Understanding the Federal Political and Policy Landscape

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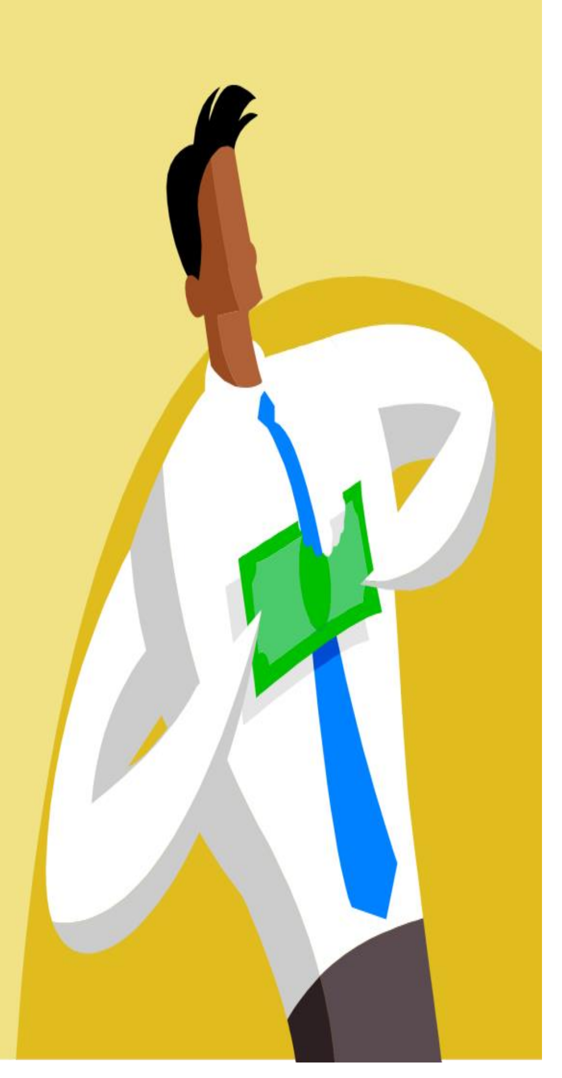
First A Note About Me

- 30 years in Federal Budgeting
  - **GAO**
  - **OMB**: Senior Career Civil Servant
  - **CBO**: Acting & Deputy Director
- 7 years in International Budgeting
  - **IMF** in Washington
  - **OECD** in Paris
- Independent Consultant
- 3 years in State Budgeting at **NGA**



The Impact of the Bipartisan Budget Act of 2013 (BBA) on the FY2014 & FY2015 Caps

Budget Authority, in billions of dollars.

	2012 Enacted	2013 Pre-Sequester	2013 Post-Sequester/ Enacted	2014 Pre-Sequester Caps	2014 Post-Sequester Caps	2014 CR Enacted Oct 16	2014 New BBA Caps	2015 Post-Sequester Caps	2015 New BBA Caps
Defense Discretionary	554	544	518	552	498	518	520.5	512	521.4
Non-Defense Discretionary	517	499	469	506	469	468	491.8	483	492.5
Total	1,071	1,043	988	1,058	967	986	1,012.3	995	1,013.9
BBA Increase in Caps	na	na	na	na	na	na	45	na	19

FY2014 to FY2021 Caps

Budget Authority, in billions of dollars.

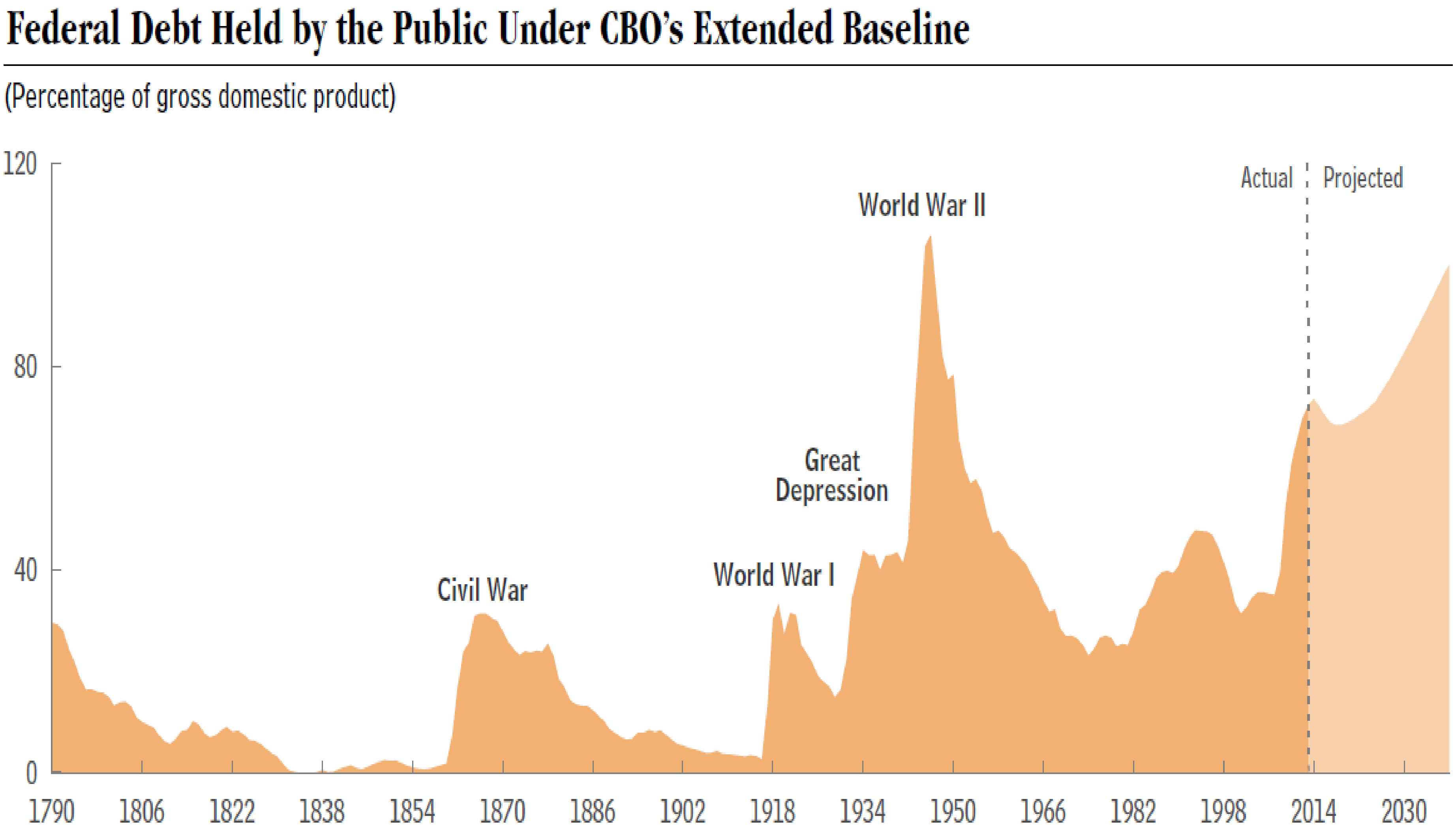
	2013 Enacted	2014 Caps	2015 Caps	2016 Caps	2017 Caps	2018 Caps	2019 Caps	2020 Caps	2021 Caps	2022 Proj.	2023 Proj.
Defense	518	520	521	523	536	549	562	576	590	605	621
Non-Defense	469	492	493	493	504	517	531	544	557	571	586
Total	988	1,012	1,014	1,016	1,040	1,066	1,093	1,120	1,147	1,177	1,207

Summary of BBA Offsets

(10-years savings in billions of dollars.)

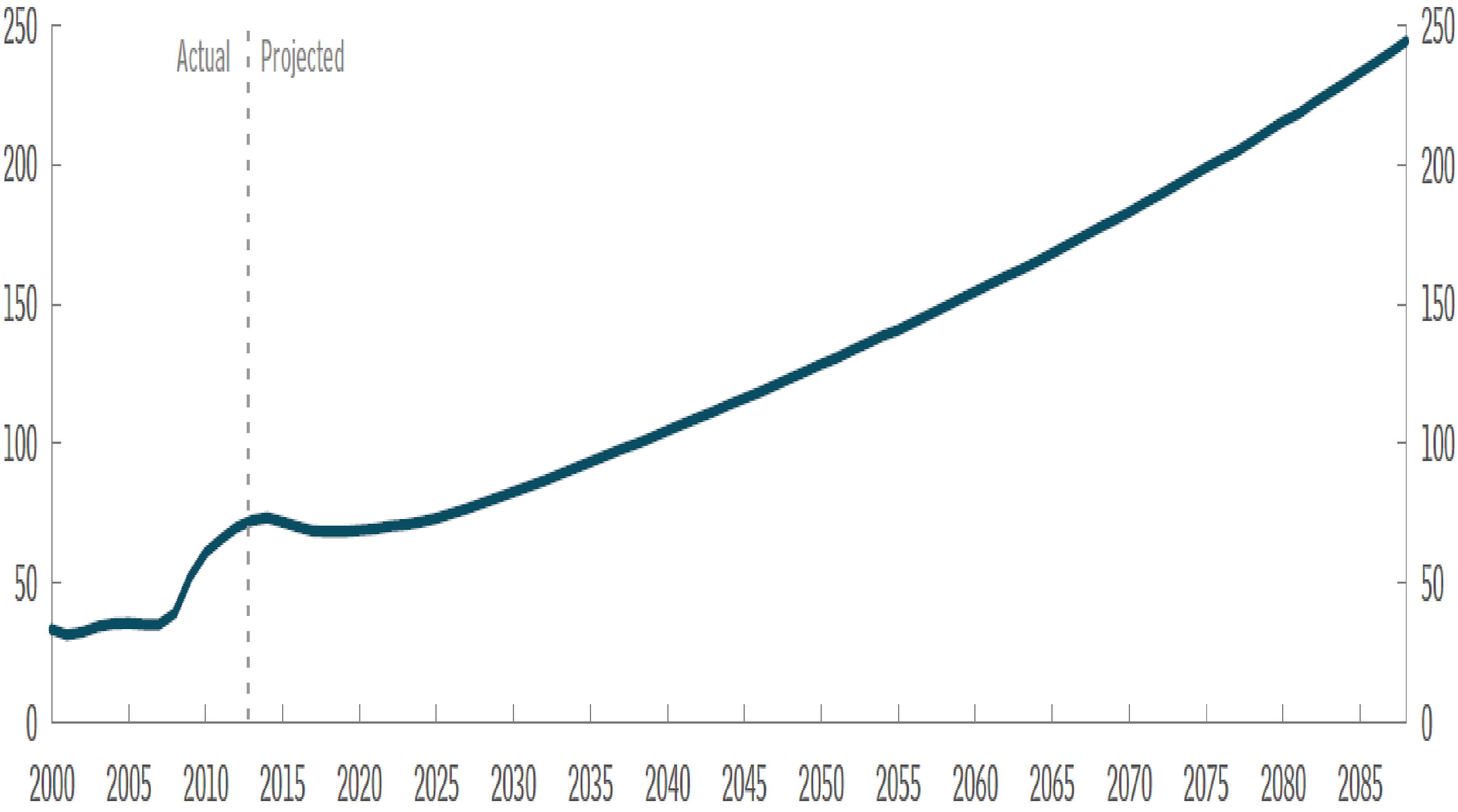
Provision in the BBA	Savings
Title I. Extend the mandatory sequester (mostly Medicare) to ‘22 & ’23	28
Title II. Strengthen Medicaid 3rd-party liability & other prevention of waste, fraud & abuse	2
Title III. Reduce funding for SPR purchases ($3) & other natural resource	4
Title IV. Reduce COLAs for retired Military under 62 ($6) & Higher Fed retirement contributions ($6) & other collections	13
Title V. Higher Education Act revisions	5
Title VI. Higher Aviation Security Fees & Maritime reimbursements	13
Title VII. Higher PBGC fees ($8);Higher Customs User Fees ($7); Cancellation of Unobligated Balances ($2); & New FEHBP “Self + One” Coverage ($3)	20
Total	85
Offsets used for Cap Increases	(63)
Offsets used for Deficit Reduction	(22)

The Major Federal Fiscal Issue Is Long-Term Sustainability: How Do We Control the Debt & at What Level of Government?



And the Longer Out You Look, the Worse it Gets!

Debt held by the public as a % of GDP



Most Deficit Reduction So Far Has Come From Discretionary Spending

Deficit reduction from FY 2013-22. $ in billions.

	Appropriations for FY2011	Budget Control Act of 2011	American Taxpayer Relief Act of 2012*	Sequester March 1, 2013	Total
Discretionary Spending	$615	$850	$25	$790	$2,280
Mandatory Spending, net	--	--	-5	169	164
Revenues, net	--	--	545	--	545
Interest	105	135	85	169	494
Total:	$720	$985	$650	$1,128	$3,483
Total: as a % of GDP	.4%	.5%	.3%	.6%	1.7%

Sources: CBO; Committee for a Responsible Federal Budget; *The Economist*.
***Includes $75B in tax cuts & $30B in extended unemployment benefits that added to deficits.**

More Revenues, Less Spending, or Both?

% of GDP. Sources: CBO 2013 Long-Term Budget Outlook for all data except 2013 & 2023 All Other splits, CBO Updated Budget Projections: FY2013-23.

	1973-2012 Average	2013	2023	2038
Spending				
Medicare	2.7	3.0	3.3	4.9
Medicaid	In Medicare	1.7	2.6	3.2
Social Security	4.2	4.9	5.3	6.2
All Other	11.2	10.0	7.6	7.1
Nondefense	(3.8)	(3.5)	(2.6)	(2.6)
Defense	(4.5)	(3.8)	(2.6)	(2.6)
Other	(2.9)	(2.7)	(2.4)	(1.9)
Interest	2.2	1.3	3.1	4.9
Total Spending	20.4	20.8	21.8	26.2
Revenues	17.4	17.0	18.5	19.7
Deficits	-3.0	-3.9	-3.3	-6.4
Debt	38	73	71	100

The Impact on Marginal Tax Rates of the New Years Eve Deal

2013 Marginal Tax Rates for selected provisions. Married filing jointly; employee only[1]. Recent changes bolded.

Income[2]	Federal Income	Social Security	Medicare Base	Medicare Investment[3]	Pease[4]	Total
0-$17,850[5]	10.0	**6.2**	1.45	0	0	**17.65**
$17,850-72,500	15.0	**6.2**	1.45	0	0	**22.65**
$72,500-113,700	25.0	**6.2**	1.45	0	0	**32.65**
$113,700-146,400	25.0	0	1.45	0	0	26.45
$146,400-223,050	28.0	0	1.45	0	0	29.45
$223,050-250,000	33.0	0	1.45	0	0	34.45
$250,000-300,000	33.0	0	**2.35**	**3.8**	**0**	**39.15**
$300,000-398,350	33.0	0	**2.35**	**3.8**	**.99**	**40.34**
$398,350-450,000	35.0	0	**2.35**	**3.8**	**1.05**	**42.20**
$450,000+	**39.6**	**0**	**2.35**	**3.8**	**1.19**	**46.94**

[1]Employers don't pay the additional .9% Medicare Base or 3.8% Medicare Investment taxes.[2]Taxable income for Federal Income; earned income for Social Security & Medicare Base; AGI for Medicare Investment & Pease.[3]Applies to the lessor of net investment income or the excess of Modified AGI over $250,000.[4]Reduces itemized deductions (except medical, investment interest, & casualty & theft) by 3% of the amount by which AGI exceeds $300,000, but not more than 80% of the value of itemized deductions. Excludes PEP (Personal Exemption Phaseout) which reduces the $3,900/person exemptions by 2% for each $2,500 increment in exemptions for AGI over $300,000.[5]Excludes Earned Income & other credits for low income filers.

Health is the Biggest Contributor to Long-Term Costs & US Health Costs Are Far Higher Than Other Countries

Health Expenditures as a % of GDP, 2011. Source: OECD *Health Data 2013*.

Country	Public	Total
United States	8.5	17.7
France	8.9	11.6
Germany	8.7	11.3
Canada	7.9	11.2
Denmark	9.4	11.1
Switzerland	7.1	11.0
United Kingdom	7.8	9.4
OECD Average	6.7	9.3
Australia	6.0	8.9

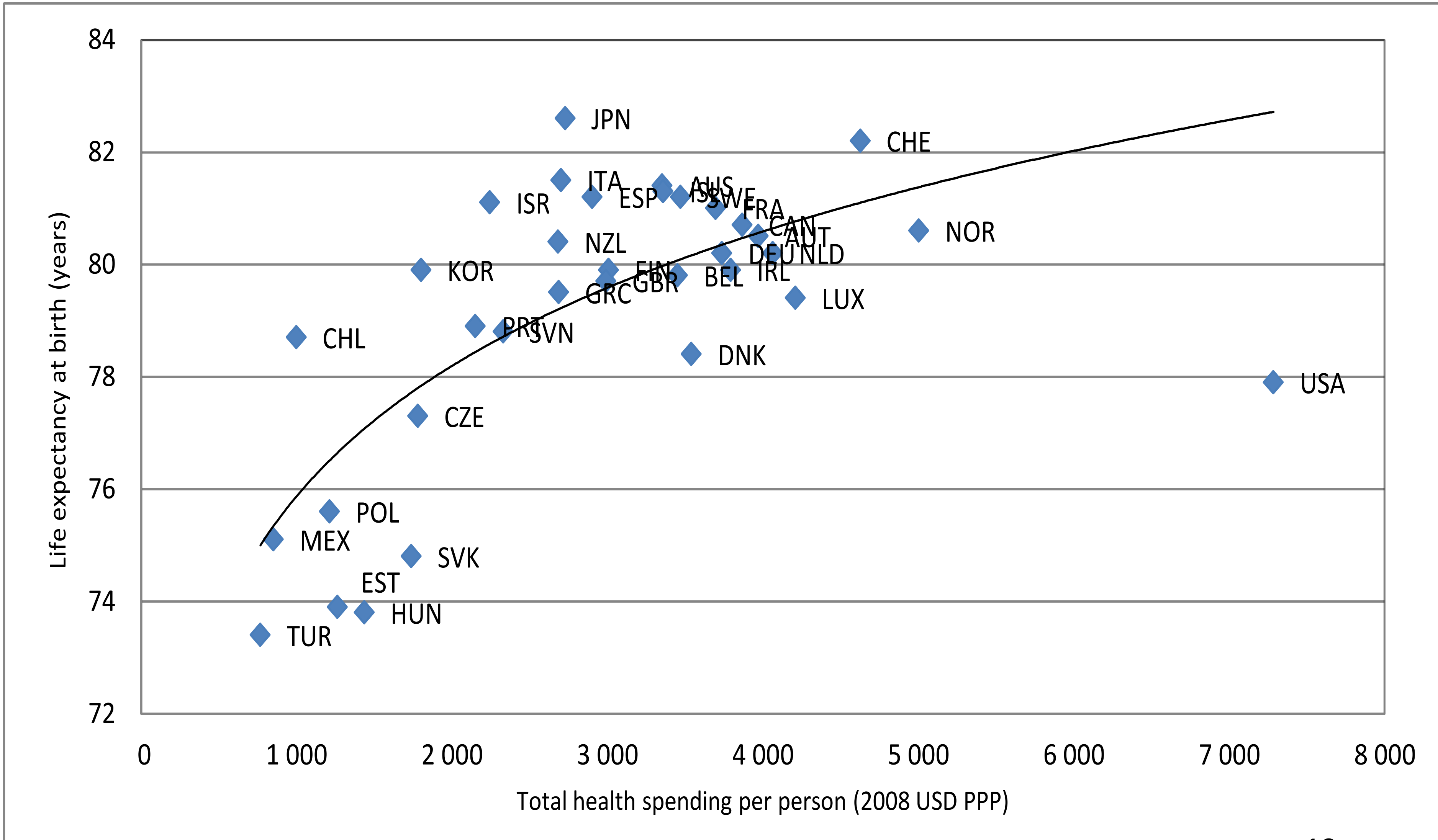
Health Costs Are Projected to Continue to Grow After Implementation of the ACA

US National Health Expenditures as a % of GDP. Source: Sean Keehan, et al. of HHS's Center for Medicare & Medicaid Service, "National Health Expenditure Projections", *Health Affairs*, 2010-13.

Calendar Years	2010 Projection Before ACA	2011 Projection After ACA	2012 Projection After ACA	2013 Projection After ACA
2009	17.3	17.6	17.9	17.9
2010	17.3	17.6	17.9	17.9
2011	17.3	17.7	17.9	17.9
2012	17.2	17.6	17.9	17.9
2013	17.3	17.6	17.8	18.0
2014	17.4	18.1	18.2	18.3
2015	--	--	--	18.4
2018	--	--	--	18.5
2020	--	19.8	--	--
2021	--	--	19.6	--
2022	--	--	--	19.9

We Aren't Getting Better Outcomes for Our Money

Source: OECD *Government at a Glance*, 2011



In Comparison, the US Fares Badly in Much More than Life Expectancy

- **Adverse birth outcomes**
- **Deaths from injuries & homicides**
- **Adolescent pregnancy & sexually transmitted infections**
- **HIV & AIDS**
- **Drug-related mortality**
- **Obesity & diabetes**
- **Heart disease**
- **Chronic lung disease**
- **Disability**

Source: *US Health in International Perspective: Shorter Lives, Poorer Health*, NRC & IOM, 2013

Where Does the Money Go?
Higher Prices!

Procedure prices as a % of US prices, 2009. Source: OECD *Health at a Glance*, 2011

Procedure	AUS	CAN	DEN	FIN	FRA	SWE
Appendectomy	63	63	37	47	57	62
Normal delivery	67	63	40	34	65	58
Caesarean delivery	95	64	50	64	78	90
Coronary angioplasty	50	64	23	39	49	65
Coronary artery bypass	63	66	41	68	67	62
Hip replacement	91	69	51	62	64	66
Knee replacement	98	66	67	66	83	89

And Higher Spending on Every Category

Source: OECD *Health at a Glance*, 2011

Category of Health Spending, 2009	Percentage of OECD Average
Public Health & Administration	274
Physicians, Specialists, Dentists	238
Hospitals & Nursing Homes	163
Pharmaceuticals & Medical Goods	152

And We "Use" More Health Services

Source: OECD *Health at a Glance*, 2011

Procedure	US Use Relative to 30 OECD Countries
Knee Replacements	1st
MRI Units	2nd
MRI Exams	2nd
CT Exams	2nd
Tonsillectomy	2nd
Coronary Angioplasty	3rd
CT Scanners	5th
Caesarean Sections	8th

The Quality of US Health Care is Mixed

Source: OECD Health at a Glance, 2011

Measure	US	OECD Average
Breast cancer, 5-year survival rate	89.3	83.5
Colorectal cancer, 5-year survival rate	68.0	59.9
Asthma hospital admission rates, age 15 & over	120.6	51.8
Chronic obstructive pulmonary disease hospital admission rates, age 15 & over	230.0	198.0

Options to Lower Health Care Costs

- **Eliminate fee-for-service (FFS); replace with systems of care (SoC)**
  - FFS creates incentives for providers to function as revenue centers & promote unneeded services
  - SoC can create incentives for outcomes & not reward either volume or stinting
    - Methods can involve partial capitation, episode pricing, shared savings, & high-cost reinsurance
- **Create larger provider systems**
  - More patients with comprehensive services permits better measurement of performance
- **Rely on competition to set prices**
  - Administratively-set prices, even if “right”, create lobbying pressures
- **Reform legal impediments**
  - Malpractice; product liability; corporate practice of medicine
- **Review administrative costs**
- **Address data availability, prevention, caps, & everything else**

Can the Economy Grow Enough to Help?

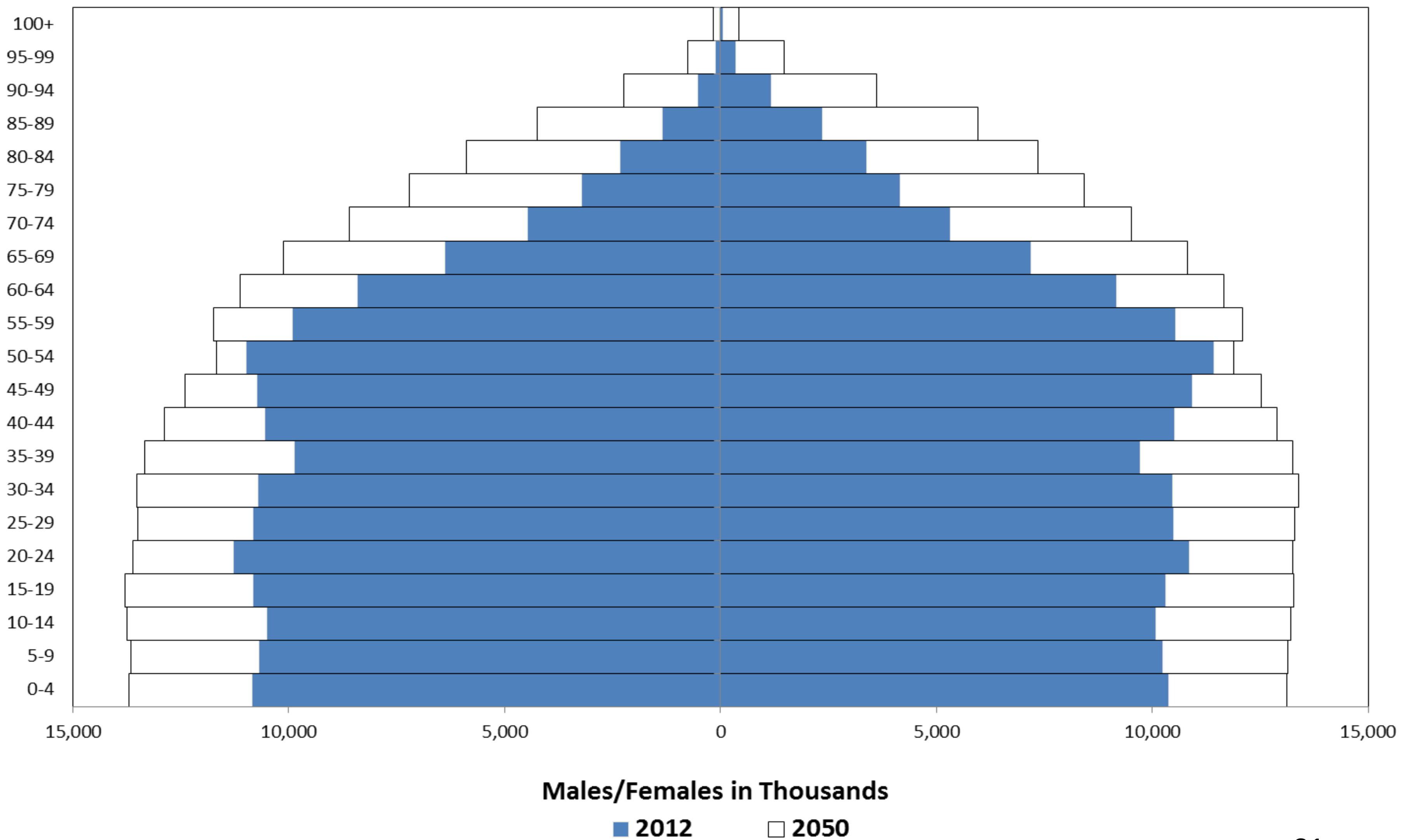
Percentage change in real GDP; year to year.

2012 Actual	2013	2014	2015-2018	2019-2023	2023-2037
2.3	1.5	2.1	4.1	2.3	2.2

Sources of projections: CBO. For 2012-2023, *Budget & Economic Outlook*: *FYs 2013 to 2023*, February, 2013; for 2023-2037, *The 2013 Long-Term Budget Outlook*, September, 2013.

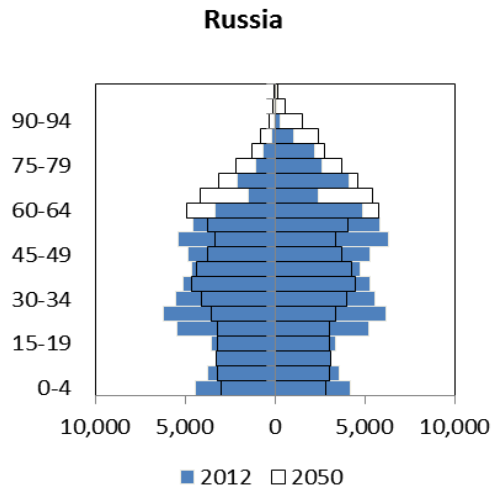
Can Population Grow Enough to Help?

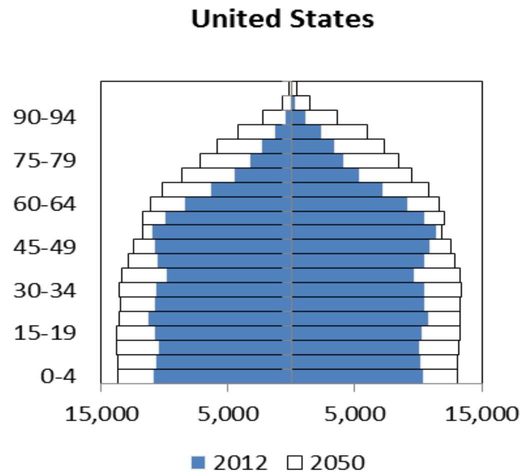
Projected US Population by Age & Sex

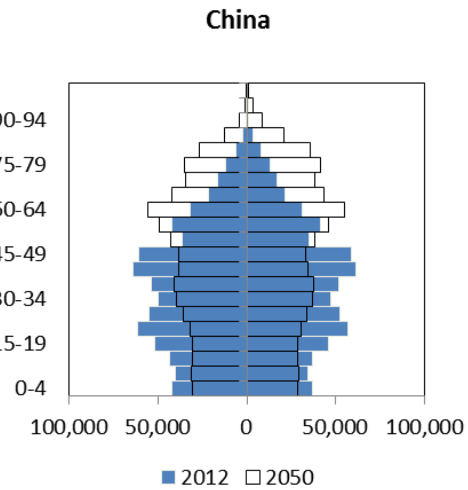


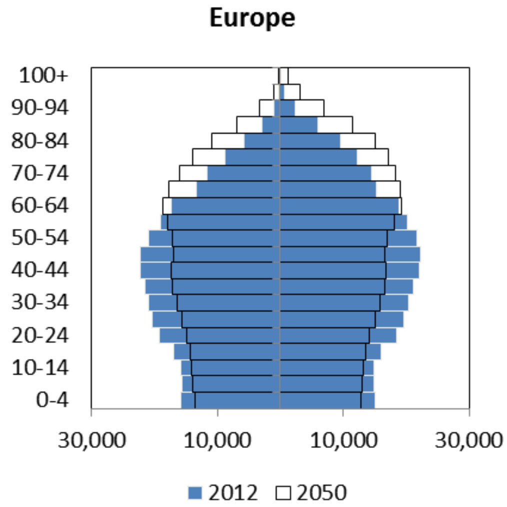
Our Demographics are Better Than Our Main Trading Partners

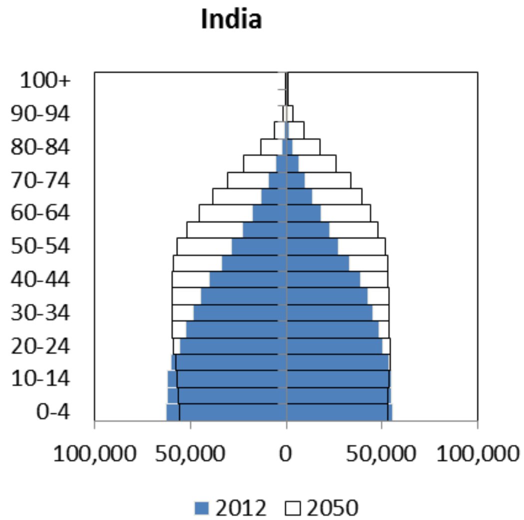
US Census projections, in thousands of males/females.

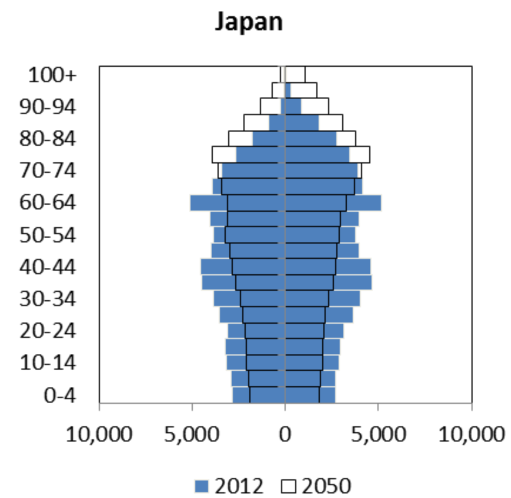






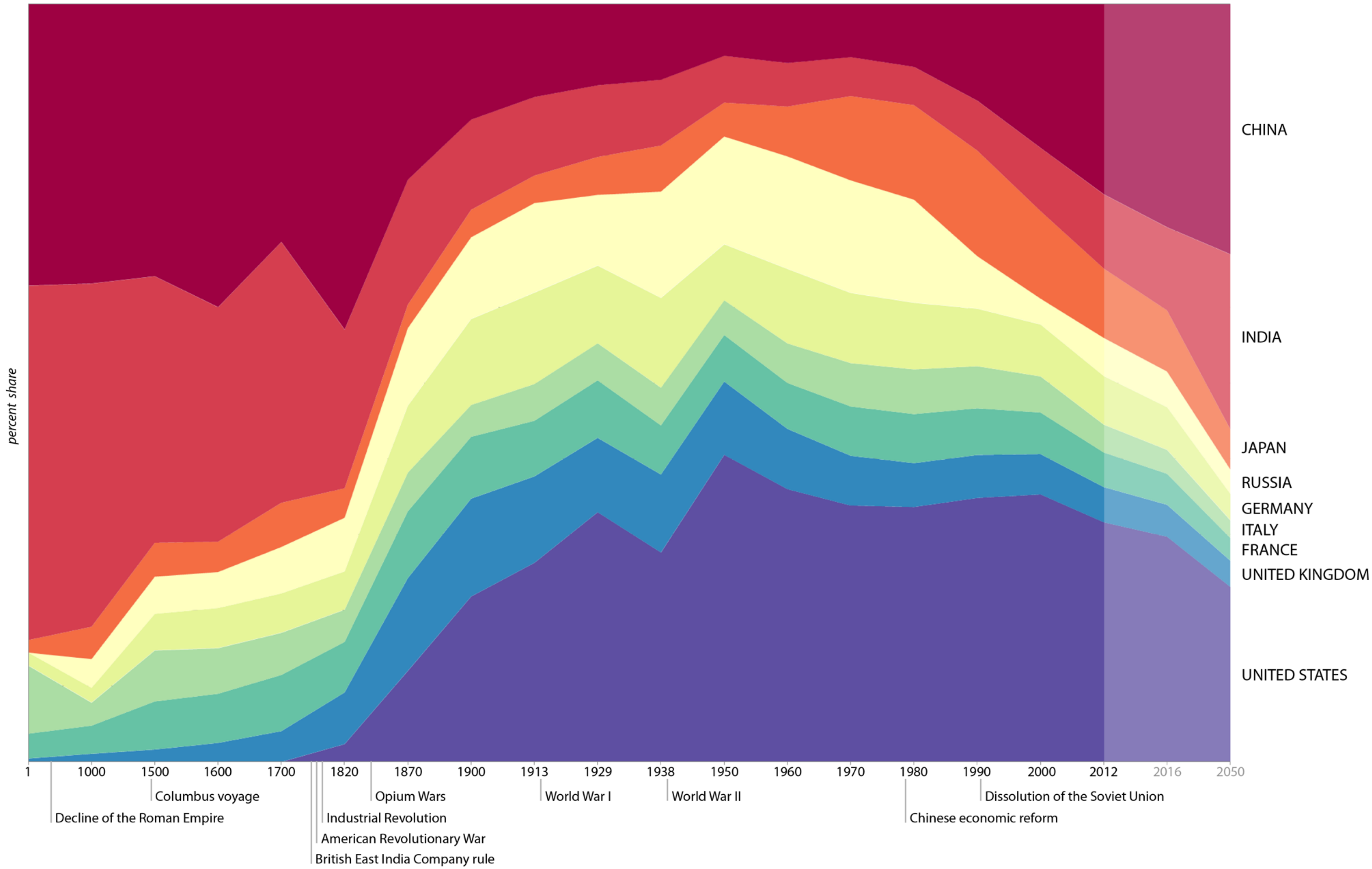






A history of balance of power

based on percentage share of combined GDP (PPP) of the 9 great powers



Author: *Sasha Nikitin, 2012, http://nalilord.livejournal.com*

Sources: *GDP data for years 1 - 2000 Angus Maddison, University of Groningen; 2016 IMF projected; 2050 PWC projected*

Adaptability May Be Our Most Valuable Asset—the View from *Sacre Couer*