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Budget Talks in “Abeyance” as Negotiators Await High-Level Guidance

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Vice President Joe Biden announced last night that the budget talks he has been leading since early May are now in “abeyance” as negotiators await guidance from their leaders. It now appears that the budget negotiations may enter a new phase involving President Obama, House Speaker John Boehner (R-OH), and Senate Majority Leader Harry Reid (D-NV).

The Vice President’s announcement followed the release of a statement earlier yesterday by House Majority Leader Eric Cantor (R-VA) in which he stated that although he believes the negotiators have identified trillions in spending cuts, he would not participate in the next scheduled meeting due to the impasse over tax issues. Leader Cantor stated: “Given this impasse, I will not be participating in today’s meeting and I believe it is time for the President to speak clearly and resolve the tax issue. Once resolved, we have a blueprint to move forward to trillions of spending cuts and binding mechanisms to change the way things are done around here.”

In recent weeks, both Republicans and Democrats have expressed interest in reaching agreement by July 1 on the framework for a legislative package that increases the federal government’s debt limit while also establishing a long-term deficit reduction plan. While this goal may no longer be realistic, there continues to be a strong sense of urgency surrounding the need for congressional action on the debt limit to avoid instability in the financial markets. Treasury Secretary Timothy Geithner has notified Congress that the federal government will exhaust its borrowing authority under the current debt limit on approximately August 2.

CBO Report Focuses on Long-Term Budget Outlook

On June 22, the Congressional Budget Office (CBO) issued a report highlighting the long-term budgetary challenges facing the federal government.

CBO reports that the national debt, when measured as a percentage of the gross domestic product (GDP), increased from 40 percent at the end of 2008 to 62 percent at the end of 2010, and is projected to further increase to 69 percent by the



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end of 2011. The report evaluates the long-term budget outlook under two scenarios:

- One scenario adheres closely to current law without assuming any major legislative changes. Under this scenario, CBO projects that the national debt would reach 84 percent of GDP by 2035 and remain close to that level in later decades.
- An alternative fiscal scenario anticipates certain changes to current law, including that tax cuts enacted since 2001 will be extended again, that Medicare physician payment rates will remain at current levels, and that health reform provisions that reduce Medicare provider reimbursement will not continue after 2021. Under this scenario, CBO projects that the national debt would exceed 100 percent of GDP by 2021 and reach almost 190 percent of GDP in 2035.

The release of this report coincides with efforts by Congress and the Administration to reach an agreement on reducing the federal budget deficit and increasing the federal government's debt limit.

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