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Health Care, Revenue, and Other Mandatory Options January 23, 2015

The 114th Congress will inherit a higher level of national debt than any since World War II, more than twice the modern pre-recession average. Given the need for long-term deficit reduction, the Committee for a Responsible Federal Budget (CRFB) has produced three menus of policy options to achieve savings in different areas of the budget: changes to Medicare, Medicaid, and other federal health programs; changes and reforms to the tax code; and changes to other mandatory programs including education, agriculture and retirement.

There are six [Fiscal Speed Bumps](#) this year – budget-related deadlines when Congress will be forced to take action, including the expiration of the “doc fix,” depletion of the Highway Trust Fund, and the return of the sequester. For many of them, Congress will need to find additional savings if they want to continue current policies without adding to the deficit.

While CRFB does not take a position on specific policies, it is important lawmakers leave all possibilities on the table. The options shown are not a comprehensive list of all options available, but illustrate a broad range of potential measures that could reduce federal health and other mandatory spending and generate new revenue.

The list below does not include options to reduce discretionary spending. Although there is potential to eliminate low-priority discretionary spending, such spending is already operating under strict budget caps, unlike the mandatory side of the budget.

The estimates of all options are **very rough** and are calculated by CRFB staff based on many outside sources (see Methodology section at the end). Many policies can be modified to achieve a desired level of savings, and most of them can be combined.

For more details, please contact the Committee for a Responsible Federal Budget by phone at (202) 596-3597 or e-mail at Shifriss@crfb.org.



Health Savings Options

Health Options	Potential 2016-2025 Savings
Increase Means-Testing of Medicare	
Freeze Income-Related Thresholds for Part B and Part D After 2019	\$35 billion
Raise Means-Tested Premiums by 15%	\$30 billion
<i>Lower Brackets for Premiums:</i>	
Begin 35% Premium Bracket at \$60,000/\$120,000 for Joint Filers; OR	\$35 billion
Begin 35% Premium Bracket at \$60,000/\$90,000 for Joint Filers; OR	\$50 billion
Set 30% Bracket at \$60,000/\$120,000 for Joint Filers	\$20 billion
Reduce Payments to Medicare Providers	
<i>Adjust Post-Acute Payment Updates:</i>	
Slow Growth of Post-Acute Payments by Roughly 1.1% Annually; OR	\$90 billion
Slow Growth of Post-Acute Payments by Roughly 0.35% Annually	\$30 billion
<i>Adjust Bad Debt Reimbursement:</i>	
Reduce Medicare Coverage of Providers' Bad Debts to 25%; OR	\$35 billion
Eliminate Payments for Bad Debts	\$55 billion
<i>Reduce Excess Subsidies to Teaching Hospitals:</i>	
Reduce Excess Payments for Indirect Costs of Medical Education by 10%; OR	\$10 billion
Phase Out Excess Payments for Indirect Costs	\$50 billion
Slow Growth of Direct GME Payments	\$15 billion
Reduce Subsidies to Rural Hospitals by 25%	\$15 billion
Pay Hospitals the Same as Physician Offices for Checkup Visits	\$10 billion
Equalize Payment for Some Procedures Conducted Both in Hospital Outpatient Departments and Freestanding Physician's Offices	\$10 billion
Prohibit Medicare Advantage Plans from Exceeding 110% of Fee-for-Service Costs	\$10 billion
Increase Medicare Advantage Coding Intensity Adjustment	\$10 billion
Limit Rental Period for Oxygen Concentrators to 13 months	\$10 billion
Enact Various Anti-Fraud and Abuse Measures	\$5 billion
Modify Cost-Sharing	
Modernize Medicare Benefit by Creating a Unified Deductible and Out-of-Pocket Limit, Potentially with Low-income Protections	\$0-100 billion
<i>Reform Medigap Plans:</i>	
Restrict Use of Medigap Wraparound Plans Covering 1 st -Dollar Costs; OR	\$60 billion
Apply 15% Surcharge to All Near 1 st -Dollar Medigap Plan Premiums; OR	\$35 billion
Apply 15% Surcharge, but only for New Beneficiaries; OR	\$10 billion
Restrict TRICARE for Life 1 st -dollar Coverage	\$35 billion
Impose a 15% Premium Surcharge for Employer-provided Supplemental Plans that Provide 1 st -dollar Coverage	\$30 billion
Increase Pharmaceutical Copays for Military Retirees and Families	\$10 billion
Require Federal Retirees to Use FEHBP Value to Reduce Premiums	\$10 billion
Raise Medicare Age, while Protecting Low-Income Individuals	
Raise Medicare Age by 2 Months per Year Beginning in 2017	\$30 billion
Allow for a Medicare Buy-In Beginning at Age 65	\$0 billion



Additional Health Savings Options

Save on Prescription Drugs	
Ban Pay-for-Delay Agreements	\$5 billion
Modify Part D Low-Income Subsidies to Encourage the Use of Generics	\$30 billion
Reform Part B Drug Payments to Encourage the Use of Generics	\$10 billion
Accelerate Required Manufacturer Discounts for Brand Drugs in Donut Hole	\$15 billion
<i>Require Minimum Drug Rebates in Part D:</i>	
Impose 20% Minimum Drug Rebate for Branded Drugs in Part D; OR	\$150 billion
Impose Drug Rebates (23.1%) for All LIS and Duals (President's Budget); OR	\$135 billion
Impose Medicaid Drug Rebates for Duals Only (Simpson-Bowles)	\$85 billion
Increase Rebates for Medicaid	\$5-\$20 billion
Reduce Medicaid Payments	
Rebase Medicaid DSH Payments to Hospitals that Serve Low-Income Patients	\$5 billion
<i>Decrease Provider Tax Threshold:</i>	
Decrease Provider Tax Threshold to 5.5 Percent of Patient Revenues; OR	\$10 billion
Decrease Provider Tax Threshold to 3.5 Percent of Patient Revenues; OR	\$60 billion
Gradually Phase out Provider Tax Threshold by 2030 (Simpson-Bowles)	\$75 billion
Set Federal Payments for Administrative Costs at 50%	\$25 billion
Limit Federal Matching Rate to 50% for Targeted Case Management Services	\$5 billion
Apply Single Blended Matching Rate to Medicaid/CHIP	\$20 billion
Limit Medicaid Reimbursement of DME to Medicare Rates	\$5 billion
Reform Medical Malpractice Suits	
Implement a 3-year Statute of Limitations, a Fair Share Rule, Collateral Source Rules, and Limits on Lawyer Fees	\$15 billion
Institute Evidence Based Guidelines and Safe Harbor Protections	\$5 billion
Impose Caps on Non-Economic and Punitive Damages	\$50 billion
Reform Payment System	
<i>Expand the use of Bundled Payments:</i>	
Expand Bundled Payments Only for Inpatient Care; OR	\$25 billion
Expand Bundled Payments for Inpatient Care and 90 Days of Post-Acute Care	\$70 billion
Expand Competitive Bidding for Medical Equipment, Devices, and Other Goods and Services	\$10 billion
Expand Penalties for Avoidable Complications and Readmissions	\$10 billion
Introduce Competitive Bidding to Medicare Advantage	\$10 billion
Pilot Premium Support in Federal Employees Health Benefits Program	\$10 billion



Revenue Options

Revenue Options	Potential 2016-2025 Savings
Limit Tax Expenditures Across the Board	
Reduce the Benefit of Tax Expenditures for Upper Brackets, to 35%	\$150 billion
Reduce the Benefit of Tax Expenditures for Upper Brackets, to 28%	\$500 billion
Reduce the Benefit of Tax Expenditures for Upper Brackets, to 25%	\$750 billion
Limit Only Itemized Deductions to 28%, Replacing the Existing Pease Limitation	\$140 billion
Replace Pease with a Limit on Itemized Deductions of 6% of a Taxpayer's Income	\$65 billion
Replace Pease with a Limit on Itemized Deductions of \$250,000/\$500,000	\$120 billion
Reform State & Local Bond Exclusion	
Eliminate Exclusion for New Private Activity Bonds	\$30 billion
Replace New Bonds with 15% Credit	\$150 billion
Eliminate New Private Activity Bonds for Non-Profit Hospitals	\$10 billion
Reform Accelerated Depreciation	
Require Companies to Write Off Assets Based on their Normal Economic Life (Repeal Accelerated Depreciation)	\$780 billion
Repeal Accelerated Depreciation for C-Corporations Only	\$550 billion
Extend Asset Lifetimes to Adjust for Inflation	\$240 billion
Alter or Repeal Tuition Tax Benefits	
Repeal all Education Preferences Except the American Opportunity Tax Credit	\$200 billion
Repeal the AOTC, but Leave the Hope Credit in Place	\$100 billion
Streamline Education Benefits into a Single Credit, as in the Tax Reform Act	\$30 billion
Restrict the Domestic Production Activities Deduction	
Repeal Deduction for Domestic Manufacturing (Section 199)	\$190 billion
Repeal Section 199 for C-Corporations Only	\$140 billion
Restrict the Deduction to the Manufacturing Sector	\$60 billion
Change the Tax Treatment of Capital Gains	
Repeal Favorable Treatment for Dividends	\$250 billion
Tax Capital Gains as Ordinary Income, Capped at 28%	\$50-\$90 billion
Tax Carried Interest as Ordinary Income	\$5-\$15 billion
Require that Derivative Contracts be Taxed Annually at Ordinary Rates	\$15 billion
Reform the Mortgage Interest Deduction	
Convert the Mortgage Deduction to a 15% Credit	\$110 billion
Repeal Mortgage Deduction for New Second Homes and Equity Loans	\$35 billion
Alter the Charitable Donation Deduction	
Turn Charitable Deduction into 15% Non-Refundable Credit	\$175 billion
Turn Charitable Deduction into 25% Non-Refundable Credit with 2% Floor	\$160 billion
Make Charitable Deduction Above-the-Line with 2% floor	\$175 billion
Make Charitable Deduction Above-the-Line with 1% Floor (<i>Would Increase Giving</i>)	\$35 billion
Reform the Child Tax Credit	
Lower Eligibility Age to 13 and Younger	\$100 billion
Require Taxpayers to Include their Social Security Number when Claiming Refundable Credits for their Children	\$25 billion
Harmonize Definition of Child as Below 19 for CTC, EITC, and Dependent Exemption	\$20 billion
Reduce Computational Complexity for CTC	\$5 billion
Restrict the Deduction for State and Local Taxes	
Repeal the Deduction for State and Local Taxes	\$1,100 billion
Cap the Deduction at \$5,000 per Person	\$700 billion
Repeal the Income Tax Deduction Only	\$700 billion
Replace the Deduction With a 15% Credit	\$275 billion



Additional Revenue Options

Impose a Surtax	
1% Surtax on Income (AGI) Above \$200,000/\$250,000	\$225 billion
1% Surtax on Income (AGI) Above \$500,000/\$1 Million	\$100 billion
1% Surtax on Income (AGI) Above \$5 Million/\$10 Million	\$35 billion
Reform Various Workers' Benefits	
<i>Modify Tax Treatment of Employer-Provided Health Insurance:</i>	
Impose "Cadillac" Tax in 2016 on the Top 25% of Health Insurance Plans; OR	\$240 billion
Accelerate Existing "Cadillac Tax" by One Year to Start in 2017; OR	\$35 billion
Replace "Cadillac Tax" by Limiting the Tax Exclusion for the Top 20% of Plans	\$260 billion
Eliminate Health Exclusion Within Medicare Payroll Tax Only	\$200 billion
Repeal Health FSAs	\$60 billion
Eliminate Tax-Free Benefits for Employer-Provided Child Care	\$15 billion
Close "John Edwards/Newt Gingrich" Loophole	\$15-\$25 billion
Limit Deductibility of Executive Compensation	\$10-\$50 billion
Freeze Retirement Account Contribution Limits Through 2025	\$50 billion
Repeal Deduction for Employee Stock Ownership Plan (ESOP) Dividends	\$10 billion
Tax Fringe Benefits as Income	\$75 billion
Consolidate Retirement Accounts, Limit Annual Contributions to \$20,000 with 12% Savers Credit	\$125 billion
Repeal Exclusion for Employee Parking	\$50 billion
Repeal Exclusion for Employee Meals and Lodging	\$130 billion
Repeal Beneficial Tax Treatment of Voluntary Employee Beneficiary Association	\$40 billion
Repeal the Exclusion of Workers Compensation Benefits	\$50 billion
Increase Excise Taxes	
Reinstate Superfund Taxes	\$20 billion
Equalize Alcohol Taxes at \$15 per Proof Gallon	\$65 billion
Impose Tax on Sugary Soft Drinks	\$30 billion
Reinstate Unemployment Insurance Surtax	\$15 billion
Increase Oil Spill Liability Tax to 24 Cents	\$10 billion
Impose Financial Crisis Responsibility Fee	\$50-\$100 billion
Increase Tobacco Tax by 50 Cents	\$35 billion
Index Gas Tax to Inflation	\$35 billion
Increase Gas Tax by 15 Cents	\$170 billion
Alter the Estate Tax	
Increase Estate Tax Rate by 1%	\$5 billion
Enact Certain Anti-Abuse and Simplicity Reforms*	\$10 billion
Modify Rules on Valuation Discounts	\$20 billion
Treat Retirement Plans as Distributed Within 5 Years After Death	\$5 billion
Other Options	
Improve Miscellaneous Reporting and Enforcement Rules	\$10 billion
Reform Depreciation Schedule for Corporate Jets	\$5 billion
Eliminate Select Oil and Gas Preferences	\$25 billion
Eliminate Exclusion of Certain Allowances for Federal Employees Abroad	\$20 billion
Eliminate Exclusion for Foreign Income Earned Abroad	\$100 billion
Repeal Exclusion for Various Veterans' Benefits	\$80 billion
Treat Companies Owned and Managed in the U.S. as U.S. Companies	\$5 billion
Limit Retirement Accounts Over \$3.4 million	\$5 billion
Replace Last In First Out (LIFO) with First In First Out (FIFO) Accounting; Repeal Lower-of-Cost-or-Market Method	\$110 billion
Repeal Non-Deductible IRAs	\$5 billion



Other Mandatory Savings Options

Other Mandatory Savings Options	Potential 2016-2025 Savings
Cross-Cutting Savings	
Implement Chained CPI Government-Wide	\$375 billion
Implement Chained CPI Government-Wide with Low-Income Enhancements	\$330 billion
Fully Fund Program Integrity Measures, as in the President's Budget	\$60 billion
Reduce Agricultural Subsidies	
Reduce Subsidies to Crop Insurance Premiums	\$15 billion
Restrict Automatic Food Stamp Eligibility To Those Otherwise Eligible	\$10 billion
Alter Federal Retirement Benefits	
Calculate All Retirement Benefits From Highest 5, instead of 3, Years of Earnings	\$5 billion
<i>Increase Retirement Contributions:</i>	
Increase Retirement Contributions of Current Workers From 0.8% to 2%; OR	\$20 billion
Increase Contributions to Half of Costs (~6.35%) for New Employees; OR	\$20 billion
Increase Contributions to 6.35% for New Employees & 3.1% for Current Ones	\$45 billion
Reduce Education Spending	
Tighten Academic Requirements for Continued Pell Grant Eligibility	\$15 billion
Increase Credit Hour Requirement for Maximum Pell Grant	\$20 billion
<i>Reduce In-School Interest Subsidies:</i>	
Limit In-School Subsidies to Students Eligible for Pell Grants; OR	\$20 billion
Cut In-School Interest Subsidy in Half; OR	\$25 billion
Repeal In-School Interest Subsidies	\$50 billion
Reform and Expand Perkins Loans	\$10 billion
Lower Guarantee Agency Compensation on Rehabilitation Loans	\$5 billion
Transportation	
Freeze Spending at 2015 Levels	\$40 billion
Reduce Spending by 35%	\$170 billion
Eliminate Funding for Alternative Transportation	\$10 billion
Increase User Fees	
Make Permanent Existing GSE and Customs Fees	\$15 billion
Increase Spectrum User Fees and Allow New Auctions	\$5 billion
Increase Aviation Security User Fees	\$20 billion
Establish Surcharge for Air Traffic Services	\$10 billion
Establish User Fees for Abandoned Mines, Inland Waterways, and Nuclear Utilities	\$5 billion
Establish Fees to Fund Commodities Futures Trading Commission, Offset Rail Safety, and New Chemical Registration	\$5 billion
Index User Fees to Inflation	\$5 billion
Other Reform Options	
Increase PMA and TVA Rates	\$5 billion
Reduce Size of Strategic Petroleum Reserve	\$10 billion
Enact Postal Service Reform	\$10 billion
Eliminate Veterans Disability Benefits for Conditions Not Related to Military Service	\$20 billion
Allow Pension Benefit Guaranty Corporation to Increase Premiums	\$10 billion
Reduce Social Security Overpayments to Pension Beneficiaries	\$5 billion
Eliminate Disability Benefits for Workers Receiving Unemployment	\$5 billion



Methodology

All savings estimates are *very rough* and should be relied on for orders of magnitude rather than precise savings. All savings are estimated through 2025, and many assume implementation on January 1, 2016. A variety of sources were used to develop these savings estimates, with specific sources detailed below. Because all sources have different models that rely on different data and assume different behavioral responses, estimates are not strictly comparable.

Sources for Health Care Savings Options

Among the sources used are the Congressional Budget Office's (CBO) report on the President's FY2015 budget; CBO's "Budget Options" reports from 2014, 2011, and 2008; CBO's cost estimates of various bills; MedPAC's October 14, 2011 Letter to Congressional Committee Chairmen and Ranking Members on reforming the SGR system; MedPAC's June 2012 *Report to the Congress: Medicare and the Health Care Delivery System*; the National Coalition on Health Care's report *Curbing Costs, Improving Care: The Path to an Affordable Health Care Future*; the Center for American Progress's report *The Senior Protection Plan*; the Fiscal Commission's Moment of Truth report; documents from the 2011 Biden discussions; and CRFB's 2012 report *Health Care and Revenue Savings Options*.

Sources for Other Mandatory Savings Options

Among the sources used are CBO's report on the President's FY2014 budget; CBO's "Budget Options" reports from 2014 and 2011; CRFB's 2012 report *Health Care and Revenue Savings Options*, CBO's 2013 report, *The Federal Pell Grant Program: Recent Growth and Policy Options*, actual amounts spent under highway programs from the Department of Transportation, and various other cost estimates for legislation from the Congressional Budget Office.

Sources for Revenue Options

Among the sources used are the Joint Committee on Taxation's (JCT) estimates of the President's FY2015 budget proposals and the Tax Reform Act of 2014, CBO "Budget Options" reports from 2014 and 2011, the 2013 CBO report, the "The Distribution of Major Tax Expenditures in the Individual Income Tax System," various estimates from CBO, JCT, and the Tax Policy Center. In cases where we developed our own rough estimates, we relied on data and distribution tables from JCT, the Department of Treasury, the Tax Policy Center, and the Internal Revenue Service.