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Joan Claybrook, President

Deficit Reduction Act of 2005 Fact Sheet

On Feb. 8, President Bush signed the Deficit Reduction Act of 2005. Our law suit claims that the act is invalid because it was not passed in the same form by both houses of Congress. But until a court strikes down the act, its budget cuts will be felt by millions of the most vulnerable Americans. According to Congressional Budget Office estimates, those cuts include:

Medicare and Medicaid

The act makes numerous changes and cuts in Medicare spending, including reducing payments for imaging procedures, home health services, and certain durable medical equipment like wheelchairs. The Congressional Budget Office estimates the Medicare/Medicaid cuts to be more than \$11 billion during the next 5 years.

Under the act, millions of low-income people will have to pay more for health care, and some will forgo care or drop out of Medicaid because of higher co-payments and premiums. For more than a decade, the maximum co-payment for most Medicaid services and medications was \$3, and health care providers could not deny care or services because of a person's inability to pay.

Under the new law, states can scale back benefits and end Medicaid coverage for people who fail to pay premiums. Pharmacists can refuse to fill prescriptions, and doctors and hospitals can deny services, for Medicaid recipients who do not make the required co-payments.

Federal Student Loan Programs

The largest budget cuts in the act occur in federal student loan programs – more than \$15 billion in cuts over the next five years. Interest rates on federal education loans switch from current variable rates to higher fixed rates under the legislation. The difference means higher payments that could add thousands of dollars over the life of an undergraduate loan and potentially tens of thousands more for graduate students.

For Stafford loans, which represent about 84 percent of federal education loans, the new fixed rate will be 6.8 percent. The current variable rate ranges from 4.75 percent to 5.38 percent. For Parent Loans for Undergraduate Students (PLUS Loans), the new fixed rate will be 8.5 percent, compared to a current rate of 6.125 percent.

Other Services

The legislation reduces child support administrative spending and child welfare payments, increases bankruptcy fees, decreases spending on transportation, and increases civil filing fees.