiser Family Foundation and the Alliance will be doing a briefing specifically on the topic of states options and expanding Medicaid.

G. WILLIAM HOAGLAND: Could I add to Diane's question? On Medicaid the one thing that I have is I think block grants are off the table. I don't know about per capita caps; there seems to be some division, but the one thing I have discovered, at least since the Supreme Court ruling, that they are real reluctant to get into Medicaid until we have a better feel for what's going to happen out there in terms of the states expanding these programs going forward.

DIANE ROWLAND: An additional question going back to the topic of the day, can government agencies delay implementation of cuts in January, back load them under the

assumption that Congress will stop sequestration in January or February? Can they sort of punt?

TIM WESTMORELAND: Not all together. Again, there is a process called apportionment in which the OMB and the agencies decide how much money they're going to spend during the course of each fiscal quarter within a year as well. The OMB has some flexibility of deciding how much of the supposed annualized appropriation is going to be apportioned for the first quarter, well the first quarter is already going to be over, but for the second, third, and fourth, they have some flexibility, but it's not limitless because if they get to the fourth quarter and they don't have any cash left because the sequester actually went truly into effect, then those agencies are going to be in violation of other federal laws of not spending money or either that or they'll have to shutdown altogether at the end of that. There is a flexibility for the process that is called apportionment, but then there is a hard floor for the Antideficiency Act at the end of that.

ED HOWARD: Bill did you want to add to that? No, okay.

DIANE ROWLAND: Well this one is a question that involves some speculation. Despite the downside of sequestration is it likely that advocacy groups and groups like

the AMA and the AHA will get on band with choices that will hurt their dues paying members to avoid sequestration?

G. WILLIAM HOAGLAND: Another question that complements that; you've got a 2 percent cut in Medicare maximum, are some of the providers perhaps thinking they're going to get a better deal under sequestration than they might under a grand bargain where healthcare is going to be on the table?

LIZA POTETZ: Well I think when you hear people talk about 3 and 4 trillion dollar packages and revenues as a portion, but a restricted portion, it seems hard to believe that Medicare given its size wouldn't end up having to contribute more than the 99 billion that's in the CBO baseline under the sequester. I guess it would be, anything's possible, but that would be my answer to that.

STAN COLLENDER: The problem with the question is that it's rational. I'm being serious actually. That's what would make sense in a rational world, but this is going to be decided in a political world where the organizations that were mentioned in the question their goal in life is to protect their members and to show their members that they're protecting them, capitulating early without; that is making it look like you're giving up something now because you think it might be worse later is not the typical behavior of groups like that, at least not inside the beltway groups like that. Typically they

would oppose something and have oppose something now on a short-term basis with the idea that they'll fight like hell to oppose the bigger thing later. So, irrationally if we were working on that kind of a rational system we'd have an agreement in the next four weeks about what to do and I just don't think that's likely to happen.

DIANE ROWLAND: And this question is what do you think the administration will do in terms of printing the withholding tables that come out with all the tax returns?

STAN COLLENDER: I've been told the Secretary of the Treasury either has or can assume the authority to order IRS not to change the withholding tables if the Secretary, whoever it is, decides or thinks that the fiscal cliff will happen, but it'll be short-term, it'll be a short-term basis. There's no guidance from the administration about whether or not they'll do that and if what they're trying to do is put maximum pressure on Congress to accede to its wishes the chances are they won't, but without that IRS has no authority to determine on its own that it can change the withholding or not change the withholding tables. So, I would assume that somewhere about the middle of December, both as a strategic or as a tactic to put more pressure and as for practical purposes, they'll have to start withholding and maybe even publishing the new withholding tables.

G. WILLIAM HOAGLAND: Diane, this is a very important question and it ties back to what you asked me to talk about in terms of the economic impact. There're two things that have already been mentioned up here by Stan and Tim and number one the apportionment process does not necessarily mean that you're going to have a big hit immediately. Number two, as Stan has just suggested and people don't believe it. It's true, the Secretary of the Treasury has the authority to modify the withholding tables. Should he take that authority, should the apportionment process stretch it out, we will. We haven't even mentioned it here today, but there's another cliff coming. It's called the debt limit. We will hit the debt limit, it will probably come sometime next month while you are all here and then the Secretary will have the authority to use special procedures to extend it to the end of March or very end of February and your CR runs out about then. It's possible it seems to me the economic impact that I've been outlining to you is on an annualized basis. It's possible that if you have a modification in the apportionment process and you don't have the withholding tables changed that you could actually see a softening of the economic impact in January and February.

STAN COLLENDER: And, even if the withholding tables change effectively on January 1, it doesn't tend to affect anyone in particular until they get their first paycheck. Now,

for most people that's two weeks later, somewhere around the middle of January, January 15th or there about, it would affect income earned January 1 and beyond so there's even a little bit of room there even if the tables aren't affected, but as Bill just mentioned it would affect it paycheck by paycheck so it's not as if the full tax increase would happen on your first paycheck and be deducted from that. There would be a little room to move as you move there as well. Bill you've raised an interesting point though. Isn't it possible given let's say we go over the cliff and we bungee jump and we do something in January, now we've got the debt ceiling in February and you've got the CR in March, isn't 2013 starting to sound an awful lot like 2011 under those circumstances with a steady series of cliffhanger endings?

G. WILLIAM HOAGLAND: Yes.

DIANE ROWLAND: I think on that note, not one fiscal cliff, but maybe a slope and some asked that this panel focus on alternatives to the sequester, but I think we've raised a lot of the issues about that and maybe that's for Ed to bring us back together again as a panel after we see what happens in the next few weeks, but I'll let Ed close.

ED HOWARD: Well thank you Diane, thanks to you folks for contributing some very good questions and listening to a lot of well less jargon discussion of budget issues than one

usually has when one gathers budget experts. I thank the Kaiser Family Foundation for its not only involvement in this program, but also for rushing the video availability so that we can accommodate more people than we could fit into the room. I want to see how you can do this, while you're filling out the blue evaluation forms join me in giving a hand to our panelists for a very good discussion.

[END RECORDING]