Deficit Reduction:

What Disability Advocates Need to Know

National Policy Matters

The Arc

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Introduction

The Arc succeeded in helping to protect Medicaid in last year's deficit reduction law, the Budget Control Act. Now there is mounting pressure to find an alternative to cuts mandated by the Budget Control Act or to find additional cuts in the federal budget to reduce the deficit further. We must renew our efforts to protect the four major programs that impact people with intellectual and developmental disabilities (I/DD) — Medicaid, Medicare, Social Security, and Supplemental Security Income (SSI) — in addition to the many discretionary programs that people with disabilities rely on to be a part of their community.

Disability advocates must remain engaged throughout the coming months to minimize cuts to these programs and protect eligibility and services that are vital to the lives of people with disabilities. Advocates must urge Congress to provide sufficient revenues to fund critical services and supports needed by individuals with I/DD to live and work in the community.

The bottom line is that our work is far from over, and Medicaid continues to be at risk. This analysis aims to educate advocates about the current fiscal situation and its potential impact on people with I/DD.

Why is Deficit Reduction Congress' Top Priority?

The U.S. has a large and increasing national debt and continues to spend more than we take in every year. Concern over this fiscal situation led Congress to enact the Budget Control Act (BCA) last year. The BCA imposes mandatory, across-the-board cuts in federal spending over the next decade which will include drastic cuts to discretionary programs that people with disabilities rely on to live in the community, like housing, education, and employment. See "Appendix: What Did the Budget Control Act Do?" However, the BCA does not impact Medicaid, the lifeline for people with I/DD, and also exempts Social Security and Supplemental Security Income.

The BCA attempts to address our country's fiscal situation, but it also forces difficult choices that have proven politically challenging. Now many in Congress are considering alternatives to the BCA's across-the-board cuts, and some are also looking for ways to make even deeper cuts in the federal budget.

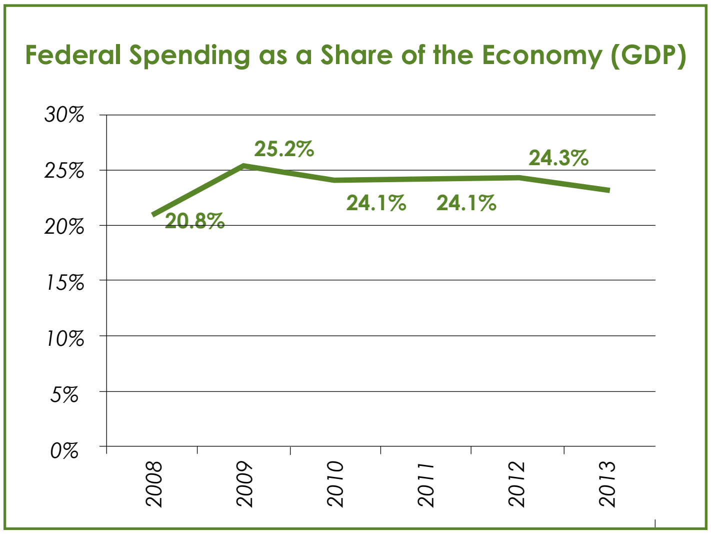
Where did the Nation's Deficits and Debt Come From?

Deficits are the annual differences between spending and revenue and those annual deficits accumulate to create our National debt. Therefore, we have to look at both sides of the budget equation to understand the situation we are in.

Federal Spending

One common way to measure federal spending is to compare it to the size of the overall U.S. economy. This puts the level into context, helping account for population growth, inflation, and other factors that affect spending. The average spending to GDP ratio over the last 40 years was 20.6%. In the last six years it has risen slightly.

This increase in federal spending due to various factors, including the economic downturn, which has resulted in more people qualifying for low income programs like Medicaid and the Supplemental Nutrition Assistance Program (food stamps). It has also

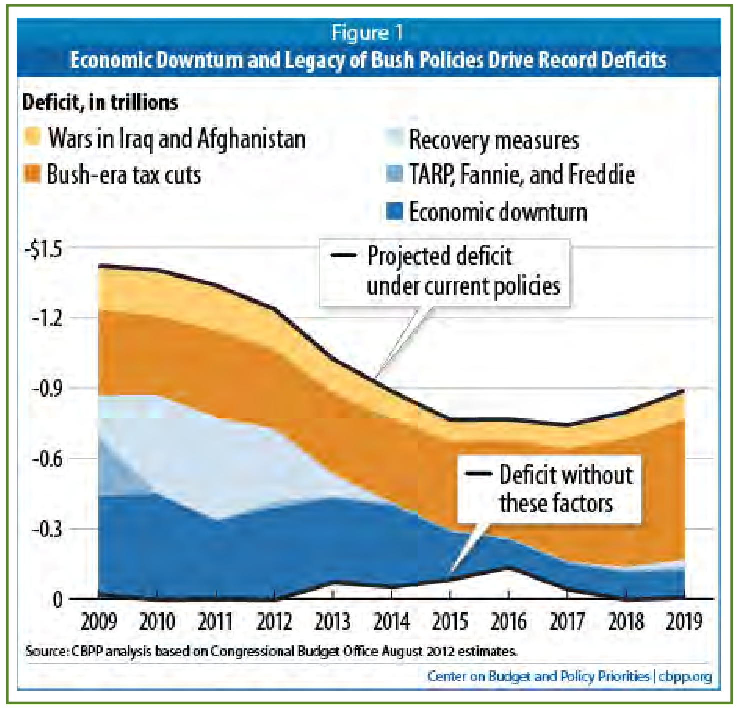


resulted from important "bail out" programs to protect the housing and auto industries; the wars in Iraq and Afghanistan; and economic stimulus.

Federal Revenue

As shown in Figure 1, tax policy is projected to be the largest driver of our annual deficits. The 2001 and 2003 tax cuts (commonly called the Bush-era tax cuts) will contribute more to our deficits than federal spending on the wars in Afghanistan and Iraq, the economic stimulus law, the Troubled Asset Relief Program (TARP) that was created to help financial institutions address the subprime mortgage crisis, or the bailouts of the mortgage giants known as Fannie Mae and Freddie Mac, and the recession that began in 2008.

While recent news shows progress in our nation's economic recovery, the continued slow pace of economic stabilization and growth has resulted in both reduced tax revenue and increased spending. In addition, the aging of our population over the next few decades will create more demand for health and long term services and support needs.



The Fiscal Cliff

What is the "Fiscal Cliff"?

As we approach the end of 2012, a range of tax laws - including the "Bush-era tax cuts" - are about to expire. This coincides with the beginning of the spending cuts prescribed by the BCA. Collectively, the expiration of multiple tax cuts and the beginning of BCA spending cuts is referred to as the "fiscal cliff" and totals about $7 trillion over 10 years.

The "fiscal cliff" creates a series of tax and spending policy choices that are politically very difficult. Congress must decide:

1. **Should some or all of the tax cuts be extended?** Congress could choose to extend some or all of these tax breaks based on income, or to let the tax cuts expire. See the Tax Policy Center website to learn more about the various expiring tax cuts.
2. **Should Medicare physician payments remain constant?** If extended, physicians would retain their temporary 29% increase in Medicare payment rates, adding $300 billion to our debt over 10 years.
3. **Should the Budget Control Act's automatic across-the-board cuts be cancelled or altered?** If Congress cancels the BCA cuts, discretionary programs would not be cut by the additional 8-10%, adding $1.2 trillion to our debt over 10 years. If this happens, there will be lively discussion about what, if anything, to replace this plan with and when to act.

Why Haven't Other Plans Been Agreed To by Now?

There are significant differences in opinion on how to handle our fiscal situation. One major issue is whether or not tax increases will be part of the plan. Some Members of Congress want a plan that achieves deficit reduction through spending and entitlement cuts only, while others insist that taxes must be part of the equation. There are also serious differences over what sorts of revenue increases are acceptable, as well as how to allocate any budget cuts across different programs.

Can the Fiscal Cliff be Avoided?

Congress must decide if it will delay, repeal, or offset parts of the fiscal cliff and in what time frame it will act. Congress will also have to decide whether or not the costs of any tax break extensions, or revisions to the BCA, would have to be offset by cuts in other programs. The first opportunity to tackle these issues will be during what is called a "lame duck" session between the elections and before the newly elected Members of Congress are sworn in to office in January.

Some of the options for when and how Congress may act include:

- Developing an alternative deficit reduction plan before January of 2013. There are serious discussions underway on about whether it is possible to create a "framework" to avoid the fiscal cliff. A framework would outline amounts of money to be cut from spending programs, as well as revenue increases. If Congressional leaders and the President agree on a framework, the relevant Congressional committees would then be charged with developing specific plans to meet these goals. This more specific committee work would likely occur during 2013.

- Temporarily extending the tax policies causing a showdown down the road.
- Allowing the tax policies to expire and the spending cuts to take effect, as Congress can always retroactively restore spending cuts and or tax breaks.

Does Avoiding the Fiscal Cliff Put Medicaid at Risk?

Medicaid will be a target for cuts if Congress decides that spending in other areas needs to be cut to pay for the tax cuts or to pay for avoiding the Medicare cuts to providers.

Is Social Security At Risk?

Social Security may also be at risk. However, many members of Congress have taken the position that Social Security should not be part of any deficit reduction efforts as the program is self-financed and has not contributed to the deficit.

Are There Any Specific Proposals on the Table?

While a number of ideas and previously developed plans are being considered, the leading one at the moment is an update to the plan put forward by the co-chairs of the National Commission on Fiscal Responsibility and Reform, Erskine Bowles and Alan Simpson. The plan is known as "Bowles-Simpson."

What is in "Bowles - Simpson?"

The Bowles-Simpson plan includes a number of recommendations that The Arc supports (such as a balanced approach to deficit reduction that doesn't rely solely on spending cuts) and many that we have serious concerns about or directly oppose.

The 2010 Bowles-Simpson plan would have reduced federal deficits by $6.3 trillion -- with $2.6 trillion in program cuts, $2.9 trillion in revenue increases, and $0.8 trillion in interest savings. The Center on Budget and Policy Priorities has determined that about $1.5 trillion of the 2010 Bowles-Simpson program cuts have already occurred, and that the updated Bowles-Simpson plan would further reduce federal deficits by about **$4.6 trillion** over 10 years through:

- an additional $1.4 trillion cut from program spending,
- $2.6 trillion raised in revenue, and
- $0.6 trillion in interest savings.

The 2010 Bowles-Simpson plan did not contain specific details on how to achieve all of the savings it envisioned but suggests cuts in several areas of concern to The Arc.

Discretionary programs. The proposal would return all federal spending to pre-FY 2008 levels, a significant cut to current funding levels. After the programs were cut, then their future growth would be capped. Programs would not be allowed to grow any faster than half the rate of inflation.

Medicaid. The report stops short of calling for a Medicaid block grant but does suggest it is an option that Congress should consider. It also recommends more use of the existing waiver authorities to test ways to cut costs in Medicaid. It calls for saving federal money by spending less on administrative costs and by not reimbursing states when they raise money from providers. The net effect would be that states receive less funding from the federal government for their Medicaid program.

Social Security. The plan calls for raising the retirement age for Social Security and reducing cost-of-living adjustments (COLAs) for beneficiaries. These changes would cut individual's Social Security benefits and, in the case of COLA reductions, would also cut Supplemental Security Income benefits.

Overall Health Care Spending. The report calls for an overall cap on health care spending. This would mean that the health care programs could not grow to meet increased demands caused by the aging population, higher use of health care services, more expensive technology and treatments, and other factors that contribute to health care costs rising. The report also calls for limits on medical malpractice lawsuits.

While these proposals did not receive support from a majority of the Fiscal Commission, they have formed the outlines of an updated Bowles-Simpson plan to tackle the debt. Each of these ideas would need to be translated into legislative proposals before Congress could address it.

What's Next? The Lame Duck Session & the Tax Debate

With the White House and Congress holding a rough status quo after the election, it will continue to be difficult to find consensus on a deficit reduction agreement with a divided government. Revenue, which has by far been the biggest obstacle in reaching a deal, is expected to remain a highly divisive and partisan issue.

What Might Happen in the Lame Duck Session?

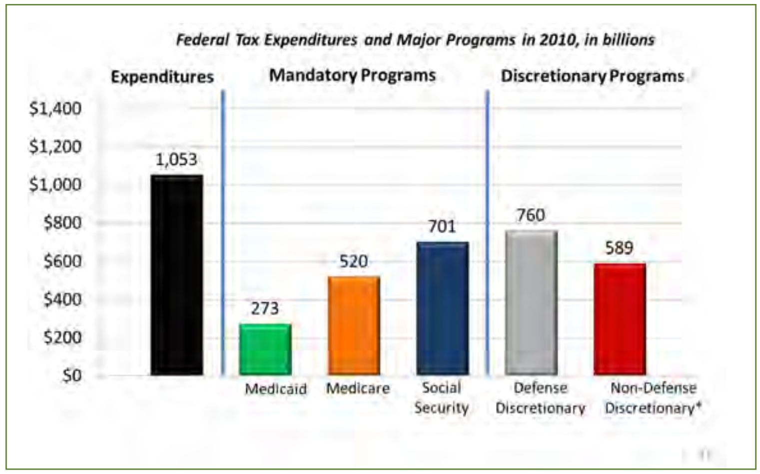
There are several critical and interconnected things that may happen in the 6 - 7 week lame duck session of Congress. If a deficit reduction framework can be agreed to in this session, Congress may then vote to raise the debt ceiling again, extend some or all of the expiring tax cuts, cancel the automatic spending cuts, and extend the Medicare physician payment rate increase.

Why Must Revenues Be Part of Deficit Reduction?

The Arc shares in our nation's goal of reducing the deficit and returning to a path of fiscal sustainability. However, The Arc's position is that this cannot be done through spending cuts alone. Revenues must be part of the equation. There are three main reasons:

1) The tax cuts enacted in 2001 and 2003 during the presidency of George W. Bush have greatly contributed to our national deficits and debt. Not extending the Bush-era tax cuts for the top 2% of households that earn more than $250,000 per year would be a first step in reforming the tax system and developing a balanced approach to deficit reduction (particularly since all recently enacted deficit reduction has come from spending cuts alone).

2) A large amount of federal spending takes place through the tax code. The federal government spends more than $1 trillion a year on "tax expenditures" — credits, deductions, and other targeted tax breaks. This is more than is spent on Social Security each year or on Medicaid and Medicare combined as shown below:



3) Taking taxes off the table would force devastating cuts in many programs that are critical to people with disabilities. To achieve the additional $1.2 trillion in savings from the across-the-board cuts over the next ten years (as the Budget Control Act requires) from the spending side alone would require cutting an average of $110 billion annually, starting in 2013.

This would be particularly harmful for people with disabilities who have seen most of their priority programs level funded for the last 5 years. When factoring in inflation, this means that most of our priority programs have already been cut. Visit www.thearc.org to see disability-related program funding reductions when factoring in inflation. People with disabilities should not be asked to sacrifice more.

Medicaid at Risk - What Advocates Can Do

Why is Medicaid particularly at Risk in Going Forward?

Though Medicaid was protected at certain steps in the Budget Control Act, Congress can act to change the law and make cuts or structural changes in the Medicaid program.

Many factors place Medicaid in the cross-hairs of any deficit reduction plan, including:

Costs. While Medicaid covers both acute health care and long term services and support, health care costs are growing much faster than other costs.

The Economy. The recession has resulted in more low income people who qualify for Medicaid.

Demographics. We have an aging population with more than 10,000 people turning 65 every day in the U.S., and seniors use far more health care than younger people.

Politics. Medicare and Social Security are politically difficult to cut, and because Social Security is self-financed, cutting Social Security typically is not counted toward budget deficit reduction. In addition, Governors want more flexibility with Medicaid as they still struggle with state budget deficits.

References:

The Budget Control Act of 2011 (Debt Ceiling Deal) Frequently Asked Questions, OMB Watch

How the Potential Across-the-Board Cuts in the Debt Limit Deal Would Occur, Center on Budget and Policy Priorities

What Was Actually in Bowles-Simpson — And How Can We Compare it With Other Plans?, Center on Budget and Policy Priorities

CURRENT TIMELINE OF EVENTS

Oct 1, 2011

- Beginning of FY 2012
- Cuts resulting from spending caps begin to take effect (a 4% reduction from the baseline in 2012)

Oct 1, 2012

- Beginning of FY 2013

Nov 6, 2012

- Election Day

Nov 13 – Dec 31, 2012

- “Lame Duck” session of Congress falls sometime in this date range

Jan 1, 2013

- Fiscal cliff is reached. Automatic cuts (an additional 8% reduction in 2013) to non-exempt programs begin to go into effect unless Congress enacts legislation repealing all of some of the cuts, and/or enacts alternative deficit reduction plan

How Can We Protect Critical Programs for People with I/DD?

The Arc's network needs to make its voice heard. Right now thousands of interest groups are working hard to lobby their elected officials on behalf of the programs that are important to them. Our case is compelling and our stories are powerful, but only if you act.

1. **Reach out** to your elected officials and tell them: Congress must balance deficit reduction between program cuts and revenues. Congress should cancel the across-the-board cuts (known as the "sequester") and replace them with a more reasonable deficit reduction package that does not come at the expense of Medicaid, Social Security, or Supplemental Security Income. Congress should fully exempt Non-Defense Discretionary programs from any further cuts.

2. **Get involved** in our campaign. Sign up for our Action List and visit The Arc's Don't Cut our Lifeline campaign to learn more about how you can help to protect the most critical services our constituents.

3. **Tell us** about which non-defense discretionary programs your chapter has received funding from. Complete the brief survey at: http://fs16.formsite.com/u024508129n-cearc/Federal_Discretionary/index.html

4. **Have your chapter get involved** with:

    - NDD United, the coalition to protect non-defense discretionary programs at: http://publichealthfunding.org/index.php/ndd_united1/
    - Americans for Tax Fairness at: http://www.americansfortaxfairness.org/
    - The Action at: http://www.theaction.org/

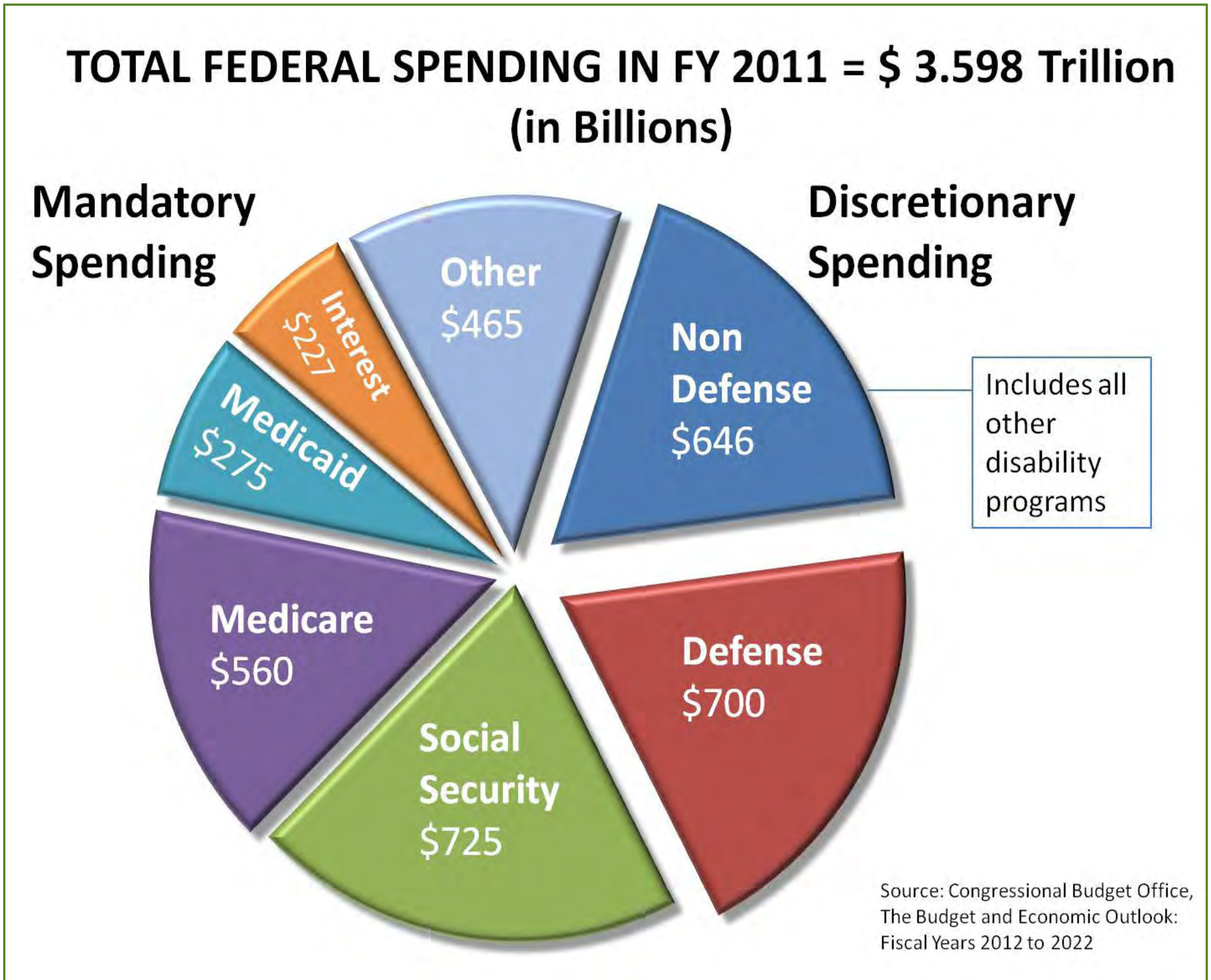
Appendix: What Did the Budget Control Act Do?

The Budget Control Act of 2011 (BCA) created a three step process to raise the debt ceiling by up to $2.8 trillion and reduce deficits by $2.3 trillion over 10 years.

Mandatory vs. Discretionary Spending – Why is this So Important?

Discretionary spending refers to spending set by annual appropriation decisions made by the Congress. Examples of discretionary spending for disability-related programs are: IDEA state grants, supported employment state grants, protection and advocacy (P&A) programs, and Section 811 supportive housing for persons with disabilities (see www.thearc.org).

People with disabilities rely on programs funded by both mandatory and discretionary

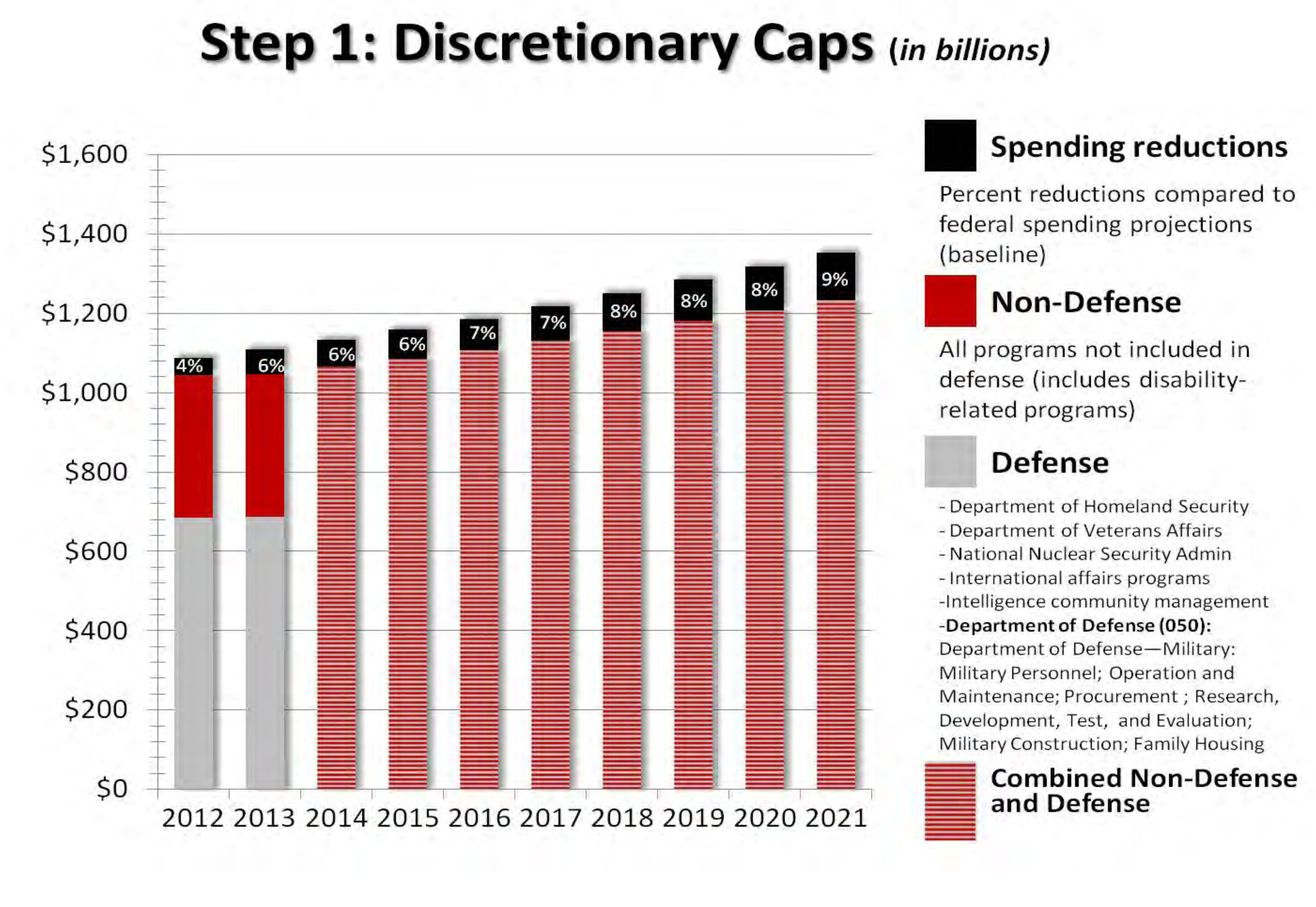


spending. For people with I/DD, Medicaid spending is particularly critical as it finances approximately 75% of developmental disability services. Since the discretionary portion of the budget that includes most disability-related programs is relatively small (about a third of the budget), meaningful deficit reduction clearly cannot rely solely on cuts in this area. Instead, attention is turning to the mandatory spending portion of the budget, of which Medicaid, Medicare, and Social Security constitute a larger portion as shown below. However, both Medicare and Social Security are self-funded by dedicated trust funds, and therefore do no contribute to budget deficits. This leaves Medicaid particularly vulnerable.

Step 1: The debt ceiling is raised and caps are placed on discretionary programs

The House Appropriations Committee and the Senate Appropriations Committee are to identify at least $840 billion in spending cuts from discretionary programs over a 10 year period (2012-2021). These cuts come from applying spending caps which are amounts below what the federal government was projected to have spent (which assumes that program spending increases at the rate of inflation). Cuts start at $44 billion (4%) in FY 2012 and will accelerate to $119 billion (9%) in FY 2021 as shown below.

In December 2011, Congress enacted FY 2012 spending bills that adhere to the $1.043 trillion cap set by the BCA, an overall 1.5% drop in spending from FY 2011. Disability-related programs were generally level funded, with a few receiving cuts or increases. Visit www.thearc.



org to see how specific disability-related programs fared in the FY 2012 appropriations package.

Mandatory spending, by contrast, refers to spending that is not appropriated by Congress on an annual basis. These funds are required by previously-enacted laws, such as the Social Security Act. The mandatory spending that disability advocates are most concerned about is spending for programs that people are entitled to if they meet the eligibility criteria. Medicaid, Medicare, Social Security Disability Insurance (SSDI), and Supplemental Security Income (SSI) are examples of mandatory spending for entitlement programs.

Step 2: Joint Select Committee on Deficit Reduction Charged with Identifying Additional Deficit Reduction

The twelve-member bipartisan Congressional Joint Select Committee on Deficit Reduction (referred to as the "Super Committee") was charged with identifying at least $1.5 trillion in additional deficit reduction over 10 years. They could have met this goal by cutting federal spending, increasing revenue, or a combination of these actions. On November 21, 2011 the Super Committee announced that it has failed to produce a plan, triggering Step 3, the automatic spending cuts in FY 2013 through 2021.

Step 3: Across-the-board spending cuts for 2013-2021

Automatic, across-the-board cuts (known as sequestration) are scheduled to take effect for discretionary programs starting in January 2013, unless Congress changes the law. Fortunately, low income entitlement programs, such as the Medicaid and SSI programs, are exempted from these cuts (although 2% Medicare provider cuts are allowed). Visit www.law.cornell.edu for a listing of all exempt programs from the across the board cuts.

The graph on the next page shows the cumulative effect of the discretionary cuts in Step 1 and the automatic, across the board cuts in Step 3, which combined average about 14% over 10 years. Again, as in Step 1, these are average cuts for ALL non-exempt federal programs. This means that disability related program funding could be cut by even greater amounts.

How Much Federal Spending will be Cut in Fiscal Year 2013?

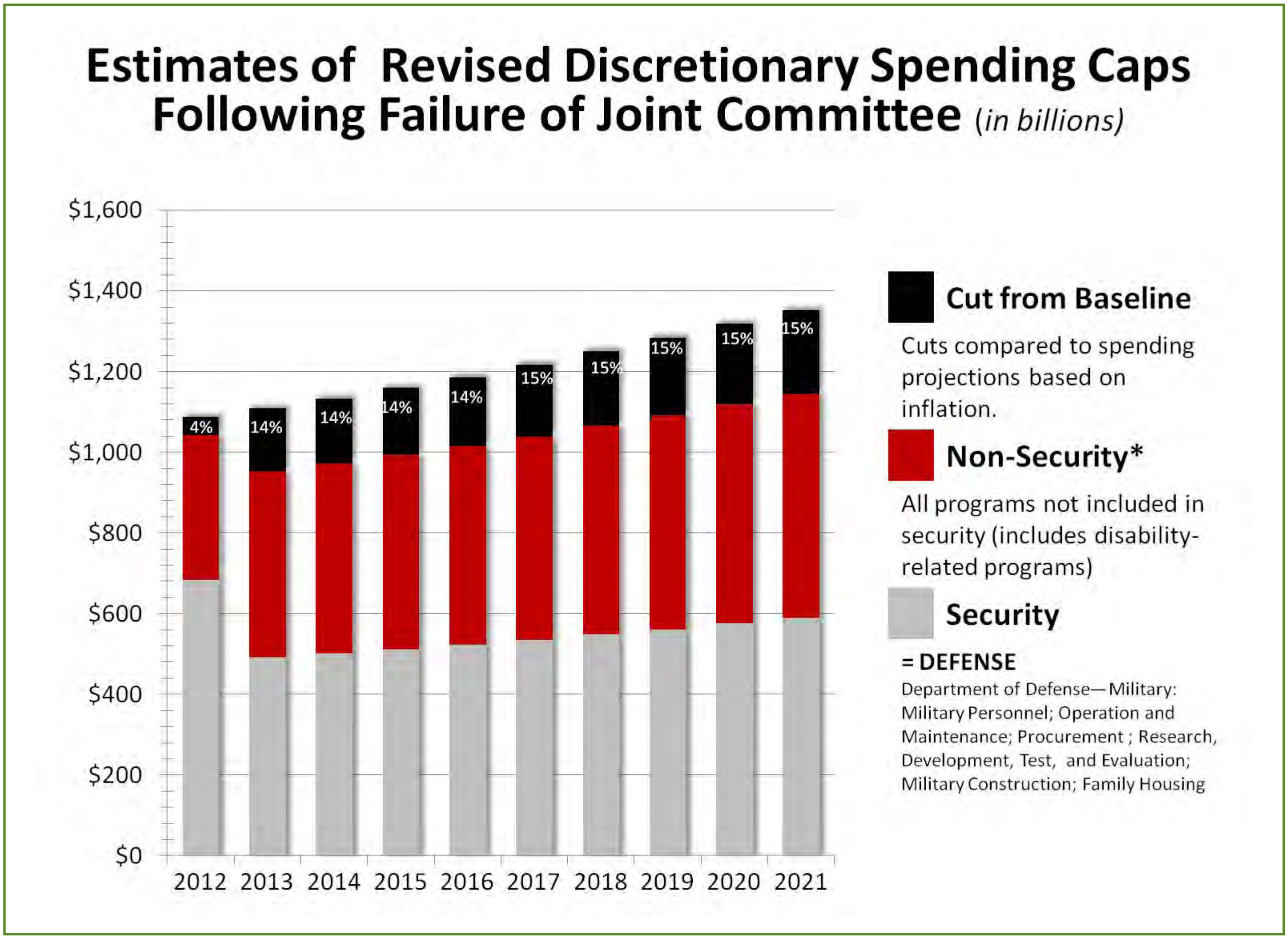
Though Fiscal Year 2013 began on October 1, 2012, much remains to be decided about if and how the across the board cuts would be made in 2013. Latest projections indicate that the FY 2013 budget is slated to be cut by $110 billion as follows:

- $55 billion from defense (an additional 8-10% cut)
- **$38 billion non-defense (NDD) discretionary** - which includes all disability-related discretionary programs (an additional 8% cut). See www.thearc.org for details.
- $11 billion from Medicare
- $5 billion from other mandatory programs.

This excludes Medicaid but does impact programs like vocational rehabilitation and the Social Services Block Grant.

How Much will be Cut from Disability Related programs in 2013?

On September 14, 2012, the Obama Administration released its report to Congress detailing spending cuts that will be required if Congress fails to reach a deficit reduction



deal by the end of the year that replaces the automatic cuts passed by Congress and signed into law. The report includes information on more than 1,200 budget accounts, breaking down what is exempt from sequestration and what is not. However, it did not fully explain how the cuts would affect many federal programs. For example, Special Education would receive an additional 8.2% cut but the report does not explain what would happen to the line item programs that fall under it such as basic state grants (Part B), early intervention (Part C), and preschool programs.

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