1 | Budget & Spending

Overview

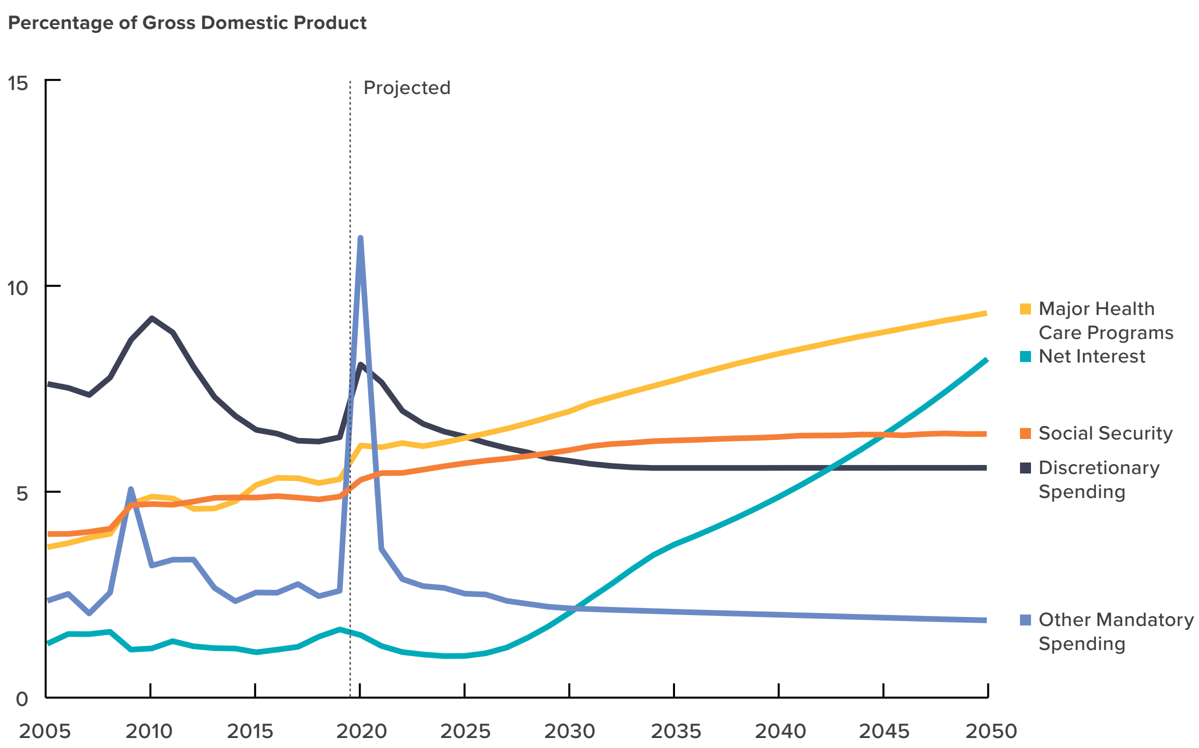
Budgetary and spending pressures heavily influence the design of policy changes in health care and frequently drive health reform discussions in the first place. Spending and deficit considerations often force policymakers to consider mechanisms to limit expenditures, scale back proposals, or identify budgetary offsets to balance new spending. Administration and congressional budget processes themselves also influence health policy. In a new administration and congress, the president's proposed budget and congressional budget resolutions are helpful markers of spending and revenue priorities, policy visions, and areas of alignment or disagreement. In particular, the budget resolutions may include tools to help facilitate or place parameters on health policy changes. Stakeholders at the federal and state levels can also be significantly impacted by slight changes in health policy – and can alternatively push for new spending and defend against attempts to limit it as well. These budget realities shape the scope and financing of federal health care legislation, as well as state decisions on their Medicaid programs.

Background on U.S. Health Care Spending

Health care spending accounts for a significant percentage of federal and state spending. At the national level, the net cost of major health care programs has grown from 2.3% of Gross Domestic Product (GDP) in 1990, to 6.1% in 2020, and this proportion is projected to climb to 9.2% in 2050 absent any policy change (See Fig. 1.1). Medicare spending alone is projected to rise from 3.7% of GDP in 2019 to 6.0% in 2044, and the **Medicare Hospital Insurance Trust Fund** – which is funded mainly through a dedicated payroll tax – is projected to be insolvent by 2024, meaning it will no longer have sufficient funds. The growth in federal health care spending is due both to rising per-person health care costs and, as the national population ages, an increase in the number of beneficiaries.

Fig. 1.1: Spending as a Percentage of Gross Domestic Product (2005-2050)

Federal spending grows from an average of 21.3 percent of GDP from 2010 to 2019 to an average of 29.3 percent from 2041 to 2050.



Source: "The 2020 Long-Term Budget Outlook." Dahl, M, Demirel, D., Harris, E., et al. U.S. Congressional Budget Office. September 2020. Available at http://allh.us/xfr6.

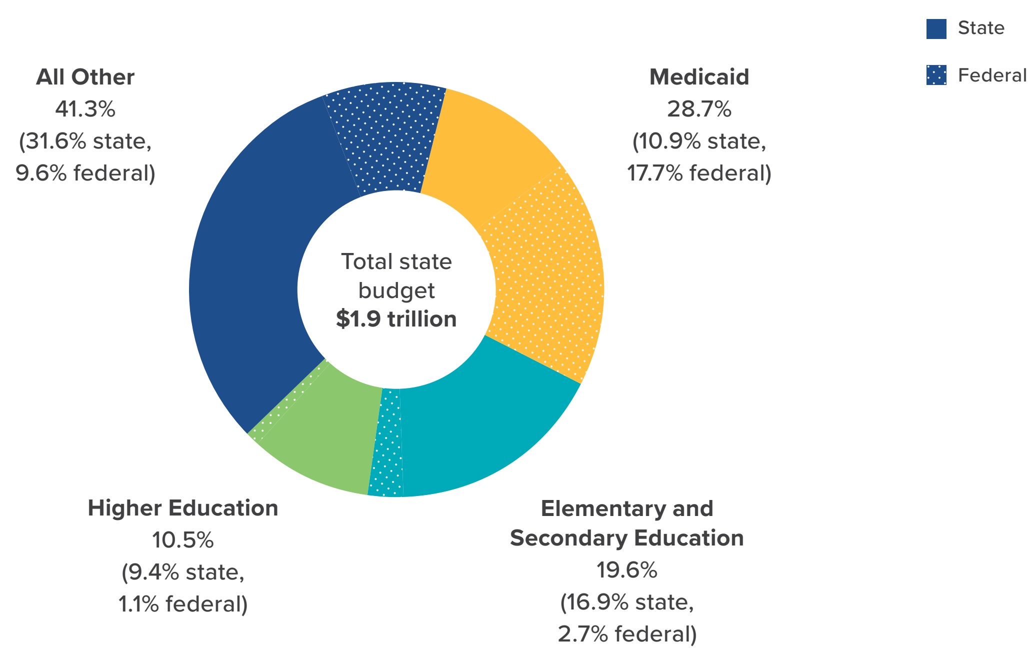
Discussions of the relationship between federal health care expenditures and the budget often rely on three overlapping, complex, and difficult-to-untangle terms: costs, prices, and spending. For the purposes of this Handbook, we define **costs** as the dollars or amount it takes for a health care entity, provider, or system to actually deliver a health care service. **Prices** – the dollars or amount charged to payers or individuals for health care services – are not necessarily the same amount as the cost. Finally, **spending** is typically thought of as the total expenditures or amount of money "going out the door" for health care, a function of both price and the level of utilization of services. These distinctions – further explored in Chapter 3 – can be fuzzy, and in the public debate, terms are often used interchangeably.

Even more complex are the impacts and pressures of high expenditures felt throughout the health care system, and by all stakeholders, including patients, providers, payers, purchasers, and the pharmaceutical industry. Thus, there is perennial tension in the health policy community about shifting spending and costs to and between these groups.

Similarly, examining spending provides only a partial view of how health care impacts the nation's fiscal picture. In addition to direct spending on care, the federal government also subsidizes health care through the tax code via both subsidies and tax credits. The most significant tax expenditure in the Internal Revenue Code (IRC) is the exclusion of employer-sponsored insurance (ESI) premiums from taxable income, which effectively subsidizes health insurance for nearly half of all Americans. According to the Joint Committee on Taxation (JCT), in 2019 alone this subsidy resulted in $169.6 billion in expenditures, or foregone revenue, for the federal government.

States are under even greater budgetary pressures given that their share of Medicaid spending, when federal funds are included, was estimated to be 28.7% (See Fig 1.2). The significant role of health care in the U.S. economy, and federal and state spending clearly illustrate why it is tied to nearly any discussion of budgets at both levels of government.

Fig. 1.2 Medicaid's Share of State Budgets (2017)



Source: "Medicaid's Share of State Budgets." The Medicaid and CHIP Payment and Access Commission. 2017. Available at http://allh.us/EXyg.

Brief Overview of the Federal Budget Process

Historically, the budget process occurs annually, beginning with the president's proposed budget, usually sent to Congress in early February. The **president's budget** is essentially a detailed outline of spending levels for departments, agencies, and programs, as well as revenue proposals. It can be viewed as a marker for the Administration's policy, spending, and tax priorities.

The **congressional budget** process then begins with the House and Senate budget committees and their drafting of **budget resolutions** that set targets for discretionary spending, as well as targets for committees to move forward legislation that affects expenditures and revenues. The congressional budget resolution offers a blueprint for appropriations committees overseeing discretionary spending and other committees that may consider legislation that affects spending, revenues, or both.[1] A concurrent resolution is one that both chambers agree to and is more likely to be adopted when the same party controls both chambers. Budget resolutions are not sent to the president for approval, but are intended to guide congressional budgetary decisions.

Congress is supposed to pass a budget resolution annually by April 15. However, in recent years Congress has sometimes not passed, or even considered, one at all. In other years one or both chambers will pass their own budget, but are not be able to reach an agreement. When this occurs, the previous year's resolution remains in effect, or each chamber can set its own spending levels. Although budget committees oversee the process, all members of Congress and their staff play a role by holding hearings on the president's budget and considering and voting on budget resolutions on the floors of the respective chambers. A subsequent process of appropriations measures represents the mechanism by which actual funding levels are established and delivered to agencies and programs.

Neither the president's budget nor congressional budget resolutions have the force of law, but both play an essential role in how policy priorities and changes are funded and enacted. The president's budget lays out both broad administration priorities and specific policy changes and agency budgets for Congress to consider; however, the influence of those proposals depends on which party is in the majority. The congressional budget resolution is much less specific than the president's. However, these resolutions can include changes to House and Senate rules that make it easier to enact legislation consistent with the budget and more difficult to enact legislation inconsistent with the budget.

Budget resolutions also consist of enforcement mechanisms for appropriations bills, revenue bills, and reconciliation legislation, such as discretionary spending limits, pay-as-you-go rules or PAYGO, and sequestration. They include budget points of order (a claim that congressional procedure is being violated) that prohibit specific legislative or congressional actions – and are raised by members of Congress when legislation is being considered that violates these points of order (e.g., adhering to committee spending allocations). Last, congressional budget resolutions include deficit-neutral reserve funds. These funds allow spending levels to be adjusted, enabling legislation that is paid for to move forward without triggering points of order. Reserve funds are included not only to facilitate the passage of large-scale legislation, but also to highlight congressional policy priorities.

KEY BUDGET ISSUES FOR THE 117TH CONGRESS

- **Budget discussions** will be central to coverage expansions, drug pricing reform, and other significant health policy changes.
- **The federal debt limit** may need to be raised in July 2021.
- **COVID-19** has significantly reduced government revenues, which is expected to impact state budgets in FY 2021–2022 and beyond, most notably for Medicaid programs. State fiscal needs, in turn, will affect federal legislation and spending.
- **Medicare Trust Fund** is approaching insolvency.

[1]Note that budget resolutions are distinct from continuing resolutions (CR), which temporarily fund the government when annual appropriations bills have not been enacted.

Brief Overview of State Budget Processes

State budget processes and requirements are separate from the congressional process, but they can have a significant impact on federal spending. In most states, governors propose spending priorities and budgets, which are then voted on by state legislatures. Most governors have line-item veto authority on individual provisions. Perhaps most importantly, from a federal perspective, the vast majority of states – 46 states and the District of Columbia (D.C.) – have balanced budget requirements. These balanced budget requirements vary across states, but 40 require the governor to sign a balanced budget in which projected spending cannot exceed expected revenue.

As a result, state budgets must respond more quickly than the federal budget to changing fiscal conditions and pressures. The impacts of COVID-19 on states were predicted to be devastating. However, due to federal stimulus measures, and other personal, sales, and corporate tax collections, many states have seen an improvement in their revenue collection in fiscal year 2021. While governors' budget proposals were predicted to be reduced by as much as 20%, due to the above improvements, 2022 budget proposals

GLOSSARY OF TERMS

Budget Authority: Authority in appropriations or authorizing legislation that allows the government to incur immediate or future outlays of federal funds. Congress approves budget authorities for the federal government, which places a limit on how much federal agencies can spend or how much can be spent on a specific program or policy.

Budget Deficit: The difference between outlays and revenues over a given period of time, generally funded through bond issuances or borrowing.

Discretionary Spending: Government funding that can be adjusted annually for departments, agencies, and programs that occurs through the appropriations process – as opposed to mandatory spending (see below).

Federal Debt: The cumulative amount of borrowing financed by securities issued by the Treasury and sold to U.S. financial institutions, individuals, foreign private investors, and foreign central banks.

Mandatory Spending: Spending not controlled by annual appropriations, but occurring due to current law, such as Medicare and Medicaid programs. (Also known as entitlement spending.)

PAYGO: An abbreviation of "pay as you go" and a budget rule requiring that tax cuts and mandatory spending increases must be offset (i.e., "paid for") by tax increases or cuts in mandatory spending. PAYGO does not apply to discretionary spending (spending that is controlled through the appropriations process).

Outlays: Actual cash flow to meet a federal financial obligation to make purchases, pay federal workers and contractors, provider transfers, or pay interest on the debt.

Revenues: Federal taxes, fees, and other collections that fund government spending.

Tax Credits: Amount removed or subtracted from taxes owed.

Tax Expenditures: Federal revenue losses resulting from Federal laws that exempt certain activities from taxation. A tax expenditure can serve as an alternative policy for spending or regulatory programs.

Tax Subsidy: Reduction in an individual's or organization's tax bill intended to reduce an item's cost. For instance, the exclusion of employer-sponsored insurance from taxable income offsets or reduces the cost of insurance to employees.

generally did not see decreases. As with many things affected by the pandemic, there remains great uncertainty about the future. Given that Medicaid comprises a significant portion of state funding, states are reporting Medicaid budget issues will be among the most significant challenges in the coming year. These changing fiscal dynamics could place pressure on Congress and the administration to provide additional state fiscal relief – and understanding individual state fiscal pictures will be important in congressional debate and action on the economy.

Federal Budget Entities

The **House and Senate budget committees** were both established in The Congressional Budget and Impoundment Control Act of 1974. The committees' primary responsibilities are to draft annual concurrent budget resolutions that provide a blueprint for spending and revenue levels that impact the federal deficit and overall debt levels. Budget resolutions can also include instructions for congressional committees to draft reconciliation bills. Throughout the year, the Budget Committees track how legislation will affect the federal deficit and work with authorizing committees, including most standing committees, to understand how budget procedures may influence the design and passage of legislation in each chamber.

The 1974 Budget Act also established the **Congressional Budget Office** (CBO) to provide budgetary support to Congress. The CBO produces nonpartisan and independent analyses of the impact of legislation on the federal budget, as well as reports on economic issues, such as annual budget outlooks, to support the congressional budget process. Perhaps most importantly, CBO is the "scorekeeper" that attempts to quantify in concrete, detailed terms how legislative changes may impact the federal deficit, which makes their analyses critical for moving policy changes forward. In health care, a proposal's score can advance legislation or require the search for offsets (i.e., spending reductions or tax increases to raise revenue). These tradeoffs between costs and savings in health care legislation create winners and losers – and can lead to intense negotiations with affected stakeholders seeking to advance, impede, or influence legislation.

Health care is perennially one of the most controversial topics the CBO must tackle. CBO does not make policy recommendations, but issues reports on how different policy actions may impact the federal spending or revenues, such as "Policies to Achieve Near-Universal Health Care Coverage" and "How CBO Analyzes Approaches to Improve Health Through Disease Prevention." Periodically, CBO issues a volume of Budget Options to reduce the deficit, which includes scores for mandatory, discretionary, and revenue policy proposals, including changes to Medicare and Medicaid. Given its bicameral and nonpartisan charge, the CBO must work equally with each chamber and party, but its health care analyses can be heavily scrutinized.

Another influential entity is the **Joint Committee on Taxation (JCT)** which supports both chambers of Congress on tax legislation. For instance, changes to the ESI exclusion would be evaluated or scored by the JCT. Last, the **Office of Management and Budget (OMB),** which serves the administration as part of the Executive Branch, also assesses the impact of policy changes on the federal budget. However, their estimates and fiscal projections can differ from those of CBO. Policymakers can review the differences between the two by examining how their budget baselines differ, how economic assumptions vary, and whether their assessments of potential policy changes differ.

Federal Deficits, Debt, and Debt Limits

Federal debt and deficit dynamics significantly influence congressional spending. This often comes into play with health care legislation that would expand coverage or benefits. The **federal deficit** is defined as the difference, over a given period of time, between federal outlays and revenues – and dictates how much government borrowing must occur to close the gap.

In fiscal year 2020 (October 1, 2019–September 30, 2020), the federal deficit was $3.1 trillion – nearly 15 percent of GDP – and the largest since 1945. CBO estimates that fiscal year 2021 is on pace to have the second-largest in recent history.

The **federal debt** is the cumulative amount of federal borrowing, which is financed by securities issued by the Treasury and sold to U.S. financial institutions, individuals, foreign private investors, and foreign central banks. Increasing levels of federal debt can contribute to rising interest rates and increasing inflation depending on the circumstances, as well as to slower economic growth. In December 2020, the U.S. Treasury estimated that the federal debt held by the public totaled $21 trillion, the highest level since just after World War II. CBO reported that by the end of 2020, federal debt equaled 100.1 percent of GDP. For historical context, the federal debt was 35 percent of GDP at the end of 2007, 70 percent in 2012, and 79 percent in 2019.

The **federal debt limit**, or debt ceiling, is set by Congress and constrains the amount of debt the Treasury can issue, either to the public or to itself through various trust funds. Because the debt limit is set in nominal dollars and debt continues to grow, Congress periodically raises and sometimes suspends the debt limit. In 2019, Congress and the Trump administration came to a budget agreement, including increasing the debt limit to $22 trillion, and then suspending it until July 2021. At that point, Congress and the president will need to agree to raise or suspend the debt limit to keep the U.S. from defaulting on its debt. If changes are not made to revenues or spending, the debt is expected to grow significantly faster than the U.S. economy in the next decade – leaving Congress with a series of difficult tradeoffs to confront around the federal debt and debt limit.

Budget Reconciliation

Since 1980, Congress has used budget reconciliation to advance significant legislation, including health care legislation. Reconciliation is an expedited budgetary process that was intended to be used to bring federal spending, deficits, and debt in line with the amounts recommended in an approved congressional budget resolution. While it was not intended to be used to enact significant policy change, reconciliation has been increasingly used over the years to move tax and other policy priorities forward by circumventing standard congressional rules and procedures. Reconciliation is particularly important in the Senate, where debate on a reconciliation bill is time-limited, and legislation requires only a simple majority (or 51 votes) to pass. However, the Senate also has unique statutory constraints on what can be included in reconciliation, known as the "Byrd Rule," which limits the inclusion of extraneous, non-budgetary provisions that are subject to a point of order and can be struck from a bill.

In late 2010, reconciliation played an important role in the enactment of the Patient Protection and Affordable Care Act (ACA). The bulk of the law was passed through normal order in both chambers. However, before the House and Senate's respective versions could be reconciled in a conference committee preceding a final vote, Senator Ted Kennedy (D-MA) passed away. A Republican won the special election to fill his seat, removing the 60th supermajority vote Senate Democrats needed to overcome a Republican filibuster and pass the ACA. In response, the Democrat-led House agreed to pass a version of the legislation identical to the measure already passed by the Senate, thus averting a subsequent, final vote that would have failed. Then immediately after, both chambers passed a budget reconciliation bill, which included amendments to the ACA incorporating key House priorities for the law and requiring only 50 votes to pass in the Senate.

Reconciliation has played an increasing role in enacting significant policy change – and its use could continue to grow as both parties have more recently used the expedited procedure to advance spending, tax, and policy priorities. It is worth noting that reconciliation tends to be used when one party controls both Chambers and the White House. However, future use of reconciliation could be affected if the Senate ever voted to eliminate the filibuster, which has been increasingly discussed in recent years. The elimination of the filibuster would both mitigate the need to rely on reconciliation and allow both parties to avoid the legislative challenges associated with its use.

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RESOURCES

Chapter 1: Budget & Spending

Listed by the order in which they appear in Chapter 1.

BACKGROUND ON U.S. HEALTH CARE SPENDING

The 2020 Long-Term Budget Outlook. http://allh.us/dXfJ

2020 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds. http://allh.us/8g9X

The Outlook for Major Federal Trust Funds: 2020 to 2030. http://allh.us/NKby

Health Insurance Coverage of the Total Population. http://allh.us/WKgq

Overview of the Federal Tax System as in Effect For 2019. http://allh.us/h6M9

MACStats: Medicaid and CHIP Data Book. http://allh.us/DyHq

BRIEF OVERVIEW OF FEDERAL BUDGET PROCESS

Basics of Budget Reconciliation and the Connection to Health Policy. http://allh.us/UAxK

U.S. Senate: Glossary Term. http://allh.us/eQGT

STATE BUDGET PROCESSES

Balanced Budget Requirements: How States Limit Deficit Spending. http://allh.us/pycw

State Revenues Decline for First Time Since the Great Recession, With the Worst Still to Come. http://allh.us/rfpu

Summaries of Fiscal Year 2022 Proposed Budgets. http://allh.us/YvGM

State Medicaid Programs Respond to Meet COVID-19 Challenges. http://allh.us/vdQq

FEDERAL BUDGET ENTITIES

Congressional Budget Office: Budgets. http://allh.us/64Nj

FEDERAL DEFICITS, DEBT, AND DEBT LIMITS

Policy Basics: Deficits, Debt, and Interest. http://allh.us/KmkM

BUDGET RECONCILIATION

United States Senate Glossary Term. http://allh.us/3ftQ

Monthly Budget Review: Summary for Fiscal Year 2020. http://allh.us/DXYa

The 2020 Long-Term Budget Outlook. http://allh.us/dXfJ

Federal Debt: A Primer. http://allh.us/vQGY

Debt to the Penny. http://allh.us/Tgq8

Federal Debt: A Primer. http://allh.us/vQGY

Monthly Budget Review: Summary for Fiscal Year 2020. http://allh.us/DXYa

The 2020 Long-Term Budget Outlook. http://allh.us/dXfJ

Federal Debt: A Primer. http://allh.us/vQGY

The Budget Reconciliation Process: Timing of Legislative Action. http://allh.us/Q6W7

The Legislative Process: Resolving Differences. http://allh.us/3RqE

Box: Key Budget Issues for the 117th Congress

The Debt Limit: What You Need to Know. http://allh.us/HAw8

How much is COVID-19 hurting state and local revenues? http://allh.us/rwNg

Medicare Solvency Projections and Potential Policy Solutions. http://allh.us/9qgA

Box: Glossary of Terms

Tax Policy Center Briefing Book: What is PAYGO? http://allh.us/vVnG