



BUDGET BULLETIN



COMMITTEE
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Republican
Staff

Judd Gregg, Chairman
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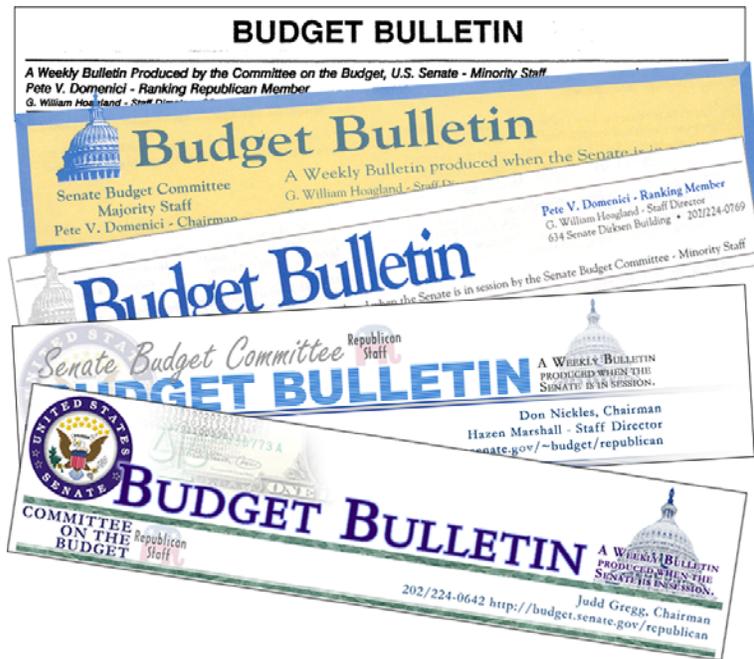
INFORMED BUDGETEER

BUDGETING FOR DEFENSE HEALTH CARE COSTS

- As the conference committee on the Department of Defense (DoD) Authorization bill for FY 2007 (H.R. 5122) nears the end of deliberations, the conferees have been engaged in the perennial tug-of-war over the House's insistence on its "Buy America" provision and the Senate's reluctance to recede. One other question, which has been debated before, is – who pays for health care costs for military personnel when they retire? While it may be true that the Defense TRICARE program doesn't have the same familiar ring as "Buy America," the debate does involve a sizable sum of money – \$11 billion next year and increasing amounts each year after.
- TRICARE Expansion in 2000. TRICARE is DoD's health program for members of the armed forces. Initially, it was only for active duty and retired personnel under the age of 65. After age 64, military retirees had to move to the Medicare program to receive health coverage.
- In a costly expansion of benefits in 2000, the DoD Authorization Act for FY 2001 (P.L. 106-398) entitled military retirees (and their families) to continue to receive TRICARE benefits after the age of 64. The recipients of the expanded benefits were separated into two major categories – those that were already retired at the time of the TRICARE expansion and those who were still active members of the armed forces.
- For those still employed, DoD was to begin making accrual payments on their behalf to cover the future health care benefits to which the employees would be entitled when they retired. For those who were already retired (or were nearing retirement), no "catch-up" accrual payments were made (since the point of the transaction is to have the employer confront the full cost of the benefits that are accruing to the existing workforce). CBO estimated the unfunded liability for these already and nearly-retired beneficiaries at \$100 billion. For the people still employed by the military at that time (and all subsequent new military hires), accrual payments were to be made to keep the unfunded liability from growing. P.L. 106-398 required that DoD request and Congress annually appropriate the necessary funds to cover the accrued future cost of TRICARE liabilities, and that these costs be known on an annual and multi-year basis as part of the national security budget.
- Attempted Change in 2004. In fact, Congress did provide the initial appropriation as required in 2003. But the very next year, in the DoD Authorization Act for FY 2005 (section 725 of P.L. 108-375), the House of Representatives (which passed the provision initially, and the Senate conferees subsequently receded to the House) attempted to undo and render meaningless the approach established by P.L. 106-398 by directing the Department of Treasury to make the annual TRICARE accrual payments instead of DoD.
- While the conferees were debating the provision, then-Senate Budget Committee Chairman Don Nickles and Ranking Member Kent Conrad weighed in. Their letter (October 4, 2004) to the DoD authorization conferees stated their opposition. It also conveyed their intention to continue scoring TRICARE accrual payments consistent with the intent of P.L. 106-398 (i.e., as discretionary appropriations provided by House and Senate Appropriations Subcommittees on Defense), since section 312 of the Congressional Budget Act gives the Budget Committees exclusive authority to determine how estimates will be recorded against committee allocations for purposes of the Congressional budget process.
- Nevertheless, section 725 was still included in the FY 2005 DoD Authorization Act. On December 9, 2004, however, former OMB Director Josh Bolten sent a letter to congressional leaders stating that the administration similarly intended to disregard section 725 for Executive Branch scoring purposes. He noted that the President's forthcoming FY 2006 budget would continue to request a DoD discretionary appropriation for the annual accrual payment.
- Attempted Change in 2006. Recently, the House Armed Services Committee again proposed to alter the method by which the accrual costs for military retiree health care are provided and accounted for. That committee continues to maintain that someone other than the Department of Defense should be responsible for paying for these costs. As in 2004, the Senate-passed version of the FY 2007 DoD Authorization bill does not contain a comparable provision.
- There are a number of issues other than good-government budget and accounting policy at play. For example, let's say Congress was going to appropriate \$500 billion to DoD. Then the Department of Treasury, instead of DoD, is suddenly assigned the responsibility for \$11 billion in intragovernmental TRICARE accrual payments. If the total funding level for defense is not reduced, then DoD would have a windfall of \$11 billion it could use to fund other activities requiring payments outside of the federal government (e.g., employees, vendors, and contractors). Treasury would either have to absorb \$11 billion from its discretionary budget of approximately \$12 billion (not likely) or inevitably the federal deficit would increase by as much as \$11 billion next year and by larger amounts every year thereafter.
- Because the long-run cost of military retiree health care and the amount of annual accrual payments vary directly with the number of military service members (whose compensation also is funded by DoD military personnel discretionary accounts), it would impede transparency, sound financial policy and good government to transfer the responsibility from the DoD budget. In a July 21, 2006 letter to Congressional leaders, the new OMB Director, Rob Portman, requested that section 589 or similar language *not* be included in a conference agreement. The Department of Treasury echoed that request in a letter dated September 11, 2006.
- As the defense authorization conference has continued, more support has been voiced for the current method of budgeting for defense personnel health programs. The chairman of the Senate Budget Committee, Judd Gregg, and the ranking member, Kent Conrad, have jointly notified defense authorization conferees that the current scorekeeping treatment correctly accounts for the substance of the TRICARE transactions. The chairman and ranking member of the Senate Appropriations Committee followed up with a correspondence similarly requesting that the House provision (section 589) be dropped. The House Budget Committee also has expressed its opposition.
- As this edition of the *Budget Bulletin* goes to press, the FY 2007 DoD authorization conference has not completed action. So where should the federal government budget for defense health care costs? The answer should be: within DoD's discretionary budget.

HAPPY 15TH ANNIVERSARY, *BUDGET BULLETIN*!

The Senate Budget Committee Republican Staff, under the direction of then-Ranking Member Domenici, published the first issue of the *Budget Bulletin* on September 10, 1991. Since then, 417 *Bulletins* have been published, an average of 26 per year or about once every other week.



attacks of 9-11, prominently displayed the red, white, and blue of the American flag.

Bulletin Superlatives

Best budget joke:

Question: How many budgeteers does it take to screw in a light bulb?

Answer: *

NOTE: * = totals may not add due to rounding.

Biggest percentage reestimate of a budget proposal:

The July 27, 1992 issue of the *Bulletin* discussed then-Governor Clinton's budget plan. The plan assumed \$45 billion in additional revenues over four years from foreign tax compliance. The Joint Committee on Taxation estimated that the reform of Internal Revenue Code section 482 rules (Governor Clinton's proposal on foreign tax compliance) would increase revenues by only \$1 billion over four years.

Best "Guess Who Said It?" quote:

"I have had sleepless nights about a lot of things, but I never have had a sleepless night about the Senate doing too much about dealing with the budget deficit." Former Fed Chairman Paul Volcker, during the Bipartisan Senators' Forum on Deficit Reduction, March 18, 1994.

Most controversial Bulletin:

The May 11, 1998 issue of the *Bulletin* published a [flow chart](#) and factual description of S. 1415, the Tobacco Settlement bill reported by the Commerce Committee, just prior to the measure's consideration in the Senate. After its publication, the *Bulletin* staff was accused of taking input from outside groups opposed to the bill in order to paint the bill in a bad light. (<http://budget.senate.gov/republican/analysis/1998/bb12.pdf>) The next week's *Bulletin* published a terse "Editor's Note" to dispel the rumors and defend the integrity of the Senate Budget Committee staff. S. 1415 was ultimately recommitted to the Commerce Committee when the Senate failed to waive a section 302(f) Budget Act point of order against the bill.

Bulletin Milestones

First (and only) issue of the *BULL-etin* – On April 1, 1992, the staff put together an April Fools' spoof version of the *Bulletin* for internal circulation only. Among other things, it contained a description of the "All Gain – No Pain" bipartisan balanced budget plan and the German/Russian/United States cooperative effort to save the Resolution Trust Corporation.

Historic Moment memorialized in the *Bulletin* - June 8, 1995 was the first time two Republican Chairmen of the House and Senate Budget Committees met in conference on a budget resolution.

Technological Advancement noted in the *Bulletin* - October 9, 1995 was the date the *Bulletin* was first made available on the web. The current Senate Budget Committee website has *Bulletin* archives going back to February 2, 1998.

First (and only ever) color image in the body of the *Bulletin* – The September 17, 2001 issue, the first issue following the terrorist

Then:

The *Bulletin* was a 2-page, low-tech, 8 ½ x 11 document produced using WordPerfect, photocopied, and distributed by hand around the Hill.

The *Bulletin* reported that CBO estimated the federal deficit for the fiscal year about to begin (1992) would reach \$362 billion, or 6.1 percent of GDP. The actual 1992 deficit was \$290 billion, or 4.7 percent of GDP.

In 1991, total federal spending was \$1.382 trillion, or 22.1 percent of GDP. Discretionary spending was \$533.8 billion (8.6 percent of GDP, and about 38 percent of total spending).

The *Bulletin* reported that it was expected that the debt limit of \$4.145 trillion would be reached in December 1992. (Debt held by the public at the end of FY1991 was \$2.689 trillion, or 45.3 percent of GDP.)

The Economic News section of the *Bulletin* reported that the unemployment rate held steady at 6.8 percent in August 1991 (same as July 1991), after rising from 5.3 percent in June 1990 to a high of 7.0 percent in June 1991.

Now:

The *Bulletin* is a 2-page 8 ½ x 14 document, printed in color, produced using Word, printed, and posted on the web (with 10,000 hits per month), distributed via email notification to 1,000 subscribers and via snail mail to a mailing list of 412.

CBO estimates the 2007 federal deficit will be \$286 billion, or 2.1 percent of GDP.

In 2006, total federal spending is expected to be \$2.663 trillion, or 20.3 percent of GDP. Discretionary spending will be about \$1.025 trillion (7.8 percent of GDP, and about 38 percent of total spending).

It is expected that the debt limit of \$8.965 trillion will be reached in June 2007. (Debt held by the public at the end of FY 2005 was \$4.592 trillion, or 37.4 percent of GDP.)

The August 2006 unemployment rate was 4.7 percent, and has been within 0.1 percentage points of that level since last December's rate of 4.9 percent.