



The President's FY 2006 Budget Proposal: Overview and Briefing Charts

Introduction

On February 7, 2005 the Bush Administration released its fiscal year 2006 budget to Congress. The President's budget both sets forth the Administration's policy priorities, including making tax cuts permanent and the on-going war on terrorism, as well as its proposed spending on health care and other programs of the federal government. A major focus of this year's budget request is deficit reduction. The President's budget estimates a \$427 billion deficit in FY 2005 falling to \$207 billion over the next five years. 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 cost of the President's Social Security proposal and ongoing war costs are not included in the budget.

The purpose of this chartpack is to review the President's FY 2006 budget request to Congress by highlighting overall budget assumptions and funding for major health programs. This chartpack begins with a description of the federal budget process, followed by an overview of federal surplus/deficit spending patterns dating back to 1969. It then turns to summary information on the overall composition of the Administration's budget, followed by the President's proposed funding for some of the major programs administered by the Department of Health and Human Services (HHS) including: Medicare, Medicaid, the State Children's Health Insurance Program (CHIP), and discretionary public health programs, including those at the National Institutes of Health, the Substance Abuse and Mental Health Services Administration, the Indian Health Service, the Centers for Disease Control and Prevention, and the Health Resources and Services Administration.

The Budget Process

The release of the President's budget is just the first step in the process of formulating the FY 2006 budget (Figures 1-2). The budget request is developed by the President's Office of Management and Budget (OMB). Congress may or may not incorporate the Administration's spending and revenue levels and policies in the Congressional budget process. The Congressional Budget Office (CBO) is expected to release estimates of the President's budget proposals in early March; Congress uses the CBO baseline and policy estimates and not the OMB estimates.

Through a process of adopting a budget resolution, Congress sets levels for total federal spending and revenues for the upcoming fiscal year and at least the next five fiscal years. Typically, budget resolutions have covered a ten-year period. The budget resolution provides the fiscal framework that: (1) sets overall discretionary spending levels contained in the thirteen annual appropriations bills (2) sets overall mandatory spending levels for entitlement programs such as Medicare and Medicaid, and (3) sets overall revenue levels. The budget resolution is not law so it is not signed by the President.

The budget resolution may contain “reconciliation instructions” that direct Congressional committees to change the authorizing laws governing entitlement programs such as Medicaid and Medicare. For example, if the budget resolution calls for a reduction in Medicaid spending, the Senate Finance Committee and House Commerce Committee would be instructed to develop legislation to conform spending levels to the levels specified in the budget resolution. The Congressional Budget Office and the Joint Committee on Taxation determine whether the entitlement and tax changes respectively meet the targets set out in the reconciliation instructions. A budget reconciliation bill is protected with special rules such as limited debate time and passage with a majority vote in the Senate.

Overview of the President’s FY 2006 Budget

The President’s FY 2006 budget proposal includes over \$2.5 trillion dollars in total federal spending. The Office of Management and Budget estimates the deficit will reach \$427 billion (3.5 percent of GDP) in FY 2005, marking the fourth consecutive year where total government spending outpaces total revenues. Over the next five years, the deficit is projected to decline to \$207 billion (1.3 percent of GDP) (Figures 3-5). However, the 5-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 beyond FY 2005. Accounting for these items, the federal deficit would continue over the next 10 years reaching \$410 billion in FY 2015 (Figure 6). In addition, the Administration’s budget submission does not account for the impact of the President’s Social Security plan.

Mandatory spending represented 55 percent of federal outlays (or 63 percent accounting for net interest payments) in 2006 (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 projection period.

In 2006, about 36 percent of all federal spending was discretionary – spending that must be renewed on an annual basis to continue. The President’s budget includes a 2.1 percent overall increase in discretionary spending levels, lower than the predicted rate of inflation. However, the budget cuts non-defense discretionary spending levels by about 1 percent, marking the first time since the Reagan Administration that non-defense discretionary spending has been reduced. While the President’s budget typically includes funding levels for the coming year and for the next five years or more, this year’s budget leaves out funding detail for specific discretionary programs beyond FY 2006. Overall, discretionary spending is projected to decline to 32 percent of federal outlays by 2010.

Health Priorities Outlined in the President’s FY 2006 Budget

Funding for federal health programs in the President’s budget accounts for more than 1 in every 5 federal dollars spent (Figure 8). Total spending on health programs under the Department of Health and Human Services (HHS) proposed in the President’s budget is \$592 billion. Fifty-eight percent of these funds will 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 includes some new spending proposals for health programs as well as proposals that would limit spending. The Administration's budget proposes a number of health care-related tax proposals totaling \$125 billion over the next five years to address the issue of the uninsured. In an effort to cut the deficit in half over the next five years, the President's budget proposes to reduce spending on health entitlement programs, such as Medicaid, and to limit new funds for other health discretionary programs.

Medicaid and SCHIP

In FY 2006, federal spending on the Medicaid program is estimated to reach \$193 billion (Figure 10). The Administration proposes to reduce Medicaid spending by \$60 billion over 10 years, representing the largest program reduction in the President's budget (Figure 11). Reductions are offset by some program increases for a net Medicaid reduction of \$45 billion over 10 years. Reductions are targeted toward restricting intergovernmental transfers (\$15.2 billion over 10 years) and other payment reforms (\$7.6 billion over 10 years), restructuring pharmacy reimbursement (\$15.1 billion over 10 years), reforming transfer of asset policy for Medicaid eligibility (\$4.5 billion over 10 years), reducing case management to a 50 percent match rate and redefining eligible services for case management (\$11.7 billion over 10 years), and converting Medicaid administrative costs from a 50 percent federal match to a set allotment for administration (\$6 billion over 10 years).

In FY 2006, federal budget authority for SCHIP is \$4.1 billion, which is lower than actual federal spending for the program (Figure 12). The budget proposes to reauthorize SCHIP early at current law levels to better target SCHIP funds. The budget also proposes \$1 billion over 2 years for *Cover the Kids*, a new campaign to enroll more low-income children in Medicaid and SCHIP. The Administration projects this proposal will increase costs by \$11 billion over 10 years by assuming additional enrollment in the Medicaid and SCHIP programs.

The President's FY 2006 budget also proposes to provide states with additional flexibility in Medicaid to further increase coverage among low-income individuals and families without creating additional costs for the federal government. The Administration expresses commitment to give states greater flexibility without the need for "burdensome" waiver applications and states that principles employed in SCHIP – which covers a relatively small, low-cost population – that emphasize innovation will be expanded to Medicaid beneficiaries. The Administration also proposes additional flexibility options related to long-term care reforms that will “build on successful programs that use consumer-direction and home and community-based care.” Specifics on these flexibility proposals are not included in the President's budget.

Medicare

Medicare spending is projected to rise from \$265 billion in 2004 to \$460 billion in 2010, according to the Bush Administration's FY 2006 Budget (Figure 13). The President's budget proposes no major changes to the Medicare program. The growth in Medicare spending is largely influenced by the same factors that affect health spending in general: increasing prices of health care services, increasing volume and utilization of services, and expensive new technologies. The new Medicare prescription drug benefit – which goes into effect in 2006 – will contribute to the increase in federal spending during this time period. In 2006, the net federal cost of the new Medicare drug benefit is estimated to be \$37.4 billion, according to the Administration's FY 2006 budget. Between 2006 and 2013, the Administration estimates the net federal cost of the Medicare drug benefit to be \$518 billion, and \$724 billion between 2006 and 2015 (Figure 14).

Health Care Tax Credit and Other Health Proposals

The Administration's budget proposes a number of health care-related tax proposals totaling \$125 billion between FY 2006-2015 (Figure 15). The health insurance tax credit is a refundable tax credit of up to \$1,000 for an individual and \$3,000 for a family of four. It would be phased out at \$30,000 for an individual and \$60,000 for a family at a cost of \$74 billion over 10 years. The proposed tax credit would apply only to the purchase of private, non-group coverage and would be used to purchase traditional health insurance or high deductible coverage accompanied by a health savings account.

The FY 2006 budget also includes proposals targeted to the uninsured and rising health care costs: state purchasing pools to help individuals receiving the tax-credit to purchase health insurance; tax deductions for individuals purchasing high-deductible health plans in conjunctions with HSAs; association health plans which would allow organizations to band together to increase purchasing power; medical liability reform; rebates to small employers contributing to employees' HSAs; and a "National Marketplace for Health Insurance" which would increase competition for health insurance across state lines.

Long-Term Budget Outlook for Entitlement Programs

The long-term budget outlook will depend on policy decisions as well as demographic pressures. For example, decisions about tax policy will have a dramatic impact on the amount of federal revenues available to support government programs. On the spending side of the equation, the aging baby-boom generation will put pressure on Social Security, Medicare, and Medicaid as the number of people over age 65 is projected to rise from 40 million in 2000 to 79 million in 2030 and the number of workers to support beneficiaries is projected to decline from 4.0 workers per beneficiary in 2000 to 2.4 workers per beneficiary in 2030. According to the Congressional Budget Office, these entitlement programs will grow as a share of GDP over the next decade and beyond (Figure 16).

Public Health Programs

The Administration proposes to decrease spending for discretionary health programs by 2 percent over last year's levels. The budget proposes to increase total funding for the Food and Drug Administration, the Indian Health Services, the National Institutes of Health, but it proposes to reduce funding for the Center for Disease Control and Prevention, the Health Resources and Services Administration, and the Substance Abuse and Mental Health Services Administration. Within each of these major HHS agencies, funding levels for individual programs vary, with some proposed increases and some proposed decreases (Figures 17-21). For example within HRSA, the Administration completes its commitment to create 1,200 new or expanded health center sites by FY 2006 by including \$2 billion for Community Health Centers (CHCs) (an increase of 17.5 percent over last year) while overall HRSA funding declined by 12 percent.

Funding for HIV/AIDS

Funding for HIV/AIDS has been rising over time, from \$18.5 billion in FY 2004, to \$21.0 billion in the President's FY 2006 budget request (Figure 22). Most federal funding for HIV/AIDS is for domestic activities. The biggest share of the budget is for domestic care programs (60 percent), largely reflecting estimated Medicaid and Medicare spending. Mandatory programs, including Medicaid, Medicare, SSDI, and SSI, account for the majority of HIV/AIDS funding (Figure 23). Funding for domestic discretionary programs overall remains level in the budget request, with some programs receiving decreases (Figure 24). Funding for global HIV/AIDS increases from \$2.6 billion to \$3 billion in the budget request. About 90 percent of FY 2006 global HIV/AIDS funding is channeled through U.S. bilateral programs, and the remaining 10 percent is requested for contributions to the Global Fund to Fight AIDS, Tuberculosis, and Malaria (Figure 25).

Data Sources

This chartpack uses data from the President's *Fiscal Year 2006 Budget*, the US Department of Health and Human Services' *Budget in Brief FY 2006*, the Congressional Budget Office's *Budget and Economic Outlook*, January 2005, and Department of the Treasury, "2005 Blue Book" *General Explanations of the Administration's Fiscal Year 2006 Revenue Proposals*.

Acknowledgements

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Overall Budget Context

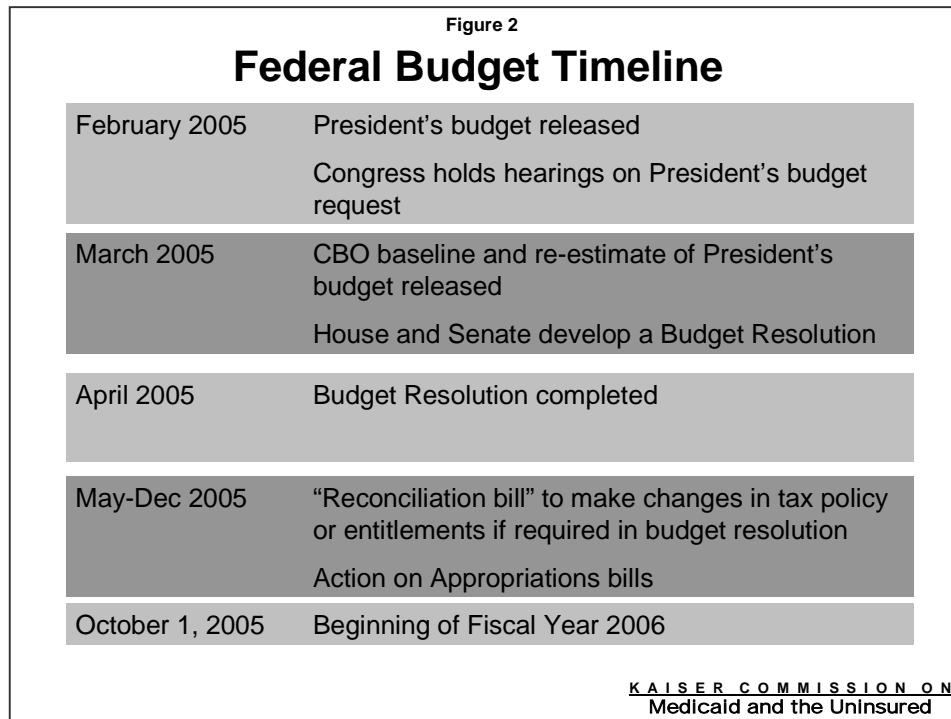
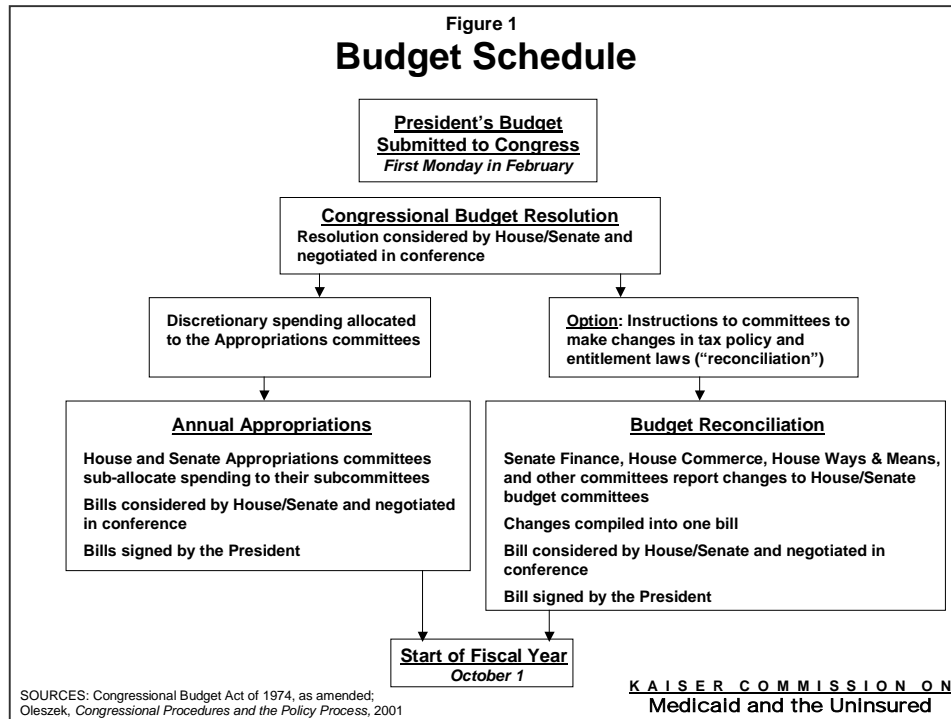
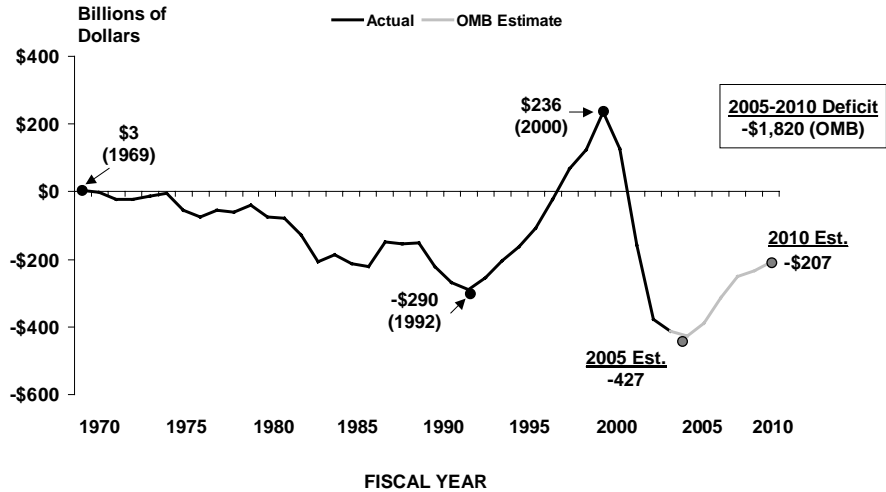


Figure 3

“Baseline” Federal Surplus/Deficit in Current Dollars, FY 1969-2010

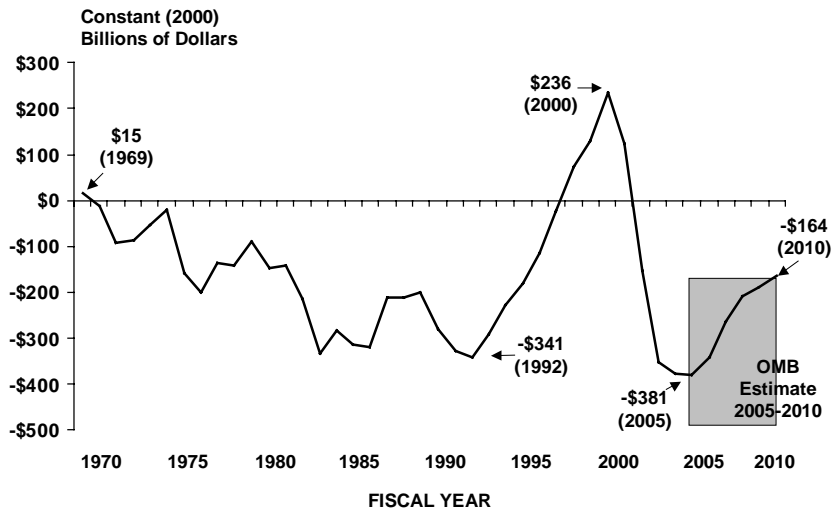


SOURCE: OMB FY06 Budget, February 2005 (Actual – Historical Tables, Table 1.3).

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Figure 4

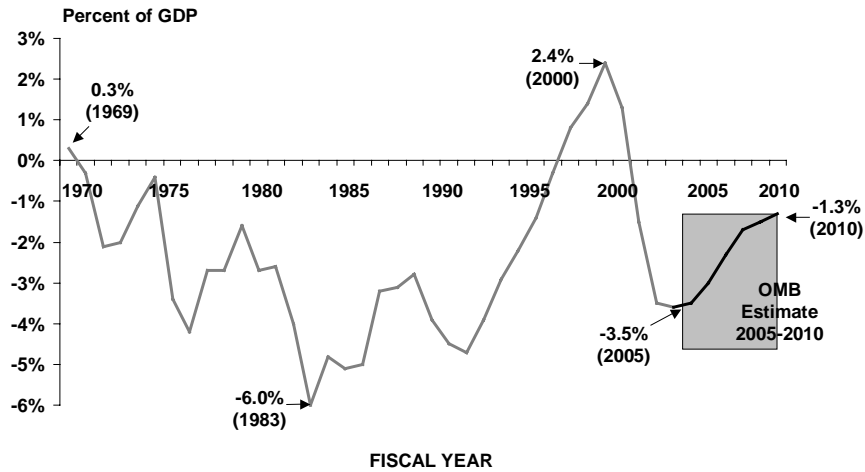
“Baseline” Federal Surplus/Deficit in Constant Dollars, FY 1969-2010



SOURCE: OMB, FY06 Budget, February 2005 (Actual – Historical Tables, Table 1.3).

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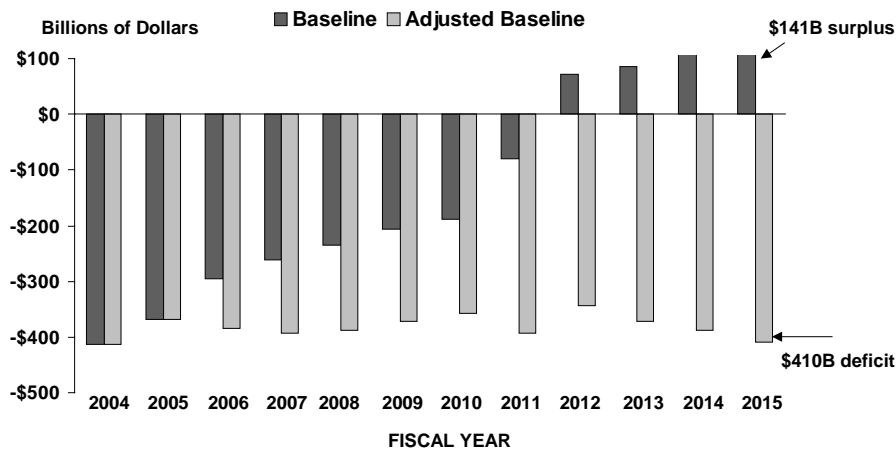
Figure 5
**“Baseline” Federal Surplus/Deficit
 as a Percent of GDP, FY 1969-2010**



SOURCE: OMB FY06 Budget, February 2005 (Actual – Historical Tables, Table 1.3).

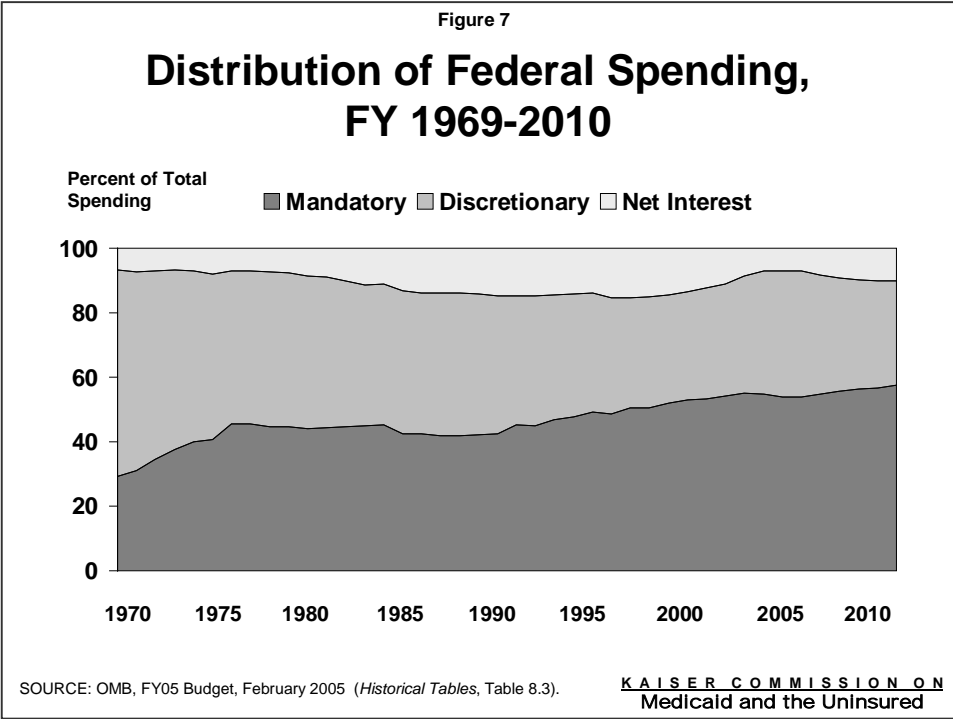
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Figure 6
**Impact of the Tax Cut Extensions and War Costs on
 the Surplus/Deficit Over the Next Decade**



Note: Adjusted baseline accounts for extension of tax cuts, AMT reform and war costs
 SOURCE: CBO, *Baseline Budget Outlook*, January 2005.

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Health Programs in the President's Budget

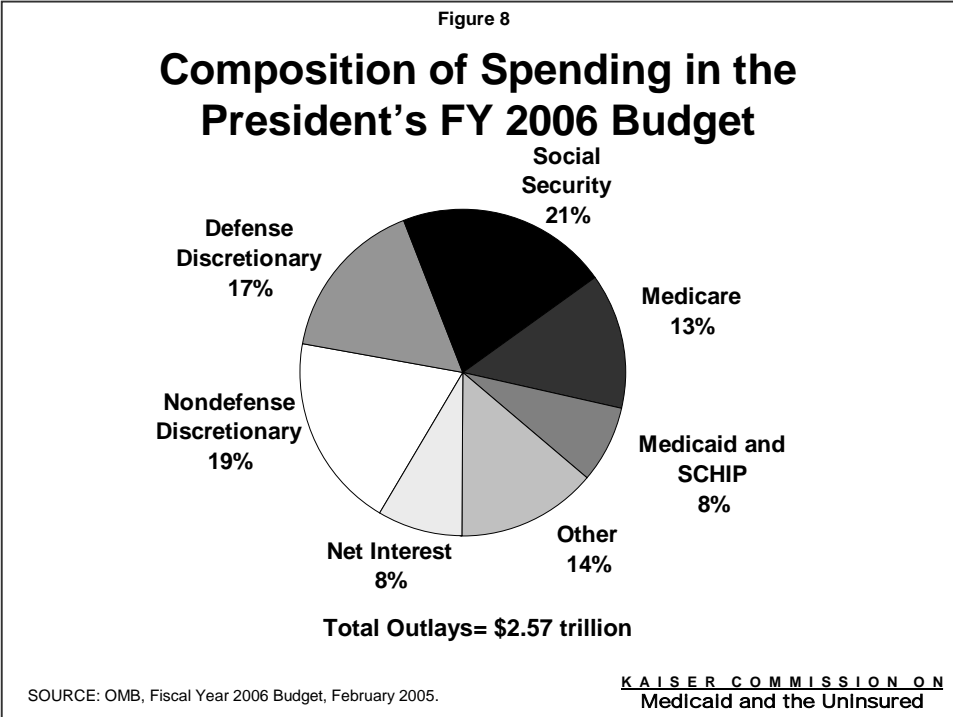
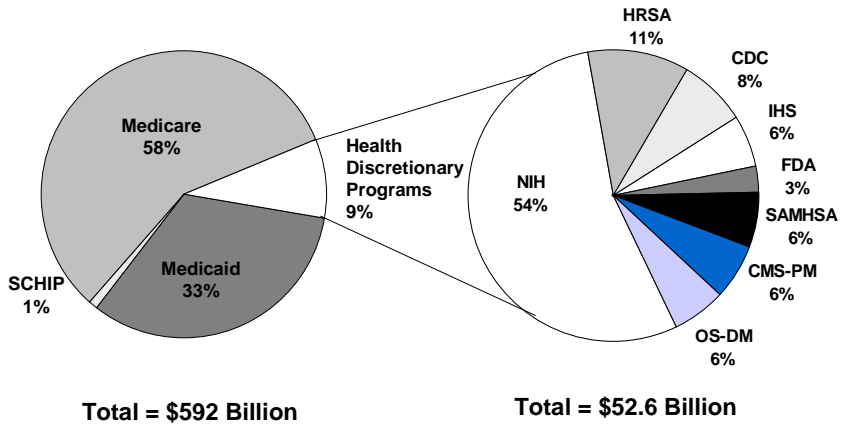


Figure 9

Funding Proposed for HHS Health Programs in Bush Administration's FY 2006 Budget



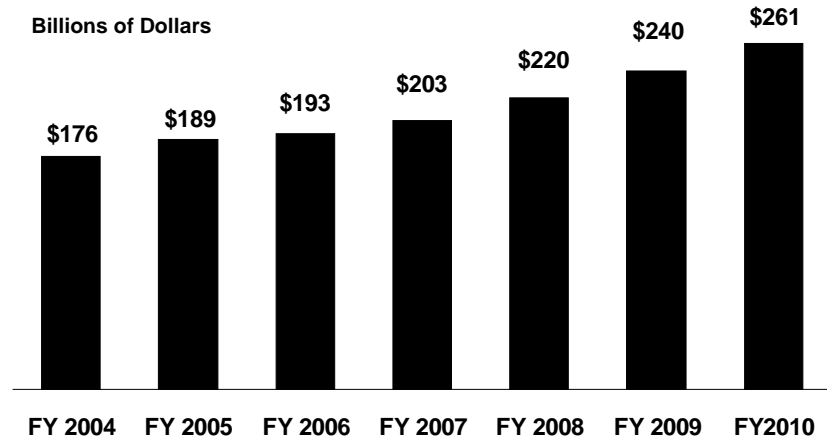
Notes: Totals do not include funding for the Administration on Children and Families, the Administration on Aging and Program Support Center. AHRQ funding is entirely through transfers from other HHS agencies. Totals do not add to 100 percent due to rounding.
 SOURCE: HHS, Budget in Brief FY 2006, February 2005.

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Mandatory Health Spending

Figure 10

Projections of Federal Medicaid Spending, FY 2004–2010

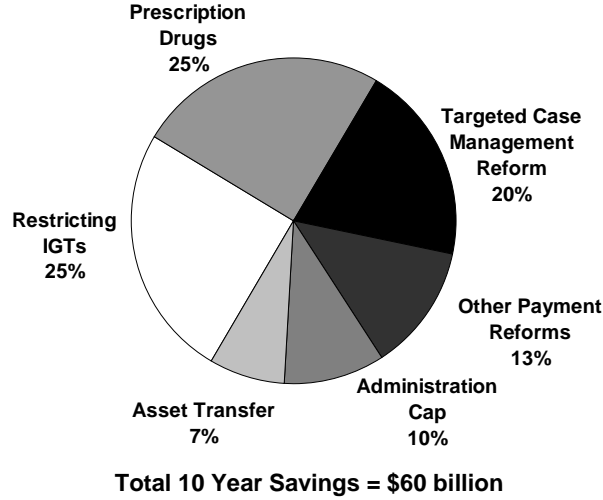


Note: Projections do not reflect baseline spending but reflect Bush Administration's policies including proposals with net savings of \$13.7 billion over 5 years and \$45 billion over 10 years.
 SOURCE: OMB, FY2006 Historical Tables, February 2005.

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Figure 11

10 year Medicaid Savings Proposals in the President's FY 2006 Budget

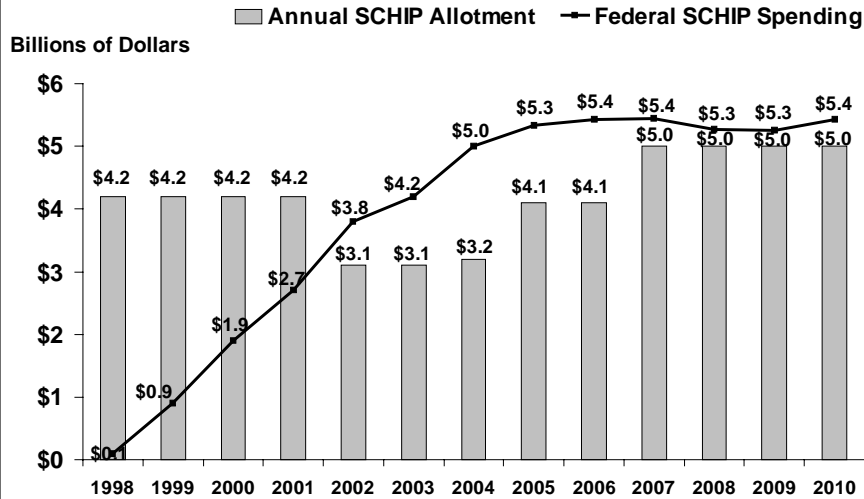


SOURCE: OMB, Fiscal Year 2006 Budget, February 2005.
www.whitehouse.gov/omb/budget/fy2006/pdf.savings.pdf

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Figure 12

SCHIP Allotments and Spending, 1998-2010



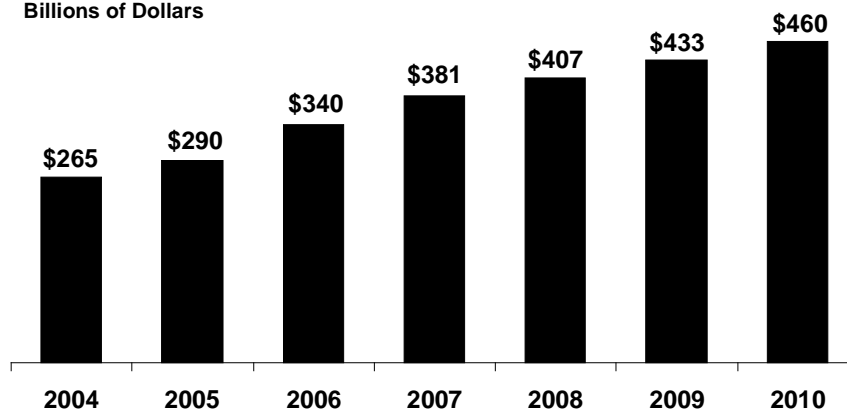
SOURCE: Balanced Budget Act, CMS Data and President's FY2006 Budget.

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Figure 13

Projections of Federal Medicare Spending, 2004-2010

Billions of Dollars

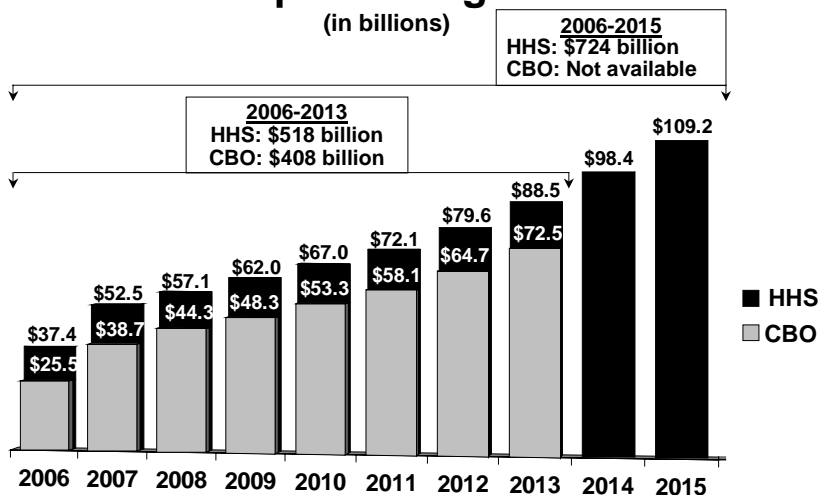


SOURCE: OMB, President's FY2006 Budget, Historical Tables, February 2005.

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Figure 14

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

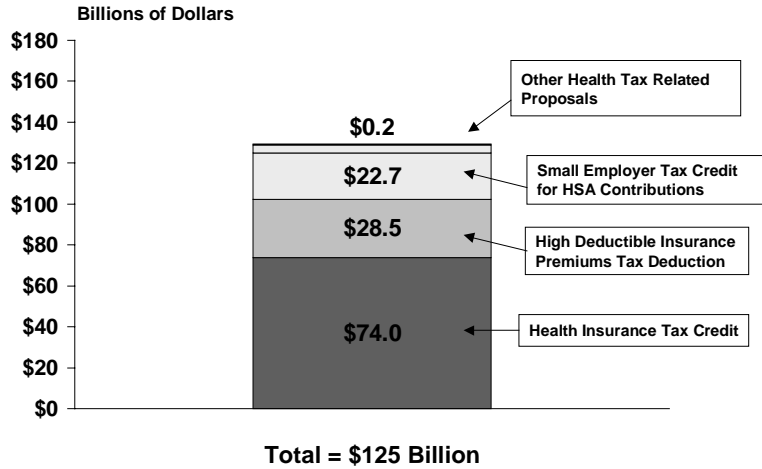


Note: Net Federal costs take into account savings to the government from premium payments by beneficiaries, state payments, and savings from Medicaid. CBO estimates for 2006-2013 are from 2003; net Federal costs for 2014 and 2015 are not available. Net Medicare costs (excluding Medicaid offsets) for 2006-2015 period range from \$795 billion (CBO) to \$913 billion (HHS Office of the Actuary). SOURCE: Administration FY 2006 Budget and CBO letter to Chairman William Thomas (February 9, 2005).

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Figure 15

The President's Health Care-Related Tax Proposals, FY 2006 – FY 2015

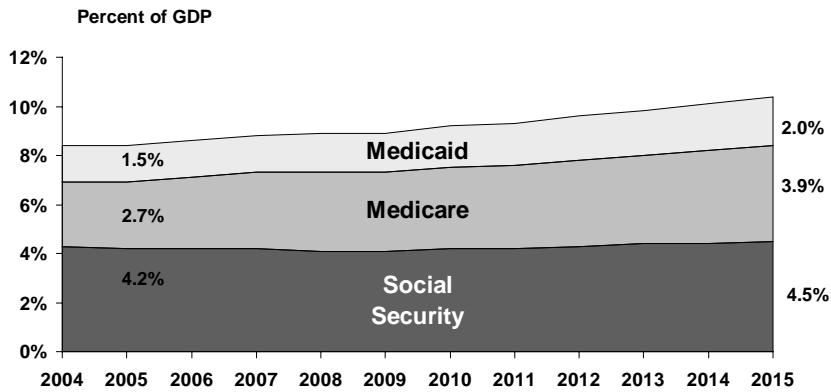


SOURCE: Department of the Treasury, "2005 Blue Book" General Explanations of the Administration's Fiscal Year 2006 Revenue Proposals, February 2005.

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Figure 16

Entitlement programs will increase as a share of GDP over the next 10 years, but the impact will be more significant in later years



SOURCE: CBO, *Baseline Budget Outlook*, January 2005.

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Discretionary Health Spending

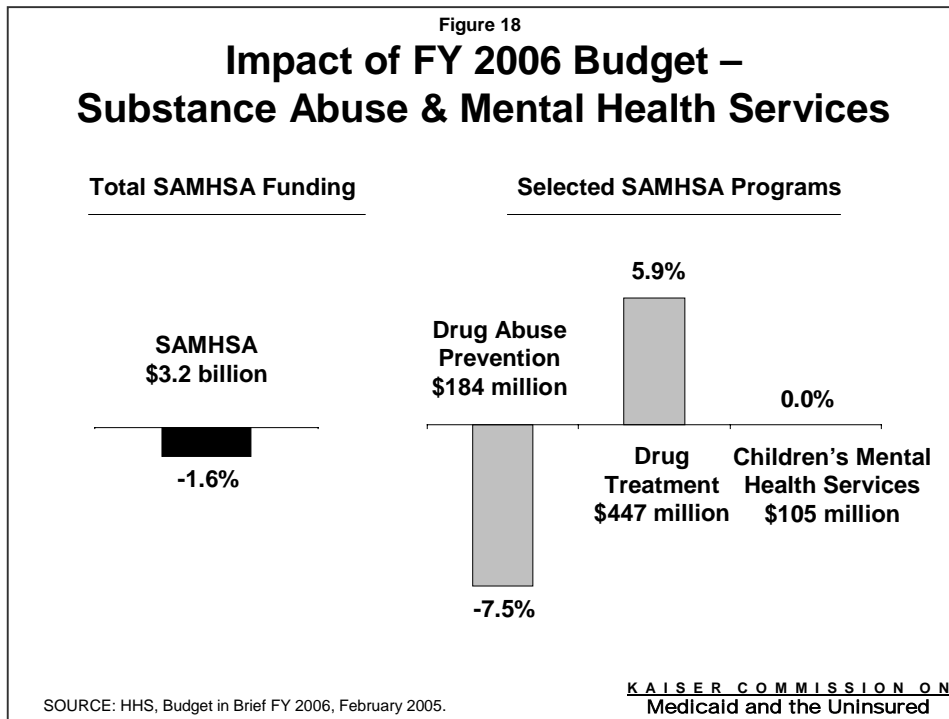
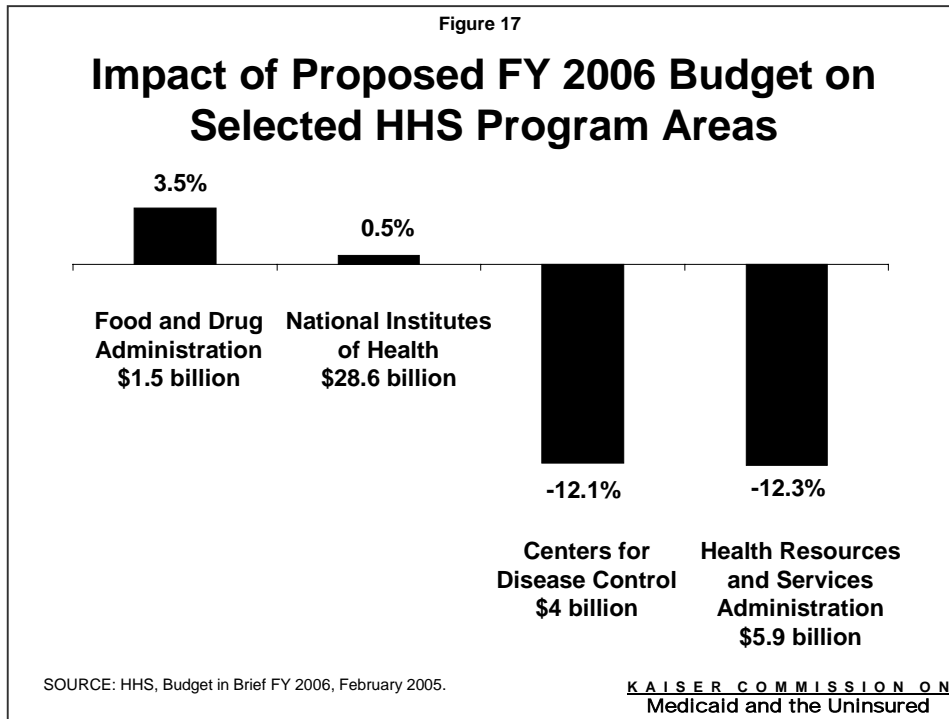
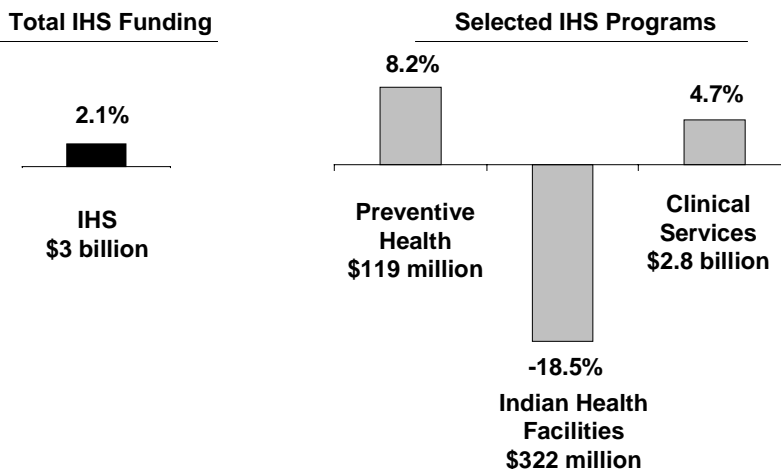


Figure 19

Impact of FY 2006 Budget – Indian Health Service

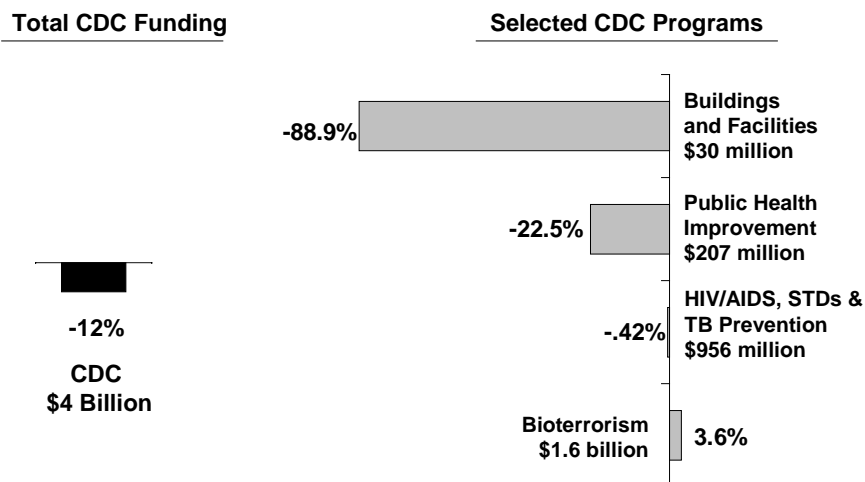


SOURCE: HHS, Budget in Brief FY 2006, February 2005.

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Figure 20

Impact of FY 2006 Budget – Centers for Disease Control and Prevention

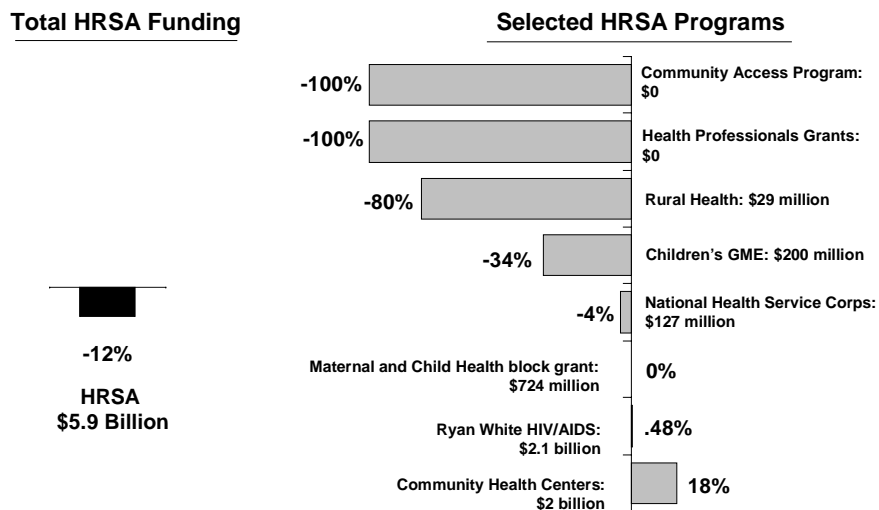


SOURCE: HHS, Budget in Brief FY 2006, February 2005.

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Figure 21

Impact of FY 2006 Budget – Health Resources & Services Administration Programs

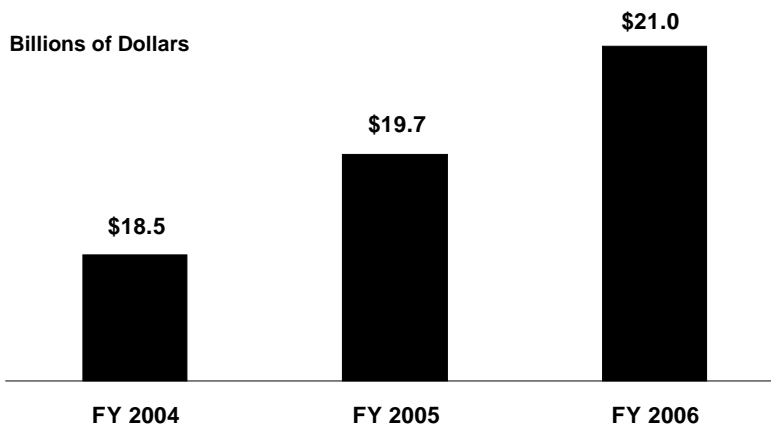


SOURCE: HHS, Budget in Brief FY 2006, February 2005.

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Figure 22

Federal Funding for HIV/AIDS, FY 2004 - FY 2006

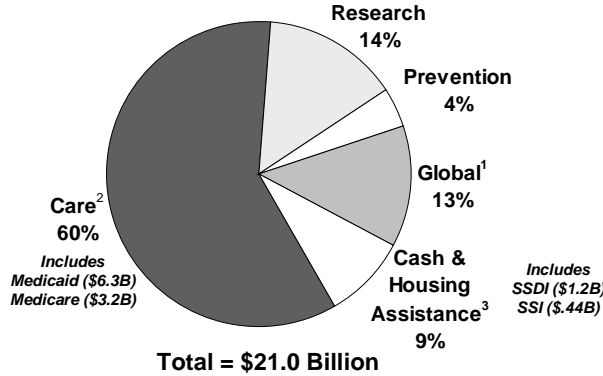


SOURCE: OMB, FY 2006 Budget; DHHS, Office of Budget/ASBTF, February 2005; SSA, Office of the Actuary, February 2005; FY 2004 and 2005 Consolidated Appropriations Bills and Conference Reports; Kaiser Family Foundation, Fact Sheet: Federal Funding for HIV/AIDS: The FY 2006 Budget Request, February 2005.

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Figure 23

Federal Funding for HIV/AIDS by Category, FY 2006 Budget

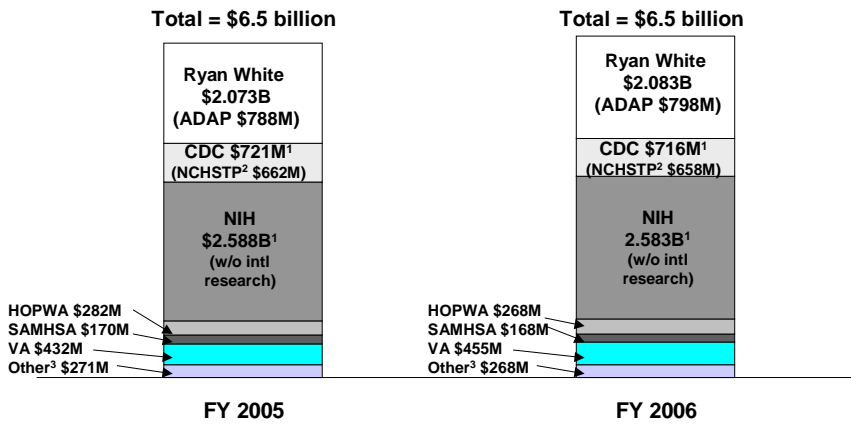


NOTES: 1.Excluded from the global category is \$361 million in international research funding (\$350 million at NIH counted as research and \$11 million at CDC counted as prevention). If international research funding is shifted to the global category, it rises to \$3.0 billion, or 14% of the total budget request. 2. Medicaid and Medicare data are estimates only, from the DHHS Centers for Medicare and Medicaid Services (CMS); 3. SSDI and SSI data are estimates from the Social Security Administration. SOURCES: OMB, FY 2006 Budget; DHHS, Office of Budget/ASBTF, February 2005; SSA, Office of the Actuary, February 2005; Congressional Research Service, RS21181, *HIV/AIDS International Programs: Appropriations, FY2003 - FY2006*, February 2005; Kaiser Family Foundation, *Fact Sheet: Federal Funding for HIV/AIDS: The FY 2006 Budget Request*, February 2005.

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Figure 24

Domestic HIV/AIDS: Discretionary Funding, FY 2005-FY 2006

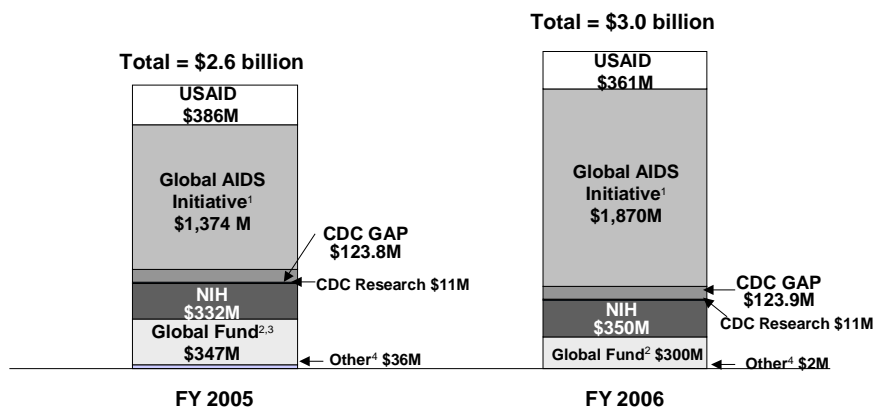


NOTES: 1. NIH and CDC figures do not include their estimates for international research; 2. National Center for HIV, STD, and TB Prevention at CDC; 3. Includes: DHHS Office of the Secretary, Health Resources and Services Administration, Agency for Healthcare Research and Quality, Departments of Defense, Justice, Labor, Education; Indian Health Service. SOURCES: OMB, FY 2006 Budget; DHHS, Office of Budget/ASBTF, February 2005; FY 2005 Consolidated Appropriations Bill and Conference Report; Kaiser Family Foundation, *Fact Sheet: Federal Funding for HIV/AIDS: The FY 2006 Budget Request*, February 2005.

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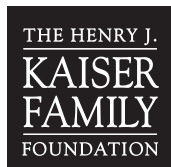
Figure 25

Funding for Global HIV/AIDS, FY 2005 - FY 2006



NOTES: 1. Global AIDS Initiative (GAI) at Department of State; 2. 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 reflect the proportion of grants awarded by the Global Fund for HIV/AIDS; 3. In FY 2004, \$547 million was appropriated for the Global Fund but per legislative requirement in P.L. 108-25, \$37.9 million was carried over to FY 2005. This carry-over is not reflected in the FY 2005 figure above. 4. Other: in FY 2005, Foreign Military Financing, DoD, DOL, and USDA; in FY 2006, Foreign Military Financing. SOURCES: OMB, FY 2006 Budget; FY 2005 Consolidated Appropriations Bill and Conference Report; DHHS, Office of Budget/ASBTF, February 2005; Congressional Research Service, RS21181, *HIV/AIDS International Programs: Appropriations, FY2003 - FY2006*, February 2005; Kaiser Family Foundation, *Fact Sheet: Federal Funding for HIV/AIDS: The FY 2006 Budget Request*, February 2005.

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