

Q&A FOR BUDGET RELATED ISSUES

1.) LONG-TERM ENTITLEMENTS:

Q: Can we admit now, that we have a terrible problem with our long-term entitlements and that the only way we are going to solve it is to cut benefits or raise taxes or both, and that we need leadership to say so?

Q: Isn't it true if you want to have a big agenda; real reform, real dollars freed for education and welfare to work, you are going to have to cut long-term entitlements and make the CPI more accurate?

Q: If long-term entitlements are such important issues, why didn't you go before the nation during the Inaugural and will you discuss them in the State of the Union?

THREE POINT STRUCTURE:

1) **Record:** 63% cut; lowest of any major economy in the world; political courage: cost us in 1994 but good for the nation

2) **Completely Committed to Historic Opportunity to Get Real bipartisan balanced budget deal in 2002:** Focus on immediate goal. Walk before you run. I will stress need for long-term, but best first thing we can do for the long-term is to get a balanced budget deal now.

3) **Show leadership on long-term entitlements by creating the conditions for bipartisan process that will actually get something done and not just do speeches. Will take great strategic leadership. I will do that.**

- I believe that the first step must be to get historic agreement, but is committed to working on the second step as well: to pull the nation together in a bipartisan process -- not with preordained answers, but with an open mind and a willingness to work together.

GUARANTEE BUDGET IS SOUND:

Q: Can you assure us that we will get a CBO balanced budget, with no triggers, backloading, accounting shifts or other gimmicks: a real undisputed balanced budget?

A: I'm not going to reveal the details of my plan today -- you will see what our budget plan will entail on February 6th -- but here is what I will tell you today:

Best Predictor of future behavior is your record: If you want to know if my plans are real, whether they will work, then look at our record. We've cut the deficit 63%; lower than projected every year; lowest of any major economy in the world: huge political risk that hurt us in 1994 but paid off for the American economy.

Our Plan will be real, tough and credible:

- 1) balance in 2002;
- 2) extend the life of the Medicare trust fund to 2007;
- 3) protect our values and priorities;

[If on backloading, remind them that our deficit reduction efforts have been front-loaded: we have done 63% of the work in the first 4 years]

Follow-ups on Budget:

Follow on Triggers:

Q: Will you present a CBO budget or will it be an OMB budget with triggers:

A: REPEAT ESSENTIAL ANSWERS ABOVE -- stand by record

I'm saying that we will present a solid, strong budget that is balanced based on sound assumptions that have proved accurate four years in a row

[If CBO shows differences, we will show the precise steps we will take to ensure that the budget is balanced under either set of assumptions.]

Second follow-up:

Q: So you are saying that you will again resort to the type of triggers that most budget experts do not find credible?

A: I'm saying that we will present a solid, strong budget that is balanced based on sound assumptions that have proved accurate four years in a row

If CBO shows differences, we will show the precise steps we will take to ensure that the budget is balanced under either set of assumptions.]

Q: If you budget is so credible, why does it go up in the next year FY1997?

- First, my Administration holds a candle to no one on bringing the deficit down year after year. Our Administration is the only Administration since before the Civil War to cut the deficit or improve our fiscal situation four years in a row in one single term.
- Second, every year since I have been in office, the deficit has gone down more than projected and growth has been higher than projected.
- Finally, while it is true that everyone's budget -- Democrats and Republicans, OMB and CBO -- see the budget going up one year for technical reasons -- our budget will show it going down smoothly to zero after that.

[Technical reasons include that in FY1997 we will mail out one more month of veterans and SSI checks than in most normal years, and some lower receipts than expected from S&L loan sales]

2. ECONOMIC GROWTH

Q: Is 2.5% growth good enough? Can we grow faster?

A: • I believe we can grow faster, if we take the steps we need to invest in the productivity and potential of our people -- that means we need to continue to cut the deficit to lower interest rates and spur long-term investment -- to continue to invest in education throughout their lives, which makes our workers more productive. But for budgetary purposes, we have consistently adopted conservative forecasts. These forecasts are used to project Federal revenues and outlays, and for such purposes we like to err on the side of being conservative.

3. CPI:

Q: Everyone agrees that the CPI is overstated. The issue is who is going to show leadership. Why don't you just state what we all know which is that the CPI is overstated, and that it must be fixed to balance the budget and help Social Security and other benefits?

A: • First, I am deeply committed to the cost of living adjustment, because I does not want to see people's standard of living eroded.

• Second, we are committed to getting the most accurate cost-of-living measure.

• Third, we want to make sure that whatever is done, it reflects the best broadbased agreement possible among the technical experts -- and is not done for political or budget expediency.

Follow-up on CPI:

Q: But everyone agrees that there is significant overstatement. Why shouldn't you show some leadership and say that it is overstated and needs to be cut?

A: Repeat Essential of three above:

You are right that many economists feel that it is overstated, but there is real disagreement about how much and what is the right way to fix it. So it makes sense to give people time to study all of the recommendations, and to start to see if there is a way a broadbased agreement can be reached among non-political, technical experts on the cost of living.

4. ENTITLEMENT COMMISSION

Q: Are you going to appoint an entitlement commission?

- I have said that we need bipartisan processes for both long-term Medicare reform and long-term Social Security reform. The exact structure, timing and process of appointments are all important details that I would have to discuss with my team and would only propose after close consultation with both sides on the Hill. However, we should not let this issue interfere with the short-term need for a bipartisan process to reform Medicare and extend the life of the Trust Fund.

5. MEDICARE:

Q: Some have charged that you demagogued the issue of Medicare during the campaign. Now are you going to show the necessary leadership to save the program?

- A:**
- We have always presented sound, prudent plans to reform and protect Medicare. Last year, our plan was scored at \$116 billion in savings. I disagreed with the Republican plan that included \$270 billion in excessive cuts and when I feared their tax cut of 15% could lead to even higher cuts in Medicare.
 - Now, the Republican's plan has come down -- \$158 billion over 6 years -- so I'm looking forward to working in good faith with both Congressional Democrats and Republicans to enact reforms which will extend the Trust Fund to 2007.
 - Our current plan is a serious and real plan. It's a plan that is good health care policy, demonstrates our commitment to real reform, and meets Republicans halfway.
 - Our present plan meets four key principles:
 - 1.) Protects our belief in Medicare as a program that protects our values, and one that does not have excessive cuts that hurt hospitals, put undue burdens on beneficiaries or weaken the core integrity of the program.
 - 2.) Extends the life of the Medicare Trust Fund to a decade from now.

3.) Modernizes the program by offering new private plan choices, market-oriented reforms, and investing in new prevention benefits for beneficiaries.

4.) Hard, solid number of Medicare savings that will contribute to deficit reduction and will be tough, but sound and beyond dispute. It will be part of a balanced budget plan that will reach balance in 2002.

Q: Follow: How come your Medicare cuts are so much deeper this year, only months after you criticized the Republicans for proposing deep cuts? Have you flip-flopped on this issue?

A:

- No. Our additional savings come from a range of policy changes, but the most notable increase in savings comes from managed care and home health care. Recent evidence reveals that we can achieve more savings in these areas without undermining the quality of services.
- We believe the latest Medicare proposal is sound policy and moves towards a compromise, meeting the Republicans halfway.
- It also reflects the same principles that I have always advocated for Medicare. We have consistently supported a plan that would modernize the program, protect beneficiaries, and extend the life of the Trust Fund.

Q: Your Medicare proposal has drawn criticism from both Republicans and Democrats. Some Republicans say that it does not go far enough in addressing Medicare's long-term problems while some Democrats have complained that your plan will disproportionately hurt HMO's. How do you respond?

A:

- Our current plan is a serious and real plan. It is good health care policy, demonstrates our commitment to real reform, and meets the most recent Republican plan halfway.
- Most of the responses have been encouraging. Several key Republicans, including John Kasich and Bill Archer, have praised our effort as a "tremendous move." [USA Today, 1/24/97] They have also said that it is a plan that "brightens the prospects of getting a budget agreement." [Washington Post, 1/22] So I'm very encouraged and I look forward to working in good faith with both Congressional Democrats and Republicans and extending the Trust Fund to 2007.

- Every credible study has confirmed that we are significantly overpaying Medicare managed care (CBO analysis, PPRC study, Mathematica Research Study). In fact, these experts claim that we overcompensate managed care far beyond what our proposal suggests.

- Moreover, our proposal does not even implement this reform until 2000, giving managed care plans more than enough time to prepare for this change. On a national basis, the Medicare Trust Fund is losing money in Medicare managed care beneficiaries. As more beneficiaries choose to enroll in managed care plans, we will continue to lose money. Clearly, the Medicare program cannot sustain this loss.

Q: While some reports say that we are overcompensating Medicare managed care in particular areas of the country, there are also concerns about insufficient reimbursement to managed care. How do you respond to this criticism?

A:

- I will be proposing to have a "floor" payment rate to rural parts of the country that will represent an increase in what they are now receiving. My Administration is working on a policy to reduce the disparity between high payment and low payment areas. I look forward to working closely with the Congress on this important issue.

Q: You have included a home health care transfer gimmick in the budget? How can you possibly defend it?

A:

- Let's be clear: our \$138 billion number does not include home health care transfer. The \$138 billion is the net reduction from the baseline that adds to deficit reduction.

- The policy you mentioned was in our budget last year, and it was in the House Republican budget in 1995 that every Republican in the House voted for, and was policy prior to the 1980s.

- Our overall policy to shift 100 home health visits to not make our Medicare hospital trust fund responsible for it makes sense: it protects the Medicare Trust Fund till 2007 while not putting harmful cuts on hospitals that would hurt quality or put excessive burdens on beneficiaries -- while balancing the budget in 2002.

Background

Originally designed as a post-acute care benefit for beneficiaries who had been hospitalized, home health has increasingly become a chronic care benefit, not linked to hospitalization. My proposal restores the original split of home health care benefits so that the first 100 home health visits following a 3-day hospitalization would be reimbursed by Part A and all other visits -- including those not following hospitalization -- would be reimbursed by Part B.

Q: Follow: If home health transfer is not a gimmick then why don't you include it as part of the Part B premium?

A: • I have always been concerned about out-of-pocket costs for Medicare beneficiaries. Older Americans spend, on average, 20 percent of their income on health care and three-fourths have incomes lower than \$25,000. We have to be careful that as we reform the Medicare program, we do not place undue burden on low-income seniors.

Q: Will you tell seniors -- at least high income seniors -- that we can't be giving them this huge subsidy while we are passing debt on to our children?

A: • Our plan includes sound and prudent savings to strengthen the Trust Fund, increase choices and competition, and extends the life of the Trust Fund to 2007.

• I am encouraged by Chairman Archer's and Chairman Kasich's comments on our Medicare reform plan and I look forward to working in good faith with both Congressional Democrats and Republicans to protect Medicare.

• I am not philosophically against asking the highest income seniors to pay a little more -- in fact, in 1993, we asked high-income seniors to pay more for their Part A benefits; so I'm willing to make those tough choices. But we have also found that we can present a strong and credible budget without having to start opening the door to premium increases on Medicare recipients.

Q: Follow Up: But it's been reported that you are moving towards accepting a means-tested premium increase.

A: • I would have to carefully evaluate any proposal to increase premiums on Medicare beneficiaries. It's important to remember that older Americans, on average, spend on average one-fifth of their income on health care. I want to make sure we don't place any undue burdens on seniors.

6. **CHILDREN'S HEALTH COVERAGE:**

Q: What is your views of the Daschle and Kennedy plans to cover uninsured children. Do you support these efforts and will they be in our budget?

A: • After health care bill did not pass, I stated that we realized we as a nation, we had to move in a more careful, bipartisan step-by-step fashion to get more Americans covered.

• Covering more children is a crucial step, because there are nearly 10 million children without health care, and I applaud Senator Daschle and Kennedy for addressing this issue -- and I applaud Republicans like Senator Chaffee who have also kept up the interest in covering more people.

• I can't go into the details of our budget, but I can tell you there will be steps in there to cover more children. It won't be the exact same methods proposed by some of the others you have mentioned, but I hope we will be able to work with both Democratic and Republican leaders to help more children get health care coverage in a sound and sensible way.

7. **MEDICAID:**

Q: Per capita cap? Some liberal groups and governors are upset?

A: Can't go into details right now, but our Medicaid budget will meet the following four principles:

1) Protect the individual guarantee -- critical for families with some one with disability included; nursing homes, poorest children.

2) Constrain long-term budget constraint: must have some safeguards against entitlements exploding in outyears.

3) Reach out to cover more children who are eligible for Medicaid

4) Give states flexibility, while protecting quality.

Q: Follow: How can you sign on to additional Medicaid cuts when CBO has projected that the Medicaid baseline will fall below what you and the Republicans proposed last year?

A: • That is precisely the reason why our proposed savings for this year are far below the savings last year's Medicaid proposal.

• Even though the baseline is projected to fall this year, however, we must take precautions to ensure that the Medicaid program does not begin to grow again at an unreasonable rate, as it did in the 1980s. Our per capita cap policy will provide adequate safeguards for future years, and will protect taxpayers as well as the Federal treasury.

8. TAXES/CAPITAL GAINS

Q: Are you willing to forgo a tax cut to get balanced budget plan?

A: • We achieved huge deficit reduction in 1993 and still gave tax cut to 15 million hard-pressed working families.

• I believe strongly that we can reach balance and give these targeted tax cuts for hard working families to help them raise their children, pay for college and save for their futures, and I am committed to getting that done while balancing the budget. [Such tax cuts are giving a bit of a dividend to average working families from the progress made on the deficit so far.]

Q: Are you now considering a capital gains tax cut as a way of getting your education tax cuts or to get the Republicans to agree to a balanced budget?

A: • **Nothing New: Have Proposed Targeted Capital Gains Tax Cut:** I said nothing new on capital gains. I am, of course, as I said, not philosophically opposed to all capital gains because I have passed a small business expansion capital gains tax cut in 1993, and currently am proposing a \$500,000 capital gains exemption for sales of primary residences.

• **Nothing New: Restated Opposition to Expensive Proposals that Not Contribute to Economic Growth:** I have strongly opposed in the past proposals that I felt were poor tax policy, because as I mentioned they did not contribute to economic growth or very expensive retroactivity.

I Stand by My Priorities: Understands Republicans Have Their Priorities and Both Sides Must Be Flexible Enough to Listen to the Other: I believe that my budget is the right one with the right priorities and that the right tax cut package is one that focuses on targeted middle class tax cuts and includes a \$500,000 capital gains exemption for homeowners. I understand that the Republicans have their priorities and that if we get to the negotiating table, obviously both sides will have to have the flexibility to at least listen to the priorities of the other.

I have stated with all tax ideas that "we have to know how is it going to be paid for and what are we going to without." In other words, for any proposal we have to look at how valuable it is to the nation, how it will be paid and what priorities will have to be sacrificed to pay for something. I have proposed what think is best for the country. I want them to propose and then we will have to work it out.

Q: Follow up: But didn't you specifically say that you were flexible to consider an across the board capital gains tax cut?

My message is that we have proposed what I thinks is best for the country, and I want Republicans to do the same. Something that is not in my budget, I may strongly oppose being included in a final deal -- others I might be willing to consider in the context of negotiations. I am simply saying that both sides have to be flexible, and not draw too many lines in the sand if we are going to have fruitful negotiations.

Q: Will a capital gains tax cut be part of a deal?

A: • We believe in our targeted tax cuts, and that is what we will be fighting for.

• That does include a capital gains tax cut for homeowners that says the first \$500,000 of capital gain from sale of a primary residence will not be taxed.

• In 1993, I passed small business capital gains tax cut for new investment held for 5 years or more.

• But we believe in our tax cuts and we have no plans to support anything else.

9. BALANCED BUDGET AMENDMENT:

Q: Isn't the Democratic alternative of excluding Social Security in a balanced budget amendment inconsistent with the fact that you include Social Security in showing your balanced budget calculations?

A: [Summary] I believe this is an historic moment to just balance the budget; We don't need to change the constitution, give people an excuse to not make tough votes later, risk exacerbating a recession, and put power to make cuts and budget choices in the hands of judges. We need to balanced the budget now and what we need is the will -- not changes to our Constitution.

- Unified budget was \$290 billion in FY1992, and all agree that getting to zero by 2002 would be a historic accomplishment, and it is right to measure getting to balance in that way.
- But I can certainly understand while those who care about Social Security would be concerned that if you had a constitutional amendment that mandated exact balance each and every year regardless of circumstances, situations could arise where judges could impound Social Security checks, reduce benefits to comply with this constitutional mandate, and that there could be some dangers to Social Security in the outyears and that people would want to provide protections against that.

10. SOCIAL SECURITY

Q: In the wake of the Social Security Advisory Report, you have neither ruled in nor ruled out the privatization recommendations. Where do you stand on the issue of allowing workers to invest privately in the market a portion of their contributions?

- A:**
- First and foremost, Social Security ought to be addressed within a bipartisan process -- as in 1983. This process should be allowed to study a range of options, but we will not support implementing ideas that change Social Security without careful study and review.
 - There are some concerns that would have to be addressed and fully analyzed, particularly in the volatility of equities, before one made any such decision, and the overriding concern is to make sure that we have a protected and safe Social Security system well into the future.

11. EDUCATION TAX CUTS/HOPE SCHOLARSHIP

Q: You made your education tax proposals one of the centerpieces of the election. But many Republicans have expressed strong concerns about their effects. Aren't you concerned that one of the major elements of your agenda may not pass?

A: No. In fact, my idea of higher education tax cuts has received substantial support from both Republicans as well as Democrats. And I'm very confident that these proposals will pass the Congress because they are good for America. They will increase enrollment, expand college access, and make college more affordable. But I want to work with members on both sides of the aisle to ensure that our tax proposals are structured in the best possible way.

It's also important to remember that over the past 15 years, the cost of tuition at public colleges has increased from 9% of the typical family's income to 14%. Government is not going to tell schools they must lower their costs or never raise their tuitions again. But what we can do is provide middle-class families with a \$1,500 tax cut to help make sure that cost is not a barrier to 14 years of education, and a \$10,000 deduction for higher education and training so all Americans will have the tools necessary to compete in the 21st century.

Q: Won't the Hope Scholarship lead to tuition increases hurting the poorest kids?

- I want to send the message that two years of college should be as automatic as 11th or 12th grade today.
- Our overall package -- the \$1500 tax cut for college tuition, the \$10,000 tax deduction for higher education and training, our increases in direct lending and national service and the largest increase in Pell Grants in two decades -- are all important in making college more affordable and promoting a national ethic of volunteerism and community.
- Someone always argues that these tax cuts will have a negative impact and with colleges competing more and more with each other, they will take advantage of these cuts. In fact, with the average community college being "free," states will be under enormous pressure to keep tuition costs down. States will face competition to keep costs of four-year colleges down -- or face losing students to competing colleges.