BRIEF ANALYSIS
SENATOR TOOMEY'S BUDGET PROPOSAL

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Brief Analysis of Senator Toomey's FY 2013 Budget Resolution Proposal

Senator Toomey's budget is an ideologically-driven, partisan fiscal plan. It provides an unbalanced approach to deficit reduction that includes almost no new revenue, while relying on deep spending cuts that target the most vulnerable in our society, including seniors, children, and the disabled. It follows the lead of the House Republican budget, embracing its policies to transform Medicare into a "voucher" program, repeal health care reform, block grant Medicaid and Food Stamps, and cut discretionary spending by $1.2 trillion below the levels set in the Budget Control Act (BCA).

Cuts Discretionary Spending $1.2 Trillion Below BCA Levels
The Toomey budget would cut discretionary outlays by $1.2 trillion ($1.1 trillion in budget authority) below the BCA levels over 10 years, 2013-2022 (as reflected in the alternative baseline, see box on page 4), with virtually all of the reduction coming from nondefense programs.

- <u>Nondefense</u>. For 2013, the Toomey plan cuts nondefense budget authority by $61.5 billion, or 12 percent, below the BCA level (excluding disaster and program integrity funding). This represents a 10 percent cut below the 2012 enacted level for nondefense discretionary funding. It calls for particularly deep cuts in priority areas, such as a 17 percent cut in education below the 2012 enacted level and a 58 percent cut in energy below the 2012 enacted level.

  The Toomey budget then freezes this 2013 nondefense level until 2021. As a result, in 2021, nondefense discretionary funding will be at the same dollar level it was in 2006 – 15 years earlier – with no adjustment for inflation or population growth.

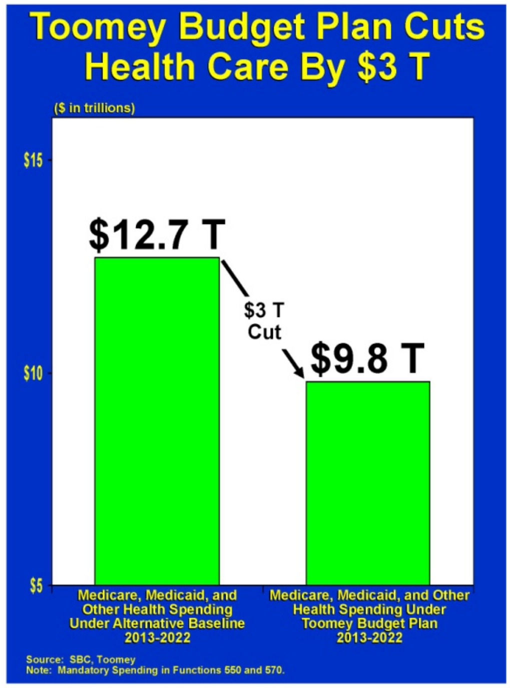
- <u>Defense</u>**.** The Toomey plan assumes the BCA defense (Function 050) budget authority levels through 2021. Over 10 years, the Toomey budget is $47 billion below the President's defense request.

The Toomey plan assumes two years of overseas contingency operations (OCO) funding: $90 billion in 2013 and $20 billion in 2014. The 2013 level is approximately $7 billion below the President's request. Over 10 years, the Toomey plan includes $384 billion less OCO funding than the President.

The Toomey budget includes 10 years of discretionary spending limits (2013-2022) for budget authority and outlays, subject to a 67-vote point of order (rather than the standard 60-vote hurdle) if they are exceeded. The plan includes no firewalls. Unlike the BCA, the Toomey plan does not provide for any disaster or program integrity funding adjustments.

Cuts Health Care by $3 Trillion

The Toomey budget includes $3.0 trillion in health care cuts over 10 years, relative to the alternative baseline. These mandatory savings result from repealing health care reform, cutting Medicare, and block granting Medicaid.



- Repeals health care reform. By repealing health care reform, the Toomey budget would increase the number of uninsured in the country by more than 30 million. It would also eliminate insurance reforms, thereby allowing insurance companies to once again deny and drop coverage for those with pre-existing conditions. It would also end the policy that allows young people to stay on their parent's insurance until they are 26 years old.

- Cuts Medicare. The Toomey budget increases the means testing of Medicare income-related premiums for Parts B and D. By repealing health reform, it re-opens the prescription drug "donut hole," imposing higher costs on Medicare beneficiaries, instead of saving the average beneficiary roughly $4,200 over 10 years and nearly $16,000 for those with high prescription drug spending, as would be the case under health reform.

  In addition, starting in 2023, the Toomey budget would impose the same "voucher" plan on Medicare beneficiaries as the House Republican budget. And it would place the same aggressive cap on payments that CBO analysis indicates would cut future spending by at least $5,900 per senior – which could shift an increasing burden of health care costs onto Medicare beneficiaries and diminish their access to quality care.

- Block grants Medicaid. The Toomey budget's proposal to block grant Medicaid poses significant risks by ending the critical countercyclical nature of the program and rolling back the guarantee of health care for vulnerable populations, including children, pregnant women, the disabled, and seniors. A block grant does nothing to change the underlying program costs, but simply shifts those costs to the states and beneficiaries. This policy is especially threatening to the elderly and disabled, who represent about 1 in 4 enrollees, but account for nearly two-thirds of Medicaid costs.

- Caps Medical Malpractice Damages. The budget also calls for implementing medical malpractice reform that includes setting a strict statute of limitations on filing lawsuits, capping non-economic damages at $250,000, and limiting punitive damages.

No New Revenue for Deficit Reduction

The Toomey budget includes virtually no new revenue for deficit reduction. Further, it employs dynamic scoring assumptions, calling into question whether all the revenue would materialize under official scoring.

The proposal calls for tax reform that reduces all individual tax rates by 20 percent, with the top rate reduced to 28 percent. It proposes to offset the cost of these lower rates by eliminating or reducing

Revenue in Toomey Budget Plan

- **Provides almost no revenue for deficit reduction**
- **Uses dynamic scoring assumptions**
- **Repeals estate tax or retains overly-generous $5 M exemption ($10 M for couples)**
- **Taxes capital gains and dividends at rate of 15% or lower**

tax expenditures, and "in a manner that maintains progressivity." However, it would lock in policies that clearly benefit the most well-off, such as taxing capital gains and dividend income at the current 15 percent rate or lower, and retaining the current estate tax policy ($5 million exemption and 35 percent rate) or repealing it altogether. So it is unclear whether the stated progressivity goal could actually be achieved.

On the corporate side, the Toomey plan would set the rate at 25 percent, and then would eliminate enough tax expenditures so that the overall corporate reform would be deficit neutral. It also proposes to shift to a territorial system, exempting overseas earnings of U.S. companies from U.S. tax.

Deep Cuts in Programs for Low-Income Households

The Toomey budget cuts non-health mandatory spending by $1.2 trillion over 10 years, relative to the alternative baseline.

The bulk of these cuts occur in income security programs, which include the Supplemental Nutrition Assistance Program (SNAP, formerly known as Food Stamps), child nutrition programs, and Temporary Assistance for Needy Families (TANF). The plan would also cut federal employee health and retirement benefits. In total, these income security programs are cut by $920 billion, or 19 percent, over 10 years relative to the alternative baseline.

These income security cuts are generally unspecified, but the Toomey budget states that it "block grants most welfare programs" and then phases in spending caps at low levels. This approach undermines the ability of safety-net programs to automatically and effectively address changes in the economic conditions affecting the least fortunate among us, while leading to vastly different support and benefit levels among the States.

Alternative Baseline

In order to better reflect the overall impact of the Toomey budget, this analysis compares the Toomey plan to an alternative baseline that incorporates the extension of certain current policies, rather than the CBO current law baseline. The Fiscal Commission, the Bipartisan Policy Center's Debt Reduction Task Force, the Office of Management and Budget, and the House Republican Budget Committee each developed their own versions of an alternative baseline for assessing the effects of proposed policies. In addition, in recognition of the uncertainty regarding future changes to laws and policies, CBO similarly has provided Congress with estimates of spending, revenue, deficits, and debt under an "alternative fiscal scenario" that adjusts its current law baseline for certain policy assumptions.

The alternative baseline used in this analysis modifies CBO's current law baseline as follows:

- First, it assumes the extension of certain expiring provisions. These include the 2001, 2003, and certain 2009 tax cuts (as extended in 2010), AMT relief (indexed for inflation), and the estate tax at 2012 parameters.
- Second, it maintains Medicare's payment rates for physicians at the current rate (often referred to as the "doc fix").
- Third, it removes the extension of the 2012 funding level for overseas contingency operations and replaces it with a more realistic scenario developed by CBO that assumes the drawdown of troops deployed overseas for such operations to 45,000 by 2015.
- Fourth, it removes the across-the-board spending reductions ("sequestration") required by the BCA.
- Finally, it adjusts net interest to reflect the impact of these various changes to spending and revenue.

NOTE: All years are fiscal years unless otherwise noted.

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