WR – Breaux-Chafee plan

# FAX

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| FROM: | Cynthia Rice/Office of Senator Breaux (phone: 224-9741) |
| DATE: | April 2, 1996 |
| PAGES: | 17 (including cover) |

# MEMORANDUM

TO: Larry Stein
Rima Cohen
Grace Reef
John Hilley
Chris Jennings
Bruce Reed
Ken Apfel
Nancy Ann Min
Jerry Klepner
Rich Tarplin

FROM: Cynthia Rice

DATE: April 2, 1996

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Attached are revised documents (some mistakes have been corrected).

Please continue to hold very close. Thanks.

# SENATE BIPARTISAN BUDGET GROUP
# 7-YEAR BALANCED BUDGET PLAN
# EXECUTIVE SUMMARY

<u>**MEDICARE**</u> (estimated savings: $154 billion)

**Expands choices for Medicare beneficiaries.**
Beneficiaries can remain in the traditional fee-for-service Medicare program or choose from a range of private managed care plans, based upon individual need. Options include point-of-service plans, provider sponsored organizations and medical savings accounts (on a demonstration basis).

**Promotes the growth of managed care.**
By creating a new payment system for managed care – which blends national and local payment rates – the plan encourages growth in the availability and accessibility of managed care. Indirect Medical Education payments would be redirected to teaching hospitals; currently, they are paid to managed care plans.

**Ensures the solvency of the Medicare Trust Fund.**
By slowing the rate of growth in payments to hospitals, physicians and other service providers, the plan extends the solvency of the Medicare Trust Fund.

**Higher income seniors should pay more.**
Through affluence testing, the plan reduces the Medicare Part B premium subsidy to higher income seniors, and asks them to pay a greater share of the program's cost.

<u>**MEDICAID**</u> (estimated savings: $62 billion)

**Incorporates a number of NGA's recommendations.**
The proposal incorporates many of the principles of the NGA proposal regarding enhanced state flexibility, while also maintaining important safeguards for the federal treasury and retaining the guarantee of coverage for beneficiaries.

**Sharing the risks and rewarding efficiency.**
Funding is based upon the number of people covered in each state, ensuring federal funding during economic downturns. States will be able to redirect the savings they achieve toward expanding Medicaid coverage to the working poor.

**Guaranteed coverage for the most vulnerable populations.**
The plan maintains a national guarantee of coverage for low-income pregnant women, children, the elderly and the disabled (using the tightened definition of disability included in welfare reform legislation).

**Increased flexibility for the states.**
States can design the health care delivery systems which best suit their needs without obtaining waivers from the federal government. Under this plan, states can determine provider rates (the Boren amendment is repealed), create managed care programs, and develop home and community based care options for seniors to help keep them out of nursing homes.

**<u>WELFARE</u>** (estimated savings: $45-$53 billion)

**Includes many of NGA's recommendations.**
The plan, which includes several prominent features of the NGA proposal, is based upon the welfare reform bill that passed the Senate by a vote of 87-12 in September 1995.

**Tough new work requirements.**
States must meet a 50 percent work participation requirement by the year 2002.

**Time limited benefits.**
Cash assistance is limited for beneficiaries to a maximum of five years.

**A block grant providing maximum state flexibility.**
States will be given tremendous flexibility to design welfare programs, in accordance with their own circumstances, that promote work and protect children.

**More child care funding to enable parents to work.**
The plan provides the higher level of child care funding ($14.8 billion) recommended by the NGA to enable parents to get off welfare and to help states meet the strict work participation requirements contained in the plan.

**Extra funds for states to weather recessionary periods.**
The plan includes a $2 billion contingency fund to help states through economic downturns.

**Important safety nets maintained.**
The plan preserves the food stamp and foster care programs as uncapped entitlements. States must provide vouchers to meet the basic subsistence needs of children if they impose time limits shorter than five years (states set amount of voucher).

**Encourages states to maintain their investment in the system.**
States must maintain their own spending at 80 percent to get the full block grant, and 100 percent to get contingency and supplemental child care assistance funds; contingency and child care funds must be matched.

**Reforms Supplemental Security Income programs.**
The plan disqualifies drug addicts and alcoholics from receiving SSI benefits, and tightens eligibility criteria for the childrens' SSI disability program.

**Retargets Earned Income Credit**
The Earned Income Credit is retargeted to truly needy by reducing eligibility for those with other economic resources. The plan also strengthens the administration of the Earned Income Credit by implementing procedures to curb fraud.

ECONOMIC GROWTH INCENTIVES (estimated cost: $130 billion)

**A three-pronged tax relief program for working families.**
The plan establishes a new $250 per child credit ($500 per child if the parent contributes that amount to an IRA in the child's name); expands the number of taxpayers eligible for deductible IRAs, creates a new "backloaded" IRA, and allows penalty free withdrawals for first time homebuyers, catastrophic medical expenses, college costs, and prolonged unemployment; and provides for a new "above the line" deduction for higher education expenses.

**Encourages economic growth.**
A capital gains tax reduction based on the Balanced Budget Act formulation (effective date of 1/1/96): 50 percent reduction for individuals; 31 percent maximum rate for corporations; expanded tax break for investments in small business stock; and capital loss of principal residence. The proposal also provides for AMT relief (conformance of regular and alternative minimum tax depreciation lives).

**Important small business tax assistance.**
An exclusion from estate tax on the first $1 million of value in a family-owned business, and 50 percent on the next $1.5 million. Increases the self-employed health insurance deduction to 50 percent.

**Extension of expiring provisions.**
The plan provides for a revenue neutral extension of expiring provisions.

<u>LOOPHOLE CLOSERS</u> (estimated savings: $25 billion)

**Closes unjustifiable tax loopholes.**
The cost of the economic growth incentives is partially offset by the elimination of many tax loopholes, and through other proposed changes in the tax code.

<u>CPI ADJUSTMENT</u> (estimated savings: $110 billion)

**A more accurate measure of increases in the cost of living.**
The plan adjusts the CPI to better reflect real increases in the cost of living by reducing it by half a percentage point in years 1997-98, and by three-tenths of a percentage point thereafter. The proposed adjustment is well below the range of overstatement identified by economists.

<u>DISCRETIONARY SPENDING</u> (estimated savings: $268 billion)

**Achievable discretionary spending reductions.**
Unlike most of the other budget plans, this proposal provides for discretionary spending reductions which can actually be achieved. The plan proposes a level of savings which is only $10 billion more than a "hard freeze" (zero growth for inflation), ensuring adequate funds for a strong defense and for critical investments in education and the environment.

<u>OTHER MANDATORY SPENDING</u> (estimated savings: $52 billion)

**Balanced reductions acceptable to both parties.**
The plan includes changes that were proposed in both Republican and Democratic balanced budget measures in the areas of banking, commerce, civil service, transportation and veterans programs.

**Additional mandatory savings.**
The plan adopts other changes, including a cap on direct lending at 40 percent of total loan volume, extending railroad safety fees, and permitting Veterans' hospitals to bill private insurers for the care of beneficiaries.

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3-26-96

# SENATE BIPARTISAN BUDGET GROUP
# 7-YEAR BALANCED BUDGET PLAN

(3-29-96)

***** NOT FOR DISTRIBUTION *****

## INTRODUCTION

The Senate Bipartisan Budget Group is comprised of twenty-four Senators, equally represented by Republicans and Democrats, who are committed to balancing the federal budget. This comprehensive seven-year plan borrows from the most recent proposals offered by the Republican Congressional leadership, the Administration, and the National Governors' Association.

## MEDICARE (est. savings $154b.)

The plan proposes a variety of reforms to the Medicare program designed to promote efficiency in the delivery of services and strengthen the financial status of the Trust Fund. The proposal retains the traditional, fee for service Medicare program, but also encourages the formation of private managed care options for seniors and the disabled, allowing point of service plans, provider sponsored organizations, and medical savings accounts (on a demonstration basis).

The plan's provider payment savings and the expanded availability of managed care delivery of services will lower the cost of the Medicare program over the next seven years thereby extending the solvency of the Medicare Trust Fund.

### Program Reforms

Increase choice of private health plans. Under the proposal, preferred provider organizations (PPOs), provider sponsored organizations (PSOs), Medical Savings Accounts (as a demonstration project), and other types of plans that meet Medicare's standards are made available to Medicare beneficiaries.

<u>Annual enrollment</u>. The plan allows beneficiaries to switch health plans each year during an annual "open season" or within 90 days of initial enrollment.

<u>Standards</u>. The Secretary of HHS, in consultation with outside groups, will develop standards which will apply to all plans. These standards will involve benefits, coverage, payment, quality, consumer protection, assumption of financial risk, etc., which will apply to all plans; PSOs will be able to apply

for a limited waiver of the requirement that plans be licensed under state law.

Additional benefits. Under the proposal, health plans would be permitted to offer their participants additional benefits or rebates in the form of a reduced Medicare Part B premium. Plans would be prohibited from charging additional premiums for services covered by Medicare Parts A&B.

Payments to private health plans. Payments to managed care plans will be de-linked from traditional fee-for-service payments and will be computed using both locally-based and nationally-based rates. Future payments will grow by a predetermined percentage and a floor will be established in order to attract plans to the lowest payment areas.

Commission on the Effect of the Baby Boom Generation. The plan proposes the creation of a commission to make recommendations regarding the long-term solvency of the Medicare program.

Conform Medicare with Social Security. The eligibility age for Medicare is increased to 67 at the same rate as the current Social Security eligibility age is scheduled to increase.

**Part A Program Savings (Hospitals)**

Hospital Market Basket Update Reduction. For hospitals, the proposal sets the annual update for inpatient hospital services at the market basket minus one and one-half percentage points for fiscal years 1997 through 2003.

Capital Payment Reduction. For hospitals, the proposal reduces the inpatient capital payment rate by fifteen percent for fiscal years 1997 through 2003.

Reduce The Indirect Medical Education Reimbursement Rate. The proposal phases-in a reduction to the additional payment adjustment to teaching hospitals for indirect medical education from 7.7 percent to 6.0 percent.

Reduce DSH Payment. The plan reduces the extra payments made to certain hospitals that serve a disproportionate share of low income patients by 10 percent less than current-law estimates.

Skilled Nursing Facility Payment Reform. The proposal adopts a Prospective Payment System (PPS) for Skilled Nursing Facilities by November 1997. In moving to the new methodology, a temporary freeze on payment increases is imposed and then an interim system is implemented until the full PPS system is implemented.

**Part B Program Savings (Physicians)**

Physician Payment Reform. The proposal adjusts the Medicare fee system used to pay physicians. A single conversion factor would be phased-in for all physicians instead of the current three conversion factors. Surgeons would be phased-in over a two year period. The conversion factor for 1996 would be $35.42 and the annual growth rate would be subject to upper and lower growth bounds of plus 3 percent and minus 7 percent.

Reduce Hospital Outpatient Formula. The proposal adjusts the current Medicare formula for hospital outpatient departments to eliminate overpayments due to a payment formula flaw.

Reduce Oxygen Payment. The proposal would decrease the monthly payment for home oxygen services and eliminate the annual cost update for this service through 2003.

Freeze Durable Medical Equipment Reimbursement. The proposal eliminates the CPI-U updates for payments of all categories of Durable Medical Equipment for fiscal years 1997 through 2003.

Reduce Laboratory Reimbursement. The proposal lowers expenditures on laboratory tests by reducing the national cap for each service to 72 percent of the national median fee during the base year for that service.

Ambulatory Surgical Center Rate Change. The proposal lowers the annual payment rate adjustment by minus three percent for fiscal years 1997 and 1998 and then reduces the rate by minus two percent for remaining fiscal years through 2003.

**Part A & B Program Savings**

Medicare Secondary Payer Extensions. The proposal would make permanent the law that places Medicare as the secondary payer for disabled beneficiaries who have employer-provided health insurance. It also extends to twenty-four months the period of time employer health insurance is the primary payer for end stage renal disease (ESRD) beneficiaries.

Home Health Payment Reform. The proposal reforms the payment methodology used to pay home health services by the beginning of fiscal year 1999. While a prospective payment system is developed, current payments are frozen and an interim payment system implemented.

Fraud & Abuse Changes. The proposal includes a number of provisions designed to improve the ability to combat Medicare fraud and abuse by providers and beneficiaries

Medicare Part B Premium Reform. The plan retains the pre-1996 financing structure for the Part B program by requiring most participants to pay for 31.5% of the program's costs. Premiums for lower income seniors are lowered to 25% of the program's costs. In addition, the proposal eliminates the taxpayer subsidy of Medicare Part B premiums for high income individuals.

**MEDICAID (est. savings $62b.)**

The proposal incorporates many of the principles of the NGA proposal regarding enhanced state flexibility, while also maintaining important safeguards for the federal treasury and retaining the guarantee of coverage for beneficiaries.

Payments to States. States are guaranteed a base amount of funds that may be accessed regardless of the number of individuals enrolled in the State plan. Each state would have the ability to designate a base year amount from among their actual Medicaid spending for FY 1993, 1994, or 1995. Approximately one-third of disproportionate share hospital payments would be included in the base year amount, one-third would be used for deficit reduction, and one-third would be used for a federal disproportionate share hospital payment program.

In addition, states will receive growth rates which reflect both an inflation factor and estimated caseload increases. If the estimate for caseload in any given year was too low, states would receive additional payments per beneficiary from an umbrella fund" to make up the difference. Conversely, if the caseload was overestimated, the estimate for the following year would be adjusted downward. The plan retains the current law match rates and restrictions on provider taxes and voluntary contributions.

Eligibility. The proposal maintains current law mandatory and optional populations with the following modifications: states would cover those individuals eligible for SSI under a more strict definition of disabled (tightened by the welfare reform changes included in this proposal) as well as SSI-related groups; states would have the option of covering current-law AFDC beneficiaries or those eligible under a revised AFDC program (includes one-year transitional coverage); states would be allowed to "roll back" coverage for pregnant women and children under the age of one from 185 to 133 percent of poverty; and, states are permitted to use savings in their base year amount to expand health care coverage to individuals with incomes below 100% of the federal poverty level without obtaining a federal waiver.

Benefits. The plan maintains current law mandatory and optional benefits except that Federally Qualified Health Center (FQHC) services would be optional rather than mandatory. The proposal also gives the Secretary of HHS the authority to redefine early periodic screening and diagnosis treatment (EPSDT) services.

Provider payments. The proposal repeals the so-called Boren amendment as well as the reasonable-cost reimbursement requirements for FQHCs and rural health clinics, thus allowing states full flexibility in setting provider rates.

Quality. States would be allowed to set provider standards. States would no longer be required to obtain a waiver to enroll patients in managed care plans, provided the plans met the state's standards developed for private plans.

Nursing Home Standards. The proposal maintains current nursing home standards with existing enforcement. Streamlines certain requirements.

Enforcement. Individuals and providers are required to go through a state-run administrative hearing process prior to filing suit in federal court.

Set Asides. The plan establishes a federal fund for certain states that have high percentages of undocumented aliens, as well as a fund for FQHCs and rural health clinics.

Program Structure. The reforms are made to the existing Medicaid statute.

**WELFARE (est. savings $45b. - 53b.)**

Block Grant. The proposal transforms existing welfare programs into a block grant to states to increase program flexibility and encourage state and local innovation in assisting low-income families in becoming self-sufficient. This structure provides incentives to states to continue their partnership with the federal government by encouraging states to maintain 80 percent of their current spending on major welfare programs. While the plan provides maximum flexibility, it requires states to operate their programs in a way that treats recipients in a fair and equitable manner.

Contingency Fund. To protect states facing difficult economic times, the plan calls for the creation of a $2 billion federal contingency fund.

Child Care. The plan provides $14.8 billion in mandatory federal funds for child care and ensures that those child care facilities meet minimum health and safety standards so that children are well-cared for while their parents go to work.

Maintenance of Effort. To encourage states not to substitute these new federal funds for current state spending, a 100 percent maintenance of effort and a state match are required in order to access additional federal money for child care and contingency funds.

Work Requirement and Time Limit. The plan requires states to meet tough new work requirements -- 50 percent by 2002 -- and limits a beneficiary's cash assistance to five years, so that AFDC becomes a temporary helping hand to those in need, rather than a permanent way of life.

Retention of Certain Safety Nets. The proposal retains important protections for welfare's most vulnerable beneficiaries, the children. It allows states to waive penalties for single parents with children under school age who cannot work because they do not have child care, gives states the option to require those parents to work only 20 hours a week, and requires states with a time limit shorter than five years to provide assistance to children in the form of vouchers.

Out-of-Wedlock Births. The plan encourages a reduction in out-of-wedlock births by allowing states to deny benefits to additional children born to a family already on welfare and rewarding states that reduce the number of out-of-wedlock births.

Curbing SSI Abuse. The proposal repeals the Individualized Functional Assessment (IFA) used to determine a child's eligibility for Supplemental Security Income (SSI) and replaces it with a tightened definition of childhood disability. It maintains cash assistance for those children who remain eligible for SSI under this new criteria. It also eliminates SSI eligibility for addicts and alcoholics.

Foster Care and Adoption Assistance. The federal entitlement for foster care and adoption assistance (and their respective pre-placement and administrative costs) is maintained under the proposal. States are required to continue to meet federal standards in their child welfare and foster care programs.

Food Stamp and Child Nutrition Programs. The proposal streamlines the food stamp and child nutrition programs, while retaining this critical safety net as a federal entitlement. The work requirement for single, childless recipients in the food stamp program is toughened.

Promoting Self-Sufficiency for Immigrants. The plan establishes a five-year ban on most federal "needs based" benefits for future immigrants, with exceptions for certain categories of individuals (such as veterans, refugees and asylees) and certain programs (such as child nutrition, foster care and emergency health care under Medicaid). The plan also places a ban on SSI for all legal immigrants, but exempts current recipients who are at least 75 years of age or disabled; veterans and their dependents; battered individuals; those who have worked 40 quarters; and for a five-year period refugees, deportees and asylees. Finally, future deeming requirements are expanded to last 40 quarters, but do not continue past naturalization.

Retargets Earned Income Credit. The Earned Income Credit is retargeted to the truly needy by reducing eligibility for those with other economic resources. The plan also strengthens the administration of the Earned Income Credit by implementing procedures to curb fraud.

**TAXES ($130b.tax cut; $25b.loophole closers)**

Child Credit. The proposal provides a $250 per child tax credit for every child under the age of 17. The credit is increased to as much as $500 if that amount is contributed to an Individual Retirement Account in the child's name.

Education Incentives. The plan provides two separate education incentives. The first is an above-the-line deduction of up to $2,500 for interest expenses paid on education loans. The second incentive is an above-the-line deduction for qualified education expenses paid for the education or training for the taxpayer, the taxpayer's spouse, or the taxpayer's dependents. Both deductions will be phased out for taxpayers with incomes above a certain threshold. The phaseout thresholds and the dollar amounts for the deductions are subject to revenue considerations.

Capital Gains: Individuals. The proposal allows individuals to deduct 50 percent of their net capital gain in computing taxable income. It restores the rule in effect prior to the Tax Reform Act of 1986 that required two dollars of the long-term capital loss of an individual to offset one dollar of ordinary income. The $3,000 limitation on the deduction of capital losses against ordinary income would continue to apply. Under the plan, a loss on the sale of a principal residence is deductible as a capital loss. These changes apply to sales and exchanges after December 31, 1995.

Capital Gains: Corporations. The plan caps the maximum tax rate on corporate capital gains at 31 percent. This change applies to sales and exchanges after December 31, 1995.

Capital Gains: Small Business Stock. The maximum rate of tax on gain from the sale of small business stock by a taxpayer other than a corporation is 14 percent under the proposal. The plan also repeals the minimum tax preference for gain from the sale of small business stock. Corporate investments in qualified small business stock would be taxed at a maximum rate of 21 percent. The plan increases the size of an eligible corporation from gross assets of $50 million to gross assets of $100 million, and repeals the limitation on the amount of gain an individual can exclude with respect to the stock of any corporation. The proposal modifies the working capital expenditure rule from two years to five years. Finally, an individual may roll over the gain from the sale or exchange of small business stock if the proceeds of the sale are used to purchase other qualifying small business stock within 60 days. The increase in the size of corporations whose stock is eligible for the exclusion applies to stock issued after the date of the enactment of this proposal. All other changes apply to stock issued after August 10, 1993.

Alternative Minimum Tax Relief. The plan conforms the Alternative Minimum Tax depreciation lives to the depreciation lives used for regular tax purposes for property placed in service after 1996.

Individual Retirement Accounts. The proposal expands the number of families eligible for current deductible IRAs by increasing the income thresholds. In addition, the annual contribution for a married couple is increased to the lesser of $4,000 or the combined compensation of both spouses. Penalty-free withdrawals are allowed for first-time homebuyers, catastrophic medical expenses, higher education costs and prolonged unemployment. The plan creates a new type of IRA which can receive after-tax contributions of up to $2,000. Distributions from this new IRA would be tax-free if made from contributions held in the account for at least five years.

Estate Tax Relief. The plan provides estate tax relief for family-owned businesses by excluding the first one million dollars in value of a family-owned business from the estate tax and lowering the rate on the next one and one-half million dollars of value by 50 percent. To preserve open space, the plan excludes 40 percent of the value of land subject to a qualified conservation easement.

Other Provisions. The proposal contains a revenue neutral package extending the expired tax provisions. The plan also calls for increasing the self-employed health insurance deduction to 50%.

**Loophole Closings and Other Reforms.**

* disallow the interest deduction on corporate-owned life insurance
* phase out the tax deferral for large corporate farms
* reform the income forecast method of cost recovery
* modify the treatment of foreign trusts
* extend the Oil Spill Liability tax
* repeal advance refunds of diesel tax
* eliminate the interest exclusion for certain nonfinancial corporations
* extend and phase out the luxury tax on automobiles
* create Financial Asset Securitization Investment Trusts
* repeal the 50-percent interest income exclusion for financial institution loans to ESOPs
* reform the tax treatment of expatriates
* modify the basis adjustment rules under Section 1033
* repeal the lower-of-cost or market method of accounting for inventory
* treat certain preferred stock as boot"
* modify the loss carryback and carryforward rules
* increase the penalties for filing incorrect information returns
* restrict like-kind exchanges of foreign property
* phase out the possession tax credit
* extend the FUTA surtax

**CONSUMER PRICE INDEX (est. savings $110b.)**

The plan includes an adjustment to the Consumer Price Index to correct biases in its computation that lead to it being overstated. The proposal reduces the CPI for purposes of computing cost of living adjustments and indexing the tax code by one-half of a percentage point in 1997 and 1998. The adjustment is reduced to three-tenths of a percentage point in 1999 and all years thereafter.

**DISCRETIONARY SPENDING (est. savings $268b.)**

The plan holds discretionary spending to an amount that is slightly below the fiscal year 1995 level for each of the next seven years. This is $81 billion less than the cuts proposed as part of the Balanced Budget Act and $29 billion less than the cuts proposed by the Administration.

**OTHER MANDATORY SPENDING (est. savings $52 b.)**

Housing. The proposal reforms the Federal Housing Administration's home mortgage insurance program to help homeowners avoid foreclosure and decrease losses to the federal government. It also limits rental adjustments paid to owners of Section 8 housing projects.

Communication and Spectrum. The plan directs the Federal Communications Corporation to auction 120 megahertz of spectrum over a 7-year period.

Energy & Natural Resources. The proposal call for the privatization of the US Enrichment Corporation and the nation's helium reserves. It extends the requirement that the Nuclear Regulatory Commission collect 100% of its annual budget through nuclear plant fees. The proposal allows for the sale of the strategic petroleum reserve oil (SPRO) at the faulty Weeks Island location and leases the excess SPRO capacity. Under the plan the Alaska Power Market Administration, various Department of Energy assets, Department of Interior (DOI) aircraft (except those for combating forest fires), Governor's Island, New York, and the air rights over train tracks at Union Station would be sold. The plan raises the annual Hetch Hetchy rental payment paid by City of San Francisco and authorizes central Utah prepayment of debt.

Civil Service & Related. The plan increases retirement contributions from both agencies and employees through the year 2002, delays civilian and military retiree COLAs from January 1 to April 1 through the year 2002, and reforms the judicial and congressional retirement. Finally, the plan denies eligibility for unemployment insurance to service members who voluntarily leave the military.

Transportation. The proposal extends expiring FEMA emergency planning and preparedness fees for nuclear power plants, vessel tonnage fees for vessels entering the U.S. from a foreign port, and Rail Safety User Fees that cover part of the cost to the federal government of certain safety inspections.

Veterans. The plan extends seven expiring provisions of current law and repeals the Gardener" decision thereby restoring the Veterans Administration's policy of limiting liability to those cases in which an adverse outcome was the result of an accident or VA negligence. Pharmacy co-payments are increased from $2 to $4, but not for the treatment of a service-connected disabilities or for veterans with incomes below $13,190. Also, the increase applies only to the first 5 prescriptions that a veteran purchases per month. The proposal authorizes a veteran's health insurance plan to be billed when a VA facility treats a service-connected disability.

Student Loans. The proposal caps the direct lending program at 40 percent of total loan volume. It imposes a range of lender and guarantor savings. The proposal does not include fees on institutions, the elimination of the grace period, or any other provisions negatively impacting parents or students.

Debt Collection. The plan authorizes the Internal Revenue Service to levy federal payments (i.e. RR retirement, workman's compensation, federal retirement, Social Security and federal wages) to collect delinquent taxes.

Park Service Receipts & Sale of DoD Stockpile. The proposal raises fees at National Parks. It directs the Defense Department to sell materials in its stockpile that are in excess of defense needs (i.e. aluminum and cobalt) -- but not controversial materials such as titanium.

Long-Term Federal Retirement Program Reforms. The plan increases the normal civil service retirement eligibility to age 60 with 30 years of service, age 62 with 25 years of service, and age 65 with 5 years of service. Military retirement eligibility for active duty personnel is increased to age 50 with 20 years of service, with a discounted benefit payable to a person retiring before age 50. No changes are proposed for the retirement eligibility of reserve servicepersons. These changes would not apply to current or previously employed federal workers or anyone who is now serving or who has previously served in the military. Although these changes will not produce budget savings in the coming seven years, they do provide significant savings over the long-term.

WR - Breaux-Chafee

# FAX

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**FROM:** Cynthia Rice, Office of Senator Breaux (phone: 224-9741)

Pages: 17

About 20 members of the Breaux-Chafee Centrist Coalition intend to speak in morning business on Thursday April 25th and submit the attached summary of our seven-year balanced budget plan into the Record. Note that CBO is still scoring our package, so the estimated figures are far from final.

# SENATE CENTRIST COALITION
# 7-YEAR BALANCED BUDGET PLAN
# INTRODUCTION

For the past several months, a bipartisan group of 22 Senators has worked to craft a seven-year balanced budget agreement that is fair to all Americans. We have made the difficult choices and compromises necessary to reach an agreement because we are concerned about the effect a continuing deficit will have on the quality of life for each and every American.

If we act, we can foster economic growth and prosperity. If we fail to act, we undermine the future of our children and grandchildren. This is an historic opportunity and we should not let it pass.

Balancing the budget will spur economic growth, and help families make ends meet by lowering interest rates on home mortgages, car loans, and education loans.

Balancing the budget will also brighten our children's future. Last year's report of the Bipartisan Commission on Entitlement and Tax Reform illustrates the magnitude of the problem facing future generations. Left unchecked, by the year 2012, projected outlays for entitlements and interest on the national debt will consume all tax revenues collected by the federal government, leaving nothing for national defense, roads, or education. We cannot stand by and let this happen.

We formed this Centrist Coalition because we believe a balanced budget is possible only if Democrats and Republicans work together. We offer this proposal as a way to bridge the gap between our two parties. We hope our effort will spur the President and our colleagues in the House and Senate to work together to enact a balanced budget this year.

Robert F. Bennett
Christopher S. Bond
John B. Breaux
Hank Brown
Richard H. Bryan
John H. Chafee
William S. Cohen
Kent Conrad

Dianne Feinstein
Bob Graham
Slade Gorton
James M. Jeffords
J. Bennett Johnston
Nancy Landon Kassebaum
J. Robert Kerrey

Herb Kohl
Joseph I. Lieberman
Sam Nunn
Charles S. Robb
Alan K. Simpson
Arlen Specter
Olympia J. Snowe

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# 7-YEAR BALANCED BUDGET PLAN
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**Increased flexibility for the states.**
States can design the health care delivery systems which best suit their needs without obtaining waivers from the federal government. Under this plan, states can determine provider rates (the Boren amendment is repealed), create managed care programs, and develop home and community based care options for seniors to help keep them out of nursing homes.

<u>WELFARE</u> (estimated savings: \$45-\$53 billion)

**Includes many of NGA's recommendations.**
The plan, which includes several prominent features of the NGA proposal, is based upon the welfare reform bill that passed the Senate by a vote of 87-12 in September 1995.

**Tough new work requirements.**
States must meet a 50 percent work participation requirement by the year 2002.

**Time limited benefits.**
Cash assistance is limited for beneficiaries to a maximum of five years.

**A block grant providing maximum state flexibility.**
States will be given tremendous flexibility to design welfare programs, in accordance with their own circumstances, that promote work and protect children.

**More child care funding to enable parents to work.**
The plan provides the higher level of child care funding (\$14.8 billion) recommended by the NGA to enable parents to get off welfare and to help states meet the strict work participation requirements contained in the plan.

**Extra funds for states to weather recessionary periods.**
The plan includes a \$2 billion contingency fund to help states through economic downturns.

**Important safety nets maintained.**
The plan preserves the food stamp and foster care programs as uncapped entitlements. States must provide vouchers to meet the basic subsistence needs of children if they impose time limits shorter than five years (states set amount of voucher).

**Encourages states to maintain their investment in the system.**
States must maintain their own spending at 80 percent to get the full block grant, and 100 percent to get contingency and supplemental child care assistance funds; contingency and child care funds must be matched.

**Reforms Supplemental Security Income programs.**
The plan disqualifies drug addicts and alcoholics from receiving SSI benefits, and tightens eligibility criteria for the childrens' SSI disability program.

**Retargets Earned Income Credit**
The Earned Income Credit is retargeted to truly needy by reducing eligibility for those with other economic resources. The plan also strengthens the administration of the Earned Income Credit by implementing procedures to curb fraud.

ECONOMIC GROWTH INCENTIVES (estimated cost: $130 billion)

**A three-pronged tax relief program for working families.**
The plan establishes a new $250 per child credit ($500 per child if the parent contributes that amount to an IRA in the child's name); expands the number of taxpayers eligible for deductible IRAs, creates a new "backloaded" IRA, and allows penalty free withdrawals for first time homebuyers, catastrophic medical expenses, college costs, and prolonged unemployment; and provides for a new "above the line" deduction for higher education expenses.

**Encourages economic growth.**
A capital gains tax reduction based on the Balanced Budget Act formulation (effective date of 1/1/96): 50 percent reduction for individuals; 31 percent maximum rate for corporations; expanded tax break for investments in small business stock; and capital loss of principal residence. The proposal also provides for AMT relief (conformance of regular and alternative minimum tax depreciation lives).

**Important small business tax assistance.**
An exclusion from estate tax on the first $1 million of value in a family-owned business, and 50 percent on the next $1.5 million. Increases the self-employed health insurance deduction to 50 percent.

**Extension of expiring provisions.**
The plan provides for a revenue neutral extension of expiring provisions.

LOOPHOLE CLOSERS (estimated savings: $25 billion)

**Closes unjustifiable tax loopholes.**
The cost of the economic growth incentives is partially offset by the elimination of many tax loopholes, and through other proposed changes in the tax code.

CPI ADJUSTMENT (estimated savings: $110 billion)

**A more accurate measure of increases in the cost of living.**
The plan adjusts the CPI to better reflect real increases in the cost of living by reducing it by half a percentage point in years 1997-98, and by three-tenths of a percentage point thereafter. The proposed adjustment is well below the range of overstatement identified by economists.

DISCRETIONARY SPENDING (estimated savings: $268 billion)

**Achievable discretionary spending reductions.**
Unlike most of the other budget plans, this proposal provides for discretionary spending reductions which can actually be achieved. The plan proposes a level of savings which is only $10 billion more than a "hard freeze" (zero growth for inflation), ensuring adequate funds for a strong defense and for critical investments in education and the environment.

OTHER MANDATORY SPENDING (estimated savings: $52 billion)

**Balanced reductions acceptable to both parties.**
The plan includes changes that were proposed in both Republican and Democratic balanced budget measures in the areas of banking, commerce, civil service, transportation and veterans programs.

**Additional mandatory savings.**
The plan adopts other changes, including a cap on direct lending at 40 percent of total loan volume, extending railroad safety fees, and permitting Veterans' hospitals to bill private insurers for the care of beneficiaries.

# SENATE CENTRIST COALITION
# 7-YEAR BALANCED BUDGET PLAN
## DETAILED SUMMARY

**MEDICARE (est. savings $154b.)**

The plan proposes a variety of reforms to the Medicare program designed to promote efficiency in the delivery of services and strengthen the financial status of the Trust Fund. The proposal retains the traditional, fee for service Medicare program, but also encourages the formation of private managed care options for seniors and the disabled, allowing point of service plans, provider sponsored organizations, and medical savings accounts (on a demonstration basis).

The plan's provider payment savings and the expanded availability of managed care delivery of services will lower the cost of the Medicare program over the next seven years thereby extending the solvency of the Medicare Trust Fund.

**Program Reforms**

Increase choice of private health plans. Under the proposal, preferred provider organizations (PPOs), provider sponsored organizations (PSOs), Medical Savings Accounts (as a demonstration project), and other types of plans that meet Medicare's standards are made available to Medicare beneficiaries.

<u>Annual enrollment</u>. The plan allows beneficiaries to switch health plans each year during an annual "open season" or within 90 days of initial enrollment.

<u>Standards</u>. The Secretary of HHS, in consultation with outside groups, will develop standards which will apply to all plans. These standards will involve benefits, coverage, payment, quality, consumer protection, assumption of financial risk, etc., which will apply to all plans; PSOs will be able to apply for a limited waiver of the requirement that plans be licensed under state law.

<u>Additional benefits</u>. Under the proposal, health plans would be permitted to offer their participants additional benefits or rebates in the form of a reduced Medicare Part B premium. Plans would be prohibited from charging additional premiums for services covered by Medicare Parts A&B.

Payments to private health plans. Payments to managed care plans will be de-linked from traditional fee-for-service payments and will be computed using both locally-based and nationally-based rates. Future payments will grow by a predetermined percentage and a floor will be established in order to attract plans to the lowest payment areas.

Commission on the Effect of the Baby Boom Generation. The plan proposes the creation of a commission to make recommendations regarding the long-term solvency of the Medicare program.

Conform Medicare with Social Security. The eligibility age for Medicare is increased to 67 at the same rate as the current Social Security eligibility age is scheduled to increase.

**Part A Program Savings (Hospitals)**

Hospital Market Basket Update Reduction. For hospitals, the proposal sets the annual update for inpatient hospital services at the market basket minus one and one-half percentage points for fiscal years 1997 through 2003.

Capital Payment Reduction. For hospitals, the proposal reduces the inpatient capital payment rate by fifteen percent for fiscal years 1997 through 2003.

Reduce The Indirect Medical Education Reimbursement Rate. The proposal phases-in a reduction to the additional payment adjustment to teaching hospitals for indirect medical education from 7.7 percent to 6.0 percent.

Reduce DSH Payment. The plan reduces the extra payments made to certain hospitals that serve a disproportionate share of low income patients by 10 percent less than current-law estimates.

Skilled Nursing Facility Payment Reform. The proposal adopts a Prospective Payment System (PPS) for Skilled Nursing Facilities by November 1997. In moving to the new methodology, a temporary freeze on payment increases is imposed and then an interim system is implemented until the full PPS system is implemented.

**Part B Program Savings (Physicians)**

Physician Payment Reform. The proposal adjusts the Medicare fee system used to pay physicians. A single conversion factor would be phased-in for all physicians instead of the current three conversion factors. Surgeons would be phased-in over a two year period. The conversion factor for 1996 would be $35.42 and the annual growth rate would be subject to upper and lower growth bounds of plus 3 percent and minus 7 percent.

Reduce Hospital Outpatient Formula. The proposal adjusts the current Medicare formula for hospital outpatient departments to eliminate overpayments due to a payment formula flaw.

Reduce Oxygen Payment. The proposal would decrease the monthly payment for home oxygen services and eliminate the annual cost update for this service through 2003.

Freeze Durable Medical Equipment Reimbursement. The proposal eliminates the CPI-U updates for payments of all categories of Durable Medical Equipment for fiscal years 1997 through 2003.

Reduce Laboratory Reimbursement. The proposal lowers expenditures on laboratory tests by reducing the national cap for each service to 72 percent of the national median fee during the base year for that service.

Ambulatory Surgical Center Rate Change. The proposal lowers the annual payment rate adjustment by minus three percent for fiscal years 1997 and 1998 and then reduces the rate by minus two percent for remaining fiscal years through 2003.

Part A & B Program Savings

Medicare Secondary Payer Extensions. The proposal would make permanent the law that places Medicare as the secondary payer for disabled beneficiaries who have employer-provided health insurance. It also extends to twenty-four months the period of time employer health insurance is the primary payer for end stage renal disease (ESRD) beneficiaries.

Home Health Payment Reform. The proposal reforms the payment methodology used to pay home health services by the beginning of fiscal year 1999. While a prospective payment system is developed, current payments are frozen and an interim payment system implemented.

Fraud & Abuse Changes. The proposal includes a number of provisions designed to improve the ability to combat Medicare fraud and abuse by providers and beneficiaries

Medicare Part B Premium Reform. The plan retains the pre-1996 financing structure for the Part B program by requiring most participants to pay for 31.5% of the program's costs. Premiums for lower income seniors are lowered to 25% of the program's costs. In addition, the proposal eliminates the taxpayer subsidy of Medicare Part B premiums for high income individuals.

**MEDICAID (est. savings $62b.)**

The proposal incorporates many of the principles of the NGA proposal regarding enhanced state flexibility, while also maintaining important safeguards for the federal treasury and retaining the guarantee of coverage for beneficiaries.

Payments to States. States are guaranteed a base amount of funds that may be accessed regardless of the number of individuals enrolled in the State plan. Each state would have the ability to designate a base year amount from among their actual Medicaid spending for FY 1993, 1994, or 1995. Approximately one-third of disproportionate share hospital payments would be included in the base year amount, one-third would be used for deficit reduction, and one-third would be used for a federal disproportionate share hospital payment program.

In addition, states will receive growth rates which reflect both an inflation factor and estimated caseload increases. If the estimate for caseload in any given year was too low, states would receive additional payments per beneficiary from an umbrella fund" to make up the difference. Conversely, if the caseload was overestimated, the estimate for the following year would be adjusted downward. Regardless of caseload, a state's allocation never fall below the base year allocation for that state. The plan retains the current law match rates and restrictions on provider taxes and voluntary contributions.

Eligibility. The proposal maintains current law mandatory and optional populations with the following modifications: states would cover those individuals eligible for SSI under a more strict definition of disabled (tightened by the welfare reform changes included in this proposal) as well as SSI-related groups; states would have the option of covering current-law AFDC beneficiaries or those eligible under a revised AFDC program (includes one-year transitional coverage); and, states are permitted to use savings in their base year amount to expand health care coverage to individuals with incomes below 100% of the federal poverty level without obtaining a federal waiver.

Benefits. The plan maintains current law mandatory and optional benefits except that Federally Qualified Health Center (FQHC) services would be optional rather than mandatory. The proposal also gives the Secretary of HHS the authority to redefine early periodic screening and diagnosis treatment (EPSDT) services.

Provider payments. The proposal repeals the so-called Boren amendment as well as the reasonable-cost reimbursement requirements for FQHCs and rural health clinics, thus allowing states full flexibility in setting provider rates.

Quality. States would be allowed to set provider standards. States would no longer be required to obtain a waiver to enroll patients in managed care plans, provided the plans met the state's standards developed for private plans.

Nursing Home Standards. The proposal maintains current nursing home standards with existing enforcement. Streamlines certain requirements.

Enforcement. Individuals and providers are required to go through a state-run administrative hearing process prior to filing suit in federal court.

Set Asides. The plan establishes a federal fund for certain states that have high percentages of undocumented aliens, as well as a fund for FQHCs and rural health clinics.

Program Structure. The reforms are made to the existing Medicaid statute.

**WELFARE (est. savings $45b. - 53b.)**

Block Grant. The proposal transforms existing welfare programs into a block grant to states to increase program flexibility and encourage state and local innovation in assisting low-income families in becoming self-sufficient. This structure provides incentives to states to continue their partnership with the federal government by encouraging states to maintain 80 percent of their current spending on major welfare programs. While the plan provides maximum flexibility, it requires states to operate their programs in a way that treats recipients in a fair and equitable manner.

Contingency Fund. To protect states facing difficult economic times, the plan calls for the creation of a $2 billion federal contingency fund.

Child Care. The plan provides $14.8 billion in mandatory federal funds for child care and ensures that those child care facilities meet minimum health and safety standards so that children are well-cared for while their parents go to work.

Maintenance of Effort. To encourage states not to substitute these new federal funds for current state spending, a 100 percent maintenance of effort and a state match are required in order to access additional federal money for child care and contingency funds.

Work Requirement and Time Limit. The plan requires states to meet tough new work requirements -- 50 percent by 2002 -- and limits a beneficiary's cash assistance to five years, so that AFDC becomes a temporary helping hand to those in need, rather than a permanent way of life.

Retention of Certain Safety Nets. The proposal retains important protections for welfare's most vulnerable beneficiaries, the children. It allows states to waive penalties for single parents with children under school age who cannot work because they do not have child care, gives states the option to require those parents to work only 20 hours a week, and requires states with a time limit shorter than five years to provide assistance to children in the form of vouchers.

Out-of-Wedlock Births. The plan encourages a reduction in out-of-wedlock births by allowing states to deny benefits to additional children born to a family already on welfare and rewarding states that reduce the number of out-of-wedlock births.

Curbing SSI Abuse. The proposal repeals the Individualized Functional Assessment (IFA) used to determine a child's eligibility for Supplemental Security Income (SSI) and replaces it with a tightened definition of childhood disability. It maintains cash assistance for those children who remain eligible for SSI under this new criteria. It also eliminates SSI eligibility for addicts and alcoholics.

Foster Care and Adoption Assistance. The federal entitlement for foster care and adoption assistance (and their respective pre-placement and administrative costs) is maintained under the proposal. States are required to continue to meet federal standards in their child welfare and foster care programs.

Food Stamp and Child Nutrition Programs. The proposal streamlines the food stamp and child nutrition programs, while retaining this critical safety net as a federal entitlement. The work requirement for single, childless recipients in the food stamp program is toughened.

Promoting Self-Sufficiency for Immigrants. The plan establishes a five-year ban on most federal "needs based" benefits for future immigrants, with exceptions for certain categories of individuals (such as veterans, refugees and asylees) and certain programs (such as child nutrition, foster care and emergency health care under Medicaid). The plan also places a ban on SSI for all legal immigrants, but exempts current recipients who are at least 75 years of age or disabled; veterans and their dependents; battered individuals; those who have worked 40 quarters; and for a five-year period refugees, deportees and asylees. Finally, future deeming requirements are expanded to last 40 quarters, but do not continue past naturalization.

Retargets Earned Income Credit. The Earned Income Credit is retargeted to the truly needy by reducing eligibility for those with other economic resources. The plan also strengthens the administration of the Earned Income Credit by implementing procedures to curb fraud.

**TAXES ($130b.tax cut; $25b.loophole closers)**

Child Credit. The proposal provides a $250 per child tax credit for every child under the age of 17. The credit is increased to as much as $500 if that amount is contributed to an Individual Retirement Account in the child's name.

Education Incentives. The plan provides two separate education incentives. The first is an above-the-line deduction of up to $2,500 for interest expenses paid on education loans. The second incentive is an above-the-line deduction for qualified education expenses paid for the education or training for the taxpayer, the taxpayer's spouse, or the taxpayer's dependents. Both deductions will be phased out for taxpayers with incomes above a certain threshold. The phaseout thresholds and the dollar amounts for the deductions are subject to revenue considerations.

Capital Gains: Individuals. The proposal allows individuals to deduct 50 percent of their net capital gain in computing taxable income. It restores the rule in effect prior to the Tax Reform Act of 1986 that required two dollars of the long-term capital loss of an individual to offset one dollar of ordinary income. The $3,000 limitation on the deduction of capital losses against ordinary income would continue to apply. Under the plan, a loss on the sale of a principal residence is deductible as a capital loss. These changes apply to sales and exchanges after December 31, 1995.

Capital Gains: Corporations. The plan caps the maximum tax rate on corporate capital gains at 31 percent. This change applies to sales and exchanges after December 31, 1995.

Capital Gains: Small Business Stock. The maximum rate of tax on gain from the sale of small business stock by a taxpayer other than a corporation is 14 percent under the proposal. The plan also repeals the minimum tax preference for gain from the sale of small business stock. Corporate investments in qualified small business stock would be taxed at a maximum rate of 21 percent. The plan increases the size of an eligible corporation from gross assets of $50 million to gross assets of $100 million, and repeals the limitation on the amount of gain an individual can exclude with respect to the stock of any corporation. The proposal modifies the working capital expenditure rule from two years to five years. Finally, an individual may roll over the gain from the sale or exchange of small business stock if the proceeds of the sale are used to purchase other qualifying small business stock within 60 days. The increase in the size of corporations whose stock is eligible for the exclusion applies to stock issued after the date of the enactment of this proposal. All other changes apply to stock issued after August 10, 1993.

Alternative Minimum Tax Relief. The plan conforms the Alternative Minimum Tax depreciation lives to the depreciation lives used for regular tax purposes for property placed in service after 1996.

Individual Retirement Accounts. The proposal expands the number of families eligible for current deductible IRAs by increasing the income thresholds. In addition, the annual contribution for a married couple is increased to the lesser of $4,000 or the combined compensation of both spouses. Penalty-free withdrawals are allowed for first-time homebuyers, catastrophic medical expenses, higher education costs and prolonged unemployment. The plan creates a new type of IRA which can receive after-tax contributions of up to $2,000. Distributions from this new IRA would be tax-free if made from contributions held in the account for at least five years.

Estate Tax Relief. The plan provides estate tax relief for family-owned businesses by excluding the first one million dollars in value of a family-owned business from the estate tax and lowering the rate on the next one and one-half million dollars of value by 50 percent. To preserve open space, the plan excludes 40 percent of the value of land subject to a qualified conservation easement.

Other Provisions. The proposal contains a revenue neutral package extending the expired tax provisions. The plan also calls for increasing the self-employed health insurance deduction to 50%.

## Loophole Closings and Other Reforms.

The plan includes a package of loophole closers and other tax changes designed to reduce the deficit by $25 billion over seven years. Changes include, for example, phasing out the interest deduction for corporate-owned life insurance, eliminating the interest exclusion for certain nonfinancial businesses, and reforming the tax treatment of foreign trusts. In addition, the Oil Spill Liability tax and the federal unemployment surtax are extended as part of the plan.

**CONSUMER PRICE INDEX (est. savings $110b.)**

The plan includes an adjustment to the Consumer Price Index to correct biases in its computation that lead to it being overstated. The proposal reduces the CPI for purposes of computing cost of living adjustments and indexing the tax code by one-half of a percentage point in 1997 and 1998. The adjustment is reduced to three-tenths of a percentage point in 1999 and all years thereafter.

DISCRETIONARY SPENDING (est. savings $268b.)

The plan holds discretionary spending to an amount that is slightly below the fiscal year 1995 level for each of the next seven years. This is $81 billion less than the cuts proposed as part of the Balanced Budget Act and $29 billion less than the cuts proposed by the Administration.

OTHER MANDATORY SPENDING (est. savings $52 b.)

Housing. The proposal reforms the Federal Housing Administration's home mortgage insurance program to help homeowners avoid foreclosure and decrease losses to the federal government. It also limits rental adjustments paid to owners of Section 8 housing projects.

Communication and Spectrum. The plan directs the Federal Communications Corporation to auction 120 megahertz of spectrum over a 7-year period.

Energy & Natural Resources. The proposal call for the privatization of the US Enrichment Corporation and the nation's helium reserves. It extends the requirement that the Nuclear Regulatory Commission collect 100% of its annual budget through nuclear plant fees. The proposal allows for the sale of the strategic petroleum reserve oil (SPRO) at the faulty Weeks Island location and leases the excess SPRO capacity. Under the plan the Alaska Power Market Administration, various Department of Energy assets, Department of Interior (DOI) aircraft (except those for combating forest fires), Governor's Island, New York, and the air rights over train tracks at Union Station would be sold. The plan raises the annual Hetch Hetchy rental payment paid by City of San Francisco and authorizes central Utah prepayment of debt.

Civil Service & Related. The plan increases retirement contributions from both agencies and employees through the year 2002, delays civilian and military retiree COLAs from January 1 to April 1 through the year 2002, and reforms the judicial and congressional retirement. Finally, the plan denies eligibility for unemployment insurance to service members who voluntarily leave the military.

Transportation. The proposal extends expiring FEMA emergency planning and preparedness fees for nuclear power plants, vessel tonnage fees for vessels entering the U.S. from a foreign port, and Rail Safety User Fees that cover part of the cost to the federal government of certain safety inspections.

Veterans. The plan extends seven expiring provisions of current law and repeals the Gardener" decision thereby restoring the Veterans Administration's policy of limiting liability to those cases in which an adverse outcome was the result of an accident or VA negligence. Pharmacy co-payments are increased from $2 to $4, but not for the treatment of a service-connected disabilities or for veterans with incomes below $13,190. Also, the increase applies only to the first 5 prescriptions that a veteran purchases per month. The proposal authorizes a veteran's health insurance plan to be billed when a VA facility treats a service-connected disability.

Student Loans. The proposal caps the direct lending program at 40 percent of total loan volume. It imposes a range of lender and guarantor savings. The proposal does not include fees on institutions, the elimination of the grace period, or any other provisions negatively impacting parents or students.

Debt Collection. The plan authorizes the Internal Revenue Service to levy federal payments (i.e. RR retirement, workman's compensation, federal retirement, Social Security and federal wages) to collect delinquent taxes.

Park Service Receipts & Sale of DoD Stockpile. The proposal raises fees at National Parks. It directs the Defense Department to sell materials in its stockpile that are in excess of defense needs (i.e. aluminum and cobalt) – but not controversial materials such as titanium.

Long-Term Federal Retirement Program Reforms. The plan increases the normal civil service retirement eligibility to age 60 with 30 years of service, age 62 with 25 years of service, and age 65 with 5 years of service. Military retirement eligibility for active duty personnel is increased to age 50 with 20 years of service, with a discounted benefit payable to a person retiring before age 50. No changes are proposed for the retirement eligibility of reserve servicepersons. These changes would not apply to current or previously employed federal workers or anyone who is now serving or who has previously served in the military. Although these changes will not produce budget savings in the coming seven years, they do provide significant savings over the long-term.

wl- Breaux-Chafee

DEMOCRATIC GOVERNORS' ASSOCIATION

FOR IMMEDIATE RELEASE
April 25, 1996

Contact: Doug Richardson
202-479-5184

# DEMOCRATIC GOVERNORS APPLAUD BIPARTISAN BUDGET PLAN

WASHINGTON -- A group of Democratic Governors today applauded a bipartisan Senate coalition's plan for balancing the federal budget.

In a letter to Senators John Breaux, D-LA, and John Chafee, R-RI, five Democratic Governors called the bipartisan group's work "both encouraging and practical."

The Governors said the Centrist Coalition proposal "goes far toward achieving the principles outlined in the National Governors' Association's agreements on Medicaid and welfare."

The Medicaid component of the Centrist Coalition plan preserves a guarantee of coverage and ensures that dollars follow recipients, the Governors said.

The welfare reform portion of the proposal includes strong work requirements while protecting children, the Governors said.

The Democratic Governors' letter was signed by West Virginia Governor Gaston Caperton, the 1996 Chairman of the Democratic Governors' Association, and the four Democratic Governors who have worked for months to negotiate Medicaid and welfare compromises. These Governors are Nevada Governor Bob Miller, the Vice Chairman of the National Governors' Association; Governor Tom Carper, Delaware; Governor Lawton Chiles, Florida, and Governor Roy Romer, Colorado.

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Governor

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April 25, 1996

The Honorable John Chafee
505 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Chafee:

We are writing to applaud your bipartisan efforts to balance the federal budget, while making responsible changes in Medicaid and welfare programs. Democratic Governors have had a long-standing interest in balancing the federal budget as many of us are required to do in our states.

While we have not had an opportunity to review your proposal in detail, the summary we have seen is both encouraging and practical. And, while we cannot comment on all aspects of your comprehensive package, we believe your proposal goes far toward achieving the principles outlined in the National Governors' Association's agreements on Medicaid and welfare. Your reform package -- if adopted -- will improve the Medicaid program while achieving significant savings and go a long way in assisting states in their efforts toward welfare reform.

In the Governors' agreement on Medicaid, the basic premise is that individuals have a guarantee of coverage and that the dollars will follow the people. Your outline indicates that you preserve that guarantee and have a funding formula very similar to the NGA agreement. As you know well from our ongoing discussions, these principles are critical to us and are the basis of our concern about the draft proposal from the House Commerce Committee which we believe would have undermined the guarantee of coverage for individuals. And, while a final proposal is yet to be seen, reportedly it will not contain a formula reflective of the NGA agreement where the dollars clearly follow the people.

Your summary shows that the Centrist Coalition package includes a strong welfare component that builds on the major tenets of the NGA bipartisan welfare agreement. Your proposal would time-limit benefits and strengthen work requirements while protecting children. These provisions most certainly complement state efforts to reform welfare and are consistent with Governors' desire to impel Congressional action this year.

Most importantly, your Coalition has forged a bipartisan compromise with your proposal. If anything is to be learned from the health care and welfare battles over the past years, it is that reform will never become a reality in a purely partisan environment. Our goal has always been to have a bipartisan effort on these issues which would lead to a bipartisan discussion in Congress. As administrators of these critical state programs, we have been very concerned about the stalled legislative process in the relevant House and Senate committees. We have worked tirelessly over the past year with you, other members of Congress, the Administration and Republican Governors toward effective, comprehensive reform. We appreciate your efforts and dedication to completing this task this year.

We appreciate your continued willingness to work with Governors and stand ready to assist with your efforts to achieve real reform that will enable and bolster our efforts at the state level to provide meaningful, cost-effective programs for our people.

With best regards,

Gaston Caperton

Governor Gaston Caperton
West Virginia

Bob Miller

Governor Bob Miller
Nevada

Thomas R. Carper

Governor Tom Carper
Delaware

Lawton Chiles

Governor Lawton Chiles
Florida

Roy Romer

Governor Roy Romer
Colorado

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April 25, 1996

The Honorable John Breaux
516 Hart Senate Office Building
Washington, D.C. 20510

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Senator Breaux
April 25, 1996
Page 2

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We appreciate your continued willingness to work with Governors and stand ready to assist with your efforts to achieve real reform that will enable and bolster our efforts at the state level to provide meaningful, cost-effective programs for our people.

With best regards,

Gaston Caperton

Governor Gaston Caperton
West Virginia

Bob Miller

Governor Bob Miller
Nevada

Thomas R. Carper

Governor Tom Carper
Delaware

Lawton Chiles

Governor Lawton Chiles
Florida

Roy Romer

Governor Roy Romer
Colorado