



# FEDERAL BUDGET UPDATE



## AN OVERVIEW OF PRESIDENT BUSH'S FY 2006 BUDGET PROPOSAL AND ITS IMPACT ON OLDER AMERICANS

BY



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FEBRUARY 2005

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This Budget Update, prepared by AARP's Federal Affairs Department, provides a broad overview of the President's Fiscal Year 2006 budget, along with comments on the proposals as they may impact older Americans. If you have questions, please call our AARP Federal Affairs Department at 202-434-3760.

## EXECUTIVE SUMMARY

President Bush sent Congress a \$2.57 trillion budget for FY 2006 that emphasizes spending restraint and deficit reduction. The overall discretionary spending level for FY 2006 would increase only 2.1 percent from FY 2005, less than the 2.3 percent expected rate of inflation.

The long-term outlook for cutting the deficit has not improved, although in the short-term the president's budget proposes to cut the deficit in half. And, although the total budget deficit declines over the five year projection period (2006-2010) under the president's proposed budget, the federal debt continues to increase.

### **Health Issues**

The President's fiscal year 2006 budget proposes significant reductions in federal Medicaid spending and changes in the budget process that would adversely affect mandatory programs while at the same time creating some new initiatives for the uninsured. Only minor changes to the Medicare program are proposed.

**Medicaid:** The Administration's budget includes \$60 billion in spending reductions over the ten year period from 2006 to 2015. Roughly one third of the proposed reductions would be achieved by tightening the rules for calculating state expenditures that are matched by the federal government. The budget also projects saving \$15 billion by using the Average Sales Price (ASP) in place of the often inaccurate Average Wholesale Price (AWP) for Medicaid drug purchasing. Proposed reductions to federal funding for case management is projected to save the Medicaid program \$12 billion over ten years.

However, the budget would cap state administrative costs for a projected savings of \$6 billion. Without providing specific proposals, the budget discusses the Administration's goal of modeling Medicaid coverage for optional populations after the State Children's Health Insurance Program to provide more "flexibility" to adjust benefits in exchange for capped funding to the states. This would affect older and disabled populations. The President also proposes saving \$4.5 billion by making it more difficult to transfer assets for long-term care eligibility.

The budget proposes \$16.5 billion in program improvements. The "New Freedom Initiative," which would include a demonstration project to move disabled individuals from institutions into the community, would be part of this proposal.

**Medicare:** The 2006 budget does not include major Medicare initiatives. Most of the focus in 2005 will be on the implementation of the Medicare Modernization Act of 2003 (MMA). Enrollment in the landmark drug benefit begins in November. The qualified Individual (QI) program is excluded for one year. The QI program provides premium assistance for low-income beneficiaries and is set to expire this year.

**Health insurance tax incentives:** The President's budget includes several health-related tax incentives. In total, the President's budget would spend \$125.3 billion over ten years to fund various forms of tax incentives for the uninsured.

## **Economic Issues**

**Tax proposals:** The proposed budget would permanently extend provisions in the 2001 and 2003 tax cuts that, among other things, reduced individual tax rates, increased retirement plan contributions, reduced capital gains and eliminated the estate tax. Making the tax cuts permanent would reduce federal revenues by an estimated \$1.1 trillion over a ten year period.

**Savings proposals:** Three new types of tax-favored savings accounts would be created: Lifetime Savings Accounts, Retirement Savings Accounts and Employer Retirement Savings Accounts. These new accounts would impact pension plan sponsorship as well as participation by low and moderate income taxpayers in pensions. The budget also proposes to give tax credits to defray the cost of operating Individual Development Accounts that would exclude participation by individuals age 60 and over.

**Pension proposals:** The President would provide new protections for participants in cash balance conversions that would begin to help preserve the value of the pension benefits. Also proposed is a comprehensive plan to reform the PBGC that would address pension funding, regulatory, and insurance provisions. A proposal to replace the expired interest rate measure for calculating pensions could result in lower lump sum benefits (by as much as one third) for workers who retire or change jobs.

**Social Security:** The budget proposal would increase the Social Security Administrative expenses by 7.7%. It would also require full-time school attendance as a condition of entitlement for Social Security child's benefits beginning at age 16.

**Budget process:** The budget proposes to impose limits through 2010 on discretionary spending in appropriations bills at the levels in the President's budget. This would allow increases in defense and homeland security, but freeze nondefense program spending at the 2004 level. The PAYGO rules would be reinstated, but only for mandatory spending not revenues. No increases in spending that would be offset by revenues would be allowed. The budget also proposes to establish requirements for Congressional handling of long-term unfunded obligations in legislation.

## **Consumer Issues**

**Supportive services:** The Administration proposes to cut slightly or freeze at current funding levels nutrition, family caregiver, community service employment and other Older Americans Act (OAA) programs. Repeated freezes in these programs over the last four years, along with across-the-board cuts, have already reduced services significantly. More seniors will need these services as the elderly population grows – and fewer will be able to get them. OAA programs have not seen real increases (above inflation) since they were reauthorized in 2000. Meals programs have been especially hard hit, given higher-than-CPI increases in food costs.

**Housing programs:** Proposed cuts in low-income housing would have a more adverse impact on the frail elderly, disabled persons, and low-income renters in rural areas than those proposed for supportive services. Housing for Disabled Persons is reduced 50 percent and new construction is prohibited); rural housing (Section 515) is also dramatically reduced (about 75

percent and new construction is prohibited). Forty percent of Section 515 resident units are seniors 62 and over. The Section 8 voucher program remains underfunded – current year funding will not cover costs for about 80,000 of the two million existing vouchers and HUD has imposed a four percent cut in administrative costs. More than 300,000 seniors are currently served by the Section 8 voucher program. Such cuts ordinarily result in delays in the processing of new residents and contracting for building rehabilitation.

**Energy assistance:** The Administration proposes to cut funding for the Low Income Home Energy Assistance Program (LIHEAP) by \$200 million even though energy costs remain high. LIHEAP already only serves fewer than one-fifth of those eligible for assistance. Weatherization Assistance Program (WAP) funds are frozen.

**Other initiatives:** Other Administration proposals to block grant or eliminate funding for other vital transportation and employment and training programs are of serious concern. The proposal to block grant Section 5310 specialized transportation for the elderly and persons with disabilities may allow states to divert funding from the program. Amtrak funding is zeroed out under the Administration's proposal, except to allow trains to continue running on the Northeast corridor. Elimination of all training and employment services for migrant and seasonal farmworkers would further compromise the economic well-being of these vulnerable American families.

*“America has vast resources, but no resource is as abundant as the strength of the American people. It is this strength that will help us to continue to prosper and meet any challenge that lies before us.”* President George W. Bush in his Fiscal 2006 Budget Message.

## **INTRODUCTION**

On February 7, President Bush sent Congress a \$2.57 trillion budget for FY 2006. The proposed budget would reduce non-defense discretionary spending by one percent from the 2005 level while increasing defense spending by 4.8 percent and homeland security spending by one percent. The deficit is estimated to decrease to \$390 billion in 2006, or 3% of gross domestic product (GDP), down from \$427 billion in 2005.

Familiar themes from previous budget proposals resurface in this year’s plan, but there is greater emphasis placed on spending restraint and deficit reduction. The budget gives a prominent place to discussions of Social Security and Medicare reform, but there are no specific proposals included in the budget. The budget again includes numerous federal budget process reform proposals.

### **Summary Budget Totals President’s Fiscal Year 2006 Proposal**

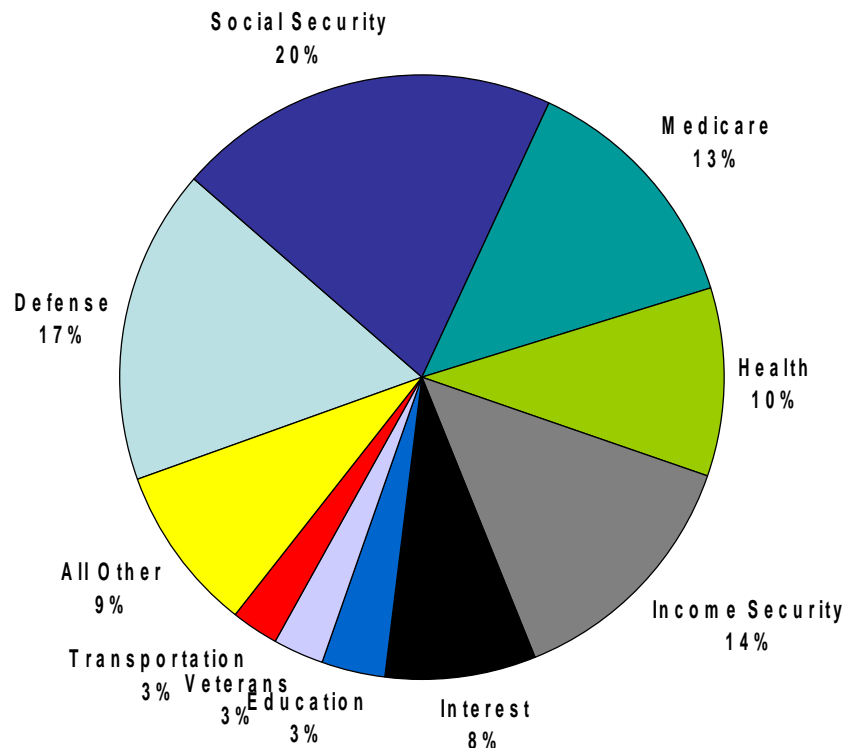
<b>Table S-1. Budget Totals</b> (Dollar amounts in billions)							
	2004	2005	2006	2007	2008	2009	2010
<b>Budget Totals:</b>							
Receipts.....	1,880	2,053	2,178	2,344	2,507	2,650	2,821
Outlays.....	2,302	2,470	2,568	2,656	2,758	2,883	3,008
Deficit.....	-412	-427	-390	-312	-251	-233	-207
Gross Domestic Product (GDP).....	11,553	12,227	12,907	13,817	14,349	15,111	15,906
<b>Budget Totals as a Percent of GDP:</b>							
Receipts.....	16.3%	16.8%	16.9%	17.2%	17.5%	17.5%	17.7%
Outlays.....	19.8%	20.3%	19.9%	19.5%	19.2%	19.1%	19.0%
Deficit.....	3.6%	3.5%	3.0%	2.3%	1.7%	1.6%	1.3%

## Proposed Spending and Revenues

The President proposes an overall discretionary spending level for FY 2006 of \$840.3 billion, an increase of \$18.4 billion over that enacted for FY 2005. This increase is only 2.1 percent, less than the expected inflation rate of 2.3 percent. Non-defense and non-homeland security discretionary spending would be cut by one percent. The budget proposes to eliminate or cut 150 federal programs for estimated savings of \$20 billion dollars in 2006. In contrast, defense would receive a 4.8 percent increase to \$419.3 billion. This does not reflect any request for supplemental funding for operations in Afghanistan and Iraq after 2005. Homeland security would receive \$34.2 billion, a slight increase of 1.2 percent.

The President proposes to extend the tax cuts enacted in 2001 and 2003 and renews a number of other tax proposals to create additional tax-favored savings accounts designed to increase Americans' retirement savings. All of the tax proposals in the budget would reduce revenues by \$1.5 trillion between 2006 and 2015.

## Where Does the \$2.6 Trillion Go?



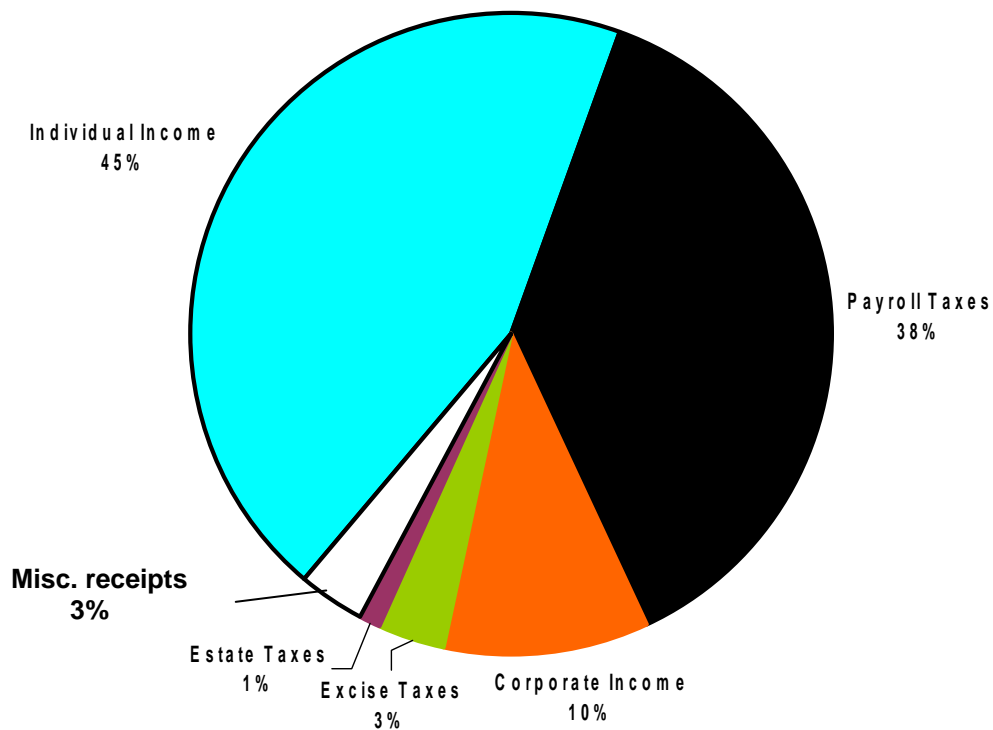
All other includes energy, environment, agriculture, international affairs, justice, science and general government functions. Total Budget Outlays of \$2.568 trillion in Fiscal Year 2006. Source: Budget of the United States Government, Fiscal Year 2006

**AARP Comment:** AARP shares the President's goal of fiscal discipline in the nation's budget. We believe that the federal budget should be crafted in a way that provides real help for those in need, promotes fairness across all generations, and is affordable.

We are concerned that the President's 2006 budget, which cuts or eliminates 150 domestic programs, could significantly weaken our nation's commitment to the most vulnerable, including children and older Americans.

We are also concerned the proposed budget process changes could jeopardize the future of programs like Medicaid and Medicare.

## Where Does the \$2.2 Trillion Come From?



Total Budget Receipts of \$2.178 trillion in Fiscal Year 2006  
Source: Budget of the United States Government, Fiscal Year 2006

## ***LONG-TERM BUDGET OUTLOOK***

While the actual budget deficit was substantially lower in 2004 than the Administration forecast a year ago, the long-term outlook has not improved. The 2006 budget meets the President's goal of cutting the deficit in half over five years, but the policies proposed to achieve this goal significantly weaken our nation's commitment to millions of older Americans and those of modest means, no matter what their age.

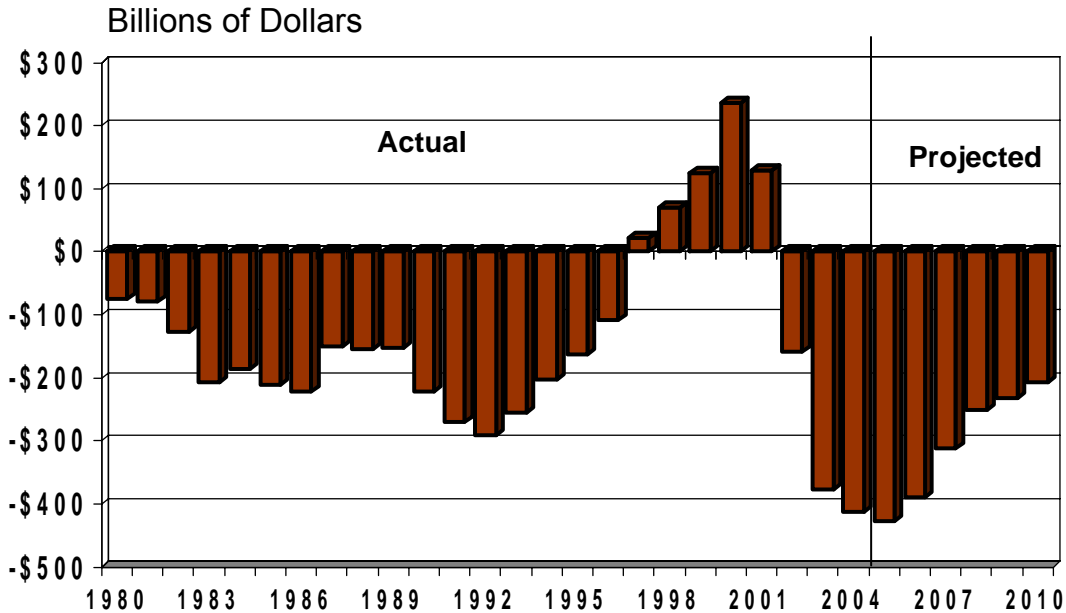
The budget proposes a deficit of \$427 billion in 2005, falling to \$207 billion in 2010, with total deficits of \$1.4 trillion over the five years 2006 through 2010. It is disappointing that the deficits projected in 2005 through 2009 are larger than those projected last year under similar policies, even with a somewhat stronger economy,

Continuing military operations in Iraq and Afghanistan account for a large part of this deterioration in the outlook, but a larger factor is that revenues remain near historically low levels relative to the growth of the economy. It is important to note that the budget does not include any estimate of the funding needed for military operations after the 2005 supplemental appropriations request, nor does it include any estimate of the costs of the President's Social Security proposal. Both of these items will increase the deficits and debt after 2006, and the Social Security proposal could dramatically increase the outstanding debt for several decades.

The persistence of budget deficits during a relatively strong economic expansion could lead to higher interest rates than assumed in the budget. The pressures on credit markets from the increased federal borrowing to finance the deficits of the past five years have been mitigated by a combination of weak investment and strong foreign purchases of dollar assets. However, the recent decline in the dollar exchange rate may indicate that foreign lenders will be less willing to absorb our debt in the future. This would put pressure on interest rates that are already increasing due to Federal Reserve policies.

# Federal Budget Results, 1980 – 2010

## *\$427 billion deficit expected for 2005*

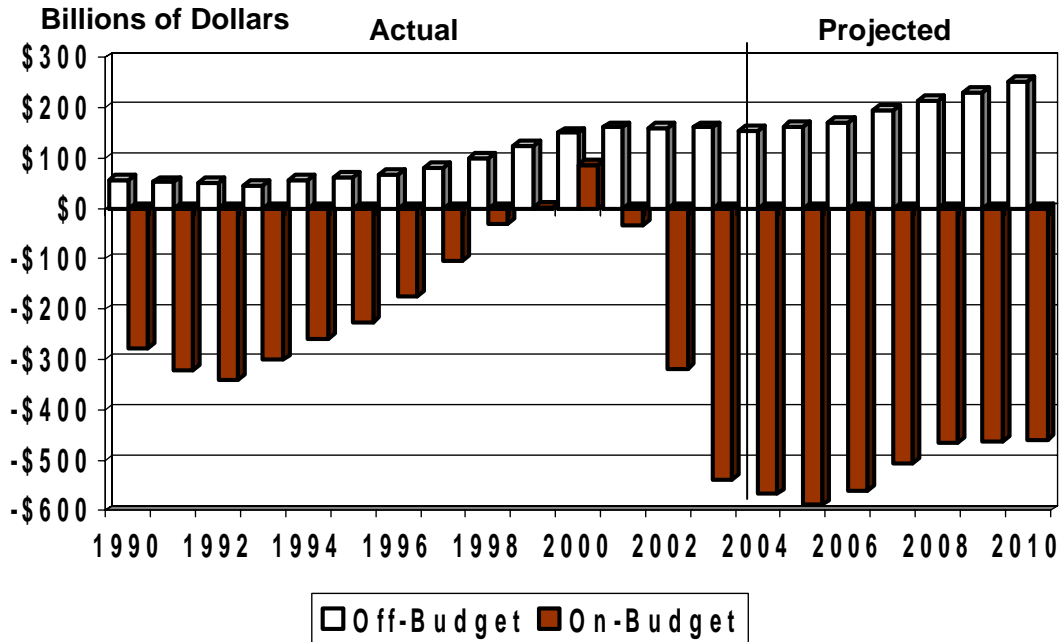


Unified budget including both Social Security and non-Social Security results.  
 Source: Historical Tables, Budget of the United States Government, Fiscal Year 2006

A closer look at the budget projections shows that the total deficit is lower because the Social Security surplus is included. Despite the significant restraint on non-defense discretionary spending proposed in the budget – including a cut in 2006 below the level of 2005 and a freeze for the following four years – the deficit in the non-Social Security portion of the budget remains stubbornly large through 2010. In 2003, the non-Social Security deficit was \$536 billion and the Social Security surplus was \$161 billion; in 2005 the non-Social Security deficit is expected to increase to \$588 billion while the Social Security surplus will increase to \$174 billion. In 2010, the non-Social Security deficit is expected to remain as high as \$460 billion.

Unfortunately, the Administration has only presented a five year budget, not the ten year projections that would give an indication of the potential long-term impact of many of the proposed policies. This is particularly the case for the Social Security proposal. According to reports, the cost of this proposal would be \$754 billion between 2009 and 2015, but it is difficult to evaluate the impact that such a large addition to the debt might have on the economy without projections that include the effects of other policies. For example, the cost of the Administration’s proposed tax cuts, including extension of the 2001 and 2003 tax cuts is shown in the budget as \$1.34 trillion between 2011 and 2015, the same period when the Social Security proposal will be fully phased in. The combined budgetary effect of these policies would be to increase the deficits during that period by more than \$2.0 trillion, but the budget does not present the baseline projections needed to put this cost in its proper economic context.

# Federal Budget Results, On-Budget and Off-Budget, 1990 - 2010

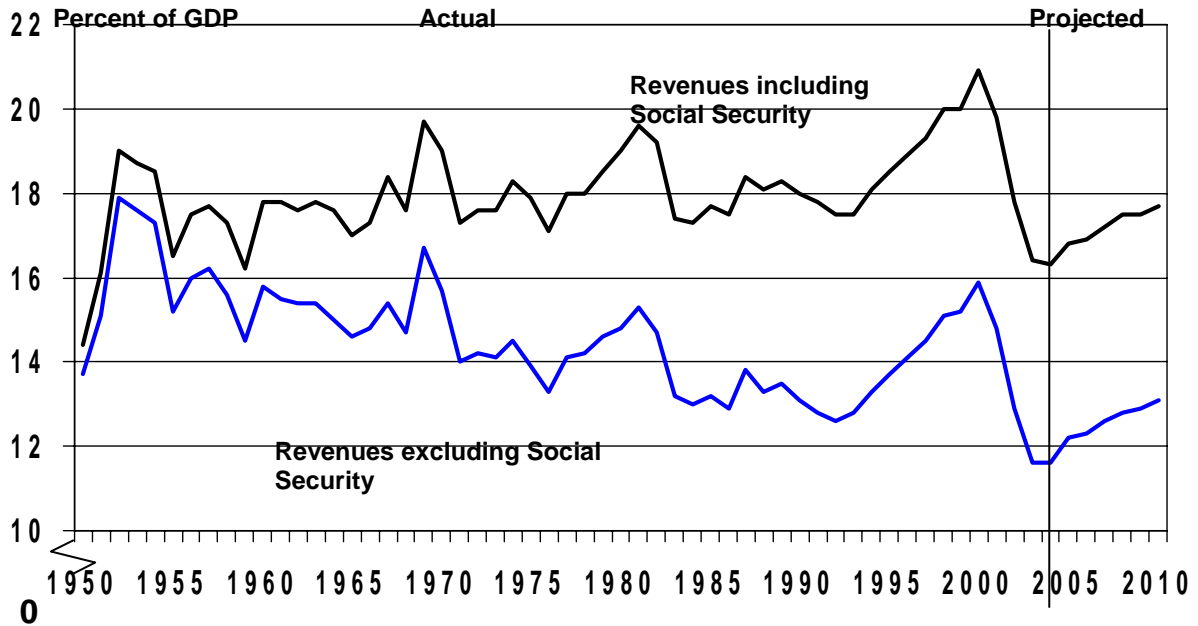


Off-Budget includes Social Security and Postal Service; On-Budget includes all other Federal spending and receipts.

Source: Historical Tables, Budget of the United States Government, Fiscal Year 2006.

One reason that the deficits projected for the next several years remain relatively large is that revenues are expected to stay below their long-term average as a percentage of GDP. Spending is projected to decline from 20.3 percent of GDP in 2005 to 19.0 percent in 2010. While revenues have generally fluctuated between 17.5 and 19.5 percent of GDP for the past 40 years, the budget projects revenues to remain under 17.5 percent of GDP until 2008. Non-Social Security revenues as a percentage of GDP dropped to their lowest level since 1942 in 2003 and 2004, and are projected to recover only slightly by 2010 under the Administration's proposed policies. In fact, non-Social Security revenues as a percent of GDP remain at levels usually seen only in the aftermath of recessions through 2010.

# Federal Revenues Remain at Historic Lows



Source: Historical Tables, Budget of the United States Government, Fiscal Year 2006

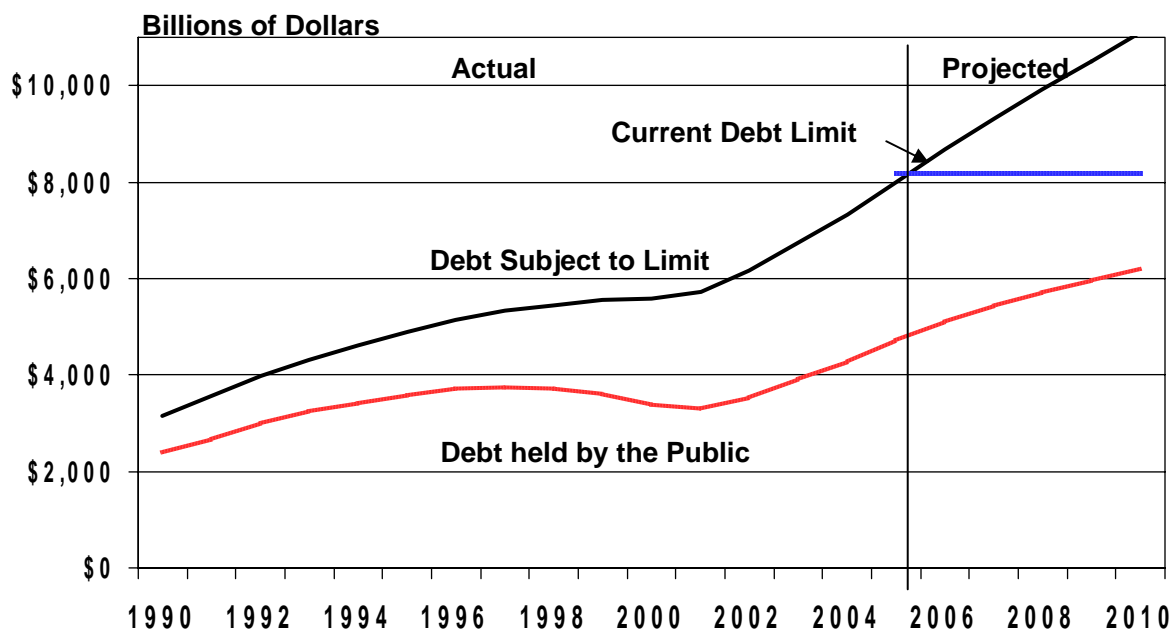
Although the total budget deficit declines over the five year projection period under the President's proposed policies, the federal debt continues to increase. After a substantial increase between 1980 and 1997, the debt held by the public declined until 2002. (Debt held by the public includes that owned by the Federal Reserve system, individuals, pension funds, insurance companies, state and local governments and foreign investors, but excludes amounts held by Social Security, Medicare, civilian and military retirement, and various transportation trust funds.)

At the end of 2003, publicly-held debt totaled \$3.9 trillion. That is projected to increase to \$6.2 trillion at the end of 2010 under Administration policies. Adoption of the Administration's tax policies would add at least \$1.5 trillion to that between 2006 and 2015. The President's Social Security proposal could raise the debt to more than \$8.5 trillion by 2015, even if the budget under current policies were to be brought into balance by 2011, a prospect that appears unlikely.

While the debt held by the public is used by budget analysts to measure the potential burden of budget deficits on future generations, a more immediate concern is the amount of debt that is subject to a legal limit. The debt limit was increased by \$800 billion, to \$8.184 trillion, in November 2004. However, the President's budget suggests that that new limit will be exceeded during fiscal year 2006, and will climb to \$11.1 trillion by the end of 2010.

**AARP Comment:** AARP is concerned that the projections presented in the President's 2006 budget proposal only extend for five years. While budget and economic projections are inherently prone to errors, the longer term fiscal outlook will have a significant impact on major programs such as Social Security and Medicare that are crucial to the economic security and health of people 50+. The longer-term implications of the tax and spending policies proposed in the budget appear to be for continuing large deficits leading to a steady rise in the federal debt. Without an assessment beyond the next five years of the potential budget pressures from policies proposed for adoption in the next few years the nation will be less prepared for the fiscal impact of the retirement of the baby boom generation. The first boomers become eligible for early retirement benefits under Social Security in 2008 and become eligible for Medicare in 2011.

## Trends in Federal Debt, 1990 - 2010



Debt subject to Limit includes publicly held debt and debt held by federal trust funds such as Social Security, Medicare, civil service retirement, highway, etc. Current Debt Limit: \$8,184 trillion  
 Source: Historical Tables, Budget of the United States Government Fiscal Year 2006.

## HEALTH ISSUES

### Medicaid

**Proposal: Restricting Methods for Increasing Payments to States.** The Administration is proposing to restrict methods states use to increase federal payments above the matching rate set in law. These include "intergovernmental transfers" (IGTs), "upper payment limit" (UPL)

rules, and provider taxes that have been criticized by the GAO and others as allowing states to “recycle” federal funds to make them appear to be state spending that is then eligible for more federal matching funds. Projected savings total \$21 billion over 10 years.

**AARP Comment:** AARP agrees that accountability in Medicaid is essential, and some uses of these state financing mechanisms may not be appropriate. In some cases it is difficult to discern how additional funds generated for states by IGTs and UPLs are spent. In other cases, however, the funds are used to provide care to low-income and other underserved populations. Therefore, steps to address these practices should be taken carefully so beneficiaries and institutions that rely on the funds for legitimate health care purposes are not harmed in the process.

**Proposal: Reducing Prescription Drug Overpayments.** The Administration is proposing that the benchmark for determining Medicaid prescription drug payments be changed from the Average Wholesale Price (AWP) to the Average Sales Price (ASP). Projected savings are \$15 billion over 10 years

**AARP Comment:** There is ample evidence that the AWP, which is based on self-reports from drug companies, is inaccurate and often greatly inflated, whereas the ASP is verified and more accurate. Making this change could yield real savings to both states and the federal government without adversely affecting beneficiaries’ access to, or quality of, care.

**Proposal: Reducing Federal Funding for Case Management.** The Administration is proposing to reduce the federal matching rate for targeted case management. It also wants to clarify rules for which services qualify for case management payments in order to prevent states from billing Medicaid for the services of other programs. Projected savings are \$11.7 billion over 10 years.

**AARP Comment:** Case management can help improve the quality of care for individuals with multiple chronic conditions and may also reduce costs. That is why the federal government has historically provided states with extra support for these initiatives. Eliminating this extra support may be the kind of cut that does not produce real savings in the long run.

In addition, while states should not bill Medicaid for non-Medicaid services, efforts to address this should be done carefully to ensure that they do not inadvertently curtail payment for legitimate services.

**Proposal: Capping Payments to States for Medicaid Administration.** The Administration is proposing to provide capped allotments to states for administrative expenses, rather than provide a dollar-for-dollar match to states for such spending as under current law. Projected savings are \$6 billion over 10 years.

**AARP Comment:** Federal payments for administrative expenses help support critical beneficiary services, such as outreach and enrollment. The Administration believes that capping such payments will encourage states to administer the program more efficiently. However, states already generally keep their administrative costs well below those of private sector health insurers. We are concerned that, rather than yield increased efficiencies, caps could force cuts that harm beneficiaries.

**Proposal: Curbing Asset Transfers for Long-Term Care.** The Administration is proposing to restrict estate planning methods by closing “loopholes” that allow people to shelter assets in order to appear to have resources low enough to qualify for Medicaid coverage of long term care expenses. Projected savings are \$4.5 billion over 10 years.

**AARP Comment:** Individuals who can afford to pay for long term care services should not be sheltering assets in order to qualify for Medicaid coverage. However, it is not clear what estate planning “loopholes” the Administration wants to close. Exceptions to current asset transfer rules in federal law include important protections – for example to help families that need to provide continued support to disabled children. It is unclear the extent to which the Administration believes that there may be state-level asset transfer rule exemptions that could be addressed in ways that do not erode legitimate consumer protections.

AARP has consistently and strongly opposed proposals to extend the 3-year “look-back” period for asset transfers to five years or more. Extending the look-back would not keep people from using estate planning to circumvent the rules. It would, however, result in coverage denials for people who financially assisted a family member long before they had some unexpected health care crisis that required care in a nursing home or other institution.

**Proposal: “New Freedom” Initiatives.** The President’s budget includes several program initiatives to promote home and community-based care. One such proposal is a five-year demonstration program in which the federal government pays the full cost of home-and community-based waiver services during the first year after a beneficiary moves out of a nursing home or other institution. During the remaining four years, states would continue to fund the care and receive the regular Medicaid matching rate. Another proposal would allow states to provide presumptive eligibility for home and community-based care for individuals who qualify for nursing home care but are instead discharged from the hospital into the community. An additional proposal would test the effectiveness of respite care as a means of reducing primary caregiver burn-out that often leads to the institutionalization of adults with disabilities. Projected costs are \$2.9 billion over ten years.

**AARP Comment:** AARP strongly supports – and our members clearly prefer – home and community-based care, and would like to see additional steps taken to remove the “institutional bias” in Medicaid rules that often forces people into nursing homes when they could be receiving necessary care at home. Care must be taken, however, to ensure that such options provide appropriate funding as individuals’ care needs change, and do not become de facto block grant or voucher programs in which individuals are given funds but are left to fend for themselves. AARP believes that respite care is a valuable service that should be available to supplement caregiving by family, friends and relatives.

**Proposal: Extend Premium Assistance for Qualified Individuals (QI-1).** The President’s budget proposes a one-year extension of the QI-1 program, in which the federal government fully reimburses states for paying Medicare Part B premiums on behalf of beneficiaries with incomes between 120 and 135 percent of poverty. The 2005 Part B premium is \$78.20 per month. For the first time, the Part B Trust Fund will finance the cost of this program by reimbursing Medicaid. Projected costs are estimated to be \$230 million for fiscal year 2006.

**AARP Comment:** AARP supports the permanent authorization of this important program that serves some 162,000 beneficiaries who might otherwise not be able to keep Part B coverage.

**Proposal: Long-Term Care (LTC) Partnerships.** The President's proposal would remove the legislative ban on developing more LTC Partnership programs that enable consumers who purchase approved long-term care insurance products to become eligible for Medicaid without meeting the asset test after their insurance is exhausted. This proposal is budget neutral.

**AARP Comment:** AARP cannot support programs that link Medicaid eligibility to the purchase of private long-term care insurance unless they

- Do not endanger the Medicaid safety net for low-income people who need long-term care;
- Have strong consumer protections, particularly regarding nonforfeiture and inflation protection, premium stability, and clear disclosure of current income requirements for Medicaid benefits and the state's right to change those requirements;
- Ensure that partnership policyholders are permitted to spend down to meet Medicaid's income eligibility requirements (this would require that all states have medically needy programs);
- Guarantee the types of services (particularly home- and community-based services) that the state would provide to eligible partnership policyholders under Medicaid; and
- Require that states monitor admissions to nursing homes to ensure that equal access is available to everyone on the waiting list, regardless of the source of payment.

## **Medicare**

**Proposal: Implement the Medicare Modernization Act.** The Medicare Modernization Act of 2003 (MMA) provides for, among other things, prescription drug coverage for Medicare beneficiaries. The President's budget highlighted this important program, but declined to provide additional funding to implement this new benefit.

**AARP Comment:** AARP continues to support the MMA. However, cost containment of prescription drugs needs to be addressed to ensure the financial stability of the Medicare program. The President's budget was silent on this issue.

Further action is necessary to lower the cost of prescription drugs and to remove the asset test from the low-income subsidies. AARP will work for the timely implementation of the new law and will continue efforts to improve the Medicare drug benefit.

**Proposal: Comparative Effectiveness Research.** The Medicare Modernization Act of 2003 included a \$50 million authorization for comparative effectiveness research by the Agency for Healthcare Research and Quality (AHRQ). However, only \$15 million was appropriated for FY2005. The President's budget does not provide any increase for this research.

**AARP Comment:** AARP strongly supported the \$50 million authorization for AHRQ in the MMA. Consumers and health care professionals need reliable, unbiased information about the comparative effectiveness of drugs within a therapeutic class to make appropriate treatment choices. AARP will continue efforts to increase both the authorized funding level and the appropriations for comparative effectiveness research through AHRQ.

**Proposal: Medicare Administration.** The President's budget proposes several cuts for Medicare administration. The **Medicare Operations** budget supports Medicare Fee-For-Service Contractor responsibilities, including those related to processing claims, making benefit payments and responding to the inquiries of Medicare beneficiaries, health care providers, and suppliers. It is also responsible for keeping the managed care claims processing systems current. The President's budget proposes cuts of \$42.8 million for fiscal year 2006.

**Research, Demonstrations and Evaluation** activities consist of the Medicare Current Beneficiary Survey, beneficiary information campaign evaluations and an allocation for MMA related research projects, including monitoring beneficiary access to Part B covered drugs, and evaluating numerous demonstrations and pilots mandated by MMA. The President's request is \$65 million less than FY 2005.

**Program Management** covers program support and services for beneficiary materials, CMS websites, community-based outreach and the national advertising campaign for the 1-800-Medicare line, *The Medicare & You Handbook*, the [www.medicare.gov](http://www.medicare.gov) website, a national multimedia campaign to spread the word regarding the new prescription drug benefit and community-based outreach efforts including the State Health Insurance and Assistance Programs. The FY 2006 budget request for the National Medicare and You Education Program (NMEP) is \$22.2 million less than the FY 2005 level.

**AARP Comment:** AARP is concerned that the President's proposal to significantly decrease resources for beneficiary education and outreach efforts could seriously hamper enrollment in the new Medicare drug benefit. Enactment of the MMA was one of the most sweeping changes to Medicare since the program's inception. Beneficiaries will be faced with an array of choices including drug plans, new coverage options and new services.

In order to make appropriate decisions, beneficiaries will need accurate and consumer-friendly information. In addition, beneficiaries will look to CMS to provide enhanced outreach and education. Reducing funding for these activities could have a negative impact on enrollment in the new drug benefit.

Consumer organizations like AARP will also play a key role in ensuring the beneficiaries have all of the information they need to make the choices that are best for them. AARP will be actively involved in reaching out to our members and to the general public with information about the new drug benefit.

**Proposal: Health Care Fraud and Abuse Control Program.** As part of the Administration's government integrity activities, the budget proposes an additional \$80 million in discretionary spending for the Health Care Fraud and Abuse Control Account and the Medicare Integrity Program. This additional funding will be used to enhance efforts to safeguard the Medicare prescription drug benefit and Medicare Advantage Program (\$75 million) as well as expanding efforts for the Medicaid and SCHIP programs (\$5 million). Historically, this program has been funded solely through mandatory spending from the Part A Trust Fund.

**AARP Comment:** We strongly support efforts that allow for effective follow-through on Medicare and Medicaid beneficiary fraud and abuse complaints, and believe CMS should increase program budgets supporting this work.

## **Uninsured**

**Proposal: Provide for Health Insurance Tax Credits.** The President's budget provides a tax credit for the cost of the premium for standard coverage health insurance purchased by individuals under age 65. The maximum tax credit would cover up to \$1,000 for an individual and up to \$3,000 for a family of four. The maximum subsidy of 90 percent would apply for low-income taxpayers and would be phased down at higher incomes. The credit would be phased out at \$30,000 for single taxpayers and \$60,000 for families purchasing a family policy. In addition, the President's budget proposes to allow individuals to use a portion of their health insurance tax credits to purchase a high-deductible health plan and health savings account (HSA). The maximum tax credit with which to purchase insurance coverage would be \$700 for an individual, \$2,000 for a family of four. The maximum amount one could contribute to an HSA would be \$300 for an individual, \$1,000 for a family of four. Both of these proposals are estimated to cost \$74.0 billion over ten years.

The President's budget also proposes providing grants to states to establish purchasing pools through which low-income individuals who qualify can purchase health insurance coverage. In order to qualify, individuals would have to qualify for the health insurance tax credit discussed above. The projected cost is \$4 billion over ten years.

**AARP Comment:** AARP is pleased that the President recognizes that solving the problem of the uninsured is going to require a multi-pronged approach that builds on existing structures -- such as Medicaid and State Children's Health Insurance Program (SCHIP) -- without having a negative impact on the employer-sponsored system and without over-burdening those programs.

A refundable tax credit for those with low incomes who are not eligible for employer-sponsored insurance, either for purchase of private insurance or state sponsored programs, is worth examining. The fact the tax credit is payable in advance and is targeted to low-income individuals and families is important. However, making this credit available for purchases in the individual market presents problems because the individual market is, for the most part, unregulated and expensive especially for people with a history of health problems.

**Proposal: Provide an Above-the-Line Deduction for High Deductible Insurance Premiums.** The Medicare Modernization Act of 2003 permits individuals who are covered by a qualifying high deductible health plan to contribute to a tax-favored health savings account (HSA) that can be used to reimburse their own and their dependents' health expenses. The proposal would allow individuals who contribute to an HSA a deduction in the amount of the premium in determining Adjusted Gross Income for income tax purposes (i.e., the individual would receive the deduction regardless of whether the person itemizes deductions). The projected cost is \$28.5 billion over ten years.

**AARP Comment:** AARP generally does not support savings accounts with high deductible health plans. While people should have access to a range of options, this proposal singles out premium costs of only one option for favorable federal tax treatment. AARP is concerned that the availability of the HSA/high deductible insurance option may make other more comprehensive coverage options more expensive and unaffordable to those who do not select the high deductible health plan. Further, given the limited resources available to help address the problem of the uninsured, this narrow approach is not likely to significantly improve coverage and has potential for undermining existing coverage.

**Proposal: Expand Community Health Centers.** The Administration is proposing a \$300 million increase for FY2006 in funding for community health centers that provide preventive and primary care to people with low-incomes and limited access to care.

**AARP Comment:** Community health centers provide essential services to people with low incomes, many of whom do not have Medicaid or other insurance, and we support them. However, it is important to note that they generally provide only primary and preventive care, and the people they serve still may lack access to hospital and specialty care. It is also important to note that these centers are funded through annual appropriations, so that while the increased funding is very welcome, it is not a permanent fix.

## ***TAX AND RETIREMENT SECURITY ISSUES***

### **Tax Proposals**

**Proposal: Permanently Extend Certain Provisions of the 2001 Tax Cut and the 2003 Tax Cut.** The Economic Growth and Tax Relief Act of 2001 (EGTRRA) created a new 10 percent individual tax rate, reduced marginal tax rates for individuals, doubled the child tax credit and extended its refundability, reduced marriage penalties, eliminated the phase-out of the personal exemption and the limitation on certain itemized deductions for higher income individuals, increased IRA and pension incentives, provided relief from the alternative minimum tax and eliminated the estate tax. These provisions were set to expire on December 31, 2010.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) reduced the tax on dividends and capital gains and accelerated the rate reduction in EGTRRA, among other things. The dividend and capital gains provisions expire on December 31, 2008. The proposal would make permanent the provisions of the tax relief legislation enacted in 2001 and 2003. The proposal would reduce revenues by an estimated \$1.1 trillion over a ten year period.

**AARP Comment:** Given the deterioration in the budget outlook (the federal budget deficit is expected to be \$427 billion in 2005 and \$1.4 trillion over the next five years) and the need to fund national spending properties, Congress must ensure an adequate revenue base. Tax proposals that would worsen the budget outlook should be considered cautiously.

**Proposal: Create New Tax Favored Savings and Retirement Accounts for All Americans.** The plan would create two new tax-advantaged savings accounts for individuals and one for

employers. There would be no limits on the age or income level of contributors to Lifetime Savings Accounts and Retirement Savings Accounts established by individuals.

The Lifetime Savings Account (LSA) would allow an individual, regardless of age or income, to contribute up to \$5,000 a year per person (including a spouse and children), and make penalty-free withdrawals at any time for any reason. The contributions would not be deductible, but earnings would accumulate tax-free and distributions would be tax-free.

The Retirement Savings Account (RSA) is designed to simplify retirement savings opportunities for individuals by consolidating traditional IRAs, nondeductible IRAs and Roth IRAs into one streamlined account with rules similar to a Roth IRA. Like Roth IRAs, contributions would not be deductible but earnings would accumulate tax free and distributions after age 58 (or death or disability) would be tax free. An individual could contribute up to \$5,000 of earned income each year, and may contribute an additional \$5,000 for a spouse (in addition to amounts contributed to an LSA).

The Employer Retirement Savings Accounts (ERSAs) would consolidate 401(k), thrift, 403(b), and governmental 457 plans, as well as the Salary Reduction Simplified Employee Pension plans (SARSEP) and SIMPLE IRAs, into one account sponsored by any employer. ERSAs would follow the existing rules for 401(k) plans, but the definition of compensation and the minimum coverage requirement would be simplified. The top heavy rules also would be repealed. An individual could contribute up to \$13,000 (increasing to \$15,000 by 2006) in pre-tax dollars each year to an ERSA. These proposals would reduce revenues by an estimated \$13.3 billion over ten years.

**AARP Comment:** AARP is concerned that the new savings accounts and the proposed changes in employer rules could reduce pension plan sponsorship, coverage and participation, especially among rank-and-file workers. While generous to those with the means to save, the proposal fails to encourage low-and-moderate income taxpayers to save for their retirement. The proposal generally would result in a shift of funds from dedicated retirement accounts to general savings accounts.

**Proposal: Establish Individual Development Accounts (IDAs).** The Administration's proposal would create a tax credit to defray the cost of establishing and operating IDA programs, contributing matching funds to the accounts, and providing financial education to account holders. The goals and broad outlines of this program are similar to those of the IDA demonstration program. Individuals between the ages of 18 and 60 who meet certain income requirements would be eligible to establish and contribute to an IDA. Sponsors would match contributions on a dollar-for-dollar basis up to \$500 per year. Participants could withdraw their contributions and matching funds for qualified purposes, including certain higher education, first-time home purchases and small business capitalization. Program sponsors could claim a tax credit for an IDA program. The credit would have two components: First, a \$50-per-account credit could be claimed each year to offset the administrative costs and for providing financial education. In addition, there is a credit for the dollar-for-dollar matching amounts. The credit could be claimed for taxable years between 2007 and 2013. The credit would apply to the first 900,000 IDA accounts opened after December 31, 2006 and before January 1, 2012. The proposal is estimated to reduce revenues by about \$1.3 billion over a ten year period.

**AARP Comment:** AARP supports tax credits that will help program sponsors to defray the costs associated with matching contributions, administering the accounts, and providing financial education. The credit could lead to an increase in the number of program sponsors and the establishment of new IDA accounts. AARP does not, however, support limiting eligibility to establish an IDA to individuals below the age of 60. Many individuals age 60 and older would benefit from establishing an IDA and participating in the associated financial education and planning programs. Individuals age 60 or older, who would otherwise be eligible to establish an IDA, also have a need to accumulate assets to help them prepare for retirement, maintain their residences, and/or start a business.

**Proposal:** **Permit Tax-Free Withdrawals from IRAs for Charitable Contributions.** The Administration's proposal would allow individuals to exclude from gross income distributions made after age 65 from a traditional or a Roth IRA directly to a qualified charitable organization. The exclusion would be available without regard to the Adjusted Gross Income (AGI) limits that apply to charitable contributions. The proposal would reduce revenues by an estimated \$3 billion over a ten year period.

**AARP Comment:** AARP generally supports incentives to encourage charitable contributions. There is a need to include in this proposal safeguards that will ensure that individuals do not deplete IRA assets that are integral to their financial security in their retirement years and protect retirees from unscrupulous individuals or institutions.

## **Private Pension Proposals**

**Proposal:** **Ensure Fair Treatment of Older Workers in Cash Balance Conversions.** The proposal would provide new protections for participants in cash balance conversions that would ensure fair transitions from traditional plans to cash balance plans. For each of the first five years after a conversion, the benefits earned by a participant under the cash balance plan would have to be at least as valuable as the benefits the participant would have earned under the traditional pension. The proposal would ban the "wear-away" of normal or early retirement benefits for any current participant at any time. The new rules would be enforced through a new excise tax payable by the plan sponsor. The excise tax would not apply if participants were given a choice between the traditional formula and the cash balance formula or if the cash balance conversion grandfathered current participants under the traditional formula.

**AARP Comment:** The proposal is a positive step forward. It represents a substantial improvement over the regulations proposed by Treasury in December 2002 and subsequently withdrawn in 2004. The proposal, however, falls short of providing the protections for older workers long advocated by AARP. AARP believes that older workers involved in a cash balance conversion should be grandfathered under the traditional plan or provided the choice at retirement of receiving benefits under the old or new plan, whichever is larger. It is worth noting that a number of recently proposed conversions have included a "grandfather" clause. AARP believes that "choice" ensures the fair treatment of older workers. AARP is encouraged by the proposal that our goal of protecting older workers in cash balance conversions can be achieved.

**Proposal: Strengthen Funding for Single Employer Pension Plans.** The Administration has proposed a comprehensive plan to reform the PBGC that would address the funding, regulatory and insurance provisions covering private sector, single employer, defined benefit pension plans. The key elements of the proposal include

- Set a single measure of liabilities valued according to a corporate bond yield curve.
- Establish pension plan funding targets that more accurately reflect the plan's risk of termination.
- Underfunded plans or financially weak sponsors would be restricted from increasing unfunded benefits.
- The flat rate premium would be increased from \$19 to \$30 per plan participant and thereafter indexed to the growth of worker's wages.
- Premiums for financially troubled companies would be based on an assigned level of risk determined by a new calculation.
- Pension plans would be required to provide timely disclosure to workers, the PBGC, and the general public regarding the funding status of the plan.
- Improve PBGC's standing in bankruptcy.

The proposal would generally be effective for plan years beginning in 2006. The proposal would reduce revenues by an estimated \$12.7 billion over a ten year period.

**AARP Comment:** AARP believes pension funding rules should encourage both adequate funding for promised benefits, as well as continuation of the plan. AARP is concerned that the use of a corporate bond yield curve to calculate plan liabilities could increase the cost of employing older workers and/or reduce the size of lump sum distributions. More detail and analysis is necessary to determine if the use of a yield curve would ensure that pension plans are adequately funded, and strengthen the resolve of employers to sponsor and maintain pension plans and treat workers fairly. AARP is also concerned that the impact of complying with the proposed new funding rules, particularly for troubled companies, not fall primarily on workers. AARP supports the proposal that would improve PBGC's standing to enforce firms in bankruptcy to make contributions to their pension plans.

**Proposal: Reflect Market Interest Rates in Lump Sum Payments.**

The statutorily specified interest rate used in the calculation of lump sum distributions is the average of the rate of interest on 30-year Treasury securities for the month preceding the distribution. As there are no 30-year Treasury securities outstanding, the interest rate on the Treasury bond due February 15, 2031 is used for this purpose. Under the Administration proposal, interest rates used for determining lump sums would be calculated using interest rates that are drawn from a zero-coupon corporate bond yield curve. The new rules would go fully into effect for plan years beginning on or after January 1, 2009 and would be phased in for the plan years that begin in 2007 and 2008. There would be no change in law relating to calculations in plan years beginning in 2005 and 2006. The proposal would reduce revenues by an estimated \$241 million over a ten year period.

**AARP Comments:** AARP would oppose any proposal to change the pension funding rules that would unfairly reduce lump sum distributions for millions of employees in defined benefit plans or provide an incentive for employers to replace older workers. This proposal could reduce by as much as one-third the lump sum payments that millions of Americans are eligible to take from their employer's pension funds when they retire, change jobs, or are laid off.

## **Social Security Administration**

**Proposal: Increase Funding for the Social Security Administration's Administrative Expenses by 7.7%.** The Administration proposes total administrative funding of \$9.403 billion in FY 2006, an increase of \$726 million (8.4 percent) from the level enacted for FY2005. The omnibus appropriations bill for FY 2005 reduced the administration's request for SSA administrative funding by \$204 million. SSA will work to continue to improve the disability determination process to reduce processing time for both initial determinations and continuing disability reviews.

**AARP Comment:** AARP welcomes the ongoing efforts by the Social Security Administration to improve service to beneficiaries. The increase of 7.7% in the administrative budget proposed for FY 2006 will enable the SSA to continue funding the disability review initiative and maintain the infrastructure needed to prepare for the retirement of the baby boom generation.

AARP urges Congress to remove Social Security's administrative expenses from any limitation placed on discretionary spending during the budget process. The financing does not come from general revenues, but from the trust funds that are dedicated specifically to Social Security.

**Proposal: Require Full-time School Attendance as a Condition of Entitlement for Social Security Child's Benefits for Children Beginning at Age 16.** This would change current policy allowing payment of Social Security child's benefits up to the age of 18 regardless of school attendance. The stated goal of the proposed change is encouraging children to remain in school.

**AARP Comment:** AARP questions the appropriateness of this proposal since it is likely to disproportionately affect low-income and minority children and those who complete secondary education by successfully obtaining a General Education Diploma.

## ***CONSUMER ISSUES***

### **Supportive Services**

**Proposal: Administration on Aging Programs and Services.** Funding would be reduced by \$22 million to \$1.377 billion for FY 2006.

**AARP Comment:** The Older Americans Act (OAA) encompasses several programs, administered by the Administration on Aging (AoA), that assist older persons to remain in their homes and independent for as long as possible. As the elderly population increases, the need for such programs becomes more important. Repeated freezes in most of these programs over the last four fiscal years, coupled with across-the-board cuts, have resulted in significant reductions in services.

**Proposals: Nutrition Programs.** The President's budget requests \$36 billion in funding for the Food Stamp Program in FY 2006, with another \$3 billion made available for a contingency reserve, to serve an average of 29.1 million persons per month. However, the Administration also proposes to no longer allow states to treat as "categorically eligible" for food stamps

recipients of Temporary Assistance for Needy Families (TANF) Program services, unless they also received TANF cash assistance.

**AARP Comment:** The Food Stamp Program is the primary source of food and nutrition assistance to low income households. While the proposed funding increase responds in part to the growing incidence of hunger and nutritional inadequacy, the proposed change in TANF eligibility would cut food stamp spending by approximately \$1 billion over ten years. Some budget analysts estimate that change would terminate food stamp aid for 200,000 – 300,000 low income people.

In addition, the budget proposal cuts the Commodity Supplemental Food Program by \$3 million -- from \$110 million to \$107 million -- which will mean that 45,000 low-income people will lose this assistance.

**Proposal: Community Service Employment for Older Americans.** Funding for this OAA program administered by the Department of Labor would be cut by nearly \$3 million from the FY 2005 level of \$439 million.

**AARP Comment:** The proposed funding reduction weakens a program that provides part-time, minimum wage job opportunities for low income older persons that support community services. The loss of funding will mean either fewer jobs or diminished program support.

## **Housing**

**Proposals: Housing for Special Populations.** The Administration again proposes to freeze new Section 202 Housing for the Elderly construction at \$741 million for FY 2006, and only provide \$30 million in grants for assisted living units conversion. Another \$53 million would support service coordinators that serve project residents and other eligible elderly. In FY 2002, Section 202 construction was funded at \$1.024 billion, nearly 25 percent higher than proposed for FY 2006, and assisted living conversion and service coordinators programs were then each funded at \$50 million. Section 811 Housing for Persons with Disabilities, also housing many older persons, is cut by 50%, from \$240 million to \$120 million. The proposal restricts funding to existing projects, effectively killing the program.

**AARP Comment:** Section 202 is the only federally-funded new construction program for housing designed to meet the special needs of older people, providing such features as ramps and grab bars. The proposal fails to keep pace with the growing service needs, and specialized housing needs, of frail and low-income older persons. Significant Section 202 waiting lists continue to exist, while the shortfall in assisted living units for low-income frail elderly is increasing. The dramatic cut in Section 811 housing will likely increase pressure on Section 202 to meet the growing needs of a larger and more vulnerable population.

**Proposals: Low Income Housing Programs.** Public housing programs would be significantly reduced. Capital funding would be reduced by 10 percent to \$2.327 billion (\$252 million below last year's level). Operating funds would be cut by about \$165 million to \$3.407 billion; public housing officials say that another \$800 million is needed to fully fund operations.

**AARP Comment:** These funds provide low-rent housing to low-income households in buildings owned and operated by local public housing authorities (PHAs). With some public housing projects now more than fifty years old, physical deterioration and obsolescence have become major concerns. The Administration's proposal decreases funding for building rehabilitation and repair. Greater funding is needed to improve the safety of public housing residents -- approximately one-third are older persons whose average age is 76 years.

**Proposals: Rural Low Income Housing – Sections 515, 521 and 504.** The Section 515 program provides loans to construct and rehabilitate rental and congregate housing for low-income persons in rural areas. In combination with the Section 521 Rental Assistance program, Section 515 serves the poorest of the rural poor. The Administration proposes to reduce the Section 515 current loan level by nearly three-quarters to a mere \$27 million for FY 2006, and further restrict Section 515 funding to repair and rehabilitation of existing rental properties. Section 521 rental assistance, however, is increased 10.7 percent, by \$63 million, from the FY 2004 level to \$650 million, but is still far below its FY2003 level of \$726 million. The Administration further proposes a new \$214 million voucher program to assist tenants at risk of displacement from landlords prepaying their mortgage and leaving the program. Section 504 Very Low Income Housing Repair Grants are cut by \$1 million to \$30 million.

**AARP Comment:** This proposal could sound the death knell for the Section 515 housing program - new construction is explicitly prohibited and the shoestring funding level would make it impossible even if there were no prohibition. The Section 515 program already loses more units than are produced each year. According to the 2003 American Housing Survey, nearly 1.6 million rental households in rural areas were headed by someone age 50 or older, this is 35 percent of all rural households. Approximately 570,000 rural renter households age 50 or older were "rent burdened," nearly half to a severe extent. More than 180,000 of the approximately 450,000 Section 515 units were occupied by a householder age 62 and older.

The voucher program may assist some displaced residents, but vouchers are a poor solution for most older persons who have difficulty conducting searches for new affordable housing. Many will likely be forced to leave their communities because of the scarcity of such housing, or will be forced to pay a much larger proportion of their limited incomes to rent in the communities that are familiar to them. The Administration says it will offer a legislative proposal in 2005 for additional authorizations to revitalize the portfolio.

## **Energy Assistance**

**Proposal: Low Income Home Energy Assistance Program (LIHEAP).** Funding would be decreased by \$200 million to \$2.0 billion, including emergency funds, for FY 2006.

**AARP Comment:** AARP opposes the proposed reduction in LIHEAP funding. Such reductions will only deepen the hardship experienced by low income older persons, who find themselves choosing between food, medicine and heating. Heating oil costs are expected to be 34 percent above last year's level, while expenditures for propane-heated households are expected to increase about 22 percent this winter. Natural gas heating is expected to cost 9.4 percent more than last year. These increases far outpace the rate of inflation and are placing an overwhelming strain on family budgets.

According to recent data released by the Energy Information Administration, the cost for home heating will increase from \$953 to \$1,179 for heating oil, \$1,147 to \$1,202 for propane, and \$870 to \$950 for natural gas.

## **Other Initiatives**

**Proposal: Increase the Budget for EEOC.** The Equal Employment Opportunity Commission (EEOC) is responsible for the enforcement of federal laws prohibiting discrimination in employment on the basis of age, race, sex, national origin, religion or disability.

The budget proposed for FY 2006 increases the Commission's overall budget by 1.2% over FY2005, from \$327 million to \$331 million. A total of \$33 million is earmarked for payments to state and local fair employment agencies, which contract with the EEOC to receive and process federal charges of discrimination. The Commission's caseload is expected to grow by 6.5% next year, but the budget proposes no increase in the \$20 million allocated for staff expenses, including salaries. The budget emphasizes the need for the Commission to continue its efforts to educate the public about the employment discrimination laws and, in particular, to integrate its education and enforcement efforts with the President's New Freedom Initiative, designed to better include persons with disabilities in the labor force.

**AARP Comment:** The funds allocated to the work of this important agency have long been inadequate. The Commission's budget has remained relatively static despite an increasing caseload. The budget proposed for FY 2006 fails to recognize the increase in the expected caseload. AARP believes that Congress should appropriate sufficient funds to insure that the Commission is able to adequately serve its public constituency, but AARP remains concerned that the EEOC has embarked upon a strategy of selectively enforcing the civil rights laws, especially the Age Discrimination in Employment Act, and interpreting those laws in ways that diminish the employer's obligations under the law (e.g. the recent EEOC effort to publish a rule that would allow employers to eliminate retiree health benefits based upon the age of the retiree).

**Proposal: Elderly and Disabled Transit Formula Grants.** The Administration reintroduces its proposal from last year to block grant to the states several transit formula grant programs. Although a slight increase is indicated in the budget narrative for the Section 5310 elderly and disabled transit grant program (from \$94.5 million to \$95.1 million), it is unclear whether states would be bound to allocate this amount. The Section 5310 program provides capital assistance to nonprofits for specialized transportation for the elderly and persons with disabilities. Section 5310 serves needs that would not be met otherwise by public transit.

**AARP Comment:** AARP believes that funding for Section 5310 is inadequate for a national program. Nearly 60 percent of vehicles in the nation's fleet have exceeded their useful life. About a fifth of persons age 65 and over do not drive and, of these, over half (3.6 million) stay home on a given day. With a currently high and ever-growing population of older persons in need of paratransit services, it is important that the Section 5310 program remain a discrete, stable and predictable source of funding for local paratransit services.

**Proposal: Migrant and Seasonal Farmworkers.** The Administration proposes to eliminate all training and employment services for migrant and seasonal farmworkers (funded last year at \$76 million).

**AARP Comment:** Migrant and seasonal farmworkers are among the most poorly paid and ill-housed workers in the nation. Older farmworkers often do not qualify for Social Security benefits or income assistance programs. AARP believes that greater emphasis should be placed on meeting the needs of these families, concentrating on those that are older and have disabilities.

**Proposal: Amtrak.** The FY2006 budget proposes to reduce drastically funding for national passenger rail service, cutting it 70 percent from about \$1.2 billion to \$360 million, and reserves all funding for the Northeast corridor. Many older persons, particularly those who do not drive and prefer not to fly, rely on Amtrak for family visits and leisure travel. The proposed funding level may effectively put an end to the national passenger rail system.

**AARP Comment:** Amtrak is an important transportation alternative that is valued by millions of older persons. AARP believes that steps must be taken to preserve the Amtrak system.

## ***BUDGET PROCESS REFORM PROPOSALS***

The President's budget proposes numerous changes to the budget process and budget scoring rules. Only those with the most significant impact on AARP's members are discussed here.

**Proposal: Caps on Discretionary Spending.** The budget proposes to impose limits through 2010 on discretionary spending in appropriations bills at the levels in the President's budget. This would allow increases in defense and homeland security, but freeze nondefense program spending at the 2004 level. Previous caps on discretionary spending expired after 2002. The proposal would apply separate caps to defense and nondefense spending in 2005 through 2007, with a single cap for all discretionary spending in 2008 through 2010. There would be a separate cap for transportation funding between 2005 and 2009. The caps would also apply to administrative funding for the Social Security Administration. The administration is again proposing an adjustment to account for funding for Continuing Disability Reviews (CDRs) within any caps. Other program integrity adjustments to the caps would apply to funding for IRS tax enforcement, Health Care Fraud and Abuse Control at CMS and Unemployment Insurance in the Department of Labor.

**AARP Comment:** Previous caps on discretionary spending initially proved to be effective tools providing for fiscal discipline. However, when they were set at unrealistically low levels, the result was either evasion through a variety of budgetary gimmicks or severe and unnecessary cuts in essential programs. AARP is concerned that the total discretionary spending proposed by the Administration for nondefense appropriations is so low that caps set at this level will again lead to budgetary gimmicks and unreasonable cuts in programs that serve vulnerable people.

**Proposal: Pay-As-You-Go (PAYGO) Extension.** Under the Budget Enforcement Act of 1990, a process was established that required any increases in mandatory spending or reductions in revenues to be offset so that there was no net increase in the deficit. This process was extended in 1997, but was allowed to expire at the end of 2002. The President proposes to reinstate this PAYGO rule, but only for mandatory spending, not for revenues. Further, the proposal would not permit increases in spending that are subject to PAYGO to be offset with revenue increases.

**AARP Comment:** The previous PAYGO rules provided essential budgetary discipline that was applied to both revenue and spending legislation. The President's proposal would apply the new PAYGO rules only to spending, allowing revenue losses to increase the budget deficit without the need for offsets. This proposal could have serious long term consequences for both Medicare and Medicaid because any program enhancements would have to be offset by corresponding cuts in other programs serving the same populations. AARP believes that fiscal discipline needs to be applied to both revenues and spending if PAYGO rules are reinstated.

**Proposal: Points of Order Against Increasing Long-Term Unfunded Obligations.** The Administration makes a new proposal that would 1) establish points of order in Congress against legislation that would worsen the long-term unfunded obligation of Social Security, Medicare, SSI, federal civilian and military retirement and veteran's disability compensation; and 2) require the Office of Management and Budget and the Congressional Budget Office to report on the effects of any enacted legislation that increases the unfunded obligations of the specified programs.

**AARP Comment:** Analysis of the impact of legislation affecting the long-term actuarial projections of these important programs is essential. However, the proposal is vague and it is unclear how this requirement would interact with existing Congressional rules that are designed to protect the 75-year actuarial status of Social Security, or what effect it could have on future Medicare legislation. AARP believes that Congress should proceed cautiously and undertake a thorough evaluation of such a change in the budget rules to understand the impact that it could have on both future beneficiaries and taxpayers.