

United States Senate

WASHINGTON, DC 20510

September 28, 2011

The Honorable Patty Murray

The Honorable Jeb Hensarling

Co-Chairs

Joint Select Committee on Deficit Reduction

The Honorable Xavier Becerra

The Honorable Dave Camp

The Honorable James E. Clyburn

The Honorable Fred Upton

The Honorable Chris Van Hollen

The Honorable Jon Kyl

The Honorable Max Baucus

The Honorable Rob Portman

The Honorable John Kerry

The Honorable Pat Toomey

Members

Joint Select Committee on Deficit Reduction

Dear Co-Chairs and Members:

As you, members of the Joint Select Committee on Deficit Reduction, begin the difficult job of helping get America's federal budget in order, we believe that reforming America's vital entitlement programs should be a major focus of the Committee's work. Federal spending for Medicare and Medicaid has accounted for a sharply rising share of the federal budget over the last decade, making it clear that it will be virtually impossible to balance our country's finances without bringing the costs of these programs under control.

According to the Congressional Budget Office, almost *all* projected long-term growth in federal spending as a share of GDP stems from increases in mandatory spending, particularly in outlays for the government's major health care programs; Medicare, Medicaid, and the Children's Health Insurance Program (CHIP)¹. Total outlays for these programs are expected to grow faster than GDP for the indefinite future, increasing from 5.6 percent of GDP in 2011 to as much as 10 percent of GDP by 2035². If these Congressional Budget Office projections hold true, the cost of the Medicare program could increase from \$523 billion in 2010 to more than \$1 trillion annually in the early 2020's.

Furthermore, the 2011 Medicare Trustees' Report predicts that the Medicare Hospital Insurance (HI) Trust Fund will be exhausted by 2024, causing Medicare Part A to become insolvent unless structural changes are made to the program or economic activity increases dramatically. In fact, Medicare Part A is projected to face the largest funding shortfall in the history of the program this year, running a deficit of \$34.1 billion. Additionally, the Medicare Trustees have indicated that Medicare Part A is projected to pay out more in hospital benefits than it receives in income in *all* future years.

The financial outlook of the Medicare Part B program which covers services such as doctors' visits, outpatient care and home health care is no better. The cost of that program is expected to grow significantly faster than the economy in all future years, averaging 7.5% growth over the next decade. Since the vast majority of the Medicare Part B program is funded through general revenues and not a dedicated tax stream, this excessive growth is expected to put enormous pressure on the federal budget.

According to CBO, spending on these health care programs, along with Social Security could exceed 19 percent of GDP by 2040. To put this in context, the sum total of all government revenues has

¹ "Long Term Budget Outlook, Federal Debt Held by the Public Under CBO's Two Budget Scenarios." Congressional Budget Office, June 2009: Summary, Page XI.

² "CBO's 2011 Long Term Budget Outlook." Congressional Budget Office, August 2011: Page 35

on average *totaled* 19 percent of GDP over the last forty years. If the total cost of these entitlement programs were to reach 19% of GDP as predicted by CBO, there would be no funding left for any other critical government activities, unless the federal government were to run massive deficits or dramatically increase taxes. The facts are clear, something must be done to reform Medicare or it will bankrupt the federal government and take America's finances down with it.

In June of this year, we put forward a bipartisan Medicare proposal that we believe would address many of the imminent fiscal dangers facing the Medicare program. Among other things, the Lieberman/Coburn Medicare proposal would:

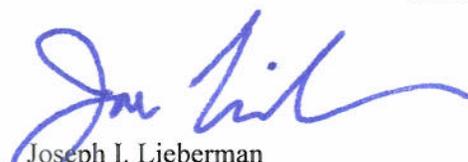
- According to Congressional Budget Office (CBO) estimates, save the Medicare program more than \$500 billion over 10 years and extend the solvency of Medicare's Hospital Insurance Trust Fund by decades.
- Reduce Medicare's 75-year unfunded liabilities by an estimated \$10 trillion and significantly reduce the fiscal impact of Medicare on the federal budget.
- Provide, for the first time in the history of the Medicare program, an annual out-of-pocket-maximum benefit within the Medicare program for our nation's seniors so that they are protected from bankruptcy in the event of a major illness or long term health condition.
- Provide a three-year fix to the Medicare physician reimbursement formula that is paid for and will bring stability and payments to Medicare's providers, ensuring access for seniors.
- And preserve Medicare as a government program for current and future enrollees.

Our Medicare reform proposal has received strong reviews from a variety of respected budget analysts and think tanks. Erskine Bowles and Alan Simpson, Co-Chairs of President Obama's Bipartisan Deficit Commission, called our proposal a "constructive contribution to the discussion about how to bring our debt under control." The Heritage Foundation called our proposal a "serious step toward comprehensive Medicare reform." And Forbes Magazine declared the proposal "impressive."

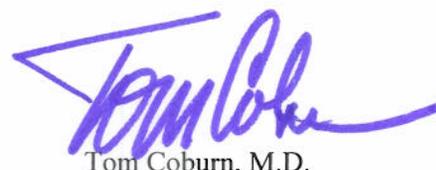
As the Joint Committee continues its difficult work over the next few months, we have two specific requests. First, we are submitting our proposal and request that it be fully reviewed by the staff of the Committee. Second, we would greatly appreciate the opportunity to testify before the Committee on ideas to preserve the Medicare program. We realize that time is short and the task ahead daunting, but we believe our proposal can provide the basis for a bipartisan agreement to save our government's finances and preserve Medicare for future generations.

We look forward to hearing back from you about an opportunity to testify before the Joint Committee.

Sincerely,



Joseph I. Lieberman
United States Senator



Tom Coburn, M.D.
United States Senator