CBO VS. OMB

Q. THE CONGRESSIONAL BUDGET OFFICE SAYS THAT THE ADMINISTRATION'S NUMBERS ARE WAY OFF WHEN THEY USE THE CBO BASELINE. ISN'T THIS JUST ANOTHER ROSY SCENARIO?

A. Absolutely not. We have a solid balanced budget plan based on numbers are consistent, conservative and professional. Indeed, using the assumptions of the top private sector forecasters, our plan would get to balance.

There are some small differences between CBO and OMB in growth estimates and the health care baseline that get magnified over a 10 year period. We believe that our baseline is superior. Even CBO admits that our growth estimates are more consistent with the Blue Chip than theirs are. And our health care estimates are done by top, career health professionals at the Health Care Finance Administration, who have the best and most current information.

Indeed, CBO acknowledges that the Administration is closer to the Blue Chip than the CBO on the key economic assumptions that affect the deficit, including growth, interest rates and the GDP deflator.

Yet, while we believe our baseline is the best and they clearly believe that their baseline is the best, the key thing is that neither side should let honest accounting differences be an excuse to not work together to avoid a train wreck and to come up with the type of balanced budget plan that the American people could support.

FOLLOW UP: BUT DIDN'T YOU PROMISE IN 1993 TO USE CBO PROJECTIONS?

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LETTERS TO THE EDITOR

From the President, a Credible Budget

The editorial "Less Than Straight" [June 20], challenging the credibility of the president's 10-year plan to balance the budget, distorts the facts in a way I have rarely seen on The Post's editorial page. The president's plan is based on solid, *conservative* estimates of economic growth and health care spending, and there is no basis for suggesting otherwise.

I can understand the view that no administration's numbers are to be trusted. I too watched the Reagan and Bush administrations cook the books for 12 years, basing budgets on fantasy forecasts that were wildly more optimistic than those of the Congressional Budget Office (CBO).

But those days ended on Jan. 20, 1993, when this president took office and restored credibility to the Office of Management and Budget (OMB). The president's two OMB directors—Alice Rivlin and I—have consistently used conservative estimates for this administration's budgets, and most responsible economists have acknowledged that reality.

As The Post notes, the CBO forecast and the OMB forecast—which is the same one we released in February—are very close to one another. That's one big difference from the Reagan-Bush years.

But for some reason, The Post neglected to mention that the administration's economic forecast is *closer* than the CBO forecast to the mainstream of private economic forecasts—as represented not only by the well-known Blue Chip consensus forecast but also by a new survey of private economists by the Federal Reserve Bank of Philadelphia. The long-term average annual growth forecasts are as follows: Federal Reserve survey: 2.6 percent; Blue Chip: 2.5 percent; OMB: 2.45 percent; CBO: 2.3 percent.

The Post did get one thing right: "No one can know for sure which estimate is right." However, if I were "betting the farm," as The Post put it, and if I wanted to be objective, I might say to myself: "Forget Congress, forget the administration; what do private-sector economists think?" After all, the companies these forecasters work for have a lot to gain from accurate forecasts—and a lot to lose from inaccurate ones.

The Post claims that we "defined part of the problem away," that we "cut the size of the problem in half." Wrong. We based our estimates on the most credible assumptions possible. If anything, we were cautious. If you believe private forecasts, then we *overstated* the problem, and CBO overstated it even more. And if our forecast is accurate, then CBO has erred by doubling the size of the problem.

Also, with regard to health care spending, the administration's projections are made by the longtime career professionals at the Health Care Financing Administration. Their estimates are untouched by political hands. And nobody, including CBO, has access to the kind of program and other information that they do. It is their projections on which Congress is relying for declaring a crisis in the Medicare trust fund.

If The Post wants to advocate greater savings from Medicare, cutting cost-of-living adjustments for Social Security or cutting back on tax indexing, it can go right ahead. And congressional Republicans can certainly advocate cuts in education, greater Medicare savings and a tax increase for 14 million working families. We will respectfully disagree.

But neither The Post nor Congress has any basis whatsoever for challenging the credibility of the president's budget. Let's get this debate back to its substance—how to balance the budget.

LEON E. PANETTA
Chief of Staff
The White House
Washington

Big Differences in Health Bills

I read with interest the June 5 editorial "The Same Old Health Care Ads." The American Hospital Association certainly went after the House Democratic bill (Gephardt-Stark), and I understand the Republicans' anger.

But please, there are major differences between last year's House Democratic bill and this year's Republican budget proposal. The Post's editorial, however, egregiously asserted that they both represent similar attempts to contain health care costs. The editorial's discussion of the specifics of different approaches to reform—"How you do it and how fast are always going to be sources of dispute"—belittles the serious consequences of cutting too much too fast (so that health care providers would have no more bad debt, uncompensated care, charity care etc.) and by expanding benefits (e.g., pharmaceutical benefits). We also contained costs across the board, using Medicare payment methods to gradually lower the rate of health care inflation to the rate of growth in the gross domestic product.

The current Republican plan takes out almost twice as much (almost three times when you add in the Medicaid cuts) and gives nothing back to the system, and by controlling only public side spending, permits disruptive cost shifting and therefore creates access problems for seniors and the poor. The GOP bill, accompanied

Never Elected President

In the article "A Nightmare for Defense Attorneys" [news story, June 8], Manuel Antonio Noriega was described as "Panamanian president."

We would appreciate it if The Post would correct the gentleman's title to that of dictator or strongman.

Mr. Noriega, who is in Miami serving 40 years in prison for crimes related to narcotics, was never elected president of Panama, and his power or authority never came from the people.

FERNANDO ELETA
Deputy Chief of Mission
Embassy of Panama
Washington

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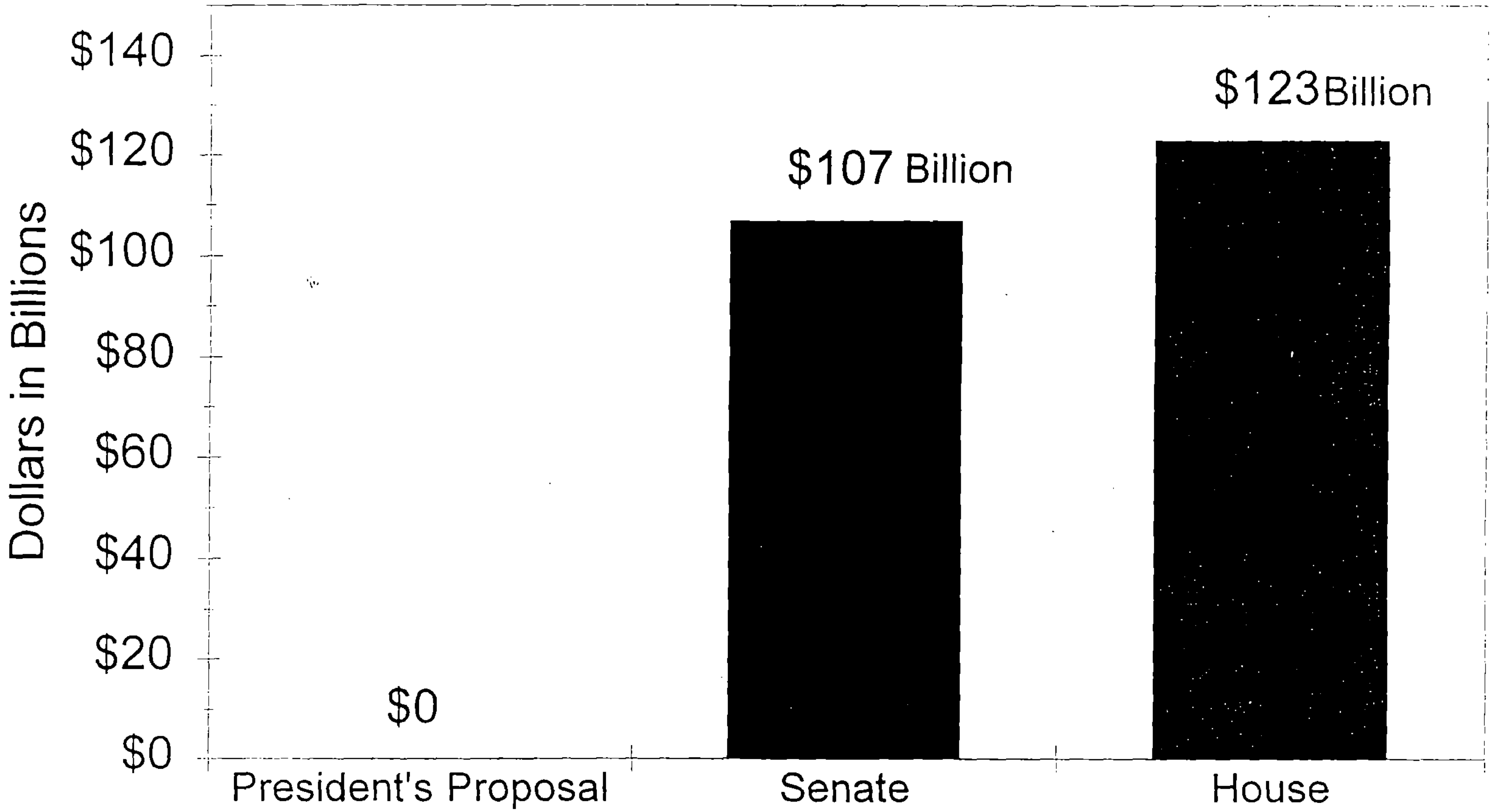
Increased Medicare Beneficiary Out-of-Pocket Costs, 1996 - 2002



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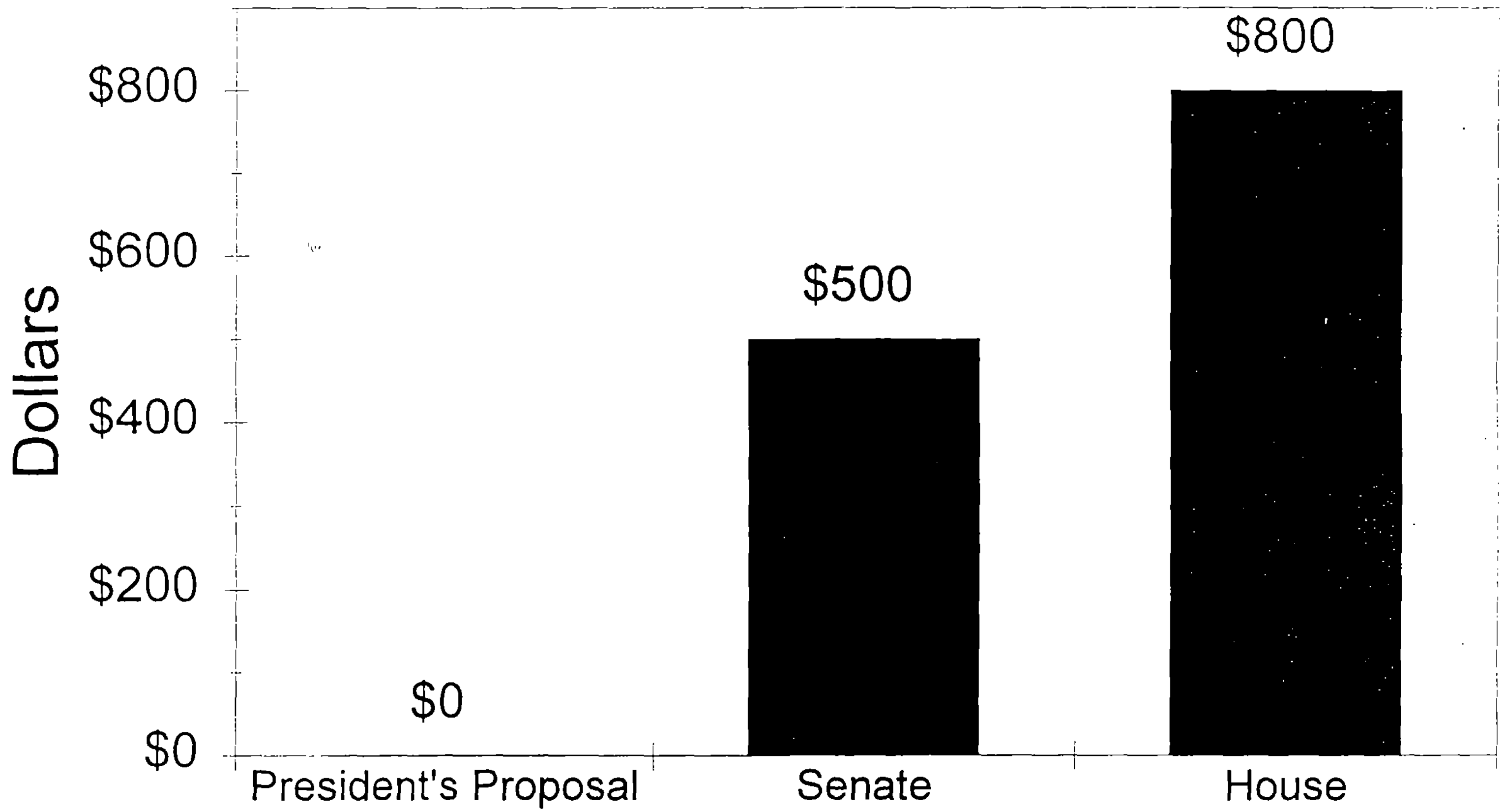

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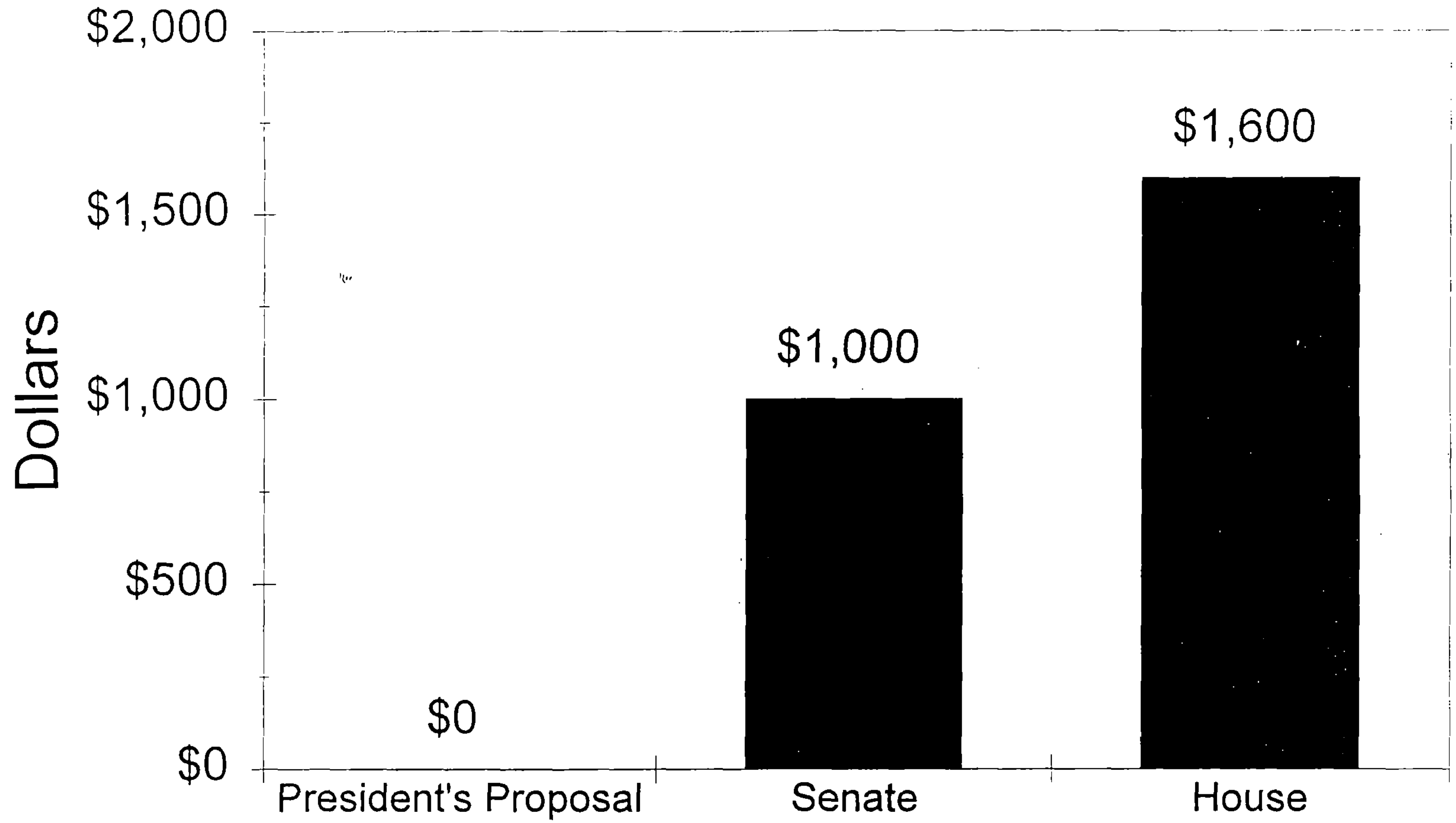

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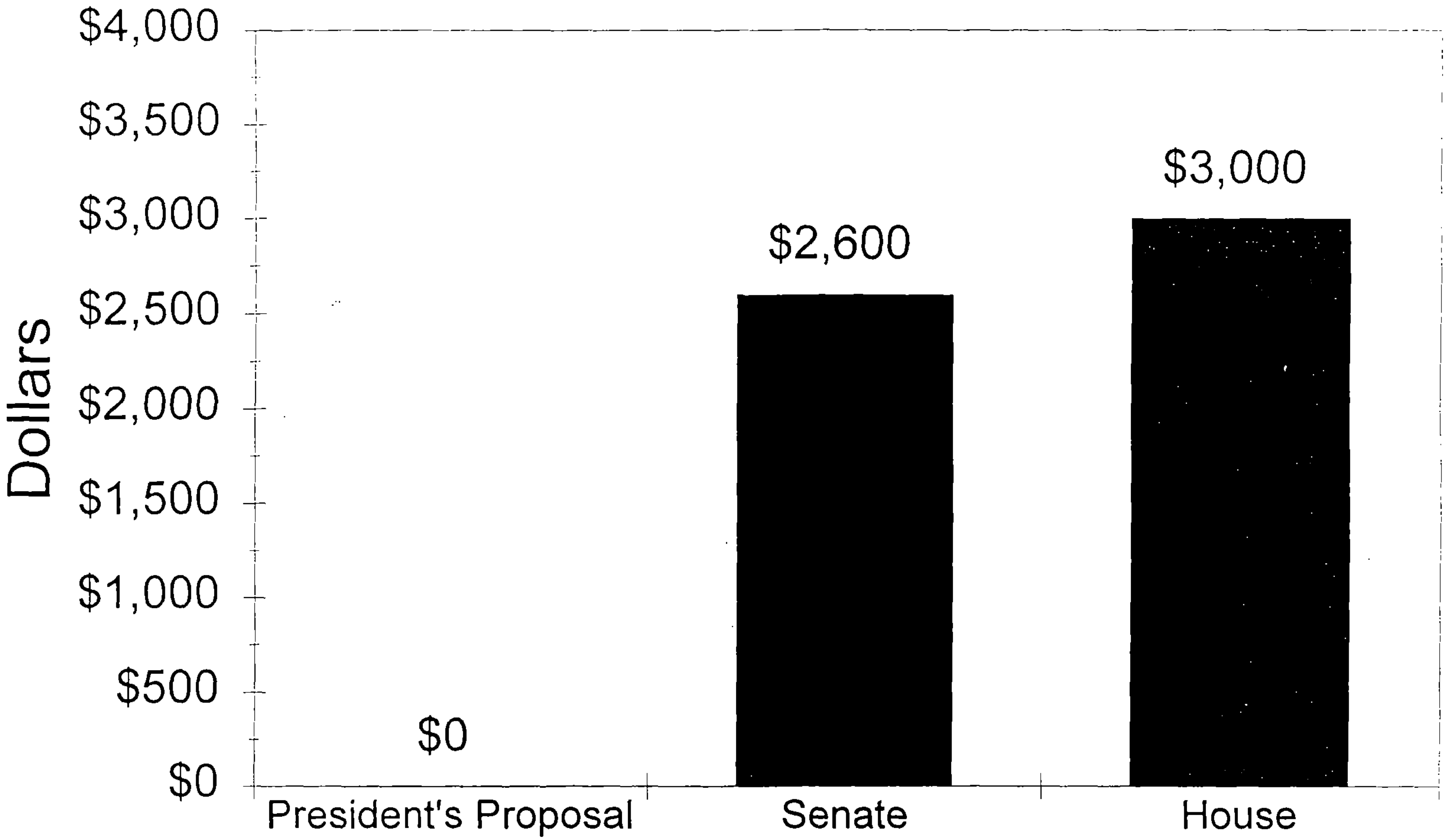

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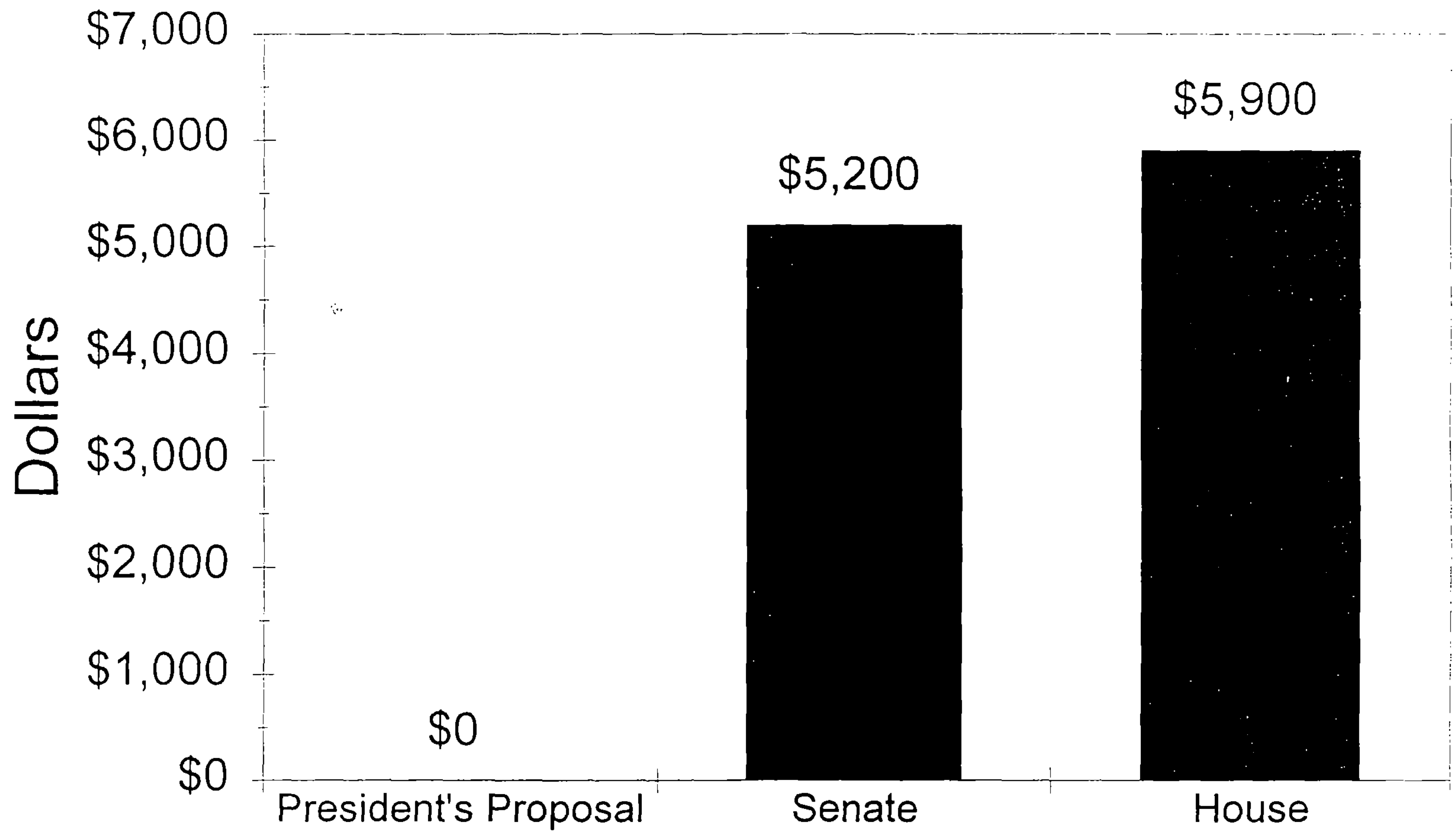

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EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

THE DIRECTOR

June 14, 1995

Honorable Martin Olav Sabo
Committee on Appropriations
U.S. House of Representatives
Washington, D.C. 20515

Dear ~~Representative~~ Martin Sabo:

I wanted to follow up on our brief discussion at the Caucus this morning about the differences between the CBO and OMB baselines as they relate to Medicare.

Actually, there are two issues here: (1) the historical difference between the CBO and OMB Medicare baselines in the aggregate, and (2) the differences between CBO and OMB scoring of individual Medicare savings proposals. What I was trying to say today was that:

- the difference in the baselines is independent of any proposals for Medicare savings, and
- one cannot assume that CBO and OMB would score a set of individual Medicare savings proposals with any significant deviation.

The numbers in the materials we discussed with the Caucus today are the most accurate way to compare the President's Medicare savings proposals with the Republican proposals.

CBO and OMB Baseline Differences

As you know, there have always been differences between the CBO and OMB Medicare baselines. These differences tend to be quite narrow in the current year, and grow during the out-years. As CBO said in its April 1995 analysis of the FY96 President's Budget, "given the size of [the Medicare and Medicaid] programs and the uncertainty about their future costs, the projections of CBO and the Administration are not very far apart."

Over the period from 1996-2002, we estimate that the total difference between the CBO and OMB Medicare benefits baselines is about $70 billion. For FY96, CBO's estimate of Medicare spending is only about $4 billion higher than OMB, but this difference grows in succeeding years; in 2002, the difference is $18 billion.

OMB's Medicare baseline projections are calculated by the HCFA actuaries, who use the Administration's economic assumptions. The projections for FY96 reduced projected Medicare spending by $40 billion over the 1996-2000 period that the President's Budget covers. We expect spending in the Medicare program over this time to increase at a slower rate than in recent years.

This projected slowdown is the result of several factors. In particular, Hospital Insurance (HI) expenditures have grown more slowly than we expected at the time we put together the budget for FY95. Slower HI growth results primarily from a fall in forecasted hospital cost inflation and the slower growth in complexity of Medicare inpatient cases.

CBO's projections indicate that it shares our view that Medicare spending will rise at a slower rate over the next five years, although CBO does not expect the reduction to be quite as significant.

CBO forecasts 9.7% average annual growth in baseline outlays, while OMB forecasts 9.1% average annual growth, for a cumulative difference of $40 billion over the 1996-2000 period. CBO's January 1995 *Economic and Budget Outlook* indicates that CBO is less optimistic about the slowdown in Medicare spending because it estimates that the apparent slowing in the growth of payments for hospitalizations and physician visits is roughly offset by fast-growing costs for care in other settings, particularly for home health care and skilled nursing facilities.

CBO vs. OMB Scoring of Medicare Savings Proposals

Determining how CBO would score the President's Medicare savings proposals is an almost impossible task. Although it might seem that one could simply figure out the percentage by which the CBO baseline is higher than the OMB baseline, and multiply the total of our savings proposals by that amount, that calculation would not be accurate. In fact, our analysts -- and HCFA's professional Medicare actuaries -- tell me that it might not even be in the ballpark.

The reason is that the CBO baseline is not a monolithic stream of numbers; rather, it is composed of many separate baselines for different services and providers. Thus, for example, a proposal affecting clinical laboratories would have to be scored against the clinical laboratories baseline, which might be lower than the OMB baseline for the same service, even though in the aggregate, CBO's baseline is higher. Thus, scoring of specific savings proposals would really have to be done by CBO, proposal by proposal using detailed specifications, against the appropriate baseline.

I understand your concern about the uncertainty and complexity that baseline differences introduce into the scoring of Medicare savings proposals. Unfortunately, we can do nothing about these baseline differences; the good news is that recent history reflects that they are not that important when it comes to scoring specific savings proposals.

Let me mention two examples:

• First, you will recall that the Health Security Act contained Medicare savings proposals that we estimated would save $118.3 billion over the 1995-2000 period. CBO scored these same proposals as saving $117.6 on its baseline, which was higher than ours.

• Second, and most recently, our FY96 budget contained four Medicare "extenders" from OBRA93 that we estimated would save $28 billion over the 1995-2000 period. CBO has since scored these same proposals as saving only slightly more, $30 billion.

I hope this letter has answered some of your questions about our health reform proposal. Your support is critical as we work with the Congress to achieve what we both want: a balanced budget that is fair and reasonable. I look forward to working with you in the coming weeks.

Sincerely,

Alice M. Rivlin
Director

Hope this helps.

DRAFT

CBO AND ADMINISTRATION MEDICAID ESTIMATES

QUESTION: Wouldn't the Administration's estimates of Medicaid savings be significantly different under the CBO scoring?

ANSWER: The Administration is committed to savings of $55 billion in Medicaid over the seven year period These savings may be achieved through a mix of policies including increased state flexibility, limits on the growth in spending per recipient, and reductions and retargetting of Disproportionate Share (DSH) payments. We will work with the Congress, the States and the relevant constituencies to determine the mix of policies so this target may be achieved under a CBO baseline.

BACKGROUND:

Would a specific Medicaid policy have different scoring under the CBO baseline?

Not necessarily. There are two issues that determine the similarity of the Administration and CBO scoring: (1) the differences between the baselines, and (2) differences between the Administration and CBO assumptions about individual Medicaid savings proposals. Similarities between estimates occur when the specific policy relates to an area where there CBO and the Administration agree on either the baseline or the assumptions used in scoring.

1. Differences in the Baselines (Projections of spending under current law): Projected Medicaid spending is lower than last year's projections under both the Administration and the CBO's Medicaid baselines. This results from slower inflation and health care inflation, slowdowns in recipient growth, and the reigning in of the disproportionate share (DSH) spending.

Although both CBO and the Administration have lowered their baselines, the Administration estimates that the general slowdown will continue, while CBO is less conservative. Between 1996 and 2000, the Administration estimates that Medicaid spending will be $38 billion or 7% lower than CBO's estimates over the period. The additional difference reflects the Administration's response to several trends:

- o Lower economic assumptions, which are reflected in lower cost growth per recipient (5.2% per recipient under the Administration baseline, versus 7.0% per recipient under the CBO baseline).

- o Lower long-term care projections: the CBO has considerably higher growth estimates for long-term care (9.9% under CBO, versus 8.0% under the Administration baseline). This difference remains even after accounting for recipient growth.

The differences in the baselines are most pronounced in these areas, but are less important in others. Thus, if proposals are concentrated in areas where there are similarities in the baselines, then the baseline differences are irrelevant.

2. Differences in Scoring Savings Proposals

Although differences in baselines can affect the scoring of a particular proposal, the Administration and CBO assumptions about a particular policy also have a significant effect. This is particularly the case in Medicaid, which is essentially 56 different program. Predicting State behavior is an important part of scoring these proposals.

CBO and OMB Medicare Baseline Differences

- There are really two separate issues here: (1) the historical difference between the CBO and OMB Medicare baselines, and (2) the differences between CBO and OMB scoring of individual Medicare savings proposals.
  - The difference in the baselines is independent of any proposals for Medicare savings, and
  - One cannot assume from this that CBO and OMB would score a set of individual Medicare savings proposals with any significant deviation.

1. Differences in the Baselines

- There have always been differences between the CBO and OMB Medicare baselines. These differences tend to be quite narrow in the current year, and grow during the out-years.
- As CBO said in its April 1995 analysis of the FY96 President's Budget, "given the size of [the Medicare and Medicaid] programs and the uncertainty about their future costs, the projections of CBO and the Administration are not very far apart."
  - For FY96, CBO's estimate of Medicare spending is only about $4 billion higher than OMB, but this difference grows in succeeding years; in 2002, the difference is $18 billion.
  - Over the period from 1996-2002, we estimate that the total difference between the CBO and OMB Medicare benefits baselines is about $70 billion.
- OMB's Medicare baseline projections are calculated by the HCFA actuaries, who use the Administration's economic assumptions. For FY96, the actuaries reduced projected Medicare spending by $40 billion over the 1996-2000 period that the President's Budget covers.
  - The actuaries expect spending in the Medicare program over this time to increase at a slower rate than in recent years.
  - This projected slowdown is the result of several factors. In particular, Hospital Insurance (HI) expenditures have grown more slowly than expected.

- Slower HI growth results primarily from lower hospital cost inflation and slower growth in complexity of Medicare inpatient cases.

- CBO's projections indicate that it agrees that Medicare spending will rise at a slower rate over the next five years, although CBO does not expect the reduction to be quite as significant.

  - CBO's January 1995 *Economic and Budget Outlook* indicates that CBO is less optimistic about the slowdown in Medicare spending because of its view that the apparent slowing in the growth of payments for hospitalizations and physician visits is roughly offset by fast-growing costs, other services such as home health care and skilled nursing facilities.

2. **Differences in "Scoring" Savings Proposals**

- Determining how CBO would score the President's Medicare savings proposals is an almost impossible task. While it might seem that one could simply figure out the percentage by which the CBO baseline is higher than the OMB baseline, and multiply the total of the savings proposals by that amount, that calculation would not be even close to accurate.

  - The reason is that the CBO baseline is composed of many separate baselines for different services and providers.

  - Thus, scoring of specific savings proposals would really have to be done by CBO, proposal by proposal using detailed specifications, against the appropriate baseline.

- Recent history reflects that these baseline differences are not that important when it comes to scoring specific savings proposals. For example:

  - The Health Security Act contained Medicare savings proposals that OMB estimated would save $118.3 billion over the 1995-2000 period. CBO scored these same proposals as saving $117.6 on its baseline, which was higher than ours.

  - The President's FY96 budget contained four Medicare "extenders" from OBRA93 that OMB estimated would save $28 billion over the 1995-2000 period. CBO has since scored these same proposals as saving only slightly more, $30 billion.