

Deficit Reduction & Imminent Threats to Public Health Funding

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Overview

- The federal budget
 - Key budget terms
- Why deficit reduction is important
- How to reduce the deficit (according to experts)
- Threats to health funding
- What's on the horizon

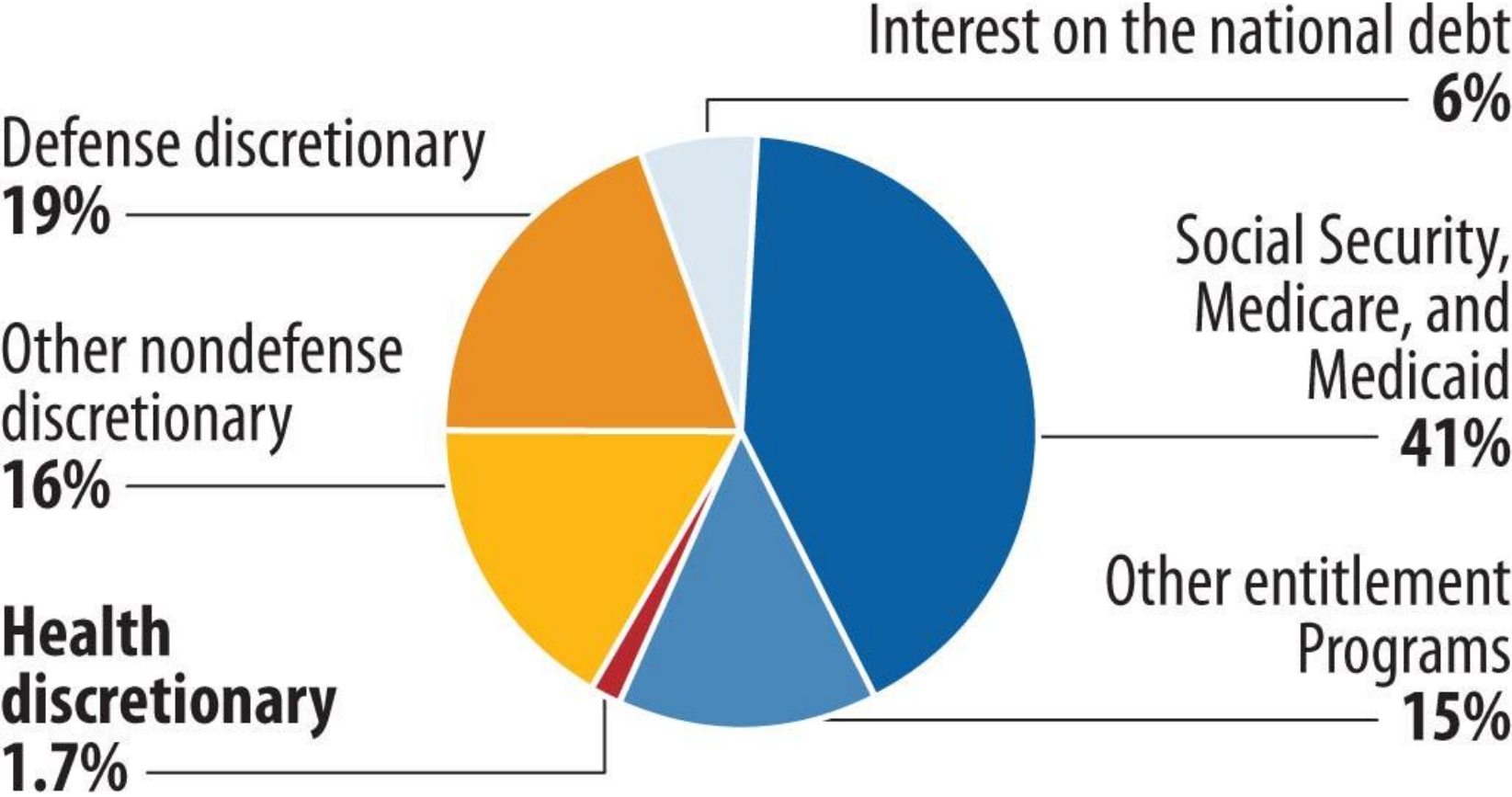
Deficit vs. Debt

- Deficit is difference between receipts & outlays
 - Receipts include money the government brings in from taxes, fees, and other income
 - Outlays include all spending on programs, and interest payments on the debt
 - FY 2012 deficit ~ \$1.09 trillion
- Debt is total amount of money owed to creditors
 - Accumulations of deficits
 - US Debt ~ \$16 trillion (and counting)

Mandatory vs. Discretionary

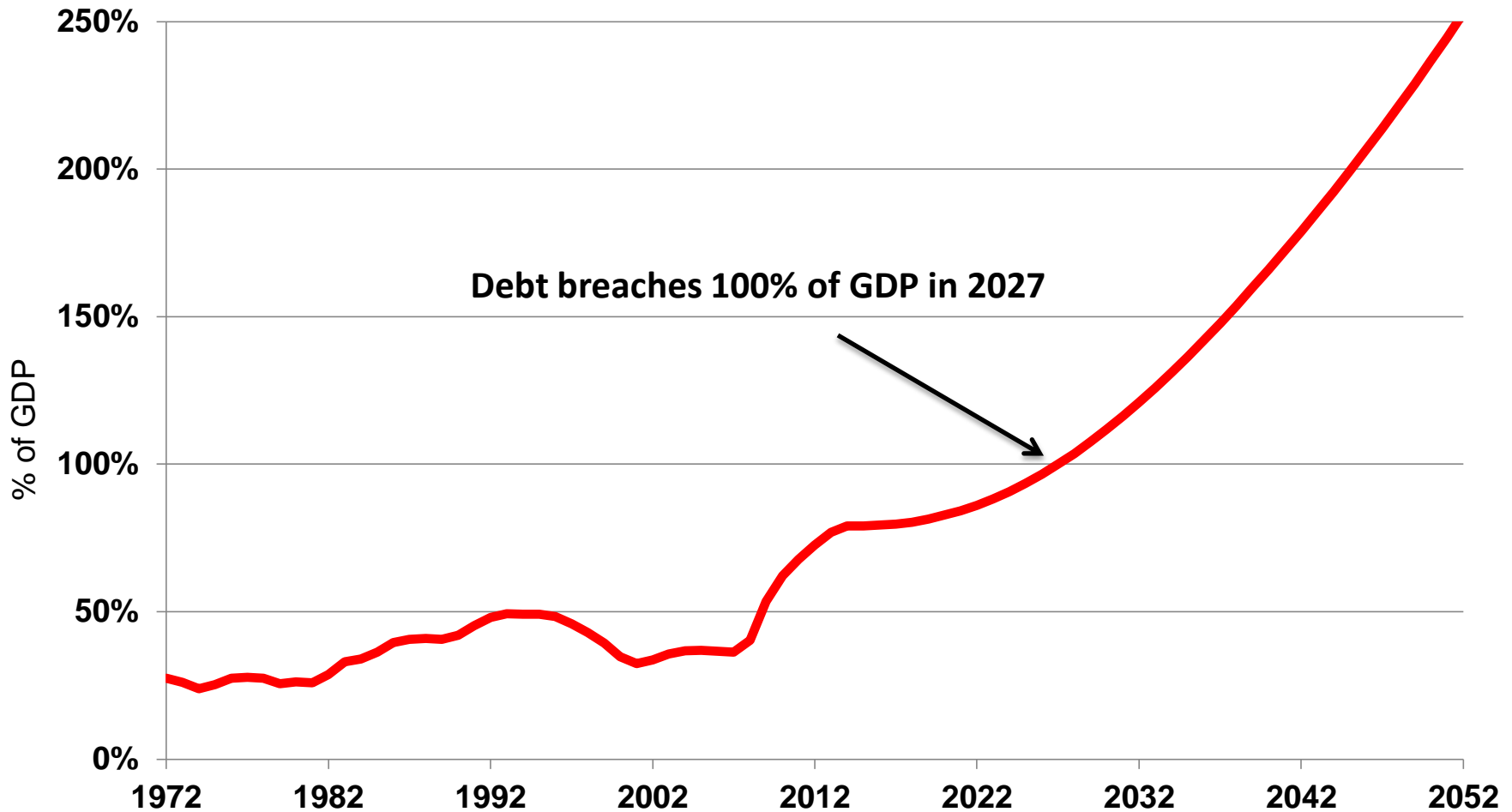
- Discretionary spending is at Congress' "discretion"
 - "Defense" discretionary is military spending
 - "Nondefense" discretionary or "NDD" is everything else
- Mandatory spending enacted by law
 - Entitlement Programs (e.g., Medicare)
 - To change spending, must change eligibility rules

Federal Spending, FY 2011



Source: Office of Management and Budget

ABSENT REFORMS, DEBT WILL SKYROCKET IN THE COMING DECADES



Note: Unlike current law, the Bipartisan Policy Center's Plausible Baseline assumes that the 2001, 2003, and 2010 tax cuts are extended, the AMT is indexed to inflation, Medicare's physician payment rates are maintained at their current rate (the "doc fix"), the looming sequester from the Budget Control Act of 2011 is lifted, and troops stationed overseas decline to 45,000 by 2015

Sources: Congressional Budget Office (January 2012) and Bipartisan Policy Center extrapolations

How Do We Fix It?

- Several bipartisan, expert commissions recommend “balanced approach”
 - Reduce spending
 - Defense and nondefense discretionary spending
 - Mandatory spending
 - Entitlement reform
 - Increase revenue
 - Tax reform
- Total deficit reduction package of \$4 trillion needed to stabilize the debt

What We've Done So Far...

- Two-phase debt ceiling increase
 - Phase 1: \$900 billion through end of 2011
 - Phase 2: \$1.2-\$1.5 trillion through November 2012
- Increases contingent upon offsets
 - Phase 1 offset: discretionary caps over decade
 - FY 2013 capped at \$1.047 trillion
 - Phase 2 offset: determined by “super committee”
 - If no agreement, “sequester” takes effect
 - Budgetary tool designed to force compromise

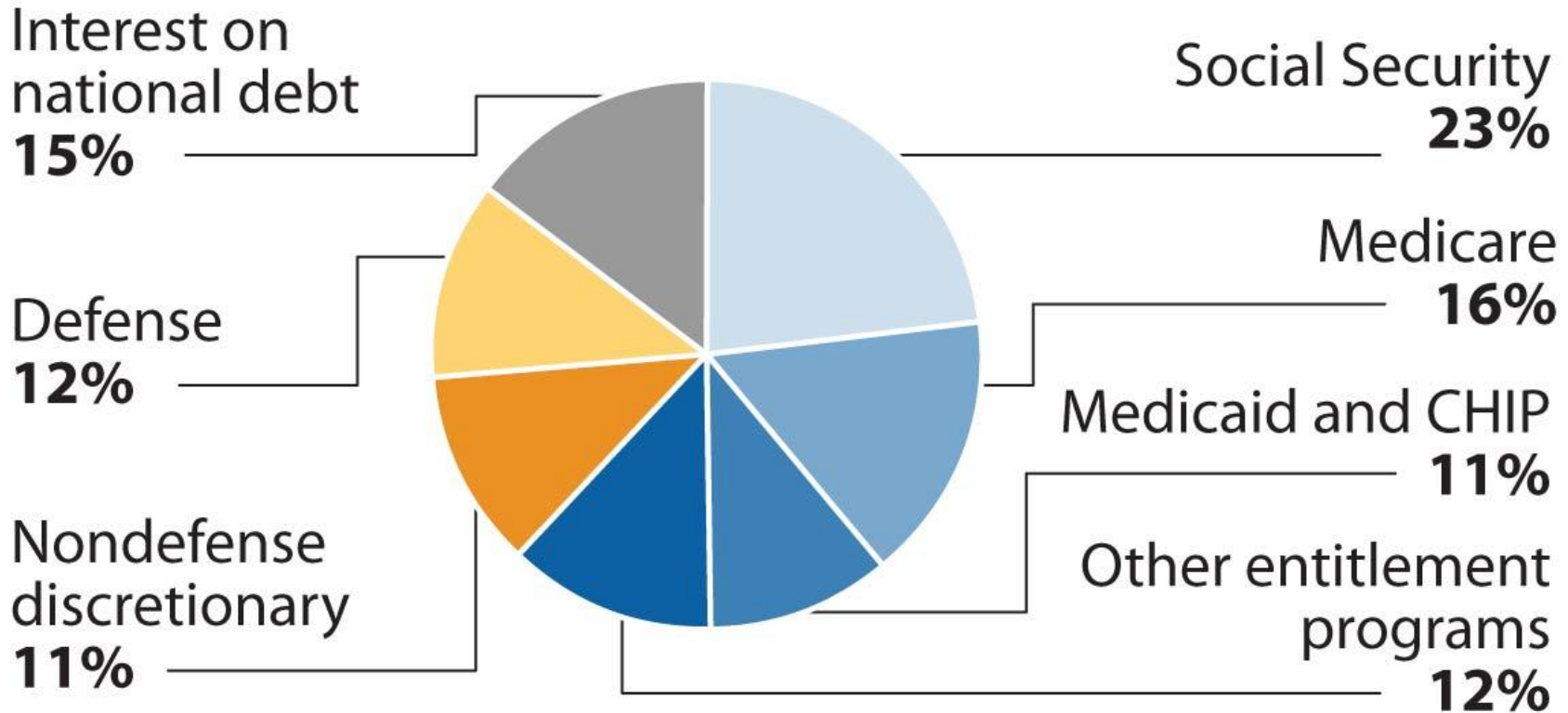
Sequester: The Price of Failure

- Effective January 2, 2013
 - Across the board cuts of \$984 billion over 10 years, or \$109 billion annually
- Cuts equally divided between defense and non-defense
 - Non-defense discretionary: \$322 billion (8%)
 - Research, drug/device safety
 - Defense discretionary: \$492 billion (12%)
 - Medicare: \$123 billion (capped at 2%)
 - Other mandatory: \$47 billion (7.6%)
- Social Security, Medicaid, Pell Grants, and low-income support programs exempt

Impact of Unbalanced Approach?

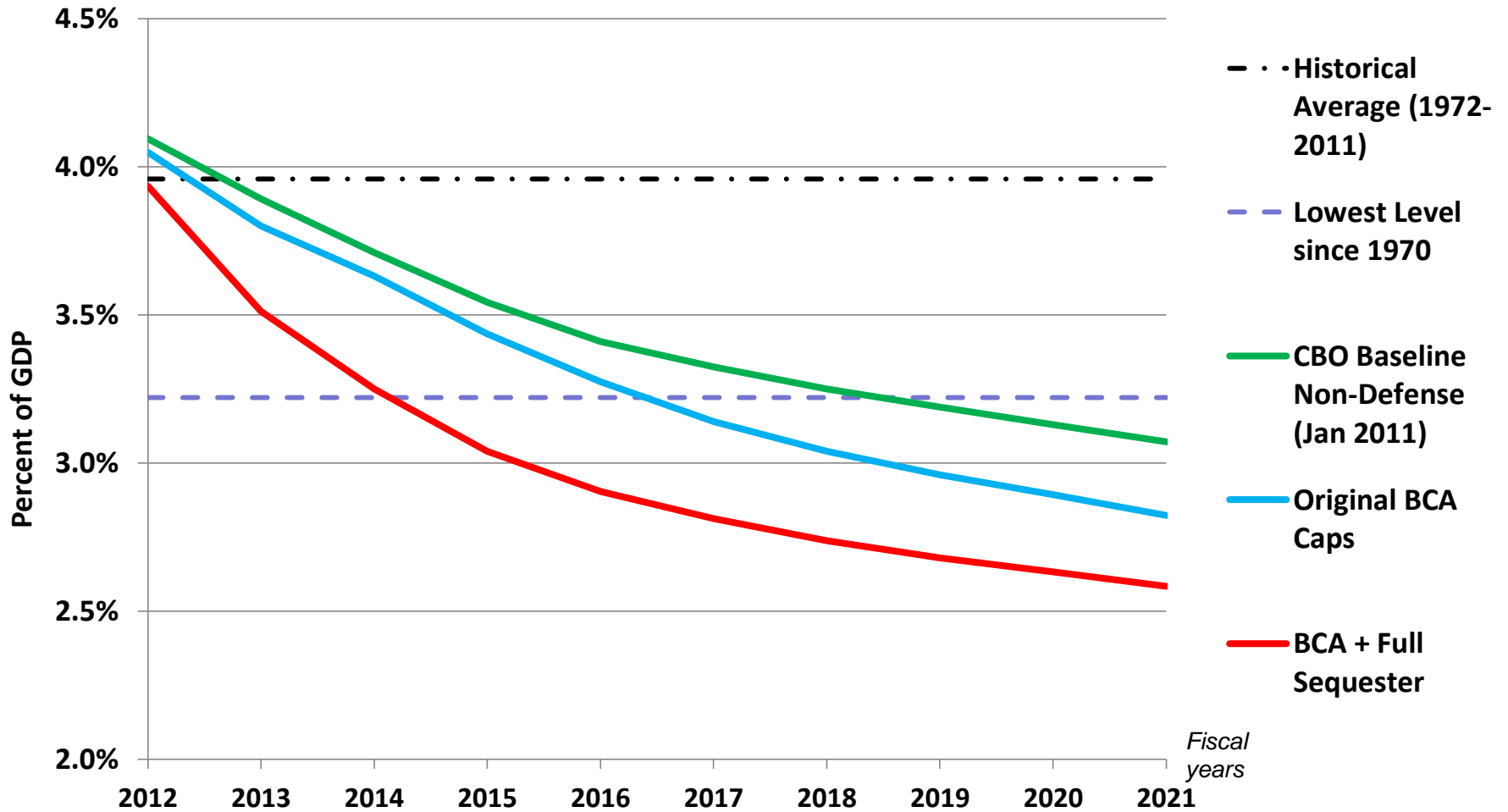
- Efforts have focused on spending cuts, only
 - “NDD” now lowest level since Eisenhower
 - Cut by 10 percent, on average since FY 2010
 - By 2022, another 7 percent cut under Budget Control Act spending caps
- More cuts by “sequestration” January 2013
 - For “NDD” alone:
 - 1 million jobs lost
 - \$120.5 billion Gross State Product lost
 - \$63 billion income lost

Federal Spending, FY 2022



Source: CBPP based on data from Congressional Budget Office.

Nondefense Discretionary Spending Under Current Law



Source: Congressional Budget Office

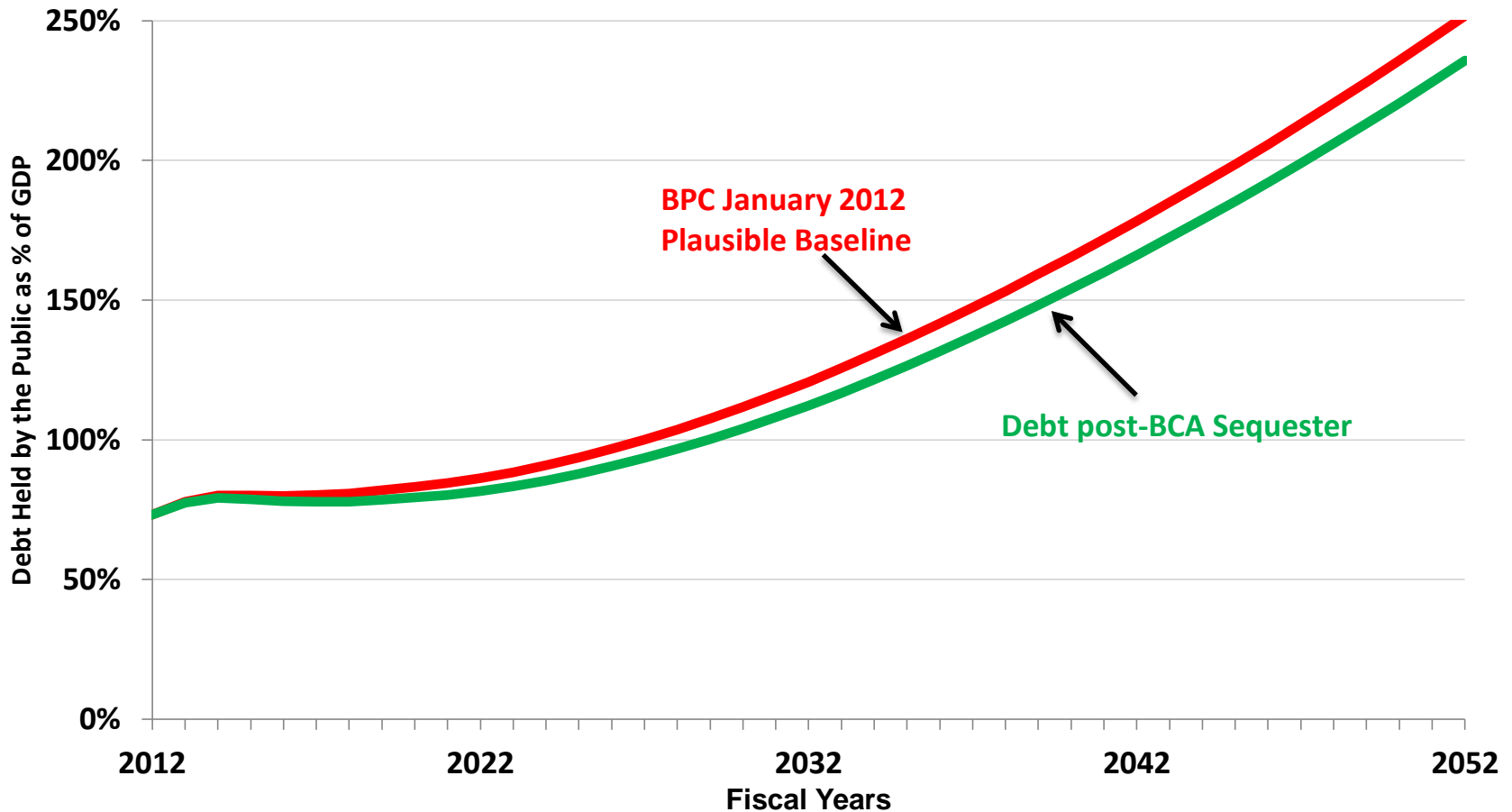
So What About Health...?

- Public health already cut 5 percent
 - Wide variation across HHS
 - NIH flat funded; CDC cut 12%
 - \$6.25 billion cut from Prevention Fund
 - 55,000 public health job losses
- Sequester would be knockout punch
 - \$2.5 billion from public health programs
 - CDC cut \$545 million
 - HRSA cut \$520 million
 - FDA \$320 cut million (including fees!)
 - Prevention Fund cut \$84 million

If You Do the Math...

- Completely *eliminating* all NDD programs won't balance the budget
 - Cuts alone won't stop deficits and debt
- Experts agree: balanced approach needed to reduce the deficit and debt

Sequester Delays Debt Reaching 100% of GDP by Only 2 Years



Note: The Bipartisan Policy Center's (BPC) January 2012 Plausible Baseline assumes that the 2001, 2003, and 2010 tax cuts are extended permanently, Medicare physician payments are frozen (the "doc fix"), the AMT is indexed to inflation, and overseas combat operations wind down.

Sources: Congressional Budget Office; Bipartisan Policy Center projections

But This Is POLITICS!

- Republicans
 - Tax reform: broaden the base, close loopholes...but don't touch those rates!
 - Entitlement reform (e.g., raise Medicare age)
 - Protect defense, keep cutting NDD
- Democrats
 - Balanced approach where “rich pay fair share”
 - Entitlement reform (sort of)
 - Discretionary cuts...?

Lame Duck #Secluster

- CR at current levels through March 2013
 - Avoided shutdown showdown pre-election
- Priority #1: “Fiscal Cliff”
 - Bush tax cuts expire
 - “Extenders” package expires
 - Unemployment benefits, payroll tax holiday, Medicare physician payment fix
 - Sequester!
- Debt ceiling
 - Increase offset by...?

Sequester: Best Case Scenario?

- Balanced “framework” to avoid fiscal cliff
 - Based on Simpson-Bowles \$4 trillion target
 - Broad targets for deficit reduction
 - Directs authorizing committees to fix entitlements and taxes next year
 - “Down payment” effective immediately
 - Reduction in caps? Cuts in FY 2013 omnibus?
- What about NDD, public health?
 - Is framework better or worse than sequester?
- **Bottom Line: Fiscal cliff presents major threat to Prevention Fund**

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