The Debt Deal and Medicare

In August 2011, lawmakers in Washington passed the Budget Control Act, a compromise that increases the federal government's debt limit and reduces the federal budget deficit over time. Known as the debt deal, the Budget Control Act increases the debt limit in increments by at least $2.1 trillion, in exchange for at least that amount in deficit reduction over the next 10 years. Given the complexity of the debt deal, many people with Medicare may find it difficult to determine how they might be affected. Below is an explanation of the deal, including its possible effects on the Medicare program.

How does the debt deal affect my Medicare benefits now?

The first stage of the debt deal does not immediately cut Medicare, Medicaid or Social Security. In exchange for an initial immediate increase in the debt limit of about $900 billion, the compromise puts caps on both defense and non-defense discretionary spending for the next 10 years. These caps cut funding by over $900 billion dollars. Medicare, Medicaid and Social Security are funded through mandatory spending and as a result are not subject to these caps. However, some programs that people with Medicare use, such as those that help people afford housing or receive transportation services, could be affected by these cuts.

Is Medicare at risk?

Yes, Medicare may face cuts during the second stage of the debt deal. In order to increase the debt limit a second time to avoid default, Congress must enact further deficit reduction of $1.2 to $1.5 trillion. To help this process along, the compromise creates a bipartisan committee, the Joint Select Committee on Deficit Reduction, that will work to find the additional deficit reduction. The bipartisan committee can consider all parts of the federal budget to achieve this, and as a result could recommend changes to Medicare, Medicaid and Social Security.

What kinds of committee proposals could affect Medicare beneficiaries?

Some proposals cut Medicare spending and save the federal government money by increasing costs for people with Medicare, or by limiting access to care. Such policies, which have been under consideration in past negotiations and proposals, include increasing the Medicare eligibility age, increasing Medicare premiums and other costs, and redesigning the Medicare benefit, including by limiting coverage provided by Medicare supplemental insurance. One example of a proposal like this that has been getting a lot of attention is the privatization of the Medicare program by converting Medicare into a voucher system, also known as a defined contribution plan. This proposal, which would double costs that Medicare beneficiaries pay out of their own pockets, was passed as part of the House budget drafted by Representative Paul Ryan. The budget did not pass the Senate, but the committee will include members of Congress who voted for this plan.

The committee may also recommend deficit reduction through increased revenues—for example, by ending tax cuts for the wealthiest Americans. This could prevent deeper cuts in spending that would significantly affect programs like Medicare and the population it serves. The committee process is the only stage of the debt deal that allows lawmakers to directly consider increasing revenues to achieve deficit reduction.

Who will be on the committee, and what are their deadlines?

As stated above, the bipartisan committee will try to reach a compromise that would further reduce the deficit beyond the $900 billion to $1 trillion achieved in the first stage of the deal. The committee may consider all options to achieve savings.

The committee will be made up of 12 members of Congress, with equal numbers of Democrats and Republicans from the House of Representatives and the Senate. The committee must hold its first meeting by the middle of September 2011, and vote on a package of recommendations by November 23, 2011. More than half of the committee members must vote for the package of recommendations in order to send legislation to Congress for a vote. If that happens, Congress must vote on the legislation by December 23, 2011.

What happens if the committee doesn't reach a compromise or Congress doesn't pass the compromise that the committee reaches?

If the committee fails to reach a compromise or Congress doesn't vote to pass the compromise, automatic cuts will take place in 2013. The automatic cuts, sometimes called a sequester, would not affect Medicaid, Social Security or certain other low-income programs. The sequester would not affect Medicare benefits either, but would decrease Medicare provider payments by up to 2 percent. If the full 2 percent cut were to take effect, Medicare provider payments would decrease by about $10 billion in 2013, according the Center on Budget and Policy Priorities. Some providers claim that these cuts would harm access to care for Medicare beneficiaries. In addition, the sequester would call for discretionary programs to face a second round of cuts amounting to $55 billion annually from 2013 to 2021. Increased revenues are not part of the sequester; all savings would be achieved through spending cuts.

If Congress passes a compromise that does not achieve at least $1.2 trillion dollars in deficit reduction, the sequester would take effect to achieve the additional savings needed to reach $1.2 trillion.

What other parts of the debt deal could affect Medicare?

The debt deal mandates consideration of a balanced budget amendment to the constitution. If such a balanced budget amendment is enacted, Medicare could face deep cuts that may even go beyond those included in the House budget, which would change Medicare into a voucher program. However, a balanced budget amendment is unlikely to pass, because at least two-thirds of the Senate would have to vote for the amendment in order to pass it.