

FY 2014 PRESIDENT'S BUDGET: \$435 BILLION IN COMMON GROUND

Defense Savings

Adjust TRICARE Fees to Better Reflect Costs

The President proposes making long-overdue adjustments to the TRICARE program, to ensure these health benefits remain intact for future generations of civilian and military retirees. These reforms, including TRICARE PRIME, TRICARE-For-Life and Standard enrollment fee increases and updating cost sharing for pharmaceutical purchases, could reduce the deficit by \$5.8 billion over ten years.

Capping Military Pay Raise at 1 Percent

The President's budget proposed a one percent increase in basic pay, slightly lower than the 1.8 percent required by current law. For example, under this adjustment the average enlisted member would see a monthly *increase* in pay of \$26, instead of a \$47 increase, beginning January 2014. The President's proposal would result in a savings of approximately \$3.5 billion over the next five years, according to the Defense Department.

Health Savings

Share Medicare Data for Fraud Prevention and Other Analysis

Because Medicare is such a larger payer of health care claims, the President proposes to expand the Medicare program's ability to make Medicare Part A, B, or D claims data available to qualified entities for the purpose of fraud prevention activities and value-added analysis for physicians. While this provision would not directly result in federal savings, raw claims data can be an important tool for Medicare providers for care coordination and practice improvement, and could help augment efforts to reduce health care spending across the country.

Increase Income-Related Premiums for Wealthier Seniors

At a time when seniors on Medicare on average receive three dollars in benefits for every one dollar they pay into the program, proposals to incrementally increase premiums for wealthier seniors have enjoyed bipartisan support. Seniors who use Medicare should pay their fair share. While it would be ideal if this proposal be more expansive, the concept of increasing income-related premiums

under Medicare Parts B and D, as outlined by the President is just common sense. The President's proposal could save up to \$50 billion over the next decade.

Adjust Part B Deductible for New Enrollees

The President's FY 2014 budget proposes to apply a \$25 increase to the Part B deductible in 2017, and specific following years, saving \$3.3 billion over ten years, according to OMB. As the President's budget points out, this deductible "helps to share responsibility for payment of Medicare services between Medicare and beneficiaries," and would "strengthen program financing and encourage beneficiaries to seek high-value health care services." Given the severity of financing challenges the program faces, increasing the Medicare Part B deductible for new enrollees is a responsible approach. A more comprehensive and ideal approach would be to go even further, modernizing the Medicare benefit (creating a unified deductible, maximum out-of-pocket limit, and adjusting Medigap first-dollar coverage), as endorsed by the President's Fiscal Commission and the Lieberman-Coburn proposal.

Create Home Health Copayments for New Beneficiaries

Most Medicare services have a co-pay of some form, but home health services currently do not. Because home health spending is set to double in the next decade, the President's FY 2014 budget of creating a co-payment for new beneficiaries, which could yield savings of up to \$730 million, according to OMB estimates. This change brings home health services into line with other Medicare services and helps seniors be more cost-conscious of health care choices.

Create Disincentive for Seniors Having First-Dollar Medigap Coverage

Because traditional Medicare does not cap out-of-pocket expenses for seniors, four out of five seniors have supplementary coverage, and many have Medigap policies sold by private insurance companies. However, because most seniors' Medigap plans cover all or almost all copayments, the President's FY 2014 budget rightly notes this dynamic gives "beneficiaries less incentive to consider the cost of services, leading to higher Medicare costs and Part B premiums." Accordingly, in 2017, the President proposes introducing a new Part B premium surcharge for new beneficiaries who purchase Medigap policies with low cost-sharing requirements, which would reduce spending by \$2.9 billion over the next decade. This is a common-sense effort to curb unnecessary overutilization and reduce outlays, though a more comprehensive approach would be to adopt the Fiscal

Commission recommendation to prohibit all Medigap plans from covering the first \$500 for current and future enrollees.

Reduce Medicare Coverage of Bad Debts

As suggested by the Fiscal Commission, the President proposes to reduce bad debt payments for all providers who receive bad debt payments, since this would more closely align Medicare policy with private payers, who do not typically reimburse for bad debt. According to OMB, this could save \$25.5 billion over ten years. A further good step would be to eventually phase out such payments altogether.

Prohibit Critical Access Hospital Designation for Facilities Close to Other Hospitals

Research by the Government Accountability Office has shown that the current Medicare hospital payment system is so riddled with special exemptions and exceptions that the integrity and effectiveness of the payment system itself is compromised. As one step toward rationalizing Medicare hospital payments, the President proposes preventing hospitals that are within 10 miles of another hospital from maintaining designation as a “critical access hospital” and receiving an enhanced payment, since they are relatively near to other facilities who may not receive such payments. This proposal could reduce the deficit by \$690 million over ten years.

Additional Savings

Market-Based Student Loan Interest Rates

In his budget submission, the President proposes moving all Federal Direct Loans to market-based interest rates by pegging them to the 10-year Treasury rate, plus a markup. The markup under the President’s proposal is .93 percentage points for subsidized Stafford loans, 2.93 percentage points for unsubsidized Stafford loans, and 3.93 percentage points for Graduate and Parent PLUS loans. While Senator Coburn has proposed setting all Direct Loans at a simple three percentage point markup and does not support diverting these savings to additional federal spending, the President’s proposal is step in the right direction, and could save more than \$15 billion over ten years.

Federal Civilian Worker Retirement Reform

The President recognizes the need for personal retirement savings, and proposes increasing the retirement contributions for federal employees by 1.2 percentage points, bringing the contributions of Federal Employees Retirement System (FERS) workers to two percent, and Civil Service Retirement System (CSRS) employee contributions to 8.2 percent. Additionally, the President proposes eliminating the FERS annuity supplement for new employees. Senator Coburn advocates increasing employee contributions even more, and ending FERS entirely for new entrants, but supports the President's first step in both of these reforms for the federal civilian retirement system, which could save more than \$20 billion over ten years.

Improve the Pension Benefit Guarantee Corporation Solvency

The President's proposal would find at least \$13 billion in deficit reduction by allowing the Board of Directors of the PBGC to increase premium rates, to help bring the fund into solvency. While Senator Coburn believes Congress should instead require the PBGC to increase their rates, the President's approach is a first step in the right direction.

Terminate Abandon Mine Land Payments

The President's budget includes a widely-supported proposal to end payments to certain states that no longer need federal funding to clean up abandoned coal mines. Senator Coburn proposed this same approach in his deficit reduction plan, *Back in Black*, explaining that these funds are unrestricted and can be used for any purpose the state or tribe chooses. Further, some new reports document the use of these funds for university programs, highways and hospitals—clearly not the intended recipients. CBO estimates ending these payments could save \$278 million over ten years.

Spectrum Auction Reform

The President proposes making more spectrum available to be leased, which would generate additional abilities for broadband and wireless communication. Dr. Coburn supports this proposal, which could reduce the deficit by \$4.6 billion over ten years.

Reduce Agriculture Subsidies

Senator Coburn supports the President's proposals to scale back federal farm subsidies, including eliminated direct payments and reducing crop insurance

subsidies. Combined, these proposals could save more than \$30 billion over the next ten years.

Postal Reform

The President's proposal includes more than \$20 billion over ten years in additional savings derived from providing the Postal Service additional flexibility to ensure it does not run an annual budget deficit. Dr. Coburn supports reforming the Postal Service to generate these savings, including allowing the USPS to modify five day delivery and close money-losing offices.

Chained CPI

From the tax code to entitlement programs, the benefits provided through many federal programs are adjusted each year to account for rising prices. The measure currently used to calculate these automatic increases, the Consumer Price Index (CPI), is considered by many to be outdated, leading to higher increases in federal spending than truly justified. Following the lead of his own Fiscal Commission, the President proposes applying a more accurate measure of inflation, Chained-CPI, to most government programs currently tied to CPI. The president exempts certain populations from this change, and does not apply it to means-tested benefit programs, which reduces the potential saving to roughly \$230 billion over ten years. Senator Coburn supports applying Chained-CPI across the board to all government programs and federally provided benefits, which would reduce the deficit by \$390 billion over ten years.

Prohibiting Dual Receipt of Unemployment Benefits and Disability Benefits

The President's FY 2014 budget submission targets a growing area of Social Security Disability mismanagement by prohibiting individuals from simultaneously collecting both Unemployment Insurance Benefits and Disability Benefits. This is a much-needed reform, and one Senator Coburn has long advocated. The DI program was designed as a safety net of last resort for disabled Americans who *cannot* work. On the other hand, the UI program was designed as a safety net for unemployed Americans who are *actively seeking* work. While CBO has not projected savings from this policy reform, the Government Accountability Office estimated in FY 2010, 117,000 individuals received more than \$850 million in overlapping DI and UI payments. Limiting the overlapping DI payments in 2011 would have reduced DI spending by \$281 million.

Discretionary Savings

Duplication

In light of the Government Accountability Office's extensive work exposing thousands of overlapping federal programs, many in Washington, including the President, now recognize the need for a serious review of duplicative government efforts. In his FY 2014 budget, the President proposes consolidating more than 90 federal programs in the area of science, technology, engineering, and mathematics education, and suggests more work is needed to reduce duplication in the areas of federal job training and employment services. While his proposals are timid at best and assume little savings from consolidation and elimination of programs, this is a first step toward addressing two large areas of government inefficiency and overlap.

Program Reductions & Terminations

Every year the President submits to Congress along with his budget, a supplement document outlining billions of dollars in potential savings from program eliminations, reductions, and reforms. From reducing funding for Interior's National Heritage Areas and the EPA's Diesel Emissions Reduction Grant Program, to eliminating duplicative workforce programs at the Labor Department, the FY 2014 budget includes dozens of reductions to discretionary programs, which would result in \$10 billion less spending in FY 2014 compared to spending in these programs in FY 2012. Dr. Coburn supports scaling back and eliminating many of the programs outlined in the President's budget.