

TALKING POINTS: OVERALL PLAN

September 18, 2011

- Today, the President sent to the Joint Committee his plan to jumpstart economic growth and job creation now - and to lay the foundation for it continue for years to come.
- The President's plan lives up to a simple idea: as a Nation, we can live within our means while still making the investments we need to prosper - from a jobs bill that is needed right now to long-term investments in education, innovation, and infrastructure. It follows a balanced approach: asking everyone to do their part, so no one has to bear all the burden. And it says that everyone - including millionaires and billionaires - has to pay their fair share.
- First, the plan includes the American Jobs Act - a set of ideas supported by both Democrats and Republicans that will put people back to work and put more money in the pockets of working Americans.
- Second, the President has put forward a plan to live within our means so that we can invest in the things that will power economic growth for decades to come: education, innovation, clean energy, and infrastructure. To do this, the President's plan follows a balanced approach to deficit reduction by drawing from across the Budget for savings and by asking everyone to pay their fair share.
 - o Taken together, the President's plan would produce net savings of more than \$3 trillion over the next decade, 'on top of the roughly \$1 trillion in spending cuts that the President already signed into law in the Budget Control Act - for a total savings of more than \$4 trillion over the next decade.
 - o This would bring the country to a place, by the middle of this decade, where current spending is no longer adding to our debt, debt is falling as a share of the economy, and deficits are at a sustainable level.
- Specifically, the President is proposing approximately \$580 billion in cuts and reforms to a wide range of mandatory programs.
- In health care programs, the President is recommending a series of reforms that builds on the historic savings and reforms in the Affordable Care Act to strengthen Medicare and Medicaid so that these vital programs are robust and healthy to serve Americans for years to come.
 - o These proposals will save \$248 billion in Medicare and \$72 billion in Medicaid and other health programs over 10 years, and extend the life of the Medicare Trust Fund by three years. This is accomplished in a way that does not unfairly shift risks onto the individuals they serve; slash benefits; or undermine the fundamental compact they represent to our Nation's seniors, people with disabilities, and low income families.
- The plan reflects the Administration's current policy of drawing down our troop presence in Afghanistan and the transition from a military to a civilian-led mission in Iraq locking in savings of \$1 trillion.
- Finally, the President calls on the Committee to undertake comprehensive tax reform and lays out five key principles. Reform should: 1) lower tax rates; 2) cut wasteful loopholes and tax breaks; 3) reduce the deficit by \$1.5 trillion; 4) boost job creation and growth; and 5) comport with the "Buffett Rule" that people making more than \$1 million a year should not pay a smaller share of their income in taxes than middle-class families pay.

o To advance this debate, the President is offering a detailed set of specific tax loophole closers and measures to broaden the tax base that, together with the expiration of the high-income tax cuts, would be more than sufficient to hit the \$1.5 trillion target for additional revenue. These measures include cutting tax preferences for high-income households, eliminating tax breaks for oil and gas companies, closing the carried interest loophole for investment fund managers, and eliminating special benefits for those who own corporate jets.

- We have little doubt that some of these proposals will not be popular with many of those who benefit from these affected programs and currently enjoy special tax breaks. These are tough choices that we had to make - and some of these changes are those that we would not make if it were not for our fiscal situation. But we are all in this together, and all of us must contribute to getting our economy moving again and on a firm fiscal footing.

- If we all don't pitch in, we know what happens if we try to do this much deficit reduction without a balanced approach - because the congressional Republicans have proposed to do that.

o Millionaires and big corporations keep all their special tax breaks and tax cuts while there are severe cuts in programs we need to grow and prosper and on which many Americans rely.

- It cuts between a quarter and a third in biomedical research, education, Head Start, and other areas critical to the long-term competitiveness of the country. Specifically:

- 320,000 kids would be cut from Head Start; and 75,000 teachers and staff would have to be laid off;

- the maximum Pell Grant award that 8 million students rely on would be cut;

- and our investments in energy programs and our clean energy future would be slashed by 70 percent.

- It ends Medicare as we know it and raises health care costs for seniors by more than \$6,000 in order to pay for \$1 trillion in tax cuts for millionaires and billionaires.

- And we know what happened if we do nothing: these problems become bigger and more challenging, eventually forcing deeper and more painful cuts; we will be unable to compete and win in the global economy; and economic growth and job creation will stall.

Living Within Our Means and Investing in the Future: The President's Plan for Economic Growth and Deficit Reduction

The Federal Workforce

The President's Plan for Economic Growth and Deficit Reduction lives up to a simple idea: as a Nation, we can live within our means while still making the investments we need to prosper from a jobs bill that is needed right now to long-term investments in education, innovation, and infrastructure. The plan follows a balanced approach: asking everyone to do their part so no one has to bear all the burden. And it says that everyone - including millionaires and billionaires has to pay their fair share. Pursuing a balanced approach to deficit reduction is critical to being able to keep our promises made to the men and women in the Federal civil service who serve their fellow Americans.

Already, the Obama Administration has established Labor-Management forums across the Federal government to improve the delivery of government services; increased the number of federal employees teleworking by more than 10,000; enhanced attention to employee feedback; and asked Congress to lower the cost of prescriptions drugs for federal employees. Still, as our work and our workforce change, and as benefit programs across the public and private sectors are being restructured to remain solvent, it's important that we modernize the programs that serve Federal employees to meet the needs of the future. Recognizing that we all must share in the burden of reducing the deficit and seeking to strengthen these programs for the long term, the Administration proposes to:

End the overpayment of federal contractor executives. It is unfair and inappropriate for Federal contractors to be paid multiples of what Federal employees are paid. To end the overpayment of contractors, the Administration proposes to abolish the formula and instead tie the cap to the salary of senior-most Federal officials - specifically, Executive Schedule Level I, currently approximately \$200,000. Setting the cap at this level would result in estimated savings of at least \$300 million annually, and would bring greater parity between federal and contractor executives' compensation.

Reform Federal civilian worker retirement. In order to make reasonable changes to Federal worker retirement, while maintaining the ability to attract and retain highly qualified individuals, the Administration proposes the following changes:

- Increase the employee contribution toward accruing retirement costs by 1.2 percent over three years beginning in 2013.
- While Federal employers' contribution for currently accruing costs of employee pensions would decline, Federal employers would pay an additional amount toward unfunded liabilities of the retirement system that would leave total agency contributions unchanged over the 10-year budget window. Under the revised plan, the employee pension would remain unchanged.
- Eliminate the Federal Employees Retirement System Annuity Supplement for newly hired employees.

These changes are not expected to have a negative impact on the Administration's ability to manage its human resources, nor inhibit the Government's ability to serve the American people. We estimate this proposal will generate \$21 billion in mandatory savings over 10 years.

The Administration is also calling on Congress to establish a Commission on Federal Public

Service Reform to develop recommendations on reforms to modernize Federal personnel policies and practices within fiscal constraints. Such reforms could include but would not be limited to compensation, staff development and mobility, and personnel performance and motivation. The Commission would be comprised of Members of the Congress, representatives from the President's Labor-Management Council, members of the private sector, and academic experts.

Provide Postal Service financial relief and undertake reform. The Administration recognizes the enormous value of the Postal Service (USPS) to the Nation's commerce and communications, as well as the urgent need for reform to ensure its future viability. USPS faces a long-term, structural operating deficit that has been exacerbated by the precipitous drop in mail volume in the last few years due to the economic crisis and the continuing shift toward electronic communication. Absent legislative intervention, USPS will be insolvent by the end of September 2011. Bold action is needed to ensure that USPS can continue to operate in the short-term and achieve viability in the long-run. To that end, the President is proposing a comprehensive reform package that would:

- Restructure Retiree Health Benefit pre-funding in order to reduce near-year Postal payments;
- Provide USPS with a two-year Federal Employees Retirement System employer contribution holiday to take into consideration the current \$6.9 billion surplus in Postal contributions;
- Reduce USPS operating costs by giving USPS authority to reduce mail delivery from six days to five days;
- Allow USPS to offer non-postal products and increase collaboration with state and local governments; and
- Give USPS the ability to better align the costs of postage with the costs of mail delivery.
- These reforms would provide USPS with over \$20 billion in cash relief over the next several years and in total would reduce the federal deficit by more than \$10 billion over 10 years.

Pursue balanced deficit reduction to prevent drastic cuts. We have little doubt that some of these proposals will not be popular among those who benefit from the affected programs. These are tough choices that we had to make - and some of these changes are those that we would not make if it were not for our fiscal situation. But we are all in this together, and all of us must contribute to getting our economy moving again and on a firm fiscal footing. If we all don't pitch in and try to do this much deficit reduction without a balanced approach, we know what will happen - because the congressional Republicans have proposed to do that. Millionaires and big corporations will keep all their special tax breaks and tax cuts while forcing severe cuts in the programs we need for America and its people to prosper. For instance, under their budget, Federal employees could be subject to the reckless cuts proposed by congressional Republicans, including a 10 percent reduction in the Federal workforce in just three years and immediate cuts in take-home pay ranging from 5 to 12 percent. We believe the President's plan is the most fair and effective way to keep the promises made to all Americans while achieving the deficit reduction needed to win the future.

Living Within Our Means and Investing in the Future: The President's Plan for Economic Growth and Deficit Reduction

Health Care

The President's Plan for Economic Growth and Deficit Reduction lives up to a simple idea: as a Nation, we can live within our means while still making the investments we need to prosper from a jobs bill that is needed right now to long-term investments in education, innovation, and infrastructure. It follows a balanced approach: asking everyone to do their part, so no one has to bear a disproportionate share of the burden. And it says that everyone - including millionaires and billionaires - must pay their fair share. Pursuing a balanced approach to deficit reduction is critical to being able to keep our promises made to all Americans.

In pursuit of that goal, the President signed into law the Affordable Care Act which not only eliminated insurance company abuses and expanded access to health insurance to tens of millions of Americans, but also took important steps to reduce health care cost growth for future years. Ensuring that Medicare and Medicaid remain strong for the future requires that we take additional steps. The Affordable Care Act was an historic step toward getting health care costs under control, but more needs to be done to protect its solvency as demographics change and costs continue to rise. We can do this without undermining the fundamental compact these programs represent.

To reduce the deficit and ensure the long-term sustainability of Medicare and Medicaid, the plan includes \$320 billion in health savings over the next decade. Due to the structural nature of the reforms, health savings are projected to grow to over \$1 trillion in the second decade. The \$248 billion in Medicare savings extend the life of the Medicare Trust Fund by roughly three years.

The \$73 billion in Medicaid and other health program savings include phased-in reforms and targeted savings and flexibility for States. The President's proposals:

- Create payment incentives for skilled nursing facilities to improve their care to prevent avoidable hospital readmissions.
- Include incentives for people with Medicare to choose high-value health services.
- Reform Medicare payments to better align with patient care costs.
- Accelerate the availability of lower-cost generic drugs.
- Take steps to make Medicaid more efficient, accountable, and flexible.

These proposals are presented in the context of a baseline that assumes legislative action to permanently prevent current-law reductions in Medicare physician payment rates, consistent with the Administration's commitment to fix the sustainable growth rate policy in a fiscally responsible way. Specifically, the Administration proposes to:

Improve access to affordable generics and lower Federal Employees Health Benefits

(FEHB) drug costs: The package includes proposals designed to improve access to affordable medications by prohibiting "pay for delay" agreements to increase the availability of generic drugs and biologics; reducing the exclusivity period for brand name biologics; streamlining FEHB pharmacy contracting.

Strengthen Medicare by cutting waste, fraud, and improper payments. Waste, fraud, and abuse in any government program is unacceptable in this fiscal environment and a needless drain on Medicare. To ensure that Medicare dollars are being spent prudently, the Administration proposes several policies, including recovering erroneous payments made to insurers participating in Medicare Advantage; dedicating penalties for failure to use electronic health records toward deficit reduction; updating Medicare payments to more appropriately account for utilization of advanced imaging; and requiring prior authorization for advanced imaging. These proposals would save approximately \$5 billion over the next 10 years.

Create Incentives for Use of High-Value Services. The plan includes targeted financial incentives to encourage new Medicare beneficiaries (not seniors currently on Medicare), starting in 2017, to use high-value services. Similar policies have been recommended by experts as a way to improve program performance in the long run and lower overall costs to the system.

They would:

- Modify Medicare Part B deductible for new beneficiaries. To encourage beneficiaries to seek high-value health care services, the Administration proposes to apply a \$25 increase to the Part B deductible in 2017, 2019, and 2021 for new beneficiaries. This proposal will save approximately \$1 billion over 10 years.
- Introduce home health cost-sharing for new Medicare beneficiaries. This proposal would create a home health copayment of \$100 per home health episode, applicable for episodes with five or more visits not preceded by a hospital or other inpatient post-acute care stay. This policy would only apply to new beneficiaries beginning in 2017 and is estimated to save approximately \$0.4 billion over 10 years.
- Encourage efficient supplemental coverage choices for new beneficiaries through a Medicare Part B premium surcharge. To encourage more-efficient health care choices the Administration proposes a Part B premium surcharge equivalent to about 15 percent of the average Medigap premium for new beneficiaries that purchase Medigap policies with particularly low cost-sharing requirements, starting in 2017. This proposal will save approximately \$2.5 billion over 10 years.

Reduce certain Medicare special payments: Medicare historically has supplemented its payments for services to maintain the robustness of the provider network. These payments have helped to offset bad debt that providers accrue, support the extra costs of training physicians, and protect the viability of rural providers. These goals are important, but evidence suggests that some rates are too high. The plan includes proposals to:

- Align Medicare policy with private sector practice in coverage of bad debts. For most eligible provider types, Medicare currently reimburses generally 70 percent of bad debts resulting from beneficiaries' non-payment of deductibles and copayments after providers have made reasonable efforts to collect the unpaid amounts. This proposal will align Medicare policy more closely with private sector standards by reducing bad debt payments to 25 percent for all eligible providers over three years starting in 2013. This will save approximately \$20 billion over 10 years.
- Reduce graduate medical education payments to better align with patient care costs. Medicare compensates teaching hospitals for the indirect costs stemming from inefficiencies created from residents "learning by doing." The Medicare Payment Advisory Commission (MedPAC) has

determined that these Indirect Medical Education (IME) add-on payments are significantly greater than the additional patient care costs that teaching hospitals experience. This proposal would reduce the IME adjustment by 10 percent beginning in FY 2013, and save approximately \$9 billion over 10 years.

- Better align Medicare payments to rural providers with the cost of care. Medicare makes a number of special payments to account for the unique challenges of delivering medical care to beneficiaries in rural areas. But these programs have expanded so that they now include one-third of all hospitals and have exceeded the scope and purpose for which they were created. The Administration proposes to improve the consistency of payments across hospital types, provide incentives for efficient delivery of care, and eliminate higher than necessary reimbursement. Together, these rural proposals will save approximately \$6 billion over 10 years.

Encourage efficient post-acute care. Medicare covers services in skilled nursing facilities (SNFs), long-term care hospitals (LTCHs), inpatient rehabilitation facilities (IRFs) and home health. Over the years, expenditures for these services have increased dramatically, and payments in excess of the costs of providing high quality and efficient care place a drain on Medicare. Moreover, payment for the same service varies by provider type. Recognizing the importance of these services, the Administration proposes the following policies that will save \$42 billion over 10 years and improve the quality of care:

- Adjust payment updates for certain post-acute care providers. This proposal would gradually realign payments with costs through adjustments to payment rate updates in 2014 through 2021 for these providers.
- Equalize payments for certain conditions. This policy would reduce the differences in payment by IRFs and SNFs for treatment of specified conditions to encourage care in the most clinically appropriate setting beginning in FY 2013.
- Encourage appropriate use of inpatient rehabilitation hospitals. This proposal would update compliance requirements to better ensure that the higher IRF payments apply to cases requiring this level of care.
- Adjust SNF payments to reduce hospital readmissions. Nearly 14 percent of Medicare patients that are discharged from a hospital to a SNF are readmitted to the hospital for conditions that could have been avoided. To promote high quality care in SNFs, this proposal reduces SNF payments by up to 3 percent beginning in FY 2015 for facilities with high rates of care-sensitive, preventable hospital readmissions.

Align Medicare drug payment policies. There are substantial differences in rebate amounts and net prices paid for brand name drugs under Medicare versus Medicaid, with Medicare receiving significantly lower rebates and paying higher prices. Moreover, Medicare per capita spending in Part D is growing significantly faster than spending in Parts A or B. This proposal would allow Medicare to benefit from the same rebates that Medicaid receives for brand name and generic drugs provided to beneficiaries who receive the Medicare Low-Income Subsidy beginning in 2013. This option is estimated to save \$135 billion over 10 years. Increase Medicare Parts Band D premiums for higher-income beneficiaries. Under Medicare Parts Band D, certain higher-income beneficiaries must pay higher premiums. Beginning in 2017, the Administration proposes to increase income-related premiums under Medicare Parts B and D. It also extends the freeze in the income thresholds until 25 percent of beneficiaries pay the higher premium. This proposal will save approximately \$20 billion over 10 years.

Strengthen the Independent Payment Advisory Board (IPAB): The proposal would strengthen IPAB by reducing its growth rate target (from GDP per capita plus 1 percent to plus 0.5 percent). It would also provide additional tools like the ability to consider value-based benefit design and enforcement mechanisms. IPAB will continue to be prohibited from making recommendations to ration care, increase beneficiary premiums or cost sharing, or restrict benefits.

Reduce fraud, waste, and abuse in Medicaid. Medicaid funds should not be wasted on fraudulent claims, abuses of the rules, or general waste in implementing the program. The following policies will save \$1.4 billion over the next 10 year while reducing waste, fraud, and abuse:

- Strengthen third-party liability for Medicaid beneficiary claims.
- Require manufacturers that improperly report items for Medicaid drug coverage to fully repay States.
- Track high prescribers and utilizers of prescription drugs in Medicaid.
- Enforce Medicaid drug rebate agreements.
- Increase penalties on drug manufacturers for fraudulent non-compliance with Medicaid drug rebate agreements.
- Require drugs to be properly listed with the FDA to receive Medicaid coverage.
- Prohibit States from using Federal funds as the State share of Medicaid or CHIP, unless specifically authorized by law.

Increase State flexibility and streamline oversight in Medicaid: This proposal would give State the flexibility to use a "benchmark" benefits plan for optional populations with income above 133 percent of the Federal poverty line. It also would consolidate and streamline redundant error rate programs.

Accelerate State innovation waivers: This proposal empowers States to develop their own strategies to ensure their residents have the same access to high quality, affordable health care as would be achieved under the Affordable Care Act. It does so by making the health reform law's State innovation Waivers available starting in 2014, three years earlier than under the current law. These State strategies would provide affordable insurance coverage to at least as many residents as without the waiver, and must not increase the Federal deficit.

Limit Medicaid provider taxes. Many States impose taxes on health care providers to help finance the State share of Medicaid program costs. While often a source of real financing, some States increase payments to those same providers in the amount of the revenue they receive in taxes, drawing Federal Medicaid matching payments with little benefit to the low-income populations the program serves. The Administration proposes to limit these types of State financing practices by phasing down, but not eliminating, Medicaid provider taxes. By delaying the effective date until 2015, the proposal gives States time to prepare for the change. This proposal is projected to save \$26.3 billion over 10 years.

Simplify Federal Medicaid payment formulas for States. Under current law, States face a patchwork of different Federal payment contributions for individuals eligible for Medicaid and the Children's Health Insurance Program (CHIP). Beginning in 2017, this proposal would replace the currently complicated formulas with a single matching rate specific to each State based on enrollment starting in 2014 that automatically increases if a recession forces enrollment and State costs to rise. The full Federal funding for people gaining Medicaid coverage in 2014 through 2016 would be preserved. The proposal may improve coverage since it

gives States a financial incentive to enroll newly eligible individuals for Medicaid early. The more newly eligible people they enroll in the first year or so of the program, the higher the blended matching rate will be in 2017. This proposal is projected to save \$14.9 billion over 10 years.

Reduce unnecessary taxpayer Medicaid spending on overpayments for medical equipment. This proposal limits Federal reimbursement for a State's Medicaid spending on certain durable medical equipment services to what Medicare would have paid in the same State for the same services. This proposal is projected to save the Federal government \$4.2 billion and State governments more than \$3 billion over 10 years.

Re-base Medicaid formula for supporting hospitals that serve low-income Americans in 2021. Supplemental disproportionate share hospital payments are intended to help support hospitals that provide care to disproportionate numbers of low-income and uninsured individuals. The Administration proposes to better align these future Medicaid supplemental payments to hospitals with reduced levels of uncompensated care. This proposal is projected to save \$4.1 billion over 10 years.

Better target Medicaid resources by updating income definition. Starting in 2014, eligibility for Exchange premium tax credits and cost sharing reductions, Medicaid, and CHIP will be determined based on an individual's or family's modified adjusted gross income (MAGI). The Administration proposes to amend this definition for purposes of health insurance assistance programs to include total Social Security benefits, consistent with current Medicaid practice, which will enable States to better target those in need. This proposal is projected to save \$14.6 billion over 10 years.

Prioritize prevention and public health fund investment: The Administration proposals to improve its targeting of the Prevention and Public Health Fund, maintaining \$13.8 billion for effective, evidence-based activities, while reducing the Fund by \$3.5 billion over 10 years. Pursue balanced deficit reduction to prevent drastic cuts. We have little doubt that some of these proposals will not be popular with all those that they affect. These are tough choices that we had to make -- and some of these changes are those that we would not make if it were not for our fiscal situation. But we are all in this together, and all of us must contribute to getting our economy moving again and on a firm fiscal footing. If we all don't pitch in, we know what happens if we try to do this much deficit reduction without a balanced approach - because the congressional Republicans have proposed to do that. Millionaires and big corporations keep all their special tax breaks and tax cuts while there are severe cuts in programs we need to grow and prosper on which many Americans rely. For instance, under their budget, Medicare would end as we know it. It would be turned into a voucher program, and since that voucher would not keep pace with health care costs, a typical 65-year-old in the first year of this new arrangement would see her out-of-pocket costs increase by \$6,400. And their proposed restructuring of Medicaid would cut funding by a third and could leave an estimated 50 million Americans in need without health insurance.

We believe the President's plan is the most fair and effective way to keep the promises made to all Americans while achieving the deficit reduction needed to win the future.

**Living Within Our Means and Investing in the Future:
The President's Plan for Economic Growth and Deficit Reduction
Seniors**

The President's Plan for Economic Growth and Deficit Reduction lives up to a simple idea: as a Nation, we can live within our means while still making the investments we need to prosper from a jobs bill that is needed right now to long-term investments in education, innovation, and infrastructure. It follows a balanced approach: asking everyone to do their part, so no one has to bear a disproportionate share of the burden. And it says that everyone - including millionaires and billionaires - must pay their fair share. Pursuing a balanced approach to deficit reduction is critical to being able to keep the sacred promise we have made to seniors to provide them quality, affordable health care.

In pursuit of that goal, the President signed into law the Affordable Care Act, which not only eliminated insurance company abuses and expanded access to health insurance to tens of millions of Americans, but also took important steps to reduce health care cost growth and added years of solvency to the Medicare Trust Fund. The law also added an annual wellness visit to Medicare and eliminated cost sharing for preventive benefits. It also closes the Medicare Part D "donut hole" by 2020, starting this year with a 50 percent discount for brand-name drugs and a 7 percent discount for generic drugs in the donut hole. In addition, the Administration helped seniors weather the recession by providing \$250 payments to millions of Social Security, Veterans, and Railroad retirees, as well as Federal and State pensioners under the Recovery Act. The Administration also established a system of automatic workplace pensions and created the Caregiver Initiative to help families take care of aging relatives and increase supportive services to help seniors remain in their community.

But to help ensure that these programs are strong for the future, we need to act now. The Affordable Care Act was an historic step toward getting health care costs under control. More can be done to protect its solvency as demographics change and costs continue to rise. Similarly, there are modest technical reforms that can be made to retirement programs to improve the way they work. And we can do all of this without undermining the fundamental compact these programs represent to our Nation's seniors and people with disabilities. The President's Plan affirms a continued commitment to a permanent, fiscally responsible reform of the Medicare Sustainable Growth Rate (SGR) policy for physician payments. The package is presented in the context of a baseline that assumes legislative action to permanently prevent current-law reductions in Medicare physician payment rates. Additionally, to reduce the deficit and ensure the long-term solvency of the benefits America's seniors rely on today, the Administration proposes to:

Strengthen Medicare by cutting waste, fraud, and improper payments. Waste, fraud, and abuse in any government program is unacceptable in this fiscal environment and a needless drain on Medicare. To ensure that Medicare dollars are being spent prudently, the Administration proposes several policies, including recovering erroneous payments made to insurers participating in Medicare Advantage; dedicating penalties for failure to use electronic health records toward deficit reduction; updating Medicare payments to more appropriately account for utilization of advanced imaging; and requiring prior authorization for advanced imaging. These proposals would save approximately \$5 billion over the next 10 years.

Reduce certain Medicare special payments: Medicare historically has supplemented its payments for services to maintain the robustness of the provider network. These payments have helped to offset bad debt that providers accrue, support the extra costs of training physicians, and protect the viability of rural providers.

These goals are important, but evidence suggests that some rates are too high. The plan includes proposals to: align Medicare policy with private sector practice in coverage of bad debts; reduce graduate medical education payments to better align with patient care costs; better align Medicare payments to rural providers with the cost of care.

Encourage efficient post-acute care. Medicare covers services in skilled nursing facilities (SNFs), long-term care hospitals (LTCHs), inpatient rehabilitation facilities (IRFs) and home health. Over the years, expenditures for these services have increased dramatically, and payments in excess of the costs of providing high quality and efficient care place a drain on Medicare. Moreover, payment for the same service varies by provider type. Recognizing the importance of these services the Administration proposes policies that will save \$42 billion over 10 years and improve the quality of care.

Increase Medicare parts Band D premiums for higher-income beneficiaries. Under Medicare Parts Band D, certain higher-income beneficiaries must pay higher premiums. Beginning in 2017, the Administration proposes to increase income-related premiums under Medicare Parts Band D and extend the freeze on the income thresholds for who pays these extra premiums. This proposal will save approximately \$20 billion over 10 years.

Create incentives for use of high value services. The plan includes targeted financial incentives to encourage new Medicare beneficiaries (not seniors currently on Medicare), starting in 2017, to use high-value services. Similar policies have been recommended by experts as a way to improve program performance in the long run and lower overall costs to the system.

They would:

- Modify Medicare Part B deductible for new beneficiaries. To encourage beneficiaries to seek high-value health care services, the Administration proposes to apply a \$25 increase to the Part B deductible in 2017, 2019, and 2021 for new beneficiaries. This proposal will save approximately \$1 billion over 10 years.
- Introduce home health cost-sharing for new Medicare beneficiaries. This proposal would create a home health copayment of \$100 per home health episode, applicable for episodes with five or more visits not preceded by a hospital or other inpatient post-acute care stay. This policy would only apply to new beneficiaries beginning in 2017 and is estimated to save approximately \$0.4 billion over 10 years.
- Encourage efficient supplemental coverage choices for new beneficiaries through a Medicare Part B premium surcharge. To encourage more efficient health care choices, the Administration proposes a Part B premium surcharge equivalent to about 15 percent of the average Medigap premium for new beneficiaries that purchase Medigap policies with particularly low cost-sharing requirements, starting in 2017. This proposal will save approximately \$2.5 billion over 10 years.

Strengthen the Independent Payment Advisory Board (IP AB): The proposal would strengthen IPAB by reducing its growth rate target (from GDP per capita plus 1 percent to plus 0.5 percent). It would also provide additional tools like the ability to consider value-based benefit design and enforcement mechanisms. IPAB will continue to be prohibited from making recommendations to ration care, increase beneficiary premiums or cost sharing, or restrict benefits.

Extend the Medicare Trust Fund by roughly three years: Together, these policies reduce Medicare spending by \$248 billion over ten years, lowering costs to taxpayers and improving

Medicare's long-run solvency. They are presented in the context of a Medicare baseline that assumes legislative action to permanently prevent reductions in Medicare physician payment rates, consistent with the Administration's commitment to fix the sustainable growth rate policy.

Strengthen the safety net for workers' retirement benefits. All Americans deserve a secure retirement. The Administration has proposed to create new opportunities to save for retirement by establishing a system of automatic workplace pensions and doubling the small employer pension plan start-up credit. In addition, the Administration has issued regulations that would increase 401(k) fee disclosure, so that workers can make more informed choices about how to invest their retirement savings. The Pension Benefit Guaranty Corporation (PBGC), which protects the retirement security of 44 million workers in defined benefit pension plans, is also critical to the success of a robust pension system. The Administration proposes to encourage companies to fully fund their pension benefits and ensure PBGC's continued financial soundness by giving the PBGC Board the authority to adjust premiums to better account for the risk the agency is insuring. This proposal would raise much-needed revenue for PBGC while providing incentives for firms both to continue offering pensions and to improve plan funding so they can keep their pension promises. Without action, the PBGC's deficit will increase and we may face, for the first time, the need for an infusion of taxpayer funds to keep PBGC solvent.

Pursue balanced deficit reduction to prevent drastic cuts. We have little doubt that some of these proposals will not be popular with all those that they affect. These are tough choices that we had to make -- and some of these changes are those that we would not make if it were not for our fiscal situation. But we are all in this together, and all of us must contribute to getting our economy moving again and on a firm fiscal footing. If we all don't pitch in, we know what happens if we try to do this much deficit reduction without a balanced approach - because the congressional Republicans have proposed to do that. Millionaires and big corporations keep all their special tax breaks and tax cuts while there are severe cuts in programs we need to grow and prosper on which many Americans rely. For instance, under their budget, Medicare would end as we know it. It would be turned into a voucher program, and since that voucher would not keep pace with health care costs, a typical 65-year-old in the first year of this new arrangement would see her out-of-pocket costs increase by \$6,400. This voucher would not guarantee the same level of benefits and choice that seniors now have, leaving it to private health plans to set benefit packages and limit choice of doctors and hospitals. In addition, the GOP plan would eliminate prescription drug coverage in the donut hole that the Affordable Care Act fills. And the Republican budget would cut the funding used to process claims and for customer service by 20 percent for Social Security.

We believe the President's plan is the most fair and effective way to keep the promises made to all Americans while achieving the deficit reduction needed to win the future.