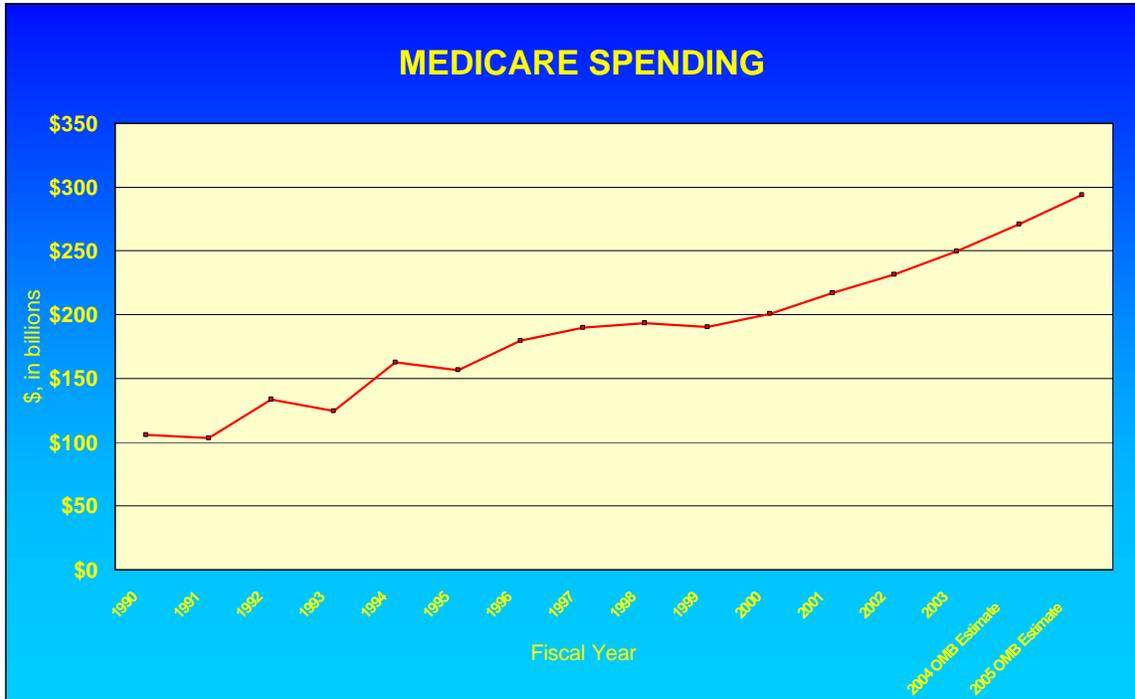


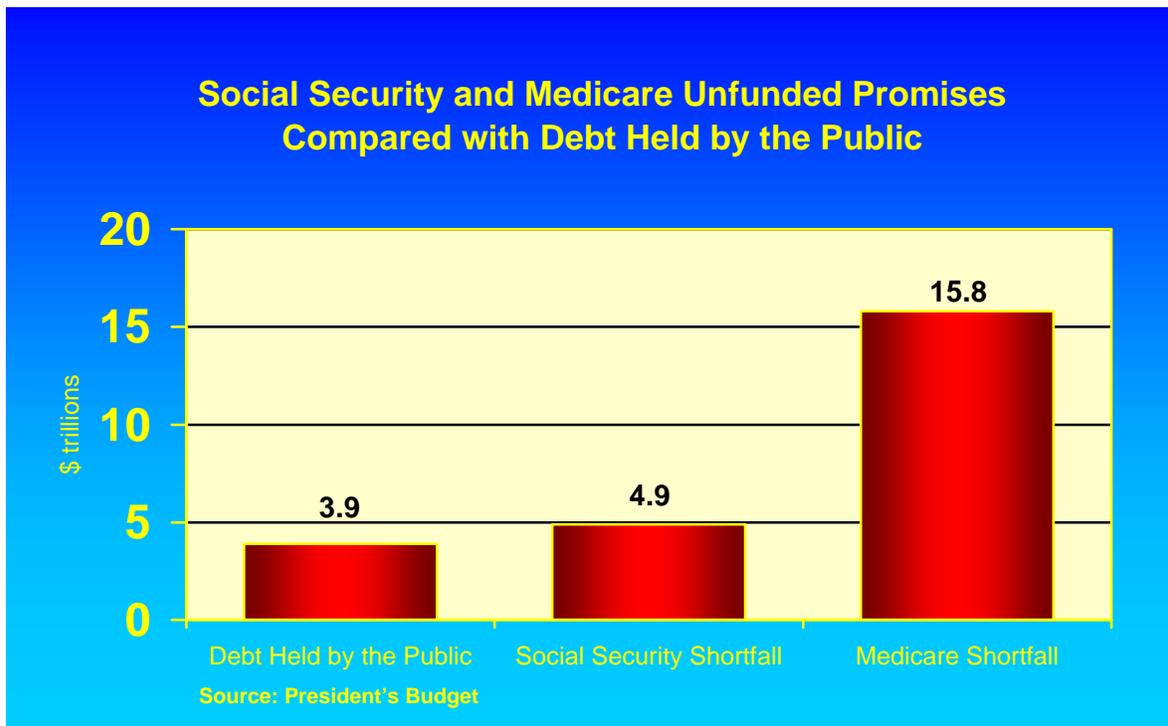


Good morning.

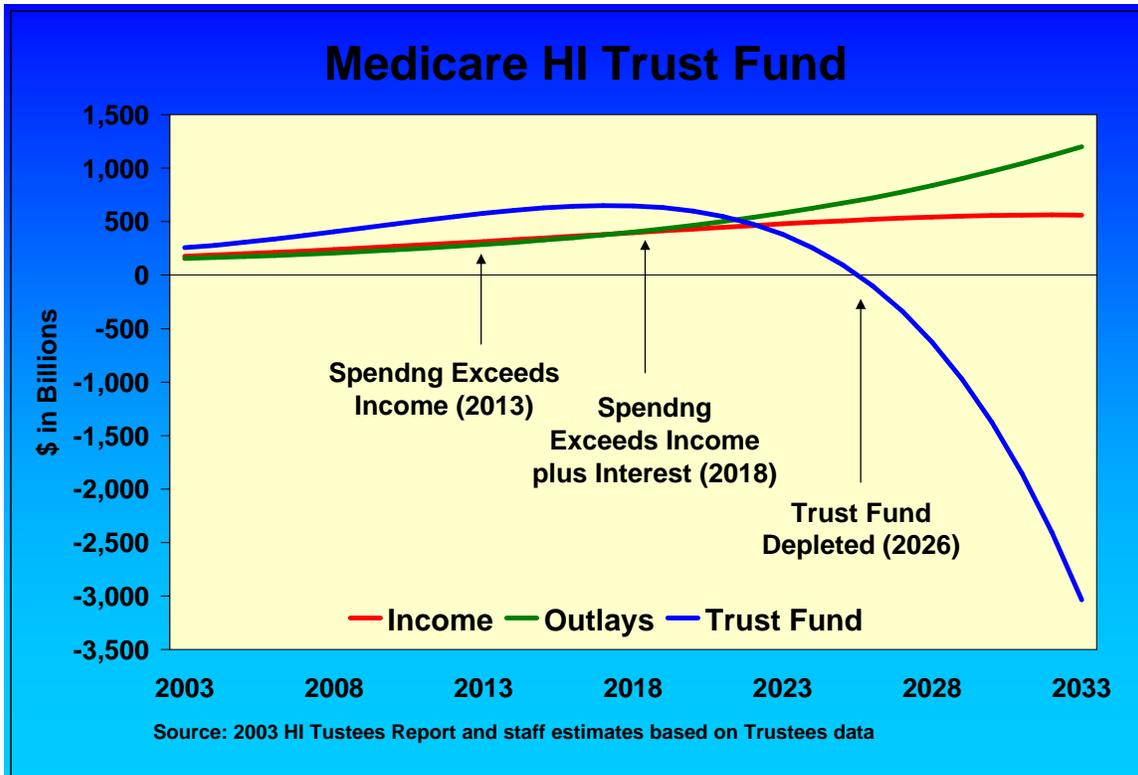
I want to thank everybody for coming. And particularly, Secretary Thompson, we welcome you before this committee. Everyone, I think, knows Secretary Thompson, Governor Thompson, 14 years governor of the great state of Wisconsin, now served three years as secretary of HHS -- to make his budget presentation to us today. I noticed that your budget is 41 percent of the entire federal budget. You have enormous responsibilities. I've had the pleasure of working with you both in your previous capacity as governor and one of the leading governors on welfare reform. I compliment you for that monumental task and, frankly, very good success. Because of your leadership and the cooperation of Democrats and Republicans, we passed historic welfare reform. That needs to be reauthorized this year, so we might hear your comments on that. Also, you've been a very active participant in enacting the Medicare changes, which included prescription drug proposals. You were very active throughout the conference. I appreciate your leadership on that as well. We have some big challenges, needless to say. With the scope of your department being as broad, as large, as comprehensive, as extensive and as important as it is, I value very much your leadership. I might tell my colleagues -- I mentioned this when Secretary Thompson was testifying before the Finance Committee -- but I had the pleasure of traveling with Secretary Thompson. He led a very large delegation, very prestigious delegation, throughout Africa to learn more but also to assist in the worldwide battle on AIDS. And I compliment you for your leadership in that global fight. And I compliment you. I'm going to make just a few comments, and then we'll turn it over to the secretary. I share many of Senator Conrad's concerns about the long-term sustainability of paying for programs, particularly in Social Security and Medicare.



Medicare spending is growing and growing substantially. And it's going to grow faster now as a result of the legislation we passed last year. In 1990, we were spending \$105 billion, and today it's \$271 billion. So that's 2.7 times as much in a period of 14 years. (\*\*Medicaid spending chart) If you look at Medicaid spending, we were spending about \$40 billion in 1990. And today we're spending \$180. That's about 4.5 times; so an enormous increase in Medicaid.

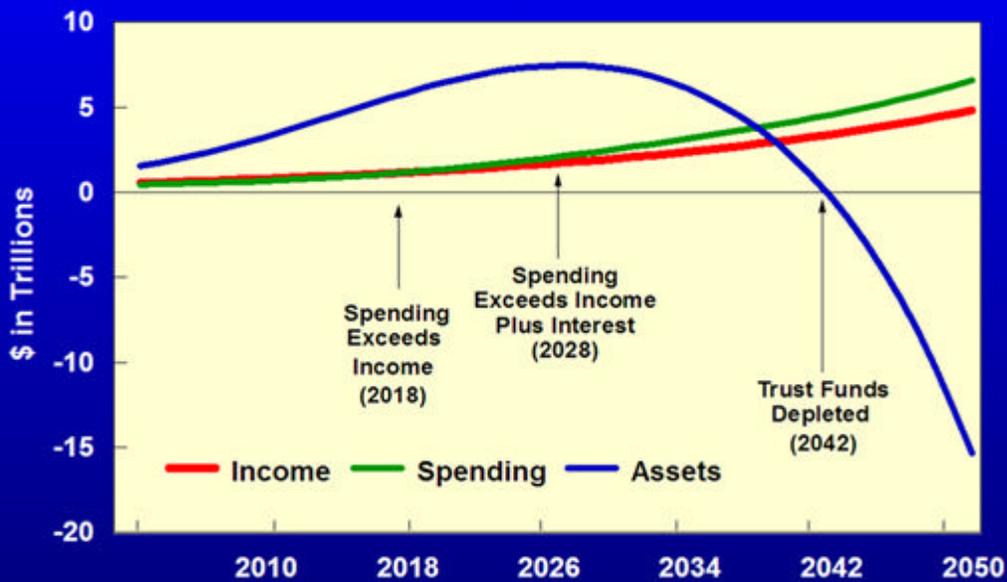


The unfunded liabilities, if you look at the debt held by the public, it's \$3.9 trillion. The Social Security shortfall – and this is estimated over a 75-year period of time -- is \$4.9 trillion. And Medicare is \$15.8 trillion. So Medicare is three times – the unfunded liabilities that we have projected in Medicare are three times as much as they are in Social Security. That's troubling. And incidentally, for our colleagues, we plan on having a hearing that we're really going to get into this in depth. We're going to look at long-term fiscal challenges that we face in this country and try and figure out if there's some things that can be done or should be done.



Just a quick thing on the HI trust fund. That just -- the Medicare HI trust fund -- the trust funds, I think, are a little bogus. And I might talk about that. We're going to have one meeting just on trust funds. But it shows that we have big challenges in the future years. And the secretary is a trustee of that trust fund. So I mention that. Social Security has a chart that looks just like it.

## Social Security Trust Funds



Source: 2003 Social Security Trust Fund Report.  
Prepared by Senate Budget Committee, February 2004.

But I have a difference of opinion with my colleague, Senator Conrad, in are we raiding Social Security trust funds? I might mention that almost every budget, including the senator from North Dakota's budget, used Social Security trust funds. But people ignore the fact that we use Social Security trust funds to pay-- I will say we use Social Security trust funds to pay Part B. General revenue funds subsidize Part B three to one, three to one. And I put together a chart, and I'll give it to our colleagues so they can see it.

## SOCIAL SECURITY (OASDI) & MEDICARE (HI & SMI) Cash Income Compared to Benefits in Billions

CBO March Baseline

FY 1993 to FY 2013	HI - Payroll taxes	HI - tax on SS benefits	SMI premiums	HI premiums	Part D premiums	OASDI payroll taxes	OASDI - Tax on SS benefits	Total Cash Income	HI benefits	SMI benefits	Part D benefits	OASDI benefits	Total Benefits	Difference
1993	81	--	15	1	--	312	6	414	91	52	--	302	445	-31
1994	90	2	17	1	--	335	5	450	101	58	--	317	476	-27
1995	96	4	19	1	--	351	6	477	113	64	--	333	510	-33
1996	105	4	19	1	--	368	7	504	124	67	--	347	538	-35
1997	111	4	19	1	--	392	8	535	136	71	--	362	569	-35
1998	120	5	19	1	--	416	10	571	135	75	--	375	585	-14
1999	132	7	20	1	--	445	12	616	129	79	--	386	594	22
2000	136	9	21	1	--	481	12	659	128	87	--	408	623	36
2001	150	5	22	1	--	508	13	699	139	97	--	432	669	30
2002	149	11	24	2	--	515	14	715	145	107	--	454	706	9
2003	147	8	27	2	0	524	13	720	151	122	0	471	743	-23
2004	155	8	30	2	0	545	13	753	163	129	0	492	784	-31
2005	164	9	35	2	0	572	15	797	175	138	1	513	827	-30
2006	173	10	37	2	9	601	17	849	180	140	47	533	901	-52
2007	181	11	39	2	13	629	18	894	193	149	75	559	976	-82
2008	190	13	41	2	14	659	20	939	204	158	84	587	1033	-94
2009	199	14	44	2	16	690	22	987	217	170	92	618	1096	-109
2010	208	16	48	2	17	721	24	1037	230	182	101	653	1167	-130
2011	218	18	52	2	19	753	28	1090	246	199	111	690	1246	-156
2012	227	21	56	3	21	786	31	1145	257	210	123	732	1323	-178
2013	238	23	61	3	23	821	34	1201	276	230	137	778	1421	-220
2014	248	25	65	3	26	858	37	1261	295	248	153	827	1523	-262

Source: Senate Budget Committee

All the money coming into Social Security and Medicare is paid for by payroll tax, Senator Byrd, 15.3 percent of all payroll. And actually on Medicare, it's 2.9 percent on all payroll; 15.3 of the Social Security. The 12.4 percent is limited to --what?-- \$86,000 or whatever that level is. And then Medicare is unlimited, 2.9 percent on all payroll. So this chart is busy. It's complicated. But it shows all of the money coming in from taxes, including the tax on Social Security and Medicare -- so the receipts coming into the fund, and the outlays coming out of the fund to pay Medicare and Social Security. And actually, the government, if you could say, is raiding Social Security, it's raiding Social Security to pay Part B premiums. And it will be raiding Social Security to pay Part D, to pay the prescription drug benefit. It actually shows that more money is going out for these two programs than coming in.

And so we're not raiding Social Security to pay for defense or to pay for non-defense. It's basically used to pay for Medicare. And the two combined, if you add all of the taxes combined in coming in -- and just give you one outlay year for '04, projector, or maybe I could use '03 because it would be actual -- I'll use '04 -- the total amount of money coming in is \$753 billion. And the total amount of money going out is \$784 billion, for basically a deficit of \$31 billion.

So I just make that point. I think there's a lot of misunderstanding on trust funds. And maybe we can have a more thorough debate. That's not the purpose of the hearing today. Our purpose today is to welcome Secretary Thompson, since he has control or responsibility over 41 percent of the budget and a very significant growing part of the budget. I believe his proposal is for a 5.6 percent increase in his total domain. We look forward to hearing him present their budget to us. I might mention, Senator Byrd,

just for your interest, most all of Secretary Thompson's growth is in entitlement programs. Very little is on discretionary. Mr. Secretary and Senator Byrd, I would be very interested -- since we only appropriate about one-third of the budget, I'd be very interested in seeing if some of these programs that are already set on automatic pilot as entitlements, maybe they should be considered and scored and written as discretionary, subject to appropriations. I used to be on the Appropriations Committee. I used to be very chagrined at feeling that we only had one-third of the budget under real control, and the other two-thirds growing almost out of control. This committee can work with the Finance Committee to control the two-thirds. But a lot of that control has been growing the programs, not controlling them. Maybe we'll take a little different approach this year in light of the deficit challenges that we have.

But there's a lot of programs in your domain, and maybe some of those should be subject to appropriation instead of set up as an entitlement. I'm happy to consider those either as part of the budget resolution or as changes that we might want to make free-standing, either through budget and/or appropriations process. We have members on both committees on this committee, and maybe with some cooperation we could make some adjustments.

But, Mr. Secretary, welcome to the committee.