

## **The President's FY 2007 Budget Proposal: Overview and Briefing Charts**

### **Introduction**

The President sent his proposed budget for fiscal year 2007 to Congress on February 6, 2006. The budget sets forth the Administration's estimates of federal spending and revenues and also lays out the Administration's policy priorities. Last year, the President set out to reduce the deficit in half by 2009, and this budget strives to achieve this target. The budget estimates a deficit of \$423 billion in FY 2006 declining to \$205 billion in FY 2011. These deficit estimates account for proposals that increase defense spending, reduce non-defense discretionary spending, and reduce entitlement spending by \$65 billion over the next five years. The entitlement reduction proposals are in addition to the \$40 billion in mandatory savings included in the Deficit Reduction Act (DRA) that was signed two days after the release of the FY 2007 budget proposal. However, many budgetary costs, such as the impact of extending the tax cuts, fall outside the five-year budget window and other items such as the ongoing costs of the war in Iraq are not included in the budget.

The purpose of this chartpack is to review the President's FY 2007 budget request to Congress by highlighting overall budget assumptions and funding for major health programs. Overall, the budget includes net reductions for Medicare, Medicaid and other health programs administered by the Department of Health and Human Services. The budget also includes additional expenditures for proposals to promote Health Savings Accounts (HSAs).

### **The Budget Process**

The release of the President's budget is just the first step in the process of formulating the FY 2007 budget. (Figure 1) In March, the Congressional Budget Office (CBO) will prepare independent estimates of the President's budget. Congress will use the CBO estimates to adopt a budget resolution that sets target levels for total federal spending and revenues for the upcoming fiscal year and at least the next five fiscal years.

The budget resolution sets overall discretionary spending levels for the appropriation committees and may contain "reconciliation instructions" that direct Congressional committees to change the authorizing laws governing entitlement programs such as Medicaid and Medicare. A budget reconciliation bill, compiled by the budget committees in the House and the Senate, includes all of the legislation that meets the reconciliation instructions. A reconciliation bill is protected with special rules such as limited debate time and passage with a majority vote in the Senate. The budget resolution is not a law and therefore is not signed by the President.

On February 8, 2006 the President signed the spending reconciliation bill titled the Deficit Reduction Act of 2005 (DRA). The Act is expected to generate \$39 billion in federal entitlement reductions over the 2006 to 2010 period and \$99 billion over the 2006 to 2015

period. The DRA included reductions for Medicaid and Medicare offset by some proposals to increase spending, most notably \$2 billion in relief for victims and states hardest hit by Hurricanes Katrina and Rita. The share of the savings from health programs increases from 29 percent over five years to about half of the total savings over the ten year period (23 percent from Medicare and 27 percent from Medicaid and SCHIP). (Figure 2) The net reductions from the DRA were incorporated into OMB's estimates of baseline spending and the budgetary impact of new proposals were considered in addition to changes made by the DRA.

## **Overview of the President's FY 2007 Budget Proposal**

The President's FY 2007 budget proposal includes \$2.8 trillion dollars in total federal spending for 2007. The Office of Management and Budget estimates the deficit will reach \$423 billion (3.2 percent of GDP) in FY 2006, marking the fifth consecutive year where total government spending outpaces total revenues. Over the next five years, the deficit is projected to decline to \$205 billion (1.2 percent of GDP) (Figures 3-5). However, the five year estimates included in the budget do not account for the impact of extending tax cuts, the cost of AMT reform or on-going war costs. Accounting for these items, the federal deficit would continue over the next 10 years reaching an estimated \$469 billion in FY 2016 (Figure 6).

Mandatory spending represents 54 percent of federal outlays (excluding net interest payments on debt) in 2007 (Figure 7). Social Security, Medicare and Medicaid are the largest mandatory spending programs. Mandatory spending is expected to increase as a share of total outlays and as a share of GDP over the ten year projection period as the population ages and these programs face increased demands.

In 2007, about 38 percent of all federal spending was discretionary – spending that must be renewed on an annual basis to continue. The President's budget includes a 3.2 percent overall increase in discretionary spending levels. This overall increase reflects a 6.7 percent increase for defense spending and a .5 percent reduction in spending for other discretionary programs coming from savings or the elimination of 141 federal programs. Over the five year period, non-defense discretionary spending would fall by 13 percent.

## **Health Priorities Outlined in the President's FY 2007 Budget Proposal**

Funding for federal health programs in the President's budget accounts for about 1 in every 5 federal dollars spent (Figure 8). The President's budget proposes \$647 billion for total spending on health programs under the Department of Health and Human Services (HHS) for FY 2007. Fifty-seven percent of these funds would be spent on Medicare, 33 percent on Medicaid, 9 percent on public health programs, and less than 1 percent on the State Children's Health Insurance Program (SCHIP) (Figure 9).

The President's budget proposes to reduce spending on health entitlement programs, such as Medicare and Medicaid, and to limit new funds for other health discretionary programs.

The President's budget also includes a number of health care-related tax proposals totaling \$156 billion over the next ten years to address the issue of the uninsured.

### **Health Care Tax Credit and Other Health Proposals**

The budget includes three primary proposals to promote a more consumer-driven health care system by promoting Health Savings Accounts. (Figure 10) First, the budget calls for a refundable tax credit that would be available to those purchasing an HSA-compatible high-deductible health plan. Second, the budget would increase the amount an individual can contribute toward an HSA. Under current law, individual's contributions are limited to the less of the amount of the deductible or \$2,700 for self coverage (\$5,450 for family coverage) for 2006. The new proposal would allow an individual to contribute (tax free) up to the plan's out-of-pocket maximum, which is higher than the deductible; and third, the Administration proposes to allow individuals who purchase high deductible health plans in conjunction with an HSA to deduct the amount of the health plan's premium from their income and payroll taxes. While the Administration promotes these policies as options to expand health coverage, some analyses show that promotion of HSAs could increase the number of uninsured due to sharp declines in employer sponsored health coverage.<sup>1</sup>

In addition to proposals to expand HSAs, the President's budget includes a number of reforms to the health insurance marketplace such as establishing association health plans (AHPs) that would allow small employers and community groups to purchase insurance plans; creating a competitive marketplace across state lines that includes stronger consumer protections; and medical liability reform.

### **Medicare**

Medicare spending is expected to reach \$387 billion in FY 2007. (Figure 11) Spending in FY 2007 includes expenditures for the new Medicare prescription drug program which began on January 1, 2006. The Administration projected in its final rule implementing the drug benefit (January 2005) that 39.1 million Medicare beneficiaries would have prescription drug coverage through Medicare Part D or through other creditable coverage; as of mid-February 25. million have such coverage in 2006. The Administration estimates that the net federal cost of the Medicare drug benefit will be \$31 billion in 2006 and \$799 billion over the next decade compared to higher estimates from CBO of over \$1 trillion. (Figure 12)

In the proposed budget for FY 2007, the Administration includes \$35.9 billion in Medicare reductions over the next five years and \$116.2 billion over the next ten years.<sup>2</sup> (Figure 13) The savings are achieved by changes in payments to providers, including hospitals, skilled nursing facilities, home health providers, hospices, ambulances, rehabilitation facilities and oxygen equipment providers. The budget also includes proposals to enhance program integrity efforts; phase out Medicare bad-debt payments and increase competition through

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<sup>1</sup> Jonathan Gruber. "The Cost and Coverage Impact of the President's Health Insurance Budget Proposals." *Center on Budget and Policy Priorities*. February 15, 2006

<sup>2</sup> With Part B premium interaction, savings would be \$105 billion over the ten-year period.

proposals like extending competitive bidding for clinical lab services. In addition, the budget proposes to achieve \$10.1 billion in savings over 10 years by modifying the current law provision that requires higher-income beneficiaries (\$80,000 for individuals and \$160,000 for couples) to pay an income-related Part B premium. These income thresholds are scheduled to be indexed annually under current law. Under the proposed budget, the thresholds would not be indexed, which would increase the number of beneficiaries who pay the higher Part B premium. The proposed budget would modify a provision enacted into Medicare Modernization Act (MMA) that requires the Medicare Trustees to include in their report a comprehensive fiscal analysis of the program and issue a warning if general revenues are projected to exceed 45 percent of total Medicare financing. If Congress fails to act on recommendations to sustain Medicare's financing, the Administration proposes a 0.4 percent reduction to all Medicare payments to slow growth. This reduction would grow by 0.4 percent each year that the 45 percent threshold is exceeded. This provision acts as a cap on Medicare spending. The proposal, however, is not expected to achieve savings in the current budget window because under current assumptions, the Administration does not expect the 45 percent threshold to be exceeded until 2017.

In addition, the budget provides for an additional \$5.4 billion in savings over five years achieved through administrative changes related to long-term care hospitals, inpatient rehabilitation facilities, Part B-covered drugs, supplies and wheelchairs.

## **Medicaid**

In FY 2006, federal spending on the Medicaid program is estimated to reach \$192 billion (Figure 14). The Administration proposes to reduce Medicaid spending through both legislative and administrative proposals by \$14 billion over the next five years and by \$35 billion over the next ten years. Administrative actions may include new regulations or guidance and do not require Congressional action. (Figure 15).

The proposed budget builds on the spending reductions (\$26 billion over ten years) and the policy proposals included in the DRA. The Administration highlights a new waiver initiative that "emphasizes market driven approaches" broadening choice and encouraging competition, similar to the concepts included in the Florida waiver. Additional waivers or demonstrations authorized under the DRA would not have budget implications but could impose fundamental structural changes to the Medicaid program and these changes could have implications for low-income beneficiaries.

The FY 2007 proposed budget includes legislative proposals that reduce Medicaid spending by \$11.9 billion over ten years offset by proposals that increase Medicaid by \$6.7 billion for a net savings of \$5.1 billion over the next ten years. The FY 2007 budget proposes to: reduce administrative costs by reassigning administrative costs between Medicaid and TANF; reduce the federal matching rate for targeted case management to 50 percent from the state matching rate; limit pharmacy reimbursement for certain drugs, limit Medicaid payments when a third-party may be liable, and allow states to use more restrictive formularies for prescription drugs. The proposed budget also includes

legislative proposals to extend transitional medical assistance (TMA) and to increase outreach for Medicaid and SCHIP through the “Cover the Kids” campaign.

The proposed budget also includes \$30.4 billion over ten years from administrative changes, some of which were included in the FY 2006 budget as legislative proposals. The Administration proposes to cap government providers at no more than costs of providing services; phase-down of the allowable provider tax rate from 6 percent to 3 percent; prohibit federal reimbursement for school-based administration or transportation costs; clarify the reimbursement rules for rehabilitation services; and eliminate “pay and chase” for pharmacy claims.

### **State Children’s Health Insurance Plan (SCHIP)**

The budget proposes to freeze federal SCHIP allotments at 2007 levels of \$5 billion for each of the next ten years. Before accounting for other policy proposals (like “Cover the Kids”) the Office of the Actuary expects that enrollment in SCHIP would decline by more than one-third from 3.9 million to 2.5 million over the period. (Figure 16) The FY 2007 budget proposes to change the redistribution formula for unspent allotments by “seeking the authority to better target SCHIP funds in a more timely fashion”.

### **Public Health Programs**

The Administration’s budget proposes to decrease spending for discretionary health programs by about 2 percent over last year’s levels. Within the Department of Health and Human Services (HHS) funding levels for agencies and individual programs varied with some proposed increases and some proposed decreases (Figures 17-21). The FY 2007 budget proposes to increase total funding for the Food and Drug Administration and the Indian Health Services, while reducing overall funding for the Center for Disease Control and Prevention, the Health Resources and Services Administration, and the Substance Abuse and Mental Health Services Administration. The funding request for the National Institutes of Health is flat with last year’s FY 2006 levels.

### **Other Public Health Priorities**

**Pandemic Influenza Plan:** In FY 2006, Congress appropriated \$3.3 billion to fund the first year of a 3-year strategic plan to improve pandemic influenza readiness. The FY 2007 budget request includes a \$2.3 billion allowance for the next phase of pandemic influenza preparedness activities. Goals of the 3-year plan are to build capacity to vaccinate every individual in the U.S. within six months of a pandemic outbreak and to have access to enough antiviral treatment courses sufficient for 25 percent of the U.S. population. In addition, the budget includes \$352 million to fund ongoing activities within the CDC, FDA, NIH and Office of the Secretary (OS) to improve U.S. preparedness for a potential pandemic influenza outbreak.

**Health Centers:** Within HRSA, the Administration continues its commitment to create 1,200 new or expanded health center sites by FY 2006 by requesting \$2 billion for Health

Centers. This amount represents an increase of \$181 million or 10 percent over last year's levels, while overall HRSA funding declined by 12 percent. The Administration estimates that in FY 2007 nearly 300 new or expanded sites will service medically underserved communities across the country. Of the 300 new sites, 80 would be in poor rural and urban counties.

**Health Information Technology:** The budget request includes \$169 million (an increase of \$58 million over FY 2006) to secure personal electronic health records by 2014. The budget also includes \$116 million for the Office of the National Coordinator for Health Information Technology to support strategic planning, coordination and analysis of technical, economic and other issues related to the addition of health information technology.

### **Funding for HIV/AIDS**

The FY 2007 proposed budget includes \$22.8 billion for domestic and global HIV/AIDS activities, an 8.3 percent increase over FY 2006 levels. (Figure 22) Approximately 83 percent is for domestic programs and the remaining 17 percent is for global programs. (Figure 23) The budget request includes \$188 million for a new Domestic HIV/AIDS Initiative, of which \$95 million will be provided through the Ryan White program for treatment and outreach (\$70 million of which is intended to address the on-going problem of ADAP waiting lists and the need to provide those newly diagnosed with HIV with medications) and \$93 million through CDC for increased testing among high-risk populations. (Figure 24) The budget request also includes increases for global HIV/AIDS activities as part of the President's five-year Emergency Plan for AIDS Relief (PEPFAR). (Figure 25)

### **Data Sources**

This chartpack uses data from the President's *Fiscal Year 2007 Budget*, the US Department of Health and Human Services' *Budget in Brief FY 2007*, the Congressional Budget Office's *Budget and Economic Outlook*, January 2006, Department of the Treasury, "*2006 Blue Book*" *General Explanations of the Administration's Fiscal Year 2007 Revenue Proposals*, and additional information provided by the Office of the Actuary at CMS.

### **Acknowledgements**

This budget overview and chartpack was prepared by Robin Rudowitz and Molly O'Malley of the Kaiser Commission on Medicaid and the Uninsured with significant contributions from Gary Claxton, Jennifer Kates and Tricia Neuman.

Figure 1  
**Budget Schedule**

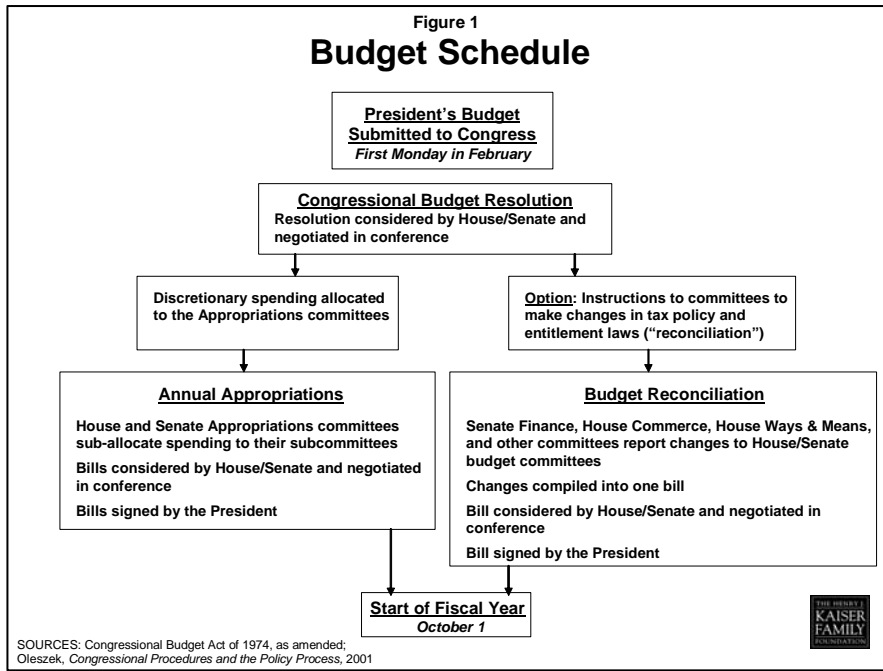
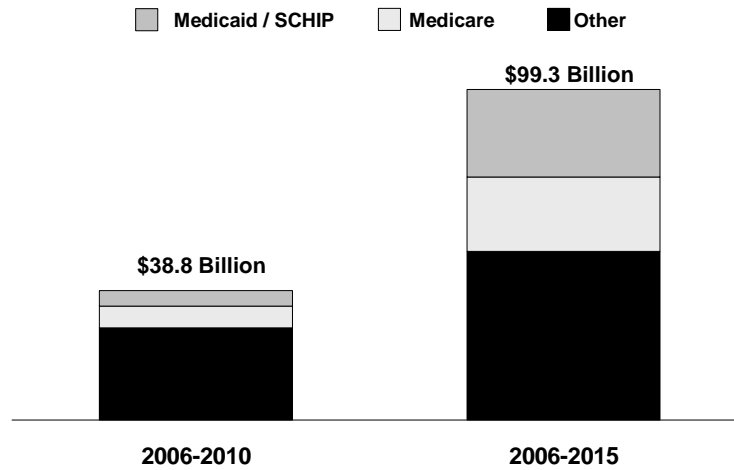


Figure 2

**5 and 10 Year Savings Estimates from the Deficit Reduction Act**



SOURCE: CBO, January 27, 2006

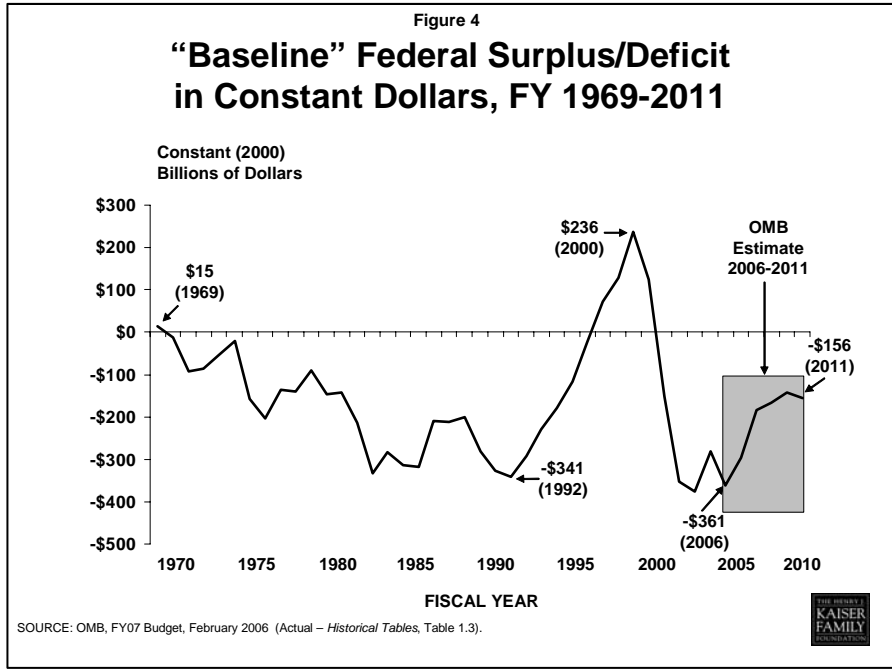
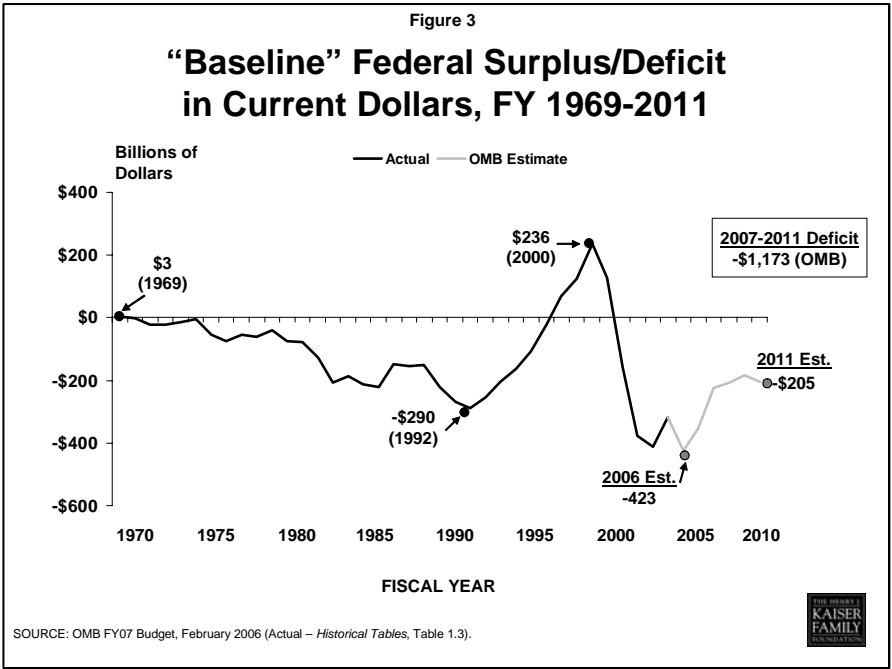
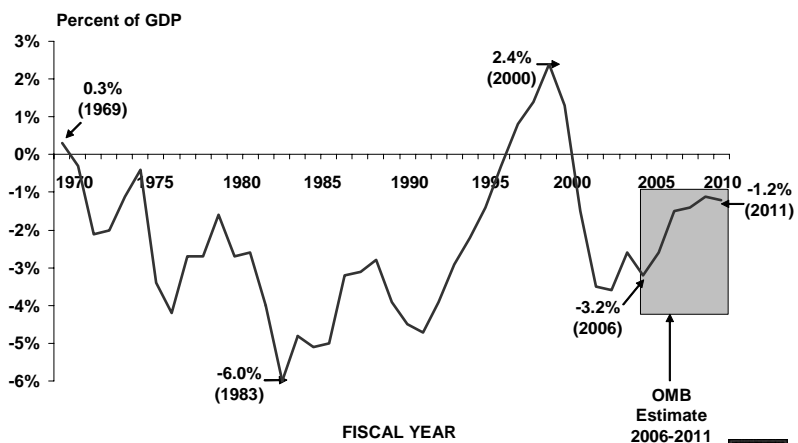




Figure 5

### “Baseline” Federal Surplus/Deficit as a Percent of GDP, FY 1969-2011

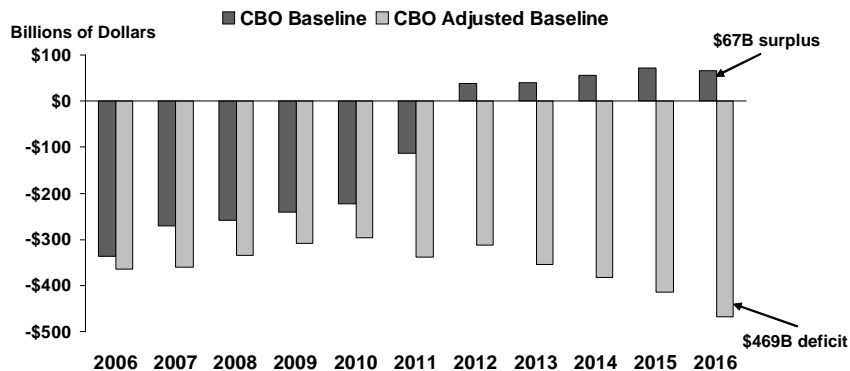


SOURCE: OMB FY07 Budget, February 2006 (Actual - Historical Tables, Table 1.3).



Figure 6

### Impact of DRA, Tax Cuts, AMT Reform and War Costs on the Surplus/Deficit Over the Next Decade

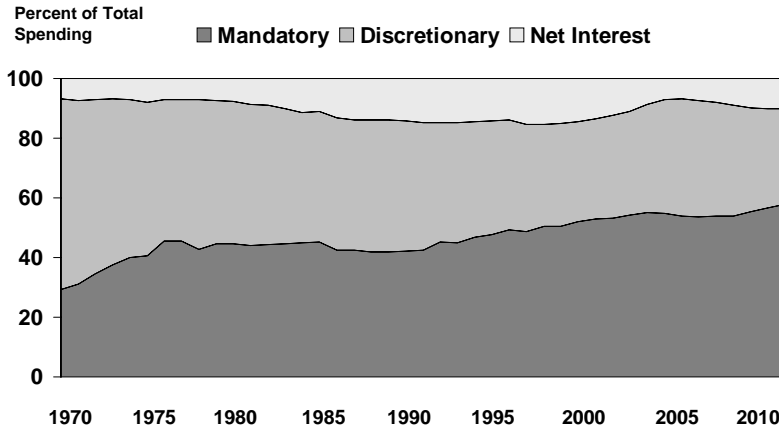


Note: Adjusted baseline accounts for the impact of the Deficit Reduction Act, extension of tax cuts, AMT reform and war costs  
 SOURCE: CBO, *Baseline Budget Outlook*, January 2006.



Figure 7

## Distribution of Federal Spending, FY 1969-2011

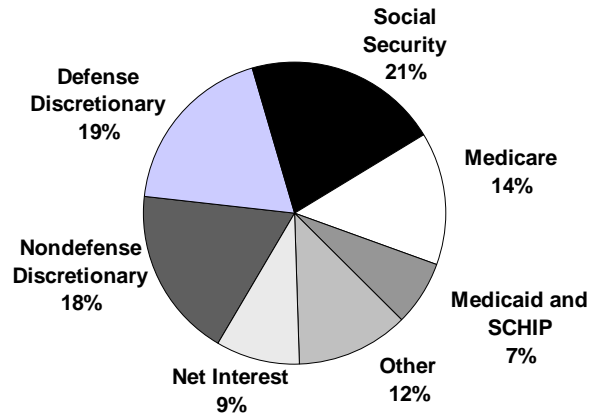


SOURCE: OMB, FY07 Budget, February 2006 (*Historical Tables*, Table 8.3).



Figure 8

## Composition of Federal Spending in FY 2007



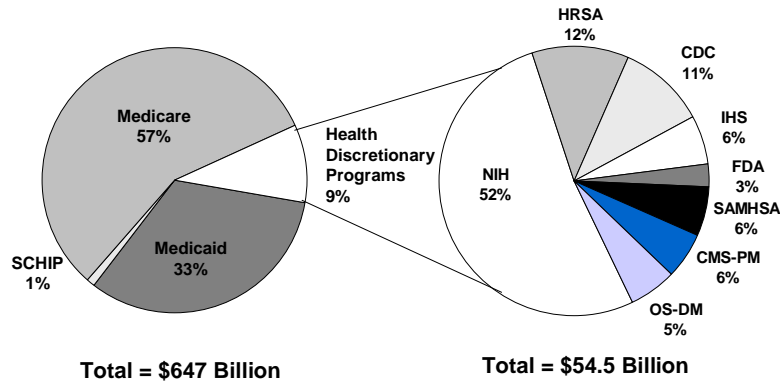
2007 Total Outlays = \$2.77 trillion

SOURCE: OMB, Fiscal Year 2007 Budget, February 2006. *Historic Tables*



Figure 9

### Funding Proposed for HHS Health Programs in Bush Administration's FY 2007 Budget



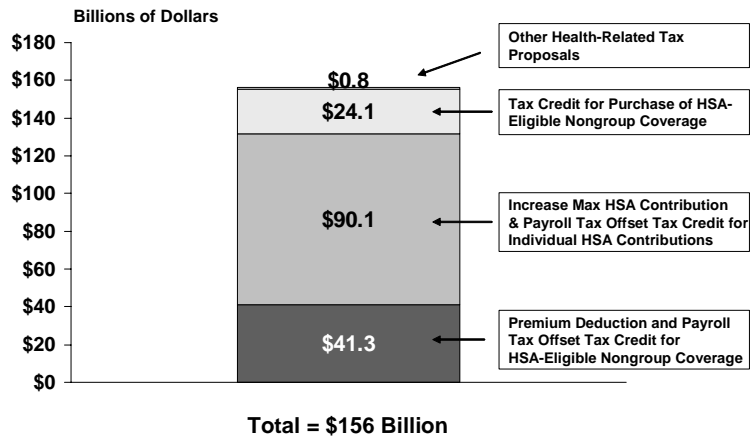
Notes: Totals do not include funding for the Administration on Children and Families, the Administration on Aging and Program Support Center. AHRQ funding is entirely through transfers from other HHS agencies. OS-DM includes funding for Departmental Management, Office of Inspector General, Office of the National Coordinator, and PHSSEF/Pandemic Influenza. Totals do not add to 100 percent due to rounding.

SOURCE: HHS, Budget in Brief FY 2007, February 2006.



Figure 10

### The President's Health Care-Related Tax Proposals, FY 2007 – FY 2016



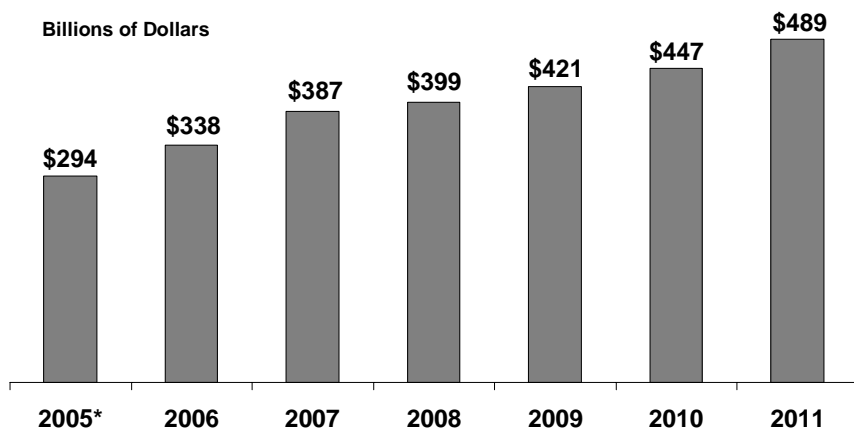
SOURCE: Department of the Treasury, "2006 Blue Book" General Explanations of the Administration's Fiscal Year 2007 Revenue Proposals, February 2006.



Figure 11

### Projections of Federal Medicare Spending, 2005-2011

Billions of Dollars

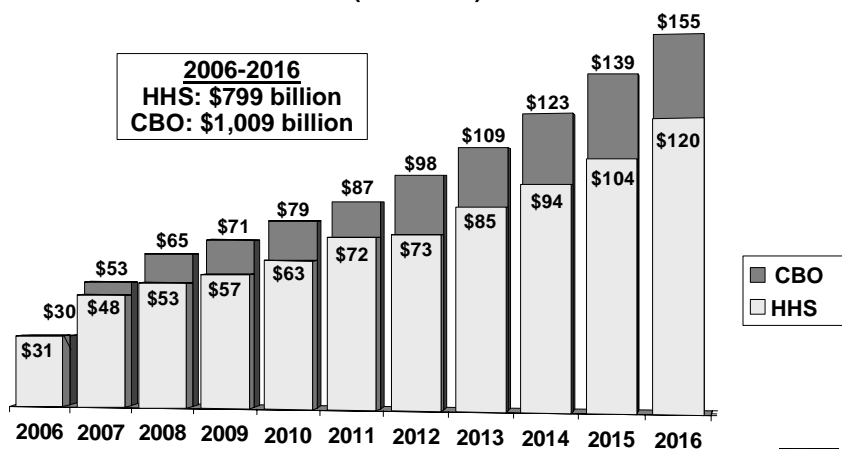


Note: \*Actual spending amount. 2006-2011 are estimates.  
SOURCE: OMB, President's FY2007 Budget, Historical Tables, February 2006.



Figure 12

### Net Federal Cost of the Medicare Prescription Drug Benefit (in billions)

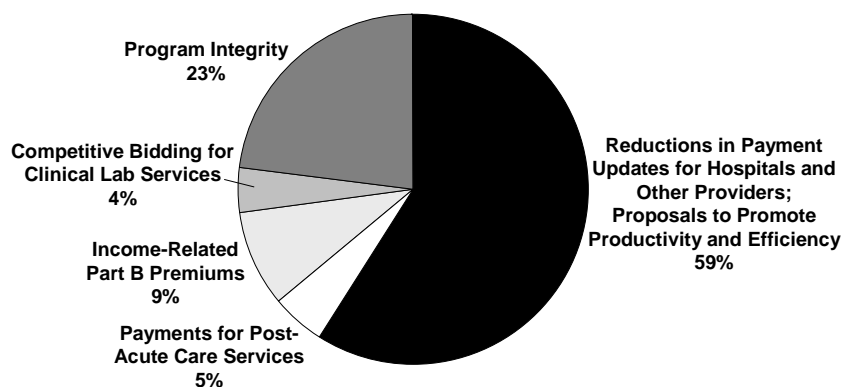


Note: Net federal costs take into account savings to the government from premium payments by beneficiaries, state payments, and savings from Medicaid.  
SOURCE: Administration FY 2007 Budget; CBO *The Budget and Economic Outlook: Fiscal Years 2007 to 2016*, January 2006.



Figure 13

### Medicare Savings Proposals in the President's FY 2007 Budget, 2007-2016



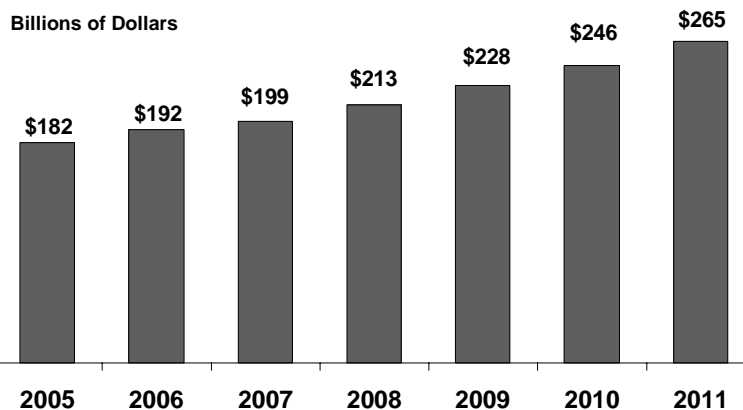
Total Medicare Savings, 2007-2016 = \$116.2 Billion\*

Notes: \*Savings do not take into account \$11.2 billion attributable to premium interaction. With premium interaction, total savings = \$105 billion for 2007-2016. SOURCE: OMB, Fiscal Year 2007 Budget, February 2006.



Figure 14

### Projections of Federal Medicaid Spending, FY 2005-2011

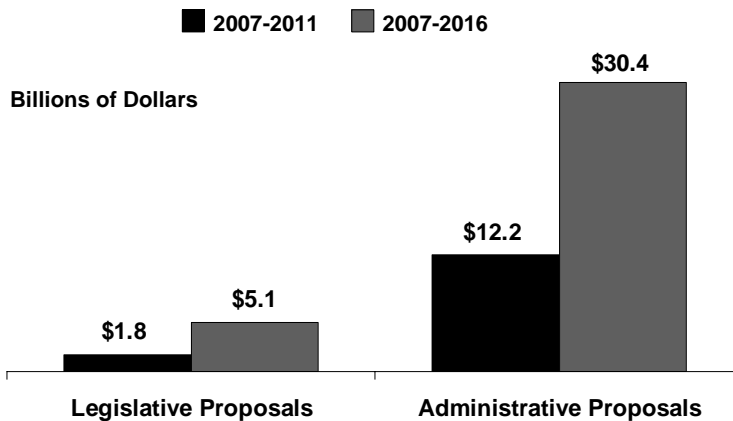


Note: Projections reflect savings from the Deficit Reduction Act as well as Administration's legislative and administrative policy proposals. SOURCE: OMB, FY2007 Historical Tables, February 2007.



Figure 15

### 5 and 10 Year Savings for Medicaid Legislative and Administrative Proposals

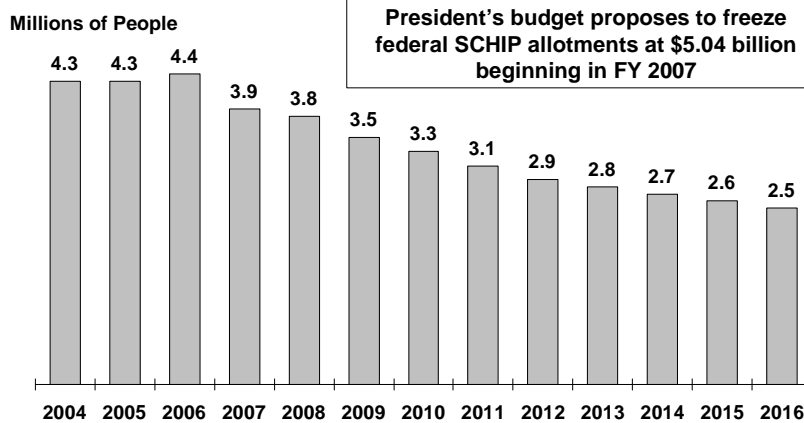


SOURCE: Additional Detail of the FY 2007 Budget from Office of the Actuary at CMS.



Figure 16

### SCHIP Enrollment Projections, 2007 - 2016

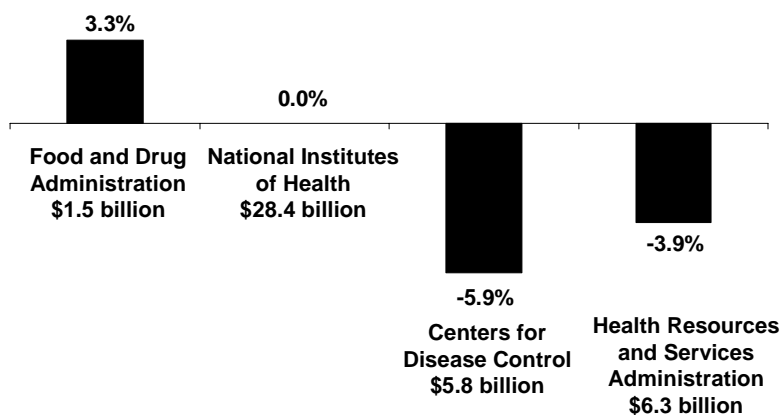


SOURCE: Additional Detail of the FY 2007 Budget from Office of the Actuary at CMS.



Figure 17

### Impact of Proposed FY 2007 Budget on Selected HHS Program Areas

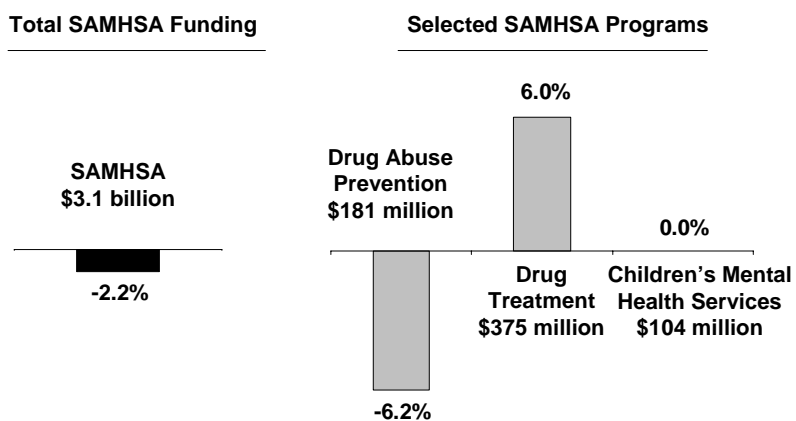


SOURCE: HHS, Budget in Brief FY 2007, February 2006.



Figure 18

### Impact of FY 2007 Budget – Substance Abuse & Mental Health Services

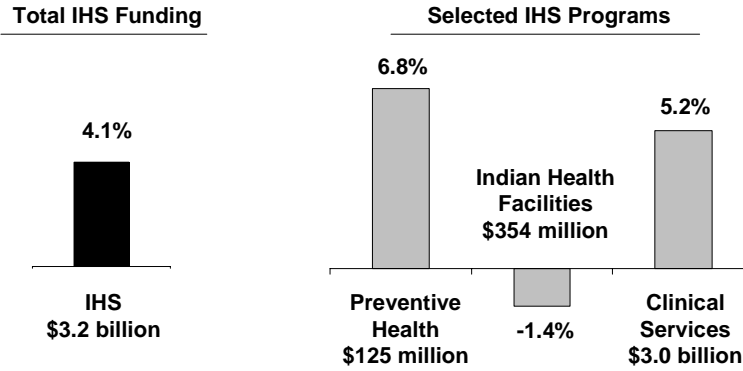


SOURCE: HHS, Budget in Brief FY 2007, February 2006.



Figure 19

## Impact of FY 2007 Budget – Indian Health Service

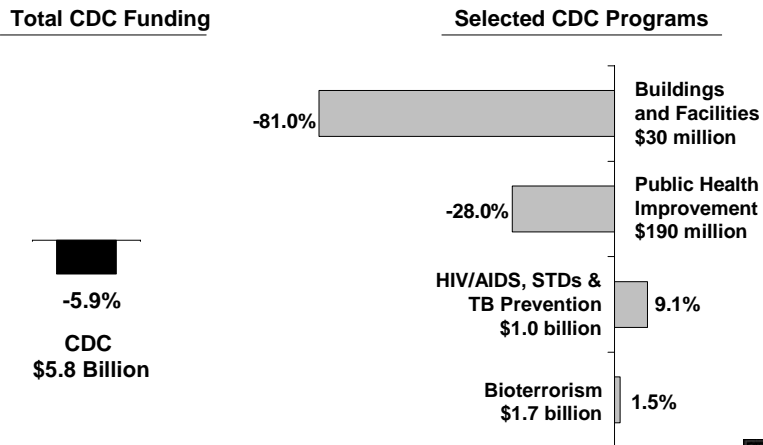


SOURCE: HHS, Budget in Brief FY 2007, February 2006.



Figure 20

## Impact of FY 2007 Budget – Centers for Disease Control and Prevention



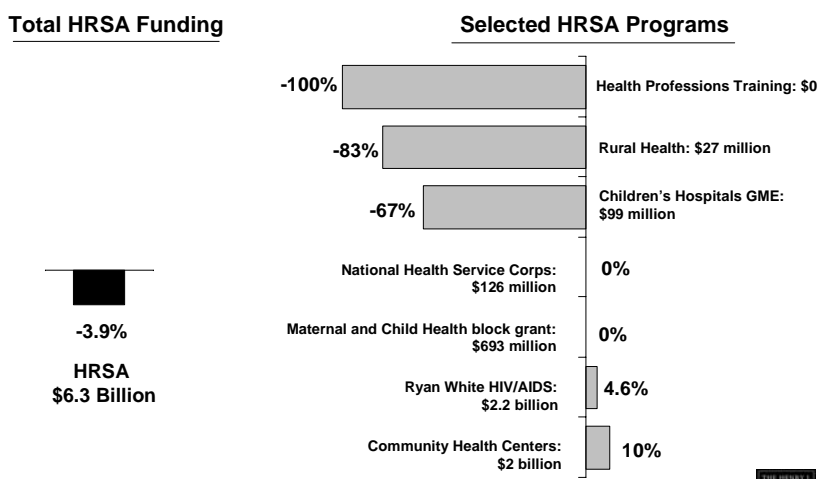
SOURCE: HHS, Budget in Brief FY 2007, February 2006.





Figure 21

## Impact of FY 2007 Budget – Health Resources & Services Administration Programs

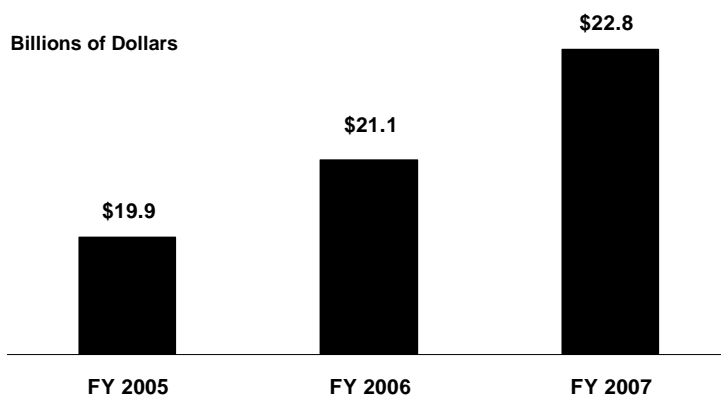


SOURCE: HHS, Budget in Brief FY 2007, February 2006.



Figure 22

## Federal Funding for HIV/AIDS, FY 2005 - FY 2007

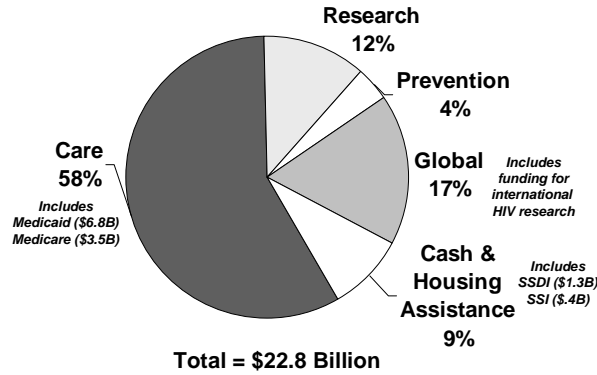


SOURCES: FY 2005 & FY 2006 Consolidated Appropriations Bills and Conference Reports; FY 2007 Budget of the United States; Office of Management and Budget; DHHS and State Department FY 2007 Budget in Brief Documents; DHHS, Office of Budget, NIH, and CDC; Social Security Administration; U.S. Office of the Global AIDS Coordinator; Kaiser Family Foundation, *Fact Sheet: Federal Funding for HIV/AIDS: The FY 2007 Budget Request*, February 2006.



Figure 23

## Federal Funding for HIV/AIDS by Category, FY 2007 Budget

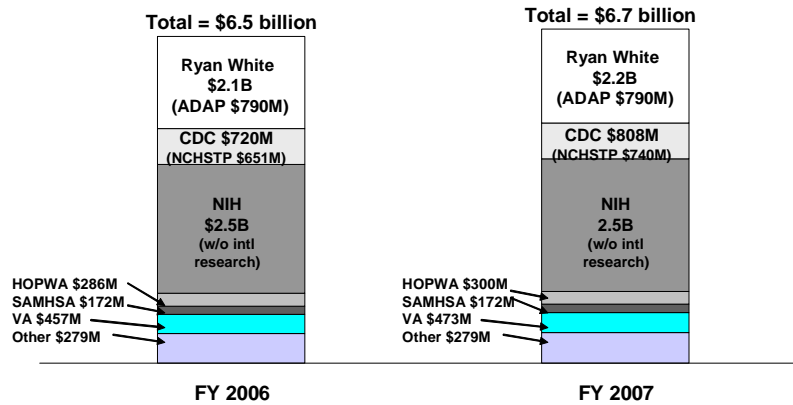


NOTES: Global category includes international HIV research funding at NIH; Medicaid and Medicare data are estimates only, from the DHHS Centers for Medicare and Medicaid Services (CMS) and have not been adjusted by CMS to account for implementation of Medicare Part D; SSDI and SSI data are estimates from the Social Security Administration. SOURCES: FY 2005 & FY 2006 Consolidated Appropriations Bills and Conference Reports; FY 2007 Budget of the United States; Office of Management and Budget; DHHS and State Department FY 2007 Budget in Brief Documents; DHHS, Office of Budget, NIH, and CDC; Social Security Administration; U.S. Office of the Global AIDS Coordinator; Kaiser Family Foundation, Fact Sheet: Federal Funding for HIV/AIDS: The FY 2007 Budget Request, February 2006.



Figure 24

## Domestic HIV/AIDS: Discretionary Funding, FY 2006-FY 2007

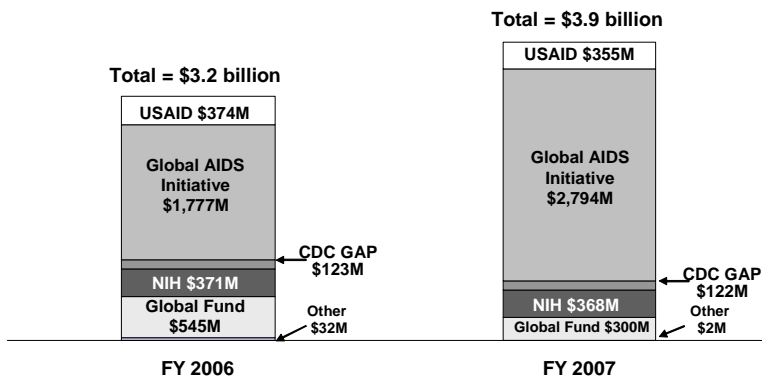


NOTES: NCHSTP: National Center for HIV, STD, and TB Prevention; NIH figures above do not include international HIV research; "Other" includes: DHHS Office of the Secretary, other (non Ryan White) funding at the Health Resources and Services Administration, Food and Drug Administration, Indian Health Service, Agency for Healthcare Research and Quality; Departments of Defense, Justice, and Labor. SOURCES: FY 2005 & FY 2006 Consolidated Appropriations Bills and Conference Reports; FY 2007 Budget of the United States; Office of Management and Budget; DHHS FY 2007 Budget in Brief; DHHS, Office of Budget, NIH, and CDC; Social Security Administration; Kaiser Family Foundation, Fact Sheet: Federal Funding for HIV/AIDS: The FY 2007 Budget Request, February 2006.



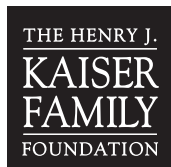
Figure 25

## Funding for Global HIV/AIDS, FY 2006 - FY 2007



NOTES: GAI: PEPFAR's Global AIDS Initiative at Department of State; CDC GAP: CDC Global AIDS Program; Global Fund grants support country projects that address HIV/AIDS, Tuberculosis, & Malaria. Approximately 56% of grants awarded to date have been for HIV/AIDS. The figures above include total appropriated amounts, not adjusted to represent an estimated AIDS share.  
 SOURCES: FY 2005 & FY 2006 Consolidated Appropriations Bills and Conference Reports; FY 2007 Budget of the United States; Office of Management and Budget; State Department FY 2007 Budget in Brief; DHHS, Office of Budget, NIH, and CDC, U.S. Office of the Global AIDS Coordinator; Kaiser Family Foundation, *Fact Sheet: Federal Funding for HIV/AIDS: The FY 2007 Budget Request*, February 2006.





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