The National Commission on Fiscal Responsibility and Reform (herein: the Commission) set off a firestorm in Washington on November 10 when its co-chairs, Alan Simpson and Erskine Bowles, released an early draft of their report, the final draft of which is due to the president on December 1. The released materials can be found here, and the second page of this summary has a list of the key recommendations made in the draft report. While elected and appointed officials and advocates will weigh in during coming weeks, the final report is expected to see few changes and will generally be guided by the same goals and recommendations laid out in the draft report. From there, 14 out of 18 Commission members must vote in favor of the recommendations in order to send them to the Capitol Hill.

Among the proposed reforms are heavy cuts to discretionary spending, health care cost savings, tax reform, and Social Security and civil & military retirement reform. The Commission recommends that most cuts don’t begin until FY2012 in hopes of avoiding further economic pains in a fragile economy.

The health care cost reduction proposal includes greater cost-sharing, drug rebates, and malpractice reform as well as sped up cuts to Medicare Advantage and hospital payments that are included in the Affordable Care Act. Additionally, the Commission recommends payment reductions and elimination of the Sustainable Growth Rate (SGR, the rate decided annually by the Centers for Medicare and Medicaid Services (CMS) that determines Medicare physician payments) in favor of a gradual reduction in payments. It recommends strengthening the Independent Payment Advisory Board (IPAB) and expanding successful cost containment demonstrations.

While some articles have said the plan recommends a public option, the recommendations only recommend revisiting the public option if health care costs continue to climb despite other recommended reforms. The draft report recommends setting a global target for total federal health expenditures (i.e. special tax credits, deductions, and exemptions) after 2020 and a cost review every 2 years to ensure that costs are contained to growing no more than GDP+1% per year. If costs grow more than that on average for 5 consecutive years, the Commission recommends that the president be required to submit a proposal to Congress that would cut costs back to the required level, and among the options the president may propose would be a robust public option or all-payer system in the exchange.

The draft report includes three proposed options to tax reform, two of which include simplifying the tax code to eliminate tax expenditures and create a simple, three-tiered tax individual tax system. One option recommends limiting the mortgage deduction to exclude second homes, home equity loans, and all mortgages over $500,000. The same option would limit charitable deductions and cap income tax exclusion for employer-provided healthcare.

The Commission’s draft proposal recommends increasing the retirement age by indexing it to increases in longevity with a specific proposal to increase the retirement age one month every two years starting when the current age increase reaches 67. It includes a recommended hardship exemption for those unable to work past 62. Additionally, it recommends changing the benefit formula to favor full-time low-wage workers during their retirement. For example, it recommends creating a special minimum benefit to keep retirees above the poverty threshold and a benefit boost to older retirees who are at risk of outliving their personal retirement resources. The draft report also recommends using chained consumer price index (chained CPI, an updated CPI index to improve on the CPI-U, which itself was created to update the CPI) to calculate COLAs in order to more accurately assess increases in inflation and cost of living. Finally, in order to help keep Social Security solvent, the draft report recommends slowing introducing a higher taxable maximum income to capture 95 percent of all taxable income.

Private sector retirees are not targeted alone in the draft report. It also recommends changes to military and civil service retiree policy including drastically increasing the required retirement contributions from federal employees and deferring collection until age 60. Additionally, the draft report’s illustrative discretionary spending cuts (found here) include proposals for significant cuts to the cost of the federal workforce including cutting hiring at a 3:2 ratio (for every 3 staff members that leave, 2 may be hired to replace them) and requiring a freeze on all pay increases for 3 years for federal, non-combat employees.
Summary of recommendations

The plan makes five basic recommendations:

1. **Enact tough discretionary spending caps and provide $200 billion in illustrative domestic and defense savings in 2015.**
   - See the proposed cuts [here](#).

2. **Pass tax reform that dramatically reduces rates, simplifies the code, broadens the base, and reduces the deficit.**
   - Option 1: Consolidate the tax code into three individual rates and one corporate rate; eliminate all tax expenditures; and others.
   - Option 2: Wyden-Gregg Style Reform – Consolidate the tax code into three individual rates; limit mortgage deduction to exclude second residences, home equity loans, and mortgages over $500,000; repeal state & local tax deductions, cafeteria plans, and miscellaneous itemized deductions; limit charitable deductions with a floor at 2% of AGI; cap income tax exclusion for employer-provided healthcare at the amount of the actuarial value of FEHBP standard option; and others.
   - Option 3: Call on Finance and Ways & Means Committees and Treasury to develop and enact comprehensive tax reform by the end of 2012; put in place an across-the-board “haircut” for itemized deduction, employer health exclusion, and general business credits that would take effect in 2013 if reform is not yet enacted; and others.
   - Increase the gas tax gradually by 15 cents beginning in 2013.
   - Use chained CPI to reduce the current overestimation of inflation.

3. **Address the “Doc Fix” not through deficit spending but through savings from payment reforms, cost-sharing, and malpractice reform, and long-term measures to control health care cost growth. Reduce health care costs.**
   - Pay doctors and other providers less, improve efficiency, and reward quality
     - Replace cuts required by the SGR through 1015 with modest reductions while directing CMS to establish a new payment system to reduce costs and improve quality.
     - Require rebates for brand-name drugs as a condition of participating in Medicare Part D.
   - Adopt comprehensive tort reform, particularly comprehensive medical malpractice liability reform.
   - Expand cost-sharing in Medicare to promote informed consumer health choices and spending.
     - Eliminate first-dollar coverage in Medigap plans.
     - Replace existing cost-sharing rules with universal deductible, single coinsurance rate, and catastrophic cap for Medicare Part A and Part B.
   - Expand successful cost containment demonstrations.
   - Strengthen the Independent Payment Advisory Board (IPAB).
   - Additional savings (some examples):
     - Place dual eligibles in Medicaid Managed Care.
     - Expand ACOs, payment bundling, and other payment reform.
     - Increase nominal Medicaid copays.
     - Cut federal spending on graduate and indirect medical education.
     - Accelerate phase-in of DSH payment cuts, Medicare Advantage cuts, and home health cuts in PPACA.

4. **Achieve mandatory savings from farm subsidies, military and civil service retirement.**
   - Reduce farm subsidies by $3 billion per year.
   - Increase civil and military service retirement cost-sharing; reform the COLA for early retirees; defer collection of retirement benefits until age 60.
5. Ensure Social Security solvency for the next 75 years while reducing poverty among older adults.

- Create a special minimum benefit and wage-index the benefit to make it sustainable in the long term.
- Provide a benefit boost to older retirees most at risk of outliving other retirement resources.
- Increase the progressivity of the benefit formula.
- Increase retirement age by one month every two years after it reaches 67 under current law (retirement age would hit 69 in 2075).
- Create a hardship exemption for those unable to work beyond 62. Direct SSA to design a way to provide for the early retirement needs of workers in physical labor jobs. Allow greater flexibility for workers wanting to claim half of their benefits early.
- Use chained CPI to calculate COLAs.
- Slowly phase in a higher taxable maximum.
- Alternative options suggested. They include: increasing low-income widow benefits; capping spousal benefits; taxing cafeteria plans the same as 401(k) plans; fully or partially tax employer-sponsored health insurance; and others.

**Reaction in Washington**

Speaker Nancy Pelosi (D-CA) said the draft report is “simply unacceptable.” She, along with other Democratic legislators expressed their dissent this week. Meanwhile, Republicans generally waited in the wings, careful to protect their election promise of cutting the deficit and refusing to increase taxes. President Obama, currently overseas, has not yet commented on the specifics of the plan except to say, “Before anybody starts shooting down proposals, I think we need to listen, we need to gather up all the facts.”

The next few weeks will see advocates and policymakers scrambling to do just that. With so many options and slashes across the board, the recommendations are sure to come under fire from advocates across the political spectrum. If the recommendations go to Congress, we will certainly see heated debate in the public and private spheres. As the Commission co-chairs themselves wrote, “The Problem is Real – the Solution is Painful.”

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