



ELW 10 1998

MEMORANDUM FOR THE PRESIDENT

FROM: Donna E. Shalala

Today, 10 million--14 percent--of children are uninsured. Ninety percent of all uninsured children come from working families. Addressing the needs of these children requires a multi-dimensional approach:

- increase insurance coverage through Medicaid by reaching those eligible but not enrolled;
- guarantee twelve month eligibility for those children already enrolled in Medicaid;
- enhance partnerships with the states and private sector to help provide insurance for children; and
- expand access to community based care.

THE CHILDREN'S HEALTH INITIATIVE

Our goal ought to be to improve the insurance and access needs of half of the 10 million uninsured children. Because there is no single reason why these children are uninsured, no single solution effectively and efficiently addresses the problem. We also know that enrollment in insurance does not ensure access to quality care.

We must fulfill the promise of our existing programs and build upon innovative state programs for uninsured children. We must also allow states and communities to target efforts that best meet the needs of their children. Our initiative does not include federal subsidies to families with uninsured children because subsidies are generally costly, may require very high subsidy levels to attract the currently uninsured into a program, and may inadvertently substitute for employer subsidized insurance. The overall investment is almost \$12 billion over five years, of which \$4.7 billion has no scoring implications. The specific provisions and costs for the initiative to address the important health care needs of our nation's children are discussed below (see attached chart).

I. Medicaid Initiatives

A. Work with states to fulfill the promise of Medicaid for children who are already eligible under current law. An estimated 3 million children are currently eligible for Medicaid but not

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enrolled. Our proposal assumes that up to two-thirds of these children could be enrolled into Medicaid with enhanced outreach and other efforts targeted at enrolling eligible children. Full enrollment of all Medicaid eligible individuals has been a challenge since the enactment of Medicaid, and this challenge will continue as the new welfare reform bill is implemented. We must:

- eliminate barriers to effective enrollment of eligible children through managed care and other Medicaid state programs;
- streamline eligibility by enhancing the federal/state partnership and providing best-practice models and other technical assistance to states;
- increase coordination with other federal programs (day care, Head Start, school health, community health centers, food stamps, WIC) to improve outreach and enrollment;
- increase collaboration with foundations and insurers/managed care organizations to identify innovative ways to improve enrollment;
- develop public information campaigns to inform the public about opportunities to enroll in Medicaid; and
- encourage state use of 1115 authority to expand Medicaid coverage and enrollment.

This initiative will cover an additional two million children. This off-budget proposal will increase the cost of the Medicaid baseline by \$4.7 billion for FY 1998-2002.

B. Extend continuous coverage for children age 1 year and older. In 1990, Congress required continuous eligibility for pregnant women throughout their pregnancy and for three months postpartum, and for infants through the first 12 months of life. This proposal will provide states with the option to allow continuous coverage to children for one year after eligibility is determined. Doing so will guarantee more stable coverage for children and better continuity of health care services. In addition, it will reduce the administrative burden on Medicaid officials, health care providers, social service providers, and families who are required to refile paperwork for children's eligibility determination.

This initiative will cover an additional 1.25 million children. This proposal is estimated to cost \$3.5 billion for FY 1998-2002.

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II. State Demonstrations

Provide funding for states to support innovative partnerships to insure children not otherwise qualified to receive Medicaid or employer sponsored benefits. Numerous states have joined forces with insurers, providers, employers, schools, corporations and others to develop innovative ways to provide coverage to uninsured children. We ought to provide matching funds to expand the number of states participating in such programs and to increase the number of uninsured children who have access to such programs. States will be given wide latitude in program design but will be required to assure the receipt of critical services including well-child care and other related services to reduce childhood morbidity and mortality. To manage costs, programs may include cost-sharing, managed care, and competitive bidding.

- Under this program, States will be encouraged to enhance efforts to enroll eligible children in Medicaid and to expand coverage to other children by creating new opportunities for insurance coverage thereby creating a seamless system of care for children in their state.
- For children not otherwise eligible for Medicaid, States will establish income guidelines, eligibility criteria including limits on access to employer-subsidized insurance, benefits, copayments and premiums up to the full cost of the program. States may limit coverage of items and services under the project, but will be required to assure the receipt of critical services including well-child care and other related services to reduce morbidity and mortality.
- Evaluations will be conducted on the effect of these efforts to learn about: (1) access to health care; (2) changes in health care insurance coverage; (3) costs with respect to health care; (4) benefits, premiums and cost sharing.

This initiative will cover an additional 1.5 million children per year. It is estimated to cost \$750 million per year, for a total of \$3.75 billion for FY 1998-2002.

III. Safety Net Initiatives

Enhance access to care through school health centers and consolidated health centers (CHCs). We will provide increased targeted funding for CHCs to enhance and expand services to working families and their children, including children enrolled in day care, Head Start programs, and schools. To strengthen the safety net of community-based providers in urban and rural areas, these funds will be directed to communities with high levels of uninsured children, including EZ/EC communities. Funds will be used to increase CHCs capacity to serve uninsured children and their families and to better meet the needs of those in their community whose insurance coverage is fragmented or incomplete. In addition to increasing their own capacity, CHCs will serve as a focal point for marshaling public and private community resources directed

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at child health and, with their partners, taking steps to mesh child health and related services into local integrated systems that serve children and their families.

We will also provide communities with the option of serving their children through school health centers. This effort will provide children with comprehensive primary care services including diagnosis and treatment of acute and chronic conditions, preventive health services, mental health services, health education and preventive dental care. School health centers will also be encouraged to link to other appropriate programs, including Healthy Start, state Maternal and Child Health, Head Start, Community Schools, and Empowerment Zones/Enterprise Communities. We will encourage programs to develop billing systems to collect third party payment and participate in a community-wide health care delivery system.

This initiative will serve an additional 250,000 children per year. The cost of these programs to the discretionary budget will be \$25 million per year, for a total cost of \$125 million for the FY 1998-2002.

I look forward to working with you to fulfill our promise to children by making health care more affordable and accessible through these efforts.

Attachment

Children's Health Care Coverage Initiatives

	Coverage by End of 2000	Cost in FY 02	5 Year Cost (FY 98-02)
1. Expanded Medicaid Outreach (off-budget) 66% Success Rate	2 million children	\$1.5 billion	\$4.7 billion
2. Enhanced State Partnerships	1.5 million children	\$750 million	\$3.75 billion
3. 12 Month Eligibility Option	1.25 million children	\$1.1 billion	\$3.5 billion
Totals	4.75 million children	\$3.35 billion	\$11.95 billion



THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

Shalala

DRAFT

TESTIMONY
OF

DONNA E. SHALALA

SECRETARY
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

House Ways and Means Committee
Wednesday, February 12, 1996

Senate Finance Committee
Thursday, February 13, 1996

Mr. Chairman and members of the committee: Thank you for giving me the opportunity to testify today about the President's Fiscal Year 1998 Budget proposal. We in the Administration look forward to working closely with you as we move toward our shared goal of a balanced budget.

Someone once described America as "the only country deliberately founded on a good idea."

That good idea is "We the people," and it has emboldened our nation to face -- and overcome -- great challenge with courage and unity.

In the 1940s, we faced a broken and conquered Europe, but we summoned the will to fight and win -- and saved the world from tyranny.

In the 50s, we faced the terrible scourge of polio. But children contributed their dimes, and America's best scientists dedicated their lives to finding a vaccine. And we found one.

And, in the 1960s, we faced a Soviet Union that had taken the lead in the race for space. But, President Kennedy issued a challenge to land an American on the moon by the end of the decade. We did, and no country has done it since.

What do all of these triumphs have in common? They came during times of great social and political change. But with a deep sense of urgency, Americans put aside partisan differences, answered the call to unity, and achieved a critical national goal. Today, we must do the same.

Because today, we face another great challenge: At a time when we have fewer resources, a population that is rapidly aging, and a deficit that while much improved, still plagues us, we must come together again: This time to balance the budget and truly reform Medicare, Medicaid, and welfare, while still keeping our promises to the citizens we serve.

MEDICARE

For more than thirty years, Medicare has provided a blanket of health security for older Americans and people with disabilities. It has helped lift a generation of senior citizens out of poverty and into the middle class. It has helped change what it means to be old in America; what it means to be sick in America; what it means to be disabled in America. And it has often served as a fault line between a life of comfort and good health and a life of struggle and illness.

The gift that Medicare has given to those who came before us must be preserved for those who come after us -- for our children and our grandchildren, for every generation. That is our moral responsibility.

But you and I know that Medicare now faces a short-term and a long-term crisis -- a crisis that demands action. For nearly four years, we have been unable to come to a consensus on the best way to preserve Medicare and improve it for the future. The President has made it clear that he wants to work with the Congress to make this the year of bipartisan agreement on this vital program.

In this budget, the President has reached out to the congressional majority by offering a plan to meet them halfway. His Medicare proposals will extend the life of the Hospital Insurance Trust Fund into 2007, ten years from today. I have with me today a letter from the independent chief actuary of the Medicare program that verifies that fact. I will be happy to submit it for the record.

The President's plan contributes \$100 billion to the five-year balanced budget, which corresponds to \$138 billion over six years.

And we do that by maintaining a system that guarantees access to a defined set of services rather than creating a defined contribution per beneficiary.

These proposals are made in good faith and are based on sound policy. They make sense for both the Medicare program and its beneficiaries. Our savings are scoreable. There are no gimmicks. I ask for your careful consideration of our proposals, and for your partnership to enact them.

But Medicare reform is not and cannot be simply an exercise in number crunching. The actions we take this year to preserve the Medicare trust fund also must prepare Medicare for the future. Not many of us would drive cross country in a car that's more than 30 years old. Likewise, we can't move into the next century with a health insurance program built in 1965. That's why to preserve Medicare, we must modernize it. This modernization requires us to do six things:

First, we must add new benefits to reflect developments in today's science.

Second, we must add new choices to compete with today's private market.

Third, we must make Medicare a more prudent purchaser of health care services.

Fourth, we must strengthen our rural health care system.

Fifth, we must protect beneficiaries.

And sixth, we must continue to root out waste, fraud, and abuse so that we spend our hard-earned tax dollars wisely and effectively.

New Benefits

The Medicare benefit package has remained relatively unchanged since 1965. But our science has not. From decades of research, we know that preventive services not only can save money, but also can save lives. Now we're putting our money where our science is. I am very pleased by the bipartisan support for expansion of the Medicare benefit package. The President's plan will cover the following:

- To eliminate economic barriers to mammography, we include an annual mammogram for Medicare beneficiaries. We also will waive the Part B deductible and coinsurance for both screening and diagnostic mammograms.
- To save lives, we want to provide annual screening to detect signs of colon cancer.
- Because better management of diabetes leads to better health, we include monitoring of blood glucose levels and outpatient self-management training for diabetics.

- To improve access to adult vaccinations and help seniors avoid serious and sometimes deadly illnesses, we would increase provider payments for vaccines against pneumonia, influenza, and Hepatitis B and waive patient cost-sharing for the hepatitis B vaccine.
- And, finally, to offer some relief for the families who are primary caregivers of a relative with Alzheimer's disease, we would provide a new respite care benefit of 32 hours per beneficiary per year.

New Choices

When it comes to health care for older Americans -- or any Americans for that matter -- there can be no conflicts between choice and quality. We need both. We are proud of our record of increasing choice for Medicare beneficiaries while continuing to protect the quality of care. Since 1993 the number of beneficiaries in managed care has increased by 108 percent and is rising at a rate of 80,000 per month. Today, approximately 13 percent of our Medicare beneficiaries -- about 5 million -- are enrolled in managed care plans. And that number is growing by 80,000 every month.

The President's budget continues this progress by adding new choices to Medicare plans. We will include preferred provider organizations or PPOs, which offer patients a greater ability to choose their doctors and other providers. And we

will offer beneficiaries the chance to enroll in provider sponsored organizations or PSOs, offered by hospitals and physicians under integrated arrangements that we hope will improve care and reduce cost.

At the same time, to promote real and informed choice among health plans, Medicare will establish coordinated annual open enrollment periods as well as additional enrollment opportunities to subscribe to managed care and Medigap plans.

To make sure that choice is real and that beneficiaries who choose managed care have an open door to go back to fee-for-service, if they so choose, we will prohibit Medigap insurers from imposing pre-existing condition waiting periods when beneficiaries initially enroll or any time they switch plans. In addition, Medicare will establish continuous Part B enrollment opportunities for beneficiaries.

Quality Protection

We also will institute a series of reforms to further improve the quality of care provided to all citizens who rely upon Medicare. We will adopt a new, integrated quality management system for Medicare and Medicaid. Traditionally, HCFA has executed quality related requirements focusing on each provider entity individually. We will also collect and disclose more of our survey data on safety, quality of care,

and program integrity so that citizens can have better comparative information on plans and providers. And we will replace the so-called 50-50 rule for managed care plans with more modern quality measures. Protecting and improving health, and increasing satisfaction with the care received are the goals of the program.

Prudent Purchasing

Finally, Mr. Chairman, it is imperative that Medicare -- which is the largest purchaser of health care services in our nation -- be a more prudent purchaser. Unfortunately, in too many cases, because of limitations in the law Medicare is now paying the highest price in the market for certain drugs, lab services and durable medical equipment when, given the volume of beneficiaries, we should be paying one of the lowest. From managed care premiums to medical devices, the reforms we propose will make sure that Medicare isn't paying retail while everyone else is paying wholesale.

These proposals are sound health policy and they require a shared burden. They will result in a slower rate of growth in Medicare spending and ensure that Medicare is paying a competitive price for the services it buys. The savings that these proposals generate are spread across all providers of health care and are focused, as they should be, on those areas where growth is the greatest.

Managed Care. Experts agree that Medicare's payment methodology for managed care, which was created in 1982, results in serious overpayments for services. For example, under contract to HCFA, Mathematica Policy Research, Incorporated came to such a conclusion with its 1993 review of the Medicare Risk Program. Both the Physician Payment Review Commission and HCFA studies indicate that Medicare should be paying managed care plans at a rate between 88 and 90 percent of fee-for-service costs. At the same time, however, payments to many smaller, rural plans are too low and are failing to attract much market interest.

The President's budget also includes reforms to move us to a better, more competitive system of paying for managed care. Through our Medicare Choices demonstration, we are experimenting with competitive bidding and we are working on risk adjusters to HMO payments to counter selection bias. We expect to have a proposal for a new risk adjusted payment methodology as early as 1999, with phase-in of new payments beginning as early as 2001.

To curb cost growth, we recommend three interim and important changes in Medicare payments for managed care plans. First, we propose to carve out from the payment methodology those funds that are intended to cover the cost of direct and indirect graduate medical education and payments to disproportionate share hospitals. We will pay these funds directly to hospitals on behalf of managed care enrollees.

Second, we will gradually reduce the regional variation in payments to managed care plans and create a payment floor for plans in rural counties to encourage enrollment in managed care plans.

And; third, we propose to reduce the Medicare payment from 95 percent of the average adjusted per capita cost or AAPCC to 90 percent. However, to give plans a sufficient amount of time to adjust to these new payment levels, we would not begin this policy until 2000.

Hospital payments. We propose a series of Medicare hospital payment changes to safeguard the program and to reflect market changes. Under the President's budget, the hospital payment update will be reduced by one percentage point every year from fiscal year 1998 through 2002 to reflect increases in hospital productivity and efficiency.

We also will propose to count as transfers, not discharges, hospitalizations that result in a patient using post acute services such as skilled nursing facility or rehabilitation hospital care for the final stages of their treatment.

Home health care. Home health care is one of the fastest growing components of Medicare. The share of total Medicare Part A spending devoted to home health care has grown from 2.2 percent in 1980 to 3.5 percent in 1995. In 1984,

1.2 million Medicare beneficiaries used 31 million home health visits. By 1994, the number of beneficiaries had grown to 3.2 million and the number of visits had increased to 209 million.

We know that this growth has its roots in changes in medical practices and technology, in the expansion of the benefit, and in our current reimbursement system, which can contribute to overpayment and abusive practices. And we know that we must reduce the rate of growth in Medicare home health spending and keep it under control. And, that's what our reforms will help us do.

We will immediately revise our cost limits to establish a set of interim limits that will curb excessive spending and institute a new per-beneficiary payment limit for each home health agency.

We will implement a new prospective payment system for home health services in 1999. This system, which has been recommended by experts to control spending, will reduce incentives for overutilization.

We will eliminate periodic interim payments for home health agencies, originally established as an incentive for new agencies to serve Medicare patients. With 100 new agencies joining Medicare each month, this incentive clearly is no longer necessary.

In addition, we will pay for home health services based on where the service is delivered. Frankly, many agencies are taking advantage of a loophole by locating their billing offices in expensive urban areas to take advantage of higher prevailing payments, regardless of where services are actually rendered. We will close that loophole.

Along with our strategy to control home health spending, we propose to reassign payment for home health services that are not associated with post-hospital recovery from Part A to Part B. This is a deficit neutral proposal and is not counted in our overall Medicare savings number. We would limit Part A home health coverage to the first 100 visits following a 3-day hospital stay which would continue to be covered under Part A, just as this part of the program covers 100 days of skilled nursing care following hospitalization. But, visits beyond 100, and those not following a 3-day hospital stay, would be paid under Part B, along with other outpatient services.

This return of non-post-hospital visits to Part B -- Medicare policy prior to 1980 -- makes the home health benefit consistent with the original intent of the Medicare statute and its division of services between Part A and Part B. It relieves the Part A trust fund of the responsibility for financing care that doesn't belong there, thereby significantly extending the life of the trust fund. And it achieves these goals without subjecting beneficiaries to increases in premiums and cost-sharing.

Beneficiary Centered Purchasing. To become a more prudent purchaser of other health services, our plan gives the Secretary payment authorities to secure better deals for Medicare and the citizens it serves. From setting payments based on competitive bidding to selectively paying centers of excellence a single rate for all services associated with a specific diagnosis, these -- and our other purchasing reforms -- will help us economize, modernize, and create a Medicare program that will not only survive, but thrive, to serve every generation.

Rural Health

The Administration continues to promote Medicare reforms that strengthen health care in rural America.

For example, our plan would expand the Rural Primary Care Hospital Program to all 50 states. It would update the payment for sole community hospitals, improve the rural referral center program, and reinstate the Medicare Dependent Hospital program to provide resources to those rural hospitals that need it most.

Protect Beneficiaries

We believe we can balance the budget, preserve the Medicare Trust Fund and modernize Medicare for the 21st century, while still protecting our beneficiaries. And we *must* protect our beneficiaries.

The fact is, more than three-fourths of seniors have incomes of \$25,000 or less. They cannot afford to shoulder a greater share in premiums or in cost sharing. We believe that balance billing limits must protect all beneficiaries, regardless of which Medicare coverage option they choose.

Our plan proposes Medigap reforms to assure portability, protect against pre-existing condition limits, and provide equitable and affordable premium rates.

It keeps Part B premiums at 25 percent of program costs. This division of costs, first enacted in the Tax Equity and Fiscal Responsibility Act of 1982, has protected beneficiaries while ensuring that the cost of Part B is shared by those who use it. As noted, the plan creates an opportunity for continuous Medicare Part B enrollment.

For hospital outpatient services, it brings the patient co-insurance rate down from about 50 percent to the 20 percent charged for most other Part B services.

And, it ensures that managed care plans pay for emergency services when a "prudent layperson" would have reasonably believed they were necessary.

Fighting Fraud and Abuse

Modernizing Medicare for the 21st century also requires eliminating the fraud and abuse that robs our health care system and our taxpayers. Since I took office a little more than four years ago, I have made this a top priority by setting a policy of "zero tolerance" for health care fraud and abuse.

Just two years ago, the President and I unveiled a pilot project called "Operation Restore Trust" to target our anti-fraud efforts to fight fraud and abuse in 5 key states. We have significantly increased the resources of our Inspector General and have strengthened our payment reviews using technology to prevent fraud, and to detect it when it occurs.

And, it's paid off. We estimate that every dollar we invest in our anti-fraud effort yields \$10 dollars in savings for the American people. In fact, just last month, Inspector General June Brown reported that "Labscam," her investigation of payment fraud by independent clinical labs, will net the Medicare program over \$800 million in recoveries and penalties by the end of this month.

We intend to maintain and intensify these efforts. I will be submitting to Congress in the Spring a fraud and abuse bill that will enable us to strengthen the identification and enrollment procedure to ensure that only legitimate providers bill Medicare. In this budget bill, we include provisions to prevent home health agencies from using a loophole in the current reimbursement system to bill a higher urban rate for service provided in rural areas. We will require insurers to reject insurance coverage so that Medicare does not pay inappropriately for beneficiaries covered by private insurance. We would repeal the anti-kickback exemption for managed care plans, enacted last year and scored by the Congressional Budget Office as a considerable cost to the Medicare program. And we propose to reinstate the requirement that providers use reasonable diligence when submitting accurate claims to Medicare. Finally, we will strengthen our ombudsman function in the States, building a cadre of elderly volunteers.

MEDICAID

Mr. Chairman, I'd like, now, to turn to Medicaid. The President's budget strengthens the Medicaid program -- so that we can better reach the vulnerable Americans it is designed to serve. Our plan controls the costs of Medicaid and gives new flexibility to the states, without compromising the Federal guarantee of coverage for low-income children, pregnant women, frail senior citizens, and persons with disabilities.

We should all be proud that growth in Medicaid spending has declined significantly over the past two years. CBO's baseline projects five-year Medicaid spending to be more than \$80 billion lower than projected just a year ago for the same period. The President's budget ensures that the success we have achieved with our State partners will continue.

Our plan saves, on net, about \$9 billion over five years. Total savings are about \$22 billion: roughly two-thirds from a reduction in disproportionate share hospital DSH payments and roughly one-third from the per capita cap. At the same time, the President's plan invests \$13 billion in improvements to Medicaid including health initiatives to expand coverage for children, changes to last year's welfare reform law, and new policies to help people with disabilities return to work.

Per Capita Cap

Let me take a minute to explain our per capita cap. Under the President's proposal, the Federal government will continue to match state Medicaid spending for each individual enrolled. In this way, there is absolutely no incentive for states to deny coverage to a needy individual or family.

Under the per capita cap, the Federal government will establish a baseline of spending for four categories of beneficiaries: aged, disabled, adults in families with children, and children. Maximum Federal matching expenditures will then be established for each state based on per person spending, the number of beneficiaries, and the current Federal matching rate. The Federal government would only match expenditures up to a State's total allowable limit. States will have flexibility to use savings from one group to support expenditures for other groups or to expand benefits or coverage.

Not all Medicaid spending would be subject to the per capita cap. Spending for state fraud control units, DSH payments, Medicare premiums and cost sharing, payments to Indian Health Service and other Indian health providers, and the Vaccines for Children program would be excluded. Administrative costs would be included in the base year calculation.

Let me be clear: This per capita cap is neither a block grant nor a cost shift to the States -- it's a sensible way to make sure that the people who need Medicaid are able to receive it. When economic downturns occur, population growth and other factors cause Medicaid enrollment to expand, aggregate spending will grow as well. This budget keeps our promise of health care to our most vulnerable citizens, but it does so in a smart, responsible way.

State Flexibility

How will we help states keep spending within those per capita limits? The President's budget includes a series of reforms that increase state flexibility by throwing away mountains of red tape and regulations. For example:

We would repeal the Boren amendment for hospitals and nursing homes and establish a public notice process for determining those reimbursement rates.

- We allow states to expand Medicaid coverage to new groups and to enroll beneficiaries in Managed Care without waivers.
- We eliminate the requirement for cost-based payments for health clinics and create a new pool for supplemental payments to those clinics that may be adversely affected by this policy.
- We replace the 75/25 enrollment composition rule for Medicaid managed care plans with new quality data standards.
- We give States the option of extending Medicaid health care and long term services coverage to workers with disabilities, thus removing a major barrier to employment faced by Americans with disabilities.

- We eliminate the detailed requirements for state claims processing and information retrieval systems.

DSH Payment Reform

In addition to the per capita cap with enhanced state flexibility, federal DSH payments will be reduced and retargeted to safety net hospitals and other essential community providers.

Medicaid DSH spending doubled each year from 1988 to 1993. Although this rapid growth has slowed -- thanks to bipartisan laws enacted in 1991 and 1993 to place stricter limits on growth in the DSH program -- today's DSH program is still too large and is often inconsistently distributed among States and is not always focused on safety net providers.

Covering Children

Mr. Chairman, I know that all of the members of this Committee agree that the tragedy of some 10 million American children without health insurance demands bipartisan action. The vast majority of these children live in families where parents work hard and play by the rules.

We believe that situation is unacceptable for a great nation. No working parent should have to live with the fear that his or her children will become sick or hurt one day -- and there will be nowhere to take them to ease the pain.

Our goal is to cut the number of uninsured children by up to 5 million over the next five years. And, the President's budget takes important steps to help us do just that.

First, we will give states the option to allow 12 months of continuous Medicaid coverage for all children who are eligible. By stopping the churning of children in and out of Medicaid, we can provide stable coverage for children and better continuity of services. We estimate this change will help one million children annually.

Second, the Department will work closely with the states to enroll at least 1.6 million of the estimated three million children who are eligible for Medicaid today but

who, for a variety of reasons, are not enrolled. We are committed to working in a bipartisan manner with the nation's governors to make this a reality.

Third, we expect States to enroll an additional 250,000 low-income children in each of the next four years as part of the phased-in expansion of coverage to children between the ages of 14 and 18 under current law.

Fourth, the President's Healthy Working Families initiative, which provides up to six months of premium assistance to workers between jobs, is expected to add another 700,000 children to the private-sector insurance rolls.

And fifth, we will make available to the states \$750 million annually to support innovative programs designed to purchase private insurance for an estimated one million uninsured children in families that receive neither Medicaid nor employer-sponsored insurance.

Mr. Chairman, let me say that we view these proposals as a package. They will dramatically reduce the number of uninsured children in America, thereby improving their health and their parents' piece of mind. And, they will create an affordable Medicaid program that fulfills the promises we have made to our most vulnerable citizens.

Welfare

It's the same way with welfare reform. When the President signed the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, he made it clear that this was the beginning -- not the end -- of welfare reform. He made it clear that we all have a responsibility to come together and make this law work -- especially for our children. And, he made it clear that this was an opportunity for us to create a welfare system that requires work, promotes parental responsibility, and protects children.

I'm proud of the progress we've made together. With our waivers, we've already given 43 states the flexibility they need to test innovative welfare strategies. Paternity establishments have gone up 50 percent since 1992. In 1996, we collected a record of over \$12 billion in child support payments. And the tough new provisions in the welfare law are projected to increase child support collections by an additional \$24 billion over 10 years.

The result? Because of the intensity of our efforts and because of the strength of our economy, welfare rolls have gone down by 2.5 million -- that's more than 16 percent since the President took office. Moving people from welfare to work, enabling them to support their families and maintain their independence -- that's the goal upon which all of us have always agreed. We are committed to combining all of the leadership, talent and resources possible to implement the new welfare law.

Let me briefly give you a progress report on our implementation of the new Temporary Assistance for Needy Families (TANF) program. Although states have until July 1997 to implement the TANF program, we have already given the green light to 35 states (as of 1/29/97) to begin their reforms. HHS has provided guidance indicating that States have flexibility in designing their TANF programs, but at the same time emphasizing the importance of moving families from welfare to work.

At the Federal level, we are challenging States to transform the very culture of the system from a welfare program to a work program. We must launch a national effort in every State and every community to make sure there are jobs for people making the transition from welfare to work. So they can leave the welfare rolls, they must have opportunities not only to find jobs, but to keep them.

Creating these opportunities will take a commitment from business and labor, from churches and communities, from officials at the federal, state, and local levels. And, it will take the bipartisan Congressional spirit that brought us this far -- and must continue to carry us down the road to success.

That is why the President's FY 98 budget contains a comprehensive welfare to work initiative. The President's proposal will help States and cities create new jobs, prepare individuals for them, and provide employers with incentives to create new job opportunities for long-term welfare recipients.

The President's welfare to work investments includes a \$3 billion Jobs Challenge designed to move a million of the hardest to employ welfare recipients into lasting jobs by the year 2000. It expands access to credit and enhances employer incentives to help long-term welfare recipients.

This is an exciting initiative in which many departments and agencies -- the departments of Treasury, Labor, Transportation, HUD, and others -- have joined together to further the President's firm commitment to make welfare reform a reality. At HHS, we will be using all the means at our disposal to help families go to work and become self-sufficient.

As I indicated earlier, the hallmark of this welfare law is the broad flexibility it gives states to design innovative reforms that address their unique challenges. We are confident that States will use this considerable new flexibility and the President's new initiatives to strengthen their focus on work as well.

We will be monitoring state performance and, pursuant to the statute, ranking them accordingly. We will be identifying and studying the high performers and the low performers, tracking child poverty, and providing an overall assessment of the legislation's impact on children and families.

We will look closely at how states comply with some key statutory requirements, including child support enforcement, work participation rates, maintenance of effort, and data reporting.

We also will assume major new responsibilities for compiling and disseminating information. As the number of options continues to grow, states will need better information about these options, and the Congress will need better information to assess how effectively federal funds are used.

I know that several members of Congress have suggested a wait-and-see approach to the new welfare system, they advise that state implementation should be carefully reviewed before undertaking major policy changes to the TANF program. Our Department has proposed a number of technical and conforming changes to the TANF program that I believe maintain the spirit and intent of its policies.

Our Administration believes that welfare reform has always been -- and must always remain -- a bipartisan issue. But, just as we came together to make work and responsibility the law of the land, we believe it is time to come together again to insure that the centerpiece of welfare reform remains a real effort designed to find work for everyone who is able to work.

The President's FY 1998 budget makes good on his promise to correct provisions that were included to save money, and which burden States and punish children and the disabled who cannot work. We are pleased that the governors, in a NGA resolution last week, agreed - we must not balance the budget on the backs of States or legal immigrants.

Our budget would restore a safety net of SSI and Food Stamps for legal immigrant children and for legal immigrants who become severely disabled. It would extend from five to seven years the time period in which refugees are eligible for assistance after they enter the U.S. -- so that they have enough time to overcome the hardships they have faced and to become self sufficient. And it would delay the Food Stamp ban on legal immigrants by 3 months.

Overall, our proposals strengthen our commitment to a new welfare system focused on work and responsibility while addressing the concerns of State and local officials and restoring benefits to those who can't work - particularly children and the disabled. We must give all Americans a hand-up and get on with the real business before us; reforming our welfare system together.

Mr. Chairman, the budget I have discussed today discards tired old solutions and meets our challenges creatively and cooperatively. It balances the budget, without abandoning our values and commitments.

It makes tough choices and shows tough management.

Now we must act upon it.

Because, just like the past when we faced down disease and tyranny, future generations will look back on today.

The question is, whether they will see a nation that put aside politics and came together to protect the health of its citizens in the 21st century.

The answer is up to us. Thank you.

FOR RELEASE UPON DELIVERY
THURSDAY, JUNE 23, 1994

[Handwritten signature]
File: Shalala

*REMARKS BY
DONNA E. SHALALA
SECRETARY OF HEALTH AND HUMAN SERVICES

NATIONAL PRESS CLUB
WASHINGTON, D.C.

1. More state flex
2. NBA support

*THIS TEXT IS THE BASIS OF SECRETARY SHALALA'S ORAL REMARKS.
IT SHOULD BE USED WITH THE UNDERSTANDING THAT SOME MATERIAL MAY
BE ADDED OR OMITTED DURING PRESENTATION.

Thank you Gil Klein for that gracious introduction.

I'd also like to thank Eleanor Clift, for organizing this luncheon, and giving me this opportunity to talk with you about the important issue of welfare reform.

I am really here to talk about the future of our country.

The future of our country is a young couple in Cleveland, forced to separate because the husband's meager income disqualifies them from the welfare assistance they desperately need.

The future of our country is a battered wife, huddled in an emergency shelter in Miami with her children -- facing the choice between welfare and an abusive husband.

The future of our country is three children in New York who rarely see their father and know that he doesn't pay child support.

The future of our country is a 15-year-old girl in Omaha, who is a victim of rape.

The future of our country is a young mother in Racine who had a good paying job that didn't come with health benefits.

When her baby got sick, she had to swallow her pride and go on welfare to get Medicaid.

And the future of our country is a 13-year-old girl in Chicago who is being pressured by her 20-year-old so-called "boyfriend" to throw away her future to satisfy his desire for sex.

The future of our country is full of despair for too many Americans -- and full of hope for too few.

In Kansas City, Yolanda Magee has hope and a future.

The former welfare mother stood with the President in her hometown last Tuesday and told the country she believes welfare should be, in her own words, "a stepping stone" -- not a way of life.

And the future of our country is also the young people I met at an alternative school in Los Angeles and at the D.C. Street Academy, whose graduation I attended last week.

These schools provide a second chance at education for students who have dropped out or been kicked out of school.

At the D.C. Street Academy, the student graduation speaker was a 20-year-old woman who described her determination to succeed because of the example she wants to set for her 2-year-old daughter and 4-year-old son.

That courageous young American and all the graduates I met that night represent the meaning of something the President has said many times:

"We don't have a person to waste in this country."

These students worked hard. They earned their diplomas.

The road behind them was rocky, but they didn't give up on themselves. Nor did their teachers give up on them -- and we shouldn't either.

America is a country that does not give up on her people.

We are a country that believes in giving people a way up and a second chance -- while demanding responsibility and accountability in return.

That is the essence of the Administration bill introduced two days ago by House and Senate leaders and Committee Chairs, led by Senator Daniel Patrick Moynihan -- one of the nation's most brilliant and visionary thinkers on social policy.

Last week, Newt Gingrich said about our bill that we promised a Ferrari and delivered a Yugo.

He's wrong on both counts.

The Work and Responsibility Act of 1994 is a distinctly American family car:

Solid in design.

Economical in cost.

And well-equipped to begin a challenging journey to move millions of Americans from dependence to independence.

There's room enough inside this welfare proposal to carry the whole family:

Democrats and Republicans; liberals, moderates and conservatives; businesses and schools; children and their young parents -- and above all, working Americans.

In fact, if you take a look at most of the legislation up on the Hill, you will find some striking similarities -- proof that the consensus for welfare reform transcends party lines.

Both the President's plan and the major Republican plan emphasize the values of work and responsibility.

Both make public assistance a transitional program leading to mandatory work.

Both emphasize parental responsibility and delaying sexual activity -- especially for teens.

Both provide funding for education, training, child care and job creation.

And both recognize that it will require an investment -- of time -- and money -- to move young mothers toward self-sufficiency.

And let me say to those extremist critics out there -- some of whom have apparently not even bothered to read our plan --

-- We believe the Work and Responsibility Act represents an historic moment -- a monumental shift in this country's approach to lifting people out of poverty.

Empower America didn't even get it half right.

The bedrock assumption of our legislation is that work organizes and gives dignity and meaning to our lives.

Our bill is based on the American values of work and responsibility -- which is exactly what 161 Republicans -- not extremists -- call for in their own welfare bill.

And we're sending the strongest possible message to young women that they must stay in school, postpone pregnancy -- delay having children until they are fully capable of raising them.

Either the extremists didn't read our plan -- or they don't want to understand it.

Under our plan, it will be clear to all teenagers -- young men and young women -- that having a child is an immense responsibility -- not an easy route to independence.

And from the very moment a young woman walks into a welfare office, she will understand that she is now in a transitional program leading to work.

After an assessment of her skills and training, she will design a personal employability plan -- a work and training agreement -- designed to move her into a real job as quickly as possible.

She will get help with job training, job search, and child support, with the clear understanding that, as soon as possible, she must work -- preferably in the private sector.

And we expect that many recipients will be working well before they hit the two-year time limit.

But, after two years, if she has not found a job, cash assistance will end, and she will be required to take a job in our subsidized WORK program.

And here, there's no question that our bill is tougher and smarter than the Republican alternatives.

Because, unlike traditional "workfare", there's real accountability here.

In traditional workfare, the welfare check is still the bottom line because, it's so time consuming, difficult and bureaucratic to sanction someone who fails to meet their responsibility.

In our WORK program, recipients will get jobs in the private sector whenever possible -- and in the public sector only when necessary.

They will only be paid for hours worked. And they'll get a paycheck -- not a welfare check.

Wages -- not Workfare.

But let me also be clear about this:

We passionately reject the more radical calls for abandonment of all help to young mothers in need.

Charles Murray and Empower America may have gotten the problem right, but their solution is all wrong.

Their draconian approach would "end welfare, period" -- abolishing all forms of public assistance to young, unmarried parents, and relegating their children to orphanages.

Institutions that nineteenth century social critics like Charles Dickens exposed as abject failures.

Their proposal sounds almost surreal.

A 1994 version of Jonathan Swift's "A Modest Proposal" -- which argued that the best way to deal with food shortages and overpopulation was to eat the children of the poor.

But Empower America isn't being satirical.

They are seriously proposing that the best way to deal with temporary dependency is to render people permanently destitute.

That's not something you'll find in The Book of Virtues.

Let me repeat: abandonment of responsibility -- by government or by citizens -- is unAmerican.

It's wrong -- and it won't work -- to cut off all benefits to poor, single women and their children -- even when they play by the rules and are willing to take part in education and job training.

It's wrong -- and it won't work -- to create a generation of children who will grow up on the streets, and who will have no reason -- ZERO -- to believe in the ideals of this country -- including the most basic ideal that hard work will be rewarded.

It's wrong -- and it won't work -- for Murray and his disciples to advocate letting unmarried fathers off the hook -- absolving them of any responsibility to support the children they helped bring into this world.

It's wrong -- and it won't work -- to give up on parenthood and bring back those nineteenth-century orphanages.

But that's just what Murray and Empower America would do.

That's why I think the bill supported by some extremists who embrace their approach could be labeled, "The Give Up on Young Americans Act of 1994."

Seventy percent of Americans, in a recent poll, have responded with a resounding NO to the Empower America approach.

While more than 90 percent in another poll agreed with the President's approach emphasizing work and responsibility.

And this support crosses all demographic lines:

African Americans, Hispanics, Whites..Asian Americans --

-- From the gulf coast to the midwest --

-- from South Central L.A. to Bangor, Maine --

-- across all income levels --

-- and across a broad ideological spectrum.

There is wide agreement that our plan takes the right stand toward truly ending welfare as we know it.

Under the President's plan, we're dramatically shifting the focus of the welfare system from simply handing out welfare checks to preparing people to earn paychecks.

Our push-pull approach combines supports, sanctions, and economic incentives to honor people who work hard and play by the rules -- and penalize those who don't.

We believe that by strengthening supports for working Americans -- by expanding the Earned Income Tax Credit, by requiring work, by guaranteeing health care with every job, and by providing child care, we will provide a solid platform for millions of Americans who are struggling to make the leap from welfare to work.

And we will make a difference.

We're not just tinkering at the margins.

This is a big effort -- that promises real, measurable results.

By the year 2000, one million people who would otherwise be on welfare, either will be completely off or working their way to independence.

But our plan is as tough as it is far-sighted.

As Senator Moynihan, has been telling us for more than 30 years, teen pregnancy, out-of-wedlock births, and single-parent families are enormous social tragedies.

Unlike those on the left and right who simply want to continue a sterile debate, we want to meet the Senator's challenge to address these tragedies.

We believe that holding teenage parents responsible for support of their children makes more sense than simply cutting off their benefits or maintaining the status quo.

We're talking about fathers as well as mothers -- because both parents are equally responsible.

Our plan provides time-limited benefits for teenage mothers -- but only if they meet several conditions:

They must live at home with their parents or a responsible adult.

They must identify their child's father.

They must stay in school or participate in job training.

They must attend parenting classes, if they need them.

And we are not letting young fathers off the hook either.

Our plan goes further than any Presidential initiative ever proposed in expecting fathers to support their children.

Our plan says to Deadbeat Dads: if you're not providing for your children, we'll garnish your wages, suspend your drivers and professional licenses, track you across state lines, and if necessary make you work off what you owe.

And we know that there are men out there -- many of them young men -- who want to do the right thing and support their kids, but can't because of lack of skills or chronic unemployment.

That's why, in addition to toughening child support enforcement, our plan allows states to extend supports such as counseling, job training, and parenting classes to unmarried, low-income fathers too -- as long as they are taking responsibility for their children.

These policy changes reflect our belief that, given a little help, most men and women will rise to honor their responsibilities as parents.

But, in addition to requiring responsibility, our plan also places primary emphasis on the prevention of teenage pregnancy.

The link between teen pregnancy and poverty is clear.

Approximately 80 percent of the children born to teen parents who dropped out of high school and did not marry are poor.

In contrast, only 8 percent of children born to married high school graduates aged 20 or older are poor.

We know that it will take comprehensive, community-based approaches to empower young people to delay sexual activity and parenthood until they are emotionally and financially ready. And we're absolutely committed to promoting abstinence-based programs in the schools as a key to preventing teen pregnancy.

For all teenagers -- boys and girls -- we believe that there's a crucial link between abstinence and aspiration.

This fact really struck home for me last week when I read the article in a national magazine about Katherine Mims, a 21-year-old sophomore at Hunter College, the CUNY college I headed for eight years in the 1980s.

The article described a remarkable partnership we developed while I was there that has given dozens of teens something to say YES to while helping them delay pregnancy.

Katherine -- who was raised on welfare -- was offered a full scholarship to Hunter College.

The deal was she had to participate in the Family Life and Sex Education Program of the New York Children's Aid Society -- and she had to not get pregnant.

Today, Katherine supports herself by working full-time for the program as she continues to march toward her college degree.

We believe that the Work and Responsibility Act of 1994 will help millions of other Americans like Katherine Mims break the cycle of dependency and finally begin to build lives of productivity and independence.

As the President has said, "This is not a partisan issue, this is an American issue."

There is a broad consensus on our approach to welfare reform.

And any attempts to derail it have to be viewed more as posturing than as substance.

It is a gross injustice to the American people that -- simply for political reasons -- a small group of ultra-rightists would oppose a bold, centrist bill that, is based on values they espoused for many years.

At the same time, any embrace of the status quo is also an injustice, because it is clear to the overwhelming majority of the American people, that welfare as we know it has failed.

America's children -- increasingly our poorest citizens -- deserve a chance to grow up to opportunity, not poverty and hopelessness.

And the debate in Congress should be conducted with their futures in mind.

The debate in Congress should be conducted in the true spirit of bi-partisanship that has been so elusive in the past.

We are one country -- not two parties.

All of us must work together to put our people back to work and to revitalize our basic values: work and responsibility, opportunity and family.

Thank you.