COMMITTEE for a RESPONSIBLE FEDERAL BUDGET

Committee for a Responsible Federal Budget
Statement for the Record for the House Committee on the Budget Hearing on "Reverse the Curse: Skyrocketing Health Care Costs and America's Fiscal Future"
January 21, 2026

Chairman Arrington, Ranking Member Boyle, and distinguished Members of the House Committee on the Budget:

Thank you for the opportunity to provide a written statement for the record for the Committee's January 21 hearing, "Reverse the Curse: Skyrocketing Health Care Costs and America's Fiscal Future."

We applaud the House Budget Committee for bringing attention to America's rising health care costs and precarious fiscal future. Our national debt is on an increasingly dangerous path. Deficits are approaching $2 trillion per year, and the debt is set to eclipse a record 106% of GDP in the next three years. Rising deficits and debt place upward pressure on interest rates, slow income growth, increase the cost of interest payments, and increase the likelihood of a fiscal crisis.

Federal health care programs are a major driver of the worsening fiscal picture. Health care currently represents the largest area of federal spending, consuming 28% of the budget, and is projected to continue to rise rapidly. Medicare alone is projected to cost $16.4 trillion over a decade, with the Medicare Hospital Insurance Trust Fund less than seven years from insolvency. Spending on Medicaid and ACA subsidies are projected to cost nearly another $10 trillion over a decade, and the tax exclusion for Employer-Sponsored Health Insurance is projected to lose over $5 trillion.

The significant fiscal burden imposed by federal health spending and tax breaks is driven in large part by the high underlying cost of health care. At the same time, the considerable amount of excessive waste and overpayment in the health care system offers immense opportunity for cost-saving, value-improving reforms.

In fact, a wide variety of potential reforms would generate budgetary savings while also reducing premiums and out-of-pocket costs and do so without a significant impact on overall health care outcomes. Lawmakers should focus on these "win-wins," which lower health care costs, improve operational efficiency, and benefit taxpayers and beneficiaries alike.

Some options to lower the cost of health care and reduce budget deficits include:

- ***Reducing Medicare Advantage (MA) Overpayments***: According to the Medicare Payment and Access Commission (MedPAC), MA plans were overpaid by $84 billion (20%) last year, and we estimate that overpayments will reach $1.2 trillion over the next ten years, mainly because "upcoding" and favorable selection makes Medicare enrollees appear sicker – and thus costlier – than they really are. A number of options could help reduce these overpayments. For example, the No UPCODE Act would save about $150 billion by improving risk scores. Improving coding intensity adjustments, as we discussed in 2021, could save $95 billion per percent increase and reforming the Quality Bonus Program for employer plans in Medicare Advantage, as we proposed in 2024, could save up to $170 billion.
- ***Adopting Site Neutral Payments***: The Medicare program pays higher rates for procedures delivered in hospitals than provided in clinics, incentivizing provider consolidation and driving up costs for the federal government and the private sector. Equalizing these payments, as we wrote about in 2021, would save the federal government $180 billion. Applying a similar policy to commercial insurance, as we suggested in 2023, could reduce deficits by an additional $117 billion, and save several times more for workers and employers.
- ***Reducing Prescription Drug Costs.*** Prescription drugs are a major source of federal health spending, and opportunities exist to reduce their cost. Standardizing Medicare Part B payments for similar types of drugs, as we proposed in 2021, could save nearly $80 billion. Addressing "evergreening" of name-brand prescription drugs – where drug manufacturers retain exclusive market access – could save an additional $10 billion.
- ***Reducing the Prices Paid by Employer-Sponsored Health Care.*** Employer-sponsored health insurance plans often spend more than twice as much as Medicare for the same services, imposing immense costs on workers, employers, and – mainly through the tax exclusion for health care benefits – the federal government. In 2021, we found that limiting commercial prices to 200% of Medicare would reduce health care spending by $1 trillion and save the federal government over $200 billion. In 2025, we showed that applying "reference pricing" to the Federal Employees Health Benefit (FEHB) program at the same rate could reduce costs by an additional $90 billion and save the federal government $60 billion.
- ***Funding ACA Cost-Sharing Reductions.*** Affordable Care Act (ACA) premiums are inflated by an estimated 10% to 20% because insurers rely on "silver loading" to directly pay for required cost-sharing reduction (CSR) subsidies, rather than being reimbursed by the federal government as originally intended. Restoring direct funding of CSRs would save the federal government $50 billion over a decade in reduced premium subsidies, while also rationalizing the ACA subsidies and reducing perverse incentives within the program.
- ***Limiting Medicaid Financing Schemes.*** State governments use a variety of tactics to increase the federal Medicaid match beyond its intended level and funnel additional dollars to hospitals and other providers. The One Big Beautiful Bill Act took important steps to limit provider taxes and excessive State Directed Payments. More can be done to limit these and other financing gimmicks.

Policymakers have many options to simultaneously reduce health care costs and improve our nation's fiscal outlook. We encourage Congress to take decisive action to do so.