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Policy Memorandum

ECONOMIC POLICY INSTITUTE • APRIL 7, 2011 • POLICY MEMORANDUM #180

RYAN'S BUDGET WOULD UNDERMINE ECONOMIC SECURITY FOR MILLIONS

BY ETHAN POLLACK, BECKY THIESS, AND ANDREW FIELDHOUSE

House Budget Committee Chairman Paul Ryan's fiscal year 2012 budget resolution would undermine the modern social safety net, reversing the gains America has made in health and economic opportunity. This resolution would deny millions of middle- and low-income households access to the American Dream. A number of vital federal government programs are targeted for near-destruction by Ryan, including Medicare and Medicaid; and other programs, such as Social Security, likely would be radically weakened.

Medicare

The budget resolution eliminates Medicare as we know it, shifting costs onto seniors. Instead of today's system, Ryan's proposal would provide seniors with vouchers to purchase health care from private insurers. Payments would be adjusted so that wealthier beneficiaries would receive lower subsidies. Though Ryan is vague about what level of income constitutes "wealthy," the Center on Budget and Policy Priorities has suggested in previous analyses of Ryan's so-called *Roadmap for America's Future* (2010) that "beneficiaries with incomes over $80,000 ($160,000 for a couple) would receive a voucher for half the basic amount or less."[1] In essence, Medicare would shift from being a program that guarantees benefits to one that guarantees only a specific level of contribution toward beneficiaries' health care costs.

This plan puts money directly into the pockets of insurance companies, which are much less efficient than Medicare. The Congressional Budget Office (CBO) has noted on a few occasions that spending for beneficiaries in Medicare Advantage plans—the program on which Ryan's proposal is modeled—is higher than spending for beneficiaries in traditional Medicare plans. In a June 2007 report, CBO noted that "Medicare's payments for beneficiaries enrolled in Medicare Advantage plans are higher, on average, than what the program would spend if those beneficiaries were in the FFS [fee-for-service] sector—so shifts in enrollment out of the FFS program and into private plans increase net Medicare spending."[2] In a letter in August 2007, CBO also noted that "the federal government spends about 12% more on beneficiaries in [Medicare Advantage] plans than it does on beneficiaries in FFS."[3] Ryan's plan prioritizes sending funding directly to insurance companies over pursuing efficiency in Medicare.

Ryan's Medicare plan also only saves $30 billion over the next 10 years relative to CBO baseline levels, though it cuts much more from Medicare in the long run. These long-run savings are achieved by capping the growth rate of the vouchers at substantially less-than-average growth rates for health care costs. Rather than improving the cost-effectiveness of the Medicare program—thus providing savings without impacting health care benefits or health outcomes—this proposal instead cuts the program across the board and shifts costs onto seniors. In fact, a recent CBO analysis found that a typical senior would eventually end up spending twice as much of their income on health care as under current law.[4]

Other long-term changes outlined in Ryan's plan would involve increasing the age to qualify for Medicare, engaging in medical malpractice reform, and repealing the Patient Protection and Affordable Care Act (PPACA). Though passage of PPACA increased spending to provide coverage to millions more Americans, it actually reduces deficits through efficiency-focused pilot programs and excise taxes. Repeal of PPACA, which Ryan's budget advocates, would leave a total of 54 million nonelderly people uninsured in 2019—an increase of 32 million uninsured Americans compared with coverage under PPACA.[5]

Medicaid

Ryan's proposed budget would convert the federal share of spending for Medicaid—the program that provides health care coverage for the poor—into a block grant. These block grants would grow more slowly than expected health care costs and would gradually ratchet down federal support for Medicaid. This would leave already-strained state budgets with higher costs—states that are already coping with more than $300 billion in shortfalls over the next few years.[6] The drain on Medicaid funding would grow more severe over time because Ryan proposes these grants be adjusted for inflation and population costs instead of being pegged to rising health costs. The gap between the two indices would grow more severe over time and put an increasing strain on states, which would have to address the shortfall by either raising taxes, reducing care, or cutting other necessary statewide programs.

Additionally, with funding provided under a block grant, states would no longer be able to count on automatically increased funding during economic downturns, which is when the program is most needed.[7] The Government Accountability Office recently found that past recessions have resulted in increased Medicaid enrollment and decreased state revenues, a combination which has hampered states' abilities to fund the program.[8] Additionally, a block grant system would make it more difficult for states to take advantage of medical breakthroughs that save lives because they might, like many such breakthroughs, initially cost more money. In that sense, funding Medicaid via block grants would truly ration care for low-income Americans.

Over 10 years, federal funding of Medicaid via block grants would result in cuts of $1.4 trillion relative to CBO baseline levels. CBO's January update has Medicaid spending averaging 2.1% of gross domestic product (GDP) over the next 10 years. Ryan's plan would shave off around one-fourth—0.5 percentage points of GDP—of average Medicaid spending.

These proposed reductions to Medicaid would result in millions more uninsured and underinsured poor Americans. And Ryan's justification for the cuts is weak: Over the past decade, Medicaid costs per beneficiary grew more slowly than costs for beneficiaries of employer-sponsored insurance. But that is a *growth* rate; the Center on Budget and Policy Priorities estimates that, in terms of *actual costs*, Medicaid per-capita costs are 20% less for adults than private insurance, and 27% less for kids.[9] Finally, Medicaid is not the inefficient program Ryan paints it to be: Program overhead from 2011 to 2020 is projected by CBO to be around 96% of costs, meaning that only 4% of Medicaid revenue goes to actually administering the program.[10]

Social Security

Ryan provides far less detail on his plan for Social Security, and centers his discussion around vague references to how he will "force action" on legislation in the House and Senate to keep the program "solvent," though considering Ryan's *Roadmap*, the likely intent is drastic benefit cuts for most elderly Americans. Ryan's plan does highlight the reforms outlined by the president's fiscal commission that recommended benefit cuts to poor and middle-class workers, shifting Social Security from a universal retirement program to a poverty program.

The plan suggests Social Security legislation should be fast-tracked through Congress, bypassing the normal deliberative process and requiring only a simple majority in the Senate. This would constitute a sharp break from current law, which explicitly prohibits a fast-track process for Social Security. The process would also place enormous power in the hands of the Social Security trustees, who have less political accountability and would be more likely to push through unpopular reforms such as privatization.

Furthermore, Ryan's analysis relies on misleading statistics from Social Security's early years to back up the claim that an "explosion of payments," if not contained, would cause "a massive shift of earnings away from younger families trying to build their futures, toward Social Security recipients." Aside from the fact that benefit cuts would fall hardest on younger families, any growth in Social Security costs could easily be accommodated by economic growth: A one percentage-point increase in the payroll tax, equivalent to a 16% increase in tax revenues, would be sufficient to close the entire 75-year shortfall, a goal well within reach when real wages are projected to more than double over the same period. Easier yet, the shortfall could be closed by eliminating the cap on taxable earnings.

Similarly, Ryan's budget references the increase in life expectancy since the program's inception in 1935, ignoring the fact that most of this increase is attributable to declines in mortality during childhood and prime working-age years. Weak wage growth and rising earnings inequality are a much bigger problem, accounting for at least half of the projected shortfall.[11]

Other mandatory programs

Overall, Ryan's budget proposal would, over 10 years, cleave $1.8 trillion from other mandatory spending (i.e., spending on mandatory programs not including Social Security, Medicare, and Medicaid) relative to President Obama's 2012 budget. Under Obama's budget, other mandatory spending constitutes 12% of outlays; Ryan chops that by almost half to just 7%.

One example of such spending cuts can be found in Ryan's proposal to convert food stamps funding into a block grant to states, indexing the program to inflation and eligibility. Such block grant formulas leave states vulnerable during periods of economic downturn, and put pressure on state budgets, increasing the risk of a major reduction in the number of people this program would be able to help. Despite the Ryan resolution's claim that the food stamp program is experiencing "relentless and unsustainable growth," the CBO actually projects that the recent increase in outlays is simply the result of the economic downturn and temporary policy changes. In truth, the program is projected by the CBO to fall to pre-recession levels as a share of the economy by 2021.[12]

Additionally, Ryan vaguely alludes to reforming Pell grants, which help lower- and middle-class students afford a college education. Ryan proposes that Pell grant "aid is targeted to the truly needy." This suggests his budget would eliminate Pell grant support for middle-class students, leaving millions to fend for themselves. The number of students relying on Pell grants to pay for increasingly costly higher education has nearly doubled since the beginning of the decade. And the need has perhaps never been greater: State budget shortfalls of the past few years have resulted in a shifting of higher education costs onto students (in the form of higher tuition) and staff (in the form of lower wages and benefits). Pell grants help equalize the playing field; Ryan's budget proposes paring back a program that allows low- and moderate-income students access to the same higher education enjoyed by wealthy students.

Conclusion

The modern social safety net is a success story. In the late 1950s, 35% of the elderly were in poverty compared with only 9% today (a 75% reduction).[13] Similar progress has been made with children: In the 1950s, 27% of children lived in poverty compared with 21% today, and 28 out of a thousand live births resulted in the death of the child, a number that has now dropped to just six. These gains have happened because over the last 50 years we have decided to guarantee basic health care access, retirement security, and sustenance. Chairman Ryan's attack on this legacy is wrong, both economically and morally.

Endnotes

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