



29 April 2011

Strategy Session and Workshop



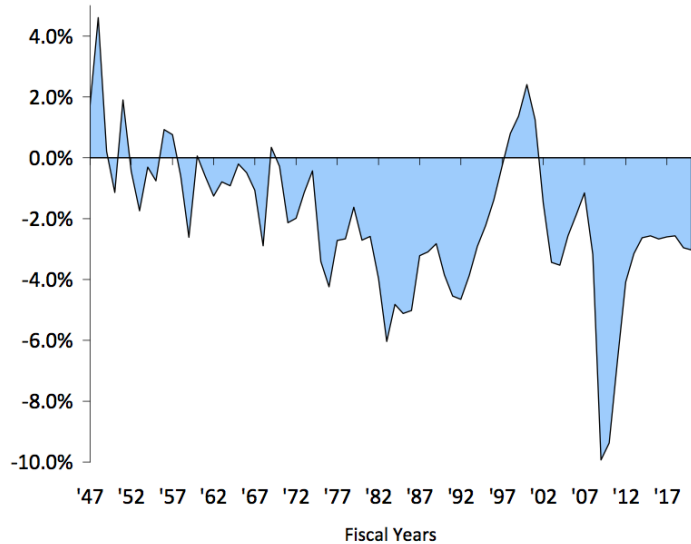
The Federal Deficit: Causes and Outlook

What Caused the Federal Deficit?

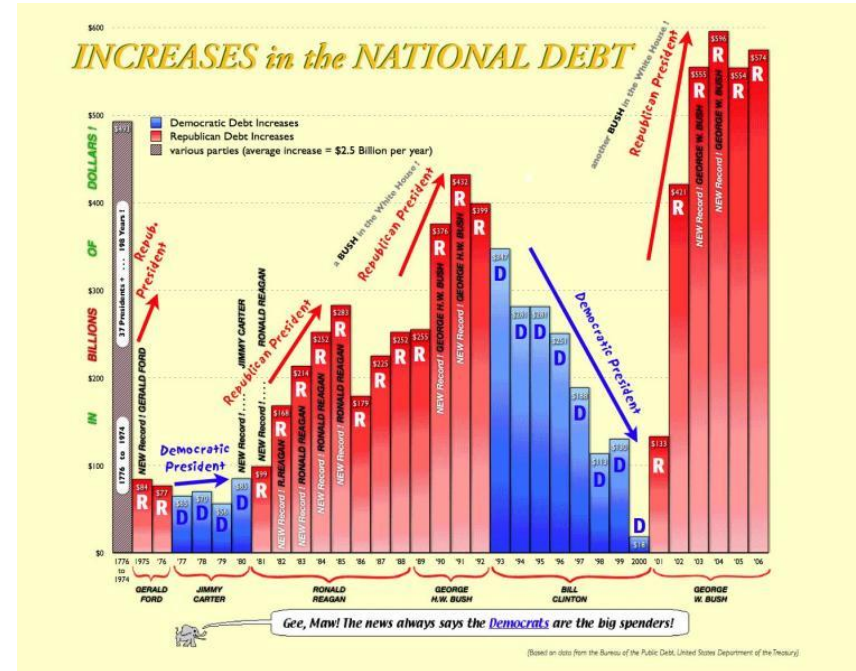
1. 2001/2003 Bush Tax Cuts
2. Iraq/Afghanistan Wars
3. Medicare Expansion
4. Economic Downturn/Financial Crisis

The Federal Deficit: How We Got Here

Deficit or Surplus as a Percentage of GDP



Source: The Urban Institute, 2010. Data from CBO and OMB.



(Based on data from the Bureau of the Public Debt, United States Department of the Treasury)

The Legacy of President George W. Bush

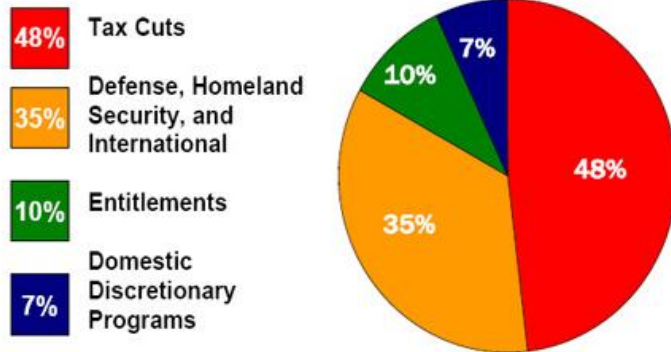
- Just two policies dating from the Bush Administration — tax cuts and the wars in Iraq and Afghanistan — accounted for over \$500 billion of the deficit in 2009 and will account for almost *\$7 trillion* in deficits in 2009 through 2019, including the associated debt-service costs.
- Additionally, the unpaid-for Medicare Part D expansion — passed in 2003 — is projected to cost over \$800 Billion in the first decade.

The Legacy of President George W. Bush: Tax Cuts

FIGURE 1

Tax Cuts Are Largest Contributor to Reemergence of Large Budget Deficits

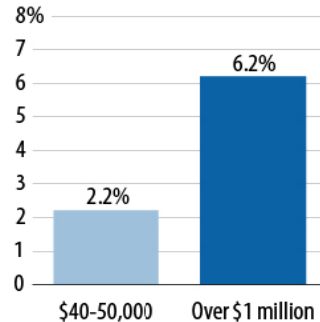
Cost, 2001-2007, of legislation enacted since January 2001



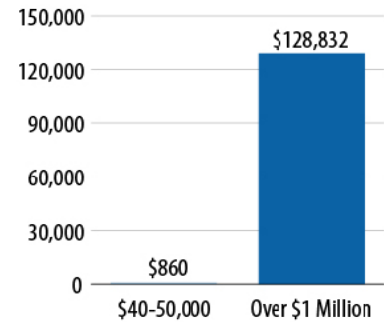
Source: Congressional Budget Office

Bush Tax Cuts Heavily Tilted to the Top

Percentage Increase in After-Tax Income



Average Dollar Tax Benefit per Taxpayer

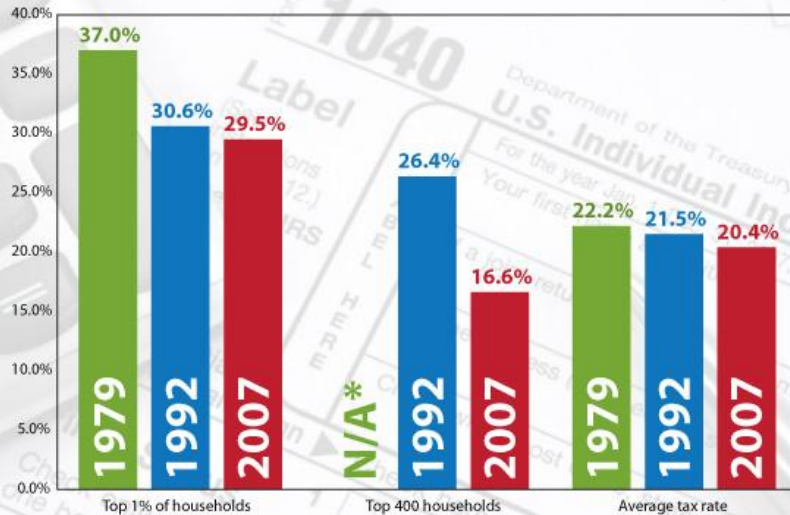


Figures include 2001/2003 tax cuts and continued AMT relief.
Source: Urban-Brookings Tax Policy Center

Center on Budget and Policy Priorities | cbpp.org

Tax Rates Over the Years

Average tax rates, 1979-2007

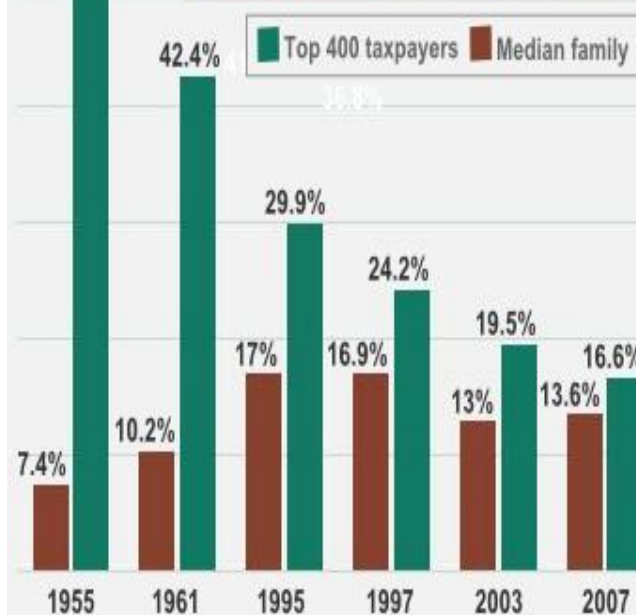


* Data not available for top 400 families in 1979.

Source: Congressional Budget Office and Internal Revenue Service.



Effective federal tax rates, 1955-2007



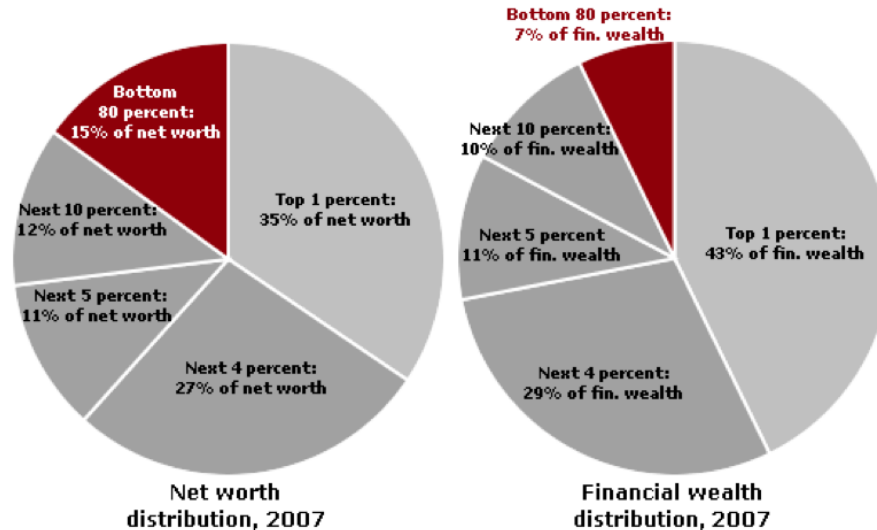
The Tax Cut Big Picture

Over the past 50 years, the federal tax burden on the typical American family has trended upward. But the federal tax burden on the nation's 400 highest annual incomes has shrunk by two-thirds.

Source: Shifting Responsibility, Wealth for the Common Good, April 2010

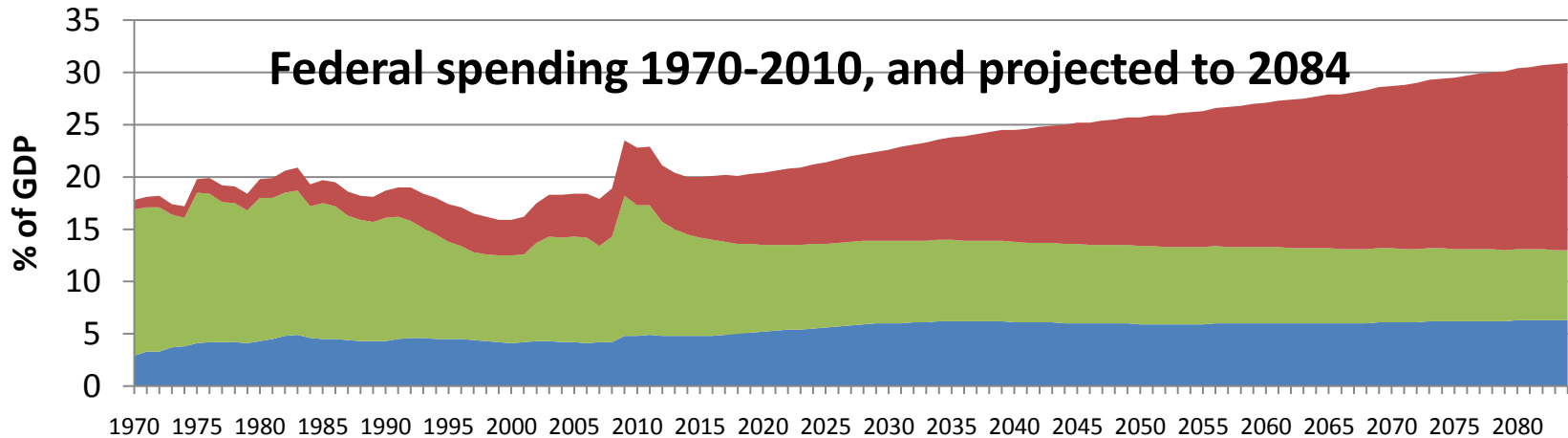
How Tax Cuts for Wealthy Have Impacted Wealth Distribution

Figure 1: Net worth and financial wealth distribution in the U.S. in 2007



In terms of types of financial wealth, the top one percent of households have 38.3% of all privately held stock, 60.6% of financial securities, and 62.4% of business equity. The top 10% have 80% to 90% of stocks, bonds, trust funds, and business equity, and over 75% of non-home real estate. Since financial wealth is what counts as far as the control of income-producing assets, we can say that just 10% of the people own the United States of America.

Medical inflation and low taxes are the drivers of future deficits



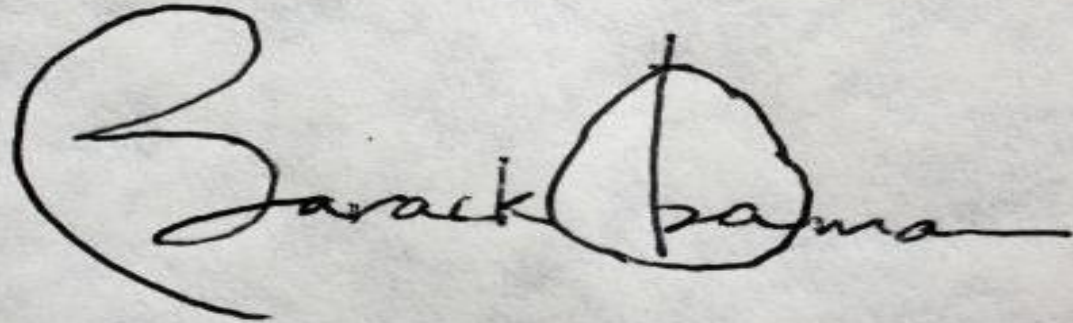
- Social Security Outlays
- Other Noninterest Outlays
- Medicare, Medicaid, Exchange Subsidies, and CHIP Outlays

Source: CBO estimates June 2010, incorporating healthcare reform savings

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APPROVED

MAR 23 2010

A handwritten signature in black ink that reads "Barack Obama". The signature is written in a cursive style with a large, stylized initial "B" and a circular flourish around the "O" in "Obama".

The Affordable Care Act (ACA): True Entitlement Reform.

"And so our goal on health care is, if we can get, instead of health care costs going up 6 percent a year, it's going up at the level of inflation, maybe just slightly above inflation, we've made huge progress. And by the way, that is the single most important thing we could do in terms of reducing our deficit. That's why we did it." – President Obama

The ACA: True Deficit Reduction

The ACA Reduces the deficit by \$210 billion over next 10 years and by more than \$1 trillion over next 20 years.

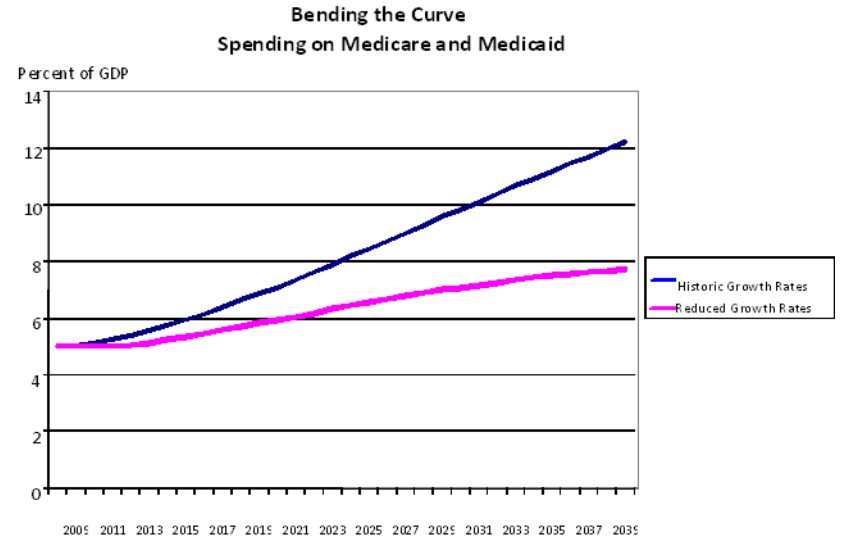
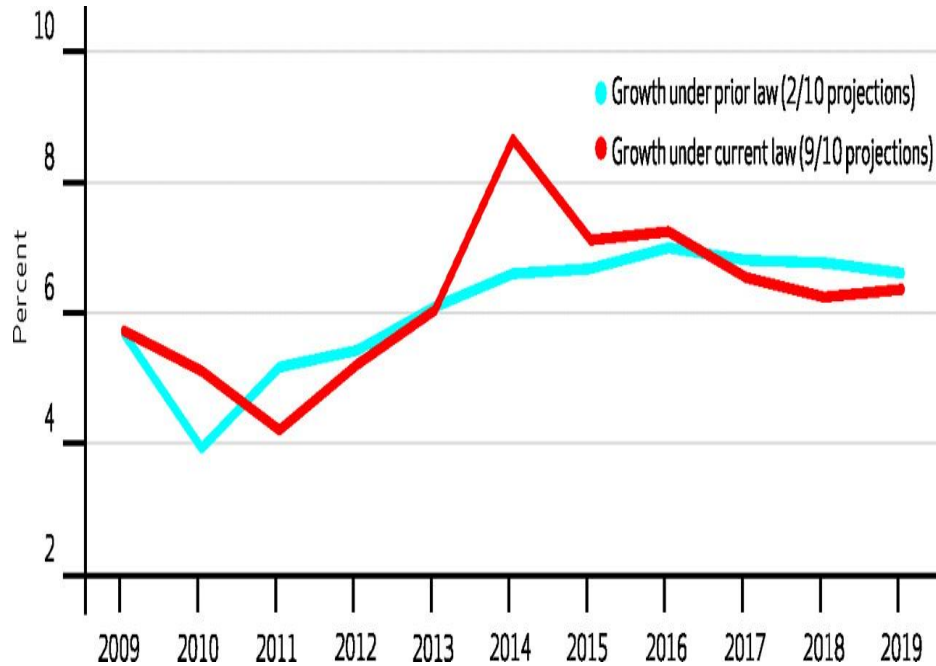
- In its latest estimates, the nonpartisan Congressional Budget Office estimates that the health care law will reduce the deficit by a total of \$210 billion over the next 10 years.
- It also estimates that the law will reduce the deficit by “around one-half percent of GDP” over the following 10 years. Economists estimate that “one-half percent of GDP” over those 10 years would amount to more than \$1 trillion.

Ezra Klein: “The ACA wipes out about a quarter to a third of our long-term deficit.” **July 8, 2010**

The ACA: Containing Health Care Costs

- **Working to eliminate unnecessary tests and procedures by providing delivery system reform.** The law creates incentives for doctors and hospitals to provide efficient, high-quality care, by moving to payment systems that reward the value of care, rather than the volume of care.
- **Creating incentives to reduce preventable hospital re-admissions.** The law limits the payments hospitals can get from Medicare or Medicaid if a patient is re-admitted to the hospital for what is considered a preventable reason.
- **Creating more head-to-head competition among insurers, putting a downward pressure on premiums.** The law creates state Health Insurance Exchanges, or competitive marketplaces, where insurers will compete on the basis of price and quality, not on the basis of medical underwriting of sicker patients.
- **Cracking down on waste, fraud and abuse.** The law provides a number of new tools for cracking down on waste and fraud in Medicare and Medicaid, including a new screening process for providers in Medicare and Medicaid, new compliance requirements, and enhanced criminal penalties.

The ACA: Bending the Cost Curve

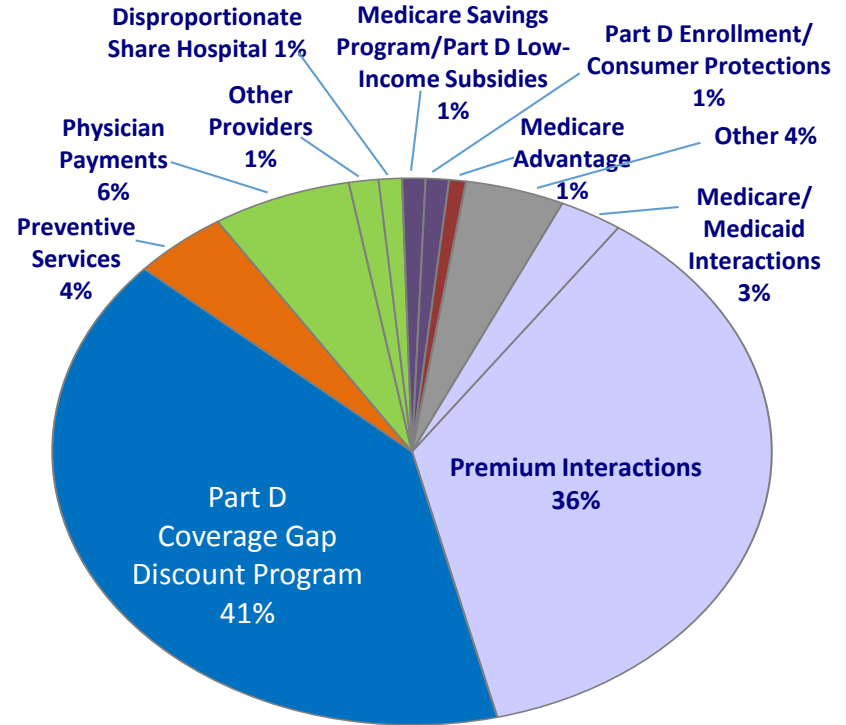


The ACA: Cutting Costs and Raising New Revenue

- Medicare will be cutting overpayment to Medicare Advantage insurers by some \$132 billion over the next four years. In Congress, both conservatives and progressives agree that these “windfall” payments to insurers are unwarranted.
- Drug-makers, device-makers, and insurers already have agreed to kick in \$107 billion in new fees. Drug companies begin making their contribution next year.
- Because more than 30 million formerly uninsured Americans will have coverage, Medicare will be able to trim subsidies to hospitals that care for the uninsured by \$36 billion, or 75%.
- The government will take in as much as \$32 billion in taxes on pricey health plans that fetch \$27,600 to cover a family, or \$10,200 for an individual, beginning in 2018.
- Beginning in 2013, reform will raise another \$210.2 billion in new Medicare taxes on wages and self-employment income (0.9 percent) and on investment income (3.8 percent) from taxpayers with an adjusted gross income over \$200,000 (\$250,000 for couples).

Health Reform: Medicare Spending

- The Health Reform Law contains many Medicare related provisions
 - These include increasing spending to expand coverage, reducing spending by improving efficiency, and improving delivery and quality of care
- \$105 billion in Medicare spending over 10 years
- \$43 billion to gradually close the Part D doughnut hole
- \$5 billion for prevention benefits including new annual wellness visit
 - No deductibles or coinsurance on prevention plans that receive an A or B grade from US Prevention Services Task Force
- \$8 billion for primary care physicians and other providers

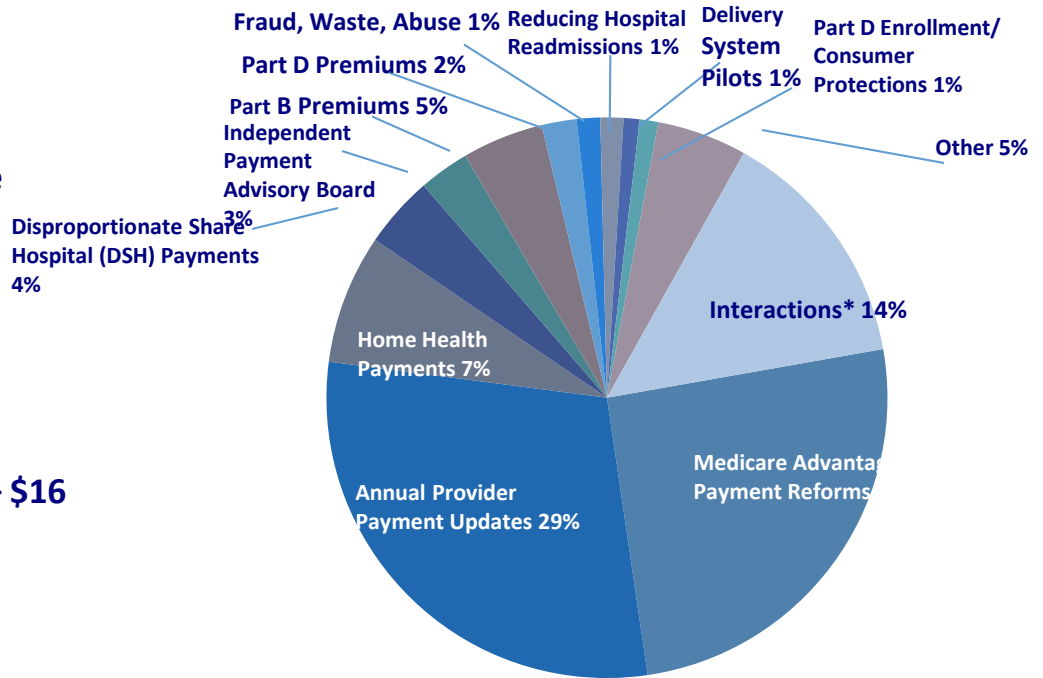


**Ten-Year Medicare Spending =
\$105.3 Billion**

Health Reform: Medicare Savings

Sources of Savings

- Provider payments, including DSH and home health - \$219 billion
- Medicare Advantage – \$136 billion
- Income-related premiums – \$36 billion
- New Independent Payment Advisory Panel – \$16 billion
- Delivery system reforms and hospital readmissions – \$12 billion



**Ten-Year Medicare Savings =
\$533.1 Billion**

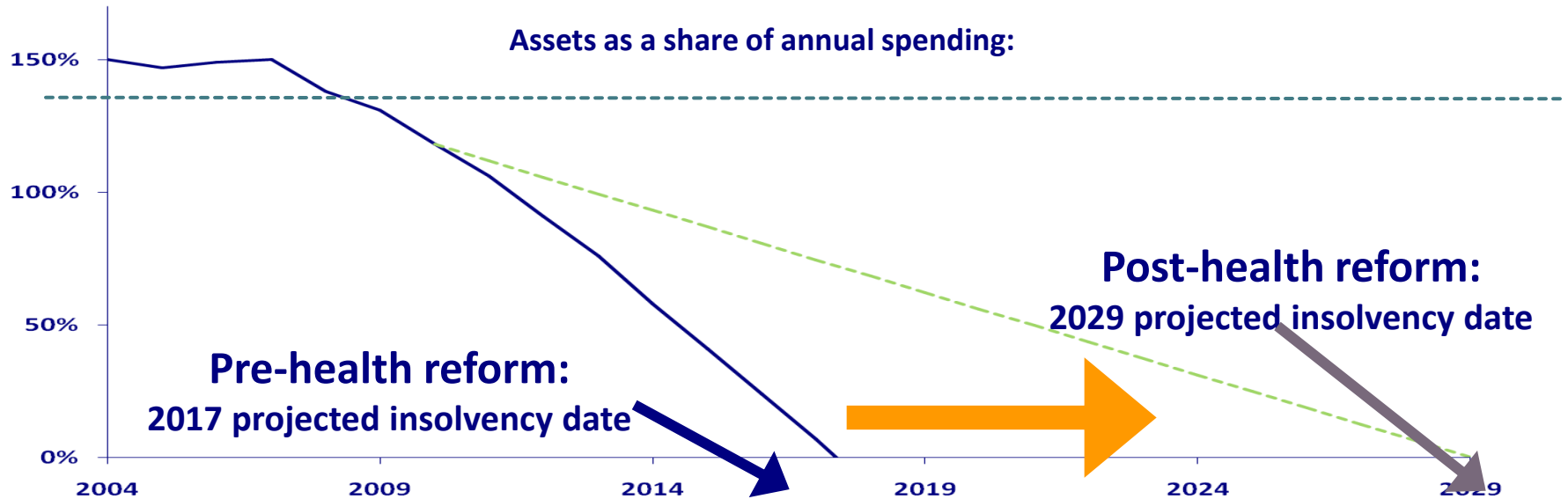
Source: Kaiser Family Foundation analysis of Congressional Budget Office (CBO) cost estimates as provided on March 20, 2010.

Notes: *Savings include interactions with Medicare Advantage and TRICARE; spending includes implementation of Medicare changes, Part D interactions with Medicare Advantage provisions, Part B interactions with Part D provisions, and Medicaid interactions with Medicare Part D provisions.



Medicare Part A Trust Fund

Projection: Health reform legislation will extend the life of the Medicare Part A Trust Fund from 2017 to 2029



The ACA: Strengthening Medicare

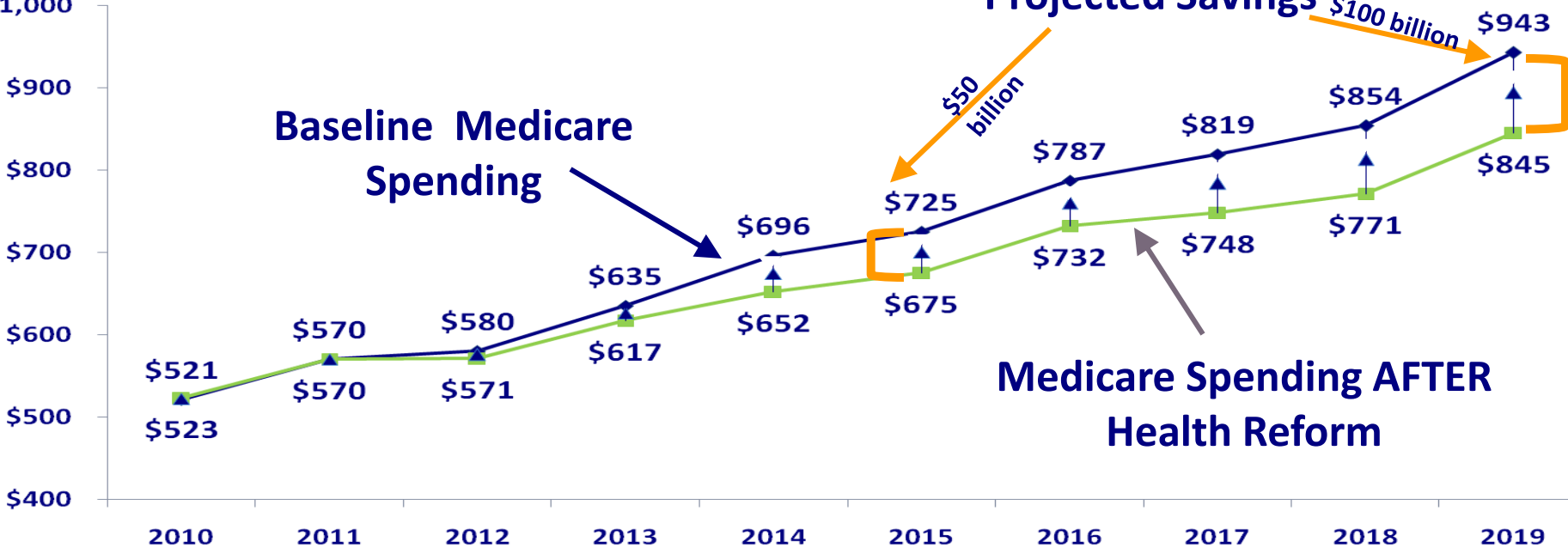
- The life of the Medicare Trust fund will be extended to at least 2029, a **12-year extension as a result** of reducing waste, fraud and abuse, and slowing cost growth in the program. This will provide future cost savings on premiums and coinsurance for beneficiaries.
- The ACA **takes strong action to reduce payment errors, waste, fraud and abuse in Medicare**, making a \$350 Million investment to prevent, detect, and fight fraud in Medicare, Medicaid and CHIP.
- Beginning in 2011 **Seniors get a 50% discount on Brand-name drugs**, with decreases in costs continuing until the so-called “donut hole” is completely closed.
- **The coordination of care between doctors and the overall quality of care will improve** so that you will be less likely to experience preventable and harmful re-admissions to the hospital for the same condition.
- **Hospitals will have new, strong incentives to improve your quality of care.**
- Starting in 2014, the Affordable Care Act **offers additional protections for Medicare Advantage Plan members** by taking strong steps that limit the amount these plans spend on administrative costs, insurance company profits, and things other than health care.

Rate of Medicare Spending Projected to Slow



Congressional Budget Office Projections

Medicare Baseline Spending
(in \$ billions)
\$1,000



Baseline Medicare Spending

Projected Savings

Medicare Spending AFTER Health Reform

\$100 billion

\$50 billion

NOTE: Estimates do not take into account future changes to the Sustainable Growth Rate formula to prevent reduction in fees.
SOURCE: Medicare Baseline Spending before reform from CBO, March 2009 Baseline: MEDICARE; after reform from Kaiser Family Foundation analysis of CBO cost estimates of health reform legislation, March 20, 2010.



Paul Ryan/Republican Roadmap...

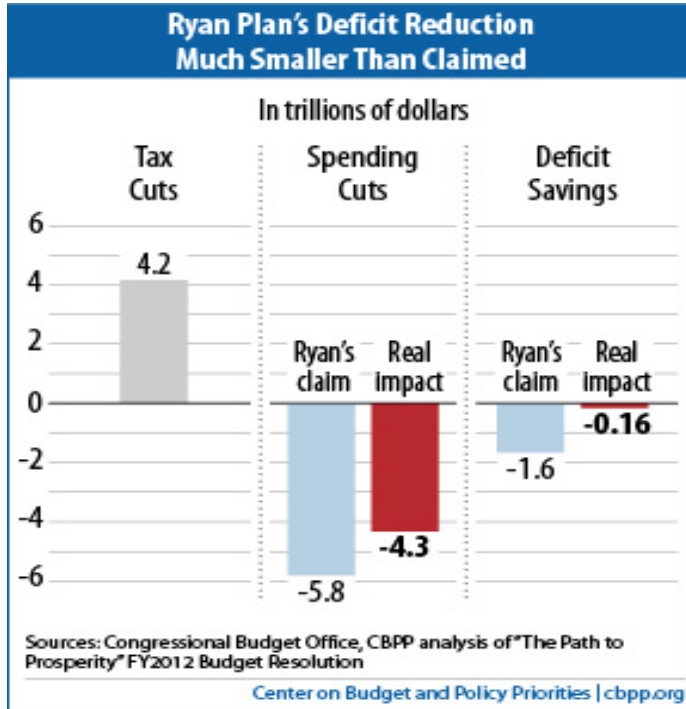
A Path to Prosperity - Unless you're under 55, or poor, or widowed, or disabled, or a child who lost a parent, or middle class or have anyone in your family who is or ever will be....

The Ryan Plan: An Overview



- ❑ Discretionary Spending:
 - Cuts Food Stamps by over \$127 Billion over ten years, or by 20%
 - Cuts student Pell Grants by over \$800 per student.
- ❑ Health Care
 - Repeals ACA
 - Ends Medicare as we know it, privatizing the program and reducing it to a Federal Voucher System
 - Changes Medicaid into Block Grant Program for States
- ❑ Taxes
 - Reforms the tax code by consolidating the current six brackets and cutting the top individual tax rate from 35% to 25%.
 - Makes permanent the so-called "Bush Tax Cuts"
 - Lowers the corporate tax rate from 35% to 25%.

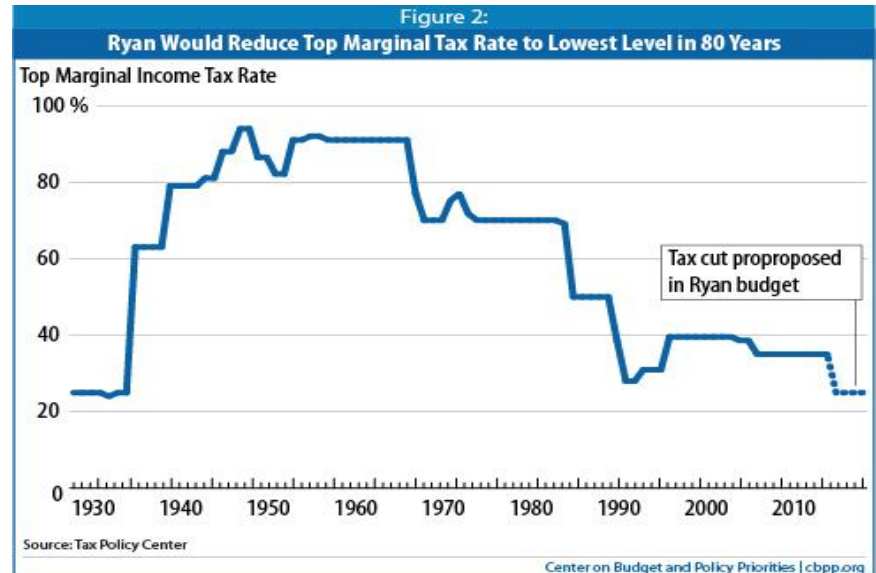
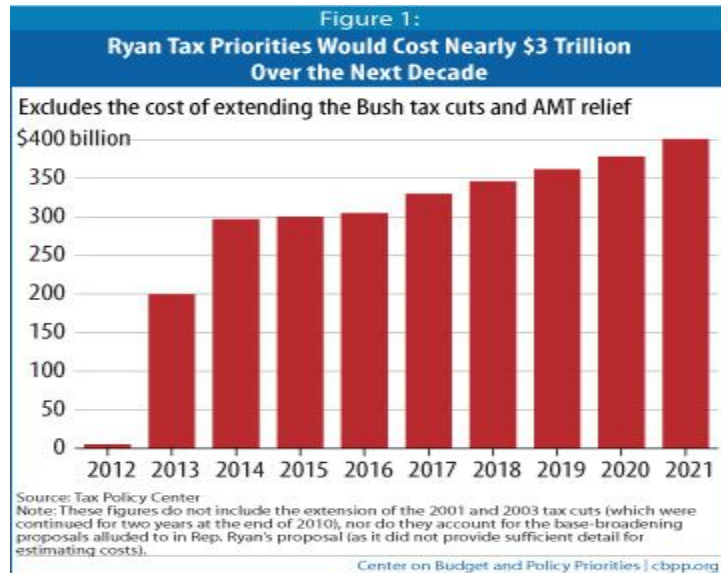
The Ryan Plan: Failing to Reduce The Deficit



- Despite proposing \$4.3 trillion in what would be the most severe and wrenching budget cuts in U.S. history — two-thirds of which would come from programs for people of low or moderate incomes — the plan barely reduces deficits at all over the next decade.
- In essence, at least for the next decade, this plan is far less a blueprint for addressing deficits and far more a proposal to redistribute large amounts of resources from those at the bottom to those at the top.

The Ryan Plan: High-End Tax Cuts Take Precedence Over Deficit Reduction

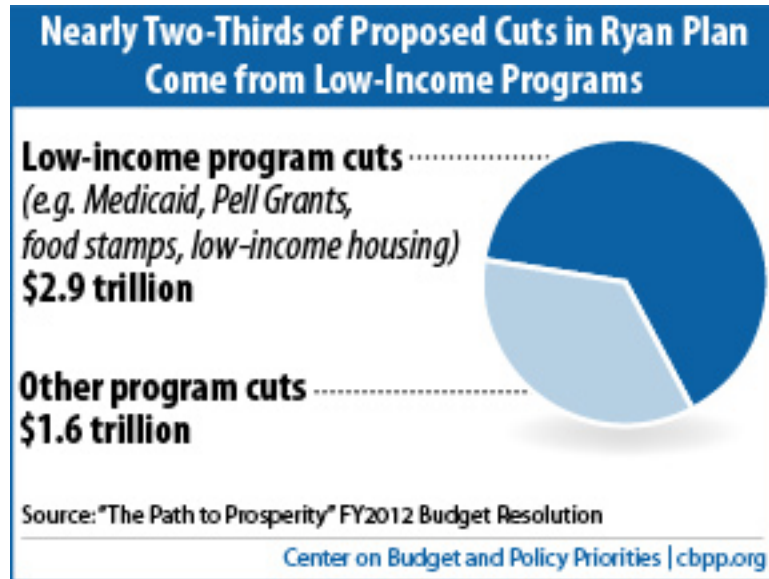
- The plan's framers regard additional tax cuts for high-income individuals as a higher national priority than stronger deficit reduction.
- This proposal also ignores the fact that incomes have skyrocketed at the top of the income scale even as the real income of the typical American household has *fallen* over the last decade.



The Ryan Plan: For the wealthy, Ryan's proposals are pure gold

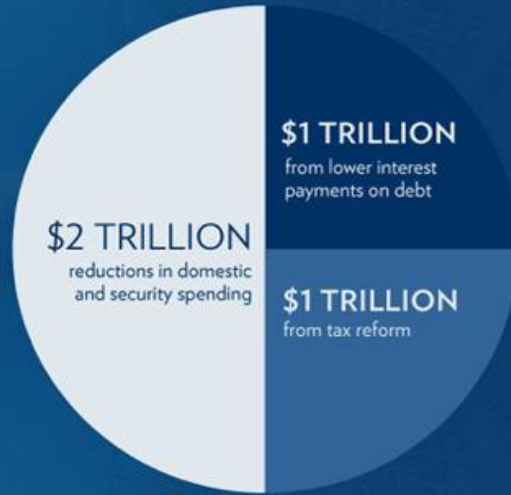
- A typical **hedge fund manager** would benefit from Ryan's extension of the Bush tax cuts for high-income people; the average person making at least \$1 million a year would get \$125,000 a year in tax
- **Heirs to multi-million-dollar estates** would benefit from Ryan's estate tax proposal, which would let them inherit the first \$10 million in estate value entirely tax-free.
- **High-income investors** would benefit from Ryan's elimination of Medicare taxes on their investment income.
- And **large numbers of high earners** would benefit from Ryan's call to cut the top rate to 25 percent, the lowest in 80 years.

The Ryan Plan: Two-Thirds of His Budget Cuts from Programs for Lower-Income Americans



- Cuts in low-income programs appear likely to account for at least \$2.9 trillion — or nearly two-thirds — of Ryan's total cuts. The \$2.9 trillion includes the following three categories of cuts:
 - \$2.17 trillion in reductions from Medicaid and related health care.
 - \$350 billion in cuts in mandatory programs serving low-income Americans (other than Medicaid).
 - \$400 billion in cuts in low-income discretionary programs

PRESIDENT OBAMA'S APPROACH
REDUCES DEFICIT BY
\$4,000,000,000,000
OVER THE NEXT 12 YEARS



The President's Plan: Shared Responsibility

The President's Plan: Domestic Spending Cuts

STEP 1

DOMESTIC SPENDING CUTS

- Build on bipartisan budget agreement made last week, with the largest 1-year reduction in government spending ever.
- Cut non-security spending to levels consistent with the bipartisan deficit commission

The President's Plan: Security Spending Cuts

STEP 2

SECURITY SPENDING CUTS

- High growth in base security spending below inflation, while further improving efficiency and effectiveness
- Ensure our capacity to meet our national security responsibilities

The President's Plan: Health Care Costs

STEP 3

HEALTH CARE COSTS

- Bend the long-term cost curve for Medicare
- Make Medicaid more flexible, efficient and accountable

The President's Plan: Health Care Costs

STEP 4

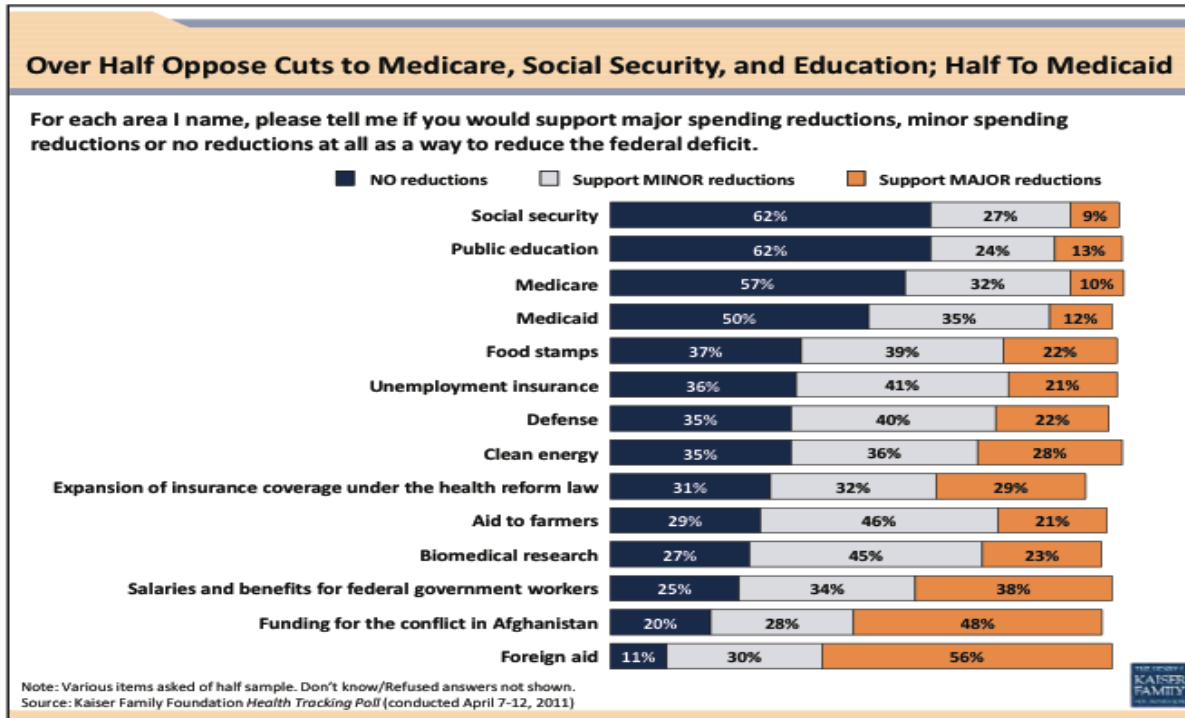
TAX REFORM

- Close loopholes and produce a tax system that is simpler, fairer and not rigged in favor of those who can game it
- Reduce tax expenditures enough to both lower rates and lower the deficit

Public Polling:

How should we reduce the deficit?

Polling on Deficit Reduction



Polling on Deficit Reduction

Q: In order to reduce the national debt, would you support or oppose . . . ?

Cutting spending on Medicare



Cutting spending on Medicaid



Cutting military spending



Raising taxes on all by a small percentage and making small reductions to Medicare and Social Security



Raising taxes on incomes over \$250,000



Q: What is your view about the future of Medicare for senior citizens?



NOTE: Totals may not add up to 100 percent because of rounding or not showing "no opinion" data.

SOURCE: This Washington Post-ABC News poll was conducted by telephone April 14 to 17, among a random national sample of 1,001 adults, including users of both conventional and cellular phones. The results from the full survey have a margin of sampling error of plus or minus 3.5 percentage points. Sampling, data collection and tabulation by TNS of Horsham, Pa.

The Washington Post - ABC News poll

Poll: How to fix the deficit?

A new McClatchy-Marist poll shows registered voters support raising taxes on the rich as a way to curb the federal budget deficit, but oppose other ideas to trim it.

• Increase taxes on incomes over \$250,000?



• Cut Medicare and Medicaid?



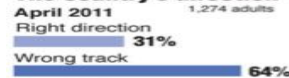
• Reduce military spending?



• Raise the federal debt



The country's direction



Unsure: April, 5%, Jan., 12%
Source: McClatchy-Marist poll of 1,084 registered voters, April 10-14, 2011; margin of error +/-3 percentage points
Graphic: Judy Treible

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